THE DIXIE GROUP

2020 ANNUAL REPORT

DESPITE COVID-19…

As we worked to minimize cases and keep employees safe through the COVID-19 pandemic, we are encouraged by the improvement we have seen in sales. The Dixie Group was able to sustain operations, reduce cost and minimize impact through a once-in-a-century event.

The Dixie Group is the preeminent provider of premium flooring to both the residential and commercial markets. We are committed to sophistication and style, contemporary color palettes, unique design and excellent quality in the mid- to upper-end market segments. The Dixie Group emphasizes superior product design that continues to lead trends and satisfy the most discerning consumers and commercial end users. We aim to satisfy our customers with recognition, trust, quality, value and inspiration.

Fabrica, Masland, Dixie Home, and TRUCOR™ encompass the brands of our residential product offering. These brands are known for fine quality and innovative styling across a broad range of price points, constructions and colors, to meet the needs of today's consumers. In 2018, The Dixie Group united Atlas and Masland Contract to create a unified commercial brand. AtlasMasland services the exclusive corporate and hospitality sectors along with all areas of the specified commercial markets. Our commitment is to provide a unique line of soft and hard surface products that satisfy the needs of the premium floor covering market.

Dear Shareholders:

As we entered 2020, business was beginning to improve and we were excited about celebrating our 100th Anniversary. Over our 100 years, we experienced many obstacles such as wars, the Great Depression and more recently the Great Recession, but had not endured a pandemic. We, like every company, were faced with unprecedented issues on virtually every front.

Not knowing where the COVID-19 pandemic would lead, we implemented our continuity plan to maintain the health and safety of our associates, preserve cash and minimize the impact on our customers. To minimize and prevent cases of COVID-19 exposure in our facilities, we have taken measures aimed at sanitation and safety, including large scale COVID-19 testing, mandatory temperature checks prior to starting work, requirements to wear masks when unable to maintain social distancing and deep cleaning and sanitation. We limited travel for our associates, implemented work-from-home options where appropriate and limited physical contact with our customers. We reduced our running schedules in our facilities to below demand to maintain order flow to our customers, while simultaneously reducing inventories to align them with our lower customer demand. In order to preserve cash, we placed a large percentage of our associates either on rotating layoff or furlough. We implemented approximately $14 million in cost cuts for the current year. These cost cuts included deferring maintenance when possible, reduced capital expenditures, instituting select job eliminations and temporary salary reductions. We deferred new product introductions and reduced our sample and marketing expenses for 2020. We worked with suppliers, lenders and landlords to extend payment terms in the second quarter for existing agreements. We have taken advantage of deferral of payroll related taxes under the CARES act as well as deferring payments into our defined contribution retirement plan.

Our management team worked together to implement our continuity plan, which has resulted in improved operating results. During the year, we were able to decrease selling and administration costs through headcount reductions and lower spending. Operationally, we have experienced significant improvement in quality, waste reduction and cost. At the same time, we were able to maintain superior customer service and outperformed many of our competitors in this area.

In addition to the cost and operational improvements, we were able to strengthen our balance sheet through strategic financing initiatives. In the fourth quarter, we entered into a new $75 million, five year, Senior Revolving Credit Facility, and also closed on two additional long-term, fixed rate, asset-backed loans in the total amount of $25 million. We reduced debt by $10 million in the last twelve months and $50 million over the last two years, and now have borrowing availability in the mid-$40 million range.

It is difficult to ascertain the total impact of COVID-19 on the results of 2020, but it is clear that our sales for the year were about $60 million less than plan and the prior year. The reduction of sales with an operating margin in the percent range of the mid-twenties had a significant, unfavorable impact on operating income. We also faced challenges in our operations as a result of continued absences of people due to COVID-19 and its related quarantine requirements.

The abrupt decline of over 50% in sales in April was certainly a shock to our system, but we have been pleased with the recovery in the residential market. Benefiting from strong trends in new home construction and existing home sales, our residential segment saw business conditions continue to improve through the year, as many flooring retailers emerged from the COVID-19 downturn, and an increasing number of consumers began home improvement projects. We are continuing our fiber diversification strategy by significantly expanding our EnVision 6,6™ offering with over 20 new styles across all brands. This program offers beautiful designs with the durability

and performance of nylon 66, at price points that compete effectively in today's market. EnVision 6,6™ has become our primary growth platform in soft surfaces, and we are planning for another significant expansion of this product. Residential order entry and sales have continued to improve since the second quarter and ended the year very strong with orders and shipments up 15% for the fourth quarter.

In 2021, we are again investing in new products, talent and new technology. On the soft surface side, we are excited to showcase TECHnique, our latest tufting technology, with six new qualities in Masland and Fabrica. This innovation delivers beautiful patterns through precise yarn placement and control at each needle. 2021 trends show strong soft surface growth in all retail segments.

Our hard surface programs grew significantly for the year, with the TRUCOR™ and Fabrica Wood programs pacing well ahead of the hard surface market. We continued to invest in product innovation with our TRUCOR™ PRIME XL/XXL, the widest, longest rigid core plank on the market, and TRUCOR™ Tile IGT (Integrated Grout Technology), a tile visual with the grout line engineered into the locking system. We also invested in talent, with the addition of 8 sales people dedicated to hard surfaces in key markets across the country, and we will be adding more dedicated hard surface sales people in 2021. Also in 2021, we will expand our TRUCOR™ PRIME XL/XXL program with 12 new visuals. In our Fabrica Wood program, we have developed a new display system to accommodate an expansion of this program with new colors, board sizes and price points. We expect to double our Fabrica Wood placements in the market in 2021.

Our commercial business and the commercial market continues to be adversely impacted by COVID-19. Sales for the year were down more than 35% from the previous year. We are beginning to see some improvement, but we believe the recovery will be longer coming and not as dynamic as the residential market recovery.

Our commercial business is excited about one of the most unique innovations in our modular carpet tile offering. Sustaina™ is now the "standard" for backing on orders. The Sustaina™ modular tile backing system is a PVC and polyurethane-free cushion modular carpet tile backing with very high recycled content. The product is breathable and able to be installed in environments up to 99% relative humidity and up to a pH of 12 when utilizing our custom formulated Sustaina™ 99 adhesive. The product provides the cushion backing benefits of increased underfoot comfort, appearance retention and sound absorption. These unique products, differentiating us in the marketplace and fulfilling the needs of our discerning environmentally conscious customers, we believe will accelerate our growth in 2021.

The COVID-19 pandemic in 2020 presented challenges in ways Dixie has not experienced in its history of over 100 years. We responded first with regard to the safety of our employees, and second to protect the operations and financial strength of our company, while continuing to service our customers. We are proud to have emerged as a stronger company. We are looking forward to the year of 2021 as an opportunity to move past the difficulties of 2020, and benefit from the continued expectations of a strong residential market by growing with differentiated floor covering offerings. We want to thank our associates for their dedication and hard work this past year. We would also like to express our support and appreciation for our customers who have endured this difficult time along with us and thank them for their continued support.

We look forward to the next 100 years.

Daniel K. Frierson
Chairman and Chief Executive Officer

Residential Products

Fabrica, Masland, Dixie Home and TRUCOR™ are our residential segment brands. Through each brand, we provide differentiated styles, designs, constructions and colors to meet the needs of a broad range of customers. With a combination of creativity and technology, we develop and produce innovative and differentiated products that transform the home interiors of today's diverse consumer base. We proudly market our products domestically and internationally. Although broadloom carpet remains our primary category, we have grown significantly in the hard surface segment with our TRUCOR™ rigid core and Fabrica Fine Wood offerings. These programs complement our soft surface offering, and they strategically enhance our position in the residential flooring market. As we continue to diversify and strengthen our overall product offering, our mission remains the same… to create the world's most beautiful floors.

FABRICA DIXIE HOME Masland TRUCOR™ FLOORING SIMPLIFIED

Advances in Tufting Technology

TDG Residential is proud to introduce TECHnique, our latest tufting innovation, where state-of-the-art technology blends color, pattern and texture together in perfect harmony. Through TECHnique, fashion sense and unrivaled creativity intersect precision yarn placement to create beautiful woven-like visuals. We will launch TECHnique in early 2021 with six amazing styles in our Masland and Fabrica brands using EnVision 6,6™ and Strongwool yarn systems. TECHnique…sophisticated yet subtle, traditional yet fresh, timeless yet completely current.

Dixie Home Affordable Fashion. At Dixie Home, we believe all families deserve beautiful flooring. To fulfill that vision, we have drawn on decades of experience in yarn processing and carpet manufacturing. We combine the latest patterns with on trend colors. We use the highest quality and best performing yarns. We offer a broad collection of styles that meet the needs of a wide range of consumers. We do these things because we don't want to be remembered just for our good looks…we want to be remembered for our good looks that last! Live your life on us!

Masland Carpets and Rugs Inspired by Design. At Masland, we believe in giving our customers creative freedom to express themselves. The Masland difference is a combination of creativity, versatility and fashion, to give designers, consumers and end users the tools they need to transform their interiors the way they want. Masland offers the most comprehensive selection of soft surface flooring in the industry, spanning an amazing spectrum of constructions, visuals and colors to complement and enhance a wide range of décor. At Masland, we are cutting edge, we are fashion forward, we are bold and market centric. We are Inspired by Design.

Fabrica Quality without Compromise. Being "Best in Class" takes tremendous focus and a remarkable commitment to detail. This is our foundation, our cornerstone. The result? A product offering without peers, understated in its elegance and timeless in its beauty. We continue our pursuit of perfection in craftsmanship, combining innovative yarn concepts with cutting edge technology and manufacturing excellence to push the boundaries in broadloom carpet and rugs. Our Fabrica Fine Wood offering is crafted using only the finest hardwoods across a variety of species, visuals and colors. We aspire to provide a flawless foundation upon which beautiful interiors can be imagined and created.

TRUCOR™ In a sea of sameness, TRUCOR™ rigid core flooring provides differentiation in today's market. TRUCOR™ captures the beauty of hardwood and natural stone, with amazing visuals and the widest variety of sizes on the market. Our offering includes proprietary films derived from the luxury French Oak and Italian stone. We have multiple rigid core constructions including SPC, WPC, and digital print technology. With an attached pad and TRUWEAR™ Advanced Performance Finish, every TRUCOR™ product is designed to provide comfort and performance in the most active residential and commercial environments.

Commercial Products

AtlasMasland

AtlasMasland has led the efforts in the development of environmental responsibility as we help our customers achieve the diverse spaces for which we build products—hotels, office buildings, government facilities, worship spaces, restaurants, senior living communities, universities, retail and more. All are important aesthetically as we style and manufacture products that will reflect a positive brand image for our customers' spaces. Additionally, we believe that outstanding design is a two-fold proposition; that environmental responsibility must be on equal footing with interior architecture and design. To this end, AtlasMasland's sustainability focus is committed to researching and developing new products and technologies for reducing our environmental footprint.

Green Fabrication: Eco-friendly Raw Materials

AtlasMasland concept and design starts with raw materials that are environmentally friendly. With a focus on energy to color the yarn and the use of recycled content from the inception of the individual piece, this ensures the final product has been environmentally scrutinized.

AtlasMasland believes in working smarter to create our products, and eliminating wasteful production methods. We have initiated a program in our tufting facilities to reclaim waste yarn by rewinding short ends of yarn at the completion of production cycles. By combining these short lots of yarn and returning them to manufacturing for tufting, more than 330,000 pounds of yarn per year is recycled back into our manufacturing processes.

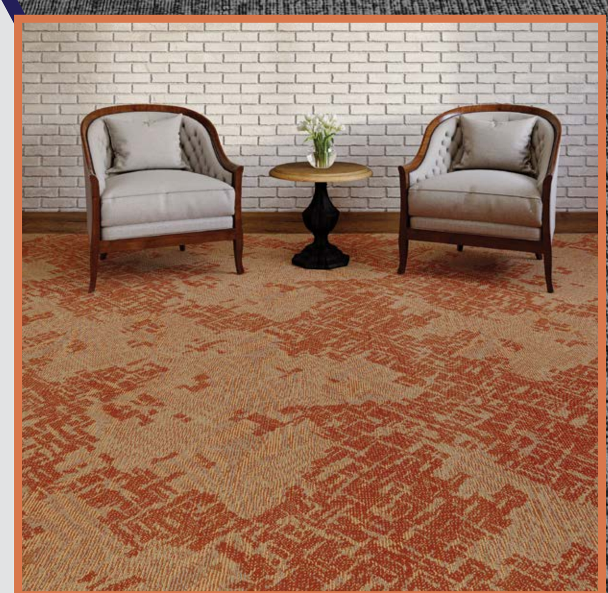
Sustainability

AtlasMasland is committed to creating a healthier planet for the people of today, as well as for future generations. We believe that true design is timeless, and that our responsibility to the environment shares an equal footing with aesthetics. Our goal is to find the most effective and least wasteful ways to create products from the very beginning, and that each product has the least amount of impact on the environment throughout its entire life cycle. 100% of the energy required to produce AtlasMasland rugs, broadloom and modular products is covered by renewable energy wind credits. By focusing on conservation of energy, sustainable selection and efficient use of raw materials, managing waste and recycling, AtlasMasland is building products and using processes that ensure we are not negatively impacting our world.

We are continually striving towards creating a better planet for today as well as tomorrow. Our efforts embrace the use of new technologies for more efficient ways to manufacture products, the conservation of natural resources, and the reduction of landfill waste. In 2020, 1,100 tons of manufacturing waste was diverted from the landfill and repurposed into other raw materials. Waste that could not be repurposed was used in waste-to-energy. Everything we do has an impact on our planet, and we are committed to creating the smallest possible footprint on the environment.

As we move into the future, AtlasMasland will continue to expand on our commitment to our planet, in order to create beautiful products, as well as creating a healthier planet.

atlas masland



AtlasMasland

The vision at AtlasMasland is to inspire the creative freedom of our customers through innovatively designed flooring, crafted to deliver exceptional experiences. We are solution-focused partners in support of designers' greater vision of the overall experience and intent of the space that they are creating. From inception to final product, our designs are pursued with one goal in mind: enhance the experience. Through statement-making patterns, easily customizable flooring solutions or unique products developed to preserve our planet, we design with intent. We Design for Better Human Experiences.

Sustainability

> **"Committed to Sustainable Practices"**
>
> **Working with customers, employees and suppliers, our objective is to become a leading advocate for improving and preserving the environment.**
>
> **Daniel K. Frierson**
> ***Chairman and Chief Executive Officer***
> **The Dixie Group**

The Dixie Group is working to improve environmental performance by embracing three basic principles: conserving energy, managing waste and recycling. Dixie regularly monitors environmental progress by conducting comprehensive environmental audits at each of our facilities to be certain we are using energy wisely and in compliance with all regulations. Consumption of water, electricity and natural gas used in the dyeing and finishing processes has been significantly reduced—in some areas, energy use is down by over 25% and water consumption is down 90% since 2013. Dixie has adopted multiple programs and practices that demonstrate our commitment to reducing waste and disposing of remaining waste responsibly and safely. By substituting recyclable paper CAD illustrations for material samples in the preliminary sampling process, AtlasMasland eliminates over 30,000 pounds of yarn waste per year. A self-addressed postage-paid label accompanies many sample orders, so customers can return their samples for recycling, with a future goal of 100% of samples sent with return labels. Dixie is capable of rewinding and recycling short ends of yarn into other production runs, preventing waste that would otherwise end up outside the recycle chain. Over 3,500,000 pounds of carpet and yarn waste are diverted from landfills each year and reprocessed into other products. Dixie utilizes pre-consumer and post-consumer materials in a number of carpet backings.

The health and safety of the indoor environment is also important to Dixie's overall environmental planning. All Dixie Group products pass the Carpet and Rug Institute's Green Label Plus Indoor Air Quality Testing Program for carpet. Our contract products contribute to LEED points for Indoor Environmental Quality. Environmental health and safety remain a top priority in planning for existing and new products, processes, and services. Dixie's AtlasMasland products, manufactured in its Alabama facilities, are 3rd party certified under the guidelines of the NSF/ ANSI 140-2015 Sustainability Assessment for Carpet.

THE DIXIE GROUP

10-K REPORT

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

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

For the fiscal year ended December 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 of organization)	(I.R.S. Employer Identification No.)
475 Reed Road, Dalton, GA 30720	**(706) 876-5800**
(Address of principal executive offices and zip code)	(Registrant's telephone number, including area code)

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

Title of Class	Name of each exchange on which registered
Common Stock, $3.00 par value	NASDAQ Stock Market, LLC

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

Title of class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☑ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. ☐ Yes ☑ No

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

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

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

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

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

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 27, 2020 (the last business day of the registrant's most recently completed fiscal second quarter) was $10,862,025. The aggregate market value was computed by reference to the closing price of the Common Stock on such date. In making this calculation, the registrant has assumed, without admitting for any purpose, that all executive officers, directors, and holders of more than 10% of a class of outstanding Common Stock, and no other persons, are affiliates. No market exists for the shares of Class B Common Stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act.

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

Class	Outstanding as of February 25, 2021
Common Stock, $3.00 Par Value	14,557,435 shares
Class B Common Stock, $3.00 Par Value	880,313 shares
Class C Common Stock, $3.00 Par Value	0 shares

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the following document are incorporated by reference:
Proxy Statement of the registrant for annual meeting of shareholders to be held May 5, 2021 (Part III).

THE DIXIE GROUP, INC.

Index to Annual Report
on Form 10-K for
Year Ended December 26, 2020

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.

PART I.

Item 1. BUSINESS

General

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

Our business is primarily concentrated in areas of the soft floorcovering markets which include broadloom carpet, carpet tiles and rugs. However, over the past few years, there has been a significant shift in the flooring marketplace as hard surface products have grown at a rate much faster than soft surface products. We have responded to this accelerated shift to hard surface flooring by launching several initiatives in both our residential and commercial brands. Our commercial business offers luxury vinyl flooring ("LVF") products under the Calibré brand in the commercial markets. Within the residential markets we launched TRUCOR™ and TRUCOR Prime™ offering LVF products. In 2020, we experienced significant growth in sales of our TRUCOR™ family of products and our Fabrica Wood program. We continue to innovate in our soft floorcovering residential markets with a new tufting technology, "TECHnique", which is being showcased in our Masland and Fabrica lines. TECHnique delivers beautiful patterns through precise yarn placement and control at each needle. In the soft floorcovering commercial market, we have made our unique Sustaina™ backing the standard in our modular carpet tile offerings. The Sustaina™ modular tile backing system, with its very high recycled content, is an environmentally conscious PVC and polyurethane free cushion modular carpet tile backing.

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

Our Brands

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

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

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

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

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

Industry

We are a flooring manufacturer in an industry composed of a wide variety of companies from small privately held firms to large multinationals. In 2019, according to the most recent information available, the U.S. floorcovering industry reported $27.6 billion in sales, up approximately 1.1% over 2018's sales of $27.3 billion. In 2019, the primary categories of flooring in the U.S., based on sales dollars, were carpet and rug (41%), luxury vinyl flooring (LVF) (17%), ceramic tile (14%), wood (13%), stone (6%), vinyl (5%), and laminate and other (4%). In 2019, the primary categories of flooring in the U.S., based on square feet, were carpet and rug (46%), luxury vinyl flooring (LVF) (17%), ceramic tile (14%), vinyl (9%), wood (7%), laminate (4%), and stone and other (3%). Each of these categories is influenced by the residential construction, commercial construction, and residential remodeling markets. These markets are influenced by many factors including consumer confidence, spending for durable goods, turnover in housing and the overall strength of the economy.

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

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

Competition

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

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

Backlog

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

Trademarks

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

Customer and Product Concentration

As a percentage of our net sales, one customer, a mass merchant, accounted for approximately 7% in 2020, 11% in 2019, and 13% in 2018 and as a percentage of our customer's trade accounts receivable, accounted for approximately 20% in 2020 and 18% in 2019. No other customer was more than 10 percent of our sales during the periods presented. During 2020, sales to our top ten customers accounted for approximately 10% of our sales and our top 20 customers accounted for approximately 12% of our sales. We do not make a material amount of sales in foreign countries.

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

	2020	2019	2018
Residential floorcovering products	**79 %**	72 %	72 %
Commercial floorcovering products	**21 %**	28 %	28 %

Seasonality

Our sales historically have normally reached their lowest level in the first quarter, with the remaining sales being distributed relatively equally among the second, third and fourth quarters. During 2020, primarily as a result of the COVID-19 pandemic, our sales reached their lowest level in the second quarter (approximately 19% of our annual sales) with the remaining sales being distributed relatively equally among the first, third and fourth quarters. Working capital requirements have normally reached their highest levels in the third and fourth quarters of the year.

Environmental

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

Raw Materials

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

Utilities

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

Working Capital

We are required to maintain significant levels of inventory in order to provide the enhanced service levels demanded by the nature of our business and our customers, and to ensure timely delivery of our products. Consistent and dependable sources of liquidity are required to maintain such inventory levels. Failure to maintain appropriate levels of inventory could materially adversely affect our relationships with our customers and adversely affect our business. See "Risk Factors” in Item 1A of this report.

Employment Level

At December 26, 2020, we employed 1,441 associates in our operations.

Available Information

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

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

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

Item 1A. RISK FACTORS

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

Our financial condition and results or operations have been and will likely continue to be adversely impacted by the COVID-19 pandemic and the related downturn in economic conditions.

The COVID-19 pandemic continues to impact areas where we operate and sell our products and services. The COVID-19 outbreak in the second quarter of 2020 had a material adverse effect on our ability to operate and our results of operations as public health organizations recommended, and many governments implemented, measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances. Although many areas have lifted or reduced the impact of such orders, the continuing spread of the virus may necessitate a return of such restrictive, preventive measures which 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. 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.

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 products 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 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table lists our facilities according to location, type of operation and approximate total floor space as of February 25, 2021:

Location	Type of Operation	Approximate Square Feet
Administrative:		
Saraland, AL*	Administrative	29,000
Santa Ana, CA*	Administrative	4,000
Calhoun, GA	Administrative	10,600
Dalton, GA*	Administrative	50,800
	Total Administrative	94,400
Manufacturing and Distribution:		
Atmore, AL	Carpet Manufacturing, Distribution	610,000
Roanoke, AL	Carpet Yarn Processing	204,000
Saraland, AL*	Carpet, Rug and Tile Manufacturing, Distribution	384,000
Porterville, CA*	Carpet Yarn Processing	249,000
Santa Ana, CA*	Carpet and Rug Manufacturing, Distribution	200,000
Adairsville, GA	Samples and Rug Manufacturing, Distribution	292,000
Calhoun, GA *	Distribution	99,000
Calhoun, GA	Carpet Dyeing & Processing	193,300
Eton, GA	Carpet Manufacturing, Distribution	408,000
Dalton, GA*	Samples Warehouse and Distribution	40,000
	Total Manufacturing and Distribution	2,679,300
* Leased properties	TOTAL	2,773,700

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

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

Item 3. LEGAL PROCEEDINGS

We have been sued, together with 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 4. MINE SAFETY DISCLOSURES

Not applicable.

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

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, positions and offices held by the executive officers of the registrant as of February 25, 2021, are listed below along with their business experience during the past five years.

Name, Age and Position	Business Experience During Past Five Years
Daniel K. Frierson, 79 Chairman of the Board, and Chief Executive Officer, Director	Director since 1973, Chairman of the Board since 1987 and Chief Executive Officer since 1980. He is the Chairman of the Company's Executive Committee. He is past Chairman of The Carpet and Rug Institute. He serves as Director of Astec Industries, Inc. headquartered in Chattanooga, Tennessee.
D. Kennedy Frierson, Jr., 53 Vice President and Chief Operating Officer, Director	Director since 2012 and Vice President and Chief Operating Officer since August 2009. Vice President and President Masland Residential from February 2006 to July 2009. President Masland Residential from December 2005 to January 2006. Executive Vice President and General Manager, Dixie Home, 2003 to 2005. Business Unit Manager, Bretlin, 2002 to 2003.
Allen L. Danzey, 51 Chief Financial Officer	Chief Financial Officer since January 2020. Director of Accounting from May 2018 to December 2019. Commercial Division Controller from July 2009 to May 2018. Residential Division Controller and Senior Accountant from February 2005 to July 2009.
Thomas M. Nuckols, 53 Vice President and President, Dixie Residential	Vice President and President of Dixie Residential since November 2017. Executive Vice President, Dixie Residential from February 2017 to November 2017. Dupont/Invista, from 1989 to 2017, Senior Director of Mill Sales and Product Strategy from 2015 to 2017.
W. Derek Davis, 70 Vice President, Human Resources and Corporate Secretary	Vice President of Human Resources since January 1991 and Corporate Secretary since January 2016. Corporate Employee Relations Director, 1988 to 1991.

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

PART II.

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

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

As of February 25, 2021, the total number of holders of our Common Stock was approximately 3,900 including an estimated 3,200 shareholders who hold our Common Stock in nominee names. The total number of holders of our Class B Common Stock was 10.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Fiscal Month Ending	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares That May Yet Be Purchased Under Plans or Programs
October 31, 2020	—	$ —	—	
November 28, 2020	375,938 *	1.88	375,938	
December 26, 2020	—	—	—	
Three Fiscal Months Ended December 26, 2020	375,938	$ 1.88	375,938	$ 2,186,275

*On November 4, 2020, the Company’s Board of Directors approved the repurchase of up to $2.9 million 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 $2.9 million 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.

Quarterly Financial Data, Dividends and Price Range of Common Stock

Following are quarterly financial data, dividends and price range of Common Stock for the four quarterly periods in the years ended December 26, 2020 and December 28, 2019. Due to rounding, the totals of the quarterly information for each of the years reflected below may not necessarily equal the annual totals. There is a restriction on the payment of dividends under our revolving credit facility and we have not paid any dividends in the years ended December 26, 2020 and December 28, 2019.

THE DIXIE GROUP, INC.
QUARTERLY FINANCIAL DATA, DIVIDENDS AND PRICE RANGE OF COMMON STOCK
(unaudited) (dollars in thousands, except per share data)

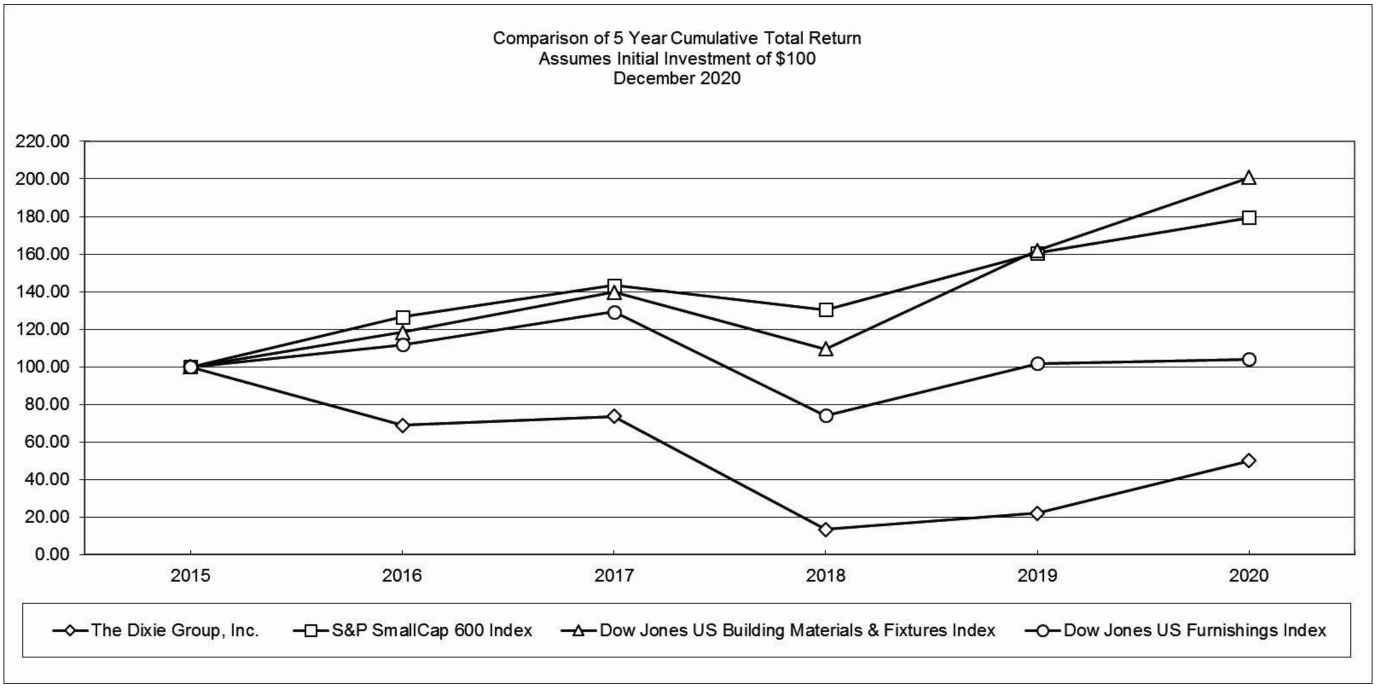
2020	1ST	2ND	3RD	4TH
Net sales	$ 80,578	$ 60,824	$ 85,920	$ 88,618
Gross profit	18,993	12,244	22,241	22,978
Operating income (loss)	(1,336)	(5,625)	2,563	1,479
Income (loss) from continuing operations	(2,613)	(6,979)	906	(401)
Income (loss) from discontinued operations	(76)	(81)	(46)	83
Net income (loss)	$ (2,689)	$ (7,060)	$ 860	$ (318)
Basic earnings (loss) per share:				
Continuing operations	$ (0.17)	$ (0.46)	$ 0.06	$ (0.03)
Discontinued operations	(0.01)	(0.01)	0.00	0.01
Net income (loss)	$ (0.18)	$ (0.47)	$ 0.06	$ (0.02)
Diluted earnings (loss) per share:				
Continuing operations	$ (0.17)	$ (0.46)	$ 0.06	$ (0.03)
Discontinued operations	(0.01)	(0.01)	0.00	0.01
Net income (loss)	$ (0.18)	$ (0.47)	$ 0.06	$ (0.02)
Common Stock Prices:				
High	$ 1.60	$ 1.04	$ 1.34	$ 2.92
Low	0.53	0.55	0.76	0.77

2019	1ST	2ND	3RD	4TH
Net sales	$ 88,606	$ 100,394	$ 95,447	$ 90,135
Gross profit	18,919	23,493	21,074	22,719
Operating loss	(4,863)	574	(1,042)	26,680
Loss from continuing operations	(6,641)	(1,181)	(2,577)	26,018
Income (loss) from discontinued operations	(31)	(35)	23	(305)
Net loss	$ (6,672)	$ (1,216)	$ (2,554)	$ 25,713
Basic earnings (loss) per share:				
Continuing operations	$ (0.42)	$ (0.07)	$ (0.16)	$ 1.61
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.02)
Net loss	$ (0.42)	$ (0.07)	$ (0.16)	$ 1.59
Diluted earnings (loss) per share:				
Continuing operations	$ (0.42)	$ (0.07)	$ (0.16)	$ 1.60
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.02)
Net loss	$ (0.42)	$ (0.07)	$ (0.16)	$ 1.58
Common Stock Prices:				
High	$ 1.47	$ 0.97	$ 1.50	$ 2.09
Low	0.70	0.34	0.51	1.04

Shareholder Return Performance Presentation

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

In accordance with SEC rules, set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on our Common Stock against the total return of the Standard & Poor's Small Cap 600 Stock Index, plus both the Dow Jones US Furnishings Index and the Dow Jones US Building Materials & Fixtures Index, in each case for the five year period ended December 31, 2020. The comparison assumes that $100.00 was invested on December 31, 2015, in our Common Stock, the S&P Small Cap 600 Index, and each of the two Peer Groups, and assumes the reinvestment of dividends.



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

Item 6. SELECTED FINANCIAL DATA

The Dixie Group, Inc.

Historical Summary

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

FISCAL YEARS	2020 (1)	2019 (2)	2018 (3)	2017 (4)	2016 (5)
OPERATIONS					
Net sales	$ 315,939	$ 374,582	$ 405,033	$ 412,462	$ 397,453
Gross profit	76,456	86,205	86,991	101,213	95,425
Operating income (loss)	(2,919)	21,349	(15,816)	3,947	(3,436)
Income (loss) from continuing operations before taxes	(9,400)	14,962	(22,310)	(1,813)	(8,829)
Income tax provision (benefit)	(312)	(657)	(831)	7,509	(3,622)
Income (loss) from continuing operations	(9,088)	15,619	(21,479)	(9,322)	(5,207)
Depreciation and amortization	10,746	11,440	12,653	12,947	13,515
Dividends	—	—	—	—	—
Capital expenditures	1,760	4,235	4,052	12,724	4,904
Assets purchased under capital leases & notes, including deposits utilized and accrued purchases	1,314	240	389	859	427
FINANCIAL POSITION					
Total assets	$ 232,868	$ 247,659	$ 252,778	$ 283,907	268,987*
Working capital	78,869	88,237	96,534	105,113	81,727
Long-term debt	72,041	81,667	120,251	123,446	98,256
Stockholders' equity	63,791	73,211	58,984	79,263	87,122
PER SHARE					
Income (loss) from continuing operations:					
Basic	$ (0.59)	$ 0.96	$ (1.36)	$ (0.59)	$ (0.33)
Diluted	(0.59)	0.95	(1.36)	(0.59)	(0.33)
Dividends:					
Common Stock	—	—	—	—	—
Class B Common Stock	—	—	—	—	—
Book value	4.13	4.62	3.60	4.91	5.40
GENERAL					
Weighted-average common shares outstanding:					
Basic	15,315,713	15,821,574	15,763,890	15,698,915	15,638,112
Diluted	15,315,713	15,925,822	15,763,890	15,698,915	15,638,112
Number of shareholders (7)	3,900	2,800	2,800	2,800	3,000
Number of associates	1,441	1,526	1,646	1,930	1,746

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

(1) Includes expenses of $3,752 for facility consolidation and severance expenses in 2020.
(2) 2019 results include expenses of $5,019 for facility consolidation and severance expenses and a gain of $25,121 for the sale of the Susan Street facility, see Note 20.
(3) 2018 results include expenses of $3,167 for facility consolidation and severance expenses and $6,709 for the impairment of tangible and intangible assets.
(4) Includes expenses of $636 for facility consolidation and severance expenses in 2017.
(5) Includes expenses of $1,456, or $859 net of tax, for facility consolidation expenses in 2016.
(6) The approximate number of record holders of our Common Stock for 2016 through 2020 includes Management's estimate of shareholders who held our Common Stock in nominee names as follows: 2016 - 2,600 shareholders; 2017 - 2,400 shareholders; 2018 - 2,400 shareholders; 2019 - 2,400 shareholders; 2020 - 3,200 shareholders.

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

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

OVERVIEW

Our business consists principally of marketing, manufacturing and selling floorcovering products to high-end residential and commercial customers through our various sales forces and brands. We focus 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 AtlasMasland 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 the year. 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 nonessential 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 pursued and closed on financing initiatives that increased our borrowing availability and strengthened our financial position.

The recovery of sales in the residential markets, that began in the second quarter of 2020, continued through the end of the year. 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 recognized a credit of $2.1 million in the fourth quarter of 2020 related to certain employee retention credits as defined in the CARES Act. Despite the improvement in sales activity, as cases of COVID-19 continue to be reported and as government authorities consider necessary safety measures, we cannot be certain as to any additional future impact of the COVID-19 crisis.

During 2020, our net sales decreased 15.7% compared with net sales in 2019. Sales of residential products decreased 7.0% in 2020 versus 2019. Residential soft surface sales were down 13.6% in 2020 as compared to 2019, while, we estimate, the industry was down in the mid single digits. Our residential soft surface sales in 2020 were negatively impacted by a change in emphasis to hard surfaces by certain mass merchant customers. Residential hard surface sales increased by 77% in 2020 relative to sales in 2019. Despite recent slow activity, we anticipate the residential housing market will have steady but moderate growth over the next several years. Commercial product sales decreased 37.0% during 2020. Soft surface sales of commercial products were down 37.5%, while, we believe, the industry was down in the low twenty percentile. Commercial markets did not recover from the impact of the pandemic as many customers in the hospitality and restaurant industries continue to be severely impacted. Customers in corporate environments where many employees are working remotely have delayed projects. We anticipate the commercial market to remain relatively flat in 2021.

For the year ended December 26, 2020, we had an operating loss of $2.9 million compared with an operating income of $21.3 million in 2019. In 2019, we recorded a $25.1 million gain on the sale of our building in Santa Ana, California. Without this gain on sale we had an operating loss of $3.8 million. Gross profit as a percent of sales improved year over year despite the reduced sales volume in 2020 and the resulting under absorbed manufacturing costs. This was primarily the result of operating improvements related to the Profit Improvement Plan (the "Plan") that was fully implemented in 2019. We also reduced plant running schedules in 2020 to reduce inventories to a more appropriate level and implemented temporary and permanent cost reductions in response to the COVID 19 pandemic and the resulting reduction in volume.

RESULTS OF OPERATIONS

Fiscal Year Ended December 26, 2020 Compared with Fiscal Year Ended December 28, 2019

	Fiscal Year Ended (amounts in thousands)					
	December 26, 2020	% of Net Sales	December 28, 2019	% of Net Sales	Increase (Decrease)	% Change
Net sales	$ 315,939	100.0 %	$ 374,582	100.0 %	$ (58,643)	(15.7)%
Cost of sales	239,483	75.8 %	288,377	77.0 %	(48,894)	(17.0)%
Gross profit	76,456	24.2 %	86,205	23.0 %	(9,749)	(11.3)%
Selling and administrative expenses	75,731	24.0 %	83,825	22.4 %	(8,094)	(9.7)%
Other operating (income) expense, net	(108)	— %	(23,988)	(6.4)%	23,880	(99.5)%
Facility consolidation and severance expenses, net	3,752	1.2 %	5,019	1.3 %	(1,267)	(25.2)%
Operating income (loss)	(2,919)	(1.0)%	21,349	5.7 %	(24,268)	(113.7)%
Interest expense	5,803	1.8 %	6,444	1.7 %	(641)	(9.9)%
Other (income) expense, net	678	0.2 %	(57)	— %	735	(1,289.5)%
Income (loss) before taxes	(9,400)	(3.0)%	14,962	4.0 %	(24,362)	(162.8)%
Income tax benefit	(312)	(0.1)%	(657)	(0.2)%	345	(52.5)%
Income (loss) from continuing operations	(9,088)	(2.9)%	15,619	4.2 %	(24,707)	(158.2)%
Loss from discontinued operations	(120)	— %	(348)	(0.1)%	228	(65.5)%
Net income (loss)	$ (9,208)	(2.9)%	$ 15,271	4.1 %	$ (24,479)	(160.3)%

Net Sales. Net sales for the year ended December 26, 2020 were $315.9 million compared with $374.6 in the year-earlier period, a decrease of 15.7% for the year-over-year comparison. Sales of residential floorcovering products were down 7.0% and sales of commercial floorcovering products decreased 37.0%. Net sales in our residential markets have begun to recover from the COVID-19 pandemic but our commercial markets continue to experience reduced sales activity.

Gross Profit. Gross profit, as a percentage of net sales, increased 1.2 percentage points in 2020 compared with 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 after the first quarter and costs related to the COVID-19 Recovery Plan.

Selling and Administrative Expenses. Selling and administrative expenses were $75.7 million in 2020 compared with $83.8 million in 2019, but higher as a percentage of the lower sales volume. Selling and administrative expenses as a percent of the net sales for 2020 and 2019 were 24.0% and 22.4% respectively. The reduction in expenses for selling and administrative expenses in 2020 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) expense was income of $108 thousand in 2020 compared with income of $24.0 million in 2019. In 2020, the income was primarily the result of net gains on currency exchange rate adjustments. In 2019, we recognized a $25.1 million gain on the sale of our facility in Santa Ana, California.

Facility Consolidation and Severance Expenses, Net. Facility consolidation expenses were $3.8 million in 2020 compared with $5.0 million in the year-earlier period. The facility consolidation expenses incurred during 2020 were primarily related to our COVID-19 Continuity Plan including severance and financing related charges, as well as residual costs from our Profit Improvement Plan including adjustments for workers' compensation related charges. The expenses in 2019 were primarily related to the Profit Improvement Plan.

Operating Income (Loss). The operating loss in 2020 was $2.9 million compared to income of $21.3 million in 2019. The 2019 income was heavily driven by the gain of $25.1 million on the sale of our Santa Ana facility. Adjusted for this transaction, the 2019 operating loss would have been $3.8 million. The 2020 operating loss was the result of lower sales volume and the related under absorbed fixed costs as well as $3.8 million in restructuring expenses primarily related to COVID recovery. These negative impacts were mitigated by higher gross profit margins as a result of cost reductions related to our Profit Improvement Plan from prior years and our current year COVID recovery initiatives.

Interest Expense. Interest expense of $5.8 million in 2020 was a reduction of $641 thousand from $6.4 million incurred in 2019. The reduction is the result of generally lower interest rates and lower levels of debt in 2020 offset by financing costs and adjustments to other comprehensive income as a result of financing initiatives in the fourth quarter and elimination of related swap agreements.

Income Tax Benefit. Our effective income tax rate was a benefit of 3.32% in 2020. The benefit relates to certain federal and state credits and also includes a benefit for the termination of certain derivative contracts for which there existed stranded tax effects within other comprehensive income (loss). In 2020, we increased our valuation allowance by $2.1 million related to our net deferred tax asset and specific state net operating loss and state tax credit carryforwards.

Our effective income tax rate was a benefit of 4.39% in 2019. The benefit relates to certain federal and state credits and also includes a benefit for the reduction of certain indefinite lived assets not covered by our valuation allowance. In 2019, we decreased our valuation allowance by $3.7 million related to our net deferred tax asset and specific state net operating loss and state credit carryforwards.

Net (Income) Loss. Continuing operations reflected a loss of $9.1 million, or $0.59 per diluted share in 2020, compared with income from continuing operations of $15.6 million, or $0.95 per diluted share in 2019. Our discontinued operations reflected a loss of $120 thousand, or $0.01 per diluted share in 2020 compared with a loss of $348 thousand, or $0.02 per diluted share in 2019. Including discontinued operations, we had a net loss of $9.2 million, or $0.60 per diluted share, in 2020 compared with a net income of $15.3 million, or $0.93 per diluted share, in 2019.

Fiscal Year Ended December 28, 2019 Compared with Fiscal Year Ended December 29, 2018

	Fiscal Year Ended (amounts in thousands)					
	December 28, 2019	% of Net Sales	December 29, 2018	% of Net Sales	Increase (Decrease)	% Change
Net sales	$ 374,582	100.0 %	$ 405,033	100.0 %	$ (30,451)	(7.5)%
Cost of sales	288,377	77.0 %	318,042	78.5 %	(29,665)	(9.3)%
Gross profit	86,205	23.0 %	86,991	21.5 %	(786)	(0.9)%
Selling and administrative expenses	83,825	22.4 %	92,473	22.8 %	(8,648)	(9.4)%
Other operating (income) expense, net	(23,988)	(6.4)%	458	0.1 %	(24,446)	(5,337.6)%
Facility consolidation and severance expenses, net	5,019	1.3 %	3,167	0.8 %	1,852	58.5 %
Impairment of assets	—	— %	6,709	1.7 %	(6,709)	— %
Operating income (loss)	21,349	5.7 %	(15,816)	(3.9)%	37,165	(235.0)%
Interest expense	6,444	1.7 %	6,491	1.6 %	(47)	(0.7)%
Other (income) expense, net	(57)	— %	3	— %	(60)	(2,000.0)%
Income (loss) before taxes	14,962	4.0 %	(22,310)	(5.5)%	37,272	(167.1)%
Income tax provision (benefit)	(657)	(0.2)%	(831)	(0.2)%	174	(20.9)%
Income (loss) from continuing operations	15,619	4.2 %	(21,479)	(5.3)%	37,098	(172.7)%
Income (Loss) from discontinued operations	(348)	(0.1)%	95	— %	(443)	(466.3)%
Net income (loss)	$ 15,271	4.1 %	$ (21,384)	(5.3)%	$ 36,655	(171.4)%

Net Sales. Net sales for the year ended December 28, 2019 were $374.6 million compared with $405.0 million in the year-earlier period, a decrease of 7.5% for the year-over-year comparison. Sales of residential floorcovering products were down 7.2% primarily due to our mass merchant customers shifting their emphasis from soft surface to hard surface floor coverings. Sales of commercial floorcovering products decreased 9.4%. The decrease in commercial net sales was due to distractions caused by the restructuring of our commercial operations and sales force during the first half of 2019.

Gross Profit. Gross profit, as a percentage of net sales, increased 1.5 percentage points in 2019 compared with 2018. Gross profit in 2019 was favorably impacted by savings from our Profit Improvement Plan. Gross profit in 2018 was negatively impacted by inventory write downs related to the Profit Improvement Plan.

Selling and Administrative Expenses. Selling and administrative expenses were $83.8 million in 2019 compared with $92.5 million in 2018, a decrease of .4% as a percentage of sales. The improved results in the 2019 selling expenses are the result of changes made as part of our Profit Improvement Plan.

Other Operating (Income) Expense, Net. Net other operating (income) expense was income of $24.0 million in 2019 compared with expense of $458 thousand in 2018. In 2019 we recognized a gain of $25.1 million for the sale of our Susan Street manufacturing facility in Santa Ana, California.

Facility Consolidation and Severance Expenses, Net. Facility consolidation expenses were $5.0 million in 2019 compared with $3.2 million in the year-earlier period. Facility consolidation expenses increased in 2019 as we completed our Profit

Improvement Plan, announced in 2017, which included the consolidation of our two commercial brands, consolidation of commercial manufacturing operations and sales forces, and an overall review of corporate wide operations and functions. As a result of this plan, we incurred expenses of $5.0 million during 2019 primarily related to facility consolidation expenses and severance costs.

Asset Impairments. There were no expenses related to asset impairments recorded in 2019. The asset impairments recorded in 2018 were $6.7 million. The asset impairments incurred in 2018 included the impairment of fixed assets as part of our Profit Improvement Plan ($1.2 million). We also incurred intangible asset impairments ($2.1 million) and goodwill impairment ($3.4 million).

Operating Income (Loss). Operations reflected operating income of $21.3 million in 2019 compared with an operating loss of $15.8 million in 2018. The operating results for 2019 were heavily impacted by the $25.1 million gain on the sale of our building in Santa Ana, California. This gain was partially offset by lower gross profit as a result of lower sales volume and expenses related to the Profit Improvement Plan.

Interest Expense. Interest expense decreased $47 thousand in 2019 as compared to 2018 principally due to lower levels of debt in the last quarter of the year as a result of the sale of our building in Santa Ana, California.

Income Tax Provision (Benefit). Our effective income tax rate was a benefit of 4.39% in 2019. The benefit relates to certain federal and state credits and also includes a benefit for the reduction of certain indefinite lived assets not covered by our valuation allowance. In 2019, we decreased our valuation allowance by $3.7 million related to our net deferred tax asset and specific state net operating loss and state credit carryforwards.

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

Net (Income) Loss. Continuing operations reflected income of $15.6 million, or $.95 per diluted share in 2019, compared with a loss from continuing operations of $21.5 million, or $1.36 per diluted share in 2018. Our discontinued operations reflected a loss of $348 thousand, or $0.02 per diluted share in 2019 compared with income of $95 thousand, or $0.01 per diluted share in 2018. Including discontinued operations, we had a net income of $15.3 million, or $0.96 per diluted share, in 2019 compared with a net loss of $21.4 million, or $1.35 per diluted share, in 2018.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 26, 2020, cash provided by operations was $13.5 million driven by reductions in inventory of $10.1 million and increases in accounts payable and other accrued expenses of $1.4 million. The reduction in inventories was the result of operational efficiencies. The increase in accounts payable and accrued expenses was primarily driven by accruals for raw material purchases in order to replenish inventory to meet the growing demand.

Capital expenditures were eliminated or postponed after the onset of the COVID 19 pandemic. Capital asset acquisitions for the year ended December 26, 2020 were $1.8 million. Depreciation and amortization for the year ended December 26, 2020 were $10.7 million. We expect capital expenditures to be approximately $5.0 million in 2021 while depreciation and amortization is expected to be approximately $10.1 million. Planned capital expenditures in 2021 are primarily for new equipment.

During the year ended December 26, 2020, cash used in financing activities was $10.7 million. We had net payments of $31.3 million on the revolving credit facility. Borrowings on notes payable net of payments increased cash by $23.7 million and finance leases were reduced by payments, net of borrowings, of $2.5 million. The balance in amount of checks outstanding in excess of cash at year end 2020 increased from prior year resulting in a cash inflow of $2.1 million.

During the fourth quarter of 2020, 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 December 26, 2020, availability under the new senior secured facility was $43.3 million. Additionally, the Company entered into two fixed asset loans in the combined principal amount of $25 million.

We believe our operating cash flows, credit availability under our revolving credit facility and other sources of financing are adequate to finance our anticipated liquidity requirements under current operating conditions. 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 10, availability under the new Senior Secured Revolving Credit Facility on December 26, 2020 was $43.3 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.

Debt Facilities

Revolving Credit Facility. During the fourth quarter, we entered into a $75.0 million 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 revolving credit facility matures on October 30, 2025.

At our election, advances of the revolving credit facility bear interest at annual rates equal to either (a) LIBOR for 1, 2, or 3 month periods, as defined with a floor or 0.75% or published LIBOR, plus an applicable margin ranging between 1.50% and 2.00%, or (b) the higher of the prime rate plus an applicable margin ranging between 0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases. As of December 26, 2020, the applicable margin on our revolving credit facility was 1.75%. We pay an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.25% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 2.68% at December 26, 2020 and 4.79% at December 28, 2019.

The agreement is subject to customary terms and conditions and annual administrative fees with pricing varying on excess availability and a fixed charge coverage ratio. The agreement is also subject to certain compliance, affirmative, and financial covenants. We are 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 thirty consecutive days. As of December 26, 2020, the unused borrowing availability under the revolving credit facility was $43,344.

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

Term Loans. Effective October 28, 2020, we entered into a $10.0 million 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 our Atmore, Alabama and Roanoke, Alabama facilities and requires certain compliance, affirmative, and financial covenants.

Effective October 29, 2020, we entered into a $15.0 million 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 our 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.

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

Notes Payable - Equipment and Other. Our equipment financing notes have terms ranging from 1 to 7 years, bear interest ranging from 1.60% to 7.00% and are due in monthly installments through their maturity dates. Our equipment financing notes are secured by the specific equipment financed and do not contain any financial covenants.

Finance Lease - Buildings. On January 14, 2019, we 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, we sold our 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, we and the Purchaser entered into a twenty-year lease agreement (the “Lease Agreement”), whereby we will lease back the Property at an annual rental rate of $977, subject to annual rent increases of 1.25%. Under the Lease Agreement, we have 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 as the present value of lease payments exceeded 90% of its fair value. We recorded a liability for the amounts received, will continue to depreciate the asset, and have 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, we 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. Our finance lease obligations have terms ranging from 3 to 6 years and are due in monthly or quarterly installments through their maturity dates. Our finance lease obligations are secured by the specific equipment leased. (See Note 11 to our Consolidated Financial Statements).

Contractual Obligations

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

	Payments Due By Period (dollars in millions)						
	2021	2022	2023	2024	2025	Thereafter	Total
Debt	$ 3.3	$ 1.5	$ 1.3	$ 6.6	$ 30.5	$ 19.9	$ 63.1
Interest - debt (1)	1.4	1.3	1.2	1.1	1.1	6.7	12.8
Finance leases	2.8	1.5	2.3	0.3	0.4	9.6	16.9
Interest - finance leases	1.5	1.3	1.1	0.7	0.7	5.3	10.6
Operating leases	3.3	3.0	2.2	2.0	2.2	10.0	22.7
Interest - operating leases	1.5	1.2	1.1	0.9	0.8	1.5	7.0
Purchase commitments	0.6	—	—	—	—	—	0.6
Totals	$ 14.4	$ 9.8	$ 9.2	$ 11.6	$ 35.7	$ 53.0	$ 133.7

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

Stock-Based Awards

We recognize compensation expense related to share-based stock awards based on the fair value of the equity instrument over the period of vesting for the individual stock awards that were granted. At December 26, 2020, the total unrecognized compensation expense related to unvested restricted stock awards was $705 thousand with a weighted-average vesting period of 10.3 years. At December 26, 2020, the total unrecognized compensation expense related to Directors' Stock Performance Units was $5 thousand with a weighted-average vesting period of 0.3 years. At December 26, 2020, there was no unrecognized compensation expense related to unvested stock options.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements at December 26, 2020 or December 28, 2019.

Income Tax Considerations

In the tax year ended December 26, 2020 we increased our valuation allowances by $2.1 million related to our net deferred tax asset and specific state net operating loss and state credit carryforwards.

During 2021 and 2022, we do not anticipate any cash outlays for income taxes to exceed $500 thousand. This is due to tax loss carryforwards and tax credit carryforwards that will be used to partially offset taxable income. At December 26, 2020, we were in a net deferred tax liability position of $91 thousand.

Discontinued Operations - Environmental Contingencies

We have reserves for environmental obligations established at five previously owned sites that were associated with our discontinued textile businesses. We have a reserve of $1.9 million for environmental liabilities at these sites as of December 26, 2020. The liability established represents our best estimate of loss and is the reasonable amount to which there is any meaningful degree of certainty given the periods of estimated remediation and the dollars applicable to such remediation for those periods. The actual timeline to remediate, and thus, the ultimate cost to complete such remediation through these remediation efforts, may differ significantly from our estimates. Pre-tax cost for environmental remediation obligations classified as discontinued operations were primarily a result of specific events requiring action and additional expense in each period.

Fair Value of Financial Instruments

At December 26, 2020, we had no assets or liabilities measured at fair value that fall under a level 3 classification in the hierarchy (those subject to significant management judgment or estimation).

Certain Related Party Transactions

We were a party to a 5-year lease with the seller of Atlas Carpet Mills, Inc. to lease three manufacturing facilities as part of the acquisition in 2014. The lessor was controlled by an associate of our Company. Rent paid to the lessor during 2019 and 2018 was $497 thousand and $1.0 million, respectively. The lease was based on current market values for similar facilities. These leases terminated as of September, 2019.

We purchase a portion of our product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of our Company. An affiliate of Mr. Shaw holds approximately 7.7% of our Common Stock, which represents approximately 3.5% of the total vote of all classes of our Common Stock. Engineered Floors is one of several suppliers of such materials to us. Total purchases from Engineered Floors for 2020, 2019, and 2018 were approximately $4.5 million, $5.9 million and $8.2 million, respectively; or approximately 1.9%, 2.1%, and 2.6% of our cost of goods sold in 2020, 2019, and 2018, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. We have no contractual commitments with Mr. Shaw associated with our business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by our board of directors.

We are a party to a ten-year lease with the Rothman Family Partnership to lease a facility as part of the Robertex acquisition in 2013. The controlling principal of the lessor was an associate of our Company until June 30, 2018. Rent paid to the lessor during 2020, 2019, and 2018 was $289 thousand, $284 thousand, and $278 thousand, respectively. The lease was based on current market values for similar facilities.

Recent Accounting Pronouncements

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

Critical Accounting Policies

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

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

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

- **Revenue recognition.** We derive our revenues primarily from the sale of floorcovering products and processing services. Revenues are recognized when control of these products or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those products and services. Sales, value add, and other taxes we collect 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. We do not have any significant financing components as payment is received at or shortly after the point of sale. We determine revenue recognition through the following steps:

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

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

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

- **Customer claims and product warranties.** We generally provide product warranties related to manufacturing defects and specific performance standards for our products for a period of up to two years. We accrue 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 Statements of Operations and the product warranty reserve is included in accrued expenses in the Consolidated Balance Sheets. We calculate our accrual using the portfolio approach based upon historical experience and known trends. We do not provide an additional service-type warranty.

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

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

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

- **Income taxes.** Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available in the jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in a future period. We evaluate the recoverability of these future tax benefits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates, including business forecasts and other projections of financial results over an extended period of time. In the event that we are not able to realize all or a portion of our deferred tax assets in the future, a valuation allowance is provided. We recognize such amounts through a charge to income in the period in which that determination is made or when tax law changes are enacted. We had valuation allowances of $15.4 million at December 26, 2020 and $13.3 million at December 28, 2019. At December 26, 2020, we were in a net deferred tax liability position of $91 thousand. For further information regarding our valuation allowances, see Note 15 to the Consolidated Financial Statements.

- **Loss contingencies.** We routinely assess our exposure related to legal matters, environmental matters, product liabilities or any other claims against our assets that may arise in the normal course of business. If we determine that it is probable a loss has been incurred, the amount of the loss, or an amount within the range of loss, that can be reasonably estimated will be recorded.

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

Our earnings, cash flows and financial position are exposed to market risks relating to interest rates, among other factors. It is our policy to minimize our exposure to adverse changes in interest rates and manage interest rate risks inherent in funding our Company with debt. We address this financial exposure through a risk management program that includes maintaining a mix of fixed and floating rate debt and the use of interest rate swap agreements (See Note 13 to the Consolidated Financial Statements).

At December 26, 2020, $53,322, or approximately 68% of our total debt, was subject to floating interest rates. A one-hundred basis point fluctuation in the variable interest rates applicable to this floating rate debt would have an annual pre-tax impact of approximately $395. Included in the $53,322, is the amount outstanding for the term loans of $24,970. Both loans are currently set to bear interest of 5% for five years. Every five years, these rates will be reset to reflect the then current 5-year treasury rate plus a margin. See Note 10 for further discussion of these loans.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13(a)-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of December 26, 2020, the date of the financial statements included in this Form 10-K (the “Evaluation Date”). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

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

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

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

Item 9B. OTHER INFORMATION

None.

PART III.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The sections entitled "Information about Nominees for Director" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 5, 2021 are incorporated herein by reference. Information regarding the executive officers of the registrant is presented in PART I of this report.

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

Audit Committee Financial Expert

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

Audit Committee

We have a standing audit committee. At December 26, 2020, members of our audit committee are Michael L. Owens, Chairman, William F. Blue, Jr., Charles E. Brock, Lowry F. Kline, and Hilda S. Murray.

Item 11. EXECUTIVE COMPENSATION

The sections entitled "Compensation Discussion and Analysis", "Executive Compensation Information" and "Director Compensation" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 5, 2021 are incorporated herein by reference.

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

The section entitled "Principal Shareholders", as well as the beneficial ownership table (and accompanying notes), in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 5, 2021 are incorporated herein by reference.

Equity Compensation Plan Information as of December 26, 2020

The following table sets forth information as to our equity compensation plans as of the end of the 2020 fiscal year:

Plan Category	(a) Number of securities to be issued upon exercise of the outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity Compensation Plans approved by security holders	281,320 (1)	$ 4.35 (2)	609,453

(1) Includes the options to purchase 151,000 shares of Common Stock under our 2016 Incentive Compensation Plan and 130,320 Performance Units issued under the 2016 Incentive Compensation Plan, each unit being equivalent to one share of Common Stock. Does not include shares of Common Stock issued but not vested pursuant to outstanding restricted stock awards.

(2) Includes the aggregate weighted-average of (i) the exercise price per share for outstanding options to purchase 151,000 shares of Common Stock under our 2016 Incentive Compensation Plan and (ii) the price per share of the Common Stock on the grant date for each of 130,320 Performance Units issued under the 2016 Incentive Compensation Plan (each unit equivalent to one share of Common Stock).

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

The sections entitled "Certain Transactions Between the Company and Directors and Officers" and "Independent Directors" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 5, 2021 are incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The section entitled "Audit Fees Discussion" in the Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held May 5, 2021 is incorporated herein by reference.

PART IV.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements - The response to this portion of Item 15 is submitted as a separate section of this report.
(2) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report.
(3) Exhibits - Please refer to the Exhibit Index which is attached hereto.

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

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

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

Date: March 10, 2021

The Dixie Group, Inc.

/s/ DANIEL K. FRIERSON

By: Daniel K. Frierson

Chairman of the Board
and Chief Executive Officer

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

Signature	Capacity	Date
/s/ DANIEL K. FRIERSON Daniel K. Frierson	Chairman of the Board, Director and Chief Executive Officer	March 10, 2021
/s/ ALLEN L. DANZEY Allen L. Danzey	Vice President, Chief Financial Officer	March 10, 2021
/s/ D. KENNEDY FRIERSON, JR. D. Kennedy Frierson, Jr.	Vice President, Chief Operating Officer and Director	March 10, 2021
/s/ WILLIAM F. BLUE, JR. William F. Blue, Jr.	Director	March 10, 2021
/s/ CHARLES E. BROCK Charles E. Brock	Director	March 10, 2021
/s/ LOWRY F. KLINE Lowry F. Kline	Director	March 10, 2021
/s/ HILDA S. MURRAY Hilda S. Murray	Director	March 10, 2021
/s/ MICHAEL L. OWENS Michael L. Owens	Director	March 10, 2021

ANNUAL REPORT ON FORM 10-K

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

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 26, 2020

THE DIXIE GROUP, INC.

DALTON, GEORGIA

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

THE DIXIE GROUP, INC. AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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

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

Management's Report on Internal Control Over Financial Reporting

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

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

Management, including our principal executive officer and principal financial officer, has used the criteria set forth in the report entitled *"Internal Control - Integrated Framework"* published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) to evaluate the effectiveness of its internal control over financial reporting. Management has concluded that its internal control over financial reporting was effective as of December 26, 2020, based on those criteria.

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

/s/ Allen L. Danzey
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors of The Dixie Group, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Dixie Group, Inc. (the "Company") as of December 26, 2020 and December 28, 2019, the related consolidated statements of operations, comprehensive income (loss), cash flows and stockholders' equity for each of the three years ended December 26, 2020, and the related notes and schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 26, 2020 and December 28, 2019, and the results of its operations and its cash flows for each of the three years ended December 26, 2020, in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP").

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Critical Audit Matter – LIFO Reserve

As disclosed in Notes 1 and 5 to the consolidated financial statements, the Company recognizes its inventory using the last-in, first-out ("LIFO") method, which requires a reserve to adjust the historical cost carrying value to the lower of LIFO or market. As of December 26, 2020, the LIFO reserve was approximately $18,511,000. There is inherent complexity in the accounting for the LIFO reserve including complex calculations based on inventory pools, changes in those pools, and lower of cost or market adjustments.

We identified the LIFO reserve as a critical audit matter. The principal considerations for that determination included the complexity of the calculations, the judgment required for market adjustments, and the nature and extent of audit effort required to address the matter.

Our audit procedures to test the appropriateness of the valuation of inventory included, among others:

- We tested whether the underlying data used as key inputs in the Company's LIFO reserve were consistent with gross inventory. This included reconciling the inventory used for the LIFO reserve to the inventory subledger.
- We independently recalculated management's LIFO pool calculation, including pool increases or inventory liquidations.
- We tested the aggregation of the pools used to arrive at the LIFO reserve, and considered whether methodologies were consistently applied, or that changes, if any, were in accordance with U.S. GAAP.
- We tested the completeness of the LIFO reserve by evaluating whether all appropriate inventory items were included in the LIFO reserve calculation and in the appropriate category.
- We tested that the associated lower of cost or market adjustments were in accordance with U.S. GAAP for a sample of inventory items.

/s/ Dixon Hughes Goodman LLP

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

Atlanta, Georgia
March 10, 2021

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

	December 26, 2020	December 28, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,920**	$ 769
Receivables, net	**37,716**	37,138
Inventories, net	**85,399**	95,509
Prepaid expenses	**8,296**	6,179
TOTAL CURRENT ASSETS	**133,331**	139,595
PROPERTY, PLANT AND EQUIPMENT, NET	**57,904**	65,442
OPERATING LEASE RIGHT-OF-USE ASSETS	**22,074**	24,835
OTHER ASSETS	**19,559**	17,787
TOTAL ASSETS	**$ 232,868**	$ 247,659
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 19,058**	$ 16,084
Accrued expenses	**25,965**	25,418
Current portion of long-term debt	**6,116**	6,684
Current portion of operating lease liabilities	**3,323**	3,172
TOTAL CURRENT LIABILITIES	**54,462**	51,358
LONG-TERM DEBT, NET	**72,041**	81,667
OPERATING LEASE LIABILITIES	**19,404**	22,123
OTHER LONG-TERM LIABILITIES	**23,170**	19,300
TOTAL LIABILITIES	**169,077**	174,448
COMMITMENTS AND CONTINGENCIES (See Note 19)		
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 14,557,435 shares for 2020 and 15,025,087 shares for 2019	**43,672**	45,075
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 880,313 shares for 2020 and 836,669 shares for 2019	**2,641**	2,510
Additional paid-in capital	**158,329**	157,547
Accumulated deficit	**(140,321)**	(131,113)
Accumulated other comprehensive income (loss)	**(530)**	(808)
TOTAL STOCKHOLDERS' EQUITY	**63,791**	73,211
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 232,868**	$ 247,659

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	December 26, 2020	December 28, 2019	December 29, 2018
NET SALES	**$ 315,939**	$ 374,582	$ 405,033
Cost of sales	**239,483**	288,377	318,042
GROSS PROFIT	**76,456**	86,205	86,991
Selling and administrative expenses	**75,731**	83,825	92,473
Other operating (income) expense, net	**(108)**	(23,988)	458
Facility consolidation and severance expenses, net	**3,752**	5,019	3,167
Impairment of assets	**—**	—	6,709
OPERATING INCOME (LOSS)	**(2,919)**	21,349	(15,816)
Interest expense	**5,803**	6,444	6,491
Other (income) expense, net	**678**	(57)	3
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	**(9,400)**	14,962	(22,310)
Income tax provision (benefit)	**(312)**	(657)	(831)
INCOME (LOSS) FROM CONTINUING OPERATIONS	**(9,088)**	15,619	(21,479)
Income (loss) from discontinued operations, net of tax	**(120)**	(348)	95
NET INCOME (LOSS)	**$ (9,208)**	$ 15,271	$ (21,384)
BASIC EARNINGS (LOSS) PER SHARE:			
Continuing operations	**$ (0.59)**	$ 0.96	$ (1.36)
Discontinued operations	**(0.01)**	(0.02)	0.01
Net income (loss)	**$ (0.60)**	$ 0.94	$ (1.35)
BASIC SHARES OUTSTANDING	**15,316**	15,822	15,764
DILUTED EARNINGS (LOSS) PER SHARE:			
Continuing operations	**$ (0.59)**	$ 0.95	$ (1.36)
Discontinued operations	**(0.01)**	(0.02)	0.01
Net income (loss)	**$ (0.60)**	$ 0.93	$ (1.35)
DILUTED SHARES OUTSTANDING	**15,316**	15,926	15,764
DIVIDENDS PER SHARE:			
Common Stock	**$ —**	$ —	$ —
Class B Common Stock	**—**	—	—

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	December 26, 2020	December 28, 2019	December 29, 2018
NET INCOME (LOSS)	**$ (9,208)**	$ 15,271	$ (21,384)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized gain (loss) on interest rate swaps	**(1,316)**	(1,109)	531
Income taxes	**—**	—	—
Unrealized gain (loss) on interest rate swaps, net	**(1,316)**	(1,109)	531
Reclassification of loss into earnings from interest rate swaps (1)	**1,967**	454	673
Income taxes	**343**	10	—
Reclassification of loss into earnings from interest rate swaps, net	**1,624**	444	673
Unrecognized net actuarial gain (loss) on postretirement benefit plans	**—**	(6)	18
Income taxes	**—**	—	—
Unrecognized net actuarial gain (loss) on postretirement benefit plans, net	**—**	(6)	18
Reclassification of net actuarial gain into earnings from postretirement benefit plans (2)	**(27)**	(27)	(27)
Income taxes	**—**	—	—
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	**(27)**	(27)	(27)
Reclassification of prior service credits into earnings from postretirement benefit plans (2)	**(3)**	(2)	(4)
Income taxes	**—**	—	—
Reclassification of prior service credits into earnings from postretirement benefit plans, net	**(3)**	(2)	(4)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**278**	(700)	1,191
COMPREHENSIVE INCOME (LOSS)	**$ (8,930)**	$ 14,571	$ (20,193)

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

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	December 26, 2020	December 28, 2019	December 29, 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations	**$ (9,088)**	$ 15,619	$ (21,479)
Income (loss) from discontinued operations	**(120)**	(348)	95
Net income (loss)	**(9,208)**	15,271	(21,384)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**10,746**	11,440	12,653
Benefit for deferred income taxes	**(343)**	(487)	(537)
Net loss (gain) on property, plant and equipment disposals	**41**	(25,281)	(1,047)
Impairment of assets	**—**	—	1,164
Impairment of goodwill and intangibles	**—**	—	5,545
Stock-based compensation (credit) expense	**431**	483	(29)
Bad debt expense	**90**	240	163
Write-off of deferred financing costs	**157**	—	—
Changes in operating assets and liabilities:			
Receivables	**(668)**	5,164	3,775
Inventories	**10,110**	9,686	8,462
Prepaids and other current assets	**(2,117)**	(975)	(535)
Accounts payable and accrued expenses	**1,427**	(3,678)	(4,198)
Other operating assets and liabilities	**2,883**	(176)	1,073
NET CASH PROVIDED BY OPERATING ACTIVITIES	**13,549**	11,687	5,105
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sales of property, plant and equipment	**44**	37,205	1,856
Purchase of property, plant and equipment	**(1,760)**	(4,235)	(4,052)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(1,716)**	32,970	(2,196)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings (payments) on previous revolving credit facility	**(59,693)**	(39,524)	1,512
Net borrowings on revolving credit facility	**28,352**	—	—
Borrowings on notes payable - buildings and other term loans	**25,000**	—	—
Payments on notes payable - buildings and other term loans	**(343)**	(5,475)	(731)
Payments on notes payable related to acquisitions	**—**	—	(791)
Borrowings on notes payable - equipment and other	**1,460**	1,379	3,273
Payments on notes payable - equipment and other	**(2,380)**	(3,375)	(4,260)
Borrowings on finance leases	**2,211**	11,500	—
Payments on finance leases	**(4,756)**	(4,166)	(4,617)
Change in outstanding checks in excess of cash	**2,094**	(3,141)	2,762
Repurchases of Common Stock	**(921)**	(827)	(58)
Payments for debt issuance costs	**(1,706)**	(277)	—
NET CASH USED IN FINANCING ACTIVITIES	**(10,682)**	(43,906)	(2,910)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,151**	751	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**769**	18	19
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 1,920**	$ 769	$ 18
SUPPLEMENTAL CASH FLOW INFORMATION:			
Right-of-use assets obtained in exchange for new finance lease liabilities	**—**	52	—
Equipment purchased under capital leases	**—**	—	223
Equipment purchased under notes payable	**1,314**	—	—
Right-of-use assets obtained in exchange for new operating lease liabilities	**653**	18,167	—
Accrued purchases of equipment	**—**	188	166

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(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 30, 2017	**$ 45,839**	**$ 2,584**	**$ 157,139**	**$ (125,000)**	**$ (1,299)**	**$ 79,263**
Common Stock issued - 39,711 shares	119	—	(119)	—	—	—
Repurchases of Common Stock - 20,226 shares	(61)	—	4	—	—	(57)
Restricted stock grants issued - 307,292 shares	677	245	(922)	—	—	—
Restricted stock grants forfeited - 106,196 shares	(25)	(292)	(621)	—	—	(938)
Class B converted into Common Stock - 6,250 shares	19	(19)	—	—	—	—
Stock-based compensation expense	—	—	909	—	—	909
Net loss	—	—	—	(21,384)	—	(21,384)
Other comprehensive income	—	—	—	—	1,191	1,191
Balance at December 29, 2018	**$ 46,568**	**$ 2,518**	**$ 156,390**	**$ (146,384)**	**$ (108)**	**$ 58,984**
Common Stock issued - 29,001 shares	87	—	(87)	—	—	—
Repurchases of Common Stock - 511,353 shares	(1,535)	—	708	—	—	(827)
Restricted stock grants forfeited - 17,784 shares	(53)	—	42	—	—	(11)
Class B converted into Common Stock - 2,635 shares	8	(8)	—	—	—	—
Stock-based compensation expense	—	—	494	—	—	494
Net income	—	—	—	15,271	—	15,271
Other comprehensive loss	—	—	—	—	(700)	(700)
Balance at December 28, 2019	**$ 45,075**	**$ 2,510**	**$ 157,547**	**$ (131,113)**	**$ (808)**	**$ 73,211**
Repurchases of Common Stock - 555,875 shares	(1,668)	—	747	—	—	(921)
Restricted stock grants issued - 131,867 shares	265	131	(396)	—	—	—
Stock-based compensation expense	—	—	431	—	—	431
Net loss	—	—	—	(9,208)	—	(9,208)
Other comprehensive income	—	—	—	—	278	278
Balance at December 26, 2020	**$ 43,672**	**$ 2,641**	**$ 158,329**	**$ (140,321)**	**$ (530)**	**$ 63,791**

See accompanying notes to the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Company's businesses consist principally of marketing, manufacturing and selling finished carpet, rugs and luxury vinyl flooring in the domestic floorcovering market. The Company sells floorcovering products in both residential and commercial applications. Additionally, the Company provides manufacturing support to its carpet businesses through its separate processing operations.

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

Principles of Consolidation

The Consolidated Financial Statements include the accounts of The Dixie Group, Inc. and its wholly-owned subsidiaries (the "Company"). Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and these differences could be material.

Fiscal Year

The Company ends its fiscal year on the last Saturday of December. All references herein to "2020," "2019," and "2018," mean the fiscal years ended December 26, 2020, December 28, 2019, and December 29, 2018, respectively. All years presented contained 52 weeks.

Reclassifications

The Company reclassified certain amounts in 2019 and 2018 to conform to the 2020 presentation.

Discontinued Operations

The consolidated financial statements separately report discontinued operations and the results of continuing operations (See Note 22).

Cash and Cash Equivalents

Highly liquid investments with original maturities of three months or less when purchased are reported as cash equivalents.

Market Risk

The Company sells carpet to floorcovering retailers, the interior design, architectural and specifier communities and supplies carpet yarn and carpet dyeing and finishing services to certain manufacturers. The Company's customers are located principally throughout the United States. As a percentage of net sales, one customer accounted for approximately 7% in 2020, 11% in 2019 and 13% in 2018. No other customer accounted for more than 10% of net sales in 2020, 2019, or 2018, nor did the Company make a significant amount of sales to foreign countries during 2020, 2019, or 2018.

Credit Risk

The Company grants credit to its customers with defined payment terms, performs ongoing evaluations of the credit worthiness of its customers and generally does not require collateral. Accounts receivable are carried at their outstanding principal amounts, less an anticipated amount for discounts and an allowance for doubtful accounts, which management believes is sufficient to cover potential credit losses based on historical experience and periodic evaluation of the financial condition of the Company's customers. As a percentage of customer's trade accounts receivable, one customer accounted for approximately 20% in 2020, 18% in 2019, and 34% in 2018. Notes receivable are carried at their outstanding principal amounts, less an allowance for doubtful accounts to cover potential credit losses based on the financial condition of borrowers and collateral held by the Company.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out ("LIFO") method, which generally matches current costs of inventory sold with current revenues, for substantially all inventories.

Property, Plant and Equipment

Property, plant and equipment are stated at the lower of cost or impaired value. Provisions for depreciation and amortization of property, plant and equipment have been computed for financial reporting purposes using the straight-line method over the estimated useful lives of the related assets, ranging from 10 to 40 years for buildings and improvements, and 3 to 10 years for machinery and equipment. Costs to repair and maintain the Company's equipment and facilities are expensed as incurred. Such costs typically include expenditures to maintain equipment and facilities in good repair and proper working condition.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when circumstances indicate that the carrying value of an asset may not be fully recoverable. When the carrying value of the asset exceeds the value of its estimated undiscounted future cash flows, an impairment charge is recognized equal to the difference between the asset's carrying value and its fair value. Fair value is estimated using discounted cash flows, prices for similar assets or other valuation techniques.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over the fair value of identified net assets acquired in business combinations. In accordance with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 350, *"Intangibles-Goodwill and Other,"* the Company tests goodwill for impairment annually in the fourth quarter of each year or more frequently if events or circumstances indicate that the carrying value of goodwill associated with a reporting unit may not be fully recoverable. The goodwill impairment tests are based on determining the fair value of the specified reporting units based on management judgments and assumptions using the discounted cash flows and comparable company market valuation approaches. The Company has identified its reporting unit as its floorcovering business for the purposes of allocating goodwill and assessing impairments. The valuation approaches are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about sales growth rates, operating margins, the weighted average cost of capital ("WACC") and comparable company market multiples. When developing these key judgments and assumptions, the Company considers economic, operational and market conditions that could impact the fair value of the reporting unit. However, estimates are inherently uncertain and represent only management's reasonable expectations regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. Should a significant or prolonged deterioration in economic conditions occur or a decline in comparable company market multiples, then key judgments and assumptions could be impacted.

In the goodwill assessment process, the Company compares the carrying value of a reporting unit, including goodwill, to the fair value of the reporting unit to identify potential goodwill impairments. The Company estimates the fair value of the reporting unit by using both a discounted cash flow and comparable company market valuation approach. If an impairment is indicated in the assessment, the impairment would be measured as the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill (See Note 7).

Identifiable intangible assets with finite lives are generally amortized on a straight-line basis over their respective lives, which range from 10 to 20 years (See Note 7).

Self-Insured Benefit Programs

The Company records liabilities to reflect an estimate of the ultimate cost of claims related to its self-insured medical and dental benefits and workers' compensation. The amounts of such liabilities are based on an analysis of the Company's historical experience for each type of claim.

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the future tax consequences of the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company evaluates the recoverability of these future tax benefits by assessing the adequacy of future expected taxable income from all sources. In the event that the Company is not able to realize all or a portion of the deferred tax assets in the future, a valuation allowance is provided. The Company recognizes such amounts through a charge to income in the period in which that determination is made or when tax law changes are enacted. The Company accounts for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions, if any, in income tax expense.

Derivative Financial Instruments

The Company does not hold speculative financial instruments, nor does it hold or issue financial instruments for trading purposes. The Company uses derivative instruments, currently interest rate swaps, to minimize the effects of interest rate volatility.

The Company recognizes all derivatives at fair value. Derivatives that are designated as cash flow hedges are linked to specific liabilities on the Company's balance sheet. The Company assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. When it is determined that a derivative is not highly effective or the derivative expires, is sold, terminated, or exercised, the Company discontinues hedge accounting for that specific hedge instrument. Changes in the fair value of effective cash flow hedges are deferred in accumulated other comprehensive income (loss) ("AOCIL") and reclassified to earnings in the same periods during which the hedge transaction affects earnings. Changes in the fair value of derivatives that are not effective cash flow hedges are recognized in results of operations.

Treasury Stock

The Company classifies treasury stock as a reduction to Common Stock for the par value of such shares acquired and the difference between the par value and the price paid for each share recorded either entirely to retained earnings or to additional paid-in-capital for periods in which the Company does not have retained earnings. This presentation reflects the repurchased shares as authorized but unissued as prescribed by state statute.

Revenue Recognition

The Company derives its revenues primarily from the sale of floorcovering products and processing services. Revenues are recognized when control of these products or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and services. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The Company does not have any significant financing components as payment is received at or shortly after the point of sale. The Company determined revenue recognition through the following steps:

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

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 estimated based upon historical experience and known trends.

Advertising Costs

The Company engages in promotional and advertising programs. Expenses relating to these programs are charged to results of operations during the period of the related benefits. These arrangements do not require significant estimates of costs. Costs related to cooperative advertising programs are normally recorded as selling and administrative expenses when the Company can reasonably identify the benefit associated with the program and can reasonably estimate that the fair value of the benefit is equal to or greater than its cost. The amount of advertising and promotion expenses included in selling and administrative expenses was not significant for the years 2020, 2019, or 2018.

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 Statements of Operations and the product warranty reserve is included in accrued expenses in the Consolidated Balance Sheets. The Company calculates its accrual using the portfolio approach based upon historical experience and known trends (See Note 9). The Company does not provide an additional service-type warranty.

Cost of Sales

Cost of sales includes all costs related to manufacturing the Company's products, including purchasing and receiving costs, inspection costs, warehousing costs, freight costs, internal transfer costs or other costs of the Company's distribution network.

Selling and Administrative Expenses

Selling and administrative expenses include all costs, not included in cost of sales, related to the sale and marketing of the Company's products and general administration of the Company's business.

Operating Leases

The Company determines if an arrangement is an operating lease or a financing lease at inception. A lease exists if the Company obtains substantially all of the economic benefits of, and has the right to control the use of, an asset for a period of time. Right-of-use assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease agreement. Lease assets and obligations are recognized at the lease commencement date based on the present value of lease payments over the term of the lease. Right-of-use assets may also be adjusted to reflect any prepayments made or any incentive payments received. Generally, the Company's leases do not provide a readily determinable implicit interest rate, therefore, the Company uses its incremental borrowing rate, which is based on information available at the lease commencement date, to determine the present value of lease payments.

The Company has operating leases primarily for real estate and equipment used in manufacturing. Operating lease expense is recognized in continuing operations on a straight-line basis over the lease term within cost of sales and selling and administrative expenses. Financing lease expense is comprised of both interest expense, which is recognized using the effective interest method, and amortization of the right-of-use assets. These expenses are presented consistently with the presentation of other interest expense and amortization or depreciation of similar assets. In determining lease asset values, the Company considers fixed and variable payment terms, prepayments, incentives, and options to extend, terminate or purchase. Renewal, termination, or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised.

Stock-Based Compensation

The Company recognizes compensation expense relating to stock-based payments based on the fair value of the equity or liability instrument issued. Restricted stock grants with pro-rata vesting are expensed using the straight-line method. (Terms of the Company's awards are specified in Note 17). The Company accounts for forfeitures when they actually occur.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted in Fiscal 2020

In August 2018, the FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.*" 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 remove, modify, and add certain disclosure requirements within Topic 820. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain disclosure amendments are to be applied prospectively for only the most recent interim or annual period presented, while other amendments are to be applied retrospectively to all periods presented. The adoption of this ASU did not have a significant impact on the consolidated financial statements.

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 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 financial statements.

In December 2019, the FASB issued ASU No. 2019-12, "*Income Taxes (ASC 740): Simplifying the Accounting for Income Taxes.*" The standard eliminates the need for an organization to analyze whether the following apply in a given period: (1) the exception to the incremental approach for intraperiod tax allocation; (2) the exceptions to accounting for basis differences when there are ownership changes in foreign investments; and (3) the exception in interim periods income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also is designed to improve financial statement preparers' application of income tax-related guidance and simplify GAAP for (1) franchise taxes that are partially based on income, (2) transactions with a government that result in a step-up in the tax basis of goodwill, (3) separate financial statements of legal entities that are not subject to tax, (4) enacted changes in tax laws in interim periods and (5) certain income tax accounting for employee stock ownership plans and affordable housing projects. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company does not expect adoption to have a material impact on its financial statements.

(amounts in thousands, except per share data)

NOTE 3 - REVENUE

Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Company's revenue by end-user markets for the years ended December 26, 2020, December 28, 2019, and December 29, 2018:

	2020	2019	2018
Residential floorcovering products	**$ 249,388**	$ 268,186	$ 289,129
Commercial floorcovering products	**65,070**	103,286	113,971
Other services	**1,481**	3,110	1,933
Total net sales	**$ 315,939**	$ 374,582	$ 405,033

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 and architects.

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

Contract Balances

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 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. The activity in the advanced deposits for the year ended December 26, 2020, December 28, 2019, and December 29, 2018 is as follows:

	2020	2019	2018
Beginning contract liability	**$ 4,685**	$ 6,013	$ 5,717
Revenue recognized from contract liabilities included in the beginning balance	**(4,404)**	(5,873)	(5,717)
Increases due to cash received, net of amounts recognized in revenue during the period	**2,859**	4,545	6,013
Ending contract liability	**$ 3,140**	$ 4,685	$ 6,013

NOTE 4 - RECEIVABLES, NET

Receivables are summarized as follows:

	2020	2019
Customers, trade	**$ 36,735**	$ 34,285
Other receivables	**1,125**	3,115
Gross receivables	**37,860**	37,400
Less: allowance for doubtful accounts	**(144)**	(262)
Receivables, net	**$ 37,716**	$ 37,138

Bad debt expense was $90 in 2020, $240 in 2019, and $163 in 2018.

(amounts in thousands, except per share data)

NOTE 5 - INVENTORIES, NET

Inventories are summarized as follows:

	2020	2019
Raw materials	**$ 31,167**	$ 32,377
Work-in-process	**13,305**	18,642
Finished goods	**59,271**	64,978
Supplies and other	**167**	260
LIFO reserve	**(18,511)**	(20,748)
Inventories, net	**$ 85,399**	$ 95,509

Reduction of inventory quantities in 2020 resulted in liquidations of LIFO inventories carried at prevailing costs established in prior years and decreased cost of sales by $559 in 2020.

In March 2019, the Company incurred an inventory liquidation due to a consignment agreement with a primary vendor of raw materials. The former inventory levels are not expected to be reinstated. The Company recognized the effect within 2019 which resulted in liquidations of LIFO inventories carried at prevailing costs established in prior years and reduced cost of sales by $281.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	2020	2019
Land and improvements	**$ 3,422**	$ 3,422
Buildings and improvements	**51,479**	51,432
Machinery and equipment	**181,642**	179,993
Assets under construction	**1,167**	1,459
	237,710	236,306
Accumulated depreciation	**(179,806)**	(170,864)
Property, plant and equipment, net	**$ 57,904**	$ 65,442

Depreciation of property, plant and equipment, including amounts for finance leases, totaled $10,527 in 2020, $11,219 in 2019 and $12,141 in 2018.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill is $0 as of December 26, 2020 and December 28, 2019, respectively. The Company performed its annual assessment of goodwill in the fourth quarter of 2018. At the end of 2018, it was determined that the carrying value was greater than calculated fair value. Also at the end of 2018, the intangibles were determined to not be recoverable based on revised projections. Impairment costs incurred are classified as "impairment of assets" in the Company's Consolidated Statements of Operations.

The following table represents the details of the Company's intangible assets that were subject to amortization during 2018:

	2018			
	Gross	Accumulated Amortization	Impairment	Net
Customer relationships	$ 208	$ (96)	$ (112)	$ —
Rug design coding	144	(86)	(58)	—
Trade names	3,300	(1,314)	(1,986)	—
Total	$3,652	$ (1,496)	$ (2,156)	$ —

(amounts in thousands, except per share data)

Amortization expense for intangible assets is summarized as follows:

	2020	2019	2018
Customer relationships	$ —	$ —	$ 16
Rug design coding	—	—	14
Trade names	—	—	275
Amortization expense	$ —	$ —	$ 305

NOTE 8 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	2020	2019
Compensation and benefits (1)	$ 9,159	$ 8,804
Provision for customer rebates, claims and allowances	8,006	7,682
Advanced customer deposits	3,139	4,685
Outstanding checks in excess of cash	2,094	—
Other	3,567	4,247
Accrued expenses	$ 25,965	$ 25,418

(1) Includes a liability related to the Company's self-insured Workers' Compensation program. This program is collateralized by letters of credit in the aggregate amount of $2,452.

NOTE 9 - 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 Balance Sheets. The following is a summary of the Company's product warranty activity:

	2020	2019
Product warranty reserve at beginning of period	$ 1,002	$ 1,069
Warranty liabilities accrued	782	1,667
Warranty liabilities settled	(790)	(1,695)
Changes for pre-existing warranty liabilities	—	(39)
Product warranty reserve at end of period	$ 994	$ 1,002

(amounts in thousands, except per share data)

NOTE 10 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2020	2019
Revolving credit facility	**$ 28,353**	$ 59,693
Term loans	**24,970**	—
Notes payable - buildings	**5,900**	6,213
Notes payable - equipment and other	**3,926**	3,533
Finance lease - buildings	**11,097**	11,296
Finance lease obligations	**5,841**	8,187
Deferred financing costs, net	**(1,930)**	(571)
Total long-term debt	**78,157**	88,351
Less: current portion of long-term debt	**6,116**	6,684
Long-term debt	**$ 72,041**	$ 81,667

Revolving Credit Facility

During the fourth quarter, 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 revolving credit facility matures on October 30, 2025.

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 defined with a floor or 0.75% or published LIBOR, plus an applicable margin ranging between 1.50% and 2.00%, or (b) the higher of the prime rate plus an applicable margin ranging between 0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases. As of December 26, 2020, the applicable margin on the Company's revolving credit facility was 1.75%. 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 0.25% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 2.68% at December 26, 2020. Under the old revolving credit facility, the Company's weighted-average interest rate on borrowings outstanding was 4.79% at December 28, 2019. At the Company's election, advances of the old revolving credit facility bore 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 ranging between 1.50% and 2.00%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate plus 1.00%, plus an applicable margin ranging between 0.50% and 1.00%.

The agreement is subject to customary terms and conditions and annual administrative fees with pricing varying on excess availability and a fixed charge coverage ratio. The agreement is also subject to certain compliance, affirmative, and financial covenants. As of the reporting date, the Company is in compliance with all such applicable 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 thirty consecutive days. As of December 26, 2020, the unused borrowing availability under the revolving credit facility was $43,344.

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

Term 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. As of the reporting date, the Company is in compliance with all such 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. The loan requires certain compliance, affirmative, and financial covenants and, as of the reporting date, the Company is in compliance with all such covenants. Payments on the loan are interest only over the first three years and principal and interest over the remaining seven years.

(amounts in thousands, except per share data)

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 $4,165 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 1 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 as the present value of lease payments exceeded 90% of its fair value. 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 financed lease obligations have terms ranging from 3 to 6 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 11 for further discussion of the impact of COVID-19 on the Company's finance lease obligations.

Interest Payments and Debt Maturities

Cash paid for interest for continuing operations was $5,293 in 2020, $6,303 in 2019, and $6,290 in 2018. These amounts include cash paid for financing leases of $1,702 in 2020, $1,378 in 2019, and $791 in 2018. Maturities of long-term debt for periods following December 26, 2020 are as follows:

	Long-Term Debt	Finance Leases (See Note 11)	Total
2021	$ 3,346	$ 2,768	$ 6,114
2022	1,520	1,486	3,006
2023	1,259	2,344	3,603
2024	6,578	325	6,903
2025	30,540	357	30,897
Thereafter	19,906	9,658	29,564
Total maturities of long-term debt	$ 63,149	$ 16,938	$ 80,087
Deferred financing costs, net	(1,930)	—	(1,930)
Total long-term debt	$ 61,219	$ 16,938	$ 78,157

(amounts in thousands, except per share data)

NOTE 11 - 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	December 26, 2020	December 28, 2019
Operating Leases:			
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 22,074	$ 24,835
Current portion of operating lease liabilities	Current portion of operating lease liabilities	3,323	3,172
Noncurrent portion of operating lease liabilities	Operating lease liabilities	19,404	22,123
Total operating lease liabilities		$ 22,727	$ 25,295
Finance Leases:			
Finance lease right-of-use assets (1)	Property, plant, and equipment, net	$ 14,332	$ 15,152
Current portion of finance lease liabilities (1)	Current portion of long-term debt	2,771	4,011
Noncurrent portion of finance lease liabilities (1)	Long-term debt	14,167	15,472
		$ 16,938	$ 19,483

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

(amounts in thousands, except per share data)

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

	December 26, 2020	December 28, 2019
Operating lease cost	$ 5,078	$ 3,528
Finance lease cost:		
Amortization of lease assets (1)	3,160	3,000
Interest on lease liabilities (1)	1,702	1,378
Total finance lease costs (1)	$ 4,862	$ 4,378

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

Other supplemental information related to leases is summarized as follows:

	December 26, 2020	December 28, 2019
Weighted average remaining lease term (in years):		
Operating leases	7.73	8.42
Finance leases (1)	12.57	12.03
Weighted average discount rate:		
Operating leases	6.91 %	6.98 %
Finance leases (1)	9.42 %	6.72 %
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	4,874	3,518
Operating cash flows from finance leases (1)	1,702	1,378
Financing cash flows from finance leases (1)	4,756	4,166

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

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

Fiscal Year	Operating Leases	Finance Leases
2021	4,783	4,259
2022	4,198	2,782
2023	3,251	3,409
2024	2,940	1,045
2025	2,969	1,053
Thereafter	11,561	14,988
Total future minimum lease payments (undiscounted)	29,702	27,536
Less: Present value discount	(6,975)	(10,598)
Total lease liability	22,727	16,938

On October 22, 2019, the Company sold its Susan Street facility in Santa Ana, California to CenterPoint Properties Trust. The sale price was $37,195. The gain on the sale transaction was $25,121. The transaction was accounted for as a successful sale-leaseback.

Concurrent with the sale of the Susan Street facility, the Company (by a wholly-owned subsidiary) entered into an operating lease to lease back the property for a term of 10 years with two 5 year renewal options. The initial annual rental is $2,083 increasing at 2% per year for the term of the lease. The lease requires the landlord to make certain required capital improvements, at no further rental increase or charge to the Company. The Company is responsible for normal maintenance of the building and facilities. The Company concurrently executed a lease guaranty, pursuant to which it guaranteed the prompt payment when due of all rent payments to be made under the lease agreement.

(amounts in thousands, except per share data)

Commitments for minimum rentals under non-cancelable leases, including any applicable rent escalation clauses, were as follows under Topic 840 for 2018:

	Capital Leases	Operating Leases
2019	$ 4,590	$ 3,002
2020	4,205	2,533
2021	3,333	2,121
2022	989	1,667
2023	244	882
Thereafter	—	3,155
Total commitments	13,361	13,360
Less amounts representing interest	(1,265)	—
Total	$ 12,096	$ 13,360

Rental expense was approximately $4,453 during 2018.

NOTE 12 - 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.

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 Balance Sheets as of December 26, 2020 and December 28, 2019:

	2020	2019	Fair Value Hierarchy Level
Liabilities:			
Interest rate swaps (1)	**$ 440**	$ 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.

(amounts in thousands, except per share data)

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

	2020		2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 1,920**	**$ 1,920**	$ 769	$ 769
Financial liabilities:				
Long-term debt, including current portion	**61,219**	**58,803**	68,868	72,115
Finance leases, including current portion	**16,938**	**18,451**	19,483	20,361
Interest rate swaps	**440**	**440**	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 13 - 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 as of December 26, 2020:

Type	Notional Amount	Effective Date	Fixed Rate	Variable Rate
Interest rate swap	$ 5,796 (1)	November 7, 2014 through November 7, 2024	4.500%	1 Month LIBOR

(1) Interest rate swap notional amount amortizes by $35 monthly to maturity.

The following table summarizes the fair values of derivative instruments included in the Company's Consolidated Balance Sheets:

	Location on Consolidated Balance Sheets	Fair Value	
		2020	2019
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Accrued Expenses	**$ 135**	$ 841
Interest rate swaps, long-term portion	Other Long-Term Liabilities	**305**	812
Total Liability Derivatives		**$ 440**	$ 1,653

(amounts in thousands, except per share data)

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

	Amount of Gain or (Loss) Recognized in AOCIL on the effective portion of the Derivative		
	2020	2019	2018
Derivatives designated as hedging instruments:			
Cash flow hedges - interest rate swaps	**$ (1,316)**	$ (1,109)	$ 531

	Amount of Gain or (Loss) Reclassified from AOCIL on the effective portion into Income (1)(2)		
	2020	2019	2018
Derivatives designated as hedging instruments:			
Cash flow hedges - interest rate swaps	**$ 1,106**	$ (454)	$ (673)

	Amount of Gain or (Loss) Recognized on the Dedesignated Portion in Income on Derivative (3)		
	2020	2019	2018
Derivatives dedesignated as hedging instruments:			
Cash flow hedges - interest rate swaps	**$ 861**	$ —	$ —

(1) The amount of gain (loss) reclassified from AOCIL is included in interest expense on the Company's Consolidated Statements of Operations.
(2) The amount of loss expected to be reclassified from AOCIL into earnings during the next 12 months subsequent to fiscal 2020 is $135.
(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 Statements of Operations. The amount of expense recognized on the Company's Consolidated Statements of Operations for the terminated portion of interest rate swaps is included in interest expense.

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 $1,427. During the fourth quarter of 2020, the Company performed its retrospective and prospective effectiveness assessments of the interest rate swap agreements. Based upon the Company's ability to secure additional fixed asset borrowings, the Company could no longer assert that the cash flows for $25,000 of notional amount of the interest rate swaps are probable. Because it is probable that none of the remaining forecasted interest payments that were being hedged by the second $25,000 interest rate swap will occur, the related losses that had been deferred in AOCIL were immediately reclassified into other (income) expense. However, the losses related to the first $25,000 interest rate swap will be reclassified from AOCIL to interest expense as the hedged interest payments are recognized as the Company could not establish that future cash flows are probable not to occur on the first interest rate swap.

NOTE 14 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company sponsors a 401(k) defined contribution plan that covers a significant portion, or approximately 85% of the Company's 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 $345 in 2020, $418 in 2019 and $448 in 2018.

Additionally, the Company sponsors a 401(k) defined contribution plan that covers those associates at one facility who are under a collective-bargaining agreement, or approximately 15% of the Company's associates. 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 $96 in 2020, $143 in 2019 and $123 in 2018.

(amounts in thousands, except per share data)

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 $17,647 at December 26, 2020 and $16,203 at December 28, 2019 and are included in other long-term liabilities in the Company's Consolidated 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 $17,951 at December 26, 2020 and $16,500 at December 28, 2019 and is included in other assets in the Company's Consolidated 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. These union-represented employees represented approximately 15% of the Company's total employees. The risks of participating in multi-employer plans are different from single-employer plans. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. If the Company chooses to stop participating in the multi-employer plan, the Company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in the multi-employer pension plan for 2020 is provided in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three digit plan number. The most recent Pension Protection Act (PPA) zone status available in 2020 and 2019 is for the plan's year-end at 2019 and 2018, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates a plan for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented (1)	Contributions (2)			Surcharge Imposed (1)	Expiration Date of Collective-Bargaining Agreement
		2020	2019		2020	2019	2018		
The Pension Plan of the National Retirement Fund	13-6130178 - 001	Red	Red	Implemented	$ 272	$ 335	$ 320	Yes	6/4/2022

(1) The collective-bargaining agreement requires the Company to contribute to the plan at the rate of $0.47 per compensated hour for each covered employee. The Company will make additional contributions, as mandated by law, in accordance with the fund's 2010 Rehabilitation Plan which required a surcharge equal to $0.03 per hour (from $0.47 to $0.50) effective June 1, 2014 to May 31, 2015, a surcharge equal to $0.03 per hour (from $0.50 to $0.53) effective June 1, 2015 to May 31, 2016, a surcharge equal to $0.02 per hour (from $0.53 to $0.55) effective June 1, 2016 to May 31, 2017, a surcharge equal to $0.03 per hour (from $0.55 to $0.58) effective June 1, 2017 to May 31, 2018, a surcharge equal to $0.02 per hour (from $0.58 to $0.60) effective June 1, 2018 to May 31, 2019, a surcharge equal to $0.03 per hour (from $0.60 to $0.63) effective June 1, 2019 to May 31, 2020, and a surcharge equal to $0.03 per hour (from $0.63 to $0.66) effective June 1, 2020 to May 31, 2021. Based upon current employment and benefit levels, the Company's contributions to the multi-employer pension plan are expected to be approximately $277 for 2021.

(2) The Company's contributions to the plan do not represent more than 5% of the total contributions to the plan for the most recent plan year available.

Postretirement Plans

The Company sponsors a postretirement benefit plan that provides life insurance to a limited number of associates upon retirement as part of a collective bargaining agreement.

(amounts in thousands, except per share data)

Information about the benefit obligation and funded status of the Company's postretirement benefit plan is summarized as follows:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 360**	$ 331
Service cost	**8**	7
Interest cost	**17**	17
Actuarial (gain) loss	**6**	6
Benefits paid	**(1)**	(1)
Benefit obligation at end of year	**390**	360
Change in plan assets:		
Fair value of plan assets at beginning of year	**—**	—
Employer contributions	**1**	1
Benefits paid	**(1)**	(1)
Fair value of plan assets at end of year	**—**	—
Unfunded amount	**$ (390)**	$ (360)

The balance sheet classification of the Company's liability for the postretirement benefit plan is summarized as follows:

	2020	2019
Accrued expenses	**$ 17**	$ 16
Other long-term liabilities	**373**	344
Total liability	**$ 390**	$ 360

Benefits expected to be paid on behalf of associates for the postretirement benefit plan during the period 2021 through 2030 are summarized as follows:

Years	Postretirement Plan
2021	$ 17
2022	16
2023	16
2024	16
2025	16
2026-30	79

Assumptions used to determine the benefit obligation of the Company's postretirement benefit plan are summarized as follows:

	2020	2019
Weighted-average assumptions as of year-end:		
Discount rate (benefit obligation)	**3.25 %**	3.50 %

(amounts in thousands, except per share data)

Components of net periodic benefit cost (credit) for the postretirement plan are summarized as follows:

	2020	2019	2018
Service cost	**$ 8**	$ 7	$ 8
Interest cost	**17**	17	17
Amortization of prior service credits	**—**	(3)	(4)
Recognized net actuarial gains	**(25)**	(27)	(28)
Net periodic benefit cost (credit)	**$ —**	$ (6)	$ (7)

Pre-tax amounts included in AOCIL for the Company's postretirement benefit plan at 2020 are summarized as follows:

	Postretirement Benefit Plan	
	Balance at 2020	2021 Expected Amortization
Unrecognized actuarial gains	**$ (309)**	$ (24)
Totals	**$ (309)**	$ (24)

NOTE 15 - INCOME TAXES

The provision (benefit) for income taxes on income (loss) from continuing operations consists of the following:

	2020	2019	2018
Current			
Federal	**$ (78)**	$ (287)	$ (178)
State	**109**	107	(116)
Total current	**31**	(180)	(294)
Deferred			
Federal	**(277)**	(385)	(434)
State	**(66)**	(92)	(103)
Total deferred	**(343)**	(477)	(537)
Income tax provision (benefit)	**$ (312)**	$ (657)	$ (831)

Differences between the provision (benefit) for income taxes and the amount computed by applying the statutory federal income tax rate to income (loss) from continuing operations before taxes are summarized as follows:

	2020	2019	2018
Federal statutory rate	**21 %**	21 %	21 %
Statutory rate applied to income (loss) from continuing operations before taxes	**$ (1,974)**	$ 3,142	$ (4,685)
Plus state income taxes, net of federal tax effect	**34**	12	(173)
Total statutory provision (benefit)	**(1,940)**	3,154	(4,858)
Effect of differences:			
Nondeductible meals and entertainment	**37**	77	90
Executive compensation limitation	**—**	—	258
Federal tax credits	**(279)**	(545)	(286)
Reserve for uncertain tax positions	**7**	39	27
Change in valuation allowance	**1,754**	(3,400)	3,990
Stock-based compensation	**141**	86	82
Other items	**(32)**	(68)	(134)
Income tax provision (benefit)	**$ (312)**	$ (657)	$ (831)

(amounts in thousands, except per share data)

During the fourth quarter of 2017, the Company recorded a full valuation allowance against its deferred tax assets, which remains in effect as of December 26, 2020. The Company intends to maintain this position until there is sufficient evidence to support the reversal of all or some portion of these allowances. The Company also has certain assets with indefinite lives for which the basis is different for book and tax. In accordance with ASC 740-10-30-18, the deferred tax liability related to these intangible assets cannot be used to offset deferred tax assets when determining the amount of the valuation allowance for deferred tax assets which are not more-likely-than-not to be realized. The result is that the Company is in a net deferred tax liability position of $91 at December 26, 2020 and December 28, 2019, respectively, which is recorded in other long-term liabilities in the Company's Consolidated Balance Sheets.

The income tax benefit for the twelve months ended December 26, 2020 was $312 compared with an income tax benefit of $657 for the twelve months ended December 28, 2019. Due to its full valuation allowance against its deferred tax balances, the Company is only able to recognize refundable credits, a small amount of state taxes, and benefits for both the reduction of certain indefinite lived assets not covered by the Company's valuation allowance and the recognition of stranded tax effects within other comprehensive income related to the termination of certain derivative contracts in the tax benefit for 2018, 2019, and 2020.

Income tax payments, net of (income tax refunds) received for continuing and discontinued operations were $(100) in 2020, $128 in 2019 and $20 in 2018.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2020	2019
Deferred tax assets:		
Inventories	$ 3,428	$ 3,336
Retirement benefits	1,190	1,394
State net operating losses	3,305	3,362
Federal net operating losses	556	715
State tax credit carryforwards	1,688	1,688
Federal tax credit carryforwards	4,413	4,282
Allowances for bad debts, claims and discounts	2,024	1,978
Other	5,196	4,039
Total deferred tax assets	21,800	20,794
Valuation allowance	(15,443)	(13,264)
Net deferred tax assets	6,357	7,530
Deferred tax liabilities:		
Property, plant and equipment	6,448	7,621
Total deferred tax liabilities	6,448	7,621
Net deferred tax liability	$ (91)	$ (91)

At December 26, 2020, $556 of deferred tax assets related to approximately $2,646 of federal net operating loss carryforwards and $3,305 of deferred tax assets related to approximately $61,640 of state net operating loss carryforwards. In addition, $4,413 of federal tax credit carryforwards and $1,688 of state tax credit carryforwards were available to the Company. The federal tax credit carryforwards will expire between 2029 and 2041. The federal net operating loss carryforwards generated in 2018 have no expiration. The state net operating loss carryforwards and the state tax credit carryforwards will expire between 2020 and 2040. A valuation allowance of $15,443 is recorded to reflect the estimated amount of deferred tax assets that may not be realized during the carryforward periods. At December 26, 2020, the Company is in a net deferred tax liability position of $91 which is included in other long-term liabilities in the Company's Consolidated Balance Sheets.

Tax Uncertainties

The Company accounts for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. Unrecognized tax benefits were $487 at December 26, 2020, $480 at December 28, 2019, and $441 at December 29, 2018. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of December 26, 2020, December 28, 2019, or December 29, 2018.

(amounts in thousands, except per share data)

The following is a summary of the change in the Company's unrecognized tax benefits:

	2020	2019	2018
Balance at beginning of year	$ 480	$ 441	$ 414
Additions based on tax positions taken during a current period	7	39	27
Balance at end of year	$ 487	$ 480	$ 441

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 2016 remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2016. A few state jurisdictions remain open to examination for tax years subsequent to 2015.

NOTE 16 - COMMON STOCK AND EARNINGS (LOSS) PER SHARE

Common & Preferred Stock

The Company's charter authorizes 80,000,000 shares of Common Stock with a $3 par value per share and 16,000,000 shares of Class B Common Stock with a $3 par value per share. Holders of Class B Common Stock have the right to twenty votes per share on matters that are submitted to Shareholders for approval and to dividends in an amount not greater than dividends declared and paid on Common Stock. Class B Common Stock is restricted as to transferability and may be converted into Common Stock on a one share for one share basis. The Company's charter also authorizes 200,000,000 shares of Class C Common Stock, $3 par value per share, and 16,000,000 shares of Preferred Stock. No shares of Class C Common Stock or Preferred Stock have been issued.

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 per share. The accounting guidance requires additional disclosure of EPS 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:

	2020	2019	2018
Basic earnings (loss) per share:			
Income (loss) from continuing operations	**$ (9,088)**	$ 15,619	$ (21,479)
Less: Allocation of earnings to participating securities	**—**	(468)	—
Income (loss) from continuing operations available to common shareholders - basic	**$ (9,088)**	$ 15,151	$ (21,479)
Basic weighted-average shares outstanding (1)	**15,316**	15,822	15,764
Basic earnings (loss) per share - continuing operations	**$ (0.59)**	$ 0.96	$ (1.36)
Diluted earnings (loss) per share:			
Income (loss) from continuing operations available to common shareholders - basic	**$ (9,088)**	$ 15,151	$ (21,479)
Add: Undistributed earnings reallocated to unvested shareholders	**—**	3	—
Income (loss) from continuing operations available to common shareholders - basic	**$ (9,088)**	$ 15,154	$ (21,479)
Basic weighted-average shares outstanding (1)	**15,316**	15,822	15,764
Effect of dilutive securities:			
Stock options (2)	**—**	—	—
Directors' stock performance units (2)	**—**	104	—
Diluted weighted-average shares outstanding (1)(2)	**15,316**	15,926	15,764
Diluted earnings (loss) per share - continuing operations	**$ (0.59)**	$ 0.95	$ (1.36)

(1) Includes Common and Class B Common shares, excluding 360, 461, and 570 unvested participating securities, in thousands, for 2020, 2019, and 2018, respectively.
(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 were 281 in 2020, 166 in 2019 and 422 in 2018.

NOTE 17 - STOCK PLANS AND 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 Statements of Operations. The number of shares to be issued is determined by dividing the specified dollar value of the award by the market value per share on the grant date. The Company's stock compensation expense (credit) was $431 in 2020, $483 in 2019 and $(29) in 2018. The credit in 2018 is related to the reversal of stock compensation that did not vest.

2016 Incentive Compensation Plan

On May 3, 2016, the Company's shareholders' approved and adopted the Company's 2016 Incentive Compensation Plan (the "2016 Incentive Compensation Plan") which provides for the issuance of a maximum of 800,000 shares of Common Stock and/or Class B Common Stock for the grant of options, and/or other stock-based or stock-denominated awards to employees, officers, directors, and agents of the Company and its participating subsidiaries. The 2016 Incentive Compensation Plan and the allocation of shares thereunder superseded and replaced The Dixie Group, Inc. Stock Awards Plan, as amended (the "2006 Plan") and the allocation of shares thereunder. The 2006 Plan was terminated with respect to new awards. Awards previously granted under the 2006 Plan continue to be governed by the terms of that plan and are not affected by its termination. On May 6, 2020, the board approved an amendment of the Company's 2016 Incentive Compensation Plan to increase the original number of shares by an additional 500,000.

2006 Stock Awards Plan

The Company had a Stock Awards Plan, ("2006 Plan"), as amended, which provided for the issuance of up to 1,800,000 shares of Common Stock and/or Class B Common Stock as stock-based or stock-denominated awards to directors of the Company and to salaried employees of the Company and its participating subsidiaries.

(amounts in thousands, except per share data)

Restricted Stock Awards

Each executive officer has the opportunity to earn a Primary Long-Term Incentive Award of restricted stock and separately receive an award of restricted stock denominated as “Career Shares.” The number of shares issued, if any, is based on the market price of the Company’s Common Stock at the time of grant of the award, subject to a $5.00 per share minimum value. Primary Long-Term Incentive Awards vest over three years. For participants over age 60, Career Shares awards fully vest when the participant becomes (i) qualified to retire from the Company and (ii) has retained such shares two years following the grant date. For the participants under age 60, Career Shares vest ratably over five years beginning on the participant's 61st birthday.

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.

On March 12, 2018, the Company granted 297,292 shares of restricted stock to certain key employees. The grant-date fair value of the awards was $832, or $2.80 per share, and will be recognized as stock compensation expense over a weighted-average period of 6.1 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.

On July 30, 2018, the Company granted 10,000 shares of restricted stock to an employee. The grant-date fair value of the award was $20, or $2.00 per share and will be recognized as stock compensation over a three-year vesting period from the date the award was granted. The 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.
Restricted stock activity for the three years ended December 26, 2020 is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 30, 2017	433,841	$ 6.66
Granted	307,292	2.77
Vested	(64,939)	6.58
Forfeited	(106,196)	9.51
Outstanding at December 29, 2018	569,998	4.04
Vested	(90,791)	2.83
Forfeited	(17,784)	3.48
Outstanding at December 28, 2019	461,423	4.30
Granted	131,867	1.00
Vested	(233,639)	3.90
Outstanding at December 26, 2020	359,651	$ 3.35

As of December 26, 2020, unrecognized compensation cost related to unvested restricted stock was $705. That cost is expected to be recognized over a weighted-average period of 10.3 years. The total fair value of shares vested was approximately $241, $94 and $173 during 2020, 2019 and 2018, respectively.

Stock Performance Units

The Company's non-employee directors receive an annual retainer of $18 in cash and $18 in value of Stock Performance Units (subject to a $5.00 minimum per unit). If market value at the date of the grants is above $5.00 per share; there is no reduction in the number of units issued. However, if the market value at the date of the grants is below $5.00, units will be reduced to reflect the $5.00 per share minimum. Upon retirement, the Company issues the number of shares of Common Stock equivalent to the number of Stock Performance Units held by non-employee directors at that time. As of December 26, 2020, 130,320 Stock Performance Units were outstanding under this plan. As of December 26, 2020, unrecognized compensation cost related to Stock Performance Units was $5. That cost is expected to be recognized over a weighted-average period of 0.3 years.

(amounts in thousands, except per share data)

Stock Options

Options granted under the Company's 2006 Plan and the 2016 Plan were exercisable for periods determined at the time the awards are granted. Effective 2009, the Company established a $5.00 minimum price for calculating the number of options to be granted.

On May 30, 2017, the Company granted 203,000 options with a market condition to certain key employees of the Company at a weighted-average exercise price of $4.30. The grant-date fair value of these options was $306. These options vest over a two-year period and require the Company's stock to trade at or above $7.00 for five consecutive trading days after the two-year period and within five years of issuance to meet the market condition.

The fair value of each option was estimated on the date of grant using a lattice model. Expected volatility was based on historical volatility of the Company's stock, using the most recent period equal to the expected life of the options. The risk-free interest rate was based on the U.S. Treasury yield for a term equal to the expected life of the option at the time of grant. The Company uses historical exercise behavior data of similar employee groups to determine the expected lives of options.

No options were granted during the years ended December 26, 2020, December 28, 2019, and December 29, 2018.

Option activity for the three years ended December 26, 2020 is summarized as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Fair Value of Options Granted During the Year
Outstanding at December 30, 2017	306,500	$ 4.54		—
Granted	—	—		—
Exercised	—	—		—
Forfeited	(8,000)	4.17		—
Outstanding at December 29, 2018	298,500	4.55		—
Granted	—	—		—
Exercised	—	—		—
Forfeited	(132,500)	4.82		—
Outstanding at December 28, 2019	166,000	4.33		—
Granted	—	—		—
Exercised	—	—		—
Forfeited	(15,000)	4.17		—
Outstanding at December 26, 2020	151,000	$ 4.35	1.40	$ —
Options exercisable at:				
December 29, 2018	103,500	$ 5.00		—
December 28, 2019	166,000	4.33		—
December 26, 2020	151,000	4.35	1.40	—

At December 26, 2020, there was no intrinsic value of outstanding stock options and no intrinsic value of exercisable stock options. The intrinsic value of stock options exercised during 2020, 2019 and 2018 was $0, $0 and $0, respectively. At December 26, 2020, there was no unrecognized compensation expense related to unvested stock options.

(amounts in thousands, except per share data)

NOTE 18 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Interest Rate Swaps	Post-Retirement Liabilities	Total
Balance at December 30, 2017	(1,587)	288	(1,299)
Unrealized gain on interest rate swaps, net of tax of $0	531	—	531
Reclassification of loss into earnings from interest rate swaps, net of tax of $0	673	—	673
Unrecognized net actuarial gain on postretirement benefit plans, net of tax of $0	—	18	18
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of $0	—	(27)	(27)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of $0	—	(4)	(4)
Balance at December 29, 2018	(383)	275	(108)
Unrealized gain on interest rate swaps, net of tax of $0	(1,109)	—	(1,109)
Reclassification of loss into earnings from interest rate swaps, net of tax of $10	444	—	444
Unrecognized net actuarial gain on postretirement benefit plans, net of tax of $0	—	(6)	(6)
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of $0	—	(27)	(27)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of $0	—	(2)	(2)
Balance at December 28, 2019	$ (1,048)	$ 240	$ (808)
Unrealized gain on interest rate swaps, net of tax of $0	(1,316)	—	(1,316)
Reclassification of loss into earnings from interest rate swaps, net of tax of $343	1,624	—	1,624
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of $0	—	(27)	(27)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of $0	—	(3)	(3)
Balance at December 26, 2020	**$ (740)**	**$ 210**	**$ (530)**

NOTE 19 - COMMITMENTS AND CONTINGENCIES

Commitments

The Company had purchase commitments of $555 at December 26, 2020, primarily related to machinery and equipment. The Company enters into fixed-price contracts with suppliers to purchase natural gas to support certain manufacturing processes. The Company had contract purchases of $72 in 2020, $431 in 2019 and $428 in 2018. At December 26, 2020, the Company has no commitments to purchase natural gas for 2021.

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 22).

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)

NOTE 20 - OTHER (INCOME) EXPENSE, NET

Other operating expense, net is summarized as follows:

	2020	2019	2018
Other operating (income) expense, net:			
(Gain) loss on property, plant and equipment disposals	$ 41	$ 353	$ (1,047)
Gain on sale of building	—	(25,121)	—
(Gain) loss on currency exchanges	(55)	41	126
Amortization of intangibles	—	—	305
Retirement expenses	40	72	64
Miscellaneous (income) expense	(134)	667	1,010
Other operating (income) expense, net	$ (108)	$ (23,988)	$ 458

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

	2020	2019	2018
Other (income) expense, net:			
Interest Income	$ (3)	$ (49)	$ —
Post-retirement income	(8)	(14)	(15)
Miscellaneous expense	689	6	18
Other (income) expense, net	$ 678	$ (57)	$ 3

NOTE 21 - 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. The plan is now substantially complete.

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 Coronavirus Aid, Relief, and Economic Security ("CARES") Act as well as deferring payments into its defined contribution retirement plan. The CARES Act also provides for an employee retention credit, which is a refundable tax credit against certain employment taxes of up to $5 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees, capped at $10 of qualified wages per employee throughout the year. The Company qualified for the tax credit in the second, third and fourth quarters of 2020 and recognized $2,100 in the fourth quarter of 2020, related to the Employee Retention Credit. Of the $2,100 credit, $1,500 million was recorded to Cost of Sales and the remaining $600 was recorded to Selling and Administrative Expenses.

(amounts in thousands, except per share data)

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

					As of December 26, 2020	
	Accrued Balance at December 28, 2019	2020 Expenses (1)	2020 Cash Payments	Accrued Balance at December 26, 2020	Total Costs Incurred to Date	Total Expected Costs
Corporate Office Consolidation Plan	38	6	44	—	835	835
Profit Improvement Plan	305	1,376	1,577	104	10,176	10,176
COVID-19 Continuity Plan		$ 2,370	$ 1,916	454	$ 2,531	$ 2,531
Total All Plans	$ 343	$ 3,752	$ 3,537	$ 558	$ 13,542	$ 13,542
Asset Impairments	$ —	$ —	$ —	$ —	$ 3,323	$ 3,323

	Accrued Balance at December 29, 2018	2019 Expenses (1)	2019 Cash Payments	Accrued Balance at December 28, 2019
Corporate Office Consolidation Plan	98	13	73	38
Profit Improvement Plan	$ 846	$ 5,006	$ 5,547	$ 305
Total All Plans	$ 944	$ 5,019	$ 5,620	$ 343
Asset Impairments	$ —	$ 3	$ —	$ —

(1) Costs incurred under these plans are classified as "facility consolidation and severance expenses, net" in the Company's Consolidated Statements of Operations.

NOTE 22 - 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:

	2020	2019	2018
Income (loss) from discontinued operations:			
Workers' compensation costs from former textile operations	**$ (60)**	$ 38	$ 212
Environmental remediation costs from former textile operations	**(60)**	(386)	(117)
Income (loss) from discontinued operations, before taxes	**$ (120)**	$ (348)	$ 95
Income tax benefit	**—**	—	—
Income (loss) from discontinued operations, net of tax	**$ (120)**	$ (348)	$ 95

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 $1,924 as of December 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 23 - RELATED PARTY TRANSACTIONS

The Company was a party to a 5-year lease with the seller of Atlas Carpet Mills, Inc. to lease three manufacturing facilities as part of the acquisition in 2014. The lessor was controlled by an associate of the Company. Rent paid to the lessor during 2019 and 2018 was $497 and $1,003, respectively. The lease was based on current market values for similar facilities. These leases terminated as of September, 2019.

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 7.7% 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 for 2020, 2019, and 2018 were approximately $4,500, $5,900 and $8,200, respectively; or approximately 1.9%, 2.1%, and 2.6% of the Company's cost of goods sold in 2020, 2019, and 2018, respectively. 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 2020, 2019, and 2018 was $289, $284, and $278, respectively. The lease was based on current market values for similar facilities.

Item 15(a)(2)

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
THE DIXIE GROUP, INC.
(dollars in thousands)

Description	Balance at Beginning of Year	Additions - Charged to Costs and Expenses	Additions - Charged to Other Account - Describe	Deductions - Describe		Balance at End of Year
Year ended December 26, 2020:						
Reserves deducted from asset accounts:						
Allowance for doubtful accounts	$ 262	$ 90	$ —	$ 208	(1)	$ 144
Reserves classified as liabilities:						
Provision for claims, allowances and warranties	4,541	7,938	—	7,999	—	4,480
Year ended December 28, 2019:						
Reserves deducted from asset accounts:						
Allowance for doubtful accounts	$ 174	$ 240	$ —	$ 152	(1)	$ 262
Reserves classified as liabilities:						
Provision for claims, allowances and warranties	5,717	10,538	—	11,714	—	4,541
Year ended December 29, 2018:						
Reserves deducted from asset accounts:						
Allowance for doubtful accounts	$ 133	$ 162	$ —	$ 121	(1)	$ 174
Reserves classified as liabilities:						
Provision for claims, allowances and warranties	6,360	11,995	—	12,638	(2)	5,717

(1) Uncollectible accounts written off, net of recoveries.
(2) Net reserve reductions for claims, allowances and warranties settled.

ANNUAL REPORT ON FORM 10-K

ITEM 15(b)

EXHIBITS

YEAR ENDED DECEMBER 26, 2020

THE DIXIE GROUP, INC.

DALTON, GEORGIA

Exhibit Index

EXHIBIT NO.	DESCRIPTION
(1.1)*	Underwriting Agreement for 2,500,000 Shares of The Dixie Group, Inc. (Incorporated by reference to Exhibit (1.1) to Dixie's Current Report on Form 8-K dated May 20, 2014.)
(2.1)*	Securities Purchase Agreement between Masland Carpets, LLC and Robert P. Rothman dated as of June 30, 2013. (Incorporated by reference to Exhibit (2.1) to Dixie's Current Report on Form 8-K dated June 30, 2013.)
(3.1)*	Text of Restated Charter of The Dixie Group, Inc. as Amended - Blackline Version. (Incorporated by reference to Exhibit (3.4) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2003.)
(3.2)*	Amended By-Laws of The Dixie Group, Inc. as of February 22, 2007. (Incorporated by reference to Exhibit 3.1 to Dixie's Current Report on Form 8-K dated February 26, 2007.)
(5.1)*	Shelf Registration Statement on Form S-3. (Incorporated by reference to Exhibit (5.1) to Dixie's Current Report on Form 8-K dated May 20, 2014.)
(10.1)*	The Dixie Group, Inc. New Non-qualified Retirement Savings Plan effective August 1, 1999. (Incorporated by reference to Exhibit (10.1) to Dixie's Quarterly Report on Form 10-Q for the quarter ended June 26, 1999.)**
(10.2)*	Form of Award of Career Shares under the 2006 Incentive Compensation Plan for Participants holding only shares of the Company's Common Stock. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated June 6, 2006.)**
(10.3)*	Form of Award of Career Shares under the 2006 Incentive Compensation Plan for Participants holding shares of the Company's Class B Common Stock. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated June 6, 2006.)**
(10.4)*	Form of Award of Long Term Incentive Plan Shares under the 2006 Incentive Compensation Plan for Participants holding only shares of the Company's Common Stock. (Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated June 6, 2006.)**
(10.5)*	Form of Award of Long Term Incentive Plan Shares under the 2006 Incentive Compensation Plan for Participants holding shares of the Company's Class B Common Stock. (Incorporated by reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated June 6, 2006.)**
(10.6)*	Form of LTIP award (B shareholder). (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
(10.7)*	Form of LTIP award (common only). (Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
(10.8)*	Form of Career Share award (B shareholder). (Incorporated by reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
(10.9)*	Form of Career Share award (common only). (Incorporated by reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
(10.10)*	Form of Retention Grant (Service Condition only). (Incorporated by reference to Exhibit (10.6) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
(10.11)*	Form of Retention Grant (Performance Condition and Service Condition). (Incorporated by reference to Exhibit (10.7) to Dixie's Current Report on Form 8-K dated March 13, 2015.)**
(10.12)*	Thornton Edge LLC Lease for Reed Road Facility. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)
(10.13)*	Thornton Edge LLC First Lease Amendment for Reed Road Facility. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)
(10.14)*	Thornton Edge LLC Second Lease Amendment for Reed Road Facility. (Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)
(10.15)*	2016 Incentive Compensation Plan. (Incorporate by reference to Appendix A to Dixie's Proxy Statement for the Registrant's Annual Meeting of Shareholders held May 3, 2016.)**
(10.16)*	Summary of Incentive Plan for 2016. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**

(10.17)* Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**

(10.18)* Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**

(10.19)* Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**

(10.20)* Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 11, 2016.)**

(10.21)* Form of Stock Option Agreement - Common Stock - 2016 Stock Plan. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated May 31, 2017.)**

(10.22)* Form of Stock Option Agreement - Class B Holder - 2016 Stock Plan. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated May 31, 2017.)**

(10.23)* Royalty Carpet Mills Lease for Porterville, California Facility. (Incorporated by Reference to Exhibit (10.78) to Dixie's Current Report on Form 10-K dated March 13, 2018.)

(10.24)* Summary of Incentive Plan for 2018. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**

(10.25)* Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**

(10.26)* Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**

(10.27)* Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**

(10.28)* Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 9, 2018.)**

(10.29)* Summary of Incentive Plan for 2019. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 8, 2019.)**

(10.30)* Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 8, 2019.)**

(10.31)* Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 8, 2019.)**

(10.32)* Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 8, 2019.)**

(10.33)* Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 8, 2019.)**

(10.34)* Stock Repurchase Plan, pursuant to Securities and Exchange Act Rule 10b5-1. (Incorporated by Reference to Dixie's Current Report on Form 8-K dated August 28, 2019.)

(10.35)* Agreement For the Purchase and Sale of Real Property between CenterPoint Properties Trust and TDG Operations, LLC. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated October 22, 2019.)

(10.36)* Form of Lease between CenterPoint Properties Trust and TDG Operations, LLC. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated October 22, 2019.)

(10.37)* Summary of Incentive Plan for 2020. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**

(10.38)* Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**

(10.39)* Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**

(10.40)* Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**

(10.41)* Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**

(10.42)* Fifteenth Amendment to Credit Agreement. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated October 1, 2020.)

(10.43)* Loan Agreement dated effective as of October 26, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company, and AmeriState Bank, an Oklahoma state banking corporation. (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated November 2, 2020.)

(10.44)*	Real Estate Mortgage, Security Agreement, Assignment of Rents and Fixture Filing for Atmore, Alabama facility dated effective as of October 26, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company, and AmeriState Bank, an Oklahoma state banking corporation. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated November 2, 2020.)
(10.45)*	Real Estate Mortgage, Security Agreement, Assignment of Rents and Fixture Filing for Roanoke, Alabama facility dated effective as of October 26, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company, and AmeriState Bank, an Oklahoma state banking corporation. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated November 2, 2020.)
(10.46)*	Loan Agreement dated effective as of October 29, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company (collectively, the "Borrowers"), and Greater Nevada Credit Union, a non-profit cooperative corporation organized under the laws of the State of Nevada. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated November 2, 2020.)
(10.47)*	Security Agreement dated effective as of October 29, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company, and Greater Nevada Credit Union, a non-profit cooperative corporation organized under the laws of the State of Nevada. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated November 2, 2020.)
(10.48)*	Credit Agreement dated as of October 30, 2020, among The Dixie Group, Inc., and TDG Operations, LLC and Fifth Third Bank, National Association, a national banking association. (Incorporated by Reference to Exhibit (10.6) to Dixie's Current Report on Form 8-K dated November 2, 2020.)
(10.49)*	Guaranty and Security Agreement dated as of October 28, 2020, among The Dixie Group, Inc., and TDG Operations, LLC in favor of Fifth Third Bank, National Association, a national banking association. (Incorporated by Reference to Exhibit (10.7) to Dixie's Current Report on Form 8-K dated November 2, 2020.)
(14)*	Code of Ethics, as amended and restated, February 15, 2010. (Incorporated by reference to Exhibit 14 to Dixie's Annual Report on Form 10-K for year ended December 26, 2009.)
(16)*	Letter from Ernst & Young LLP regarding change in certifying accountant. (Incorporated by reference to Exhibit 16 to Dixie's Form 8-K dated November 15, 2013.)
(21)	Subsidiaries of the Registrant. (Filed herewith.)
(23)	Consent of Dixon Hughes Goodman LLP Independent Registered Public Accounting Firm.(Filed herewith.)
(31.1)	CEO Certification pursuant to Securities Exchange Act Rule 13a-14(a). (Filed herewith.)
(31.2)	CFO Certification pursuant to Securities Exchange Act Rule 13a-14(a). (Filed herewith.)
(32.1)	CEO Certification pursuant to Securities Exchange Act Rule 13a-14(b). (Filed herewith.)
(32.2)	CFO Certification pursuant to Securities Exchange Act Rule 13a-14(b). (Filed herewith.)
(101.INS)	XBRL Instance Document. (Filed herewith.)
(101.SCH)	XBRL Taxonomy Extension Schema Document. (Filed herewith.)
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document. (Filed herewith.)
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document. (Filed herewith.)
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document. (Filed herewith.)
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document. (Filed herewith.)

* Commission File No. 0-2585.

** Indicates a management contract or compensatory plan or arrangement.

THE DIXIE GROUP

PROXY STATEMENT

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

SCHEDULE 14A INFORMATION
(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the Securities and Exchange Act of 1934
(Amendment No.)

Filed by the Registrant ☑ Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement
☐ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
☑ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to Section 240.14a-12

The Dixie Group, Inc.

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☑ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registrant Statement No.:

3) Filing Party:

4) Date Filed:

THE DIXIE GROUP, INC.
475 Reed Road
Dalton, Georgia 30720
(706) 876-5800

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of The Dixie Group, Inc.:

The Annual Meeting of Shareholders of The Dixie Group, Inc. will be held at the Corporate Office, 475 Reed Road, Dalton, Georgia, on May 5, 2021 at 8:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect seven individuals to the Board of Directors for a term of one year each;

2. To cast an advisory vote on the Company's Executive Compensation for its named executive officers ("Say-on-Pay");

3. To ratify appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2021; and

4. Such other business as may properly come before the Annual Meeting of Shareholders or any adjournment thereof.

Only shareholders of record of the Common Stock and Class B Common Stock at the close of business on February 25, 2021, are entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof.

Your attention is directed to the Proxy Statement accompanying this Notice for more complete information regarding the matters to be acted upon at the Annual Meeting.

The Dixie Group, Inc.

Daniel K. Frierson
Chairman of the Board

Dalton, Georgia
Dated: March 19 , 2021

PLEASE READ THE ATTACHED MATERIAL CAREFULLY AND COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY TO THE COMPANY IN THE ENCLOSED POSTAGE-PAID ENVELOPE SO THAT YOUR SHARES OF COMMON STOCK AND CLASS B COMMON STOCK WILL BE REPRESENTED AT THE MEETING. IF YOU ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES IN PERSON, SHOULD YOU SO DESIRE.

Important Notice

Regarding Internet

Availability of Proxy Materials

for the

Annual Meeting of Shareholders

to be held on

May 5, 2021

The proxy statement and annual report to shareholders are available under "Annual Report and Proxy Materials" at www.dixiegroup.com/Investor.

THE DIXIE GROUP, INC.
475 Reed Road
Dalton, Georgia 30720
Phone (706) 876-5800

ANNUAL MEETING OF SHAREHOLDERS
May 5, 2021

PROXY STATEMENT

INTRODUCTION

The enclosed Proxy is solicited on behalf of the Board of Directors of the Company for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. This Proxy Statement and the enclosed Proxy will be mailed on or about March 19, 2021, to shareholders of record of the Company's Common Stock and Class B Common Stock as of the close of business on February 25, 2021.

At the Annual Meeting, holders of the Company's Common Stock, $3.00 par value per share ("Common Stock"), and Class B Common Stock, $3.00 par value per share ("Class B Common Stock"), will be asked to: (i) elect seven (7) individuals to the Board of Directors for a term of one year each, (ii) cast an advisory vote on the Company's executive compensation for its named executive officers; (iii) ratify the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2021, and (iv) transact any other business that may properly come before the meeting.

The Board of Directors recommends that the Company's shareholders vote (i) **FOR** electing the seven (7) nominees for director; (ii) **FOR** approving the Company's executive compensation of its named executive officers; and (iii) **FOR** ratifying the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2021.

RECORD DATE, VOTE REQUIRED AND RELATED MATTERS

The Board has fixed the close of business on February 25, 2021, as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting. In accordance with the Company's Charter, each outstanding share of Common Stock is entitled to one vote, and each outstanding share of Class B Common Stock is entitled to 20 votes, exercisable in person or by properly executed Proxy, on each matter brought before the Annual Meeting. Cumulative voting is not permitted. As of February 25, 2021, 14,557,435 shares of Common Stock, representing 14,557,435 votes, were held of record by approximately 3,900 shareholders (including an estimated 3,200 shareholders whose shares are held in nominee names) and 880,313 shares of Class B Common Stock, representing 17,606,260 votes, were held by 10 individual shareholders, together representing an aggregate of 32,163,695 votes.

Shares represented at the Annual Meeting by properly executed Proxy will be voted in accordance with the instructions indicated therein unless such Proxy has previously been revoked. If no instructions are indicated, such shares will be voted (i) **FOR** electing the seven (7) nominees for director; (ii) **FOR** approving the Company's executive compensation of its named executive officers; and (iii) **FOR** ratifying the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2021.

Any Proxy given pursuant to this solicitation may be revoked at any time by the shareholder giving it by (i) delivering to the Corporate Secretary of the Company a written notice of revocation bearing a later date than the Proxy, (ii) submitting a later-dated, properly executed Proxy, or (iii) revoking the Proxy and voting in person at the Annual Meeting. Attendance at the Annual Meeting will not, in and of itself, constitute a revocation of a Proxy. Any written notice revoking a Proxy should be sent to The Dixie Group, Inc., P.O. Box 2007, Dalton, Georgia 30722-2007, Attention: Derek Davis.

The persons designated as proxies were selected by the Board of Directors and are Daniel K. Frierson, Lowry F. Kline and Michael L. Owens. The cost of solicitation of Proxies will be borne by the Company.

The presence, in person or by Proxy, of the holders of a majority of the aggregate outstanding vote of Common Stock and Class B Common Stock entitled to vote is necessary to constitute a quorum at the Annual Meeting. In accordance with

Tennessee law, Directors are elected by the affirmative vote of a plurality of the votes cast in person or by Proxy at the Annual Meeting.

Approval of the Company's executive compensation for its named executive officers will be deemed to have been obtained if the number of votes properly cast in favor of such compensation exceeds the number of votes cast against such compensation.

Ratification of the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2021 will be approved if the votes properly cast favoring ratification exceed the votes cast opposing ratification.

Shares covered by abstentions and broker non-votes, while counted for purposes of determining the presence of a quorum at the Annual Meeting, are not considered to be affirmative or negative votes. Abstentions and broker non-votes will have no effect upon the election of a nominee for director, so long as such nominee receives any affirmative votes.

A copy of the Company's Annual Report for the year-ended December 26, 2020, is enclosed herewith.

The Board is not aware of any other matter to be brought before the Annual Meeting for a vote of shareholders. If, however, other matters are properly presented, Proxies representing shares of Common Stock and Class B Common Stock will be voted in accordance with the best judgment of the proxy holders.

PRINCIPAL SHAREHOLDERS

Shareholders of record at the close of business on February 25, 2021, the Record Date, will be entitled to notice of and to vote at the Annual Meeting.

The following is information regarding beneficial owners of more than 5% of the Company's Common Stock or Class B Common Stock. Beneficial ownership information is also presented for (i) the executive officers named in the Summary Compensation Table (the "Named Executive Officers"); (ii) all directors and nominees; and (iii) all directors and executive officers, as a group, as of February 25, 2021 (except as otherwise noted).

Name and Address of Beneficial Owner	Title of Class	Number of Shares Beneficially Owned(1)(2)		% of Class	
Daniel K. Frierson					
111 East and West Road	Common Stock	960,539	(3)	6.2	%
Lookout Mountain, TN 37350	Class B Common Stock	880,313	(4)	100	%
Jeffrey L. Gendell					
1 Sound Shore Drive, Suite 304	Common Stock	1,437,547	(5)	9.9	%
Greenwich, CT 06830-7251					
Hodges Capital Holdings, Inc.					
2905 Maple Avenue	Common Stock	1,385,900	(6)	9.5	%
Dallas, TX 75201					
Robert E. Shaw					
115 West King Street	Common Stock	1,125,000	(7)	7.7	%
Dalton, GA 30722-1005					

Additional Directors and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1)		% of Class	
William F. Blue, Jr.	Common Stock	33,571	(8)		*
Charles E. Brock	Common Stock	25,341	(9)		*
D. Kennedy Frierson, Jr.	Common Stock	269,620	(10)	1.8	%
	Class B Common Stock	251,400	(4)	28.6	%
Lowry F. Kline	Common Stock	68,699	(11)		*
Hilda S. Murray	Common Stock	25,341	(12)		*
T.M. Nuckols, Jr.	Common Stock	51,339	(13)		*
Michael L. Owens	Common Stock	21,175	(14)		*
All Directors, Named Executive Officers and Executive Officers as Group (10 Persons) **	Common Stock	1,303,445	(15)	**8.4**	%
	Class B Common Stock	880,313	(16)	**100**	%

* *Percentage of shares beneficially owned does not exceed 1% of the Class.*

** *The total vote of Common Stock and Class B Common Stock represented by the shares held by all directors and executive officers as a group is **18,029,391** votes or **56.1%** of the total vote.*

(1) Under the rules of the Securities and Exchange Commission and for the purposes of these disclosures, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, or “investment power,” which includes the power to dispose or to direct the disposition of such security. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities. The Class B Common Stock is convertible on a share-for-share basis into shares of Common Stock, and accordingly, outstanding shares of such stock are treated as having been converted to shares of Common Stock for purposes of determining both the number and percentage of class of Common Stock for persons set forth in the table who hold such shares.

(2) Does not include 151,937 shares of Common Stock owned by The Dixie Group, Inc. 401(k) Retirement Savings Plan (the “401(k) Plan”) for which Daniel K. Frierson is a fiduciary and for which Bank of America, N.A. serves as Trustee. Participants in the 401(k) Plan may direct the voting of all shares of Common Stock held in their accounts, and the Trustee must vote all shares of Common Stock held in the 401(k) Plan in the ratio reflected by such direction. Participants may also direct the disposition of such shares. Accordingly, for purposes of these disclosures, shares held for participants in the 401(k) Plan are reported as beneficially owned by the participants.

(3) Mr. Daniel K. Frierson's beneficial ownership of Common Stock and Class B Common Stock may be summarized as follows:

	Number of Shares Common Stock		Number of Shares Class B Common Stock	
Shares held outright	34,640		422,708	(a)
Shares held in his Individual Retirement Account	3,567	(a)	17,061	(a)
Shares held in 401(k) Plan	796	(a)	—	
Shares held by his wife	—		94,879	(c)
Shares held by his children, their spouses and grandchildren	30,922	(b)	309,622	(c)
Unvested restricted stock	10,301	(a)	30,557	(a)
Shares held by family Unitrust	—		5,486	(a)
Deemed conversion of his Class B Common Stock	880,313		—	
Total	960,539		880,313	

Total does not include 40,000 shares of Non Exercisable Stock Options.

(a) Sole voting and investment power
(b) Shared voting and investment power
(c) Sole voting and shared investment power

(4) The 880,313 includes 409,987 shares of Class B Common Stock held subject to a Shareholder's Agreement among Daniel K. Frierson, his wife, two of their five children (including D. Kennedy Frierson, Jr., his son) and certain family trusts which hold Class B Common Stock, pursuant to which Daniel K. Frierson has been granted a proxy to vote such shares. The Shareholder's Agreement relates only to shares of Class B Common Stock held by each of the parties to the agreement. Pursuant to the agreement Daniel K. Frierson is granted a proxy to vote such shares of Class B Common Stock so long as they remain subject to the agreement. The Class B Common Stock is convertible on a share for share basis into shares of Common Stock; however, upon conversion such shares are no longer subject to the agreement. Nevertheless, the parties to the agreement may be deemed to be members of a "group" for purposes of Section 13(d) of the act and for purposes of reporting beneficial ownership of the Common Stock of The Dixie Group, Inc., and accordingly Daniel K. Frierson, and the other parties to the agreement have jointly filed a report on Schedule 13(d) reporting beneficial ownership of the Common Stock which they own.

(5) Jeffrey L. Gendell. has reported the beneficial ownership of an aggregate of 1,437,547 shares of Common Stock for which he has 1,437,547 shared voting power and 1,437,547 shared dispositive power and 47,235 sole voting and sole dispositive power (with Tontine Asset Associates, LLC). The reported information is based upon the Schedule 13G filed by Tontine Asset Associates, LLC and Mr. Gendell, managing member of Tontine Asset Associates, LLC, with the Securities and Exchange Commission on Feburary 11, 2021.

(6) Hodges Capital Holdings, Inc., Craig Hodges, Hodges Capital Management, Inc., Hodges Fund, Hodges Small Intrinsic Value Fund, and First Dallas Securities, Inc. has reported beneficial ownership of an aggregate of 1,385,900 shares of Common Stock. Hodges Capital Holdings, Inc. reports having shared voting power of 1,127,845 and 1,385,900 shared dispositive power. The reported information is based upon the Schedule 13G filed by Hodges Capital Holdings, Inc. with the Securities and Exchange Commission on February 2, 2021.

(7) Robert E. Shaw has reported the beneficial ownership of an aggregate of 1,125,000 shares of Common Stock for which he has 1,125,000 shared voting power and 1,125,000 shared dispositive power. The reported information is based upon the Schedule 13G filed by Mr. Shaw with the Securities and Exchange Commission on January 25, 2021.

(8) Mr. William F. Blue's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	12,609
Performance Units, convertible into shares of Common Stock on retirement as a director	20,962
Total	33,571

(9) Mr. Charles E. Brock's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	—
Performance Units, convertible into shares of Common Stock on retirement as a director	25,341
Total	25,341

(10) Mr. D. Kennedy Frierson Jr.'s beneficial ownership may be summarized as follows:

	Number of Shares Common Stock	**Number of Shares Class B Common Stock**	
Shares held outright	7,365	102,025	(a)
Shares held by his wife	100	—	
Shares held in trust(s) for children	2,585	15,540	(a)
Shares held in 401(k)	2,301	—	
Unvested Restricted Stock	5,869	133,835	(a)
Exercisable Stock Options	—	—	
Deemed conversion of Class B Stock	251,400	—	(a)
Total	269,620	251,400	

Total does not include 25,000 shares of Non Exercisable Stock Options.

(a) Subject to Shareholder's Agreement described in Note (4), above. Mr. Kennedy Frierson has sole investment power, and no voting power with respect to such shares.

(11) Mr. Lowry F. Kline's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	31,198
Performance Units, convertible into shares of Common Stock on retirement as a director	37,501
Total	68,699

(12) Ms. Hilda S. Murray's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	—
Performance Units, convertible into shares of Common Stock on retirement as a director	25,341
Total	25,341

(13) Mr. T.M. Nuckols, Jr.'s beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	22,175
Unvested Restricted Stock	29,164
Total	51,339

Total does not include 15,000 shares of Non Exercisable Stock Options.

(14) Mr. Michael L. Owens' beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	—
Performance Units, convertible into shares of Common Stock on retirement as a director	21,175
Total	21,175

(15) Includes: (i) 190,402 shares of Common Stock owned directly by individuals in this group; (ii) 7,909 shares of Common Stock allocated to accounts in the 401(k) Plan of members of this group; (iii) 130,320 shares of Common Stock held pursuant to performance units issued as payment of one-half of the annual retainer for the Company's non-employee directors; (iv) 22,188 shares of Common Stock owned by immediate family members of certain members of this group; (v) 3,567 shares held in individual retirement accounts; (vi) 68,746 unvested restricted shares of Common Stock held by individuals in this group, which shares may be voted by such individuals; and (vii) 880,313 shares of Class B Common Stock held by individuals in this group, that could be converted on a share for share basis into shares of Common Stock. This total excludes options which are not yet vested of 99,000 shares of Common Stock. The options excluded will vest once the average of the high and low share price of the Company's Common Stock shall be at least $7.00 per share for a period of 5 consecutive days, prior to the option expiration date of May 30, 2022.

(16) Includes: (i) 880,313 shares of Class B Common Stock held subject to the Shareholder Agreement described in Note (4) above.

PROPOSAL ONE
ELECTION OF DIRECTORS

Information About Nominees for Director

Pursuant to the Company's Bylaws, all Directors are elected to serve a one year term, or until their successors are elected and qualified. The Board of Directors is permitted to appoint Directors to fill the unexpired terms of Directors who resign.

The names of the nominees for election to the Board, their ages, their principal occupation or employment (which has continued for at least the past five years unless otherwise noted), directorships held by them in other publicly-held corporations or investment companies, the dates they first became Directors of the Company, and certain other relevant information with respect to such nominees are as follows:

William F. Blue, Jr., age 62, is Chairman of the Board of The Hopeway Foundation in Charlotte, North Carolina. From 2008 until his retirement in 2014, he served as Vice Chairman of Investment Banking and Capital Markets, part of Wells Fargo Securities, LLC, in Charlotte. Throughout his 29-year investment banking career, he represented foreign and domestic corporations in financing and advisory assignments, including acquisitions, divestitures, recapitalizations, fairness opinions, and public and private equity and debt offerings. From 1998 until 2008, Mr. Blue served as group head of the Wachovia Consumer and Retail Investment Banking group. Before joining Wachovia, he was a managing director in the Mergers and Acquisitions group of NationsBanc Montgomery Securities, the predecessor firm to Banc of America Securities. Mr. Blue is Chairman of the Company's Compensation Committee, a member of the Company's Audit Committee, and a member of the Company's Executive Committee. He has been a Director of the Company since October 2014.

Charles E. Brock, age 56, is the owner of Brock Partnerships, an entrepreneurial advisory and investment firm. From 2013-2018, Mr. Brock served as President and Chief Executive Officer of Launch Tennessee, a public-private partnership, focused on the development of high-growth companies in Tennessee. Previously, he served as the Executive Entrepreneur of The Company Lab, a Chattanooga organization that serves as "the Front Door for Entrepreneurs" in Southeast Tennessee and one of Launch Tennessee's regional accelerators. Mr. Brock was a founding partner of the Chattanooga Renaissance Fund, a locally based angel investment group. Mr. Brock also serves as a director of Four Bridges Capital Advisors, a Chattanooga based boutique investment bank as well as director of Pinnacle Financial Partners. Mr. Brock is a member of the Company's Audit Committee and a member of the Company's Nominations and Corporate Governance Committee. He has been a Director of the Company since 2012.

Daniel K. Frierson, age 79, is Chairman of the Board of the Company, a position he has held since 1987. He also has been Chief Executive Officer of the Company since 1980 and a Director of the Company since 1973. Mr. Frierson serves as a director of Astec Industries, Inc., a manufacturer of specialized equipment for building and restoring the world's infrastructure headquartered in Chattanooga, Tennessee, and Printpack, Inc., a world leading Flexible Packaging Company, headquartered in Atlanta, Georgia. Mr. Frierson is Chairman of the Executive Committee.

D. Kennedy Frierson, Jr., age 54, is Chief Operating Officer of the Company, a position he has held since 2009. He has been President of Masland Residential, General Manager of Dixie Home, President of Bretlin as well as various other positions in operations, sales and senior management of the Company since 1998. He has been a Director of the Company since 2012.

Lowry F. Kline, age 80, served as a director of Coca-Cola Enterprises, Inc. from April 2000 until April 2008, serving as Chairman from April 2002 until April 2008, and as Vice Chairman from April 2000 to April 2003. Mr. Kline served as Chief Executive Officer of Coca-Cola Enterprises, Inc. from April 2001 until January 2004 and from December 2005 to April 2006. Prior to becoming Chief Executive Officer for Coca-Cola Enterprises, Inc., he held a number of positions with said company, including Chief Administrative Officer, Executive Vice President and General Counsel. Mr. Kline is a former director of Jackson Furniture Industries, Inc., headquarter in Cleveland, Tennessee and McKee Foods Corporation, headquartered in Collegedale, Tennessee. Mr. Kline is a member of the Company's Compensation Committee, a member of the Company's Audit Committee, and is a member of the Company's Executive Committee. He has been a Director of the Company since 2004.

Hilda S. Murray, age 66, is the Corporate Secretary and Executive Vice President of TPC Printing & Packaging, a specialty packaging and printing company in Chattanooga, TN. She is also founder and President of Greener Planet, LLC, an environmental compliance consultant to the packaging and printing industry. Ms. Murray has been a Director of the Company since 2012, is a member of the Company's Audit Committee, and is Chairman of the Company's Nominations and Corporate Governance Committee.

Michael L. Owens, age 64, is Assistant Dean of Graduate Programs and Lecturer in the College of Business at the University of Tennessee at Chattanooga, Chattanooga, Tennessee. Prior to joining the University of Tennessee at Chattanooga, Mr. Owens was President of Coverdell & Company, Atlanta, Georgia. Prior to joining Coverdell, he was Senior Vice President and Chief Operating Officer of Monumental Life Insurance Company. He has been a Director of the Company since 2014 and is

Chairman of the Company's Audit Committee and a member of the Company's Nominations and Corporate Governance Committee.

D. Kennedy Frierson, Jr., the Company's Vice President and Chief Operating Officer, is the son of Daniel K. Frierson. No other director, nominee, or executive officer of the Company has any family relationship, not more remote than first cousin, to any other director, nominee, or executive officer.

Considerations with Respect to Nominees

In selecting the slate of nominees for 2021, the independent Directors of the Board considered the familiarity of the Company's incumbent Directors with the business and prospects of the Company, developed as a result of their service on the Company's Board. The Board believes that such familiarity will be helpful in their service on the Company's Board. With respect to all nominees, the independent Directors of the Board noted the particular qualifications, experience, attributes and skills possessed by each nominee. These qualifications are reflected in the business experience listed under each nominee's name above. In order of the list of nominees, such information may be summarized as follows: Mr. Blue is an experienced investment banker having been Vice Chairman of Wells Fargo Securities and involved with capital formation, mergers, acquisitions and financing of various types of venture; he chairs the Company's Compensation Committee. Mr. Brock is experienced in establishing new businesses having been involved in the establishment of both Foxmark Media and CapitalMark Bank and Trust. Mr. Daniel K. Frierson has served with the Company in several management and executive capacities his entire adult life, and has been Chief Executive Officer since 1980 and a Board member since 1973. In such capacity, he has been instrumental in planning and implementing the transition of the Company to its current position as a manufacturer of residential and commercial floorcovering products. Additionally, Mr. Frierson has experience as a board member of other public companies as well as significant trade group experience relevant to the Company's business. He is well known and respected throughout the industry. Mr. D. Kennedy Frierson, Jr. has served with the Company in various capacities since 1992. He is currently Chief Operating Officer and has most recently led the Company's AtlasMasland Commercial business. Ms. Murray has a long history of executive management experience at TPC Printing and Packaging, a provider to the specialty packaging business as well as experience with environmental controls and footprint through Greener Planet. Mr. Kline has a long history of management and board level experience with the world's largest bottler and distributor of Coca Cola Products. Additionally, he has an extensive background in business, corporate and securities law. Mr. Kline has served as a Director of the Company for several years, as reflected above. Mr. Owens has extensive business and management experience, having served as President of Coverdell & Company prior to joining the University of Tennessee at Chattanooga. In addition, he has auditing experience having been employed as a certified public accountant and is Chairman of the Company's Audit Committee.

The Board of Directors recommends that the Company's shareholders vote FOR electing the seven (7) nominees for director.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors

The Board of Directors of the Company met eight (8) times in 2020.

Committees, Attendance, and Directors' Fees

The Company has a standing Executive Committee, Audit Committee, Compensation Committee, and Nominations and Corporate Governance Committee. Copies of the Charters of the Company's Audit Committee, Compensation Committee and Nominations and Corporate Governance Committees, and the current resolution establishing the Executive Committee's authority may be found on the Company's website at www.dixiegroup.com/Investor.

Members of the Executive Committee are Daniel K. Frierson, Chairman, William F. Blue, Jr. and Lowry F. Kline. Except as otherwise limited by law or by resolution of the Board of Directors, the Executive Committee has and may exercise all of the powers and authority of the Board of Directors for the management of the business and affairs of the Company, which power the Executive Committee exercises between the meetings of the full Board of Directors. The Executive Committee met four (4) times in 2020.

Members of the Audit Committee are Michael L. Owens, Chairman, William F. Blue, Jr., Charles E. Brock, Lowry F. Kline, and Hilda S. Murray. All of the members of the Audit Committee are "independent directors" as that term is defined by applicable regulations and rules of the National Association of Securities Dealers, Inc. ("NASD"). The Audit Committee evaluates audit performance, handles relations with the Company's independent auditors, and evaluates policies and procedures relating to internal accounting functions and controls. The Audit Committee has the authority to engage the independent accountants for the Company. The Audit Committee operates pursuant to an Audit Committee Charter adopted by the Board of Directors. The Audit Committee has implemented pre-approval policies and procedures related to the provision of audit and non-audit services performed by the independent auditors. Under these procedures, the Audit Committee approves the type of services to be provided and the estimated fees related to those services.

The Audit Committee met five (5) times in 2020.

Members of the Compensation Committee are William F. Blue, Jr., Chairman, and Lowry F. Kline. The Compensation Committee administers the Company's compensation plans, reviews and may establish the compensation of the Company's officers, and makes recommendations to the Board of Directors concerning such compensation and related matters. The Compensation Committee acts pursuant to a written Charter adopted by the Board of Directors.

The Compensation Committee may request recommendations from the Company's management concerning the types and levels of compensation to be paid to the Company's executive officers. Additionally, the Compensation Committee is authorized to engage compensation consultants and may review and consider information and recommendations of compensation consultants otherwise engaged by the Company or the Board of Directors in connection with the assessment, review and structuring of compensation plans and compensation levels. For a description of the Compensation Committee actions with respect to Compensation of Executive Officers in 2020, see ***Compensation Discussion and Analysis - Compensation for 2020.***

Annually, the Compensation Committee reviews the performance of the Chief Executive Officer against goals and objectives established by the Committee as part of the process of determining his compensation. The Compensation Committee reports to the Board on its performance review.

The Compensation Committee met two (2) times in 2020.

The members of the Nominations and Corporate Governance Committee in 2020 were Hilda S. Murray, Chairman, Charles E. Brock, and Michael L. Owens. The Nominations and Corporate Governance Committee develops and recommends for board approval corporate governance guidelines.

The Nominations and Corporate Governance Committee's Charter includes the duties of a nominating committee. Nominees approved by a majority of the Committee are recommended to the full Board. In selecting and approving director nominees, the Committee considers, among other factors, the existing composition of the Board and the mix of Board members appropriate for the perceived needs of the Company. The Committee believes continuity in leadership and board tenure increase the Board's ability to exercise meaningful board oversight. Because qualified incumbent directors provide stockholders the benefit of continuity of leadership and seasoned judgment gained through experience as a director of the Company, the Committee will generally give priority as potential candidates to those incumbent directors interested in standing for re-election who have satisfied director performance expectations, including regular attendance at, preparation for and meaningful participation in Board and committee meetings.

The Nominations and Corporate Governance Committee also considers the following in selecting the proposed nominee slate:

- at all times at least a majority of directors must be "independent" in the opinion of the Board as determined in accordance with relevant regulatory and NASD standards;
- at all times at least three members of the Board must satisfy heightened standards of independence for Audit Committee members; and
- at all times the Board should have at least one member who satisfies the criteria to be designated by the Board as an "audit committee financial expert".

In selecting the current slate of director nominees, the Committee considered overall qualifications and the requirements of the makeup of the Board of Directors. The Board considered the value of the incumbents' familiarity with the Company and its business as well as the considerations outlined above under the heading ***Considerations with Respect to Nominees***.

The Nominations and Corporate Governance Committee met one (1) time in 2020.

Board Leadership Structure

Mr. Daniel K. Frierson currently serves as the Chairman of the Board and the Chief Executive Officer of the Company. The positions of Chief Executive Officer and Chairman of the Board are combined. Executive Sessions of the Board are chaired by Director Lowry F. Kline, who, as noted above, has extensive management and Board experience independent of his experience with the Company. Mr. Kline and the independent directors set their own agenda for meetings in Executive Session and may consider any topic relevant to the Company and its business. The Company believes that regular, periodic, meetings held in Executive Session, in the absence of management members or management directors, provide the Board an adequate opportunity to review and address issues affecting management or the Company that require an independent perspective. Additionally, the Company's Audit Committee holds separate Executive Sessions with the Company's independent registered public accounts, internal auditor and management. The Audit Committee also sets its own agenda and may consider any relevant topic in its executive sessions.

Director Attendance

During 2020, no director attended fewer than 75% of the total number of meetings of the Board of Directors and any Committee of the Board of Directors on which he served. All directors are invited and encouraged to attend the annual meeting of shareholders. In general, all directors attend the annual meeting of shareholders unless they are unable to do so due to unavoidable commitments or intervening events.

Director Compensation

Directors who are employees of the Company do not receive any additional compensation for their services as members of the Board of Directors. Non-employee directors receive an annual retainer of $36,000, payable one-half in cash and one-half in value of Performance Units (subject to a $5.00 per share minimum value for determination of the number of performance units to be issued). Performance Units are redeemable upon a director's retirement for an equivalent number of shares of the Company's Common Stock. In addition to the annual retainer, directors who are not employees of the Company receive $1,500 for each Board meeting attended and $1,000 for each committee meeting attended. Chairmen of the Audit and Compensation committees receive an additional annual payment of $8,000 and the Chairman of the Nominations and Corporate Governance Committee receives an additional annual payment of $4,000. For an additional discussion of Director Compensation, see the tabular information below under the heading, **"Director Compensation."**

Independent Directors

The Board has determined that William F. Blue, Jr., Charles E. Brock, Lowry F. Kline, Hilda S. Murray, and Michael L. Owens are independent within the meaning of the standards for independence set forth in the Company's corporate governance guidelines, which are consistent with the applicable Securities and Exchange Commission ("SEC") rules and NASDAQ standards.

Executive Sessions of the Independent Directors

The Company's independent directors meet in executive session at each regularly scheduled quarterly meeting of the Board, with Director Lowry Kline serving as chair of such executive sessions.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, and regulations of the SEC thereunder, require the Company's executive officers and directors and persons who beneficially own more than 10% of the Company's Common Stock, as well as certain affiliates of such persons, to file initial reports of such ownership and monthly transaction reports covering any changes in such ownership with the SEC and the National Association of Securities Dealers. Executive officers, directors and persons owning more than 10% of the Company's Common Stock are required by SEC regulations to furnish the Company with all such reports they file. Based on its review of the copies of such reports received by it, the Company believes that, during fiscal year 2020, all filing requirements applicable to its executive officers, directors, and owners of more than 10% of the Company's Common Stock have been met.

Management Succession

Periodically, the Board reviews a succession plan, developed by management, addressing the policies and principles for selecting successors to the Company's executive officers, including the Company's CEO. The succession plan includes an assessment of the experience, performance and skills believed to be desirable for possible successors to the Company's executive officers.

Certain Transactions between the Company and Directors and Officers

The Company's Nominations and Corporate Governance Committee has adopted written policies and procedures concerning the review, approval or ratification of all transactions required to be disclosed under the SEC's Regulation S-K, Rule 404. These policies and procedures cover all related party transactions required to be disclosed under the SEC's rules as well as all material conflict of interest transactions as defined by relevant state law and the rules and regulations of NASDAQ that are applicable to the Company, and require that all such transactions be identified by management and disclosed to the committee for review. If required and appropriate under the circumstances, the committee will consider such transactions for approval or ratification. Full disclosure of the material terms of any such transaction must be made to the committee, including:

- the parties to the transaction and their relationship to the Company, its directors and officers;
- the terms of the transaction, including all proposed periodic payments; and
- the direct or indirect interest of any related parties or any director, officer or associate in the transaction.

To be approved or ratified, the committee must find any such transaction to be fair to the Company. Prior approval of such transactions must be obtained generally, if they are material to the Company. If such transactions are immaterial, such transactions may be ratified and prior approval is not required. Ordinary employment transactions may be ratified.

Certain Related Party Transactions

During its fiscal year ended December 26, 2020, the Company purchased 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. Mr. Shaw has reported holding approximately 7.7% of the Company's Common Stock, which, as of year-end, represented 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 products to the Company. Total purchases from Engineered Floors for 2020 were approximately $4.5 million; or approximately 1.9% of the Company's cost of goods sold in 2020. In accordance with the terms of its charter, the Nominations and Corporate Governance Committee reviewed the Company's supply relationship with Engineered Floors. The dollar value of Mr. Shaw's interest in the transactions with Engineered Floors is not known to the Company.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of the Board of Directors is composed of five members, each of whom is an independent, non-employee director. The Audit Committee operates under a written Audit Committee Charter adopted and approved by the Board of Directors. The Charter is reviewed at least annually by the Committee. While the Committee has the responsibilities and powers set forth in its written charter, it is not the duty of the Committee to plan or conduct audits. This function is conducted by the Company's management and its independent registered public accountants.

The Committee has reviewed and discussed with management the audited financial statements of the Company for the year ended December 26, 2020 (the "Audited Financial Statements"). In addition, the Committee has discussed with Dixon Hughes Goodman LLP all matters required by applicable auditing standards.

The Committee also has received the written report, disclosure and the letter from Dixon Hughes Goodman required by PCAOB Rule 3526, "Communication with Audit Committees Concerning Independence", and the Committee has reviewed, evaluated, and discussed with that firm the written report and its independence from the Company. The Committee also has discussed with management of the Company and Dixon Hughes Goodman LLP such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee has recommended to the Company's Board of Directors the inclusion of the Company's Audited Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 26, 2020, to be filed with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

Michael L. Owens, Chairman
William F. Blue, Jr.
Charles E. Brock
Lowry F. Kline
Hilda S. Murray

AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that Michael L. Owens, Chairman of the Audit Committee, is an audit committee financial expert as defined by Item 407(d)(5) of Regulation S-K of the Securities Exchange Act of 1934, as amended, and is independent within the meaning of Rule 10A-3(b)(l) of the Securities Exchange Act of 1934 of the Securities Exchange Act of 1934. For a brief list of Mr. Owens' relevant experience, please refer to Mr. Owens' biographical information as set forth in the Election of Directors section of this proxy statement. Additionally, the Board believes the remaining members of the Audit Committee would qualify as audit committee financial experts, within the meaning of applicable rules, based on each individual's qualification and expertise.

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee sets compensation for the Company’s executive officers, and its decisions are reported to and reviewed by the Board of Directors. The Compensation Committee currently consists of two independent directors chosen annually by the Board.

Compensation of the Company’s executive officers is intended to be competitive with compensation offered by other companies generally similar to the Company in size and lines of business. In determining what types and levels of compensation to offer, the Committee may review relevant, publicly available data and, from time to time, it may receive advice and information from professional compensation consultants.

The Elements of Executive Officer Compensation

Compensation for each of the Company’s executive officers consists generally of base salary, retirement plan benefits and other customary employment benefits, as well as potential cash incentive awards and stock plan awards pursuant to an annual incentive plan reviewed and adopted by the Committee at the beginning of each year. The annual incentive plan is customarily structured so that a significant portion of each executive’s potential annual compensation may consist of equity awards, the award value of which is tied to accomplishing both financial and non-financial goals and objectives.

Compensation for 2020. Effective February of 2020, the Compensation Committee selected performance goals and a range of possible incentives for the Company’s 2020 Incentive Plan (the “2020 Plan”). Pursuant to the 2020 Plan, each executive officer had the opportunity to earn a Cash Incentive Award, a Primary Long-Term Incentive Award of restricted stock, and an award of restricted stock denominated as “Career Shares.” The potential range of cash incentives and conditions to vesting of the restricted stock awards are described below under the heading “Potential Incentive Awards for 2020”.

In March 2020, the pandemic caused by the outbreak of the COVID-19 virus began affecting the Company’s business and the flooring industry as a whole. The business downturn in March and April was dramatic. Considerable uncertainty surrounded the possible duration and extent of the pandemic, as well as the possible effect of the pandemic on the Company’s operations. Accordingly, the Committee elected to wait until year end to assess the impact of the pandemic on the 2020 Plan, reserving to itself the discretion, granted under the terms of the plan, to treat the pandemic and its effects as an unusual event. As such, the Committee was authorized to preserve the potential award structure of the 2020 Plan (described in detail below) and evaluate the performance criteria established by the plan in light of the effects of the pandemic on the Company, its operations and its financial results.

The 2020 Plan also required an evaluation of various individual goals and objectives for each executive officer participating in the plan. The Committee determined that, in each case, the Company’s executive officers had achieved a high level of success with respect to their individual goals and objectives. The Company realized material improvements in many aspects of its operations: residential sales increased dramatically; waste was reduced and service levels significantly improved; products using alternate yarn systems were successfully developed and introduced to the market; the Company’s supplier base was broadened and expanded; inventory levels improved (once the worst of the COVID-19 disruptions was past); safety dramatically improved; the Company’s long term debt and credit arrangements were improved and restructured; and expenses were significantly controlled.

Considering the foregoing factors the Committee determined that the Company’s residential performance had reached the maximum level of success as measured by the 2020 Plan, and that the corporate level of performance had reached a level midway between the plan’s target and maximum levels. The Committee determined that the Company’s commercial business failed to reach the plan’s target levels, notwithstanding adjustment for disruptions caused by the pandemic. The following awards were then granted under the plan: Cash Incentive awards were paid pursuant to the 2020 Plan to the Company’s Named Executive Officers: Daniel K. Frierson - $478,125; D. Kennedy Frierson - $244,800; and T.M. Nuckols - $162,938. The following Career Shares were awarded: Daniel K. Frierson- 25,000; Kennedy Frierson - 22,400; and T.M. Nuckols - 11,000. The following Long-Term Incentive Plan Shares were awarded: Daniel K. Frierson - 77,219; D. Kennedy Frierson - 39,536; and T.M. Nuckols - 30,656. Continued employment at the time of payment and award is a requirement under the 2020 Incentive plan; accordingly, awards earned under the 2020 Incentive Plan will be reported as income for 2021. In accordance with the terms of the 2020 Plan, all cash incentives were paid, and all share awards were granted in March 2021.

For 2020, each executive officer also received customary retirement plan benefits and other customary employment benefits, as in prior years.

Salary for 2020 and 2021. The base salaries for the executive officers were adjusted during 2020 to reflect the impact of the COVID-19 pandemic. The Chief Executive Officer's salary was reduced by 15% for a period of six and one-half months. All other executive officers' salaries were reduced by 10% for a period of six and one-half months. See the 2020 Summary Compensation Table for a tabular presentation of the amount of salary and other compensation elements paid in proportion to total compensation for each named executive officer.

Potential Incentive Awards for 2020. The CEO and all executive officers whose responsibilities primarily relate to corporate level administration had the opportunity to earn a cash payment ranging from 15% to no more than 105% of such executive’s base salary (from 45% to 105% for the Chief Executive Officer and Chief Operating Officer, and from 15% to 75% for all other officers). Fifty percent of the amount of the potential award was based on achievement of specified levels of operating income from continuing operations for the Company, as adjusted for unusual items, 30% of the amount was based on achievement of specified levels of operating income of the Company's residential business operations, as adjusted for unusual items, and 20% of the amount was based on achievement of specified levels of the Company's commercial business operating income, as adjusted for unusual items. As noted above, the Committee treated the COVID-19 pandemic as an unusual item in its evaluation of results for 2020.

Executive officers whose responsibilities primarily relate to one of the Company's business units, had the opportunity to earn a cash payment ranging from 15% to no more than 75% of such participant's base salary. Fifty-five percent of the amount was based on achievement of specified levels of their annual business unit operating income, as adjusted for unusual items, 30% was based on the achievement of specified levels of the Company's consolidated operating income, as adjusted for unusual items, and 15% was based on achievement of specified levels of the annual operating income of the Company's other business units, as adjusted for unusual items. As noted above, the Committee treated the COVID-19 pandemic as an unusual item in its evaluation of results for 2020.

The Primary Long-Term Incentive Share Award was designed as a possible award of restricted shares, in value equal to no more than 35% of the executive's base salary as of the beginning of 2020 plus any cash incentive award paid for such year. Any Primary Long-Term Incentive Share Awards, if earned, vest ratably over three years.

Career Shares were designed as a possible award of restricted stock valued at 20% of each executive officer's base salary as of the beginning of the year, excluding the Company's Chief Operating Officer. The level of career share awards was set at 35% of the Chief Operating Officer's base salary for 2020.

In accordance with past practice, any such award, if earned, would be granted in 2021. For participants age 61 or older, the Career Share Awards vest ratably over two years from the date of the grant. For the participants age 60 or younger, shares vest ratably over five years from the date of grant after the participant reaches age 61.

Additionally, all Share Awards are subject to vesting or forfeiture under certain conditions as follows: death, disability or a change in control will result in immediate vesting of all Share Awards; termination without cause will also result in immediate vesting of all Career Share Awards and in immediate vesting of that portion of Long-Term Incentive Share Awards that have been expensed; voluntary termination of employment prior to retirement, or termination for cause will result in forfeiture of all unvested awards; to the extent that the Company has recognized compensation expense related to the shares subject to the awards, such amounts vest at retirement age and are paid out by March 15th of the subsequent year.

All awards of restricted stock are subject to a $5.00 minimum price per share when determining the number of shares awarded. The Compensation Committee retained the discretion to reduce any award by up to 30% of the amount otherwise earned based on the participant's failure to achieve individual performance goals set by the committee.

Incentive Compensation Applicable to 2021. Following year-end, the Committee adopted an incentive plan for 2021 providing for possible cash incentive awards and restricted stock awards in the form of Long-Term Incentive Share Awards and Career Share awards, as in prior years, and similar in structure to the annual plan adopted for 2020. The Committee reserved to itself the discretion to increase as well as reduce awards based on its evaluation of various factors applicable to the plan and each participant. The Committee was authorized to modify the plan and the assessment of individual performance based on unusual or extraordinary items. Any such awards, if earned, will be paid, in the case of the cash award, or granted, in the case of the restricted stock awards, in March 2022.

Retirement Plans and Other Benefits. The Company's compensation for its executive officers also includes the opportunity to participate in two retirement plans, one qualified and one non-qualified for federal tax purposes, and certain health insurance, life insurance, relocation allowances, and other benefits. Such benefits are designed to be similar to the benefits available to other exempt, salaried associates of the Company, and to be comparable to and competitive with benefits offered by businesses with which the Company competes for executive talent.

Executive officers may elect to contribute a limited amount of their compensation to the qualified plan and make deferrals into the non-qualified plan (up to 90% of total compensation). Although the plans permit the Company to make discretionary contributions in an aggregate amount equal to up to 3% of the executive officer's cash compensation, for 2020 the Company made a contribution of 1% to the qualified plan, while no Company contributions were made to the non-qualified plan.

Compensation Considerations for 2020 and 2021. The tax effect of possible forms of compensation on the Company and on the executive officers is a factor considered in determining types of compensation to be awarded. Similarly, the accounting treatment accorded various types of compensation may be an important factor used to determine the form of compensation. The deductibility, for tax purposes, of compensation paid to named executive officers is subject to limits imposed by Section 162 of the Internal Revenue Code. Annual compensation exceeding $1 million is non-deductible. Accordingly, all compensation in excess of $1 million paid to any of the Company's Named Executive Officers (and the Chief Financial Officer) in any given year will be non-deductible.

The Company held a "Say on Pay" vote at its annual meeting in 2020. At that meeting, in excess of 94% of the votes were cast "For" approval of our executive compensation as described in the Proxy Statement for that meeting. The Committee intends to consider these results as part of its ongoing review of executive compensation.

Termination Benefits. Upon a Participant's reaching retirement age (as defined in the plan), all Long-Term Incentive Plan and Career Share restricted stock awards vest to the extent such awards have been expensed in the Company's financial statements. As of year-end, Daniel K. Frierson is the only Named Executive Officer eligible for retirement in accordance with the terms of the restricted stock awards. If Mr. Frierson had retired at year end, the number of shares subject to such awards that would have vested and the value of such shares would have been 17,190 shares and $44,866. For purposes of valuing the foregoing awards, the Company used the year-end market value of the Company's Common Stock, which was $2.61 /share.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis, set forth above, with management.

Based on our review and the discussions we held with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Proxy Materials.

Respectfully submitted,

William F. Blue, Jr., Chairman
Lowry F. Kline

EXECUTIVE COMPENSATION INFORMATION

The following table sets forth information as to all compensation earned during the fiscal years ended December 28, 2019 and December 26, 2020 for (i) the Company's Chief Executive Officer; and (ii) the two other most highly compensated executive officers who served as such during the fiscal year ended December 26, 2020 (the “Named Executive Officers”). For a more complete discussion of the elements of executive compensation, this information should be read in conjunction with the other tabular information presented in the balance of this section.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(4)	Stock Awards ($)(2)(4)	Option Awards ($)	Nonqualified Compensation Earnings ($)(3)	All Other Compensation ($)(5)	Total ($)
Daniel K Frierson Chief Executive Officer	2020	574,219	—	70,000	—	—	5,895	650,114
	2019	625,000	—	—	—	—	5,629	630,629
D. Kennedy Frierson, Jr. Chief Operating Officer	2020	302,667	—	62,720	—	—	5,593	370,980
	2019	320,000	—	—	—	—	5,407	325,407
T.M. Nuckols, Vice President, President Residential	2020	260,104	—	30,800	—	—	5,219	296,123
	2019	275,000	—	—	—	—	4,922	279,922

(1) Includes all amounts deferred at the election of the Named Executive Officer.

(2) Amounts reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for the year presented of stock awards to the Named Executive Officers. Continued employment is a condition of the Plan so the grant date is in the year after the year for which the performance was earned.

(3) The Dixie Group does not provide above-market or preferential earnings on deferred compensation. The Named Executive Officers did not participate in any defined benefit or actuarial pension plans for the periods presented.

(4) Continued employment at the time of grant and payment is required under the 2020 Incentive Plan; accordingly, bonuses and stock awards earned under the plan will be reported as compensation for 2021.

(5) The following table is a summary and quantification of all amounts included in All Other Compensation.

All Other Compensation

Name	Year	Registrant Contributions to Defined Contributions Plans ($)	Insurance Premiums ($)	Other ($)(1)	Total Perquisites and Other Benefits($)
Daniel K. Frierson	2020	2,800	3,095	—	5,895
	2019	2,750	2,879	—	5,629
D. Kennedy Frierson, Jr.	2020	2,800	2,793	—	5,593
	2019	2,750	2,657	—	5,407
T.M. Nuckols	2020	—	2,618	—	2,618
	2019	2,750	2,172	—	4,922

(1) No named Executive Officer received any tax reimbursement, discounted securities purchases, or payment or accrual on termination for the period presented.

The following table sets forth information concerning outstanding equity awards for each of the Named Executive Officers at fiscal year-end.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards	
Name	Exercisable (#)	Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Option (#)	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(a)
Daniel K. Frierson	—	40,000	—	4.59	5/30/2022	40,858	106,639
D. Kennedy Frierson, Jr.	—	25,000	—	4.59	5/30/2022	139,704	419,323
T.M. Nuckols	—	15,000	—	4.17	5/30/2022	29,164	76,118

a. The market value of the restricted stock set forth in the table has been calculated by multiplying the closing price of the Company’s Common Stock at year-end ($2.61/share) by the number of shares of unvested restricted stock subject to the award.

DIRECTOR COMPENSATION

Name	Fees earned or paid in cash ($)(1)	Stock Awards ($)(2)	Option Awards ($)	All Other Compensation ($)	Total ($)
William F. Blue, Jr.	40,500	2,700	—	—	43,200
Charles E. Brock	30,000	2,700	—	—	32,700
Lowry F. Kline	38,500	2,700	—	—	41,200
Hilda S. Murray	34,500	2,700	—	—	37,200
Michael L. Owens	37,500	2,700	—	—	40,200

(1) Directors who are employees of the Company do not receive any additional compensation for their services as members of the Board of Directors. Non-employee directors receive an annual retainer of $36,000, payable $18,000 in cash and the remainder in Performance Units (subject, for payments made in 2020, to a $5.00 minimum value per unit). For 2020 the value awarded was $13,052 in Performance Units determined as of the date of grant. In addition to the annual retainer, directors who are not employees of the Company received $1,500 for each Board meeting attended and $1,000 for each committee meeting attended. Chairmen of the Audit and Compensation committees receive an additional annual payment of $8,000 and the Chairman of the Nominations and Corporate Governance Committee receives an additional annual payment of $4,000. Also, directors receive reimbursement of the expenses they incur in attending all board and committee meetings.

(2) The value presented is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718, using the annual meeting date as the grant date.

At fiscal year-end, each non-employee director was issued the following outstanding equity awards, with respect to service for 2020:

Name	Performance Units (#)(1)
William F. Blue, Jr.	3,600
Charles E. Brock	3,600
Lowry F. Kline	3,600
Hilda S. Murray	3,600
Michael L. Owens	3,600

(1) The performance units represent an equal number of shares of the Company's Common Stock. At year-end, the aggregate value of such stock was $46,980 determined by multiplying the number of performance units issued by the year-end per share market value of the Company's Common Stock ($2.61/share).

PROPOSAL TWO

ADVISORY VOTE ON EXECUTIVE COMPENSATION

As required under recent amendments to the Securities Exchange Act of 1934, our stockholders may cast an advisory vote on the compensation of our Named Executive Officers, as described in this proxy statement.

Our executive compensation programs are designed to attract, motivate and retain our Named Executive Officers, who are critical to our success. Please read the *Compensation Discussion and Analysis* for additional details about our executive compensation programs, including information about the fiscal 2020 compensation of our Named Executive Officers.

We are asking our Shareholders to indicate their approval of our Named Executive Officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our Named Executive Officers' compensation.

We recommend that stockholders vote, on an advisory basis, "FOR" the following resolution:

"**RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the Company's named executive officers, as discussed and disclosed in the *Compensation Discussion and Analysis*, the executive compensation tables and related narrative executive compensation disclosure in this proxy statement**."

The above resolution will be deemed to be approved if it receives the affirmative vote of a majority of the total votes cast on the Proposal Two at the annual meeting. Abstentions and broker non-votes are not considered to be votes cast and, accordingly, will have no effect on the outcome of the vote. As this vote is an advisory vote, the outcome is not binding on us with respect to future executive compensation decisions, including those relating to our Named Executive Officers. Our Board of Directors and our Compensation Committee, however, value the opinions of our stockholders, and to the extent there is any significant vote against the Named Executive Officer compensation as disclosed in this proxy statement, the Compensation Committee will consider our stockholders' concerns and will evaluate whether any actions are necessary to address those concerns.

The Board of Directors recommends that the Company's shareholders vote FOR the approval of Proposal Two.

PROPOSAL THREE

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR 2021

Subject to ratification of its decision by the Company's shareholders, the Company has selected the firm of Dixon Hughes Goodman LLP to serve as its independent registered public accountants for its 2021 fiscal year. A representative of Dixon Hughes Goodman LLP is expected to be present at the Annual Meeting and will have the opportunity to make a statement if he so desires and to respond to appropriate questions from shareholders.

The Board of Directors recommends that the Company's shareholders vote FOR Proposal Three.

In the event that the Company's shareholders do not ratify the selection of Dixon Hughes Goodman LLP as independent registered public accountants for fiscal 2021, the Board of Directors will consider other alternatives, including appointment of another firm to serve as independent registered public accountants for fiscal 2021.

AUDIT FEES DISCUSSION

The following table sets forth the fees paid to Dixon Hughes Goodman LLP for services provided during fiscal year 2019 and 2020:

	2020	2019
Audit fees paid to Dixon Hughes Goodman LLP (1)	$ 603,642	$ 649,670
Tax fees (2)	$ 1,450	$ 1,425
All other fees (3)	$ 10,000	$ —
Total Audit Fees	$ 615,092	$ 651,095

1. Represents fees for professional services paid to Dixon Hughes Goodman LLP provided in connection with the audit of the Company's annual financial statements, review of the Company's quarterly financial statements, review of other SEC filings and technical accounting issues during 2019 and 2020.
2. Represents fees for tax compliance and tax planning services.
3. Represents fees related to the S-8 Registration Statement filing.

It is the policy of the Audit Committee to pre-approve all services provided by its independent registered public accountants. In addition, the Audit Committee has granted the Chairman of the Audit Committee the power to pre-approve any services that the Committee, as a whole, could approve. None of the fees were approved by the Audit Committee pursuant to the de minimis exception of Reg. S-X T Rule 2-01(c)(7)(i)(C).

SHAREHOLDER PROPOSALS
FOR INCLUSION IN NEXT YEAR'S PROXY STATEMENT

In the event any shareholder wishes to present a proposal at the 2022 Annual Meeting of Shareholders, such proposal must be received by the Company on or before November 12, 2021, to be considered for inclusion in the Company's proxy materials. All shareholder proposals should be addressed to the Company at its principal executive offices, P.O. Box 2007, Dalton, Georgia 30722-2007, Attention: Corporate Secretary, and must comply with the rules and regulations of the Securities and Exchange Commission.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Shareholders who wish to communicate with members of the Board, including the independent directors individually or as a group, may send correspondence to them in care of the Corporate Secretary at the Company's corporate headquarters, P.O. Box 2007, Dalton, Georgia 30722-2007.

ADDITIONAL INFORMATION

The entire cost of soliciting proxies will be borne by the Company. In addition to solicitation of proxies by mail, proxies may be solicited by the Company's directors, officers, and other employees by personal interview, telephone, and telegram. The persons making such solicitations will receive no additional compensation for such services. The Company also requests that brokerage houses and other custodians, nominees and fiduciaries forward solicitation materials to the beneficial owners of the shares of Common Stock held of record by such persons and will pay such brokers and other fiduciaries all of their reasonable out-of-pocket expenses incurred in connection therewith.

OTHER MATTERS

As of the date of this Proxy Material, the Board does not intend to present, and has not been informed that any other person intends to present, any matter for action at the Annual Meeting other than those specifically referred to herein. If other matters should properly come before the Annual Meeting, it is intended that the holders of the proxies will vote in accordance with their best judgment.

The Dixie Group, Inc.

Daniel K. Frierson
Chairman of the Board

Dated: March 19, 2021

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DIRECTORS

Daniel K. Frierson (1)
Chairman of the Board and Chief Executive Officer, The Dixie Group, Inc.

William F. Blue, Jr. (1) (2) (4)
Chairman of the Board, The Hopeway Foundation

Charles E. Brock (3) (4)
Owner, Brock Partnerships

Lowry F. Kline (1) (2) (4)
Retired Chairman, Coca-Cola Enterprises, Inc.

D. Kennedy Frierson, Jr.
Chief Operating Officer, The Dixie Group, Inc.

Michael L. Owens (3) (4)
Assistant Dean of Graduate Programs & Lecturer, College of Business, University of Tennessee at Chattanooga

Hilda S. Murray (3) (4)
Corporate Secretary and Executive Vice President, TPC Printing & Packaging

(1) Member of Executive Committee
(2) Member of Compensation Committee
(3) Member of Nominations and Corporate Governance Committee
(4) Member of Audit Committee

OFFICERS

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

D. Kennedy Frierson, Jr.
Vice President and Chief Operating Officer

Allen L. Danzey
Vice President and Chief Financial Officer

W. Derek Davis
Corporate Secretary and Vice President, Human Resources

T.M. Nuckols
Vice President and President, Dixie Residential

CORPORATE INFORMATION

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The Dixie Group, Inc.
475 Reed Road
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(706) 876-5800

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Suite 2700
Atlanta, Georgia 30303

Legal Counsel
Miller & Martin PLLC
1200 Volunteer Building
832 Georgia Avenue
Chattanooga, Tennessee 37402

Investor Contact
Allen L. Danzey
Vice President and Chief Financial Officer
The Dixie Group, Inc.
475 Reed Road
Dalton, Georgia 30720
(706) 876-5865

Form 10-K and Other Information
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 2020, is included with this report.

Annual Meeting
The Annual Meeting of Shareholders of The Dixie Group, Inc. will be held at 8:00 A.M. EDT on May 5, 2021 at the Corporate Office in Dalton, Georgia.

Stock Listing
The Dixie Group's Common Stock is listed on the NASDAQ Global Market under the symbol DXYN.

Stock Transfer Agent
Computershare Investor Services, LLC
462 South 4th Street, Suite 1600
Louisville, Kentucky 40202

The Dixie Group maintains a website, www.thedixiegroup.com, where additional information about the Company may be obtained.

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T H E D I X I E G R O U P

The Dixie Group, Inc.
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