UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
R **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 26, 2020

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

THE DIXIE GROUP, INC.

(Exact name of Registrant as specified in its charter)

Tennessee		**62-0183370**
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
475 Reed Road, Dalton, Georgia	**30720**	**(706) 876-5800**
(Address of principal executive offices)	(zip code)	(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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. R Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation 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 such files). R Yes ☐ No

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

Large accelerated filer	☐		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	R
			Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Class	Outstanding as of October 30, 2020
Common Stock, $3 Par Value	14,933,373 shares
Class B Common Stock, $3 Par Value	880,313 shares
Class C Common Stock, $3 Par Value	0 shares

THE DIXIE GROUP, INC.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 26, 2020	December 28, 2019
ASSETS	**(Unaudited)**	
CURRENT ASSETS		
Cash and cash equivalents	**$ 19**	$ 769
Receivables, net	**38,718**	37,138
Inventories, net	**86,942**	95,509
Prepaids and other current assets	**5,007**	6,179
TOTAL CURRENT ASSETS	**130,686**	139,595
PROPERTY, PLANT AND EQUIPMENT, NET	**60,151**	65,442
OPERATING LEASE RIGHT-OF-USE ASSETS	**22,861**	24,835
OTHER ASSETS	**17,631**	17,787
TOTAL ASSETS	**$ 231,329**	$ 247,659
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 22,093**	$ 16,084
Accrued expenses	**27,383**	25,418
Current portion of long-term debt	**5,724**	6,684
Current portion of operating lease liabilities	**3,287**	3,172
TOTAL CURRENT LIABILITIES	**58,487**	51,358
LONG-TERM DEBT	**68,263**	81,667
OPERATING LEASE LIABILITIES	**20,191**	22,123
OTHER LONG-TERM LIABILITIES	**20,262**	19,300
TOTAL LIABILITIES	**167,203**	174,448
COMMITMENTS AND CONTINGENCIES (See Note 18)		
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 14,933,373 shares for 2020 and 15,025,087 shares for 2019	**44,800**	45,075
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 880,313 shares for 2020 and 836,669 shares for 2019	**2,641**	2,510
Additional paid-in capital	**157,730**	157,547
Accumulated deficit	**(140,002)**	(131,113)
Accumulated other comprehensive loss	**(1,043)**	(808)
TOTAL STOCKHOLDERS' EQUITY	**64,126**	73,211
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 231,329**	$ 247,659

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
NET SALES	**$ 85,920**	$ 95,447	**$ 227,321**	$ 284,448
Cost of sales	**63,679**	74,373	**173,843**	220,962
GROSS PROFIT	**22,241**	21,074	**53,478**	63,486
Selling and administrative expenses	**19,335**	21,036	**56,254**	63,810
Other operating (income) expense, net	**(172)**	37	**(163)**	145
Facility consolidation and severance expenses, net	**515**	1,043	**1,785**	4,859
Impairment of assets	**—**	—	**—**	3
OPERATING INCOME (LOSS)	**2,563**	(1,042)	**(4,398)**	(5,331)
Interest expense	**1,561**	1,648	**4,204**	5,085
Other expense (income), net	**92**	(4)	**85**	(42)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	**910**	(2,686)	**(8,687)**	(10,374)
Income tax provision (benefit)	**4**	(109)	**—**	25
INCOME (LOSS) FROM CONTINUING OPERATIONS	**906**	(2,577)	**(8,687)**	(10,399)
Income (loss) from discontinued operations, net of tax	**(46)**	23	**(203)**	(43)
NET INCOME (LOSS)	**$ 860**	$ (2,554)	**$ (8,890)**	$ (10,442)
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	**$ 0.06**	$ (0.16)	**$ (0.57)**	$ (0.66)
Discontinued operations	**(0.00)**	(0.00)	**(0.01)**	0.00
Net income (loss)	**$ 0.06**	$ (0.16)	**$ (0.58)**	$ (0.66)
BASIC SHARES OUTSTANDING	**15,334**	15,899	**15,340**	15,864
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	**$ 0.06**	$ (0.16)	**$ (0.57)**	$ (0.66)
Discontinued operations	**(0.00)**	(0.00)	**(0.01)**	0.00
Net income (loss)	**$ 0.06**	$ (0.16)	**$ (0.58)**	$ (0.66)
DILUTED SHARES OUTSTANDING	**15,454**	15,899	**15,340**	15,864
DIVIDENDS PER SHARE:				
Common Stock	**$ —**	$ —	**$ —**	$ —
Class B Common Stock	**—**	—	**—**	—

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
NET INCOME (LOSS)	**$ 860**	$ (2,554)	**$ (8,890)**	$ (10,442)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized loss on interest rate swaps	**(25)**	(159)	**(1,300)**	(1,264)
Income taxes	**—**	—	**—**	—
Unrealized loss on interest rate swaps, net	**(25)**	(159)	**(1,300)**	(1,264)
Reclassification of loss into earnings from interest rate swaps (1)	**420**	125	**993**	273
Income taxes	**—**	—	**—**	10
Reclassification of loss into earnings from interest rate swaps, net	**420**	125	**993**	263
Reclassification of unrealized loss into earnings from dedesignated interest rate swaps (2)	**95**	—	**95**	—
Income taxes	**—**	—	**—**	—
Reclassification of unrealized loss into earnings from dedesignated interest rate swaps, net	**95**	—	**95**	—
Reclassification of net actuarial gain into earnings from postretirement benefit plans (3)	**(6)**	(7)	**(20)**	(19)
Income taxes	**—**	—	**—**	—
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	**(6)**	(7)	**(20)**	(19)
Reclassification of prior service credits into earnings from postretirement benefit plans (3)	**(1)**	(1)	**(3)**	(3)
Income taxes	**—**	—	**—**	—
Reclassification of prior service credits into earnings from postretirement benefit plans, net	**(1)**	(1)	**(3)**	(3)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**483**	**(42)**	**(235)**	**(1,023)**
COMPREHENSIVE INCOME (LOSS)	**$ 1,343**	$ (2,596)	**$ (9,125)**	$ (11,465)

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

See accompanying notes to the consolidated condensed financial statements.

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

	Nine Months Ended	
	September 26, 2020	September 28, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	**$ (8,687)**	$ (10,399)
Loss from discontinued operations	**(203)**	(43)
Net loss	**(8,890)**	(10,442)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**8,353**	8,846
Provision for deferred income taxes	**—**	64
Net loss (gain) on property, plant and equipment disposals	**(37)**	106
Impairment of assets	**—**	3
Stock-based compensation expense	**246**	387
Bad debt expense	**67**	182
Changes in operating assets and liabilities:		
Receivables	**(1,647)**	(2,620)
Inventories	**8,567**	6,688
Prepaids and other current assets	**1,172**	(1,970)
Accounts payable and accrued expenses	**7,069**	7,457
Other operating assets and liabilities	**1,020**	(701)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**15,920**	8,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of property, plant and equipment	**40**	9
Purchase of property, plant and equipment	**(1,453)**	(3,120)
NET CASH USED IN INVESTING ACTIVITIES	**(1,413)**	(3,111)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on revolving credit facility	**(13,230)**	(5,431)
Payments on notes payable - buildings	**(208)**	(5,371)
Borrowings on notes payable - equipment and other	**—**	1,379
Payments on notes payable - equipment and other	**(1,827)**	(2,770)
Payments on finance leases	**(2,767)**	(3,122)
Borrowings on finance leases	**2,211**	11,500
Change in outstanding checks in excess of cash	**771**	(784)
Repurchases of Common Stock	**(207)**	(12)
Payments for debt issuance costs	**—**	(277)
NET CASH USED IN FINANCING ACTIVITIES	**(15,257)**	(4,888)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(750)**	1
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**769**	18
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 19**	$ 19
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	**$ 2,810**	$ 3,866
Interest paid for financing leases	**1,067**	1,039
Income taxes paid, net of tax refunds	**(98)**	110
Right-of-use assets obtained in exchange for new operating lease liabilities	**653**	402
Right-of-use assets obtained in exchange for new finance lease liabilities	**—**	52
Equipment purchased under notes payable	**1,314**	—
Accrued purchases of equipment	**134**	—

See accompanying notes to the consolidated condensed financial statements.

THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(amounts in thousands, except share data)

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 28, 2019	**$ 45,075**	**$ 2,510**	**$ 157,547**	**$ (131,113)**	**$ (808)**	**$ 73,211**
Repurchases of Common Stock - 176,477 shares	(529)	—	325	—	—	(204)
Restricted stock grants issued - 131,867 shares	264	131	(395)	—	—	—
Stock-based compensation expense	—	—	93	—	—	93
Net loss	—	—	—	(2,689)	—	(2,689)
Other comprehensive loss	—	—	—	—	(937)	(937)
Balance at March 28, 2020	**$ 44,810**	**$ 2,641**	**$ 157,570**	**$ (133,802)**	**$ (1,745)**	**$ 69,474**
Repurchases of Common Stock - 3,460 shares	(10)	—	7	—	—	(3)
Stock-based compensation expense	—	—	80	—	—	80
Net loss	—	—	—	(7,060)	—	(7,060)
Other comprehensive income	—	—	—	—	219	219
Balance at June 27, 2020	**$ 44,800**	**$ 2,641**	**$ 157,657**	**$ (140,862)**	**$ (1,526)**	**$ 62,710**
Stock-based compensation expense	—	—	73	—	—	73
Net income	—	—	—	860	—	860
Other comprehensive income	—	—	—	—	483	483
Balance at September 26, 2020	**$ 44,800**	**$ 2,641**	**$ 157,730**	**$ (140,002)**	**$ (1,043)**	**$ 64,126**

See accompanying notes to the consolidated condensed financial statements.

THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(amounts in thousands, except share data)

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 29, 2018	**$ 46,568**	**$ 2,518**	**$ 156,390**	**$ (146,384)**	**$ (108)**	**$ 58,984**
Repurchases of Common Stock - 11,299 shares	(34)	—	22	—	—	(12)
Restricted stock grants forfeited - 6,681 shares	(20)	—	9	—	—	(11)
Class B converted into Common Stock - 2,635 shares	8	(8)	—	—	—	—
Stock-based compensation expense	—	—	168	—	—	168
Net loss	—	—	—	(6,672)	—	(6,672)
Other comprehensive loss	—	—	—	—	(361)	(361)
Balance at March 30, 2019	**$ 46,522**	**$ 2,510**	**$ 156,589**	**$ (153,056)**	**$ (469)**	**$ 52,096**
Common Stock issued under Directors' Stock Plan - 29,001	87	—	(87)	—	—	—
Stock-based compensation expense	—	—	130	—	—	130
Net loss	—	—	—	(1,216)	—	(1,216)
Other comprehensive loss	—	—	—	—	(620)	(620)
Balance at June 29, 2019	**$ 46,609**	**$ 2,510**	**$ 156,632**	**$ (154,272)**	**$ (1,089)**	**$ 50,390**
Restricted stock grants forfeited - 11,103 shares	(34)	—	34	—	—	—
Stock-based compensation expense	—	—	100	—	—	100
Net loss	—	—	—	(2,554)	—	(2,554)
Other comprehensive loss	—	—	—	—	(42)	(42)
Balance at September 28, 2019	**$ 46,575**	**$ 2,510**	**$ 156,766**	**$ (156,826)**	**$ (1,131)**	**$ 47,894**

See accompanying notes to the consolidated condensed financial statements.

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements which do not include all the information and notes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (generally consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements. The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in The Dixie Group, Inc.'s and its wholly-owned subsidiaries (the "Company") 2019 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 28, 2019. Operating results for the three and nine month periods ended September 26, 2020 are not necessarily indicative of the results that may be expected for the entire 2020 year.

Based on applicable accounting standards, the Company has determined that it has one reportable segment, Floorcovering, comprised of two operating segments, Residential and Commercial. Pursuant to applicable accounting standards, the Company has 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.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted in Fiscal 2020

In March 2020, the FASB issued ASU 2020-04, "*Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*." The amendments in this update provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. In particular, the risk of cessation of the London Interbank Offered Rate (LIBOR). Among the amendments are expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update are effective for all entities as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the impact of the transition from LIBOR to alternative reference interest rates, but does not expect a significant impact to its operating results, financial position or cash flows.

Accounting Standards Yet to Be Adopted

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,"* which amends the impairment model to utilize an expected loss methodology in place of the current incurred loss methodology, which will result in the more timely recognition of losses. For smaller reporting entities, ASU 2016-13 is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. The ASU, including the subsequently issued codification improvements update ("*Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*," ASU 2019-04) and the targeted transition relief update ("*Financial Instruments-Credit Losses (Topic 326*)," ASU 2019-05), is not expected to have a significant impact on the consolidated condensed financial statements due to the nature of the Company's customers and the limited amount of write-offs in past years.

In August 2018, the FASB issued ASU 2018-14, "*Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20) - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans."* This update is a part of FASB's disclosure framework project to improve the effectiveness of disclosures in the notes to financial statements. The amendments in this update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This standard is effective for fiscal years ending after December 15, 2020 and early adoption is permitted. Upon adoption, this update is to be applied on a retrospective basis to all periods presented. The Company does not believe that the adoption of this ASU will have a significant impact on its consolidated condensed financial statements.

NOTE 3 - REVENUE

Revenue Recognition Policy

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:

(amounts in thousands, except per share data) (Continued)

- 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

Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Company's revenue by end-user markets for the three and nine month periods ended September 26, 2020 and September 28, 2019:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Residential floorcovering products	**$ 69,664**	$ 67,849	**$ 174,236**	$ 204,367
Commercial floorcovering products	**15,885**	26,679	**51,967**	77,897
Other services	**371**	919	**1,118**	2,184
Total net sales	**$ 85,920**	$ 95,447	**$ 227,321**	$ 284,448

Residential floorcovering products. Residential floorcovering products include broadloom carpet, rugs, luxury vinyl flooring and engineered hardwood. These products are sold into the designer, retailer, mass merchant and builder markets.

Commercial floorcovering products. Commercial floorcovering products include broadloom carpet, carpet tile, rugs, and luxury vinyl flooring. These products are sold into the corporate, hospitality, healthcare, government, and education markets through the use of designers, architects, flooring contractors and independent retailers.

Other services. Other services include carpet yarn processing and carpet dyeing services.

Contract Balances

Other than receivables that represent an unconditional right to consideration, which are presented separately (See Note 4), the Company does not recognize any contract assets which give conditional rights to receive consideration, as the Company does not incur costs to obtain customer contracts that are recoverable. The Company often receives cash payments from customers in advance of the Company's performance for limited production run orders resulting in contract liabilities. These contract liabilities are classified in accrued expenses in the Consolidated Condensed Balance Sheets based on the timing of when the Company expects to recognize revenue, which is typically less than a year. The net decrease or increase in the contract liabilities is primarily driven by order activity for limited runs requiring deposits offset by the recognition of revenue and application of deposit on the receivables ledger for such activity during the period.

(amounts in thousands, except per share data) (Continued)

The activity in the advanced deposits for the three and nine month periods ended September 26, 2020 and September 28, 2019 is as follows:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Beginning contract liability	**$ 4,564**	$ 5,299	**$ 4,685**	$ 6,013
Revenue recognized from contract liabilities included in the beginning balance	**(3,141)**	(3,911)	**(4,305)**	(5,296)
Increases due to cash received, net of amounts recognized in revenue during the period	**1,862**	4,153	**2,905**	4,824
Ending contract liability	**$ 3,285**	$ 5,541	**$ 3,285**	$ 5,541

Performance Obligations

For performance obligations related to residential floorcovering and commercial floorcovering products, control transfers at a point in time. To indicate the transfer of control, the Company must have a present right to payment, legal title must have passed to the customer and the customer must have the significant risks and rewards of ownership. The Company's principal terms of sale are FOB Shipping Point and FOB Destination and the Company transfers control and records revenue for product sales either upon shipment or delivery to the customer, respectively. Revenue is allocated to each performance obligation based on its relative stand-alone selling prices. Stand-alone selling prices are based on observable prices at which the Company separately sells the products or services.

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 based upon historical experience and known trends.

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. (See Note 8.) The Company does not provide an additional service-type warranty.

NOTE 4 - RECEIVABLES, NET

Receivables are summarized as follows:

	September 26, 2020	December 28, 2019
Customers, trade	**$ 37,696**	$ 34,285
Other receivables	**1,221**	3,115
Gross receivables	**38,917**	37,400
Less: allowance for doubtful accounts	**(199)**	(262)
Receivables, net	**$ 38,718**	$ 37,138

Bad debt expense (credit) was $(1) and $67 for the three and nine months ended September 26, 2020 and $51 and $182 for the three and nine months ended September 28, 2019.

(amounts in thousands, except per share data) (Continued)

NOTE 5 - INVENTORIES, NET

Inventories are summarized as follows:

	September 26, 2020	December 28, 2019
Raw materials	$ 29,707	$ 32,377
Work-in-process	14,218	18,642
Finished goods	61,457	64,978
Supplies and other	173	260
LIFO reserve	(18,613)	(20,748)
Inventories, net	$ 86,942	$ 95,509

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	September 26, 2020	December 28, 2019
Land and improvements	$ 3,422	$ 3,422
Buildings and improvements	51,479	51,432
Machinery and equipment	181,858	179,993
Assets under construction	1,466	1,459
	238,225	236,306
Accumulated depreciation	(178,074)	(170,864)
Property, plant and equipment, net	$ 60,151	$ 65,442

Depreciation of property, plant and equipment, including amounts for finance leases, totaled $2,705 and $8,189 in the three and nine months ended September 26, 2020 and $2,869 and $8,681 in the three and nine months ended September 28, 2019.

NOTE 7 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	September 26, 2020	December 28, 2019
Compensation and benefits	$ 9,729	$ 8,804
Provision for customer rebates, claims and allowances	8,053	7,682
Advanced customer deposits	3,285	4,685
Outstanding checks in excess of cash	771	—
Other	5,545	4,247
Accrued expenses	$ 27,383	$ 25,418

(amounts in thousands, except per share data) (Continued)

NOTE 8 - PRODUCT WARRANTY RESERVES

The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products. Product warranty reserves are included in accrued expenses in the Company's Consolidated Condensed Balance Sheets. The following is a summary of the Company's product warranty activity:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Product warranty reserve at beginning of period	**$ 910**	$ 1,082	R **$ 1,002**	$ 1,069
Warranty liabilities accrued	**165**	260	**608**	1,403
Warranty liabilities settled	**(128)**	(323)	**(663)**	(1,414)
Changes for pre-existing warranty liabilities	**—**	—	**—**	(39)
Product warranty reserve at end of period	**$ 947**	$ 1,019	**$ 947**	$ 1,019

NOTE 9 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	September 26, 2020	December 28, 2019
Revolving credit facility	**$ 46,465**	$ 59,693
Notes payable - buildings	**6,005**	6,213
Notes payable - equipment and other	**3,018**	3,533
Finance lease - buildings	**11,180**	11,296
Finance lease obligations	**7,746**	8,187
Deferred financing costs, net	**(427)**	(571)
Total long-term debt	**73,987**	88,351
Less: current portion of long-term debt	**5,724**	6,684
Long-term debt	**$ 68,263**	$ 81,667

Revolving Credit Facility

The Company, in response to the COVID-19 pandemic, adjusted the credit commitment of its senior loan facility to more closely resemble the amount of collateralized assets currently available as well as increasing the amount of credit available to the Company. The loan commitment for the Credit Agreement between The Dixie Group, Inc. and Wells Fargo Capital Finance, LLC, the Agent, dated as of September 13, 2011 and most recently amended by the Fourteenth Amendment dated as of May 14, 2020, was reduced from $120,000 to $100,000 and the availability limitation related to the fixed coverage ratio was reduced from $15,000 to $12,500. The fourteenth amendment included a covenant requiring the Company to pursue and consummate a permitted fixed asset loan. The borrowing base is currently equal to specified percentages of the Company's 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 the Company's assets.

At the Company's 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 the Company, plus an applicable margin of 3.25%, 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 of 2.25%. The Company’s applicable margin has been amended to no longer be subject to average daily excess availability. The Company pays 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 7.58% at September 26, 2020 and 4.79% at December 28, 2019, respectively.

The revolving credit facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations. The revolving credit facility restricts the Company's borrowing availability if its fixed charge coverage ratio is less than 1.1 to 1.0. During any period that the fixed charge coverage ratio is less than 1.1 to 1.0, the Company's borrowing availability is reduced by $12,500. Effective May 14, 2020, as part of the amendment, the Company’s availability block has been amended to $3,500. The availability block will increase to $5,000 on September 30, 2020.

As of September 26, 2020, the unused borrowing availability under the revolving credit facility was $37,766; however, since the Company's fixed charge coverage ratio was less than 1.1 to 1.0, the unused availability accessible by the Company was $25,266 (the amount above $12,500) at September 26, 2020. Availability under the credit agreement will vary based on seasonal business factors and periodic changes to the qualified asset base, which consists of accounts receivable, inventories and fixed assets.

After the end of the quarter, the Company replaced its senior credit facility with Wells Fargo Capital Finance with a $75,000, senior secured Revolving Credit Facility with Fifth Third Bank National Association. As of October 30, 2020, availability under the new senior secured facility was $45,000. Additionally, the Company entered into two fixed asset loans in the combined principal amount of $25,000.

See note 23 for subsequent events related to the revolving credit facility and the fixed asset loans.

Notes Payable - Buildings

On November 7, 2014, the Company entered into a ten-year $8,330 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, plus interest calculated on the declining balance of the note, with a final payment of $4,269 due on maturity. In addition, the Company entered into an interest rate swap with an amortizing notional amount effective November 7, 2014 which effectively fixes the interest rate at 4.50%.

Notes Payable - Equipment and Other

The Company's equipment financing notes have terms ranging from 3 to 7 years, bear interest ranging from 1.60% to 7.00% and are due in monthly installments through their maturity dates. The Company's equipment financing notes are secured by the specific equipment financed and do not contain any financial covenants.

Finance Lease - Buildings

On January 14, 2019, the Company, entered into a purchase and sale agreement (the “Purchase and Sale Agreement”) with Saraland Industrial, LLC, an Alabama limited liability company (the “Purchaser”). Pursuant to the terms of the Purchase and Sale Agreement, the Company sold its Saraland facility, and approximately 17.12 acres of surrounding property located in Saraland, Alabama (the “Property”) to the Purchaser for a purchase price of $11,500. Concurrent with the sale of the Property, the Company and the Purchaser entered into a twenty-year lease agreement (the “Lease Agreement”), whereby the Company will lease back the Property at an annual rental rate of $977, subject to annual rent increases of 1.25%. Under the Lease Agreement, the Company has two (2) consecutive options to extend the term of the Lease by ten years for each such option. This transaction was recorded as a failed sale and leaseback. The Company recorded a liability for the amounts received, will continue to depreciate the asset, and has imputed an interest rate so that the net carrying amount of the financial liability and remaining assets will be zero at the end of the lease term. Concurrently with the sale, the Company paid off the approximately $5,000 mortgage on the property to First Tennessee Bank National Association and terminated the related fixed interest rate swap agreement.

Finance Lease Obligations

The Company's finance lease obligations have terms ranging from 3 to 7 years and are due in monthly or quarterly installments through their maturity dates. The Company's finance lease obligations are secured by the specific equipment leased.

See Note 10 for further discussion of the impact of COVID-19 on the Company's finance lease obligations.

(amounts in thousands, except per share data) (Continued)

NOTE 10 - LEASES

COVID-19 Pandemic

In response to the large volume of anticipated lease concessions to be granted related to the effects of the COVID-19 pandemic, and the resulting expected cost and complexity of applying the lease modification requirements in ASC 842, the FASB issued Staff Q&A-Topic 842 and Topic 840: *Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic*, in April 2020 as interpretive guidance to provide clarity in response to the crisis. The FASB staff indicated that it would be acceptable for entities to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how they would be accounted for as though enforceable rights and obligations for those concessions existed in the original contract. Consequently, for such lease concessions, an entity will not need to reassess each existing contract to determine whether enforceable rights and obligations for concessions exist and an entity can then elect to apply or not to apply the lease modification guidance in ASC 842 to those contracts. This election is available for concessions related to the effects of the COVID-19 pandemic that will result in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract.

The Company has made this election and, consequently, for such lease concessions, did not reassess each existing contract to determine whether enforceable rights and obligations for concessions existed and elected not to apply the lease modification guidance in ASC 842 to those contracts. The Company has accounted for the concessions as if no changes to the lease contract were made and has subsequently increased accounts payable and has continued to recognize expense during the deferral period.

Balance sheet information related to right-of-use assets and liabilities is as follows:

	Balance Sheet Location	September 26, 2020	December 28, 2019
Operating Leases:			
Operating lease right-of-use assets	Operating lease right-of-use assets	**$ 22,861**	$ 24,835
Current portion of operating lease liabilities	Current portion of operating lease liabilities	**3,287**	3,172
Noncurrent portion of operating lease liabilities	Operating lease liabilities	**20,191**	22,123
Total operating lease liabilities		**$ 23,478**	$ 25,295
Finance Leases:			
Finance lease right-of-use assets (1)	Property, plant, and equipment, net	**$ 15,123**	$ 15,152
Current portion of finance lease liabilities (1)	Current portion of long-term debt	**3,842**	4,011
Noncurrent portion of finance lease liabilities (1)	Long-term debt	**15,084**	15,472
		$ 18,926	$ 19,483

(1) Includes leases classified as failed sale-leaseback transactions.

Lease cost recognized in the consolidated condensed financial statements is summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	**September 28, 2019**
Operating lease cost	**$ 1,275**	$ 778	**$ 3,874**	$ 2,501
Finance lease cost:				
Amortization of lease assets (1)	**790**	751	**2,370**	2,249
Interest on lease liabilities (1)	**446**	354	**1,067**	1,039
Total finance lease costs (1)	**$ 1,236**	$ 1,105	**$ 3,437**	$ 3,288

(1) Includes leases classified as failed sale-leaseback transactions.

(amounts in thousands, except per share data) (Continued)

Other supplemental information related to leases is summarized as follows:

	September 26, 2020	September 28, 2019
Weighted average remaining lease term (in years):		
Operating leases	**7.89**	6.20
Finance leases (1)	**11.71**	11.80
Weighted average discount rate:		
Operating leases	**6.93 %**	8.51 %
Finance leases (1)	**9.08 %**	6.69 %
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**3,706**	2,534
Operating cash flows from finance leases (1)	**1,067**	1,039
Financing cash flows from finance leases (1)	**2,767**	3,122

(1) Includes leases classified as failed sale-leaseback transactions.

The following table summarizes the Company's future minimum lease payments under non-cancellable contractual obligations for operating and financing liabilities as of September 26, 2020:

Fiscal Year	**Operating Leases**	**Finance Leases**
2020	1,246	1,405
2021	4,701	5,240
2022	4,188	2,887
2023	3,247	3,409
2024	2,940	1,045
Thereafter	14,529	16,039
Total future minimum lease payments (undiscounted)	30,851	30,025
Less: Present value discount	7,373	11,099
Total lease liability	23,478	18,926

NOTE 11 - FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange value of an asset or a liability in an orderly transaction between market participants. The fair value guidance outlines a valuation framework and establishes a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and disclosures. The hierarchy consists of three levels as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities as of the reported date;

Level 2 - Other than quoted market prices in active markets for identical assets or liabilities, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other than quoted prices for assets or liabilities and prices that are derived principally from or corroborated by market data by correlation or other means; and

Level 3 - Measurements using management's best estimate of fair value, where the determination of fair value requires significant management judgment or estimation.

(amounts in thousands, except per share data) (Continued)

The following table reflects the fair values of assets and liabilities measured and recognized at fair value on a recurring basis on the Company's Consolidated Condensed Balance Sheets as of September 26, 2020 and December 28, 2019:

	September 26, 2020	December 28, 2019	Fair Value Hierarchy Level
Liabilities:			
Interest rate swaps (1)	**$ 2,020**	$ 1,653	Level 2

(1) The Company uses certain external sources in deriving the fair value of the interest rate swaps. The interest rate swaps were valued using observable inputs (e.g., LIBOR yield curves, credit spreads). Valuations of interest rate swaps may fluctuate considerably from period-to-period due to volatility in underlying interest rates, which are driven by market conditions and the duration of the instrument. Credit adjustments could have a significant impact on the valuations due to changes in credit ratings of the Company or its counterparties.

The carrying amounts and estimated fair values of the Company's financial instruments are summarized as follows:

	September 26, 2020		December 28, 2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 19**	**$ 19**	$ 769	$ 769
Financial liabilities:				
Long-term debt, including current portion	**55,061**	**56,685**	68,868	72,115
Finance leases, including current portion	**18,926**	**20,054**	19,483	20,361
Operating leases, including current portion	**23,478**	**23,478**	25,295	25,295
Interest rate swaps	**2,020**	**2,020**	1,653	1,653

The fair values of the Company's long-term debt and finance leases were estimated using market rates the Company believes would be available for similar types of financial instruments and represent level 2 measurements. The fair values of cash and cash equivalents and notes receivable approximate their carrying amounts due to the short-term nature of the financial instruments.

NOTE 12 - DERIVATIVES

The Company's earnings, cash flows and financial position are exposed to market risks relating to interest rates. It is the Company's policy to minimize its exposure to adverse changes in interest rates and manage interest rate risks inherent in funding the Company with debt. The Company addresses this risk by maintaining a mix of fixed and floating rate debt and entering into interest rate swaps for a portion of its variable rate debt to minimize interest rate volatility.

The following is a summary of the Company's interest rate swaps outstanding as of September 26, 2020:

Type	**Notional Amount**		**Effective Date**	**Fixed Rate**	**Variable Rate**
Interest rate swap	$ 25,000		September 1, 2016 through September 1, 2021	3.105%	1 Month LIBOR
Interest rate swap	$ 25,000	(1)	September 1, 2015 through September 1, 2021	3.304%	1 Month LIBOR
Interest rate swap	$ 5,900	(2)	November 7, 2014 through November 7, 2024	4.500%	1 Month LIBOR

(1) Management dedesignated $3,000 of the notional amount of the swap as it became probable that the forecasted transactions would no longer occur due to reductions of the Company's LIBOR debt. As a result of the future cash flows no longer being probable of occurring in the future, the Company has reclassified the associated accumulated other comprehensive loss into earnings.
(2) Interest rate swap notional amount amortizes by $35 monthly to maturity.

(amounts in thousands, except per share data) (Continued)

The following table summarizes the fair values of derivative instruments included in the Company's financial statements:

		Fair Value			
	Location on Consolidated Balance Sheets	**September 26, 2020**		December 28, 2019	
Liability Derivatives:					
Derivatives designated as hedging instruments:					
Interest rate swaps, current portion	Accrued expenses	**$**	**1,581**	$	841
Interest rate swaps, long-term portion	Other long-term liabilities		**344**		812
Derivatives not designated as hedging instruments:					
Interest rate swaps, current portion	Accrued expenses		**95**		—
Total Liability Derivatives		**$**	**2,020**	**$**	**1,653**

See Note 23 - Subsequent Events for further information related to interest rate swap agreements.

The following tables summarize the pre-tax impact of derivative instruments on the Company's financial statements:

	Amount of Gain or (Loss) Recognized in AOCIL on the effective portion of the Derivative							
	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		**September 26, 2020**		September 28, 2019	
Derivatives designated as hedging instruments:								
Cash flow hedges - interest rate swaps	**$**	**(25)**	$	(159)	**$**	**(1,300)**	$	(1,264)

	Amount of Gain (Loss) Reclassified from AOCIL on the effective portion into Earnings (1)(2)							
	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		**September 26, 2020**		September 28, 2019	
Derivatives designated as hedging instruments:								
Cash flow hedges - interest rate swaps	**$**	**(420)**	$	(125)	**$**	**(993)**	$	(263)

	Amount of Gain or (Loss) Recognized on the Dedesignated Portion in Income on Derivative (3)							
	Three Months Ended				Nine Months Ended			
	September 26, 2020		September 28, 2019		**September 26, 2020**		September 28, 2019	
Derivatives designated as hedging instruments:								
Cash flow hedges - interest rate swaps	**$**	**(95)**	$	—	**$**	**(95)**	$	—

(1) The amount of gain (loss) reclassified from AOCIL is included in interest expense on the Company's consolidated condensed financial statements.
(2) The amount of loss expected to be reclassified from AOCIL into earnings during the next 12 months subsequent to September 26, 2020 is $1,485.
(3) The amount of gain (loss) recognized in income on the dedesignated portion of interest rate swaps is included in other income or other expense on the Company's Consolidated Condensed Statements of Operations.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company sponsors a 401(k) defined contribution plan that covers approximately 84% of the Company's current associates. This plan includes a mandatory Company match on the first 1% of participants' contributions. The Company matches the next 2% of participants' contributions if the Company meets prescribed earnings levels. The plan also provides for additional Company contributions above the 3% level if the Company attains certain additional performance targets. Matching contribution expense for this 401(k) plan was $92 and $95 for the three months ended September 26, 2020 and September 28, 2019, respectively, and $265 and $318 for the nine months ended September 26, 2020 and September 28, 2019, respectively.

Additionally, the Company sponsors a 401(k) defined contribution plan that covers approximately 16% of the Company's current associates at one facility who are under a collective-bargaining agreement. Under this plan, the Company generally matches participants' contributions, on a sliding scale, up to a maximum of 2.75% of the participant's earnings. Matching contribution expense for the collective-bargaining 401(k) plan was $26 and $32 for the three months ended September 26, 2020 and September 28, 2019, respectively, and $69 and $109 for the nine months ended September 26, 2020 and September 28, 2019, respectively.

Non-Qualified Retirement Savings Plan

The Company sponsors a non-qualified retirement savings plan that allows eligible associates to defer a specified percentage of their compensation. The obligations owed to participants under this plan were $15,838 at September 26, 2020 and $16,203 at December 28, 2019 and are included in other long-term liabilities in the Company's Consolidated Condensed Balance Sheets. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company utilizes a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the plan. Amounts are invested in Company-owned life insurance in the Rabbi Trust and the cash surrender value of the policies was $16,161 at September 26, 2020 and $16,500 at December 28, 2019 and is included in other assets in the Company's Consolidated Condensed Balance Sheets.

Multi-Employer Pension Plan

The Company contributes to a multi-employer pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees. Expenses related to the multi-employer pension plan were $61 and $81 for the three months ended September 26, 2020 and September 28, 2019, respectively, and $194 and $251 for the six months ended September 26, 2020 and September 28, 2019, respectively. If the Company were to withdraw from the multi-employer plan, a withdrawal liability would be due, the amount of which would be determined by the plan. The withdrawal liability, as determined by the plan, would be a function of contribution rates, fund status, discount rates and various other factors at the time of any such withdrawal.

NOTE 14 - INCOME TAXES

The effective tax rate for the nine months ending September 26, 2020 was 0.00% compared with an effective tax rate of 0.20% for the nine months ending September 28, 2019. The Company maintains a full valuation allowance against the deferred tax assets resulting in only refundable credits and a small amount of state taxes being recognized in the tax expense for the first nine months of 2020. The Company is in a net deferred tax liability position of $91 at September 26, 2020 and December 28, 2019, respectively, which is included in other long-term liabilities in the Company's Consolidated Condensed Balance Sheets.

The Company accounts for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. Unrecognized tax benefits were $484 and $480 at September 26, 2020 and December 28, 2019, respectively. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of September 26, 2020 and December 28, 2019.

The Company and its subsidiaries are subject to United States federal income taxes, as well as income taxes in a number of state jurisdictions. The tax years subsequent to 2015 remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2015. A few state jurisdictions remain open to examination for tax years subsequent to 2014.

(amounts in thousands, except per share data) (Continued)

NOTE 15 - EARNINGS (LOSS) PER SHARE

The Company's unvested stock awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are considered participating securities and are included in the computation of earnings (loss) per share. Accounting guidance requires additional disclosure of earnings (loss) per share for common stock and unvested share-based payment awards, separately disclosing distributed and undistributed earnings. Undistributed earnings represent earnings that were available for distribution but were not distributed. Common stock and unvested share-based payment awards earn dividends equally. All earnings were undistributed in all periods presented.

The following table sets forth the computation of basic and diluted earnings (loss) per share from continuing operations:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Basic earnings (loss) per share:				
Income (loss) from continuing operations	**$ 906**	$ (2,577)	**$ (8,687)**	$ (10,399)
Less: Allocation of earnings to participating securities	**(27)**	—	**—**	—
Loss from continuing operations available to common shareholders - basic	**$ 879**	$ (2,577)	**$ (8,687)**	$ (10,399)
Basic weighted-average shares outstanding (1)	**15,334**	15,899	**15,340**	15,864
Basic earnings (loss) per share - continuing operations	**$ 0.06**	$ (0.16)	**$ (0.57)**	$ (0.66)
Diluted earnings (loss) per share:				
Loss from continuing operations available to common shareholders - basic	**$ 879**	$ (2,577)	**$ (8,687)**	$ (10,399)
Add: Undistributed earnings reallocated to unvested shareholders	**—**	—	**—**	—
Loss from continuing operations available to common shareholders - basic	**$ 879**	$ (2,577)	**$ (8,687)**	$ (10,399)
Basic weighted-average shares outstanding (1)	**15,334**	**15,899**	**15,340**	**15,864**
Effect of dilutive securities:				
Stock options (2)	**—**	—	**—**	—
Directors' stock performance units (2)	**120**	—	**—**	—
Diluted weighted-average shares outstanding (1)(2)	**15,454**	15,899	**15,340**	15,864
Diluted earnings (loss) per share - continuing operations	**$ 0.06**	$ (0.16)	**$ (0.57)**	$ (0.66)

(1) Includes Common and Class B Common shares, excluding unvested participating securities of 480 thousand as of September 26, 2020 and 461 thousand as of September 28, 2019.
(2) Shares issuable under stock option plans where the exercise price is greater than the average market price of the Company's Common Stock during the relevant period and directors' stock performance units have been excluded to the extent they are anti-dilutive. Aggregate shares excluded for the three and nine months ended September 26, 2020 were 166 thousand and 296 thousand, respectively, and for the three and nine months ended September 28, 2019 were 364 thousand.

(amounts in thousands, except per share data) (Continued)

NOTE 16 - STOCK COMPENSATION EXPENSE

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity instrument issued and records such expense in selling and administrative expenses in the Company's Consolidated Condensed Statements of Operations. The Company's stock compensation expense was $73 and $100 for the three months ended September 26, 2020 and September 28, 2019, respectively, and $246 and $387 for the nine months ended September 26, 2020 and September 28, 2019, respectively.

On March 12, 2020, the Company issued 131,867 shares of restricted stock to officers and other key employees. The grant-date fair value of the awards was $132, or $1.00 per share, and is expected to be recognized as stock compensation expense over a weighted-average period of 8.4 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Components of accumulated other comprehensive loss, net of tax, are as follows:

	Interest Rate Swaps	Post-Retirement Liabilities	Total
Balance at December 28, 2019	$ (1,048)	$ 240	$ (808)
Unrealized loss on interest rate swaps	(1,300)	—	(1,300)
Reclassification of loss into earnings from interest rate swaps, net of tax of $0	993	—	993
Reclassification of unrealized loss into earnings from dedesignated interest rate swaps, net of tax of $0	95	—	95
Reclassification of net actuarial gain into earnings from postretirement benefit plans	—	(20)	(20)
Reclassification of prior service credits into earnings from postretirement benefit plans	—	(3)	(3)
Balance at September 26, 2020	**$ (1,260)**	**$ 217**	**$ (1,043)**

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Contingencies

The Company assesses its exposure related to legal matters, including those pertaining to product liability, safety and health matters and other items that arise in the regular course of its business. If the Company determines that it is probable 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.

Environmental Remediation

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and estimable. Remediation obligations are accrued based on the latest available information and are recorded at undiscounted amounts. The Company regularly monitors the progress of environmental remediation. If studies indicate that the cost of remediation has changed from the previous estimate, an adjustment to the liability would be recorded in the period in which such determination is made. (See Note 21).

Legal Proceedings

The Company has been sued, together with 3M Company and approximately 30 other named defendants and unnamed "fictitious defendants" including various carpet manufacturers and suppliers, in four lawsuits whereby the plaintiffs seek monetary damages and injunctive relief related to the manufacture, supply, and/or use of certain chemical products in the manufacture, finishing, and treatment of carpet products in the Dalton, Georgia area. These chemical products allegedly include without limitation perflourinated compounds ("PFC") such as perflourinated acid ("PFOA") and perfluorooctane sulfonate ("PFOS"). In each lawsuit, the plaintiff(s) alleges that, as a consequence of these actions, these chemical compounds have discharged or leached into the water systems around Dalton and then flow into the waters in or near the water bodies from which the plaintiff(s) draw for drinking water.

Two of these lawsuits were filed in Alabama. The first lawsuit in Alabama was filed on September 22, 2016 by The Water Works and Sewer Board of the City of Gadsden (Alabama) in the Circuit Court of Etowah County, Alabama (styled *The Water Works* *and Sewer Board of the City of Gadsden v. 3M Company, et al.,* Civil Action No. 31-CV-2016-900676.00). The second lawsuit in Alabama was filed on May 15, 2017 by The Water Works and Sewer Board of the Town of Centre (Alabama) in the Circuit Court of Cherokee County, Alabama (styled *The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al.,* Civil Action No. 13-CV- 2017-900049.00). In each of these Alabama lawsuits, the plaintiff seeks damages that include but are not limited to the expenses associated with the future installation and operation of a filtration system capable of removing from the water the chemicals that are allegedly present as a result of the manufacturing and treatment process described above. Each plaintiff requests a jury trial, does not specify an amount of damages other than an assertion that its damages exceed $10, and requests injunctive relief. The Company has answered the complaint in each of these lawsuits, intends to defend those matters vigorously, and is unable to estimate its potential exposure to loss, if any, for these lawsuits at this time.

The other two lawsuits were filed in Georgia. The first lawsuit in Georgia was filed on November 19, 2019 by the City of Rome (Georgia) in the Superior Court of Floyd County, Georgia (styled *The City of Rome, Georgia v. 3M Company, et al.,* No. 19CV02405JFL003). The plaintiff in that case also seeks damages that include without limitation the expenses associated with the future installation and operation of a filtration system capable of removing from the water the chemicals that are allegedly present as a result of the manufacturing and treatment process described above. The plaintiff requests a jury trial and also seeks injunctive relief. While the amount of damages is unspecified, the plaintiff asserts it has spent "tens of millions" to remove the chemicals from the county's water supply and will incur additional costs related to removing such chemicals in the future. The Company has answered the complaint, intends to defend the matter vigorously, and is unable to estimate its potential exposure to loss, if any, at this time.

The second lawsuit in Georgia was originally filed on November 26, 2019 and is presented as a class action lawsuit by and on behalf of a class of persons who obtain drinking water from the City of Rome, Georgia and the Floyd County Water Department (and similarly situated persons) (generally, for these purposes, residents of Floyd County) (styled *Jarrod Johnson v. 3M Company, et al.,* Civil Action No. 19-CV-02448-JFL-003) (the "Class Action Lawsuit"). On January 10, 2020, the Class Action Lawsuit was removed to the United States District Court for the Northern District of Georgia, Rome Division (styled Jarrod Johnson v. 3M Company, et al Civil Action No. 4:20-CV-0008-AT). The plaintiffs in this case allege their damages include without limitation the surcharges incurred for the costs of partially filtering the chemicals from their drinking water. The Complaint requests a jury trial and asserts damages unspecified in amount, in addition to requests for injunctive relief. The Company has filed a response to the Complaint, intends to defend the matter vigorously, and is unable to estimate its potential exposure, if any, at this time.

(amounts in thousands, except per share data) (Continued)

NOTE 19 - OTHER (INCOME) EXPENSE, NET

Other operating (income) expense, net is summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Other operating (income) expense, net				
(Gain) loss on property, plant and equipment disposals	**$ —**	$ 45	**$ (37)**	$ 106
Gain on currency exchanges	**(62)**	(27)	**(37)**	77
Retirement (income) expense	**(21)**	57	**10**	33
Miscellaneous income	**(89)**	(38)	**(99)**	(71)
Other operating (income) expense, net	**$ (172)**	$ 37	**$ (163)**	$ 145

Other expense (income), net is summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Other expense (income), net:				
Post-retirement income	**$ (3)**	$ (4)	**(10)**	(11)
Interest income	**(1)**	—	**(3)**	(38)
Loss recognized on the ineffective portion of interest rate swaps	**95**	—	**95**	—
Miscellaneous expense	**1**	—	**3**	7
Other expense (income), net	**$ 92**	$ (4)	**$ 85**	$ (42)

NOTE 20 - FACILITY CONSOLIDATION AND SEVERANCE EXPENSES, NET

2015 Corporate Office Consolidation Plan

In April 2015, the Company's Board of Directors approved the Corporate Office Consolidation Plan, to cover the costs of consolidating three of the Company's existing leased divisional and corporate offices to a single leased facility located in Dalton, Georgia. The Company paid a fee to terminate one of the leased facilities, did not renew a second facility and vacated the third facility. Related to the vacated facility, the Company recorded the estimated costs related to the fulfillment of its contractual lease obligation and on-going facility maintenance, net of an estimate of sub-lease expectations. Accordingly, if the estimates differ, the Company would record an additional charge or benefit, as appropriate. Costs related to the consolidation included the lease termination fee, contractual lease obligations and moving costs.

2017 Profit Improvement Plan

During the fourth quarter of 2017, the Company announced a Profit Improvement Plan to improve profitability through lower cost and streamlined decision making and aligning processes to maximize efficiency. The plan included consolidating the management of the Company's two commercial brands, Atlas Carpet Mills and Masland Contract, under one management team, sharing operations in sales, marketing, product development and manufacturing. Specific to this plan, the Company has focused nearly all commercial solution dyed make-to-order production in its Atmore, Alabama operations where the Company has developed such make-to-order capabilities over the last 5 years. Further, the Company aligned its west coast production facilities, better utilizing its west coast real estate by moving production to its Santa Ana, California and Atmore, Alabama operations to more efficiently distribute its west coast products. Furthermore, the Company re-configured its east coast distribution facilities to provide more efficient distribution of its products. In addition, the Company realized reductions in related support functions such as accounting and information services. The plan is now substantially complete.

2020 COVID-19 Continuity Plan

As the extent of the COVID-19 pandemic became apparent, the Company implemented a continuity plan to maintain the health and safety of associates, preserve cash, and minimize the impact on customers. The response has included restrictions on travel, implementation of telecommuting where appropriate and limiting contact and maintaining social distancing between associates and with customers. In line with demand, running schedules have been reduced for most facilities to one shift while simultaneously reducing inventories to align them with the lower customer demand. Cost reductions have been implemented including cutting non-essential expenditures, reducing capital expenditures, rotating layoffs and furloughs, selected job eliminations and temporary salary reductions. The Company has also deferred new product introductions and reduced sample and marketing expenses for 2020. Initiatives were taken with suppliers, lenders and landlords to extend payment terms in the second quarter for existing agreements. The Company is taking advantage of payment deferrals and credits related to payroll taxes under the CARES act as well as deferring payments into its defined contribution retirement plan.

(amounts in thousands, except per share data) (Continued)

Costs related to the facility consolidation plans are summarized as follows:

	Accrued Balance at December 28, 2019	2020 Expenses To Date (1)	2020 Cash Payments	Accrued Balance at September 26, 2020	As of September 26, 2020 Total Costs Incurred To Date	As of September 26, 2020 Total Expected Costs	
Corporate Office Consolidation Plan	$ 38	$ 5	$ 43	$ —	$ 834	$ 834	
Profit Improvement Plan	305	391	589	107	9,191	9,191	
COVID-19 Continuity Plan	$ —	$ 1,389	$ 1,231	$ 158	$ 1,389	$ 1,389	(2)
Total All Plans	$ 343	$ 1,785	$ 1,863	$ 265	$ 11,414	$ 11,414	
Asset Impairments	$ —	$ —	$ —	$ —	$ 3,323	$ 3,323	

	Accrued Balance at December 29, 2018	2019 Expenses To Date (1)	2019 Cash Payments	Accrued Balance at September 28, 2019
Corporate Office Consolidation Plan	$ 98	$ 11	$ 63	$ 46
Profit Improvement Plan	846	4,848	5,327	367
Totals	$ 944	$ 4,859	$ 5,390	$ 413
Asset Impairments	$ —	$ 3	$ —	$ —

(1) Costs incurred under these plans are classified as "facility consolidation and severance expenses, net" in the Company's Consolidated Condensed Statements of Operations.
(2) The total additional expected costs under the COVID-19 Continuity Plan cannot be reasonably estimated at this time due to the fluid nature of the COVID-19 outbreak and the unpredictable future impact upon our business.

NOTE 21 - DISCONTINUED OPERATIONS

The Company has either sold or discontinued certain operations that are accounted for as "Discontinued Operations" under applicable accounting guidance. Discontinued operations are summarized as follows:

	Three Months Ended **September 26, 2020**	Three Months Ended September 28, 2019	Nine Months Ended **September 26, 2020**	Nine Months Ended September 28, 2019
Workers' compensation (costs) credits from former textile operations	**$ (24)**	$ 33	**$ (89)**	$ 64
Environmental remediation costs from former textile operations	**(22)**	(10)	**(114)**	(107)
Income (loss) from discontinued operations, before taxes	**$ (46)**	$ 23	**$ (203)**	$ (43)
Income tax benefit	**—**	—	**—**	—
Income (loss) from discontinued operations, net of tax	**$ (46)**	$ 23	**$ (203)**	$ (43)

Undiscounted reserves are maintained for the self-insured workers' compensation obligations related to the Company's former textile operations. These reserves are administered by a third-party workers' compensation service provider under the supervision of Company personnel. Such reserves are reassessed on a quarterly basis. Pre-tax cost incurred for workers' compensation as a component of discontinued operations primarily represents a change in estimate for each period from unanticipated medical costs associated with the Company's obligations.

Reserves for environmental remediation obligations are established on an undiscounted basis. The Company has an accrual for environmental remediation obligations related to discontinued operations of $2,007 as of September 26, 2020 and $1,987 as of December 28, 2019. The liability established represents the Company's best estimate of possible 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 the Company's 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.

NOTE 22 - RELATED PARTY TRANSACTIONS

The Company was 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 original lease agreements expired and the Company entered into new agreements for two of the three manufacturing facilities. The new lease agreements expired on September 30, 2019. The lessor was controlled by an associate of the Company until March of 2019. Rent paid to the lessor during the three and nine months ended September 28, 2019 was $123 and $497, respectively. The lease was based on current market values for similar facilities.

The Company purchases a portion of its product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of the Company. An affiliate of Mr. Shaw holds approximately 7.5% of the Company's Common Stock, which represents approximately 3.5% of the total vote of all classes of the Company's Common Stock. Engineered Floors is one of several suppliers of such materials to the Company. Total purchases from Engineered Floors during the three and nine months ended September 26, 2020 were approximately $1,225 and $3,494, respectively; or approximately 1.9% and 2.0%, respectively, of the Company's cost of goods sold. Total purchases from Engineered Floors during the three and nine months ended September 28, 2019 were approximately $1,837 and $4,870, respectively; or approximately 2.5% and 2.2%, respectively, of the Company's cost of goods sold. Purchases from Engineered Floors are based on market value negotiated prices. The Company has no contractual commitments with Mr. Shaw associated with its business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by the Company's board of directors.

The Company is a party to a ten-year lease with the Rothman Family Partnership to lease a facility as part of the Robertex acquisition in 2013. The controlling principle of the lessor was an associate of the Company until June 30, 2018. Rent paid to the lessor during the three and nine months ended September 26, 2020 was $73 and $216, respectively. Rent paid to the lessor during the three and nine months ended September 28, 2019 was $72 and $212, respectively. The lease was based on current market values for similar facilities.

NOTE 23 - SUBSEQUENT EVENTS

Effective September 30, 2020, subsequent to the end of the Company's third fiscal quarter, the Company entered into the fifteenth amendment to its credit agreement with Wells Fargo Capital Finance. The Amendment extended the maturity date of the agreement until December 22, 2021. The Amendment also provided that the Company enter into two fixed asset loans by or before December 31, 2020, with the proceeds of such loans used to reduce obligations under the Credit Agreement, as well as providing for the current availability block to increase from $5,000 to $7,000 upon consummation of the permitted fixed asset loans.

Effective October 28, 2020, the Company entered into a $10,000 principal amount USDA Guaranteed term loan with AmeriState Bank as lender. The term of the loan is 25 years and bears interest at a minimum 5.00% rate or 4.00% above 5-year treasury, to be reset every 5 years at 3.5% above 5-year treasury. The loan is secured by a first mortgage on the Company's Atmore, Alabama and Roanoke, Alabama facilities and requires certain compliance, affirmative, and financial covenants.

Effective October 29, 2020, the Company entered into a $15,000 principal amount USDA Guaranteed term loan with the Greater Nevada Credit Union as lender. The term of the loan is 10 years and bears interest at a minimum 5.00% rate or 4.00% above 5-year treasury, to be reset after 5 years at 3.5% above 5-year treasury. The loan is secured by a first lien on a substantial portion of the Company's machinery and equipment and a second lien on the Company's Atmore and Roanoke facilities. Payments on the loan are interest only over the first three years and principal and interest over the remaining seven years.

Effective October 30, 2020, the Company entered into a $75,000 Senior Secured Revolving Credit Facility with Fifth Third Bank National Association as lender. The loan is secured by a first priority security interest on all accounts receivable, cash, and inventory, and provides for borrowing limited by certain percentages of values of the accounts receivable and inventory. The agreement matures 5 years from the date of close. At the Company's election, the facility bears interest at annual rates at either LIBOR for 1, 2, or 3 month periods, as defined with a floor of 0.75% or published LIBOR, plus a margin between 1.5% to 2.0%, or Prime plus a margin between 0.5% to 1.0%. The agreement bears an unused line fee of 0.25%. The agreement is subject to customary terms and conditions and annual administrative fees with pricing varying based on excess availability and a fixed charge coverage ratio. The agreement is also subject to certain compliance, affirmative, and financial covenants. The Company is only subject to the financial covenants if borrowing availability is less than 12.5% of the availability, and remains until the availability is greater than 12.5% for 30 consecutive days. Effective as of October 30, 2020, the date of close, the Company's borrowing availability under the Senior Secured Revolving Facility was $45,000.

Effective October 30, 2020, the Company’s current Senior Secured Credit Facility with Wells Fargo Capital Finance, LLC was terminated and repaid, with the aforementioned subsequent new loans, by the Company upon notice to the lender in accordance with the terms of the facility.

On October 30, 2020, the Company terminated two interest rate swap agreements tied to its revolving line of credit. The cost to terminate the swap agreements was $1,400. At the end of the third quarter of 2020, the Company performed its retrospective and prospective effectiveness assessments of the interest rate swap agreements. Based upon the contractual obligation under the Company's credit agreement with its Senior Credit Facility to secure additional fixed asset borrowings, the Company could no longer assert that the cash flows for an additional $23,000 of notional amount of the interest rate swaps are probable. However, the Company could not establish that the future cash flows are probable to not occur and therefore has not reclassified the accumulated other comprehensive income. The Company included the $23,000 notional amount of swaps in the current portion of its derivatives liability in Note 12 as designated hedges for the reporting period as they were effective through the end of the period based upon the retrospective assessment.

On November 4, 2020, the Company’s Board of Directors approved the repurchase of up to $2,900 of the Company’s common stock. Such purchases would be under a Plan to be entered into on or after November 6, 2020, pursuant to Rule 10b5-1 of the Securities and Exchange act. Subject to the requirements of Rule 10b5-1, the repurchase plan would permit the purchase of up to $2,900 of the Company’s shares beginning as of November 11, 2020 and continuing until June 2021. It is intended that purchases would be conducted to come within Rule 10b-18 and would be managed by Raymond James & Associates. The plan may be amended or terminated at any time in accordance with the Rule.

Item 2. 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 condensed financial statements and related notes appearing elsewhere in this report.

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.

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 primarily 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, in response to a significant shift in the flooring marketplace toward hard surface products, we have launched multiple hard surface initiatives in both our residential and commercial brands over the last few years. Our commercial brands offer Luxury Vinyl Flooring (“LVF”) products under the Calibré brand in the commercial markets. Our residential brands, Dixie Home and Masland Residential, offer Stainmaster® TRUCOR™ Luxury Vinyl Flooring and our premium residential brand, Fabrica, offers a high-end engineered wood line.

COVID-19 PANDEMIC

Beginning with the second week of March 2020, we started experiencing reduced volume as the result of the COVID-19 pandemic and related government restrictions. The sales decline continued into the second quarter through the third week of April after which we started to see a gradual and consistent improvement in sales through the end of the third quarter. Once the extent of the pandemic became apparent, we implemented our continuity plan to maintain the health and safety of our associates, preserve cash, and minimize the impact on our customers. We implemented cost reductions including cutting non-essential expenditures, reducing capital expenditures, rotating layoffs and furloughs, select job eliminations and temporary salary reductions. We also deferred new product introductions and reduced our sample and marketing expenses for 2020. We modified our senior credit facility to provide additional flexibility with regard to loan availability during this uncertain period.

The recovery of sales in the residential markets, that began in the second quarter of 2020, continued through the third quarter. Sales volume in the commercial markets have continued to be at lower levels. Many of the cost reductions implemented in the second quarter as part of our COVID-19 recovery plan have been made permanent even as sales volumes improve. As allowed under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, we deferred payment of certain payroll related taxes over the second and third quarter in the total amount of $1.8 million. We also believe we are eligible for certain employee retention credits as defined in the CARES Act but, due to uncertainties related to the CARES Act, we have deferred recognition of any such credits until further clarification is made available. Despite the improvement in sales activity, as we see a resurgence of cases of COVID-19 and as government authorities consider restoring restrictions that had been previously lifted, we cannot be certain as to any additional future impact of the COVID-19 crisis.

During the third quarter of 2020, our net sales decreased 10.0% compared with the third quarter of 2019. Our residential product sales were up 3% for the quarter as compared to the prior year while the industry, we believe, was up similarly in the lower single digits. Commercial product sales decreased 41% versus the prior year quarter while the industry, we believe, experienced a decrease of approximately 25%. Our hard surface product offerings had a year over year sales growth of 76% for the quarter and 59% on the year.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 26, 2020 Compared with the Three and Nine Months Ended September 28, 2019

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of Sales	74.1 %	77.9 %	76.5 %	77.7 %
Gross Profit	25.9 %	22.1 %	23.5 %	22.3 %
Selling and Administrative Expenses	22.5 %	22.0 %	24.7 %	22.4 %
Other Operating (Income) Expenses, Net	(0.2) %	— %	(0.1) %	0.1 %
Facility Consolidation and Severance Expenses, Net	0.6 %	1.1 %	0.8 %	1.7 %
Operating Income (Loss)	3.0 %	(1.0) %	(1.9) %	(1.9) %

Net Sales

Net sales for the quarter ended September 26, 2020 were $85.9 million, a decrease of 10.0% compared with net sales of $95.4 million for the year-earlier quarter. In the third quarter of 2020, net sales in our residential markets began recovering from the COVID-19 pandemic. Our commercial markets continue to experience reduced sales activity.

For the nine months ended September 26, 2020, net sales were $227.3 million, a 20.1% decrease compared with net sales of $284.4 million for the nine months ended September 28, 2019. The net sales results in the first nine months of 2020 were negatively impacted by the COVID-19 pandemic and related government restrictions, primarily concentrated within the period of April through June.

Gross Profit

Gross profit as a percentage of net sales was 25.9% in the third quarter of 2020 compared with 22.1% in the third quarter of 2019. The higher gross profit percentage in 2020 was driven by cost reductions in our manufacturing facilities as part of our Profit Improvement Plan, which was completed in the prior year, and our COVID-19 Continuity Plan.

Gross profit as a percentage of net sales improved by 1.2% in the first nine months of 2020 as compared to the first nine months of 2019. Cost reductions resulting from our Profit Improvement Plan, which was implemented in the prior year, and net expense reductions from the implementation of our COVID-19 Continuity Plan contributed to the improved gross profit margin. These cost savings were partially offset by under absorbed fixed costs due to reduced sales volume in the second and third quarter and cost related to the COVID-19 Recovery Plan.

Selling and Administrative Expenses

Selling and administrative expenses were $19.3 million in the third quarter of 2020 compared with $21.0 million in the year earlier period. Although sales in the third quarter of 2020 were significantly improved over the second quarter of 2020, many of the cost saving initiatives implemented as part of our response to the COVID-19 pandemic remained in place including savings from temporary and permanent headcount reductions, pay reductions and reduced travel. Despite the significantly lower year over year expenses, selling and administrative expenses as a percent of the lower net sales in the third quarter of 2020 were 22.5% as compared to 22.0% in the third quarter of 2019.

For the nine-month period ending September 26, 2020, selling and administrative expenses were $56.3 million compared to $63.8 million in the nine-month period ended September 28, 2019. The reduction in expenses for selling and administrative for the period was the result of cost cuts in response to the COVID-19 pandemic and cost reductions in place from the Profit Improvement Plan implemented in previous years.

Other Operating (Income) Expense, Net

Net other operating income, was $172 thousand in the third quarter of 2020 compared with net other operating expenses of $37 thousand in the third quarter of 2019. For the nine-month period ended September 26, 2020, other operating income was $163 thousand compared to an expense of $145 thousand in the nine-month period ended September 28, 2019. The expenses were primarily the result of net gains on currency exchange rate adjustments and other adjustments during the period.

Facility Consolidation and Severance Expenses, Net

Facility consolidation and severance expenses totaled $515 thousand in the third quarter of 2020 compared with expense of $1.0 million in the third quarter of 2019. The expenses in the third quarter of 2020 were comprised of costs related to our COVID-19 Continuity Plan including severance and financing related charges, as well as residual costs from our Profit Improvement Plan. Facility consolidation expenses recorded in the third quarter of 2019 were part of our Profit Improvement Plan and were primarily made up of workers' compensation related charges.

Operating Income (Loss)

We reported an operating profit of $2.6 million in the third quarter of 2020 compared with an operating loss of $1.0 million in the third quarter of 2019. Net expense reductions resulting from our Profit Improvement Plan and our COVID-19 Continuity Plan contributed to a higher gross margin and lower selling and administrative expenses. Facility and consolidation expenses related to the COVID-19 Continuity Plan were $515 thousand in the third quarter of 2019 compared to facility and consolidation expenses for the third quarter of 2019, related to the Profit Improvement Plan, of $1.0 million.

Interest Expense

Interest expense decreased $87 thousand in the third quarter of 2020 compared with the third quarter of 2019. Interest expense for the nine months ended September 26, 2020 was $881k lower than the nine-month period ended September 28, 2019. The reduction is the result of generally lower interest rates and lower levels of debt in 2020.

Income Tax Provision (Benefit)

We recorded an income tax provision of $4 thousand in the third quarter of 2020. The adjustment required in the third quarter of 2019 was an income tax benefit of $109 thousand.

The effective tax rate for the nine months ending September 26, 2020 was 0.00% compared with an effective tax rate of 0.20% for the nine months ending September 28, 2019. The Company maintains a full valuation allowance against the deferred tax assets resulting in only refundable credits and a small amount of state taxes being recognized in the tax expense for the first nine months of 2020. The Company is in a net deferred tax liability position of $91 at September 26, 2020 and December 28, 2019, respectively, which is included in other long-term liabilities in the Company's Consolidated Condensed Balance Sheets.

The Company accounts for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. Unrecognized tax benefits were $484 and $480 at September 26, 2020 and December 28, 2019, respectively. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of September 26, 2020 and December 28, 2019.

Net Income (Loss)

Continuing operations reflected income of $906 thousand, or $0.06 per diluted share, in the third quarter of 2020 compared with a loss of $2.6 million, or $0.16 per diluted share, in the same period in 2019. Discontinued operations reflected a loss of $46 thousand, or $0.00 per diluted share, in the third quarter of 2020 compared with an income of $23 thousand, or $0.00 per diluted share, in the same period in 2019. Including discontinued operations, the Company had a net income of $860 thousand, or $0.06 per diluted share, in the third quarter of 2020 compared with a net loss of $2.6 million, or $0.16 per diluted share, in the third quarter of 2019.

For the nine months ended September 26, 2020, we had a loss from continuing operations of $8.7 million or $0.57 per diluted share compared with a loss of $10.4 million or $0.66 per diluted share in the nine month period ended September 28, 2019. The loss from discontinued operations was $203 thousand or .01 per diluted share for the nine month period ended September 26, 2020 compared to a loss of $43 thousand or $0.00 per diluted share in the nine month period ended September 28, 2019. The net loss including discontinued operations for the nine month period ended September 26, 2020 was $8.9 million or $0.58 per diluted share compared with a loss of $10.4 million or $0.66 per diluted share in the nine month period ended September 28, 2019.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended September 26, 2020, cash provided by operations was $15.9 million. Accounts receivable increased $1.6 million from the seasonally low 2019 fiscal year end accounts receivable balance. The increase in accounts receivable at September 2020 quarter end reflects the increased sales volume after the initial impact of the COVID-19 pandemic. Planning and production strategies resulted in a decrease in Inventories of $8.6 million. Accounts payable and accrued expenses increased $7.1 million primarily driven by accruals for raw material purchases in order to replenish inventory to meet the growing demand.

Purchases of capital assets for the nine months ended September 26, 2020 resulted in a $1.4 million cash out flow to the business. Depreciation and amortization for the nine months ended September 26, 2020 were $8.4 million. We expect capital expenditures to be approximately $3.5 million in 2020 while depreciation and amortization is expected to be approximately $10.6 million. Planned capital expenditures in 2020 are primarily for new equipment.

During the nine months ended September 26, 2020, cash used in financing activities was $15.3 million. We had net payments on our revolving credit facility of $13.2 million and payments on notes payable and financing leases of $4.8 million. Borrowings under finance leases were $2.2 million related to manufacturing equipment.

At the onset of the COVID-19 Pandemic, management closely evaluated our liquidity needs. We modified our senior credit facility to provide additional flexibility with regard to loan availability during this uncertain period (Amendment 14 to our senior secured credit agreement). This amendment to our senior credit facility increased our borrowing costs slightly and reduced the size of the lending facility to better fit our reduced borrowing base as we continue to reduce our inventories to improve liquidity. To remain in compliance with the loan as amended, we were required to secure an additional fixed asset loan from an unrelated lender. The date by which such additional financing was required to be obtained was extended by agreement with our senior lender to October 31, 2020. As of September 26, 2020 availability under the facility with Wells Fargo Capital Finance was $25.3 million.

After the end of the quarter, the Company replaced its senior credit facility with Wells Fargo Capital Finance with a $75 million, senior secured Revolving Credit Facility with Fifth Third Bank National Association. As of October 30, 2020, availability under the new senior secured facility was $45 million. Additionally, the Company entered into two fixed asset loans in the combined principal amount of $25 million.

We believe, after having reviewed various financial scenarios, 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. We cannot predict, and are unable to know, the long-term impact of the COVID-19 pandemic and the related economic consequences or how these events may affect our future liquidity. As noted above and in Footnote 23, availability under the new Senior Secured Revolving Credit Facility on October 30, 2020 was $45.0 million.

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.

Contractual Obligations

The following table summarizes our future minimum payments under contractual obligations as of September 26, 2020.

	Future Undiscounted Payments Due by Period (dollars in millions)						
	2020	2021	2022	2023	2024	Thereafter	Total
Debt	$ 0.4	$ 48.5	$ 1.3	$ 0.7	$ 4.6	$ —	$ 55.5
Interest - debt (1)	—	0.1	0.1	—	—	—	0.2
Finance leases	1.0	3.6	1.6	2.4	0.3	10.0	18.9
Interest - finance leases	0.4	1.6	1.3	1.0	0.7	6.1	11.1
Operating leases	0.8	3.2	2.9	2.2	2.0	12.3	23.4
Interest - operating leases	0.4	1.5	1.3	1.0	0.9	2.3	7.4
Purchase commitments	0.5	—	—	—	—	—	0.5
Totals	3.5	58.5	8.5	7.3	8.5	30.7	$ 117

(1) Interest rates used for variable rate debt were those in effect at September 26, 2020

Changes to Critical Accounting Policies

Our critical accounting policies were outlined in Management's Discussion and Analysis of Results of Financial Condition and Results of Operations in our 2019 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Recent Accounting Pronouncements

Recent accounting pronouncements are disclosed in Note 2 to the Consolidated Condensed Financial Statements.

Item 3. 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 Condensed Financial Statements).

Although the Company could have an exposure to interest rate risk related to its floating rate debt, there was no floating rate debt outstanding as of September 26, 2020.

Item 4. 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 September 26, 2020, the date of the financial statements included in this Form 10-Q (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.

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 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We have been sued, together with 3M Company and approximately 30 other named defendants and unnamed "fictitious defendants" including various carpet manufacturers and suppliers, in four lawsuits whereby the plaintiffs seek monetary damages and injunctive relief related to the manufacture, supply, and/or use of certain chemical products in the manufacture, finishing, and treatment of carpet products in the Dalton, Georgia area. These chemical products allegedly include without limitation perflourinated compounds ("PFC") such as perflourinated acid ("PFOA") and perfluorooctane sulfonate ("PFOS"). In each lawsuit, the plaintiff(s) alleges that, as a consequence of these actions, these chemical compounds have discharged or leached into the water systems around Dalton and then flow into the waters in or near the water bodies from which the plaintiff(s) draw for drinking water.

Two of these lawsuits were filed in Alabama. The first lawsuit in Alabama was filed on September 22, 2016 by The Water Works and Sewer Board of the City of Gadsden (Alabama) in the Circuit Court of Etowah County, Alabama (styled *The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al.,* Civil Action No. 31-CV-2016-900676.00). The second lawsuit in Alabama was filed on May 15, 2017 by The Water Works and Sewer Board of the Town of Centre (Alabama) in the Circuit Court of Cherokee County, Alabama (styled *The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al.,* Civil Action No. 13-CV- 2017-900049.00). In each of these Alabama lawsuits, the plaintiff seeks damages that include but are not limited to the expenses associated with the future installation and operation of a filtration system capable of removing from the water the chemicals that are allegedly present as a result of the manufacturing and treatment process described above. Each plaintiff requests a jury trial, does not specify an amount of damages other than an assertion that its damages exceed $10,000, and requests injunctive relief. We have answered the complaint in each of these lawsuits, intend to defend those matters vigorously, and are unable to estimate our potential exposure to loss, if any, for these lawsuits at this time.

The other two lawsuits were filed in Georgia. The first lawsuit in Georgia was filed on November 19, 2019 by the City of Rome (Georgia) in the Superior Court of Floyd County, Georgia (styled *The City of Rome, Georgia v. 3M Company, et al.,* No. 19CV02405JFL003). The plaintiff in that case also seeks damages that include without limitation the expenses associated with the future installation and operation of a filtration system capable of removing from the water the chemicals that are allegedly present as a result of the manufacturing and treatment process described above. The plaintiff requests a jury trial and also seeks injunctive relief. While the amount of damages is unspecified, the plaintiff asserts it has spent "tens of millions" to remove the chemicals from the county's water supply and will incur additional costs related to removing such chemicals in the future. We have answered the complaint, intend to defend the matter vigorously, and are unable to estimate our potential exposure to loss, if any, at this time.

The second lawsuit in Georgia was originally filed on November 26, 2019 and is presented as a class action lawsuit by and on behalf of a class of persons who obtain drinking water from the City of Rome, Georgia and the Floyd County Water Department (and similarly situated persons) (generally, for these purposes, residents of Floyd County) (styled *Jarrod Johnson v. 3M Company, et al.,* Civil Action No. 19-CV-02448-JFL-003) (the "Class Action Lawsuit"). On January 10, 2020, the Class Action Lawsuit was removed to the United States District Court for the Northern District of Georgia, Rome Division (styled Jarrod Johnson v. 3M Company, et al Civil Action No. 4:20-CV-0008-AT). The plaintiffs in this case allege their damages include without limitation the surcharges incurred for the costs of partially filtering the chemicals from their drinking water. The Complaint requests a jury trial and asserts damages unspecified in amount, in addition to requests for injunctive relief. We have filed a response to the Complaint, intend to defend the matter vigorously, and are unable to estimate our potential exposure, if any, at this time.

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.

Our financial condition and results or operations may be adversely impacted by the COVID-19 pandemic and the related downturn in economic conditions.

The COVID-19 outbreak has been declared a pandemic, and the virus continues to spread in areas where we operate and sell our products and services. The COVID-19 outbreak could have a material adverse effect on our ability to operate, our results of operations, financial condition, liquidity, our near term and long term ability to stay in compliance with debt covenants under our Senior Credit Facility, our ability to refinance our existing indebtedness, and our ability to gain new financing. Public health organizations have recommended, and many governments have implemented, measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances. Such preventive measures may have a material adverse effect on our business for an indefinite period of time, such as the potential shut down of certain locations, decreased employee availability, disruptions to the businesses of our selling channel partners, and others. Our suppliers and customers may also face these and other challenges, which could lead to a disruption in our supply chain as well as decreased construction and renovation spending and consumer demand for our products and services. These issues may also materially affect our current and future access to sources of liquidity, particularly our cash flows from operations, and access to financing. Although these disruptions may continue to occur, the long-term economic impact and near-term financial impacts of the COVID-19 pandemic, including but not limited to, potential near term or long-term risk of asset impairment, restructuring, and other charges, cannot be reliably quantified or estimated at this time due to the uncertainty of future developments.

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. Additional or extended downturns 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. We have seen a change in strategy by this customer to emphasize products at a lower price point than we currently offer which has adversely affected our sales to this customer. Further reductions of sales through this channel could adversely affect our business. Such a shift could also 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 effect 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. Further, our trade relations depend on our economic viability and insufficient capital could harm our ability to attract and retain customers and or supplier relationships.

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

NASDAQ Marketplace Rule 5550(a)(2) requires that, for continued listing on the exchange, we must maintain a minimum bid price of $1 per share. Should the price of our stock close below $1 per share for 30 consecutive business days we will have 180 days to bring the price per share up above $1. We received notice from NASDAQ on April 28, 2020 that our stock had closed below $1 per share for 30 consecutive business days. In response to the coronavirus pandemic, NASDAQ delayed beginning the applicable 180 day period within which to regain compliance to June 30, 2020. If we are not able to regain compliance before December 28, 2020, we may be eligible for an additional 180 days provided we meet other listing requirements. 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. 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. Recently we have seen the supply of white dyeable yarns for the commercial business decline and that has forced us to transition to new products faster than was originally intended. If we fail to successfully replace those products with equally desirable products to the marketplace, we will lose sales volume. 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 effect 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 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. Recently, we have had a disruption in our supply of white dyeable yarns for the commercial market place which has resulted in our taking additional charges for the write down of certain inventories. 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.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Common Stock

The following table provides information regarding our repurchases of our Common Stock Shares during the three months ended September 26, 2020:

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
August 1, 2020	—	$ —	—	
August 29, 2020	—	—	—	
September 26, 2020	—	—	—	
Three Months Ended September 26, 2020	—	$ —	—	$ 4,878,000

The company has discontinued its stock repurchase program as announced and implemented in the fourth quarter of 2019.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits
(a.) Exhibits

31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 CFO Certification pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL Taxonomy Extension Definition Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements 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.

	THE DIXIE GROUP, INC.
	(Registrant)
Date: November 6, 2020	By: /s/ Allen L. Danzey
	Allen L. Danzey Vice President and Chief Financial Officer

EXHIBIT 31.1

Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Daniel K. Frierson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Dixie Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2020

/s/ **DANIEL K. FRIERSON**
Daniel K. Frierson
Chief Executive Officer
The Dixie Group, Inc.

EXHIBIT 31.2

Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Allen L. Danzey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Dixie Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2020

/s/ **ALLEN L. DANZEY**
Allen L. Danzey
Chief Financial Officer
The Dixie Group, Inc.

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Dixie Group, Inc. (the "Company") on Form 10-Q for the quarter ended Septebmer 26, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel K. Frierson, the Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DANIEL K. FRIERSON
Daniel K. Frierson, Chief Executive Officer
Date: November 6, 2020

A signed original of this written statement required by Section 906 has been provided to The Dixie Group, Inc. and will be retained by The Dixie Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of The Dixie Group, Inc. (the "Company") on Form 10-Q for the quarter ended September 26, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen L. Danzey, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ALLEN L. DANZEY
Allen L. Danzey, Chief Financial Officer
Date: November 6, 2020

A signed original of this written statement required by Section 906 has been provided to The Dixie Group, Inc. and will be retained by The Dixie Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.