

DIXIE GROUP INC  
Form 10-K  
March 08, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2018

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-2585

The Dixie Group, Inc.

(Exact name of registrant as specified in its charter)

Tennessee

(State or other jurisdiction of incorporation of organization)

62-0183370

(I.R.S. Employer Identification No.)

475 Reed Road, Dalton, GA 30720

(Address of principal executive offices and zip code)

(706) 876-5800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class

Common Stock, \$3.00 par value

Name of each exchange on which registered

NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

Title of class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  Yes

No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 29, 2018 (the last business day of the registrant's most recently completed fiscal second quarter) was \$30,303,294. The aggregate market value was computed by reference to the closing price of the Common Stock on such date. In making this calculation, the registrant has assumed, without admitting for any purpose, that all executive officers, directors, and holders of more than 10% of a class of outstanding Common Stock, and no other persons, are affiliates. No market exists for the shares of Class B Common Stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act.

Indicate the number of shares outstanding of each of the registrant's classes of Common Stock as of the latest practicable date.

Class	Outstanding as of February 22, 2019
Common Stock, \$3.00 Par Value	15,522,588 shares
Class B Common Stock, \$3.00 Par Value	839,304 shares
Class C Common Stock, \$3.00 Par Value	0 shares

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the following document are incorporated by reference:  
Proxy Statement of the registrant for annual meeting of shareholders to be held May 1, 2019 (Part III).

Table of Contents 1

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THE DIXIE GROUP, INC.

Index to Annual Report  
on Form 10-K for  
Year Ended December 29, 2018

	Page
PART I	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	7
Item 1B. <u>Unresolved Staff Comments</u>	10
Item 2. <u>Properties</u>	11
Item 3. <u>Legal Proceedings</u>	11
Item 4. <u>Mine Safety Disclosures</u>	12
<u>Executive Officers of the Registrant</u>	13
PART II	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	14
Item 6. <u>Selected Financial Data</u>	17
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 8. <u>Financial Statements and Supplementary Data</u>	28
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	28
Item 9A. <u>Controls and Procedures</u>	28
Item 9B. <u>Other Information</u>	28
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	29
Item 11. <u>Executive Compensation</u>	29
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	29
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	29
Item 14. <u>Principal Accounting Fees and Services</u>	29
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	30
Item 16. <u>Form 10-K Summary</u>	30
<u>Signatures</u>	31

CONSOLIDATED FINANCIAL STATEMENTS

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<u>Report of Independent Registered Public Accounting Firm</u>	<u>35</u>
<u>Consolidated Balance Sheets - December 29, 2018 and December 30, 2017</u>	<u>36</u>
<u>Consolidated Statements of Operations - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>37</u>
<u>Consolidated Statements of Comprehensive Income (Loss) - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>38</u>
<u>Consolidated Statements of Cash Flows - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>39</u>
<u>Consolidated Statements of Stockholders' Equity - December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>40</u>
<u>Notes to Consolidated Financial Statements</u>	<u>41</u>
<u>Exhibit Index</u>	<u>71</u>

## FORWARD-LOOKING INFORMATION

This Report contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include the use of terms or phrases such as "expects," "estimates," "projects," "believes," "anticipates," "intends," and similar terms and phrases. Such forward-looking statements relate to, among other matters, our future financial performance, business prospects, growth strategies or liquidity. The following important factors may affect our future results and could cause those results to differ materially from our historical results; these factors include, in addition to those "Risk Factors" detailed in Item 1A of this report, and described elsewhere in this document, the cost and availability of capital, raw material and transportation costs related to petroleum price levels, the cost and availability of energy supplies, the loss of a significant customer or group of customers, the ability to attract, develop and retain qualified personnel, materially adverse changes in economic conditions generally in carpet, rug and floorcovering markets we serve and other risks detailed from time to time in our filings with the Securities and Exchange Commission.

Table of Contents 3

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## PART I.

### Item 1. BUSINESS

#### General

Our business consists principally of marketing, manufacturing and selling floorcovering products to high-end residential and commercial customers through our various sales forces and brands. We focus exclusively on the upper-end of the floorcovering market where we believe we have strong brands and competitive advantages with our style and design capabilities and customer relationships. Our Fabrica, Masland, and Dixie Home brands have a significant presence in the high-end residential floorcovering markets. Our Atlas and Masland Contract brands participate in the upper-end specified commercial marketplace. Dixie International sells all of our brands outside of the North American market.

Our business is primarily concentrated in areas of the soft floorcovering markets which include broadloom carpet, carpet tiles and rugs. However, over the past few years, there has been a significant shift in the flooring marketplace as hard surface products have grown at a rate much faster than soft surface products. We have responded to this accelerated shift to hard surface flooring by launching several initiatives in both our residential and commercial brands. Our commercial brands offer luxury vinyl flooring (“LVF”) products under the Calibr  brand in the commercial markets. Our residential brands, Dixie Home and Masland Residential, offer Stainmaster® PetProtect™ luxury vinyl flooring. In 2018, our residential brand, Fabrica, began offering a high-end engineered wood line.

We have one reportable segment, Floorcovering, which is comprised of two operating segments, Residential and Commercial. We have aggregated the two operating segments into one reporting segment because they have similar economic characteristics, and the operating segments are similar in all of the following areas: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) the nature of the regulatory environment.

#### Our Brands

Our brands are well known, highly regarded and complementary; by being differentiated, we offer meaningful alternatives to the discriminating customer.

Fabrica markets and manufactures luxurious residential carpet and custom rugs, at selling prices that we believe are approximately five times the average for the residential soft floorcovering industry. Its primary customers are interior decorators and designers, selected retailers and furniture stores, luxury home builders and manufacturers of luxury motor coaches and yachts. Fabrica is among the leading premium brands in the domestic marketplace and is known for styling innovation and unique colors and patterns. Fabrica consists of extremely high quality carpets and area rugs in both nylon and wool, with a wide variety of patterns and textures. Fabrica is viewed by the trade as the premier quality brand for very high-end carpet and enjoys an established reputation as a styling trendsetter and a market leader in providing both custom and designer products to the very high-end residential sector.

Masland Residential, founded in 1866, markets and manufactures design-driven specialty carpets and rugs for the high-end residential marketplace. In addition, it offers luxury vinyl flooring products to the marketplace it serves. Its residential and commercial broadloom carpet products are marketed at selling prices that we believe are over three times the average for the residential soft floorcovering industry. Its products are marketed through the interior design community, as well as to consumers through specialty floorcovering retailers. Masland Residential has strong brand

recognition within the upper-end residential market. Masland Residential competes through innovative styling, color, product design, quality and service.

Dixie Home provides stylishly designed, differentiated products that offer affordable fashion to residential consumers. Dixie Home markets an array of residential tufted broadloom and rugs to selected retailers and home centers under the Dixie Home and private label brands. In addition, it offers luxury vinyl flooring products to the marketplace it serves. Its objective is to make the Dixie Home brand the choice for styling, service and quality in the more moderately priced sector of the high-end residential market. Its products are marketed at selling prices which we believe average two times the soft floorcovering industry's average selling price.

Atlas | Masland Contract is our combined brand of the former Atlas Carpet Mills and Masland Contract. We strategically re-aligned our business in 2018 by merging the two brands into one cohesive operating unit with a broader array of products but a single management, marketing, back office, manufacturing and sales structure to serve the specified commercial marketplace. Its commercial products are marketed to the architectural and specified design community and directly to commercial end users, as well as to consumers through specialty floorcovering retailers. Atlas | Masland Contract also sells to the hospitality market with both custom designed and running line products. Utilizing computerized yarn placement technology, as well as offerings utilizing our state of the art Infinity tufting technology, this brand provides excellent service and design flexibility to the hospitality market serving upper-end hotels, conference centers and senior living markets. Its broadloom, rug product and luxury vinyl flooring offerings are designed for the interior designer in the upper-end of the hospitality market who appreciates sophisticated texture, color and patterns with excellent service. Atlas | Masland Contract has strong brand recognition within the upper-end contract market, and competes through innovative styling, color, patterns, quality and service.

Table of Contents 4

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## Industry

We are a flooring manufacturer in an industry composed of a wide variety of companies from small privately held firms to large multinationals. In 2017, according to the most recent information available, the U.S. floorcovering industry reported \$25.5 billion in sales, up approximately 4.8% over 2016's sales of \$24.3 billion. In 2017, the primary categories of flooring in the U.S., based on sales dollars, were carpet and rug (45%), wood (14%), ceramic tile (14%), luxury vinyl flooring (LVF) (9%), vinyl (6%), stone (6%) and laminate and other (6%). In 2017, the primary categories of flooring in the U.S., based on square feet, were carpet and rug (51%), ceramic tile (14%), vinyl (12%), luxury vinyl flooring (8%), wood (7%), laminate (5%) and stone and other (3%). Each of these categories is influenced by the residential construction, commercial construction, and residential remodeling markets. These markets are influenced by many factors including consumer confidence, spending for durable goods, turnover in housing and the overall strength of the economy.

The carpet and rug category has two primary markets, residential and commercial, with the residential market making up the largest portion of the industry's sales. A substantial portion of industry shipments is made in response to replacement demand. Residential products consist of broadloom carpets and rugs in a broad range of styles, colors and textures. Commercial products consist primarily of broadloom carpet and modular carpet tile for a variety of institutional applications such as office buildings, restaurant chains, schools and other commercial establishments. The carpet industry also manufactures carpet for the automotive, recreational vehicle, small boat and other industries.

The Carpet and Rug Institute (the "CRI") is the national trade association representing carpet and rug manufacturers. Information compiled by the CRI suggests that the domestic carpet and rug industry is comprised of fewer than 100 manufacturers, with a significant majority of the industry's production concentrated in a limited number of manufacturers focused on the lower end of the price curve. We believe that this industry focus provides us with opportunities to capitalize on our competitive strengths in selected markets where innovative styling, design, product differentiation, focused service and limited distribution add value.

## Competition

The floorcovering industry is highly competitive. We compete with other carpet and rug manufacturers and other types of floorcoverings. In addition, the industry provides multiple floorcovering surfaces such as luxury vinyl tile and wood. Though soft floorcovering is still the dominant floorcovering surface, it has gradually lost market share to hard floorcovering surfaces over the last 25 years. We believe our products are among the leaders in styling and design in the high-end residential and high-end commercial carpet markets. However, a number of manufacturers produce competitive products and some of these manufacturers have greater financial resources than we do.

We believe the principal competitive factors in our primary floorcovering markets are styling, color, product design, quality and service. In the high-end residential and commercial markets, we compete with various other floorcovering suppliers. Nevertheless, we believe we have competitive advantages in several areas. We have an attractive portfolio of brands that we believe are well known, highly regarded by customers and complementary; by being differentiated, we offer meaningful alternatives to the discriminating customer. We believe our investment in new yarns, such as Stainmaster's® LiveWell™ and PetProtect™, and innovative tufting and dyeing technologies, strengthens our ability to offer product differentiation to our customers. In addition, we have established longstanding relationships with key suppliers, such as the providers of Stainmaster® for which we utilize both branded yarns and luxury vinyl flooring, and significant customers in most of our markets. Finally, our reputation for innovative design excellence and our experienced management team enhance our competitive position. See "Risk Factors" in Item 1A of this report.



## Backlog

Sales order backlog is not material to understanding our business, due to relatively short lead times for order fulfillment in the markets for the vast majority of our products.

## Trademarks

Our floorcovering businesses own a variety of trademarks under which our products are marketed. Among such trademarks, the names "Fabrica", "Masland", "Dixie Home", "Atlas", "Masland Contract" and "Masland Hospitality" are of greatest importance to our business. We have applied for a trademark on "Atlas | Masland Contract", our new commercial sales force brand. We believe that we have taken adequate steps to protect our interest in all significant trademarks.

## Customer and Product Concentration

As a percentage of our net sales, one customer, Lowe's, a mass merchant, accounted for approximately 13% in 2018, 14% in 2017, and 10% in 2016 and as a percentage of our customer's trade accounts receivable, accounted for approximately 34% in 2018 and 31% in 2017. No other customer was more than 10 percent of our sales during the periods presented. During 2018, sales to our top ten customers accounted for approximately 16% of our sales and our top 20 customers accounted for approximately 17% of our sales. We do not make a material amount of sales in foreign countries.

## Table of Contents 5

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We do not have any single class of products that accounts for more than 10 percent of our sales. However, sales of our floorcovering products may be classified by significant end-user markets into which we sell, and such information for the past three years is summarized as follows:

	2018	2017	2016
Residential floorcovering products	72 %	68 %	66 %
Commercial floorcovering products	28 %	32 %	34 %

#### Seasonality

Our sales historically have normally reached their lowest level in the first quarter (approximately 23% of our annual sales), with the remaining sales being distributed relatively equally among the second, third and fourth quarters. Working capital requirements have normally reached their highest levels in the third and fourth quarters of the year.

#### Environmental

Our operations are subject to federal, state and local laws and regulations relating to the generation, storage, handling, emission, transportation and discharge of materials into the environment. The costs of complying with environmental protection laws and regulations have not had a material adverse impact on our financial condition or results of operations in the past. See "Risk Factors" in Item 1A of this report.

#### Raw Materials

Our primary raw material is bulk continuous filament for yarn. Nylon is the primary yarn we utilize and, to a lesser extent, wool and polyester yarn is used. Additionally, we utilize polypropylene carpet backing, latex, dyes and chemicals, and man-made topical applications in the construction of our products. Our synthetic yarns are purchased primarily from domestic fiber suppliers and wool is purchased from a number of international sources. Our other raw materials are purchased primarily from domestic suppliers, although the majority of our luxury vinyl tile is sourced outside the United States. Where possible, we pass raw material price increases through to our customers; however, there can be no assurance that price increases can be passed through to customers and that increases in raw material prices will not have an adverse effect on our profitability. See "Risk Factors" in Item 1A of this report. We purchase a significant portion of our primary raw material (nylon yarn) from one supplier. We believe there are other sources of nylon yarn; however, an unanticipated termination or interruption of our supply arrangements could adversely affect our supplies of raw materials and could have a material effect on our operations. See "Risk Factors" in Item 1A of this report.

#### Utilities

We use electricity as our principal energy source, with oil or natural gas used in some facilities for dyeing and finishing operations as well as heating. We have not experienced any material problem in obtaining adequate supplies of electricity, natural gas or oil. Energy shortages of extended duration could have an adverse effect on our operations, and price volatility could negatively impact future earnings. See "Risk Factors" in Item 1A of this report.

#### Working Capital

We are required to maintain significant levels of inventory in order to provide the enhanced service levels demanded by the nature of our business and our customers, and to ensure timely delivery of our products. Consistent and dependable sources of liquidity are required to maintain such inventory levels. Failure to maintain appropriate levels

of inventory could materially adversely affect our relationships with our customers and adversely affect our business. See "Risk Factors" in Item 1A of this report.

#### Employment Level

At December 29, 2018, we employed 1,646 associates in our operations.

Table of Contents 6

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#### Available Information

Our internet address is [www.thedixiegroup.com](http://www.thedixiegroup.com). We make the following reports filed by us with the Securities and Exchange Commission available, free of charge, on our website under the heading "Investor Relations":

1. annual reports on Form 10-K;
2. quarterly reports on Form 10-Q;
3. current reports on Form 8-K; and
4. amendments to the foregoing reports.

The contents of our website are not a part of this report.

#### Item 1A. RISK FACTORS

In addition to the other information provided in this Report, the following risk factors should be considered when evaluating the results of our operations, future prospects and an investment in shares of our Common Stock. Any of these factors could cause our actual financial results to differ materially from our historical results, and could give rise to events that might have a material adverse effect on our business, financial condition and results of operations.

The floorcovering industry is sensitive to changes in general economic conditions and a decline in residential or commercial construction activity or corporate remodeling and refurbishment could have a material adverse effect on our business.

The floorcovering industry, in which we participate, is highly dependent on general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels, availability of credit and demand for housing. We derive a majority of our sales from the replacement segment of the market. Therefore, economic changes that result in a significant or prolonged decline in spending for remodeling and replacement activities could have a material adverse effect on our business and results of operations.

The floorcovering industry is highly dependent on construction activity, including new construction, which is cyclical in nature. The U.S. and global economies, along with the residential and commercial markets in such economies, can negatively impact the floorcovering industry and our business. Although the impact of a decline in new construction activity is typically accompanied by an increase in remodeling and replacement activity, these activities typically lag during a cyclical downturn. Although the difficult economic conditions have improved since the last cyclical downturn in 2008, there may be additional downturns that could cause the industry to deteriorate in the foreseeable future. A significant or prolonged decline in residential or commercial construction activity could have a material adverse effect on our business and results of operations.

We have significant levels of sales in certain channels of distribution and reduction in sales through these channels could adversely affect our business.

A significant amount of our sales are generated through a certain mass merchant retailer. A significant reduction of sales through this channel could adversely affect our business. Such a shift could occur if this retailer decided to reduce the amount of emphasis on soft surface flooring or determine that our concentration of better goods was not advantageous to their marketing program.

We have significant levels of indebtedness that could result in negative consequences to us.

We have a significant amount of indebtedness relative to our equity. Insufficient cash flow, profitability, or the value of our assets securing our loans could have a material adverse affect on our ability to generate sufficient funds to satisfy the terms of our senior loan agreements and other debt obligations. Additionally, the inability to access debt or equity markets at competitive rates in sufficient amounts to satisfy our obligations could adversely impact our business.

Uncertainty in the credit market or downturns in the economy and our business could affect our overall availability and cost of credit.

Uncertainty in the credit markets could affect the availability and cost of credit. Despite recent improvement in overall economic conditions, market conditions could impact our ability to obtain financing in the future, including any financing necessary to refinance existing indebtedness. The cost and terms of such financing is uncertain. Continued operating losses could affect our ability to continue to access the credit markets under our current terms and conditions. These and other economic factors could have a material adverse effect on demand for our products and on our financial condition and operating results.

If our stock price falls below \$1.00 for an extended time, our common stock may be subject to delisting from The NASDAQ Stock Market.

On January 31, 2019, we received a deficiency notice from NASDAQ stating that we were not in compliance with NASDAQ Marketplace Rule 5550(a)(2) because the bid price of our common stock closed below the required minimum \$1.00 per share for

Table of Contents 7

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the previous 30 consecutive business days. The notice also indicated that, in accordance with Marketplace Rule 5810(c)(3)(A), we have a period of 180 calendar days, until July 30, 2019, to regain compliance with Rule 5550(a)(2), and that, if at any time before July 30, 2019 the bid price of our common stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ would notify us that we have regained compliance with Rule 5550(a)(2).

Following the initial notice, the NASDAQ has determined that for the 12 consecutive business days from February 4 to February 20, 2019, the closing bid price of our common stock has been at \$1.00 per share or greater. Accordingly, we have regained compliance with Listing Rule 5550(a)(2).

To the extent that we are unable to stay in compliance with the relevant NASDAQ bid price listing rule, there is a risk that our common stock may be delisted from NASDAQ, which would adversely impact liquidity of our common stock and potentially result in even lower bid process for our common stock.

Our stock price has been and could remain volatile, which could further adversely affect the market price of our stock, our ability to raise additional capital and/or cause us to be subject to securities class action litigation.

The market price of our common stock has historically experienced and may continue to experience significant volatility. In 2018, the sales price of our common stock fluctuated from a high of \$4.05 per share in the first quarter of 2018 to a low of \$0.62 per share in the fourth quarter of 2018. Our progress in restructuring our business, our quarterly operating results, our perceived prospects, lack of securities analysts' recommendations or earnings estimates, changes in general conditions in the economy or the financial markets, adverse events related to our strategic relationships, significant sales of our common stock by existing stockholders, and other developments affecting us or our competitors could cause the market price of our common stock to fluctuate substantially. In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our common stock. Such market price volatility could adversely affect our ability to raise additional capital. In addition, we may be subject to securities class action litigation as a result of volatility in the price of our common stock, which could result in substantial costs and diversion of management's attention and resources and could harm our stock price, business, prospects, results of operations and financial condition

We face intense competition in our industry, which could decrease demand for our products and could have a material adverse effect on our profitability.

The floorcovering industry is highly competitive. We face competition from a number of domestic manufacturers and independent distributors of floorcovering products and, in certain product areas, foreign manufacturers. Significant consolidation within the floorcovering industry has caused a number of our existing and potential competitors to grow significantly larger and have greater access to resources and capital than we do. Maintaining our competitive position may require us to make substantial additional investments in our product development efforts, manufacturing facilities, distribution network and sales and marketing activities. These additional investments may be limited by our access to capital, as well as restrictions set forth in our credit facilities. Competitive pressures and the accelerated growth of hard surface alternatives, have resulted in decreased demand for our soft floorcovering products and in the loss of market share to hard surface products. As a result, competition from providers of other soft surfaces has intensified and may result in decreased demand for our products. In addition, we face, and will continue to face, competitive pressures on our sales price and cost of our products. As a result of any of these factors, there could be a material adverse effect on our sales and profitability.

If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products, we may not be able to maintain or increase our net revenues and profitability.

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. In addition, long lead times for certain products may make it hard for us to quickly respond to changes in consumer demands. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of flooring products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels, which could have a material adverse effect on our financial condition.

Raw material prices may vary and the inability to either offset or pass on such cost increases or avoid passing on decreases larger than the cost decrease to our customers could have a material adverse affect on our business, results of operations and financial condition.

We require substantial amounts of raw materials to produce our products, including nylon and polyester yarn, as well as wool yarns, synthetic backing, latex, and dyes. Substantially all of the raw materials we require are purchased from outside sources. The prices of raw materials and fuel-related costs vary significantly with market conditions. The fact that we source a significant amount of raw materials means that several months of raw materials and work in process are moving through our supply chain at any point in time. We are sourcing the majority of our new luxury vinyl flooring and wood product lines from overseas. We are not able to predict whether commodity costs will significantly increase or decrease in the future. If commodity costs increase in the future and we are

Table of Contents 8

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not able to reduce or eliminate the effect of the cost increases by reducing production costs or implementing price increases, our profit margins could decrease. If commodity costs decline, we may experience pressures from customers to reduce our selling prices. The timing of any price reductions and decreases in commodity costs may not align. As a result, our margins could be affected.

Unanticipated termination or interruption of our arrangements with third-party suppliers of nylon yarn could have a material adverse effect on us.

Nylon yarn is the principal raw material used in our floorcovering products. A significant portion of such yarn is purchased from one supplier. Our yarn supplier is one of the leading fiber suppliers within the industry and is the exclusive supplier of certain innovative branded fiber technology upon which we rely. We believe our offerings of this innovative fiber technology contribute materially to the competitiveness of our products. While we believe there are other sources of nylon yarns, an unanticipated termination or interruption of our current supply of branded nylon yarn could have a material adverse effect on our ability to supply our product to our customers and have a material adverse impact on our competitiveness if we are unable to replace our nylon supplier with another supplier that can offer similar innovative and branded fiber products. An interruption in the supply of these or other raw materials or sourced products used in our business or in the supply of suitable substitute materials or products would disrupt our operations, which could have a material adverse effect on our business. We continually evaluate our sources of yarn for competitive costs, performance characteristics, brand value, and diversity of supply.

We rely on information systems in managing our operations and any system failure or deficiencies of such systems may have an adverse effect on our business.

Our businesses rely on sophisticated systems to obtain, rapidly process, analyze and manage data. We rely on these systems to, among other things, facilitate the purchase, manufacture and distribution of our products; receive, process and ship orders on a timely basis; and to maintain accurate and up-to-date operating and financial data for the compilation of management information. We rely on our computer hardware, software and network for the storage, delivery and transmission of data to our sales and distribution systems, and certain of our production processes are managed and conducted by computer. Any damage by unforeseen events or system failure which causes interruptions to the input, retrieval and transmission of data or increase in the service time, whether caused by human error, natural disasters, power loss, computer viruses, intentional acts of vandalism, various forms of cybercrimes including and not limited to hacking, intrusions and malware or otherwise, could disrupt our normal operations. There can be no assurance that we can effectively carry out our disaster recovery plan to handle the failure of our information systems, or that we will be able to restore our operational capacity within sufficient time to avoid material disruption to our business. The occurrence of any of these events could cause unanticipated disruptions in service, decreased customer service and customer satisfaction and harm to our reputation, which could result in loss of customers, increased operating expenses and financial losses. Any such events could in turn have a material adverse effect on our business, financial condition, results of operations, and prospects.

The long-term performance of our business relies on our ability to attract, develop and retain qualified personnel.

To be successful, we must attract, develop and retain qualified and talented personnel in management, sales, marketing, product design and operations. We compete with other floorcovering companies for these employees and invest resources in recruiting, developing, motivating and retaining them. The failure to attract, develop, motivate and retain key employees could negatively affect our business, financial condition and results of operations.

We are subject to various governmental actions that may interrupt our supply of materials.



We import most of our luxury vinyl flooring ("LVF"), some of our wood offering, some of our rugs and broadloom offerings. Though currently a small part of our business, the growth in LVF products is an important product offering to provide our customers a complete selection of flooring alternatives. Recently there have been trade proposals that threatened these product categories with added tariffs which would make our offerings less competitive compared to those manufactured in other countries or produced domestically. These proposals, if enacted, or if expanded, or imposed for a significant period of time, would materially interfere with our ability to successfully enter into these product categories and could have a material adverse effect upon the company's cost of goods and results of operations.

We may experience certain risks associated with internal expansion, acquisitions, joint ventures and strategic investments.

We continually look for strategic and tactical initiatives, including internal expansion, acquisitions and investment in new products, to strengthen our future and to enable us to return to sustained growth and to achieve profitability. Growth through expansion and acquisition involves risks, many of which may continue to affect us after the acquisition or expansion. An acquired company, operation or internal expansion may not achieve the levels of revenue, profitability and production that we expect. The combination of an acquired company's business with ours involves risks. Further, internally generated growth that involves expansion involves risks as well. Such risks include the integration of computer systems, alignment of human resource policies and the retention of valued talent. Reported earnings may not meet expectations because of goodwill and intangible asset impairment, other asset impairments, increased interest costs and issuance of additional securities or debt as a result of these acquisitions. We may also face challenges in consolidating functions and integrating our organizations, procedures, operations and product lines in a timely and efficient manner.

Table of Contents 9

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The diversion of management attention and any difficulties encountered in the transition and integration process could have a material adverse effect on our revenues, level of expenses and operating results. Failure to successfully manage and integrate an acquisition with our existing operations or expansion of our existing operations could lead to the potential loss of customers of the acquired or existing business, the potential loss of employees who may be vital to the new or existing operations, the potential loss of business opportunities or other adverse consequences that could have a material adverse effect on our business, financial condition and results of operations. Even if integration occurs successfully, failure of the expansion or acquisition to achieve levels of anticipated sales growth, profitability or productivity, or otherwise perform as expected, may have a material adverse effect on our business, financial condition and results of operations.

We are subject to various environmental, safety and health regulations that may subject us to costs, liabilities and other obligations, which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to various environmental, safety and health and other regulations that may subject us to costs, liabilities and other obligations which could have a material adverse effect on our business. The applicable requirements under these laws are subject to amendment, to the imposition of new or additional requirements and to changing interpretations of agencies or courts. We could incur material expenditures to comply with new or existing regulations, including fines and penalties and increased costs of our operations. Additionally, future laws, ordinances, regulations or regulatory guidelines could give rise to additional compliance or remediation costs that could have a material adverse effect on our business, results of operations and financial condition. For example, producer responsibility regulations regarding end-of-life disposal could impose additional cost and complexity to our business.

Various federal, state and local environmental laws govern the use of our current and former facilities. These laws govern such matters as:

- Discharge to air and water;
- Handling and disposal of solid and hazardous substances and waste, and
- Remediation of contamination from releases of hazardous substances in our facilities and off-site disposal locations.

Our operations also are governed by laws relating to workplace safety and worker health, which, among other things, establish noise standards and regulate the use of hazardous materials and chemicals in the workplace. We have taken, and will continue to take, steps to comply with these laws. If we fail to comply with present or future environmental or safety regulations, we could be subject to future liabilities. However, we cannot ensure that complying with these environmental or health and safety laws and requirements will not adversely affect our business, results of operations and financial condition.

We may be exposed to litigation, claims and other legal proceedings in the ordinary course of business relating to our products or business, which could have a material adverse effect on our business, results of operations and financial condition.

In the ordinary course of business, we are subject to a variety of work-related and product-related claims, lawsuits and legal proceedings, including those relating to product liability, product warranty, product recall, personal injury, and other matters that are inherently subject to many uncertainties regarding the possibility of a loss to our business. Such matters could have a material adverse effect on our business, results of operations and financial condition if we are unable to successfully defend against or resolve these matters or if our insurance coverage is insufficient to satisfy any judgments against us or settlements relating to these matters. Although we have product liability insurance, the policies may not provide coverage for certain claims against us or may not be sufficient to cover all possible

liabilities. Further, we may not be able to maintain insurance at commercially acceptable premium levels. Additionally, adverse publicity arising from claims made against us, even if the claims are not successful, could adversely affect our reputation or the reputation and sales of our products.

Our business operations could suffer significant losses from natural disasters, catastrophes, fire or other unexpected events.

Many of our business activities involve substantial investments in manufacturing facilities and many products are produced at a limited number of locations. These facilities could be materially damaged by natural disasters, such as floods, tornadoes, hurricanes and earthquakes, or by fire or other unexpected events such as adverse weather conditions or other disruptions to our facilities, supply chain or our customer's facilities. We could incur uninsured losses and liabilities arising from such events, including damage to our reputation, and/or suffer material losses in operational capacity, which could have a material adverse impact on our business, financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents 10

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## Item 2. PROPERTIES

The following table lists our facilities according to location, type of operation and approximate total floor space as of February 22, 2019:

Location	Type of Operation	Approximate Square Feet
Administrative:		
Saraland, AL	Administrative	29,000
Commerce, CA*	Administrative	21,800
Santa Ana, CA	Administrative	4,000
Calhoun, GA	Administrative	10,600
Dalton, GA*	Administrative	50,800
	Total Administrative	116,200
Manufacturing and Distribution:		
Atmore, AL	Carpet Manufacturing, Distribution	610,000
Roanoke, AL	Carpet Yarn Processing	204,000
Saraland, AL	Carpet, Rug and Tile Manufacturing, Distribution	384,000
Commerce, CA*	Carpet Manufacturing, Distribution	232,800
Porterville, CA*	Carpet Yarn Processing	249,000
Santa Ana, CA	Carpet and Rug Manufacturing, Distribution	200,000
Adairsville, GA	Samples and Rug Manufacturing, Distribution	292,000
Calhoun, GA *	Distribution	99,000
Calhoun, GA	Carpet Dyeing & Processing	193,300
Eton, GA	Carpet Manufacturing, Distribution	408,000
Dalton, GA*	Samples Warehouse and Distribution	40,000
	Total Manufacturing and Distribution	2,912,100
* Leased properties	TOTAL	3,028,300

In addition to the facilities listed above, we lease a small amount of office space in various locations.

In our opinion, our manufacturing facilities are well maintained and our machinery is efficient and competitive. Operations of our facilities generally vary between 120 and 168 hours per week. Substantially all of our owned properties are subject to mortgages, which secure the outstanding borrowings under our senior credit facilities.

## Item 3. LEGAL PROCEEDINGS

We have been sued, together with the 3M Company and approximately 30 other carpet manufacturers, by the Gadsden (Alabama) Water Works in the circuit court of Etowah County Alabama [The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al, civil action No. 31-CV-2016-900676.00] and by the Town of Centre (Alabama) Water Works in the circuit court of Cherokee County Alabama [The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al, civil action No. 13-CV-2017-900049.00]. Both cases seek monetary damages and injunctive relief related to the use of certain chemical compounds in the manufacture and finishing of carpet products “in and around Dalton Georgia.” On motion of the defendants, the cases were removed to the U.S. District Court for the Northern District of Alabama (Middle Division) Case No. 4:16-CV-01755-SGC and Case No. 4:17-CV-01026-KOB. Subsequently, the Gadsden Water Works filed a motion to have the case remanded back to the

state court and such motion has been granted. Currently, we have joined several other co-defendants in filing a Petition for Writ of Mandamus with the Alabama Supreme Court asking for an Order directing the trial court to grant our and other codefendants' motions to dismiss the Alabama-filed actions for lack of personal jurisdiction. The Petitions have been consolidated by the Alabama Supreme Court with the Town of Centre (Alabama) matter (described above). The Petitions are still pending and there is no statutory deadline for the court to issue a decision. The lawsuits allege that perflourinated compounds ("PFC"), perflourinated acid ("PFOA") and perfluorooctane sulfonate ("PFOS") manufactured by 3M were used in certain finishing and treatment processes by the defendants and, as a consequence of such use, were subsequently either discharged into or leached into the water systems around Dalton, Georgia. The Complaints seek damages that exceed \$10, but are otherwise unspecified in amount in addition to injunctive relief and punitive damages. We intend to defend the matters vigorously and are unable to estimate the potential exposure to loss, if any, at this time.

On November 16, 2018 the Superior Court of the State of California granted preliminary approval of a class action settlement in the matter of Carlos Garcia v. Fabrica International, Inc. et al Orange County Superior Court Case No. 30-2017-00949461-CU-OE-

Table of Contents 11

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CXC. The court further approved the procedures for Settlement Class Members to opt-out of or object to the Settlement. The terms of the settlement provide that Fabrica, a wholly owned subsidiary of ours, has agreed to pay \$1,514,000 (the "Gross Settlement Amount") to fully resolve all claims in the Lawsuit, including payments to Settlement Class Members, Class Counsel's attorneys' fees and expenses, settlement administration costs, and the Class Representative's Service Award. The amount of the proposed settlement was recorded during the quarter ended June 30, 2018. The deadline for class members to opt-out was February 1, 2019. The deadline for the plaintiff to file a motion for final approval of the class action settlement is March 29, 2019. The final fairness hearing is scheduled for April 12, 2019.

We are one of multiple parties to three lawsuits filed in Madison County Illinois, styled Brenda Bridgeman, Individually and as Special Administrator of the Estate of Robert Bridgeman, Deceased, vs. American Honda Motor Co., Inc., f/k/a Metropolitan Life Insurance Co., et al No. 15-L-374, styled Charles Anderson, Pltf., vs. 3M Company, et al, No. 17-L-525 and styled Danny Atkins and Pamela Atkins, Pltfs., vs. Aurora Pump Company, et al. No. 18-L-2. All three lawsuits entail a claim for damages to be determined in excess of \$50,000 filed on behalf of either a former employee or the estate of an individual which alleges that the deceased contracted mesothelioma as a result of exposure to asbestos while employed by us. Discovery in each matter is ongoing, and a tentative trial date has been set for one of the cases. We have denied liability, are defending the matters vigorously and are unable to estimate our potential exposure to loss, if any, at this time. In August of 2017, the lawsuit styled Sandra D. Watts, Individually and as Special Administrator of the Estate of Dianne Averett, Deceased vs. 4520 Corp., Inc. f/k/a Benjamin F. Shaw Company, et al No. 12-L-2032 was placed in the category of "special closed with settlements and bankruptcy claims pending" to all remaining defendants. In March 2018, the lawsuit styled Charles Anderson, Individually and as Special Administrator of the Estate of Charles Anderson, Deceased vs. 3M Company, et al, No. 17-L-525 was dismissed without prejudice. In October 2018, the lawsuit styled Danny Atkins and Pamela Atkins, Pltfs., vs. Aurora Pump Company, et al. No. 18-L-2 was dismissed without prejudice.

#### Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Pursuant to instruction G of Form 10-K the following is included as an unnumbered item to PART I.

#### EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, positions and offices held by the executive officers of the registrant as of February 22, 2019, are listed below along with their business experience during the past five years.

Name, Age and Position	Business Experience During Past Five Years
Daniel K. Frierson, 77 Chairman of the Board, and Chief Executive Officer, Director	Director since 1973, Chairman of the Board since 1987 and Chief Executive Officer since 1980. He is the Chairman of the Company's Executive Committee. He is past Chairman of The Carpet and Rug Institute. He serves as Director of Astec Industries, Inc. headquartered in Chattanooga, Tennessee.
D. Kennedy Frierson, Jr., 51 Vice President and Chief Operating Officer, Director	Director since 2012 and Vice President and Chief Operating Officer since August 2009. Vice President and President Masland Residential from February 2006 to July 2009. President Masland Residential from December 2005 to January 2006. Executive Vice President and General Manager, Dixie Home, 2003 to 2005. Business Unit Manager, Bretlin, 2002 to 2003.
Jon A. Faulkner, 58 Vice President and Chief Financial Officer	Vice President and Chief Financial Officer since October 2009. Vice President of Planning and Development from February 2002 to September 2009. Executive Vice President of Sales and Marketing for Steward, Inc. from 1997 to 2002.
Thomas M. Nuckols, 51 Vice President and President, Dixie Residential	Vice President and President of Dixie Residential since November 2017. Executive Vice President, Dixie Residential from February 2017 to November 2017. Dupont/Invista, from 1989 to 2017, Senior Director of Mill Sales and Product Strategy from 2015 to 2017.
E. David Hobbs, 67 Vice President and President, Dixie Commercial	Vice President and President of Dixie Commercial since October 2017. President, Masland Contract from September 2016 to October 2017. Executive President of Operations, Masland Contract from 2012 to September 2016. Vice President of Planning, Mohawk Industries from 2010 to 2011, Interface Americas from 1984 to 2010, President, Interface Americas from 2005 to 2009.
W. Derek Davis, 68 Vice President, Human Resources and Corporate Secretary	Vice President of Human Resources since January 1991 and Corporate Secretary since January 2016. Corporate Employee Relations Director, 1988 to 1991.

The executive officers of the registrant are generally elected annually by the Board of Directors at its first meeting held after each annual meeting of our shareholders.

## PART II.

Item MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock trades on the NASDAQ Global Market under the symbol DXYN. No market exists for our Class B Common Stock.

As of February 22, 2019, the total number of holders of our Common Stock was approximately 2,800 including an estimated 2,400 shareholders who hold our Common Stock in nominee names. The total number of holders of our Class B Common Stock was 10.

## Recent Sales of Unregistered Securities

None.

## Issuer Purchases of Equity Securities

Fiscal Month Ending	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares That May Yet Be Purchased Under Plans or Programs
November 3, 2018	—	\$	—	
December 1, 2018	—	—	—	
December 29, 2018	—	—	—	
Three Fiscal Months Ended December 29, 2018	—	\$	—	\$ 2,170,597

## Quarterly Financial Data, Dividends and Price Range of Common Stock

Following are quarterly financial data, dividends and price range of Common Stock for the four quarterly periods in the years ended December 29, 2018 and December 30, 2017. Due to rounding, the totals of the quarterly information for each of the years reflected below may not necessarily equal the annual totals. There is a restriction on the payment of dividends under our revolving credit facility and we have not paid any dividends in the years ended 12/29/2018 and 12/30/17.



## THE DIXIE GROUP, INC.

QUARTERLY FINANCIAL DATA, DIVIDENDS AND PRICE RANGE OF  
COMMON STOCK

(unaudited) (dollars in thousands, except per share data)

2018	1ST	2ND	3RD	4TH
Net sales	\$98,858	\$106,438	\$101,562	\$98,175
Gross profit	21,580	25,144	21,887	18,380
Operating loss	(1,515 )	(355 )	(1,179 )	(12,765 )
Loss from continuing operations	(2,884 )	(1,972 )	(2,922 )	(13,700 )
Income (loss) from discontinued operations	(23 )	157	(40 )	1
Net loss	\$(2,907 )	\$(1,815 )	\$(2,962 )	\$(13,699 )
Basic earnings (loss) per share:				
Continuing operations	\$(0.18 )	\$(0.13 )	\$(0.19 )	\$(0.87 )
Discontinued operations	(0.00 )	0.01	(0.00 )	0.00
Net loss	\$(0.18 )	\$(0.12 )	\$(0.19 )	\$(0.87 )
Diluted earnings (loss) per share:				
Continuing operations	\$(0.18 )	\$(0.13 )	\$(0.19 )	\$(0.87 )
Discontinued operations	(0.00 )	0.01	(0.00 )	0.00
Net loss	\$(0.18 )	\$(0.12 )	\$(0.19 )	\$(0.87 )

## Common Stock Prices:

High	\$4.05	\$3.27	\$2.40	\$1.85
Low	2.60	2.20	1.40	0.62

2017	1ST	2ND	3RD	4TH
Net sales	\$97,541	\$107,187	\$102,650	\$105,084
Gross profit	25,161	28,426	24,857	22,769
Operating income (loss)	628	3,179	767	(608 )
Income (loss) from continuing operations	(575 )	1,226	(547 )	(9,427 )
Loss from discontinued operations	(29 )	(123 )	(11 )	(69 )
Net income (loss)	\$(604 )	\$1,103	\$(558 )	\$(9,496 )
Basic earnings (loss) per share:				
Continuing operations	\$(0.04 )	\$0.08	\$(0.03 )	\$(0.60 )
Discontinued operations	(0.00 )	(0.01 )	(0.00 )	(0.00 )
Net income (loss)	\$(0.04 )	\$0.07	\$(0.03 )	\$(0.60 )
Diluted earnings (loss) per share:				
Continuing operations	\$(0.04 )	\$0.08	\$(0.03 )	\$(0.60 )
Discontinued operations	(0.00 )	(0.01 )	(0.00 )	(0.00 )
Net income (loss)	\$(0.04 )	\$0.07	\$(0.03 )	\$(0.60 )

## Common Stock Prices:

High	\$3.95	\$5.21	\$4.75	\$4.30
Low	3.35	3.30	3.75	3.40

### Shareholder Return Performance Presentation

We compare our performance to two different industry indices published by Dow Jones, Inc. The first of these is the Dow Jones US Furnishings Index, which is composed of publicly traded companies classified by Dow Jones in the furnishings industry. The second is the Dow Jones US Building Materials & Fixtures Index, which is composed of publicly traded companies classified by Dow Jones in the building materials and fixtures industry.

In accordance with SEC rules, set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on our Common Stock against the total return of the Standard & Poor's Small Cap 600 Stock Index, plus both the Dow Jones US Furnishings Index and the Dow Jones US Building Materials & Fixtures Index, in each case for the five year period ended December 31, 2018. The comparison assumes that \$100.00 was invested on December 31, 2013, in our Common Stock, the S&P Small Cap 600 Index, and each of the two Peer Groups, and assumes the reinvestment of dividends.

The foregoing shareholder performance presentation shall not be deemed "soliciting material" or to be "filed" with the Commission subject to Regulation 14A, or subject to the liabilities of Section 18 of the Exchange Act.

Table of Contents 16

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## Item 6. SELECTED FINANCIAL DATA

The Dixie Group, Inc.  
Historical Summary  
(dollars in thousands, except share and per share data)

FISCAL YEARS	2018 (1)	2017 (2)	2016 (3)	2015 (4)(5)	2014 (6)
<b>OPERATIONS</b>					
Net sales	\$405,033	\$412,462	\$397,453	\$422,483	\$406,588
Gross profit	86,991	101,213	95,425	106,230	95,497
Operating income (loss)	(15,816 )	3,947	(3,436 )	1,882	(5,584 )
Income (loss) from continuing operations before taxes	(22,310 )	(1,813 )	(8,829 )	(2,992 )	1,726
Income tax provision (benefit)	(831 )	7,509	(3,622 )	(714 )	1,053
Income (loss) from continuing operations	(21,479 )	(9,322 )	(5,207 )	(2,278 )	673
Depreciation and amortization	12,653	12,947	13,515	14,119	12,850
Dividends	—	—	—	—	—
Capital expenditures	4,052	12,724	4,904	6,826	9,492
Assets purchased under capital leases & notes, including deposits utilized and accrued purchases	389	859	427	5,403	23,333
<b>FINANCIAL POSITION</b>					
Total assets	\$252,778	\$283,907	268,987*	298,218*	290,447*
Working capital	96,534	105,113	81,727	98,632	100,602
Long-term debt	120,251	123,446	98,256	115,907	117,153
Stockholders' equity	58,984	79,263	87,122	90,804	92,977
<b>PER SHARE</b>					
Income (loss) from continuing operations:					
Basic	\$(1.36 )	\$(0.59 )	\$(0.33 )	\$(0.15 )	\$0.03
Diluted	(1.36 )	(0.59 )	(0.33 )	(0.15 )	0.03
Dividends:					
Common Stock	—	—	—	—	—
Class B Common Stock	—	—	—	—	—
Book value	3.60	4.91	5.40	5.67	5.90
<b>GENERAL</b>					
Weighted-average common shares outstanding:					
Basic	15,763,890	15,698,915	15,638,112	15,535,980	14,381,601
Diluted	15,763,890	15,698,915	15,638,112	15,535,980	14,544,073
Number of shareholders (7)	2,800	2,800	3,000	3,000	3,000
Number of associates	1,646	1,930	1,746	1,822	1,740

\*These periods do not have prior period adoption adjustment or the right to return asset for the ASC 606 adoption.

(1) 2018 results include expenses of \$3,167 for facility consolidation and severance expenses and \$6,709 for the impairment of tangible and intangible assets.

(2) Includes expenses of \$636 for facility consolidation and severance expenses in 2017.

(3) Includes expenses of \$1,456, or \$859 net of tax, for facility consolidation expenses in 2016.

(4) Includes expenses of \$2,946, or \$1,915 net of tax, for facility consolidation expenses in 2015.

(5) Includes the results of operations of Atlas Carpet Mills, Inc. and Burtco Enterprises, Inc. subsequent to their acquisitions on March 19, 2014 and September 22, 2014, respectively.

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Includes expenses of \$5,514, or \$3,364 net of tax, for facility consolidation expenses, \$1,133, or \$691 net of tax, (6) for impairment of assets and income of \$11,110, or \$6,777 net of tax, for bargain purchases on the acquisitions of Atlas Carpet Mills and Burtco Enterprises.

The approximate number of record holders of our Common Stock for 2014 through 2018 includes Management's (7) estimate of shareholders who held our Common Stock in nominee names as follows: 2014 - 2,550 shareholders; 2015 - 2,550 shareholders; 2016 - 2,600 shareholders; 2017 - 2,400 shareholders; 2018 - 2,400 shareholders.

Table of Contents 17

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## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report.

### OVERVIEW

Our business consists principally of marketing, manufacturing and selling floorcovering products to high-end residential and commercial customers through our various sales forces and brands. We focus exclusively on the upper-end of the floorcovering market where we believe we have strong brands and competitive advantages with our style and design capabilities and customer relationships. Our Fabrica, Masland, and Dixie Home brands have a significant presence in the high-end residential floorcovering markets. Our Atlas | Masland Contract brand participates in the upper-end specified commercial marketplace. Dixie International sells all of our brands outside of the North American market.

Our business is primarily concentrated in areas of the soft floorcovering markets which include broadloom carpet, carpet tiles and rugs. However, over the past few years, there has been a significant shift in the flooring marketplace as hard surface products have grown at a rate much faster than soft surface products. We have responded to this accelerated shift to hard surface flooring by launching several initiatives in both our residential and commercial brands. Our commercial brands offer Luxury Vinyl Flooring ("LVF") products under the Calibr  brand in the commercial markets. Our residential brands, Dixie Home and Masland Residential, offer Stainmaster® PetProtect™ Luxury Vinyl Flooring and our premium residential brand, Fabrica, offers a high-end engineered wood line. For 2019 we are building on the momentum we gained by tripling our residential hard surface business in 2018 with the launch of TruCor™, our new solid polymer core or "SPC" Luxury Vinyl Flooring line. This latest addition to our rigid core Luxury Vinyl Flooring offering is designed to create an extremely durable and waterproof Luxury Vinyl Flooring product with a broader range of price points to meet the needs of various consumers. To facilitate this growth, in 2019 we are expanding our distribution of hard surface products to our west coast distribution center as well as our east coast service center.

During 2018, our net sales decreased 1.8% compared with 2017. Sales of residential products increased 3.6% in 2018 versus 2017. Residential soft surface sales were up 1.4% in 2018 as compared to 2017, while, we estimate, the industry was up in the low to mid-single digits. Residential hard surface sales tripled in 2018 relative to sales in 2017. We anticipate the residential housing market, though having slowed recently, will have steady but moderate growth over the next several years. Commercial product sales decreased 13.2% during 2018. Soft surface sales of commercial products were down 19.5%, while, we believe, the industry was down in the mid-single digits. We anticipate the commercial market to be relatively flat in 2019.

In 2018, we had an operating loss of \$15.8 million compared with an operating income of \$3.9 million in 2017. The reduced sales volume in 2018 adversely affected our gross profit as we under absorbed our costs since we had increased our capacity anticipating higher volume production. In addition, we had rising raw material costs which, passed on to our customers through higher prices, were recovered after we experienced such cost increases. The majority of our higher costs were in the first and fourth quarters of the year as we suffered with reduced demand in those time periods. We reduced plant running schedules in the fourth quarter to reduce inventories to a more appropriate level. We incurred charges during the year totaling \$14.1 million comprised of \$2.7 million in inventory write-downs, \$3.2 million in restructuring charges, \$6.7 million in asset impairments, including the write-off of goodwill and intangibles, and a \$1.5-million-dollar charge for settlement of a class action litigation. Our debt declined by \$5.2 million over the course of 2018. To offset those higher costs, we continued the implementation of our previously announced Profit Improvement Plan ("the Plan"). The Plan, begun in the fourth quarter of 2017, resulted in the reduction of 284 associates during 2018 and is anticipated to result in the reduction of approximately 330 associates by the end of the first quarter of 2019.

Expenses related to the Plan totaled approximately \$9.2 million in 2018. The Plan expenses included inventory write downs, restructuring costs, and asset impairments as we re-configured our commercial business and right sized our residential manufacturing operations for lower unit demand. Total cost reductions as a result of the Plan are expected to be over \$17 million on an annual basis once fully implemented in 2019. We began the structural consolidation of our commercial business with the closure of our Chickamauga tufting operation as we moved the equipment to other facilities. This plant closure, complete at the end of 2018, lowered our cost and improved our response time to this segment of the marketplace. We began the process of exiting our Commerce, California Atlas tufting facilities this past fall and will be completely out of those commercial tufting operations by the end of the first quarter of 2019. The bulk of the Atlas equipment was transferred to our Atmore, Alabama commercial tufting operation with various other items moved to our Santa Ana, California and Eton, Georgia operations. We moved our commercial rug operation and commercial samples support function from California to our Saraland facility near Mobile, Alabama. We reduced our staffing to better match production to meet our demand in our Atmore, Eton, Adairsville and Roanoke facilities as we were able to take advantage of the increased productivity of our associates in these operations. In addition to the physical movement of equipment and inventory, we consolidated our commercial design functions in Saraland as well as consolidated our entire sales support functions. Our sales forces were merged to create Atlas | Masland Contract, now equipped with a much broader product line and providing modular carpet tile, broadloom carpet, luxury vinyl flooring, and commercial wool and nylon rugs. This combined sales force has the added benefit of not only a broad product line but distinct design capabilities in custom products as well.

In the fourth quarter of 2018, our testing of goodwill indicated a full impairment of the value of the asset. In accordance with the results of our tests the value of the goodwill asset was written off to asset impairment. The amount of the adjustment was \$3.4 million.

Table of Contents 18

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## NASDAQ NOTICE

On January 31, 2019, we received a deficiency notice from NASDAQ stating that we no longer comply with NASDAQ Marketplace Rule 5550(a)(2) because the bid price of our common stock closed below the required minimum \$1.00 per share for the previous 30 consecutive business days. The notice also indicated that, in accordance with Marketplace Rule 5810(c)(3)(A), we have a period of 180 calendar days, until July 30, 2019, to regain compliance with Rule 5550(a)(2). If at any time before July 30, 2019 the bid price of our common stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days, NASDAQ will notify us that we have regained compliance with Rule 5550(a)(2). To the extent that we are unable to resolve the listing deficiency, there is a risk that our common stock may be delisted from NASDAQ, which would adversely impact liquidity of our common stock and potentially result in even lower bid prices for our common stock.

Since the initial notice, the NASDAQ has determined that for the 12 consecutive business days from February 4 to February 20, 2019, the closing bid price of our common stock has been at \$1.00 per share or greater. Accordingly, we have regained compliance with Listing Rule 5550(a)(2) and this matter is now closed.

Table of Contents 19

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## RESULTS OF OPERATIONS

Fiscal Year Ended December 29, 2018 Compared with Fiscal Year Ended December 30, 2017

	Fiscal Year Ended (amounts in thousands)						Increase (Decrease)	% Change
	December 29, 2018	% of Net Sales	December 30, 2017	% of Net Sales				
Net sales	\$405,033	100.0 %	\$412,462	100.0 %	\$ (7,429 )	(1.8 )%		
Cost of sales	318,042	78.5 %	311,249	75.5 %	6,793	2.2 %		
Gross profit	86,991	21.5 %	101,213	24.5 %	(14,222 )	(14.1 )%		
Selling and administrative expenses	92,473	22.8 %	96,189	23.3 %	(3,716 )	(3.9 )%		
Other operating expense, net	458	0.1 %	441	0.1 %	17	3.9 %		
Facility consolidation and severance expenses, net	3,167	0.8 %	636	0.2 %	2,531	398.0 %		
Impairment of assets	6,709	1.7 %	—	— %	6,709	— %		
Operating income (loss)	(15,816 )	(3.9 )%	3,947	0.9 %	(19,763 )	(500.7 )%		
Interest expense	6,491	1.6 %	5,739	1.4 %	752	13.1 %		
Other expense, net	3	— %	21	— %	(18 )	(85.7 )%		
Loss before taxes	(22,310 )	(5.5 )%	(1,813 )	(0.5 )%	(20,497 )	1,130.6 %		
Income tax provision (benefit)	(831 )	(0.2 )%	7,509	1.8 %	(8,340 )	(111.1 )%		
Loss from continuing operations	(21,479 )	(5.3 )%	(9,322 )	(2.3 )%	(12,157 )	130.4 %		
Income (Loss) from discontinued operations	95	— %	(233 )	(0.1 )%	328	(140.8 )%		
Net loss	\$(21,384 )	(5.3 )%	\$(9,555 )	(2.4 )%	\$(11,829 )	123.8 %		

**Net Sales.** Net sales for the year ended December 29, 2018 were \$405.0 million compared with \$412.5 million in the year-earlier period, a decrease of 1.8% for the year-over-year comparison. Sales of residential floorcovering products were up 3.6% and sales of commercial floorcovering products decreased 13.2%. The decrease in commercial net sales was due to distractions caused by the restructuring of our commercial operations and sales force during 2018.

**Gross Profit.** Gross profit, as a percentage of net sales, decreased 3.0 percentage points in 2018 compared with 2017. Gross profit in 2018 was negatively impacted by inventory write downs of \$2.7 million taken during the year as part of our Profit Improvement Plan.

**Selling and Administrative Expenses.** Selling and administrative expenses were \$92.5 million in 2018 compared with \$96.2 million in 2017, or a decrease of .5% as a percentage of sales. The improved results in the 2018 selling expenses are the result of changes made as part of our Profit Improvement Plan.

**Other Operating Expense, Net.** Net other operating expense was an expense of \$458 thousand in 2018 compared with expense of \$441 thousand in 2017.

**Facility Consolidation and Severance Expenses, Net.** Facility consolidation expenses were \$3.2 million in 2018 compared with \$636 thousand in the year-earlier period. Facility consolidation expenses increased in 2018 as we continued our Profit Improvement Plan, announced in 2017, which includes the consolidation of our two commercial brands, consolidation of commercial manufacturing operations and sales forces, and an overall review of corporate wide operations and functions. As a result of this plan, we incurred expenses of \$3.2 million during 2018 primarily



related to facility consolidation expenses and severance costs.

**Asset Impairments.** The asset impairments recorded in 2018 were \$6.7 million. There were no asset impairment expenses in 2017. The asset impairments incurred in 2018 included the impairment of fixed assets as part of our Profit Improvement Plan (\$1.2 million). We also incurred intangible asset impairments (\$2.1 million) and goodwill impairment (\$3.4 million).

**Operating Income (Loss).** Operations reflected an operating loss of \$15.8 million in 2018 compared with an operating income of \$3.9 million in 2017. The operating results for 2018 were impacted by the lower sales volume, settlement of a class action lawsuit, and facility consolidation, asset impairments, and severance costs related to the Profit Improvement Plan.

**Interest Expense.** Interest expense increased \$752 thousand in 2018 principally due to higher levels of debt and higher rates than a year ago.

[Table of Contents](#) 20

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Income Tax Provision (Benefit). Our effective income tax rate was a benefit of 3.72% in 2018. The benefit relates to certain federal and state credits and also includes a benefit for the reduction of certain indefinite lived assets not covered by our valuation allowance. In 2018 we increased our valuation allowance by \$4 million related to our net deferred tax asset and specific state net operating loss and state credit carryforwards.

On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018.

The income tax expense for 2017 was \$7.5 million, which included a charge of \$1.4 million related to the re-measurement of certain net deferred tax assets using the lower U.S. corporate income tax rate and a charge of \$6.4 million to increase our valuation allowance related to our net deferred tax asset. The majority of the increase in the valuation allowance is related to the revised treatment of net operating losses under the Tax Act. Absent the impact of the Tax Act, our effective income tax benefit rate for 2017 would have been 36.4%.

Net Loss. Continuing operations reflected a loss of \$21.5 million, or \$1.36 per diluted share in 2018, compared with a loss from continuing operations of \$9.3 million, or \$0.59 per diluted share in 2017. Our discontinued operations reflected an income of \$95 thousand, or \$0.01 per diluted share in 2018 compared with a loss of \$233 thousand, or \$0.01 per diluted share in 2017. Including discontinued operations, we had a net loss of \$21.4 million, or \$1.35 per diluted share, in 2018 compared with a net loss of \$9.6 million, or \$0.60 per diluted share, in 2017.

#### Fiscal Year Ended December 30, 2017 Compared with Fiscal Year Ended December 31, 2016

	Fiscal Year Ended (amounts in thousands)						Increase (Decrease)	%	Change
	December 30, 2017	% of Net Sales		December 31, 2016	% of Net Sales				
Net sales	\$412,462	100.0 %		\$397,453	100.0 %	\$ 15,009	3.8	%	
Cost of sales	311,249	75.5 %		302,028	76.0 %	9,221	3.1	%	
Gross profit	101,213	24.5 %		95,425	24.0 %	5,788	6.1	%	
Selling and administrative expenses	96,171	23.3 %		96,983	24.4 %	(812)	(0.8)	%	
Other operating expense, net	441	0.1 %		401	0.1 %	40	10.0	%	
Facility consolidation and severance expenses, net	636	0.2 %		1,456	0.4 %	(820)	(56.3)	%	
Operating income (loss)	3,965	0.9 %		(3,415)	(0.9) %	7,380	(216.1)	%	
Interest expense	5,739	1.4 %		5,392	1.4 %	347	6.4	%	
Other expense, net	39	— %		22	— %	17	77.3	%	
Loss before taxes	(1,813)	(0.5) %		(8,829)	(2.3) %	7,016	(79.5)	%	
Income tax provision (benefit)	7,509	1.8 %		(3,622)	(0.9) %	11,131	(307.3)	%	
Loss from continuing operations	(9,322)	(2.3) %		(5,207)	(1.4) %	(4,115)	79.0	%	
Loss from discontinued operations	(233)	(0.1) %		(131)	— %	(102)	77.9	%	
Income on disposal of discontinued operations	—	— %		60	— %	(60)	—	%	
Net loss	\$(9,555)	(2.4) %		\$(5,278)	(1.4) %	\$(4,277)	81.0	%	

Our fiscal year ended December 30, 2017 had 52 weeks and fiscal year ended December 31, 2016 had 53 weeks. Discussions below related to percentage changes in net sales for the annual periods have been adjusted to reflect the comparable number of weeks and are qualified with the term "net sales as adjusted". For comparative purposes, we define "net sales as adjusted" as net sales less the last week of sales in a 53 week fiscal year. We believe "net sales as adjusted" will assist our financial statement users in obtaining comparable data between the reporting periods. (See

reconciliation of net sales to net sales as adjusted in the table below.)

Table of Contents 21

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## Reconciliation of Net Sales to Net Sales as Adjusted

Fiscal Year Ended (amounts in thousands)						
Net Sales	Net Sales	Net Sales		Increase	Net Sales	
December	December	as	Week 53	(Decrease)	as	
30, 2017	31, 2016	Adjusted	Adjusted		Adjusted	
		December	December		%	
		31, 2016	31, 2016		Change	
Net sales as adjusted	\$412,462	\$397,453	\$(5,380)	\$392,073	\$20,389	5.2 %

Net Sales. Net sales for the year ended December 30, 2017 were \$412.5 million compared with \$397.5 million in the year-earlier period, an increase of 3.8%, or 5.2% on a “net sales as adjusted” basis, for the year-over-year comparison. Sales for the industry were flat for 2017 compared with the prior year. Our 2017 year-over-year floorcovering sales comparison reflected an increase of 5.0%, or 6.5% on a “net sales as adjusted” basis, in net sales. Sales of residential floorcovering products were up 8.0%, or 9.3% on a “net sales as adjusted” basis, and sales of commercial floorcovering products decreased 0.8%, or increased 0.9% on a “net sales as adjusted” basis. The increase in net sales was due to strong demand for our residential products through our mass merchant distribution channels. We gained market space on the west coast vacated by Royalty Carpet Mills when they ceased operations during June of 2017.

Gross Profit. Gross profit, as a percentage of net sales, increased 0.5 percentage points in 2017 compared with 2016. Despite the improved sales volumes in 2017, our gross profit was adversely affected by rising costs in raw materials and increased operating costs. We incurred startup costs related to several manufacturing initiatives including (1) adding yarn processing at our Atmore, Alabama facility, (2) installing a pre-coat line for our modular tile products, (3) completing our Colormaster beck dye and skein dye consolidation, and (4) starting up our Porterville yarn operation in California. With the completion of these initiatives, we have in place a foundation that will allow us to operate more efficiently and reduce waste costs.

Selling and Administrative Expenses. Selling and administrative expenses were \$96.2 million in 2017 compared with \$97.0 million in 2016, or a decrease of 1.1% as a percentage of sales. Selling and administrative expenses decreased as a percentage of sales primarily as a result of the higher sales volumes during 2017. In addition, selling and administrative expenses decreased as a result of lower sampling expenses in 2017 compared with 2016.

Other Operating Expense, Net. Other operating expense, net was an expense of \$441 thousand in 2017 compared with expense of \$401 thousand in 2016.

Facility Consolidation and Severance Expenses, Net. Facility consolidation expenses were \$636 thousand in 2017 compared with \$1.5 million in the year-earlier period. Facility consolidation expenses decreased in 2017 as we completed our Warehousing, Distribution & Manufacturing Consolidation Plan during 2016. During 2017, we announced a Profit Improvement Plan which included the consolidation of our two commercial brands. This plan will consolidate the brands into one management team, sharing operations in sales, marketing, product development and manufacturing. As a result of this plan, we incurred expenses of \$636 thousand during 2017 primarily related to severance costs.

Operating Income (Loss). Operations reflected operating income of \$4.0 million in 2017 compared with an operating loss of \$3.4 million in 2016. Despite the improved sales volumes in 2017, our gross profit was adversely affected by rising costs in raw materials and increased operating costs. We incurred startup costs related to several manufacturing initiatives including (1) adding yarn processing at our Atmore, Alabama facility, (2) installing a pre-coat line for our

modular tile products, (3) completing our Colormaster beck dye and skein dye consolidation, and (4) starting up our Porterville yarn operation in California. With the completion of these initiatives, we have in place a foundation that will allow us to operate more efficiently and reduce waste costs. In addition, we incurred expenses related to our Profit Improvement Plan during the year as we consolidated our two commercial brands.

Interest Expense. Interest expense increased \$347 thousand in 2017 principally due to higher rates than a year ago.

Income Tax Provision (Benefit). On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. Consequently, we wrote down our net deferred tax assets as of December 30, 2017 by \$8.2 million to reflect the estimated impact of the Tax Act. This amount included a charge of \$1.8 million related to the re-measurement of certain net deferred tax assets using the lower U.S. corporate income tax rate and a charge of \$6.4 million to increase our valuation allowance related to our net deferred tax asset. The majority of the increase in the valuation allowance is related to the revised treatment of net operating losses under the Tax Act. Absent the impact of the Tax Act, our effective income tax benefit rate for 2017 would have been 36.4%.

Our effective income tax rate was a benefit of 41.0% in 2016. In 2016, we increased our valuation allowances by \$106 thousand related to state income tax loss carryforwards and state income tax credit carryforwards. Additionally, 2016 included approximately \$395 thousand of federal tax credits.

Table of Contents 22

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Net Loss. Continuing operations reflected a loss of \$9.3 million, or \$0.59 per diluted share in 2017, compared with a loss from continuing operations of \$5.2 million, or \$0.33 per diluted share in 2016. Our discontinued operations reflected a loss of \$233 thousand, or \$0.01 per diluted share in 2017 compared with a loss of \$131 thousand, or \$0.01 per diluted share and income on disposal of discontinued operations of \$60 thousand, or \$0.00 per diluted share in 2016. Including discontinued operations, we had a net loss of \$9.6 million, or \$0.60 per diluted share, in 2017 compared with a net loss of \$5.3 million, or \$0.34 per diluted share, in 2016.

## LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 29, 2018, cash provided by operations was \$5.1 million. Inventories decreased \$8.5 million, receivables decreased \$3.8 million and accounts payable and accrued expenses decreased \$4.2 million. Inventories were planned more closely in 2018 and decreased with lower demand. Receivables decreased on lower sales volume. In addition to items related to the general operating expenses, accounts payable and accrued expenses includes a liability of \$1.5 million for settlement of a class action lawsuit and severances related to the Profit Improvement Plan.

Capital asset acquisitions for the year ended December 29, 2018 were \$4.1 million. In 2018 proceeds from sale of equipment totaled \$1.9 million, primarily related to assets in our plants that were closed as part of our Profit Improvement Plan. Approximately \$389 thousand of equipment was acquired under capital leases and accounts payable. Depreciation and amortization for the year ended December 29, 2018 were \$12.7 million. We expect capital expenditures to be approximately \$6.0 million in 2019 while depreciation and amortization is expected to be approximately \$13.0 million. Planned capital expenditures in 2019 are primarily for new equipment.

During the year ended December 29, 2018, cash used in financing activities was \$2.9 million. We had borrowings of \$1.5 million on the revolving credit facility and \$3.3 million on notes payables and payments of \$10.4 million on notes payable and lease obligations.

We believe our operating cash flows, credit availability under our revolving credit facility and other sources of financing are adequate to finance our anticipated liquidity requirements under current operating conditions. As of December 29, 2018, the unused borrowing availability under our revolving credit facility was \$31.9 million. Our revolving credit facility requires us to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that borrowing availability is less than \$16.5 million. As of the date hereof, our fixed coverage ratio was less than 1.1 to 1.0, accordingly the unused availability accessible by us was \$15.4 million (the amount above \$16.5 million) at December 29, 2018. Significant additional cash expenditures above our normal liquidity requirements, significant deterioration in economic conditions or continued operating losses could affect our business and require supplemental financing or other funding sources. There can be no assurance that such supplemental financing or other sources of funding can be obtained or will be obtained on terms favorable to us. See Note 23 to our Consolidated Financial Statements for additional information regarding liquidity and capital resources.

### Debt Facilities

**Revolving Credit Facility.** The revolving credit facility provides for a maximum of \$150.0 million of revolving credit, subject to borrowing base availability. The borrowing base is currently equal to specified percentages of our eligible accounts receivable, inventories, fixed assets and real property less reserves established, from time to time, by the administrative agent under the facility. The revolving credit facility matures on September 23, 2021. The revolving credit facility is secured by a first priority lien on substantially all of our assets.

At our election, advances of the revolving credit facility bear interest at annual rates equal to either (a) LIBOR for 1, 2 or 3 month periods, as selected by us, plus an applicable margin ranging between 1.50% and 2.00%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate plus 1.00%, plus an applicable margin ranging between 0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases. As of December 29, 2018, the applicable margin on our revolving credit facility was 1.75%. We pay an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.375% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 4.58% at December 29, 2018 and 4.12% at December 30, 2017.

The revolving credit facility includes certain affirmative and negative covenants that impose restrictions on our financial and business operations. The revolving credit facility restricts our borrowing availability if our fixed charge coverage ratio is less than 1.1 to 1.0. During any period that our fixed charge coverage ratio is less than 1.1 to 1.0, our borrowing availability is reduced by \$16.5 million. As of December 29, 2018, the unused borrowing availability under the revolving credit facility was \$31.9 million; however, since our fixed charge coverage ratio was less than 1.1 to 1.0, the unused availability accessible by us was \$15.4 million (the amount above \$16.5 million) at December 29, 2018.

Table of Contents 23

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Notes Payable - Buildings. On November 7, 2014, we entered into a ten-year \$8.3 million note payable to purchase a previously leased distribution center in Adairsville, Georgia. The note payable is scheduled to mature on November 7, 2024 and is secured by the distribution center. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of \$35 thousand, plus interest calculated on the declining balance of the note, with a final payment of \$4.2 million due on maturity. In addition, we entered into an interest rate swap with an amortizing notional amount effective November 7, 2014 which effectively fixes the interest rate at 4.50%.

On January 23, 2015, we entered into a ten-year \$6.3 million note payable to finance an owned facility in Saraland, Alabama. The note payable is scheduled to mature on January 7, 2025 and is secured by the facility. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of \$26 thousand, plus interest calculated on the declining balance of the note, with a final payment of \$3.1 million due on maturity. In addition, we entered into a forward interest rate swap with an amortizing notional amount effective January 7, 2017 which effectively fixes the interest rate at 4.30%.

Acquisition Note Payable - Development Authority of Gordon County. On November 2, 2012, we signed a 6.00% seller-financed note of \$5.5 million with Lineage PCR, Inc. ("Lineage") related to the acquisition of the continuous carpet dyeing facility in Calhoun, Georgia. Effective December 28, 2012, through a series of agreements between us, the Development Authority of Gordon County, Georgia (the "Authority") and Lineage, obligations with identical payment terms as the original note to Lineage were now payment obligations to the Authority. These transactions were consummated in order to provide a tax abatement to us related to the real estate and equipment at this facility. The tax abatement plan provided for abatement for certain components of the real and personal property taxes for up to ten years. At any time, we have the option to pay off the obligation, plus a nominal amount. The debt to the Authority bore interest at 6.00% and was payable in equal monthly installments of principal and interest of \$106 thousand over 57 months. The note matured on November 2, 2017 and the final installment was paid at that time.

Acquisition Note Payable - Robertex. On July 1, 2013, we signed a 4.50% seller-financed note of \$4.0 million, which was recorded at a fair value of \$3.7 million, with Robert P. Rothman related to the acquisition of Robertex Associates, LLC ("Robertex") in Calhoun, Georgia. The note was payable in five annual installments of principal of \$800 thousand plus interest. The note matured on June 30, 2018.

Notes Payable - Equipment and Other. Our equipment financing notes have terms ranging from 1 to 7 years, bear interest ranging from 1.00% to 7.68% and are due in monthly installments through their maturity dates. Our equipment financing notes are secured by the specific equipment financed and do not contain any financial covenants.

Capital Lease Obligations. Our capitalized lease obligations have terms ranging from 3 to 7 years, bear interest ranging from 3.55% to 7.76% and are due in monthly or quarterly installments through their maturity dates. Our capital lease obligations are secured by the specific equipment leased. (See Note 10 to our Consolidated Financial Statements).



## Contractual Obligations

The following table summarizes our future minimum payments under contractual obligations as of December 29, 2018

	Payments Due By Period						Total
	(dollars in millions)						
	2019	2020	2021	2022	2023	Thereafter	
Debt	\$3.8	\$1.9	\$101.0	\$1.0	\$0.7	\$ 8.0	116.4
Interest - debt (1)	0.6	0.5	0.5	0.4	0.4	0.3	2.7
Capital leases	4.0	3.8	3.2	0.9	0.2	—	12.1
Interest - capital leases	0.6	0.4	0.2	—	—	—	1.2
Operating leases	3.0	2.5	2.1	1.7	0.9	3.2	13.4
Purchase commitments	2.7	—	—	—	—	—	2.7
Totals	14.7	9.1	107.0	4.0	2.2	11.5	148.5

(1) Interest rates used for variable rate debt were those in effect at December 29, 2018.

## Stock-Based Awards

We recognize compensation expense related to share-based stock awards based on the fair value of the equity instrument over the period of vesting for the individual stock awards that were granted. At December 29, 2018, the total unrecognized compensation expense related to unvested restricted stock awards was \$1.5 million with a weighted-average vesting period of 7.7 years. At December 29, 2018, the total unrecognized compensation expense related to Directors' Stock Performance Units was \$24 thousand with a weighted-average vesting period of 0.3 years. At December 29, 2018, the total unrecognized compensation expense related to unvested stock options was \$72 thousand with a weighted-average vesting period of 0.4 years.

## Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements at December 29, 2018 or December 30, 2017.

## Income Tax Considerations

In the tax year ended December 29, 2018 we increased our valuation allowances by \$4 million related to our net deferred tax asset and specific state net operating loss and state credit carryforwards.

During 2019 and 2020, we do not anticipate any cash outlays for income taxes to exceed \$100 thousand. This is due to tax loss carryforwards and tax credit carryforwards that will be used to offset taxable income. At December 29, 2018, we were in a net deferred tax liability position of \$568 thousand.

## Discontinued Operations - Environmental Contingencies

We have reserves for environmental obligations established at five previously owned sites that were associated with our discontinued textile businesses. We have a reserve of \$1.7 million for environmental liabilities at these sites as of December 29, 2018. The liability established represents our best estimate of loss and is the reasonable amount to which there is any meaningful degree of certainty given the periods of estimated remediation and the dollars applicable to such remediation for those periods. The actual timeline to remediate, and thus, the ultimate cost to complete such remediation through these remediation efforts, may differ significantly from our estimates. Pre-tax cost

for environmental remediation obligations classified as discontinued operations were primarily a result of specific events requiring action and additional expense in each period.

#### Fair Value of Financial Instruments

At December 29, 2018, we had no liabilities measured at fair value that fall under a level 3 classification in the hierarchy (those subject to significant management judgment or estimation).

#### Certain Related Party Transactions

We are a party to a five-year lease with the seller of Atlas Carpet Mills, Inc. to lease three manufacturing facilities as part of the acquisition in 2014. The lessor is controlled by an associate of ours. Rent paid to the lessor during 2018, 2017, and 2016 was \$1,003, \$978, and \$793, respectively. The lease was based on current market values for similar facilities.

We purchase a portion of our product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of ours. An affiliate of Mr. Shaw holds approximately 7.2% of our Common Stock,

Table of Contents 25

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which represents approximately 3.5% of the total vote of all classes of our Common Stock. Engineered Floors is one of several suppliers of such materials to us. Total purchases from Engineered Floors for 2018, 2017 and 2016 were approximately \$8,200, \$7,200 and \$7,300, respectively; or approximately 2.6%, 2.3%, and 2.4% of our cost of goods sold in 2018, 2017, and 2016, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. We have no contractual commitments with Mr. Shaw associated with our business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by our board of directors.

We are a party to a ten-year lease with the Rothman Family Partnership to lease a manufacturing facility as part of the Robertex acquisition in 2013. The lessor is controlled by an associate of ours. Rent paid to the lessor during 2018, 2017, and 2016 was \$278, \$273, and \$267, respectively. The lease was based on current market values for similar facilities. In addition, we have a note payable to Robert P. Rothman related to the acquisition of Robertex Inc. (See Note 10 to our Consolidated Financial Statements).

#### Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize on the balance sheet right-of-use assets, representing the right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. We have completed the process of identifying our population of leases and we have identified and implemented internal procedures and controls to properly disclose and report our results beginning with our quarterly report on Form 10-Q for the quarter ending March 30, 2019. With the adoption of the new lease standard, for operating leases we will recognize right of use assets of approximately \$10.3 million and a corresponding lease liability of the same amount at the beginning of fiscal year 2019.

See Note 2 to our Consolidated Financial Statements of this Form 10-K for a discussion of the standard described above and other new accounting pronouncements which is incorporated herein by reference.

#### Critical Accounting Policies

Certain estimates and assumptions are made when preparing our financial statements. Estimates involve judgments with respect to, among other things, future economic factors that are difficult to predict. As a result, actual amounts could differ from estimates made when our financial statements are prepared.

The Securities and Exchange Commission requires management to identify its most critical accounting policies, defined as those that are both most important to the portrayal of our financial condition and operating results and the application of which requires our most difficult, subjective, and complex judgments. Although our estimates have not differed materially from our experience, such estimates pertain to inherently uncertain matters that could result in material differences in subsequent periods.

We believe application of the following accounting policies require significant judgments and estimates and represent our critical accounting policies. Other significant accounting policies are discussed in Note 1 to our Consolidated Financial Statements.

**Revenue recognition.** The Company derives its revenues primarily from the sale of floorcovering products and processing services. Revenues are recognized when control of these products or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and services. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The Company does not

have any significant financing components as payment is received at or shortly after the point of sale. The Company determined revenue recognition through the following steps:

- Identification of the contract with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the performance obligation is satisfied

Variable Consideration. The nature of the Company's business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price, which reduces revenue. These variable amounts are generally credited to the customer, based on achieving certain levels of sales activity, product returns, or price concessions.

Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends.

Table of Contents 26

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Customer claims and product warranties. The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products for a period of up to two years. The Company accrues for estimated future assurance warranty costs in the period in which the sale is recorded. The costs are included in Cost of Sales in the Consolidated Condensed Statements of Operations and the product warranty reserve is included in accrued expenses in the Consolidated Condensed Balance Sheets. The Company calculates its accrual using the portfolio approach based upon historical experience and known trends. The Company does not provide an additional service-type warranty.

Accounts receivable allowances. We provide allowances for expected cash discounts and doubtful accounts based upon historical experience and periodic evaluations of the financial condition of our customers. If the financial conditions of our customers were to significantly deteriorate, or other factors impair their ability to pay their debts, credit losses could differ from allowances recorded in our Consolidated Financial Statements.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out method (LIFO), which generally matches current costs of inventory sold with current revenues, for substantially all inventories. Reserves are also established to adjust inventories that are off-quality, aged or obsolete to their estimated net realizable value. Additionally, rates of recoverability per unit of off-quality, aged or obsolete inventory are estimated based on historical rates of recoverability and other known conditions or circumstances that may affect future recoverability. Actual results could differ from assumptions used to value our inventory.

Goodwill. Goodwill is tested annually for impairment during the fourth quarter or earlier if significant events or substantive changes in circumstances occur that may indicate that goodwill may not be recoverable. The goodwill impairment tests are based on determining the fair value of the specified reporting units based on management judgments and assumptions using the discounted cash flows and comparable company market valuation approaches. We have identified our reporting unit as our floorcovering business for the purposes of allocating goodwill and assessing impairments. The valuation approaches are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about sales growth rates, operating margins, the weighted average cost of capital (“WACC”), synergies from the viewpoint of a market participant and comparable company market multiples. When developing these key judgments and assumptions, we consider economic, operational and market conditions that could impact the fair value of the reporting unit. However, estimates are inherently uncertain and represent only management’s reasonable expectations regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. We performed our annual assessment of goodwill in the fourth quarter of 2018 and an impairment was indicated. In accordance with the results of our testing, the goodwill was considered impaired and the asset was removed and a corresponding expense was recorded for asset impairment on the Consolidated Statements of Operations. (See Note 7 to our Consolidated Financial Statements)

Self-insured accruals. We estimate costs required to settle claims related to our self-insured medical, dental and workers' compensation plans. These estimates include costs to settle known claims, as well as incurred and unreported claims. The estimated costs of known and unreported claims are based on historical experience. Actual results could differ from assumptions used to estimate these accruals.

Income taxes. Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available in the jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in a future period. We evaluate the recoverability of these future tax benefits by

assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates, including business forecasts and other projections of financial results over an extended period of time. In the event that we are not able to realize all or a portion of our deferred tax assets in the future, a valuation allowance is provided. We recognize such amounts through a charge to income in the period in which that determination is made or when tax law changes are enacted. We had valuation allowances of \$17.0 million at December 29, 2018 and \$13.0 million at December 30, 2017. On December 22, 2017, the President signed the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. Consequently, we wrote down our net deferred tax assets as of December 30, 2017 by \$8.2 million to reflect the estimated impact of the Tax Act. This amount included a charge of \$1.8 million related to the re-measurement of certain net deferred tax assets using the lower U.S. corporate income tax rate and a charge of \$6.4 million to increase our valuation allowance related to our net deferred tax asset. The majority of the increase in the valuation allowance is related to the revised treatment of net operating losses under the Tax Act. Pursuant to Staff Accounting Bulletin No. 118, we have completed our analysis and all adjustments have been included in income from continuing operations as an adjustment to income tax expense. At December 29, 2018, we were in a net deferred tax liability position of \$568 thousand. For further information regarding our valuation allowances, see Note 14 to our Consolidated Financial Statements.

Loss contingencies. We routinely assess our exposure related to legal matters, environmental matters, product liabilities or any other claims against our assets that may arise in the normal course of business. If we determine that it is probable

Table of Contents 27

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a loss has been incurred, the amount of the loss, or an amount within the range of loss, that can be reasonably estimated will be recorded.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Dollars in thousands)

Our earnings, cash flows and financial position are exposed to market risks relating to interest rates, among other factors. It is our policy to minimize our exposure to adverse changes in interest rates and manage interest rate risks inherent in funding our Company with debt. We address this financial exposure through a risk management program that includes maintaining a mix of fixed and floating rate debt and the use of interest rate swap agreements (See Note 12 to the Consolidated Financial Statements).

At December 29, 2018, \$49,220, or approximately 38% of our total debt, was subject to floating interest rates. A one-hundred basis point fluctuation in the variable interest rates applicable to this floating rate debt would have an annual pre-tax impact of approximately \$492.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The supplementary financial information required by ITEM 302 of Regulation S-K is included in PART II, ITEM 5 of this report and the Financial Statements are included in a separate section of this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13(a)-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of December 29, 2018, the date of the financial statements included in this Form 10-K (the "Evaluation Date"). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

(b) Changes in Internal Control over Financial Reporting. No changes in our internal control over financial reporting occurred during the quarter covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures, as well as diverse interpretation of U. S. generally accepted accounting principles by accounting professionals. It is also possible that

internal control over financial reporting can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. These inherent limitations are known features of the financial reporting process; therefore, while it is possible to design into the process safeguards to reduce such risk, it is not possible to eliminate all risk.

Our management report on internal control over financial reporting is contained in Item 15(a)(1) of this report.

Item 9B. OTHER INFORMATION

None.

Table of Contents 28

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PART III.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The sections entitled "Information about Nominees for Director" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2019 are incorporated herein by reference. Information regarding the executive officers of the registrant is presented in PART I of this report.

We adopted a Code of Business Conduct and Ethics (the "Code of Ethics") which applies to our principal executive officer, principal financial officer and principal accounting officer or controller, and any persons performing similar functions. A copy of the Code of Ethics is incorporated by reference herein as Exhibit 14 to this report.

Audit Committee Financial Expert

The Board has determined that Michael L. Owens is an audit committee financial expert as defined by Item 407 (e)(5) of Regulation S-K of the Securities Exchange Act of 1934, as amended, and is independent within the meaning of the applicable Securities and Exchange Commission rules and NASDAQ standards. For a brief listing of Mr. Owens' relevant experience, please refer to the "Election of Directors" section of the Company's Proxy Statement.

Audit Committee

We have a standing audit committee. At December 29, 2018, members of our audit committee are Michael L. Owens, Chairman, William F. Blue, Jr., Charles E. Brock, Walter W. Hubbard, Lowry F. Kline, and Hilda W. Murray.

Item 11. EXECUTIVE COMPENSATION

The sections entitled "Compensation Discussion and Analysis", "Executive Compensation Information" and "Director Compensation" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2019 are incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The section entitled "Principal Shareholders", as well as the beneficial ownership table (and accompanying notes), in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2019 are incorporated herein by reference.

Equity Compensation Plan Information as of December 29, 2018

The following table sets forth information as to our equity compensation plans as of the end of the 2018 fiscal year:

Plan Category	(a) Number of securities to be issued upon exercise of the	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance

	outstanding options, warrants and rights			under equity compensation plans (excluding securities reflected in column (a))
Equity Compensation Plans approved by security holders	421,821	(1)\$	4.90	(2)217,686

(1) Includes the options to purchase 103,500 shares and 195,000 shares of Common Stock under our 2006 Stock Awards Plan and 2016 Stock Awards Plan, respectively, and 123,321 Performance Units issued under the 2016 Stock Awards Plan, each unit being equivalent to one share of Common Stock. Does not include shares of Common Stock issued but not vested pursuant to outstanding restricted stock awards.

(2) Includes the aggregate weighted-average of (i) the exercise price per share for outstanding options to purchase 103,500 shares and 195,000 shares of Common Stock under our 2006 Stock Awards Plan and 2016 Stock Awards Plan, respectively, and (ii) the price per share of the Common Stock on the grant date for each of 123,321 Performance Units issued under the 2016 Stock Awards Plan (each unit equivalent to one share of Common Stock).

#### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The section entitled "Certain Transactions Between the Company and Directors and Officers" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2019 is incorporated herein by reference.

#### Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The section entitled "Audit Fees Discussion" in the Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held May 1, 2019 is incorporated herein by reference.

Table of Contents 29

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PART IV.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements - The response to this portion of Item 15 is submitted as a separate section of this report.

(2) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report.

(3) Exhibits - Please refer to the Exhibit Index which is attached hereto.

(b) Exhibits - The response to this portion of Item 15 is submitted as a separate section of this report. See Item 15(a)(3) above.

(c) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report. See Item 15(a)(2).

Item 16. FORM 10-K SUMMARY

None.

Table of Contents 30

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 8, 2019      The Dixie Group, Inc.

/s/ DANIEL K. FRIERSON

By: Daniel K. Frierson

Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ DANIEL K. FRIERSON Daniel K. Frierson	Chairman of the Board, Director and Chief Executive Officer	March 8, 2019
/s/ JON A. FAULKNER Jon A. Faulkner	Vice President, Chief Financial Officer	March 8, 2019
/s/ ALLEN L. DANZEY Allen L. Danzey	Chief Accounting Officer	March 8, 2019
/s/ D. KENNEDY FRIERSON, JR. D. Kennedy Frierson, Jr.	Vice President, Chief Operating Officer and Director	March 8, 2019
/s/ WILLIAM F. BLUE, JR. William F. Blue, Jr.	Director	March 8, 2019
/s/ CHARLES E. BROCK Charles E. Brock	Director	March 8, 2019
/s/ WALTER W. HUBBARD Walter W. Hubbard	Director	March 8, 2019
/s/ LOWRY F. KLINE Lowry F. Kline	Director	March 8, 2019
/s/ HILDA S. MURRAY Hilda S. Murray	Director	March 8, 2019
/s/ MICHAEL L. OWENS Michael L. Owens	Director	March 8, 2019

Table of Contents 31

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ANNUAL REPORT ON FORM 10-K

ITEM 8 AND ITEM 15(a)(1) AND ITEM 15(a)(2)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 29, 2018

THE DIXIE GROUP, INC.

DALTON, GEORGIA

Table of Contents 32

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FORM 10-K - ITEM 8 and ITEM 15(a)(1) and (2)

THE DIXIE GROUP, INC. AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements and financial statement schedules of The Dixie Group, Inc. and subsidiaries are included in Item 8 and Item 15(a)(1) and 15(c):

Table of Contents	Page
<u>Management's report on internal control over financial reporting</u>	<u>34</u>
<u>Report of independent registered public accounting firm</u>	<u>35</u>
<u>Consolidated balance sheets - December 29, 2018 and December 30, 2017</u>	<u>36</u>
<u>Consolidated statements of operations - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>37</u>
<u>Consolidated statements of comprehensive income (loss) - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>38</u>
<u>Consolidated statements of cash flows - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>39</u>
<u>Consolidated statements of stockholders' equity - Years ended December 29, 2018, December 30, 2017, and December 31, 2016</u>	<u>40</u>
<u>Notes to consolidated financial statements</u>	<u>41</u>
<u>Schedule II - Valuation and Qualifying Accounts</u>	<u>70</u>

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, or the information is otherwise shown in the financial statements or notes thereto, and therefore such schedules have been omitted.

Table of Contents 33

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#### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures, as well as diverse interpretation of U. S. generally accepted accounting principles by accounting professionals. It is also possible that internal control over financial reporting can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. These inherent limitations are known features of the financial reporting process; therefore, while it is possible to design into the process safeguards to reduce such risk, it is not possible to eliminate all risk.

Management, including our principal executive officer and principal financial officer, has used the criteria set forth in the report entitled “Internal Control - Integrated Framework” published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) to evaluate the effectiveness of its internal control over financial reporting. Management has concluded that its internal control over financial reporting was effective as of December 29, 2018, based on those criteria.

/s/ Daniel K. Frierson  
Chairman of the Board and  
Chief Executive Officer

/s/ Jon A. Faulkner  
Chief Financial Officer

Table of Contents 34

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Report of Independent Registered Public Accounting Firm  
The Shareholders and the Board of Directors of The Dixie Group, Inc.  
Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Dixie Group, Inc. (the "Company") as of December 29, 2018 and December 30, 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2013.

Atlanta, Georgia

March 8, 2019

THE DIXIE GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(amounts in thousands, except share data)

	December 29, 2018	December 30, 2017 (As Adjusted)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 18	\$ 19
Receivables, net	42,542	46,480
Inventories, net	105,195	113,657
Prepaid expenses	5,204	4,669
<b>TOTAL CURRENT ASSETS</b>	<b>152,959</b>	<b>164,825</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>84,111</b>	<b>93,785</b>
<b>GOODWILL AND OTHER INTANGIBLES</b>	<b>—</b>	<b>5,850</b>
<b>OTHER ASSETS</b>	<b>15,708</b>	<b>19,447</b>
<b>TOTAL ASSETS</b>	<b>\$ 252,778</b>	<b>\$ 283,907</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 17,779	\$ 18,541
Accrued expenses	30,852	31,360
Current portion of long-term debt	7,794	9,811
<b>TOTAL CURRENT LIABILITIES</b>	<b>56,425</b>	<b>59,712</b>
<b>LONG-TERM DEBT</b>	<b>120,251</b>	<b>123,446</b>
<b>OTHER LONG-TERM LIABILITIES</b>	<b>17,118</b>	<b>21,486</b>
<b>TOTAL LIABILITIES</b>	<b>193,794</b>	<b>204,644</b>
<b>COMMITMENTS AND CONTINGENCIES (See Note 18)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock (\$3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 15,522,588 shares for 2018 and 15,279,812 shares for 2017	46,568	45,839
Class B Common Stock (\$3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 839,304 shares for 2018 and 861,499 shares for 2017	2,518	2,584
Additional paid-in capital	156,390	157,139
Accumulated deficit	(146,384)	(125,000)
Accumulated other comprehensive income (loss)	(108)	(1,299)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>58,984</b>	<b>79,263</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 252,778</b>	<b>\$ 283,907</b>

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(amounts in thousands, except per share data)

	Year Ended		
	December 29, 2018	December 30, 2017 (As Adjusted)	December 31, 2016 (As Adjusted)
NET SALES	\$405,033	\$ 412,462	\$ 397,453
Cost of sales	318,042	311,249	302,028
GROSS PROFIT	86,991	101,213	95,425
Selling and administrative expenses	92,473	96,189	97,004
Other operating expense, net	458	441	401
Facility consolidation and severance expenses, net	3,167	636	1,456
Impairment of assets	6,709	—	—
OPERATING INCOME (LOSS)	(15,816 )	3,947	(3,436 )
Interest expense	6,491	5,739	5,392
Other expense, net	3	21	1
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	(22,310 )	(1,813 )	(8,829 )
Income tax provision (benefit)	(831 )	7,509	(3,622 )
LOSS FROM CONTINUING OPERATIONS	(21,479 )	(9,322 )	(5,207 )
Income (loss) from discontinued operations, net of tax	95	(233 )	(131 )
Income on disposal of discontinued operations, net of tax	—	—	60
NET LOSS	\$(21,384 )	\$(9,555 )	\$(5,278 )
BASIC EARNINGS (LOSS) PER SHARE:			
Continuing operations	\$(1.36 )	\$(0.59 )	\$(0.33 )
Discontinued operations	0.01	(0.01 )	(0.01 )
Disposal of discontinued operations	—	—	0.00
Net loss	\$(1.35 )	\$(0.60 )	\$(0.34 )
BASIC SHARES OUTSTANDING	15,764	15,699	15,638
DILUTED EARNINGS (LOSS) PER SHARE:			
Continuing operations	\$(1.36 )	\$(0.59 )	\$(0.33 )
Discontinued operations	0.01	(0.01 )	(0.01 )
Disposal of discontinued operations	—	—	0.00
Net loss	\$(1.35 )	\$(0.60 )	\$(0.34 )
DILUTED SHARES OUTSTANDING	15,764	15,699	15,638
DIVIDENDS PER SHARE:			
Common Stock	\$—	\$—	\$—
Class B Common Stock	—	—	—

See accompanying notes to the consolidated financial statements.

Table of Contents 37

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THE DIXIE GROUP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(amounts in thousands)

	Year Ended		
	December 31, 2018	December 30, 2017	December 31, 2016
NET LOSS	\$ (21,384)	\$ (9,555 )	\$ (5,278 )
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized gain (loss) on interest rate swaps	531	180	(263 )
Income taxes	—	68	(100 )
Unrealized gain (loss) on interest rate swaps, net	531	112	(163 )
Reclassification of loss into earnings from interest rate swaps (1)	673	1,250	1,291
Income taxes	—	475	491
Reclassification of loss into earnings from interest rate swaps, net	673	775	800
Unrecognized net actuarial gain (loss) on postretirement benefit plans	18	11	(3 )
Income taxes	—	4	(1 )
Unrecognized net actuarial gain (loss) on postretirement benefit plans, net	18	7	(2 )
Reclassification of net actuarial gain into earnings from postretirement benefit plans (2)	(27 )	(30 )	(33 )
Income taxes	—	(11 )	(13 )
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	(27 )	(19 )	(20 )
Reclassification of prior service credits into earnings from postretirement benefit plans (2)	(4 )	(4 )	(4 )
Income taxes	—	(1 )	(2 )
Reclassification of prior service credits into earnings from postretirement benefit plans, net	(4 )	(3 )	(2 )
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	1,191	872	613
COMPREHENSIVE LOSS	\$ (20,193)	\$ (8,683 )	\$ (4,665 )

(1) Amounts for cash flow hedges reclassified from accumulated other comprehensive income (loss) to net loss were included in interest expense in the Company's Consolidated Statement of Operations.

(2) Amounts for postretirement plans reclassified from accumulated other comprehensive income (loss) to net loss were included in selling and administrative expenses in the Company's Consolidated Statement of Operations.

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(amounts in thousands)

	Year Ended		
	December 31, 2018	December 30, 2017	December 31, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss from continuing operations	\$(21,479)	\$ (9,322 )	\$ (5,207 )
Income (loss) from discontinued operations	95	(233 )	(131 )
Income on disposal of discontinued operations	—	—	60
Net loss	(21,384 )	(9,555 )	(5,278 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	12,653	12,947	13,515
Provision (benefit) for deferred income taxes	(537 )	8,181	(3,260 )
Net loss (gain) on property, plant and equipment disposals	(1,047 )	170	725
Impairment of assets	1,164	—	—
Impairment of goodwill and intangibles	5,545	—	—
Stock-based compensation (credit) expense	(29 )	940	1,324
Excess tax benefits from stock-based compensation	—	—	(3 )
Bad debt expense	163	70	38
Changes in operating assets and liabilities:			
Receivables	3,775	(2,945 )	7,163
Inventories	8,462	(16,420 )	17,909
Other current assets	(535 )	776	(1,014 )
Accounts payable and accrued expenses	(4,198 )	(3,161 )	(6,827 )
Other operating assets and liabilities	1,073	(609 )	(371 )
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>5,105</b>	<b>(9,606 )</b>	<b>23,921</b>