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 25, 2021

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	Shares Outstanding as of November 13, 2021
Common Stock, $3 Par Value	14,792,647
Class B Common Stock, $3 Par Value	1,004,975
Class C Common Stock, $3 Par Value	0

THE DIXIE GROUP, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 25, 2021	December 26, 2020
ASSETS	**(Unaudited)**	**(Restated)**
CURRENT ASSETS		
Cash and cash equivalents	$ 1,245	$ 1,920
Receivables, net	41,970	32,902
Inventories, net	83,194	67,900
Prepaids and other current assets	6,100	7,979
Current assets of discontinued operations	10,404	23,464
TOTAL CURRENT ASSETS	142,913	134,165
PROPERTY, PLANT AND EQUIPMENT, NET	49,489	52,905
OPERATING LEASE RIGHT-OF-USE ASSETS	18,284	21,151
OTHER ASSETS	20,805	16,975
LONG-TERM ASSETS OF DISCONTINUED OPERATIONS	3,579	8,506
TOTAL ASSETS	$ 235,070	$ 233,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 21,448	$ 15,106
Accrued expenses	25,345	19,483
Current portion of long-term debt	2,707	6,116
Current portion of operating lease liabilities	2,611	3,089
Current liabilities of discontinued operations	13,714	11,502
TOTAL CURRENT LIABILITIES	65,825	55,296
LONG-TERM DEBT, NET	57,712	72,041
OPERATING LEASE LIABILITIES	16,298	18,630
OTHER LONG-TERM LIABILITIES	17,259	17,636
LONG-TERM LIABILITIES OF DISCONTINUED OPERATIONS	5,702	6,308
TOTAL LIABILITIES	162,796	169,911
COMMITMENTS AND CONTINGENCIES (See Note 18)		
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 14,792,647 shares for 2021 and 14,557,435 shares for 2020	44,378	43,672
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 1,004,975 shares for 2021 and 880,313 shares for 2020	3,015	2,641
Additional paid-in capital	157,520	158,329
Accumulated deficit	(132,568)	(140,321)
Accumulated other comprehensive loss	(71)	(530)
TOTAL STOCKHOLDERS' EQUITY	72,274	63,791
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 235,070	$ 233,702

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 25, 2021	September 26, 2020	**September 25, 2021**	September 26, 2020
		(Restated)		**(Restated)**
NET SALES	**$ 89,294**	$ 70,035	**$ 252,022**	$ 175,354
Cost of sales	**64,365**	52,910	**187,657**	137,585
GROSS PROFIT	**24,929**	17,125	**64,365**	37,769
Selling and administrative expenses	**18,132**	15,247	**50,828**	42,274
Other operating income, net	**(131)**	(172)	**(96)**	(163)
Facility consolidation and severance expenses, net	**88**	515	**183**	1,785
OPERATING INCOME (LOSS)	**6,840**	1,535	**13,450**	(6,127)
Interest expense	**1,179**	1,561	**3,750**	4,204
Other expense, net	**2**	92	**1**	85
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	**5,659**	(118)	**9,699**	(10,416)
Income tax provision (benefit)	**62**	(293)	**597**	(748)
INCOME (LOSS) FROM CONTINUING OPERATIONS, net of tax	**5,597**	175	**9,102**	(9,668)
Income (loss) from discontinued operations, net of tax	**836**	685	**(1,348)**	778
NET INCOME (LOSS)	**$ 6,433**	$ 860	**$ 7,754**	$ (8,890)
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	**$ 0.35**	$ 0.01	**$ 0.58**	$ (0.63)
Discontinued operations	**0.05**	0.04	**(0.09)**	0.05
Net income (loss)	**$ 0.40**	$ 0.05	**$ 0.49**	$ (0.58)
BASIC SHARES OUTSTANDING	**15,123**	15,334	**15,109**	15,340
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	**$ 0.35**	$ 0.01	**$ 0.58**	$ (0.63)
Discontinued operations	**0.05**	0.04	**(0.09)**	0.05
Net income (loss)	**$ 0.40**	$ 0.05	**$ 0.49**	$ (0.58)
DILUTED SHARES OUTSTANDING	**15,253**	15,454	**15,239**	15,340
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 25, 2021	September 26, 2020	**September 25, 2021**	September 26, 2020
NET INCOME (LOSS)	**$ 6,433**	$ 860	**$ 7,754**	$ (8,890)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized gain (loss) on interest rate swaps	**(3)**	(25)	**40**	(1,300)
Income taxes	**—**	—	**—**	—
Unrealized gain (loss) on interest rate swaps, net	**(3)**	(25)	**40**	(1,300)
Reclassification of loss into earnings from interest rate swaps (1)	**169**	420	**611**	993
Income taxes	**47**	—	**174**	—
Reclassification of loss into earnings from interest rate swaps, net	**122**	420	**437**	993
Reclassification of unrealized loss into earnings from dedesignated interest rate swaps (2)	**—**	95	**—**	95
Income taxes	**—**	—	**—**	—
Reclassification of unrealized loss into earnings from dedesignated interest rate swaps, net	**—**	95	**—**	95
Reclassification of net actuarial gain into earnings from postretirement benefit plans (3)	**(6)**	(6)	**(18)**	(20)
Income taxes	**—**	—	**—**	—
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	**(6)**	(6)	**(18)**	(20)
Reclassification of prior service credits into earnings from postretirement benefit plans (3)	**—**	(1)	**—**	(3)
Income taxes	**—**	—	**—**	—
Reclassification of prior service credits into earnings from postretirement benefit plans, net	**—**	(1)	**—**	(3)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**113**	**483**	**459**	**(235)**
COMPREHENSIVE INCOME (LOSS)	**$ 6,546**	$ 1,343	**$ 8,213**	$ (9,125)

(1) Amounts for cash flow hedges reclassified from accumulated other comprehensive income (loss) to net income (loss) were included in interest expense in the Company's Consolidated Condensed Statements of Operations.
(2) Amounts for dedesignated cash flow hedges reclassified from accumulated other comprehensive income (loss) to net income (loss) were included in other expense (income), net in the Company's Consolidated Condensed Statements of Operations.
(3) Amounts for postretirement plans reclassified from accumulated other comprehensive income (loss) to net income (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 25, 2021	September 26, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	**7,754**	(8,890)
Income (loss) from discontinued operations	**(1,348)**	778
Income (loss) from continuing operations	**9,102**	(9,668)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**6,884**	7,446
Benefit for deferred income taxes	**(174)**	—
Net gain on property, plant and equipment disposals	**—**	(37)
Stock-based compensation expense	**339**	246
Bad debt expense	**414**	(16)
Changes in operating assets and liabilities:		
Receivables	**(9,482)**	(5,415)
Inventories	**(15,294)**	7,993
Prepaids and other current assets	**2,904**	885
Accounts payable and accrued expenses	**12,454**	7,997
Other operating assets and liabilities	**(2,546)**	498
NET CASH PROVIDED BY OPERATING ACTIVITIES - CONTINUING OPERATIONS	**4,601**	9,929
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES - DISCONTINUED OPERATIONS	**(2,766)**	5,991
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of property, plant and equipment and divestiture	**18,450**	40
Purchase of property, plant and equipment	**(3,310)**	(1,052)
NET CASH USED IN INVESTING ACTIVITIES - CONTINUING OPERATIONS	**15,140**	(1,012)
NET CASH USED IN (PROVIDED BY) INVESTING ACTIVITIES - DISCONTINUED OPERATIONS	**538**	(401)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on revolving credit facility	**(11,637)**	(13,230)
Payments on notes payable - buildings and other term loans	**(449)**	(208)
Payments on notes payable - equipment and other	**(3,493)**	(1,827)
Payments on finance leases	**(2,290)**	(2,767)
Borrowings on finance leases	**—**	2,211
Change in outstanding checks in excess of cash	**(250)**	771
Repurchases of Common Stock	**(69)**	(207)
NET CASH USED IN FINANCING ACTIVITIES - CONTINUING OPERATIONS	**(18,188)**	(15,257)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(675)**	(750)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,920**	769
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 1,245**	$ 19
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	**$ 1,885**	$ 2,810
Interest paid for financing leases	**1,136**	1,067
Income taxes paid, net of tax refunds	**80**	(98)
Right-of-use assets obtained in exchange for new operating lease liabilities	—	653
Equipment purchased under notes payable	**—**	1,314
Escrowed funds from sale of Commercial business	**2,050**	—
Accrued purchases of equipment	**—**	134

See accompanying notes to the consolidated condensed financial statements.

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

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 26, 2020	**$ 43,672**	**$ 2,641**	**$ 158,329**	**$ (140,321)**	**$ (530)**	**$ 63,791**
Repurchases of Common Stock - 17,359 shares	(52)	—	(4)	—	—	(56)
Restricted stock grants issued - 347,680 shares	669	374.00	(1,043)	—	—	—
Restricted stock grants forfeited - 7,477 shares	(22)	—	18	—	—	(4)
Stock-based compensation expense	—	—	75	—	—	75
Net loss	—	—	—	(2,028)	—	(2,028)
Other comprehensive income	—	—	—	—	189	189
Balance at March 27, 2021	**$ 44,267**	**$ 3,015.00**	**$ 157,375**	**$ (142,349)**	**$ (341)**	**$ 61,967**
Common Stock issued under Directors' Stock Plan - 40,000	120	—	(120)	—	—	—
Stock-based compensation expense	—	—	129	—	—	129
Net income	—	—	—	3,349	—	3,349
Other comprehensive income	—	—	—	—	157	157
Balance at June 26, 2021	**$ 44,387**	**$ 3,015.00**	**$ 157,384**	**$ (139,000)**	**$ (184)**	**$ 65,602**
Repurchases of Common Stock - 2,970 shares	(9)	—	(3)	—	—	(12)
Stock-based compensation expense	—	—	139	—	—	139
Net income	—	—	—	6,433	—	6,433
Other comprehensive income	—	—	—	—	113	113
Balance at September 25, 2021	**$ 44,378**	**$ 3,015.00**	**$ 157,520**	**$ (132,568)**	**$ (71)**	**$ 72,274**

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

See accompanying notes to the consolidated condensed financial statements.

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") 2020 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 26, 2020. Operating results for the three and nine month periods ended September 25, 2021 are not necessarily indicative of the results that may be expected for the entire 2021 year.

Based on applicable accounting standards, the Company has determined that it has one reportable segment, Residential Floorcovering.

On September 13, 2021, the Company acting by and through its wholly owned operating subsidiary, TDG Operations, LLC, sold its Atlas|Masland commercial business (the “Commercial Business”). As a result of entering into a definitive agreement, we have classified the related assets and liabilities associated with our Commercial Business as held for discontinued operations in our consolidated balance sheet . The results of our Commercial Business have been presented as discontinued operations in our consolidated statement of income for all periods presented as the sale represents a shift in our business that has a major effect on our operations and financial results. Prior to the consummation of the sale, the Company was neither actively marketing the business for sale nor had intentions to abandon the Commercial Business and as a result did not present the results as assets held for sale or discontinued operations in prior filings. Interest expense and general and administrative expenses were not allocated to discontinued operations. See Note 21 for further detail of the Company’s discontinued operations reporting.

Unless specifically noted otherwise, footnote disclosures reflect the results of continuing operations only. The results of discontinued operations are presented in footnote 21.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted in Fiscal 2021

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

Accounting Standards Yet to Be Adopted

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

NOTE 3 - REVENUE

Revenue Recognition Policy

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

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 an 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 from continuing and discontinued operations by end-user markets for the three and nine month periods ended September 25, 2021 and September 26, 2020:

	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Residential floorcovering products	$ 89,294	$ 70,035	$ 252,022	$ 175,354
Commercial floorcovering products	15,065	43,470	15,885	51,967
Total net sales, continuing and discontinued operations	**$ 104,359**	**$ 113,505**	**$ 267,907**	**$ 227,321**

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

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

Contract Balances

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

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

The activity in the advanced deposits for continuing and discontinued operations for the three and nine month periods ended September 25, 2021 and September 26, 2020 is as follows:

	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	**September 25, 2021**	September 26, 2020
Beginning contract liability	$ 1,213	$ 892	$ 1,005	$ 920
Revenue recognized from contract liabilities included in the beginning balance	(920)	(581)	(912)	(785)
Increases due to cash received, net of amounts recognized in revenue during the period	1,081	760	1,281	936
Ending contract liability	$ 1,374	$ 1,071	$ 1,374	$ 1,071

Performance Obligations

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

Variable Consideration

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

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

Warranties

The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products for a period of up to two years. The Company accrues for estimated future assurance warranty costs in the period in which the sale is recorded. The costs are included in Cost of Sales in the Consolidated Condensed Statements of Operations and the product warranty reserve is included in accrued expenses in the Consolidated Condensed Balance Sheets. The Company calculates its accrual using the portfolio approach based upon historical experience and known trends. (See Note 8.) The Company does not provide an additional service-type warranty.

NOTE 4 - RECEIVABLES, NET

Receivables are summarized as follows:

	September 25, 2021	December 26, 2020
Customers, trade	**$ 39,916**	$ 31,074
Other receivables	**2,138**	1,920
Gross receivables	**42,054**	32,994
Less: allowance for doubtful accounts	**(84)**	(92)
Receivables, net	**$ 41,970**	$ 32,902

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

Bad debt expense (credit) was $4 for the three months ended September 25, 2021 and $20 for the three months ended September 26, 2020. Bad debt expense (credit) was $414 for the nine months ended September 25, 2021 and $(16) for the nine months ended September 26, 2020.

NOTE 5 - INVENTORIES, NET

Inventories are summarized as follows:

	September 25, 2021	December 26, 2020
Raw materials	**$ 34,063**	$ 23,877
Work-in-process	**15,623**	12,086
Finished goods	**56,031**	46,017
Supplies and other	**155**	168
LIFO reserve	**(22,678)**	(14,248)
Inventories, net	**$ 83,194**	$ 67,900

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	September 25, 2021	December 26, 2020
Land and improvements	**$ 3,422**	$ 3,422
Buildings and improvements	**51,494**	51,479
Machinery and equipment	**164,751**	158,492
Assets under construction	**2,166**	1,167
	221,833	214,560
Accumulated depreciation	**(172,344)**	(161,655)
Property, plant and equipment, net	**$ 49,489**	$ 52,905

Depreciation of property, plant and equipment, including amounts for finance leases, totaled $2,061 and $6,753 in the three and nine months ended September 25, 2021, respectively, and $2,382 and $7,282 in the three and nine months ended September 26, 2020, respectively.

NOTE 7 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	September 25, 2021	December 26, 2020
Compensation and benefits	**$ 8,880**	$ 6,357
Provision for customer rebates, claims and allowances	**8,224**	6,998
Advanced customer deposits	**1,374**	1,005
Outstanding checks in excess of cash	**1,844**	2,094
Other	**5,023**	3,029
Accrued expenses	**$ 25,345**	$ 19,483

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

NOTE 9 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	September 25, 2021	December 26, 2020
Revolving credit facility	$ 16,714	$ 28,353
Term Loans	24,833	24,970
Notes payable - buildings	5,588	5,900
Notes payable - equipment and other	433	3,926
Finance lease - buildings	10,933	11,097
Finance lease obligations	3,716	5,841
Deferred financing costs, net	(1,798)	(1,930)
Total long-term debt	60,419	78,157
Less: current portion of long-term debt	2,707	6,116
Long-term debt	$ 57,712	$ 72,041

Revolving Credit Facility

During the fourth quarter of 2020, the Company entered into a $75,000 Senior Secured Revolving Credit Facility with Fifth Third Bank National Association as lender. The loan is secured by a first priority security interest on all accounts receivable, cash, and inventory, and provides for borrowing limited by certain percentages of values of the accounts receivable and inventory. The revolving credit facility matures on October 30, 2025.

At the Company's election, advances of the revolving credit facility bear interest at annual rates equal to either (a) LIBOR for 1, 2, or 3 month periods, as defined with a floor or 0.75% or published LIBOR, plus an applicable margin ranging between 1.50% and 2.00%, or (b) the higher of the prime rate plus an applicable margin ranging between 0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases. As of September 25, 2021, the applicable margin on the Company's revolving credit facility was 1.75%. The Company pays an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.25% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 2.74% at September 25, 2021 and 2.68% at December 26, 2020.

The agreement is subject to customary terms and conditions and annual administrative fees with pricing varying on excess availability and a fixed charge coverage ratio. The agreement is also subject to certain compliance, affirmative, and financial covenants. As of the reporting date, the Company is in compliance with all such applicable covenants. The Company is only subject to the financial covenants if borrowing availability is less than 12.5% of the availability, and remains until the availability is greater than 12.5% for thirty consecutive days. As of September 25, 2021, the unused borrowing availability under the revolving credit facility was $54,076.

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

Term Loans

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

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

Notes Payable - Buildings

On November 7, 2014, the Company entered into a ten-year $8,330 note payable to purchase a previously leased distribution center in Adairsville, Georgia. The note payable is scheduled to mature on November 7, 2024 and is secured by the distribution center. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of $35, plus interest calculated on the declining balance of the note, with a final payment of $4,269 due on maturity. In addition, the Company entered into an interest rate swap with an amortizing notional amount effective November 7, 2014 which effectively fixes the interest rate at 4.50%.

Notes Payable - Equipment and Other

The Company's equipment financing notes have 7 year terms, bear interest ranging from 1.60% to 3.66% and are due in monthly installments through their maturity dates. The Company's equipment financing notes are secured by the specific equipment financed and do not contain any financial covenants.

Finance Lease - Buildings

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

Finance Lease Obligations

The Company's finance lease obligations have terms ranging from 3 to 6 years and are due in monthly or quarterly installments through their maturity dates. The Company's finance lease obligations are secured by the specific equipment leased.

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

NOTE 10 - LEASES

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

	Balance Sheet Location	September 25, 2021	December 26, 2020
Operating Leases:			
Operating lease right-of-use assets	Operating lease right-of-use assets	**$ 18,284**	$ 21,151
Current portion of operating lease liabilities	Current portion of operating lease liabilities	**2,611**	3,089
Noncurrent portion of operating lease liabilities	Operating lease liabilities	**16,298**	18,630
Total operating lease liabilities		**$ 18,909**	$ 21,719
Finance Leases:			
Finance lease right-of-use assets (1)	Property, plant, and equipment, net	**$ 11,512**	$ 13,409
Current portion of finance lease liabilities (1)	Current portion of long-term debt	**1,644**	2,771
Noncurrent portion of finance lease liabilities (1)	Long-term debt	**13,005**	14,167
		$ 14,649	$ 16,938

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

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

	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	**September 25, 2021**	**September 26, 2020**
Operating lease cost	**$ 1,074**	$ 1,198	**$ 3,624**	$ 3,644
Finance lease cost:				
Amortization of lease assets (1)	**633**	790	**1,898**	2,370
Interest on lease liabilities (1)	**366**	446	**1,136**	1,067
Total finance lease costs (1)	**$ 999**	$ 1,236	**$ 3,034**	$ 3,437

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

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

Other supplemental information related to leases is summarized as follows:

	September 25, 2021	September 26, 2020
Weighted average remaining lease term (in years):		
Operating leases	**7.66**	8.05
Finance leases (1)	**13.38**	11.71
Weighted average discount rate:		
Operating leases	**6.79 %**	6.83 %
Finance leases (1)	**9.63 %**	9.08 %
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**3,610**	3,706
Operating cash flows from finance leases (1)	**1,136**	1,067
Financing cash flows from finance leases (1)	**2,290**	2,767

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

The following table summarizes the Company's future minimum lease payments under non-cancellable contractual obligations for operating and financing liabilities as of September 25, 2021:

Fiscal Year	**Operating Leases**	**Finance Leases**
2021	1,016	828
2022	3,570	2,782
2023	2,872	3,409
2024	2,785	1,045
2025	2,808	1,053
Thereafter	11,521	14,985
Total future minimum lease payments (undiscounted)	24,572	24,102
Less: Present value discount	5,663	9,453
Total lease liability	18,909	14,649

NOTE 11 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The following table reflects the fair values of assets and liabilities measured and recognized at fair value on a recurring basis on the Company's Consolidated Condensed Balance Sheets as of September 25, 2021 and December 26, 2020:

	September 25, 2021	December 26, 2020	Fair Value Hierarchy Level
Liabilities:			
Interest rate swaps (1)	**$ 297**	$ 440	Level 2

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

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

	September 25, 2021		December 26, 2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 1,245**	**$ 1,245**	$ 1,920	$ 1,920
Financial liabilities:				
Long-term debt, including current portion	**45,771**	**45,293**	61,219	58,803
Finance leases, including current portion	**14,648**	**17,020**	16,938	18,451
Interest rate swaps	**297**	**297**	440	440

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 approximate their carrying amounts due to the short-term nature of the financial instruments.

NOTE 12 - DERIVATIVES

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

The following is a summary of the Company's interest rate swap outstanding as of September 25, 2021:

Type	**Notional Amount**		**Effective Date**	**Fixed Rate**	**Variable Rate**
Interest rate swap	$ 5,484	(2)	November 7, 2014 through November 7, 2024	4.500%	1 Month LIBOR

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

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

		Fair Value	
	Location on Consolidated Balance Sheets	**September 25, 2021**	December 26, 2020
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Accrued expenses	**$ 128**	$ 135
Interest rate swaps, long-term portion	Other long-term liabilities	**169**	305
Total Liability Derivatives		**$ 297**	$ 440

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

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

	Amount of Gain or (Loss) Recognized in AOCIL on the effective portion of the Derivative			
	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	**September 25, 2021**	September 26, 2020
Derivatives designated as hedging instruments:				
Cash flow hedges - interest rate swaps	**$ (3)**	$ (25)	**$ 40**	$ (1,300)

	Amount of Gain (Loss) Reclassified from AOCIL on the effective portion into Earnings (1) (2)			
	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	**September 25, 2021**	September 26, 2020
Derivatives designated as hedging instruments:				
Cash flow hedges - interest rate swaps	**$ 33**	$ (420)	**$ 102**	$ (993)

	Amount of Gain or (Loss) Recognized on the Dedesignated Portion in Income on Derivative (3)			
	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	**September 25, 2021**	September 26, 2020
Derivatives dedesignated as hedging instruments:				
Cash flow hedges - interest rate swaps	**$ 136**	$ (95)	**$ 509**	$ (95)

(1) The amount of gain (loss) reclassified from AOCIL is included in interest expense on the Company's consolidated condensed financial statements.
(2) The amount of loss expected to be reclassified from AOCIL into earnings during the next 12 months subsequent to September 25, 2021 is $128.
(3) The amount of gain (loss) recognized in income on the dedesignated portion of interest rate swaps is included in other income or other expense on the Company's Consolidated Condensed Statements of Operations. The amount of expense recognized on the Company's Consolidated Statements of Operations for the terminated portion of interest rate swaps is included in interest expense.

On October 30, 2020, the Company terminated two interest rate swap agreements tied to its revolving line of credit. The cost to terminate the swap agreements was $1,427. During the fourth quarter of 2020, the Company performed its retrospective and prospective effectiveness assessments of the interest rate swap agreements. Based upon the Company's ability to secure additional fixed asset borrowings, the Company could no longer assert that the cash flows for $25,000 of notional amount of the interest rate swaps are probable. Because it is probable that none of the remaining forecasted interest payments that were being hedged by the second $25,000 interest rate swap will occur, the related losses that had been deferred in AOCIL were immediately reclassified into other (income) expense. However, the losses related to the first $25,000 interest rate swap will be reclassified from AOCIL to interest expense as the hedged interest payments are recognized as the Company could not establish that future cash flows are probable not to occur on the first interest rate swap.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company sponsors a 401(k) defined contribution plan that covers approximately 85% 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 $501 and $92 for the three months ended September 25, 2021 and September 26, 2020, respectively, and $920 and $265 for the nine months ended September 25, 2021 and September 26, 2020, respectively.

Additionally, the Company sponsors a 401(k) defined contribution plan that covers approximately 15% of the Company's current associates at one facility who are under a collective-bargaining agreement. Under this plan, the Company generally matches participants' contributions, on a sliding scale, up to a maximum of 2.75% of the participant's earnings. Matching contribution expense for the collective-bargaining 401(k) plan was $21 and $19 for the three months ended September 25, 2021 and
September 26, 2020, respectively, and $63 and $50 for the nine months ended September 25, 2021 and September 26, 2020, 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 $15,636 at September 25, 2021 and $15,081 at December 26, 2020 and are included in other long-term liabilities in the Company's Consolidated Condensed Balance Sheets. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company utilizes a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the plan. Amounts are invested in Company-owned life insurance in the Rabbi Trust and the cash surrender value of the policies was $16,218 at September 25, 2021 and $15,385 at December 26, 2020 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 $64 and $45 for the three months ended September 25, 2021 and September 26, 2020, respectively, and $166 and $142 for the nine month periods ended September 25, 2021 and September 26, 2020, respectively. If the Company were to withdraw from the multi-employer plan, a withdrawal liability would be due, the amount of which would be determined by the plan. The withdrawal liability, as determined by the plan, would be a function of contribution rates, fund status, discount rates and various other factors at the time of any such withdrawal.

NOTE 14 - INCOME TAXES

The effective income tax rate for the nine months ending September 25, 2021 was 6.15% compared with a benefit rate of 7.20% for the nine months ending September 26, 2020. Because the Company maintains a full valuation allowance against its deferred income tax balances, the Company is only able to recognize refundable credits, the accrual of federal and state cash taxes, and a benefit for the recognition of stranded tax effects within other comprehensive income (loss) related to the termination of certain derivative contracts in the tax benefit for the first nine months of 2021. The Company is expecting to be in a Federal cash tax paying position for the year based on the projected full utilization of its NOL carryforwards and the limitation on its ability to utilize credit carryforwards to offset its tax liability. The Company is in a net deferred tax liability position of $91 at September 25, 2021 and December 26, 2020, 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 $214 at September 25,2021 and December 26, 2020. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of September 25, 2021 and December 26, 2020.

The Company and its subsidiaries are subject to United States federal income taxes, as well as income taxes in a number of state jurisdictions. The tax years subsequent to 2016 remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2016. A few state jurisdictions remain open to examination for tax years subsequent to 2015.

NOTE 15 - EARNINGS (LOSS) PER SHARE

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

(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 25, 2021	September 26, 2020	**September 25, 2021**	September 26, 2020
Basic earnings (loss) per share:				
Income (loss) from continuing operations	**$ 5,597**	$ 175	**$ 9,102**	$ (9,668)
Less: Allocation of earnings to participating securities	**(240)**	(4)	**(341)**	—
Income (loss) from continuing operations available to common shareholders - basic	**$ 5,357**	$ 171	**$ 8,761**	$ (9,668)
Basic weighted-average shares outstanding (1)	**15,123**	15,334	**15,109**	15,340
Basic earnings (loss) per share - continuing operations	**$ 0.35**	$ 0.01	**$ 0.58**	$ (0.63)
Diluted earnings (loss) per share:				
Income (loss) from continuing operations available to common shareholders - basic	**$ 5,357**	$ 171	**$ 8,761**	$ (9,668)
Add: Undistributed earnings reallocated to unvested shareholders	**2**	—	**2**	—
Income (loss) from continuing operations available to common shareholders - basic	**$ 5,359**	$ 171	**$ 8,763**	$ (9,668)
Basic weighted-average shares outstanding (1)	**15,123**	15,334	**15,109**	15,340
Effect of dilutive securities:				
Directors' stock performance units (2)	**130**	120	**130**	—
Diluted weighted-average shares outstanding (1)(2)	**15,253**	15,454	**15,239**	15,340
Diluted earnings (loss) per share - continuing operations	**$ 0.35**	$ 0.01	**$ 0.58**	$ (0.63)

(1) Includes Common and Class B Common shares, excluding unvested participating securities of 671 thousand as of September 25, 2021 and 480 thousand as of September 26, 2020.
(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 25, 2021 were 177 thousand and for the three and nine months ended September 26, 2020 were 166 thousand and 296 thousand, respectively.

NOTE 16 - STOCK COMPENSATION EXPENSE

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity instrument issued and records such expense in selling and administrative expenses in the Company's Consolidated Condensed Statements of Operations. The Company's stock compensation expense was $139 and $73 for the three months ended September 25, 2021 and September 26, 2020, respectively, and $343 and $246 for the nine months ended September 25, 2021 and September 26, 2020, respectively.

On February 1, 2021, the Company issued 22,000 shares of restricted stock to certain key employees. The grant-date fair value of the awards was $86, or $3.89 per share, and is expected to be recognized as stock compensation expense over a weighted-average period of 2.5 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On March 10, 2021, the Company issued 325,680 shares of restricted stock to certain key employees. The grant-date fair value of the awards was $984, or $3.02 per share, and is expected to be recognized as stock compensation expense over a weighted-average period of 5.3 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

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

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Interest Rate Swaps	Post-Retirement Liabilities	Total
Balance at December 26, 2020	$ (740)	$ 210	$ (530)
Unrealized loss on interest rate swaps	40	—	40
Reclassification of loss into earnings from interest rate swaps, net of tax of $174	437	—	437
Reclassification of net actuarial gain into earnings from postretirement benefit plans	—	(18)	(18)
Balance at September 25, 2021	**$ (263)**	**$ 192**	**$ (71)**

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Contingencies

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

Environmental Remediation

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

Legal Proceedings

During the Quarter, the Company agreed to settle the pending, previously reported lawsuit styled The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al., Civil Action No. 31-CV-2016-900676.00. Shortly thereafter, the Company also agreed to settle the lawsuit styled The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al., Civil Action No. 13-CV- 2017-900049.00. Each case was settled by payment to the plaintiffs of an amount reflective of anticipated future costs of litigation in exchange for a complete release of liability with respect to the pending claims, and in neither settlement did the Company acknowledge or admit liability to the plaintiffs with respect to such claims. The payment in each case and the settlement and dismissals were approved by the respective courts in which the cases were pending following the end of the Quarter. Amounts paid to settle and dismiss the claims are included in other operating expenses.

As previously disclosed, two other, somewhat similar lawsuits are pending in Georgia. The first lawsuit in Georgia was filed on November 19, 2019, by the City of Rome (Georgia) in the Superior Court of Floyd County, Georgia (styled The City of Rome, Georgia v. 3M Company, et al., No. 19CV02405JFL003). This case is currently in the discovery phase and we are unable to estimate our potential exposure to loss, if any, at this time.

The second lawsuit in Georgia was originally filed on November 26, 2019 and is presented as a class action lawsuit by and on behalf of a class of persons who obtain drinking water from the City of Rome, Georgia and the Floyd County Water Department (and similarly situated persons) (generally, for these purposes, residents of Floyd County) (styled Jarrod Johnson v. 3M Company, et al., Civil Action No. 19-CV-02448-JFL-003) (the "Class Action Lawsuit"). On January 10, 2020, the Class Action Lawsuit was removed to the United States District Court for the Northern District of Georgia, Rome Division (styled Jarrod Johnson v. 3M Company, et al Civil Action No. 4:20-CV-0008-AT). This case is currently in the discovery phase and we are unable to estimate our potential exposure to loss, if any, at this time.

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

NOTE 19 - OTHER OPERATING EXPENSE, NET

Other operating expense, net is summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	**September 25, 2021**	September 26, 2020
Other operating expense, net				
Gain on property, plant and equipment disposals	**$ —**	$ —	**$ —**	$ (37)
(Gain) loss on currency exchanges	**119**	(62)	**110**	(37)
Retirement expense	**21**	(21)	**168**	10
Miscellaneous income/expense, net	**(271)**	(89)	**(374)**	(99)
Other operating expense, net	**$ (131)**	$ (172)	**$ (96)**	$ (163)

NOTE 20 - FACILITY CONSOLIDATION AND SEVERANCE EXPENSES, NET

2015 Corporate Office Consolidation Plan

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

2017 Profit Improvement Plan

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

2020 COVID-19 Continuity Plan

As the extent of the COVID-19 pandemic became apparent, the Company implemented a continuity plan to maintain the health and safety of associates, preserve cash, and minimize the impact on customers. The response included restrictions on travel, implementation of telecommuting where appropriate and limiting contact and maintaining social distancing between associates and with customers. Cost reductions were implemented including cutting non-essential expenditures, reducing capital expenditures, rotating layoffs and furloughs, selected job eliminations and temporary salary reductions. The Company also deferred new product introductions and reduced sample and marketing expenses in 2020. Initiatives were taken with suppliers, lenders and landlords to extend payment terms in the second quarter of 2020 for existing agreements. The Company is taking advantage of payment deferrals and credits related to payroll taxes under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act as well as deferring payments into its defined contribution retirement plan. The CARES Act also provides for an employee retention credit, which is a refundable tax credit against certain employment taxes of up to $5 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees, capped at $10 of qualified wages per employee throughout the year. The Company qualified for the tax credit in the second, third and fourth quarters of 2020 and recognized $2,100 in the fourth quarter of 2020, related to the Employee Retention Credit. Of the $2,100 credit, $1,500 was recorded to Cost of Sales and the remaining $600 was recorded to Selling and Administrative Expenses.

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

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

	Accrued Balance at December 26, 2020	2021 Expenses To Date (1)	2021 Cash Payments	Accrued Balance at September 25, 2021	As of September 25, 2021 Total Costs Incurred To Date	As of September 25, 2021 Total Expected Costs	
Corporate Office Consolidation Plan	$ —	$ —	$ —	$ —	$ 835	$ 835	
Profit Improvement Plan	104	277	351	30	10,453	10,453	
COVID-19 Continuity Plan	$ 454	$ 2	$ 366	$ 90	$ 2,533	$ 2,533	(2)
Total All Plans	$ 558	$ 279	$ 717	$ 120	$ 13,821	$ 13,821	
Asset Impairments	$ —	$ —	$ —	$ —	$ 3,323	$ 3,323	

	Accrued Balance at December 28, 2019	2020 Expenses To Date (1)	2020 Cash Payments	Accrued Balance at September 26, 2020
Corporate Office Consolidation Plan	$ 38	$ 5	$ 43	$ —
Profit Improvement Plan	305	391	589	107
COVID-19 Continuity Plan	$ —	$ 1,389	$ 1,231	$ 158
Total All Plans	$ 343	$ 1,785	$ 1,863	$ 265
Asset Impairments	$ —	$ —	$ —	$ —

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

NOTE 21 - DISCONTINUED OPERATIONS

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

	Three Months Ended September 25, 2021	Three Months Ended September 26, 2020	Nine Months Ended September 25, 2021	Nine Months Ended September 26, 2020
Workers' compensation costs from former textile operations	**$ (33)**	$ (24)	**$ (101)**	$ (89)
Environmental remediation costs from former textile operations	**(27)**	(22)	**(81)**	(114)
Costs related to divestiture of the commercial operations	**2,394**	1,028	**(254)**	1,729
Income (Loss) from discontinued operations, before taxes	**$ 2,334**	$ 982	**$ (436)**	$ 1,526
Income tax expense	**1,498**	297	**912**	748
Income (Loss) from discontinued operations, net of tax	**$ 836**	$ 685	**$ (1,348)**	$ 778

Workers' compensation costs from former textile operations
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.

Environmental remediation costs from former textile operations
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 $1,894 as of September 25, 2021 and $1,924 as of December 26, 2020. 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.

Costs related to divestiture of the commercial operations
On September 13, 2021, the Company acting by and through its wholly owned operating subsidiary, TDG Operations, LLC, sold its Atlas|Masland commercial business (the “Commercial Business”) to Mannington Mills, Inc. (the “Purchaser”).

In accordance with the Asset Purchase Agreement dated September 13, 2021, the Company sold assets that include certain inventory, certain items of machinery and equipment used exclusively in the Commercial Business, and related intellectual property for a purchase price of $20,500. The Purchaser also assumed the liability to fulfill the orders represented by advance customer deposit liabilities of $3,127.

The Company retained the Commercial Business’ cash deposits, all accounts receivable, and certain inventory and equipment.
At closing, $2,100 of the proceeds were withheld and deposited in escrow to cover any claims arising with respect to the Commercial business for which the Company may be liable. The $2,100 will be released to the Company (net of claims paid, if any) in two installments with 50% of the escrow paid in 90 days from closing and the remaining amount paid 18 months from the closing date. Based upon the repayment terms, the Company has recognized $1,025 within both

other current asset and non-current assets, respectively. As of September 25, 2021, the Company has not recognized amounts for potential indemnification settlements as those amounts cannot be reasonably estimated.

In order to release liens on certain fixed assets included in the Asset Purchase Agreement, the Company placed $2,100 in cash collateral in an account with the lender (Greater Nevada Credit Union). The remaining proceeds were applied to the Company's debt with its senior credit facility (Fifth Third Bank).

The gain on the sale of assets is summarized as follows:

Net Proceeds, including escrowed funds	20,500	
Inventory	(11,500)	
LIFO	2,305	
Fixed Assets	(2,278)	
Contract Liabilities	3,127	
Net tangible assets sold	(8,346)	
Gain on sale of assets sold, prior to other transaction related costs	12,154	
Other transaction related costs		
Adjustments to Accruals, Reserves and Allowances	(8,462)	1
Transaction Costs	(1,032)	2
Total other transaction related costs	(9,494)	
Gain on sale of discontinued operations, before tax	2,660	

1) For the remaining retained commercial inventory and fixed assets, the Company recognized adjustment to recognize the effects of the transaction. For inventory, the Company recognized lower of cost or market adjustments of approximately $6,600. The Company's remaining fixed assets will be disposed of by sale and the Company recognized an adjustment of approximately $1,800 to reflect the lower of its carrying value or estimated fair value less cost to sell. For these assets, the Company has suspended the associated depreciation and will recognize changes in the fair value less cost to sell as gains or losses in future periods until the date of sale.

2) Transaction costs were legal expenses and involuntary employee termination costs related to one-time benefit arrangements.

The Company reclassified the following assets and liabilities for discontinued operations in the accompanying consolidated balance sheets:

	As of			
	September 25, 2021		December 26, 2020	
Current Assets of Discontinued Operations:				
Receivables, net	$	7,486	$	5,648
Inventories, net	$	2,785	$	17,499
Prepaid expenses	$	133	$	317
Current Assets Held for Discontinued Operations	**$**	**10,404**	**$**	**23,464**
Long Term Assets of Discontinued Operations:				
Property, plant and equipment, net	$	380	$	4,999
Operating lease right of use assets	$	760	$	923
Other assets	$	2,439	$	2,584
Long Term Assets Held for Discontinued Operations	**$**	**3,579**	**$**	**8,506**
Current Liabilities of Discontinued Operations:				
Accounts payable	$	6,898	$	3,952
Accrued expenses	$	6,559	$	7,316
Current portion of operating lease liabilities	$	257	$	234
Current Liabilities Held for Discontinued Operations	**$**	**13,714**	**$**	**11,502**
Long Term Liabilities of Discontinued Operations				
Operating lease liabilities	$	578	$	774
Other long term liabilities	$	5,124	$	5,534
Long Term Liabilities Held for Discontinued Operations	**$**	**5,702**	**$**	**6,308**

For the three months and nine months ended September 26, 2020 and September 25, 2021, the Company reclassified the following for the costs related to the divestiture of the Commercial business included in discontinued operations in the accompanying consolidated statements of operations:

Three Months Ended		Nine Months Ended	
September 25, 2021	**September 26, 2020**	**September 25, 2021**	**September 26, 2020**

Net Sales	**15,065**	**15,885**	**43,470**	**51,967**
Cost of sales	12,086	10,769	34,679	36,258
Gross Profit	**2,979**	**5,116**	**8,791**	**15,709**
Selling and administrative expenses	3,245	4,088	11,705	13,980
Discontinued Income (Loss), related to the divestiture of the Commercial business	**(266)**	**1,028**	**(2,914)**	**1,729**
Gain on sale of business	(2,660)	**—**	(2,660)	—
Income (Loss) from Discontinued Commercial Operations before Taxes	**2,394**	**1,028**	**(254)**	**1,729**

For the three and nine months ended September 25, 2021, as a result of the liquidation of inventory sold as part of the divestiture of its Commercial operations, the company recognized a liquidation of LIFO inventories carried at prevailing costs established in prior years and decreased the cost within Discontinued Operations in the amount of $2,391.

The Company and the Purchaser simultaneously entered into a transition services agreement pursuant to which the Company will assist Mannington in transitioning the AtlasMasland business to Mannington, by, among other things, assisting in filling open orders and completing the manufacture of work in progress that will result in a temporary continued involvement in the Commercial Business until approximately December 31, 2021. The Company has shown the results of these operations as a component of discontinued operations.

NOTE 22 - RELATED PARTY TRANSACTIONS

The Company purchases a portion of its product needs from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of the Company. An affiliate of Mr. Shaw holds approximately 7.6% of the Company's Common Stock, which represents approximately 3.2% 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 25, 2021 were approximately $1,258 and $3,159, respectively; or approximately 2.0% and 1.7%, respectively, of the Company's cost of goods sold. Total purchases from Engineered Floors during the three and nine months ended September 26, 2020 were approximately $1,225 and $3,494, respectively; or approximately 2.3% and 2.5%, 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 25, 2021 was $75 and $221, respectively. Rent paid to the lessor during the three and nine months ended September 26, 2020 was $73 and $216, respectively. The lease was based on current market values for similar facilities. The lease was terminated on September 30, 2021.

NOTE 23 - SUBSEQUENT EVENTS

See legal proceedings in Note 18 for information concerning pending litigation settled following the end of the quarter.

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 potential negative impact to our business of the ongoing coronavirus (“COVID-19”) pandemic, the duration, impact and severity of which is highly uncertain, the cost and availability of, raw materials, capital 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 and/or major supplier(s), the ability to attract, develop and retain qualified personnel, materially adverse changes in economic conditions generally in carpet, rug and floorcovering markets we serve, and other risks detailed from time to time in our filings with the Securities and Exchange Commission.

OVERVIEW

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

Historically, we participated in the upper end specified commercial flooring marketplace through our Atlas | Masland Contract brand. On September 13, 2021, we sold our Commercial business. The results of our Commercial business activity are included in discontinued operations in the included financial statements.

Our business is primarily concentrated in areas of the soft floorcovering markets which include broadloom carpet, carpet tiles and rugs. However, in response to a significant shift in the flooring marketplace toward hard surface products, we have launched multiple hard surface initiatives over the last few years. Dixie Home and Masland Residential, offer Stainmaster® TRUCOR™ Luxury Vinyl Flooring and our premium residential brand, Fabrica, offers a high-end engineered wood line.

Our net sales from continuing operations were $89 million for the third quarter of 2021 and $252 million for the nine months ended September 25, 2021. Comparisons to the same periods in prior year are skewed by the negative impact of the COVID-19 pandemic in the second quarter of 2020 as well as high demand for residential products in 2021. Strong activity in the housing markets related to remodeling and new home construction have driven a strong demand for residential floor covering products in 2021.

Our net income for the three months and nine months ended September 25, 2021 was $6.4 million and $7.7 million respectively. The income was driven by strong operating margins, resulting from high production volume in our manufacturing plants and a favorable impact from higher current period pricing, and selling and administrative expenses at levels that are favorably in line with sales volume when compared with prior periods.

Our interest expense for the three month period ended September 25, 2021 was $1,179 which compares favorably to the interest expense of $1,561 from the same period in the prior year. The interest expense for the nine month period ended September 25, 2021 was $3,750 which also compares favorably to the $4,204 in interest expense in the same period of the prior year. The reduced interest expense is a factor of our reduction and restructuring of debt over the last three years which included the sale and leaseback transaction for our facility in Santa Anna, California in the fourth quarter of 2018 and the divestiture of our Commercial division in the third quarter of 2021. We have reduced debt by $81 million from our most recent high level of debt at $141 million at September 29, 2018 to $60 million at September 25, 2021.

During the second quarter of 2021, the trademark for certain branded fibers our company has historically used in certain products was sold to a mass market retailer. Under the terms of the agreement, the availability of the trademark for use by our company, and others in the industry, is being gradually phased out. Our company had previously begun developing alternative offerings in response to prior disruptions in fiber supply. We accelerated the development process and we believe the movement away from dependence on the particular trademark and related fibers will provide the company with opportunities to develop enhanced competitive products with alternate fibers. We have also assisted our specialty retail customers with the transition to our new offerings through a non-disruptive, turnkey solution offering a retail friendly selling solution including new signage and merchandising materials.

RANSOMWARE INCIDENT

On April 17, 2021, we detected a ransomware attack on portions of our information technology systems. Response protocols were initiated immediately, we contacted our cybersecurity insurance provider, notified legal authorities and engaged cybersecurity experts. All systems impacted by this attack have been substantially restored and additional security measures have been put in place. We continue to assess the financial impact of the interruption to our business caused by this event.

COVID-19 PANDEMIC

Beginning with the second week of March 2020, we began experiencing reduced volume as the result of the COVID-19 pandemic and related government restrictions. The sales decline continued into the second quarter through the third week of April 2020 after which we started to see a gradual and consistent improvement in sales through the end of the third quarter. Once the extent of the pandemic became apparent, we implemented our continuity plan to maintain the health and safety of our associates, preserve cash, and minimize the impact on our customers. We implemented cost reductions including cutting non-essential expenditures, reducing capital expenditures, rotating layoffs and furloughs, select job eliminations and temporary salary reductions. We also deferred new product introductions and reduced our sample and marketing expenses for 2020. Although the pandemic has continued in 2021, the impact on operations has been limited but we cannot be certain as to any additional future impact of the COVID-19 crisis.

DIVESTITURE OF COMMERCIAL BUSINESS

On September 13, 2021, the Company sold its Atlas|Masland commercial business (the “Commercial Business”) to Mannington Mills, Inc. (the “Purchaser”).

In accordance with the Asset Purchase Agreement dated September 13, 2021, the Company sold assets that include certain inventory and certain items of machinery and equipment used exclusively in the Commercial Business, and related intellectual property for a purchase price of $20.5 million. The Purchaser also assumed the liability to fulfill the orders represented by advance customer deposit liabilities of $3.1 million.

The Company retained the Commercial Business’ cash deposits, all accounts receivable, and certain inventory and equipment. Additionally, the Company agreed not to compete with the specified commercial business and the Atlas|Masland markets for a period of 5 years following September 13, 2021, which allows for the Company to sell remaining retained commercial inventory for a period up to 150 days following the closing.

As a result of the transaction the Company has effectively exited the Commercial Business and will now focus exclusively on its residential floorcovering segment. The sale of Atlas|Masland represents a strategic shift that will have a major effect on the Company’s operations. The Company has accounted for the transaction as discontinued operations on the date the entity was disposed. Accordingly, the Company is reporting the results of Atlas|Masland operations and cash flows, and balance sheet classifications for the current and comparative periods as discontinued operations. Prior to the consummation of the sale, the Company was neither actively marketing the business for sale nor had intentions to abandon the Commercial Business and as a result did not present the results as assets held for sale or discontinued operations in prior filings. See Note 21 for the Company’s discontinued operations reporting.

At closing, the Company received approximately $18.4 million in net proceeds, after depositing $2.1 million within an escrow account. The escrow account is for certain potential seller indemnifications and will be released to the Company in two installments with 50% of the escrow paid in 90 days from closing and the remaining amount paid 18 months from the closing date. In order to release liens on certain fixed assets included in the Asset Purchase Agreement, the Company placed $2.1 million in cash collateral in an account with the lender (Greater Nevada Credit Union). The remaining proceeds were applied to the Company's debt with its senior credit facility (Fifth Third Bank).

The gain on the sale of assets is summarized as follows:

Net Proceeds, including escrowed funds	**20,500,000**
Inventory	(11,500,031)
LIFO Gain	2,304,806
Fixed Assets	(2,277,876)
Contract Liabilities	3,127,215
Net tangible assets sold	**(8,345,886)**
Gain on sale of assets sold, prior to associated costs	**12,154,114**

Other transaction related costs		
Adjustments to Accruals, Reserves and Allowances	(8,462,393)	1
Transaction Costs	(1,031,645)	2
Total other transaction related costs	**(9,494,038)**	
Gain on sale of discontinued operations	**2,660,076**	

1) For the remaining retained commercial inventory and fixed assets, the Company recognized adjustment to recognize the effects of the transaction. For inventory, the Company recognized lower of cost or market adjustments of approximately $6.6 million. The Company's remaining fixed assets will be disposed of by sale and the Company recognized an adjustment of approximately $1.8 million to reflect the lower of its carrying value or estimated fair value less cost to sell. For these assets, the Company has suspended the associated depreciation and will recognize changes in the fair value less cost to sell as gains or losses in future periods until the date of sale.
2) Transaction costs were legal expenses and involuntary employee termination costs related to one-time benefit arrangements.

In addition, the Company and the Purchaser simultaneously entered into a transition services agreement pursuant to which the Company will assist Mannington in transitioning the AtlasMasland business to Mannington, by, among other things, assisting in filling open orders and completing the manufacture of work in progress that will result in a temporary continued involvement in the Commercial Business until approximately December 31,2021. The Company has shown the results of these operations as a component of discontinued operations.

RESULTS OF OPERATIONS

The following tables provide information derived from our Unaudited Condensed Consolidated Financial Statements for the periods indicated. Percentages used are expressed as a percent of net sales. The discussion that follows each table should be read in conjunction with our Unaudited Condensed Consolidated Financial Statements as well as our annual report on Form 10-K for the year ended December 26, 2020.

Three Months Ended September 25, 2021 Compared with the Three Months Ended September 26, 2020

Net Sales

($ in thousands)	2021	2020	Inc./(Dec.)	Inc./(Dec.)
Net sales, continuing operations	89,294	70,035	19,259	27.5%
Net sales, discontinued operations	15,065	15,885	(820)	(5.2)%
Net sales, combined	104,359	85,920	18,439	21.5%

During the third quarter of 2021, our net sales from continuing operations increased 27.5% compared with the third quarter of 2020. Net sales from discontinued operations decreased 5.2% versus the prior year.

The significant increase in net sales from continuing operations in the third quarter of 2021 as compared to the same period in 2020 was driven by our residential floor covering products and was the result of strong growth in new and existing home sales and home remodeling in 2021. Decreased sales of in our discontinued operations in the third quarter of 2021 as compared to the same period in 2020 was primarily the result of the sale of the operations and discontinuance of business on September 13, 2021.

Continuing Operations

	Three Months Ended	
	September 25, 2021	September 26, 2020
Net Sales	100.0 %	100.0 %
Cost of Sales	72.1 %	75.5 %
Gross Profit	27.9 %	24.5 %
Selling and Administrative Expenses	20.3 %	21.8 %
Other Operating (Income) Expenses, Net	(0.1) %	(0.2) %
Facility Consolidation and Severance Expenses, Net	0.1 %	0.7 %
Operating Income (Loss)	7.7 %	2.2 %

Gross Profit

For continuing operations, gross profit as a percentage of net sales was 27.9% in the third quarter of 2021 compared with 24.5% in the third quarter of 2020. The gross profit percentage in 2020 was impacted by under absorbed costs as a result of the lower volume caused by the COVID-19 pandemic. Higher residential production volumes and higher current period pricing matched against lower prior period costs within the quarter in the third quarter of 2021 offset inefficiencies in our commercial production facilities and increases in raw material costs.

Selling and Administrative Expenses

Selling and administrative expenses from continuing operations were $18.0 million, or 20.3% of net sales, in the third quarter of 2021 compared with $15.2 million, or 21.8% of net sales, in the year earlier period. In the second quarter of 2020, the Company initiated cost reductions including layoffs, pay reductions and spending freezes in response to the reduced demand caused by the COVID-19 pandemic. These cost reductions continued into the third quarter of 2020. Spending on selling and administrative expenses in 2021 increased in line with growing demand.

Other Operating (Income) Expense, Net

Net other operating income, was $131 thousand in the third quarter of 2021 compared with net other operating income of $172 thousand in the third quarter of 2020. Differences between the two quarters compared related to changes in fair market value adjustments related to our non-qualified retirement plan.

Facility Consolidation and Severance Expenses, Net

Facility consolidation and severance expenses totaled $88 thousand in the third quarter of 2021 compared with expense of $515 thousand in the third quarter of 2020. Facility consolidation expenses recorded in the third quarter of 2021 were residual expenses related to our Profit Improvement Plan. The expenses in the second quarter of 2020 were comprised of costs related to our COVID-19 Continuity Plan.

Operating Income (Loss)

We reported an operating income of $6.8 million in the third quarter of 2021 compared with an operating income of $1.5 million in the third quarter of 2020. In the third quarter of 2021, operating margins driven by productions volumes and favorable pricing helped drive the high operating income. In the third quarter of 2020, the lower sales volume contributed to under absorbed manufacturing costs and lower gross profit margins.The lower margins were slightly offset by expense reductions from our COVID-19 Continuity Plan.

Interest Expense

Interest expense decreased $382 thousand in the third quarter of 2021 compared with the third quarter of 2020. The decrease is the result of restructuring and reduction of debt. Debt decreased $13.6 million from $74.0 million at the end of the third quarter of 2020 to $60.4 million at the end of the third quarter of 2021.

Income Tax Benefit

We recorded an income tax expense for continuing operations of $62 thousand in the third quarter of 2021. In the third quarter of 2020 we recorded an income tax benefit of $293 thousand.

Net Income (Loss) from Continuing Operations

Continuing operations reflected an income of $5.6 million, or $0.35 per diluted share, in the third quarter of 2021 compared with a loss of $175 thousand, or $0.01 per diluted share, in the same period in 2020.

Discontinued Operations

Discontinued operations reflected an income of $836 thousand, or $0.05 per diluted share, in the third quarter of 2021 compared with an income of $685 thousand, or $0.04 per diluted share, in the same period in 2020. The largest contributor to the income in both periods was the divestiture of the commercial business. See note 21 on Discontinued Operations for additional detail.

Including discontinued operations, the Company had a net income of $6.4 million, or $0.40 per diluted share, in the third quarter of 2021 compared with a net income of $860 thousand, or $0.05 per diluted share, in the third quarter of 2020.

Nine Months Ended September 25, 2021 Compared with the Nine Months Ended September 26, 2020

Net Sales

($ in thousands)	**2021**	**2020**	**Inc./(Dec.)**	**Inc./(Dec.)**
Net sales, continuing operations	252,022	175,354	76,668	43.7%
Net sales, discontinued operations	43,470	51,967	(8,497)	(16.4)%
Net sales, combined	295,492	227,321	68,171	30.0%

During the first nine months of 2021, net sales from continuing operations, representing our ongoing residential business, increased 43.7% compared with the first nine months of 2020.

The significant increase in the net sales of our residential floor covering products in the first nine months of 2021 as compared to the same period in 2020 was the result of strong growth in new and existing home sales and home remodeling in 2021.

Decreased net sales in our discontinued operations, representing our discontinued commercial business, in the third quarter of 2021 as compared to the same period in 2020 was the result of the continued impact of the COVID-19 pandemic on the commercial markets we serve, particularly in the hospitality and retail market segments and the sale of the commercial business and discontinuance of operations on September 13, 2021..

Continuing Operations

	Nine Months Ended	
	September 25, 2021	September 26, 2020
Net Sales	100.0 %	100.0 %
Cost of Sales	74.5 %	78.5 %
Gross Profit	25.5 %	21.5 %
Selling and Administrative Expenses	20.2 %	24.1 %
Other Operating (Income) Expenses, Net	— %	(0.1) %
Facility Consolidation and Severance Expenses, Net	0.1 %	1.0 %
Operating Income (Loss)	5.2 %	(3.5) %

Gross Profit

Gross profit as a percentage of net sales was 25.5% in the first nine months of 2021 compared with 21.5% in the first nine months of 2020. The lower gross profit percentage in 2020 was driven by under absorbed costs as a result of the lower volume caused by the COVID-19 pandemic. Higher residential production volumes and favorable pricing in the third quarter offset inefficiencies in our commercial production facilities and increases in raw material costs.

Selling and Administrative Expenses

Selling and administrative expenses were $50.8 million, or 20.2% of net sales, in the first nine months of 2021 compared with $42.3 million, or 24.1% of net sales, in the year earlier period. Beginning in the second quarter of 2020, the Company initiated cost reductions including layoffs, pay reductions and spending freezes in response to the reduced demand caused by the COVID-19 pandemic. Spending on selling and administrative expenses in 2021 increased in line with growing demand.

Other Operating (Income) Expense, Net

Net other operating income, was $96 thousand in the first nine months of 2021 compared with net other operating income of 163 thousand in the same period of 2020. Differences between the two quarters compared related to changes in fair market value adjustments related to our non-qualified retirement plan.

Facility Consolidation and Severance Expenses, Net

Facility consolidation and severance expenses totaled $183 thousand in the nine month period ended September 25, 2021 compared with expense of $1,785 thousand in the nine month period ended September 26, 2020. Facility consolidation expenses recorded in the first nine months of 2021 were residual expenses related to our Profit Improvement Plan and the COVID-19 Continuity Plan. The expenses in the third quarter of 2020 were comprised of costs related to our COVID-19 Continuity Plan including severance expenses and financing expenses.

Operating Income (Loss)

We reported an operating income of $13.5 million in the first nine months of 2021 compared with an operating loss of $6.1 million in the first nine months of 2020. In the first nine months of 2021, gross margins improved from higher sales demand and the benefit of favorable pricing which helped to offset the under absorbed costs in our commercial manufacturing facilities and higher raw material costs. In the first nine months of 2020, the lower sales volume as a result of the COVID-19 pandemic contributed to under absorbed manufacturing costs and lower gross profit margins.The lower margins were slightly offset by expense reductions from our COVID-19 Continuity Plan.

Interest Expense

Interest expense decreased $454 thousand in the nine month period ended September 25, 2021 compared with the same period of 2020. The decrease is the result of restructuring and reduction of debt.

Income Tax Benefit

In the first nine months of 2021, we recorded an income tax expense of $597 thousand for continuing operations and an expense of $912 thousand for discontinued operations. In the first nine months of 2020, as restated, we recognized a benefit of $749 thousand in continuing operations and a benefit of $748 thousand in discontinued operations.

The effective income tax rate for the nine months ending September 25, 2021 was 6.15% compared with a benefit rate of 7.20% for the nine months ending September 26, 2020. Because the Company maintains a full valuation allowance against its deferred income tax balances, the Company is only able to recognize refundable credits, the accrual of federal and state cash taxes, and a benefit for the recognition of stranded tax effects within other comprehensive income (loss) related to the termination of certain derivative contracts in the tax benefit for the first nine months of 2021. The Company is expecting to be in a Federal cash tax paying position for the year based on the projected full utilization of its NOL carryforwards and the limitation on its ability to utilize credit carryforwards to offset its tax liability. The Company is expecting to be in a Federal cash tax paying position for the year based on the projected full utilization of its NOL carryforwards and the limitation on its ability to utilize credit carryforwards to offset its tax liability. The Company is in a net deferred tax liability position of $91 at September 25, 2021 and December 26, 2020, 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 $214 at September 25,2021 and December 26, 2020, respectively. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of September 25, 2021 and December 26, 2020.

The Company and its subsidiaries are subject to United States federal income taxes, as well as income taxes in a number of state jurisdictions. The tax years subsequent to 2016 remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2016. A few state jurisdictions remain open to examination for tax years subsequent to 2015.

Net Income (Loss)

Continuing operations reflected an income of $9.7 million, or $0.58 per diluted share, in the first nine months of 2021 compared with a loss of $10.4 million, or $0.63 per diluted share, in the same period in 2020.

Discontinued operations reflected a loss of $1.3 million, or $0.09 per diluted share, in the first nine months of 2021 compared with an income of $778 thousand, or $0.05 per diluted share, in the same period in 2020. The largest contributor to the income in both periods was the divestiture of the commercial business. See note 21 on Discontinued Operations for additional detail.

Including discontinued operations, the Company had a net income of $7.8 million, or $0.49 per diluted share, in the nine month period ended September 25, 2021 compared with a net loss of $8.9 million, or $0.58 per diluted share, in the same period of 2020.

LIQUIDITY AND CAPITAL RESOURCES

During the nine months ended September 25, 2021, cash provided by continuing operations was $4.6 million. The income from continuing operations for the period was $9.1 million. Accounts receivable held for continuing operations increased $9.5 million from the seasonally low 2020 fiscal year end accounts receivable balance. The increase in accounts receivable at September 2021 quarter end reflects the increased sales volume for the period driven by the higher demand for residential products. Inventories held for continuing operations increased $15.3 million as we are building up inventories to meet increased demand. Accounts payable and accrued expenses for continuing operations increased $12.5 million primarily driven by accruals for raw material purchases in order to replenish inventory to meet the growing demand.
Purchases and sales of capital assets for the nine months ended September 25, 2021 netted to a $15.1 million cash flow to the business. Depreciation and amortization for the nine months ended September 25, 2021 were $6.9 million. We expect capital expenditures to be approximately $5.0 million in 2021 while depreciation and amortization is expected to be approximately $10.0 million. Planned capital expenditures in 2021 are primarily for new equipment.

During the nine months ended September 25, 2021, cash used in financing activities for continuing operations was $18.2 million. We had net payments on our revolving credit facility of $11.6 million and payments on notes payable and financing leases of $6.2 million.

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

We believe our operating cash flows, credit availability under our revolving credit facility and other sources of financing are adequate to finance our anticipated liquidity requirements under current operating conditions. We cannot predict, and are unable to know, the long-term impact of the COVID-19 pandemic and the related economic consequences or how these events may affect our future liquidity. Availability under our Senior Secured Revolving Credit Facility on September 25, 2021 was $54.1 million. See Note 9, Long-Term Debt and Credit Arrangements, for additional details regarding our Senior Credit Facility.

Significant additional cash expenditures above our normal liquidity requirements, significant deterioration in economic conditions or continued operating losses could affect our business and require supplemental financing or other funding sources. There can be no assurance that such supplemental financing or other sources of funding can be obtained or will be obtained on terms favorable to us.

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 2020 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Recent Accounting Pronouncements

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

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

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

At September 25, 2021, $16,714, or approximately 28% of our total debt, was subject to short-term 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 $124. Not included in the $16,714, is the amount outstanding for term loans of $24,833. Both loans are currently set to bear interest of 5% for five years. Every five years, these rates will be reset to reflect the then current 5-year treasury rate plus a margin. A one-hundred basis point fluctuation in the interest rates applicable to this floating rate debt would have an annual after-tax impact of approximately $184. See Note 9 for further discussion of these loans. The total of our debt, including the term loans, subject to floating interest rates is $41,547, or approximately 69% of our total debt. A one-hundred basis point fluctuation in the variable interest rates applicable to this total floating rate debt would have an annual after-tax impact of approximately $307.

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 25, 2021, 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

During the Quarter, the Company agreed to settle the pending, previously reported lawsuit styled The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al., Civil Action No. 31-CV-2016-900676.00, by payment of an amount deemed not to be material and entry into a settlement agreement and full release of liability with the plaintiff in the pending suit. Shortly thereafter, the Company also agreed to settle the lawsuit styled The Water Works and Sewer Board of the Town of Centre v. 3M Company, et al., Civil Action No. 13-CV- 2017-900049.00, by payment of an amount deemed immaterial and entry into a settlement agreement and full release of liability with the plaintiff. The payment in each case and the settlement and dismissals were approved by the respective courts in which the cases were pending following the end of the Quarter. In neither settlement did the Company admit liability for the alleged claims.

See Legal Proceedings under footnote 18 for additional information regarding legal cases in which the Company is involved.

Item 1A. Risk Factors

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

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

The COVID-19 pandemic continues to impact areas where we operate and sell our products and services. The COVID-19 outbreak in the second quarter of 2020 had a material adverse effect on our ability to operate and our results of operations as public health organizations recommended, and many governments implemented, measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances. Although many areas have lifted or reduced the impact of such orders, the continuing spread of the virus may necessitate a return of such restrictive, preventive measures which may have a material adverse effect on our business for an indefinite period of time, such as the potential shut down of certain locations, decreased employee availability, disruptions to the businesses of our selling channel partners, and others. Our suppliers and customers may also face these and other challenges, which could lead to a disruption in our supply chain as well as decreased construction and renovation spending and consumer demand for our products and services. These issues may also materially affect our current and future access to sources of liquidity, particularly our cash flows from operations, and access to financing. The long-term economic impact and near-term financial impacts of the COVID-19 pandemic, including but not limited to, potential near term or long-term risk of asset impairment, restructuring, and other charges, cannot be reliably quantified or estimated at this time due to the uncertainty of future developments.

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

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

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

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

A significant amount of our sales are generated through a certain mass merchant retailer. A change in strategy by this customer to emphasize products at a lower price point than we currently offer will limit future sales to this customer. The reductions of sales through this channel could adversely affect our business if we are not able to replace the volume through other sales outlets and product offerings. The impact of the event has been minimized due to minimal margins on sales through this channel due to price pressure from the retailer and increased raw material costs for our products. We expect to be able to utilize the production capacity made available to help fulfill the current high demand for residential products.

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

We have a significant amount of indebtedness relative to our equity. Insufficient cash flow, profitability, or the value of our assets securing our loans could have a material adverse effect on our ability to generate sufficient funds to satisfy the terms of our senior loan agreements and other debt obligations. Additionally, the inability to access debt or equity markets at competitive rates in sufficient amounts to satisfy our obligations could adversely impact our business. Further, our trade relations depend on our economic viability and insufficient capital could harm our ability to attract and retain customers and or supplier relationships.

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

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

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

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

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

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

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

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

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

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

Disruption to suppliers of raw materials 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 has historically been purchased from one supplier. Our principal yarn supplier is one of the leading fiber suppliers within the industry and has been the exclusive supplier of certain branded fiber technology upon which we have relied. Access to these branded fibers has been restricted and is gradually being phased out. While we have developed and are developing products and product offerings that use other fiber systems, there is no certainty that we will be successful in our efforts to develop and market such products. Additionally, the supply of all nylon yarn and yarn systems has been negatively impacted by a variety of overall market factors. The cost of nylon yarns has risen significantly and availability of nylon yarns has been restricted. Our efforts to develop alternate sources and to diversify our yarn suppliers has been accelerated and has met with some success to date; however, continued supply constraints may impact our ability to successfully develop products and effectively service our customers. 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 and other raw materials 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, ransomware, intrusions and malware or otherwise, could disrupt our normal operations. Depending upon the severity of the incident, there can be no assurance that we can effectively carry out our disaster recovery plan to handle a 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.

On April 17, 2021, we detected a ransomware attack on portions of our information technology systems. We initiated recovery efforts and implemented additional security measures in response. Despite the best efforts toward the security of computer networks, all companies are subject to such attacks by cyber criminals as they become more frequent and their ability to circumvent security measures become more sophisticated.

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 25, 2021:

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 (1)
July 31, 2021	—	$ —	—	
August 28, 2021	2,970	4.09	2,970	
September 25, 2021	—	—	—	
Three Months Ended September 25, 2021	2,970	$ —	2,970	$ 2,117,364

(1) All purchases were made under a Plan entered into pursuant to Rule 10b5-1 of the Securities and Exchange act which permitted the purchase of up to $2.9 million of the Company's shares beginning as of November 11, 2020.

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 15, 2021

By: /s/ Allen L. Danzey
Allen L. Danzey
Vice President and Chief Financial Officer

EXHIBIT 31.1

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

I, Daniel K. Frierson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 15, 2021

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

EXHIBIT 31.2

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

I, Allen L. Danzey, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 15, 2021

/s/ **ALLEN L. DANZEY**

Allen L. Danzey
Chief Financial Officer
The Dixie Group, Inc.

EXHIBIT 32.1

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

In connection with the Quarterly Report of The Dixie Group, Inc. (the "Company") on Form 10-Q for the quarter ended September 25, 2021, 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 15, 2021

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 25, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen L. Danzey, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

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

/s/ ALLEN L. DANZEY
Allen L. Danzey, Chief Financial Officer
Date: November 15, 2021

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.