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

Form 10-Q

(Mark One)
R **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 28, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to __________

Commission File Number: 0-2585

THE DIXIE GROUP

THE DIXIE GROUP, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). R Yes ☐ No

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

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

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

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

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

Class	Outstanding as of October 31, 2019
Common Stock, $3 Par Value	15,525,141 shares
Class B Common Stock, $3 Par Value	836,669 shares
Class C Common Stock, $3 Par Value	0 shares

THE DIXIE GROUP, INC.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 28, 2019	December 29, 2018
ASSETS	**(Unaudited)**	
CURRENT ASSETS		
Cash and cash equivalents	$ 19	$ 18
Receivables, net	44,980	42,542
Inventories, net	98,507	105,195
Prepaids and other current assets	7,174	5,204
TOTAL CURRENT ASSETS	150,680	152,959
PROPERTY, PLANT AND EQUIPMENT, NET	78,594	84,111
OPERATING LEASE RIGHT-OF-USE ASSETS	7,795	—
OTHER ASSETS	17,140	15,708
TOTAL ASSETS	$ 254,209	$ 252,778
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 21,192	$ 17,779
Accrued expenses	33,724	30,852
Current portion of long-term debt	7,100	7,794
Current portion of operating lease liabilities	1,821	—
TOTAL CURRENT LIABILITIES	63,837	56,425
LONG-TERM DEBT	117,049	120,251
OPERATING LEASE LIABILITIES	6,390	—
OTHER LONG-TERM LIABILITIES	19,039	17,118
TOTAL LIABILITIES	206,315	193,794
COMMITMENTS AND CONTINGENCIES (See Note 19)		
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 15,525,141 shares for 2019 and 15,522,588 shares for 2018	46,575	46,568
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 836,669 shares for 2019 and 839,304 shares for 2018	2,510	2,518
Additional paid-in capital	156,766	156,390
Accumulated deficit	(156,826)	(146,384)
Accumulated other comprehensive income (loss)	(1,131)	(108)
TOTAL STOCKHOLDERS' EQUITY	47,894	58,984
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 254,209	$ 252,778

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
NET SALES	**$ 95,447**	$ 101,562	**$ 284,448**	$ 306,858
Cost of sales	**74,373**	79,675	**220,962**	238,247
GROSS PROFIT	**21,074**	21,887	**63,486**	68,611
Selling and administrative expenses	**21,036**	23,033	**63,810**	69,954
Other operating expense (income), net	**37**	(845)	**145**	421
Facility consolidation and severance expenses, net	**1,043**	529	**4,859**	936
Impairment of assets	**—**	349	**3**	349
OPERATING LOSS	**(1,042)**	(1,179)	**(5,331)**	(3,049)
Interest expense	**1,648**	1,664	**5,085**	4,840
Other income, net	**(4)**	(3)	**(42)**	—
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES	**(2,686)**	(2,840)	**(10,374)**	(7,889)
Income tax (benefit) provision	**(109)**	82	**25**	(110)
LOSS FROM CONTINUING OPERATIONS	**(2,577)**	(2,922)	**(10,399)**	(7,779)
Income (loss) from discontinued operations, net of tax	**23**	(40)	**(43)**	94
NET LOSS	**$ (2,554)**	$ (2,962)	**$ (10,442)**	$ (7,685)
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	**$ (0.16)**	$ (0.19)	**$ (0.66)**	$ (0.49)
Discontinued operations	**0.00**	(0.00)	**(0.00)**	0.01
Net loss	**$ (0.16)**	$ (0.19)	**$ (0.66)**	$ (0.48)
BASIC SHARES OUTSTANDING	**15,899**	15,786	**15,864**	15,754
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	**$ (0.16)**	$ (0.19)	**$ (0.66)**	$ (0.49)
Discontinued operations	**0.00**	(0.00)	**(0.00)**	0.01
Net loss	**$ (0.16)**	$ (0.19)	**$ (0.66)**	$ (0.48)
DILUTED SHARES OUTSTANDING	**15,899**	15,786	**15,864**	15,754
DIVIDENDS PER SHARE:				
Common Stock	**$ —**	$ —	**$ —**	$ —
Class B Common Stock	**—**	—	**—**	—

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
NET LOSS	**$ (2,554)**	$ (2,962)	**$ (10,442)**	$ (7,685)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized gain (loss) on interest rate swaps	**(159)**	261	**(1,264)**	1,389
Income taxes	**—**	—	**—**	—
Unrealized gain (loss) on interest rate swaps, net	**(159)**	261	**(1,264)**	1,389
Reclassification of loss into earnings from interest rate swaps (1)	**125**	150	**273**	555
Income taxes	**—**	—	**10**	—
Reclassification of loss into earnings from interest rate swaps, net	**125**	150	**263**	555
Reclassification of net actuarial gain into earnings from postretirement benefit plans (2)	**(7)**	(7)	**(19)**	(22)
Income taxes	**—**	—	**—**	—
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	**(7)**	(7)	**(19)**	(22)
Reclassification of prior service credits into earnings from postretirement benefit plans (2)	**(1)**	(1)	**(3)**	(3)
Income taxes	**—**	—	**—**	—
Reclassification of prior service credits into earnings from postretirement benefit plans, net	**(1)**	(1)	**(3)**	(3)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(42)**	403	**(1,023)**	1,919
COMPREHENSIVE LOSS	**$ (2,596)**	$ (2,559)	**$ (11,465)**	$ (5,766)

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

See accompanying notes to the consolidated condensed financial statements.

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

	Nine Months Ended	
	September 28, 2019	September 29, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	**$ (10,399)**	$ (7,779)
Income (loss) from discontinued operations	**(43)**	94
Net loss	**(10,442)**	(7,685)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	**8,846**	9,396
Provision for deferred income taxes	**64**	23
Net loss (gain) on property, plant and equipment disposals	**106**	(914)
Impairment of assets	**3**	349
Stock-based compensation expense	**387**	689
Bad debt expense	**182**	137
Changes in operating assets and liabilities:		
Receivables	**(2,620)**	(2,668)
Inventories	**6,688**	(4,555)
Prepaids and other current assets	**(1,970)**	(3,920)
Accounts payable and accrued expenses	**7,457**	333
Other operating assets and liabilities	**(701)**	433
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**8,000**	(8,382)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of property, plant and equipment	**9**	1,673
Purchase of property, plant and equipment	**(3,120)**	(2,900)
NET CASH USED IN INVESTING ACTIVITIES	**(3,111)**	(1,227)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) borrowings on revolving credit facility	**(5,431)**	12,495
Payments on notes payable - buildings	**(5,371)**	(548)
Payments on notes payable related to acquisitions	**—**	(791)
Borrowings on notes payable - equipment and other	**1,379**	3,273
Payments on notes payable - equipment and other	**(2,770)**	(3,302)
Payments on finance leases	**(3,122)**	(3,456)
Borrowings on finance leases	**11,500**	—
Change in outstanding checks in excess of cash	**(784)**	1,991
Repurchases of Common Stock	**(12)**	(58)
Payments for debt issuance costs	**(277)**	—
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(4,888)**	9,604
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1**	(5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**18**	19
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 19**	$ 14
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	**$ 3,866**	$ 4,077
Interest paid for financing leases	**1,039**	598
Right-of-use assets obtained in exchange for new operating lease liabilities	**402**	—
Income taxes paid, net	**110**	22
Right-of-use assets obtained in exchange for new finance lease liabilities	**52**	223

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

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**
Repurchases of Common Stock - 19,726 shares	(59)	—	4	—	—	(55)
Restricted stock grants issued - 297,292 shares	647	245	(892)	—	—	—
Class B converted into Common Stock - 6,250 shares	19	(19)	—	—	—	—
Stock-based compensation expense	—	—	227	—	—	227
Net loss	—	—	—	(2,908)	—	(2,908)
Other comprehensive income	—	—	—	—	1,024	1,024
Balance at March 31, 2018	**46,446**	**2,810**	**156,478**	**(127,908)**	**(275)**	**77,551**
Common Stock issued under Directors' Stock Plan - 39,711	119	—	(119)	—	—	—
Repurchases of Common Stock - 500 shares	(2)	—	—	—	—	(2)
Restricted stock grants forfeited - 6,196 shares	(18)	—	15	—	—	(3)
Stock-based compensation expense	—	—	231	—	—	231
Net loss	—	—	—	(1,815)	—	(1,815)
Other comprehensive income	—	—	—	—	492	492
Balance at June 30, 2018	**46,545**	**2,810**	**156,605**	**(129,723)**	**217**	**76,454**
Restricted stock grants issued - 10,000 shares	30	—	(30)	—	—	—
Stock-based compensation expense	—	—	234	—	—	234
Net loss	—	—	—	(2,962)	—	(2,962)
Other comprehensive income	—	—	—	—	403	403
Balance at September 29, 2018	**46,575**	**2,810**	**156,809**	**(132,685)**	**620**	**74,129**

See accompanying notes to the consolidated condensed financial statements.

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements which do not include all the information and notes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (generally consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements. The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in The Dixie Group, Inc.'s and its wholly-owned subsidiaries (the "Company") 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 29, 2018. Operating results for the three and nine month periods ended September 28, 2019 are not necessarily indicative of the results that may be expected for the entire 2019 year.

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

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted in Fiscal 2019

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "*Leases (Topic 842)*," which requires lessees to recognize on the Consolidated Condensed Balance Sheet right-of-use assets, representing the right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU No. 2018-11 providing an optional transition method allowing entities to apply the new lease standard at the adoption date and recognize a cumulative effect adjustment in the period of adoption. The Company has elected to take this transition method.

The Company adopted the new standard effective December 30, 2018, the first day of the Company's fiscal year. Consistent with the optional transition method allowed as part of the modified retrospective transition approach provided in ASU No. 2018-11, the Company did not adjust comparative periods. The new standard applied to leases that have commenced as of the effective date, December 30, 2018, with a cumulative effect adjustment recorded as of that date. The Company also elected to apply the package of practical expedients allowed in ASC 842-10-65-1 whereby the Company need not reassess whether any expired or existing contracts are or contain leases, the Company need not reassess the lease classification for any expired or existing leases, and the Company need not reassess initial direct costs for any existing leases. The Company's adoption of the ASU resulted in the addition of Right of Use Assets on the Consolidated Condensed Balance Sheet for the right to use the underlying assets of operating leases. The Company did not elect to use hindsight for transition when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset. In addition, the corresponding liability for the remaining balance of the operating leases is included in the liability section of the Consolidated Condensed Balance Sheet. For all asset classes, the Company elected to not recognize a right-of-use asset and lease liability for leases with a term of twelve months or less. The adoption of this ASU did not have a material adjustment to the Consolidated Statements of Stockholders' Equity or the Consolidated Condensed Statements of Operations.

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 public entities, ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company does not believe the adoption of this 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), will have a significant impact on the consolidated condensed financial statements due to the nature of the Company's customers and the limited amount of write-offs in past years.

In August 2018, the FASB issued ASU 2018-13, "*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. Early adoption is permitted upon issuance of this update and an entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until the effective date. 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 Company does not believe that the adoption of this ASU will have a significant impact on its consolidated condensed financial statements.

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

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

NOTE 3 - REVENUE

Revenue Recognition Policy

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

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

Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Company's revenue by end-user markets for the three and nine month periods ended September 28, 2019 and September 29, 2018:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
Residential floorcovering products	**$ 67,849**	$ 74,975	**$ 204,367**	$ 217,104
Commercial floorcovering products	**26,679**	26,144	**77,897**	88,386
Other services	**919**	443	**2,184**	1,368
Total net sales	**$ 95,447**	$ 101,562	**$ 284,448**	$ 306,858

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

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

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

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

Contract Balances

Other than receivables that represent an unconditional right to consideration, which are presented separately (See Note 4), the Company does not recognize any contract assets which give conditional rights to receive consideration, as the Company does not incur costs to obtain customer contracts that are recoverable. The Company often receives cash payments from customers in advance of the Company's performance for limited production run orders resulting in contract liabilities. These contract liabilities are classified in accrued expenses in the Consolidated Condensed Balance Sheets based on the timing of when the Company expects to recognize revenue, which is typically less than a year. The net decrease or increase in the contract liabilities is primarily driven by order activity for limited runs requiring deposits offset by the recognition of revenue and application of deposit on the receivables ledger for such activity during the period. The activity in the advanced deposits for the three and nine month periods ended September 28, 2019 and September 29, 2018 is as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
Beginning contract liability	**$ 5,299**	$ 6,724	**$ 6,013**	$ 5,717
Revenue recognized from contract liabilities included in the beginning balance	**(3,911)**	(4,685)	**(5,296)**	(5,188)
Increases due to cash received, net of amounts recognized in revenue during the period	**4,153**	3,892	**4,824**	5,402
Ending contract liability	**$ 5,541**	$ 5,931	**$ 5,541**	$ 5,931

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.

Warranties

The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products for a period of up to two years. The Company accrues for estimated future assurance warranty costs in the period in which the sale is recorded. The costs are included in Cost of Sales in the Consolidated Condensed Statements of Operations and the product warranty reserve is included in accrued expenses in the Consolidated Condensed Balance Sheets. The Company calculates its accrual using the portfolio approach based upon historical experience and known trends. (See Note 9.) The Company does not provide an additional service-type warranty.

Bill-and-Hold Arrangement

At the customer's request, the Company entered into a bill-and-hold arrangement with one customer. At the point of billing and recognition of revenue by the Company, the Company retained physical possession of the inventory, segregated the inventory and no longer had the ability to use or direct it to another customer. The inventory was available to be physically transferred to the customer at their request. As of September 28, 2019, substantially all orders had been shipped to the customer.

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

NOTE 4 - RECEIVABLES, NET

Receivables are summarized as follows:

	September 28, 2019	December 29, 2018
Customers, trade	$ 42,844	$ 40,121
Other receivables	2,418	2,595
Gross receivables	45,262	42,716
Less: allowance for doubtful accounts	(282)	(174)
Receivables, net	$ 44,980	$ 42,542

Bad debt expense was$51 and $182 for the three and nine months ended September 28, 2019 and$20 and $137 for the three and nine months ended September 29, 2018, respectively.

NOTE 5 - INVENTORIES, NET

Inventories are summarized as follows:

	September 28, 2019	December 29, 2018
Raw materials	$ 33,909	$ 36,875
Work-in-process	17,283	20,274
Finished goods	65,964	67,085
Supplies and other	223	190
LIFO reserve	(18,872)	(19,229)
Inventories, net	$ 98,507	$ 105,195

In the quarter ended March 30, 2019, the Company incurred an interim 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 the quarter 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:

	September 28, 2019	December 29, 2018
Land and improvements	$ 8,528	$ 8,528
Buildings and improvements	63,830	63,389
Machinery and equipment	183,259	183,900
Assets under construction	1,405	2,675
	257,022	258,492
Accumulated depreciation	(178,428)	(174,381)
Property, plant and equipment, net	$ 78,594	$ 84,111

Depreciation of property, plant and equipment, including amounts for finance leases, totaled$2,869 and $8,681 in the three and nine months ended September 28, 2019, respectively, and $2,961 and $9,012 in the three and nine months ended September 29, 2018, respectively.

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

NOTE 7 - GOODWILL AND OTHER INTANGIBLES

In the fourth quarter of 2018, it was determined that the carrying value of the Company's goodwill was greater than the calculated fair value and that its intangible assets, based on revised projections, were no longer recoverable. As a result of these full impairments, there was no amortization expense for the three and nine months ended September 28, 2019. Amortization expense for the three and nine months ended September 29, 2018 was $76 and $229, respectively.

NOTE 8 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	September 28, 2019	December 29, 2018
Compensation and benefits	$ 9,980	$ 8,186
Provision for customer rebates, claims and allowances	9,271	9,300
Advanced customer deposits	5,541	6,013
Outstanding checks in excess of cash	2,357	3,141
Other (1)	6,575	4,212
Accrued expenses	$ 33,724	$ 30,852

(1) Includes an accrual of $1,514 for the settlement of a class action lawsuit (See Legal Proceedings section under Note 19).

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Product warranty reserve at beginning of period	$ 1,082	$ 1,243	$ 1,069	$ 1,356
Warranty liabilities accrued	260	594	1,403	1,765
Warranty liabilities settled	(323)	(579)	(1,414)	(1,815)
Changes for pre-existing warranty liabilities	—	(167)	(39)	(215)
Product warranty reserve at end of period	$ 1,019	$ 1,091	$ 1,019	$ 1,091

NOTE 10 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	September 28, 2019	December 29, 2018
Revolving credit facility	$ 93,787	$ 99,219
Notes payable - buildings	6,317	11,688
Finance lease - buildings	11,340	—
Finance lease obligations	9,186	12,096
Notes payable - equipment and other	4,138	5,528
Deferred financing costs, net	(619)	(486)
Total long-term debt	124,149	128,045
Less: current portion of long-term debt	7,100	7,794
Long-term debt	$ 117,049	$ 120,251

Revolving Credit Facility

The revolving credit facility provides for a maximum of$150,000 of revolving credit, subject to borrowing base availability. The borrowing base is currently equal to specified percentages of the Company's eligible accounts receivable, inventories, fixed assets and real property less reserves established, from time to time, by the administrative agent under the facility. The revolving credit facility matures on September 23, 2021. The revolving credit facility is secured by a first priority lien on substantially all of the Company's assets. Subsequent to September 28, 2019, the Company has entered into amendments to the credit agreement with Wells Fargo Capital Finance. See "Note 24 - Subsequent Event" for further explanation.

At the Company's election, advances of the revolving credit facility bear interest at annual rates equal to either (a) LIBOR for one, two or three-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 plus0.5%, or a daily LIBOR rate plus 1.00%, plus an applicable margin ranging between0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases. As of September 28, 2019, 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 0.375% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 4.46% at September 28, 2019 and 4.58% December 29, 2018, respectively.

The revolving credit facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations. The revolving credit facility restricts the Company's borrowing availability if its fixed charge coverage ratio is less than 1.1 to 1.0. During any period that the fixed charge coverage ratio is less than 1.1 to 1.0, the Company's borrowing availability is reduced by $16,500. As of September 28, 2019, the unused borrowing availability under the revolving credit facility was $24,594; however, since the Company's fixed charge coverage ratio was less than1.1 to 1.0, the unused availability accessible by the Company was $8,094 (the amount above $16,500) at September 28, 2019.

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%.

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 of1.25%. Under the Lease Agreement, the Company has two (2) consecutive options to extend the term of the Lease by ten years for each such option. This transaction was recorded as a failed sale and leaseback. The Company recorded a liability for the amounts received, will continue to depreciate the asset, and has imputed an interest rate so that the net carrying amount of the financial liability and remaining assets will be zero at the end of the lease term. Concurrently with the sale, the Company paid off the approximately $5,000 mortgage on the property to First Tennessee Bank National Association and terminated the related fixed interest rate swap agreement.

Finance Lease Obligations

The Company's finance lease obligations have terms ranging from3 to 7 years, bear interest ranging from3.55% to 7.76% 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.

Notes Payable - Equipment and Other

The Company's equipment financing notes have terms ranging from1 to 7 years, bear interest ranging from 1.00% to 7.68% 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.

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

NOTE 11 - LEASES

The Company determines if an arrangement is an operating lease or a financing lease at inception. 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. The Company generally 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 by amortizing the amount recorded as an asset on a straight-line basis over the lease term. Financing lease expense is comprised of both interest expense, which will be 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.

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

	Balance Sheet Location		September 28, 2019
Operating Leases:			
Operating lease right-of-use assets	Operating lease right-of-use assets	$	7,795
Current portion of operating lease liabilities	Current portion of operating lease liabilities		1,821
Noncurrent portion of operating lease liabilities	Operating lease liabilities		6,390
Total operating lease liabilities		$	8,211
Finance Leases:			
Finance lease right-of-use assets	Property, plant, and equipment, net	$	15,802
Current portion of finance lease liabilities	Current portion of long-term debt		4,082
Noncurrent portion of finance lease liabilities	Long-term debt		16,444
		$	20,526

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

		Three Months Ended		Nine Months Ended
		September 28, 2019		September 28, 2019
Operating lease cost	$	778	$	2,501
Finance lease cost:				
Amortization of lease assets		751		2,249
Interest on lease liabilities		354		1,039
Total finance lease costs	$	1,105	$	3,288

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

Other supplemental information related to leases is summarized as follows:

	September 28, 2019
Weighted average remaining lease term (in years):	
Operating leases	6.20
Finance leases	11.80
Weighted average discount rate:	
Operating leases	8.51%
Finance leases	6.69%
Cash paid for amounts included in the measurement of lease liabilities for the nine months ended September 28, 2019:	
Operating cash flows from operating leases	2,534
Operating cash flows from finance leases	1,039
Financing cash flows from finance leases	3,122

The following table summarizes the Company's undiscounted future minimum lease payments under non-cancellable contractual obligations for operating and financing liabilities as of September 28, 2019:

Fiscal Year	Operating Leases	Finance Leases
2019	643	1,382
2020	2,360	5,207
2021	1,986	4,347
2022	1,559	2,015
2023	877	1,283
Thereafter	3,351	17,082
Total future minimum lease payments (undiscounted)	10,776	31,316
Less: Present value discount	(2,565)	(10,790)
Total lease liability	8,211	20,526

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.

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

The following table reflects the fair values of assets and liabilities measured and recognized at fair value on a recurring basis on the Company's Consolidated Condensed Balance Sheets as of September 28, 2019 and December 29, 2018:

	September 28, 2019	December 29, 2018	Fair Value Hierarchy Level
Assets:			
Interest rate swaps (1)	**$ —**	$ 36	Level 2
Liabilities:			
Interest rate swaps (1)	**$ 1,972**	$ 1,008	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.

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the three and nine months ending September 28, 2019 or September 29, 2018. If any, the Company recognizes the transfers at the end of the reporting period.

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

	September 28, 2019		December 29, 2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 19**	**$ 19**	$ 18	$ 18
Notes receivable	**—**	**—**	282	282
Interest rate swaps	**—**	**—**	36	36
Financial liabilities:				
Long-term debt, including current portion	**103,623**	**103,697**	115,949	112,519
Finance leases, including current portion	**20,526**	**19,303**	12,096	11,723
Operating leases, including current portion	**8,211**	**8,211**	—	—
Interest rate swaps	**1,972**	**1,972**	1,008	1,008

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 outstanding as of September 28, 2019:

Type	**Notional Amount**		**Effective Date**	**Fixed Rate**	**Variable Rate**
Interest rate swap	$ 25,000		September 1, 2016 through September 1, 2021	3.105%	1 Month LIBOR
Interest rate swap	$ 25,000		September 1, 2015 through September 1, 2021	3.304%	1 Month LIBOR
Interest rate swap	$ 6,317	(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.

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

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

		Fair Value	
	Location on Consolidated Balance Sheets	**September 28, 2019**	December 29, 2018
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Prepaids and other current assets	**$ —**	$ 14
Interest rate swaps, long-term portion	Other assets	**—**	22
Total Asset Derivatives		**$ —**	$ 36
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Accrued expenses	**$ 799**	$ 335
Interest rate swaps, long-term portion	Other long-term liabilities	**1,173**	673
Total Liability Derivatives		**$ 1,972**	$ 1,008

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

	Amount of Gain or (Loss) Recognized in AOCIL on the effective portion of the Derivative			
	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
Derivatives designated as hedging instruments:				
Cash flow hedges - interest rate swaps	**$ (159)**	$ 261	**$ (1,264)**	$ 1,389

	Amount of Gain (Loss) Reclassified from AOCIL on the effective portion into Earnings (1)(2)			
	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
Derivatives designated as hedging instruments:				
Cash flow hedges - interest rate swaps	**$ (125)**	$ (150)	**$ (263)**	$ (555)

(1) The amount of gain (loss) reclassified from AOCIL is included in interest expense on the Company's consolidated condensed financial statements.
(2) The amount of loss expected to be reclassified from AOCIL into earnings during the next 12 months subsequent to September 28, 2019 is $799.

The Company recorded a gain of $38 for the settlement of the fixed interest rate swap agreement associated with the Saraland sale and leaseback.

NOTE 14 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company sponsors a 401(k) defined contribution plan that covers approximately 84% of the Company's current associates. This plan includes a mandatory Company match on the first 1% of participants' contributions. The Company matches the next 2% of participants' contributions if the Company meets prescribed earnings levels. The plan also provides for additional Company contributions above the 3% level if the Company attains certain additional performance targets. Matching contribution expense for this 401(k) plan was $95 and $112 for the three months ended September 28, 2019 and September 29, 2018, respectively, and $318 and $343 for the nine months ended September 28, 2019 and September 29, 2018, respectively.

Additionally, the Company sponsors a 401(k) defined contribution plan that covers approximately 16% of the Company's current associates at one facility who are under a collective-bargaining agreement. Under this plan, the Company generally matches participants' contributions, on a sliding scale, up to a maximum of2.75% of the participant's earnings. Matching contribution expense for the collective-bargaining 401(k) plan was $32 and $27 for the three months ended September 28, 2019 and September 29, 2018, respectively, and$109 and $94 for the nine months ended September 28, 2019 and September 29, 2018, respectively.

Non-Qualified Retirement Savings Plan

The Company sponsors a non-qualified retirement savings plan that allows eligible associates to defer a specified percentage of their compensation. The obligations owed to participants under this plan were $15,308 at September 28, 2019 and $13,943 at December 29, 2018 and are included in other long-term liabilities in the Company's Consolidated Condensed Balance Sheets. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company utilizes a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the plan. Amounts are invested in Company-owned life insurance in the Rabbi Trust and the cash surrender value of the policies was $15,437 at September 28, 2019 and $13,822 at December 29, 2018 and is included in other assets in the Company's Consolidated Condensed Balance Sheets.

Multi-Employer Pension Plan

The Company contributes to a multi-employer pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees. Expenses related to the multi-employer pension plan were $81 and $74 for the three months ended September 28, 2019 and September 29, 2018, respectively, and $251 and $247 for the nine months ended September 28, 2019 and September 29, 2018, respectively. If the Company were to withdraw from the multi-employer plan, a withdrawal liability would be due, the amount of which would be determined by the plan. The withdrawal liability, as determined by the plan, would be a function of contribution rates, fund status, discount rates and various other factors at the time of any such withdrawal.

NOTE 15 - INCOME TAXES

The effective tax rate for the nine months ending September 28, 2019 was0.2% compared with a benefit rate of1.4% for the nine months ending September 29, 2018. The Company maintains a full valuation allowance against the deferred tax assets resulting in only refundable credits and a small amount of state taxes being recognized in the tax expense for the first nine months of 2019. The Company is in a net deferred tax liability position of $642 and $568 at September 28, 2019 and December 29, 2018, respectively, which is included in other long-term liabilities in the Company's Consolidated Condensed Balance Sheets.

The Company accounts for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. Unrecognized tax benefits were $476 and $441 at September 28, 2019 and December 29, 2018, respectively. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of September 28, 2019 and December 29, 2018.

The Company and its subsidiaries are subject to United States federal income taxes, as well as income taxes in a number of state jurisdictions. The tax years subsequent to 2015 remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2014. A few state jurisdictions remain open to examination for tax years subsequent to 2013.

NOTE 16 - EARNINGS (LOSS) PER SHARE

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

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

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
Basic earnings (loss) per share:				
Loss from continuing operations	**$ (2,577)**	$ (2,922)	**$ (10,399)**	$ (7,779)
Less: Allocation of earnings to participating securities	**—**	—	**—**	—
Loss from continuing operations available to common shareholders - basic	**$ (2,577)**	$ (2,922)	**$ (10,399)**	$ (7,779)
Basic weighted-average shares outstanding (1)	**15,899**	15,786	**15,864**	15,754
Basic earnings (loss) per share - continuing operations	**$ (0.16)**	$ (0.19)	**$ (0.66)**	$ (0.49)
Diluted earnings (loss) per share:				
Loss from continuing operations available to common shareholders - basic	**$ (2,577)**	$ (2,922)	**$ (10,399)**	$ (7,779)
Add: Undistributed earnings reallocated to unvested shareholders	**—**	—	**—**	—
Loss from continuing operations available to common shareholders - basic	**$ (2,577)**	$ (2,922)	**$ (10,399)**	$ (7,779)
Basic weighted-average shares outstanding (1)	**15,899**	15,786	**15,864**	15,754
Effect of dilutive securities:				
Stock options (2)	**—**	—	**—**	—
Directors' stock performance units (2)	**—**	—	**—**	—
Diluted weighted-average shares outstanding (1)(2)	**15,899**	15,786	**15,864**	15,754
Diluted earnings (loss) per share - continuing operations	**$ (0.16)**	$ (0.19)	**$ (0.66)**	$ (0.49)

(1) Includes Common and Class B Common shares, excluding 461 thousand unvested participating securities.
(2) Shares issuable under stock option plans where the exercise price is greater than the average market price of the Company's Common Stock during the relevant period and directors' stock performance units have been excluded to the extent they are anti-dilutive. Aggregate shares excluded for the three and nine months ended September 28, 2019 were 364 thousand and for the three and nine months ended September 29, 2018 were 426 thousand.

NOTE 17 - STOCK COMPENSATION EXPENSE

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity instrument issued and records such expense in selling and administrative expenses in the Company's Consolidated Condensed Statements of Operations. The 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 was $100 and $387 for the three and nine months ended September 28, 2019, respectively, and $234 and $689 for the three and nine months ended September 29, 2018, respectively.

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

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 29, 2018	$ (383)	$ 275	$ (108)
Unrealized gain on interest rate swaps	(1,264)	—	(1,264)
Reclassification of loss into earnings from interest rate swaps, net of tax of $10	263	—	263
Reclassification of net actuarial gain into earnings from postretirement benefit plans	—	(19)	(19)
Reclassification of prior service credits into earnings from postretirement benefit plans	—	(3)	(3)
Balance at September 28, 2019	**$ (1,384)**	**$ 253**	**$ (1,131)**

NOTE 19 - COMMITMENTS AND CONTINGENCIES

Contingencies

The Company assesses its exposure related to legal matters, including those pertaining to product liability, safety and health matters and other items that arise in the regular course of its business. If the Company determines that it is probable a loss has been incurred, the amount of the loss, or an amount within the range of loss, that can be reasonably estimated will be recorded.

Environmental Remediation

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and estimable. Remediation obligations are accrued based on the latest available information and are recorded at undiscounted amounts. The Company regularly monitors the progress of environmental remediation. If studies indicate that the cost of remediation has changed from the previous estimate, an adjustment to the liability would be recorded in the period in which such determination is made. (See Note 22).

Legal Proceedings

The Company has been sued, together with the 3M Company and approximately 30 other carpet manufacturers, by the Gadsden (Alabama) Water Works in the circuit court of Etowah County Alabama [The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al, civil action No. 31-CV-2016-900676.00] and by the Town of Centre (Alabama) Water Works in the circuit court of Cherokee County Alabama [The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al, civil action No. 13-CV-2017-900049.00]. Both cases seek monetary damages and injunctive relief related to the use of certain chemical compounds in the manufacture and finishing of carpet products “in and around Dalton Georgia.” On motion of the defendants, the cases were removed to the U.S. District Court for the Northern District of Alabama (Middle Division) Case No. 4:16-CV-01755-SGC and Case No. 4:17-CV-01026-KOB. Subsequently, the Gadsden Water Works filed a motion to have the case remanded back to the state court and such motion has been granted. Currently, the Company joined several other co-defendants in filing a Petition for Writ of Mandamus with the Alabama Supreme Court asking for an Order directing the trial court to grant the Company’s and other codefendants’ motions to dismiss the Alabama-filed actions for lack of personal jurisdiction. The Petitions have been consolidated by the Alabama Supreme Court with the Town of Centre (Alabama) matter (described above). The Petitions are still pending and there is no statutory deadline for the court to issue a decision. The lawsuits allege that perflourinated compounds (“PFC”), perflourinated acid (“PFOA”) and perfluorooctane sulfonate (“PFOS”) manufactured by 3M were used in certain finishing and treatment processes by the defendants and, as a consequence of such use, were subsequently either discharged into or leached into the water systems around Dalton, Georgia. The Complaints seek damages that exceed $10, but are otherwise unspecified in amount in addition to injunctive relief and punitive damages. The Company intends to defend the matters vigorously and is unable to estimate the potential exposure to loss, if any, at this time.

On November 16, 2018 the Superior Court of the State of California granted preliminary approval of a class action settlement in the matter of Carlos Garcia v. Fabrica International, Inc. et al Orange County Superior Court Case No. 30-2017-00949461-CU-OE-CXC. The court further approved the procedures for Settlement Class Members to opt-out of or object to the Settlement. The terms of the settlement provide that Fabrica, a wholly owned subsidiary of the Company, has agreed to pay $1,514 (the “Gross Settlement Amount”) to fully resolve all claims in the Lawsuit, including payments to Settlement Class Members, Class Counsel’s attorneys’ fees and expenses, settlement administration costs, and the Class Representative’s Service Award. The amount of the proposed settlement was recorded during the quarter ended June 30, 2018. The deadline for class members to opt-out was February 1,

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

2019. The deadline for the plaintiff to file a motion for final approval of the class action settlement was March 29, 2019. The final fairness hearing took place on April 12, 2019 with final approval being granted.

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

The Company has been sued in the matter styled: The Canyons Grand Summit Resort Hotel Owners Association, Inc. v. The Dixie Group Inc. d/b/a Masland Contract Carpet, Case No. 190500139, in the Third District Court, State of Utah, Summit County, Silver Summit Department, which was filed on March 29, 2019. This claim seeks monetary damages of $500 over carpet sold for installation in a condominium complex. The Company intends to defend the matter vigorously and is unable to estimate the potential exposure to loss, if any, at this time.

See Note 21 under the Notes to Consolidated Condensed Financial Statements for discussion of a series of workers compensation claims filed related to the closure of manufacturing facilities in California.

NOTE 20 - OTHER (INCOME) EXPENSE, NET

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
Other operating expense (income), net:				
Loss (gain) on property, plant and equipment disposals	**$ 45**	$ (997)	**$ 106**	$ (914)
(Gain) loss on currency exchanges	**(27)**	42	**77**	39
Amortization of intangibles	**—**	76	**—**	229
Retirement (income) expenses	**57**	49	**33**	(17)
Miscellaneous (income) expense	**(38)**	(15)	**(71)**	1,084
Other operating expense (income), net	**$ 37**	$ (845)	**$ 145**	$ 421

Other income, net is summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
Other income, net:				
Post-retirement income	**$ (4)**	$ (5)	**(11)**	(14)
Interest income	**—**	—	**(38)**	—
Miscellaneous (income) expense	**—**	2	**7**	14
Other income, net	**$ (4)**	$ (3)	**$ (42)**	$ —

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

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.

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 includes 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 is focusing 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 is aligning its west coast production facilities, better utilizing its west coast real estate by moving production to its Santa Ana, California and Atmore, Alabama operations and preparing for more efficient distribution of its west coast products. Furthermore, the Company is re-configuring 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.

Expenses in the Profit Improvement Plan for the three months ended June 29, 2019 included$1,052 for post employment workers' compensation claims filed post employment by certain employees who were terminated as part of the closure and reorganization of the Company's west coast facilities. The Company is investigating these claims.

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

	Accrued Balance at December 29, 2018	2019 Expenses To Date (1)	2019 Cash Payments	Accrued Balance at September 28, 2019	As of September 28, 2019 Total Costs Incurred To Date	As of September 28, 2019 Total Expected Costs
Corporate Office Consolidation Plan	$ 98	$ 11	$ 63	$ 46	$ 827	$ 831
Profit Improvement Plan	846	4,848	5,327	367	8,642	9,038
Total All Plans	$ 944	$ 4,859	$ 5,390	$ 413	$ 9,469	$ 9,869
Asset Impairments	$ —	$ 3	$ —	$ —	$ 3,323	$ 3,323

	Accrued Balance at December 30, 2017	2018 Expenses To Date (1)	2018 Cash Payments	Accrued Balance at September 29, 2018
Corporate Office Consolidation Plan	$ 171	$ 6	$ 61	$ 116
Profit Improvement Plan	334	930	918	346
Totals	$ 505	$ 936	$ 979	$ 462
Asset Impairments	$ —	$ 349	$ —	$ —

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

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

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:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	**September 28, 2019**	September 29, 2018
Income (loss) from discontinued operations:				
Workers' compensation credits from former textile operations	**$ 33**	$ 7	**64**	222
Environmental remediation costs from former textile operations	**(10)**	(47)	**(107)**	(128)
Income (loss) from discontinued operations, before taxes	**$ 23**	$ (40)	**(43)**	94
Income tax benefit	**—**	—	**—**	—
Income (loss) from discontinued operations, net of tax	**$ 23**	$ (40)	**$ (43)**	$ 94

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 $1,744 as of September 28, 2019 and $1,728 as of December 29, 2018. 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 five-year lease with the seller of Atlas Carpet Mills, Inc. to lease three manufacturing facilities as part of the acquisition in 2014. The original lease agreements have expired and the Company has entered into new agreements for two of the three manufacturing facilities. The new lease agreements expired on September 30, 2019. The lessor was controlled by an associate of the Company until March of 2019. Rent paid to the lessor during the three and nine months ended September 28, 2019 was $123 and $497, respectively. Rent paid to the lessor during the three and nine months ended September 29, 2018 was $251 and $752, respectively. The lease was based on current market values for similar facilities.

The Company purchases a portion of its product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of the Company. An affiliate of Mr. Shaw holds approximately 7.2% of the Company's Common Stock, which represents approximately 3.5% of the total vote of all classes of the Company's Common Stock. Engineered Floors is one of several suppliers of such materials to the Company. Total purchases from Engineered Floors during the three and nine months ended September 28, 2019 were approximately $1,837 and $4,870, respectively; or approximately 2.5% and 2.2%, respectively, of the Company's cost of goods sold. Total purchases from Engineered Floors during the three and nine months ended September 29, 2018 were approximately $2,009 and $6,578, respectively; or approximately 2.5% and 2.8%, respectively, of the Company's cost of goods sold. Purchases from Engineered Floors are based on market value negotiated prices. The Company has no contractual commitments with Mr. Shaw associated with its business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by the Company's board of directors.

The Company is a party to a ten-year lease with the Rothman Family Partnership to lease a facility as part of the Robertex acquisition in 2013. The controlling principle of the lessor was an associate of the Company until June 30, 2018. Rent paid to the lessor during the three and nine months ended September 28, 2019 was $72 and $212, respectively. Rent paid to the lessor during the three and nine months ended September 29, 2018 was $70 and $208, respectively. The lease was based on current market values for similar facilities. In addition, the Company had a note payable to Robert P. Rothman related to the acquisition of Robertex Inc. The note matured on June 30, 2018.

NOTE 24 - SUBSEQUENT EVENT

Subsequent to the end of the quarter, the Company amended its credit agreement with Wells Fargo Capital Finance to reduce the size of the Senior Credit Facility from $150,000 to $120,000 and adjust the availability limitation related to the fixed coverage ratio (see note 10) from $16,500 to $15,000 upon closing of the sale lease back of the Susan Street property. The changes to the credit facility were implemented by the twelfth and thirteenth amendments to the credit agreement, effective October 3rd and October 22nd respectively. These amendments were intended to permit the sale and leaseback of the Company's Susan Street Facility and, upon completion of the sale, to adjust the credit agreement's borrowing base..

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 estimated gain on the sale transaction is $25,000. The net proceeds applied to reduce the Senior Credit Facility was $36,361.

Concurrent with the sale of the Susan Street facility, the Company (by a wholly-owned subsidiary) leased 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 or its subsidiary, including improvements to the roof and roof structure, non-equipment related electrical switchgear, HVAC, the parking lot, the external plumbing including fire loop, parking gates, walls and seismic activity related improvements. 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.

As part of Amendment Thirteen to the credit agreement an additional availability block of $5,000 was established to be reduced upon reaching a specially defined fixed charge coverage ratio of 1.10:1.0 for a consecutive period of 3 months or 6 months. Contingent upon reaching the desired fixed coverage ratio, the availability block will reduce to $2,500 when the three-month threshold is reached and $0 once reaching the six-month threshold. Amendment Thirteen also adjusted the size of the restricted borrowing availability that is triggered when the fixed charge coverage ratio is less than 1.1 to 1.0. Effective with the thirteenth amendment, and after giving effect to the "availability block", availability under the credit agreement is reduced by $20,000.

As of October 22, 2019, the accessible availability under the Senior Credit Facility was $22,047. Availability under the credit agreement will vary based on seasonal business factors and periodic changes to the qualified asset base, which consists of accounts receivable, inventories and fixed assets.

Subsequent to the end of the quarter, the Company's previously announced stock repurchase authorization became effective upon completion of the sale of the Susan Street facility. Pursuant to the previously announced authorization, the Company is authorized to purchase up to $5,900 of its shares during a period beginning with the date of the completion of the sale and ending in March 2020.

On October 28, 2019 payment was made in the amount of $1,528 previously approved court settlement of the Company's class action lawsuit in the matter of Carlos Garcia v. Fabrica International, Inc. et al Orange County Superior Court Case No. 30-2017-00949461-CU-OE-CXC. See Item 1 - Legal Proceedings for additional details regarding the lawsuit.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

FORWARD-LOOKING INFORMATION

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

OVERVIEW

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

Our business is primarily concentrated in areas of the soft floorcovering markets which include broadloom carpet, carpet tiles and rugs. However, over the past few years, there has been a significant shift in the flooring marketplace as hard surface products have grown at a rate much faster than soft surface products. We have responded to this accelerated shift to hard surface flooring by launching several initiatives in both our residential and commercial brands. Our commercial business offers luxury vinyl flooring (“LVF”) products under the Calibré brand in the commercial markets. Within the residential markets we are expanding our TRUCOR™ line with the introduction of TRUCOR Prime™ through our Dixie Home and Masland sales forces. This collection of products enhances our TRUCOR™ SPC offering. Our residential luxury vinyl flooring and wood sales experienced a greater than 40% increase in the third quarter of the current fiscal year as compared to the same period in the prior year. During the third quarter of 2019, we had great traction with our new TRUCOR™ SPC offering, including placement of over 2 thousand displays in the retail community, and by the end of the quarter, TRUCOR™ represented a significant percentage of our total luxury vinyl sales. During the fourth quarter of 2019, we are expanding our TRUCOR™ line with the addition of TRUCOR Prime™, a WPC construction, offered by our Dixie Home and Masland sales forces. By the end of 2019, we anticipate having over 4.8 thousand TRUCOR™ and TRUCOR Prime™ displays in the market. During the first quarter of 2020, we are expanding our TRUCOR™ rigid core offering with 47 new innovative products in the SPC and WPC constructions. To further drive growth in this segment, during the fourth quarter of 2019 and the first quarter of 2020, we are making investments in talent by adding hard surface sales people in key markets. These investments in product and talent will accelerate our hard surface growth going forward. In addition, we have expanded our soft surface product lines to take advantage of opportunities we perceive in the marketplace. In 2019, we launched Masland California Classics. This collection of 16 styles is manufactured and distributed out of our Santa Anna, California facility which will facilitate shorter delivery times to the core market. In our Dixie Home line, we are expanding the Pacific Living quick ship program, growing our offering from 10 to 19 styles with new retail displays and updated colors. Our Masland and Dixie Home customers in the western United States will benefit from the expansion of this program. Our Envision 6.6 collection, introduced in 2019, has been well received in the marketplace. This new program of products with high-end designs at moderate price points is aimed at reaching a wider range of customers. We have also updated our eNergy main street commercial collection to bring the latest styling and color selection to this segment of the market.

We began our Profit Improvement Plan in late 2017. This Plan included a review of all of our business processes though the primary focus was on the complete restructuring of our commercial business. Subsequent to our starting this plan, a decision by one of our key suppliers to exit the production of commercial piece dyeable yarns caused us to expand the commercial restructuring to be a complete integration of all aspects of the business.

As a result of this action, we have completed the combination of our Atlas and Masland businesses into one commercial business, now known as Atlas | Masland Contract. We have spent, through the third quarter of 2019, approximately $18.5 million in costs to implement the Profit Improvement Plan along with related inventory, intangible asset, and goodwill write-downs. We estimate the total costs of the Plan and related costs, once complete by the end of 2019, to be $18.9 million. The total annualized cost reductions of these restructuring efforts, once fully implemented, is approximately $18.7 million annually, as compared to our cost structure in 2017 when we began this process.

Invista made the decision to exit the production of most piece dyeable yarns for the commercial market, a major source of differentiation for the Atlas product line. Accordingly, we have begun to phase out products dependent on those yarns, and have begun introducing new products to replace those being phased out. The consolidation of our two commercial businesses has aided our response to this change, by reducing costs and simplifying our sales and product development efforts. These consolidation and associated restructuring costs are now substantially complete. We expect to incur $400 in additional consolidation related expenses in the fourth quarter of 2019 mainly due to write downs of dropped products as we continue to rationalize our product offering.

During the third quarter of 2019, our net sales decreased 6.0% compared with the third quarter of 2018. Our residential carpet product sales were down 10.9% for the quarter as compared to the prior year. Our residential carpet sales, without our mass merchant channel, was lower for the third quarter year over year period by 5.1%, thus stronger than our mass merchant channel. Sales to mass merchants have been impacted by one customer's ongoing strategy change regarding product placement of carpet at this mass merchant's retail facilities. We believe this ongoing strategy change by our customer will create a further decline in sales to the mass merchant channel in the future. Commercial product sales decreased 0.9% versus the prior year quarter while the industry, we believe, experienced a decrease in the low single digits. Our commercial luxury vinyl flooring sales were up over 40% comparing the third quarter of 2019 with the same quarter in 2018.

RESULTS OF OPERATIONS

Three and Nine Months Ended September 28, 2019 Compared with Three and Nine Months Ended September 29, 2018

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of Sales	77.9 %	78.5 %	77.7 %	77.6 %
Gross Profit	22.1 %	21.5 %	22.3 %	22.4 %
Selling and Administrative Expenses	22.0 %	22.7 %	22.4 %	22.8 %
Other Operating (Income) Expenses, Net	— %	(0.8)%	0.1 %	0.1 %
Facility Consolidation and Severance Expenses, Net	1.1 %	0.5 %	1.7 %	0.3 %
Impairment of Assets	— %	.3 %	— %	0.1 %
Operating Income (Loss)	(1.0)%	(1.2)%	(1.9)%	(0.9)%

Net Sales

Net sales for the quarter ended September 28, 2019 were $95.4 million, a decrease of 6.0% compared with net sales of $101.6 million for the year-earlier quarter. In the third quarter of 2019, residential floorcovering sales decreased 9.5% and net sales of commercial floorcovering increased 2.0% compared with the third quarter of 2018.

Net sales for the nine months ended September 28 2019 were $284.4 million, a decrease of 7.3% from the net sales of $306.9 million in the nine months ended September 29, 2018. In the first nine months of 2019, net sales of residential products decreased 5.9% and net sales of commercial products decreased 11.9% compared to the first nine months of 2018.

Gross Profit

Gross profit as a percentage of net sales was 22.1% in the third quarter of 2019 compared with 21.5% in the third quarter of 2018, or a .4 percentage point increase as a percentage of sales. The improved margin was mainly the result of a more favorable product mix in the commercial business.

As a percentage of net sales, gross profit declined .1% in the first nine months of 2019 compared with the first nine months of 2018. This decline was the result of lower sales volume resulting in under absorbed manufacturing costs.

Selling and Administrative Expenses

Selling and administrative expenses were $21.0 million in the third quarter of 2019 compared with $23.0 million in the year earlier period. Selling and administrative expenses as a percent of sales decreased by .7% over the same period in the prior year. Selling and administrative spending decreased primarily as a result of cost savings from the actions taken in the Profit Improvement Plan during 2018.

Selling and administrative expenses were $63.8 million in the first nine months of 2019 compared to $70.0 million in the same period of 2018. The decrease in expenses was primarily the result of cost reductions from the Profit Improvement Plan.

Other Operating (Income) Expense, Net

Other operating (income) expense, was a net expense of $37 thousand in the third quarter of 2019 compared with net income of $845 million in the third quarter of 2018. Third quarter 2019 net expense was primarily driven by loss on disposals offset slightly by gains on exchange rate adjustments. The net income in the third quarter of 2018 was primarily due to a large gain on sale of equipment.

For the nine months ended September 28, 2019, other operating (income) expense was a net expense of $145 thousand compared to a net expense of $421 thousand in the first nine months of 2018. 2019 expenses were primarily driven by loss on disposal and loss on currency exchange. The primary factors for the net expense in 2018 was the result of the settlement of a class action litigation partially offset by a gain on sale of equipment.

Facility Consolidation and Severance Expenses, Net

Facility consolidation and severance expenses associated with the Profit Improvement Plan totaled $1.0 million in the third quarter of 2019 compared with expense of $529 thousand in the third quarter of 2018. The expenses in the third quarter of 2019 were mainly comprised of facility consolidations, related costs of relocating inventory and inventory write downs related to discontinued products.

For the nine months ended September 28, 2019, facility consolidation and severance expenses totaled $4.9 million compared to $936 thousand in the same nine month period of the prior year. The expenses for the first nine months of 2019 reflect the higher activity in the period for exiting the plant on the West Coast, consolidating the commercial businesses and rationalizing the product offerings as part of the Profit Improvement Plan.

Operating Income (Loss)

We reported an operating loss of $1.0 million in the third quarter of 2019 compared with an operating loss of $1.2 million in the third quarter of 2018. Reduced spending in selling and administrative expenses and other operating expenses was offset by lower sales and higher facility consolidation expenses in the three months ended September 28, 2019 compared to the three months ended September 29, 2018.

For the nine months ended September 28, 2019, we reported an operating loss of $5.3 million compared to an operating loss of $3.0 million in the nine months ended September 29, 2018. The results for the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018 were negatively impacted by lower sales and higher facility consolidation expenses partially offset by lower expenses in other operating expenses and selling and administration expenses.

Interest Expense

Interest expense decreased $16 thousand in the first quarter of 2019. The result was driven by changes in debt and the applicable interest rates during the period.

For the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018, interest expense increased $245 thousand as a result of changes in debt and the applicable interest rates during the period.

.

Income Tax Provision (Benefit)

We recorded an income tax benefit of $109 thousand in the third quarter of 2019 compared to an income tax provision of $40 thousand in the third quarter of 2018.

The effective tax rate for the nine months ending September 28, 2019 was 0.2% compared with a benefit rate of 1.4% for the three months ending September 29, 2018. The Company maintains a full valuation allowance against the deferred tax assets resulting in only refundable credits and a small amount of state taxes being recognized in the tax expense for the first nine months of 2019. The Company is in a net deferred tax liability position of $642 and $568 at September 28, 2019 and December 29, 2018, respectively, which is included in other long-term liabilities in the Company's Consolidated Condensed Balance Sheets.

The Company accounts for uncertainty in income tax positions in accordance with accounting guidelines related to uncertain tax positions. Unrecognized tax benefits were $476 and $441 at September 28, 2019 and December 29, 2018, respectively. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of September 28, 2019 and December 29, 2018.

Net Income (Loss)

Continuing operations reflected a loss of $2.6 million, or $0.16 per diluted share, in the third quarter of 2019 compared with a loss of $2.9 million, or $0.19 per diluted share, in the same period in 2018. Discontinued operations reflected an income of $23 thousand, or $0.00 per diluted share, in the third quarter of 2019 compared with a loss of $40 thousand, or $0.00 per diluted share, in the same period in 2018. Including discontinued operations, we had a net loss of $2.6 million, or $0.16 per diluted share, in the third quarter of 2019 compared with a net loss of $3.0 million, or $0.19 per diluted share, in the third quarter of 2018.

For the nine months ended September 28, 2019, we had a loss from continuing operations of $10.4 million or $0.66 per diluted share. For the same period in 2018 we had a loss of $7.8 million or $0.49 per diluted share. Discontinued operations resulted in a loss of $43 thousand or $0.00 per diluted share for the nine months ended September 28, 2019 compared to an income of $94 thousand or $0.01 per diluted share in the first nine months of 2018. Including discontinued operations, we had a net loss of $10.4 million or $0.66 per diluted share in the nine month period ended September 28, 2019 compared with a net loss of $7.7 million or $0.48 per diluted share in the nine months ended September 29, 2018.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended September 28, 2019, cash provided by operations was $8.0 million. Accounts payable and accrued expenses increased $7.5 million and inventories decreased $6.7 million. This was offset by an increase in accounts receivable of $2.6 million and an increase in other current assets of $2.7 million. Accounts payable and accrued expenses increased as the result of the timing of accruals at month end, particularly on payroll. Inventory reductions are the result of positive initiatives in inventory planning. Accounts receivable increased primarily due to seasonal lows at the prior year end. Other current assets were impacted by the timing of payment of prepaid expenses.

Purchases of capital assets for the nine months ended September 28, 2019 resulted in a $3.1 million cash out flow to the business. Depreciation and amortization for the nine months ended September 28, 2019 were $8.8 million. We expect capital expenditures to be approximately $4 million in 2019 while depreciation and amortization is expected to be approximately $11.6 million. Planned capital expenditures in 2019 are primarily for new equipment.

During the nine months ended September 28, 2019, cash used in financing activities was $4.9 million. We had net borrowings on finance leases of $11.5 million. We had net reductions to our revolving credit facility and notes payable of $16.4 million. The cash provided by financing was used to fund the operations during the quarter.

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 and current sales levels. As of the nine months ended September 28, 2019, the unused borrowing under our revolving credit facility was $24.6 million. Our revolving credit facility requires us to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that borrowing availability is less than $16.5 million. Based upon the results for the period ended September 28, 2019, our fixed charge coverage ratio at quarter end was .14, which was less than 1.1 to 1.0, accordingly the unused availability accessible by us was $8.1 million (the amount above $16.5 million) at September 28, 2019. We continually monitor our sources of funding and may seek additional sources of funding to supplement our current liquidity requirements as necessary. We are continuing to improve utilization of our inventories, thus freeing up working capital. Significant additional cash expenditures above our normal liquidity requirements or significant deterioration in economic conditions could affect our business and require supplemental financing or other funding sources. There can be no assurance that such supplemental financing or other sources of funding can be obtained or will be obtained on terms favorable to us.

See footnote 24 with regard to subsequent events that had an effect on the company's liquidity.

Contractual Obligations

The following table summarizes our future minimum payments under contractual obligations as of September 28, 2019.

	Future Undiscounted Payments Due by Period (dollars in millions)						
	2019	2020	2021	2022	2023	Thereafter	Total
Debt	$ 0.7	$ 2.6	$ 95.2	$ 0.7	$ 0.4	$ 4.6	$ 104.2
Interest - debt (1)	1.0	4.1	3.1	0.3	0.3	0.3	9.1
Finance leases	1.0	4.0	3.4	1.2	0.5	10.3	20.4
Interest - finance leases	0.3	1.2	1.0	0.8	0.7	6.7	10.7
Operating leases	0.6	2.4	2.0	1.6	0.9	3.4	10.9
Purchase commitments	1.4	—	—	—	—	—	1.4
Totals	5.0	14.3	104.7	4.6	2.8	25.3	$ 156.7

(1) Interest rates used for variable rate debt were those in effect at September 28, 2019

Changes to Critical Accounting Policies

Our critical accounting policies were outlined in Management's Discussion and Analysis of Results of Financial Condition and Results of Operations in our 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission. During the first quarter ended March 30, 2019, we adopted the provisions of ASC 842, “Leases”. See Note 2, Recent Accounting Pronouncements and Note 11, Leases, in the notes to the Consolidated Condensed Financial Statements, related to the impact of the adoption on our financial statements and accounting policies.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk (Dollars in thousands)

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

At September 28, 2019, $43,787, or approximately 35% 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 after-tax impact of approximately $324 thousand.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13(a)-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of September 28, 2019, the date of the financial statements included in this Form 10-Q (the “Evaluation Date”). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

No changes in our internal control over financial reporting occurred during the quarter covered by this report that materially affected, or are reasonably likely to affect, our internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We have been sued, together with the 3M Company and approximately 30 other carpet manufacturers, by the Gadsden (Alabama) Water Works in the circuit court of Etowah County Alabama [The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al, civil action No. 31-CV-2016-900676.00] and by the Town of Centre (Alabama) Water Works in the circuit court of Cherokee County Alabama [The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al, civil action No. 13-CV-2017-900049.00]. Both cases seek monetary damages and injunctive relief related to the use of certain chemical compounds in the manufacture and finishing of carpet products “in and around Dalton Georgia.” On motion of the defendants, the cases were removed to the U.S. District Court for the Northern District of Alabama (Middle Division) Case No. 4:16-CV-01755-SGC and Case No. 4:17-CV-01026-KOB. Subsequently, the Gadsden Water Works filed a motion to have the case remanded back to the state court and such motion has been granted. Currently, we have joined several other co-defendants in filing a Petition for Writ of Mandamus with the Alabama Supreme Court asking for an Order directing the trial court to grant our and other codefendants’ motions to dismiss the Alabama-filed actions for lack of personal jurisdiction. The Petitions have been consolidated by the Alabama Supreme Court with the Town of Centre (Alabama) matter (described above). The Petitions are still pending and there is no statutory deadline for the court to issue a decision. The lawsuits allege that perflourinated compounds (“PFC”), perflourinated acid (“PFOA”) and perfluorooctane sulfonate (“PFOS”) manufactured by 3M were used in certain finishing and treatment processes by the defendants and, as a consequence of such use, were subsequently either discharged into or leached into the water systems around Dalton, Georgia. The Complaints seek damages that exceed $10, but are otherwise unspecified in amount in addition to injunctive relief and punitive damages. We intend to defend the matters vigorously and are unable to estimate the potential exposure to loss, if any, at this time.

On November 16, 2018 the Superior Court of the State of California granted preliminary approval of a class action settlement in the matter of Carlos Garcia v. Fabrica International, Inc. et al Orange County Superior Court Case No. 30-2017-00949461-CU-OE-CXC. The court further approved the procedures for Settlement Class Members to opt-out of or object to the Settlement. The terms of the settlement provide that Fabrica, a wholly owned subsidiary of ours, has agreed to pay $1,514,000 (the “Gross Settlement Amount”) to fully resolve all claims in the Lawsuit, including payments to Settlement Class Members, Class Counsel’s attorneys’ fees and expenses, settlement administration costs, and the Class Representative’s Service Award. The amount of the proposed settlement was recorded during the quarter ended June 30, 2018. The deadline for class members to opt-out was February 1, 2019. The deadline for the plaintiff to file a motion for final approval of the class action settlement was March 29, 2019. The final fairness hearing took place on April 12, 2019 with final approval being granted. See note 24 for subsequent event related to this matter.

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

We have been sued in the matter styled: The Canyons Grand Summit Resort Hotel Owners Association, Inc. v. The Dixie Group Inc. d/b/a Masland Contract Carpet, Case No. 190500139, in the Third District Court, State of Utah, Summit County, Silver Summit Department, which was filed on March 29, 2019. This claim seeks monetary damages of $500,000 over carpet sold for installation in a condominium complex. The Company intends to defend the matter vigorously and is unable to estimate the potential exposure to loss, if any, at this time.

See Note 21 under the Notes to Consolidated Condensed Financial Statements for discussion of a series of workers compensation claims filed related to the closure of manufacturing facilities in California.

Item 1A. Risk Factors

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

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

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

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

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

A significant amount of our sales are generated through a certain mass merchant retailer. A significant reduction of sales through this channel could adversely affect our business. Such a shift could occur if this retailer decided to reduce the amount of emphasis on soft surface flooring or determine that our concentration of better goods was not advantageous to their marketing program. We have seen a change in strategy by this customer to emphasize products at a lower price point than we currently offer.

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

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

NASDAQ Marketplace Rule 5550(a)(2) requires that, for continued listing on the exchange, we must maintain a minimum bid price of $1 per share. Should the price of our stock close below $1 per share for 30 consecutive business days we will have 180 days to bring the price per share up above $1. As of September 11, 2019 our stock has closed above $1 per share for 30 consecutive business days and therefore we are now in compliance with NASDAQ rules. However, if we are not able stay in compliance with the relevant NASDAQ bid price listing rule, there is a risk that our common stock may be delisted from NASDAQ, which would adversely impact liquidity of our common stock and potentially result in even lower bid process for our common stock.

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

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

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

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

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

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. In addition, long lead times for certain products may make it hard for us to quickly respond to changes in consumer demands. Recently we have seen the supply of white dyeable yarns for the commercial business decline and that has forced us to transition to new products faster than was originally intended. If we fail to successfully replace those products with equally desirable products to the marketplace, we will lose sales volume. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of flooring products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels, which could have a material adverse effect on our financial condition.

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

We require substantial amounts of raw materials to produce our products, including nylon and polyester yarn, as well as wool yarns, synthetic backing, latex, and dyes. Substantially all of the raw materials we require are purchased from outside sources. The prices of raw materials and fuel-related costs vary significantly with market conditions. The fact that we source a significant amount of raw materials means that several months of raw materials and work in process are moving through our supply chain at any point in time. We are sourcing the majority of our new luxury vinyl flooring and wood product lines from overseas. We are not able to predict whether commodity costs will significantly increase or decrease in the future. If commodity costs increase in the future and we are not able to reduce or eliminate the effect of the cost increases by reducing production costs or implementing price increases, our profit margins could decrease. If commodity costs decline, we may experience pressures from customers to reduce our selling prices. The timing of any price reductions and decreases in commodity costs may not align. As a result, our margins could be affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the ordinary course of business, we are subject to a variety of work-related and product-related claims, lawsuits and legal proceedings, including those relating to product liability, product warranty, product recall, personal injury, and other matters that are inherently subject to many uncertainties regarding the possibility of a loss to our business. Such matters could have a material adverse effect on our business, results of operations and financial condition if we are unable to successfully defend against or resolve these matters or if our insurance coverage is insufficient to satisfy any judgments against us or settlements relating to these matters. Although we have product liability insurance, the policies may not provide coverage for certain claims against us or may not be sufficient to cover all possible liabilities. Further, we may not be able to maintain insurance at commercially acceptable premium levels. Additionally, adverse publicity arising from claims made against us, even if the claims are not successful, could adversely affect our reputation or the reputation and sales of our products.

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Common Stock

The following table provides information regarding our repurchases of our Common Stock Shares during the three months ended September 28, 2019:

Fiscal Month Ending	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares That May Yet Be Purchased Under Plans or Programs
August 3, 2019	—	$ —	—	
August 31, 2019	—	—	—	
September 28, 2019	—	—	—	
Three Months Ended September 28, 2019	—	$ —	—	$ 2,158,620

See footnote 24 for details of a subsequent event regarding Common Stock Repurchase Plans

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a.) Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE DIXIE GROUP, INC.
(Registrant)

Date: November 6, 2019

By: /s/ JON A. FAULKNER
Jon A. Faulkner
Vice President and Chief Financial Officer

EXHIBIT 31.1

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

I, Daniel K. Frierson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2019

/s/ **DANIEL K. FRIERSON**

Daniel K. Frierson
Chief Executive Officer
The Dixie Group, Inc.

EXHIBIT 31.2

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

I, Jon A. Faulkner, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2019

/s/ **JON A. FAULKNER**

Jon A. Faulkner
Chief Financial Officer
The Dixie Group, Inc.

EXHIBIT 32.1

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

In connection with the Quarterly Report of The Dixie Group, Inc. (the "Company") on Form 10-Q for the quarter ended September 28, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel K. Frierson, the Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

/s/ DANIEL K. FRIERSON

Daniel K. Frierson, Chief Executive Officer

Date: November 7, 2019

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of The Dixie Group, Inc. (the "Company") on Form 10-Q for the quarter ended September 28, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon A. Faulkner, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

/s/ JON A. FAULKNER
Jon A. Faulkner, Chief Financial Officer
Date: November 7, 2019

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