

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

(Mark One)

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

For the fiscal year ended December 30, 2023

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

(State or other jurisdiction of incorporation of organization)  
475 Reed Road, Dalton, GA 30720  
 (Address of principal executive offices and zip code)  
 Securities registered pursuant to Section 12(b) of the Act:  
 Title of Class  
Common Stock, \$3.00 par value  
 Securities registered pursuant to Section 12(g) of the Act:  
 Title of class  
None

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  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 has filed a report on attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to Section 240.10D-1(b).

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 30, 2023 (the last business day of the registrant's most recently completed fiscal second quarter) was \$ 18,370,085. The aggregate market value was computed by reference to the closing price of the Common Stock on such date. In making this calculation, the registrant has assumed, without admitting for any purpose, that all executive officers, directors, and holders of more than 10% of a class of outstanding Common Stock, and no other persons, are affiliates. No market exists for the shares of Class B Common Stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act.

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

| Class                                  | Outstanding as of February 23, 2024 |
|--|-------------------------------------|
| Common Stock, \$3.00 Par Value         | 14,409,281 shares                   |
| Class B Common Stock, \$3.00 Par Value | 1,121,129 shares                    |
| Class C Common Stock, \$3.00 Par Value | — shares                            |

**DOCUMENTS INCORPORATED BY REFERENCE**

Specified portions of the following document are incorporated by reference:

Proxy Statement of the registrant for annual meeting of shareholders to be held May 1, 2024 (Part III).

THE DIXIE GROUP, INC.

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 on Form 10-K for  
 Year Ended December 30, 2023

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#### **FORWARD-LOOKING INFORMATION**

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

## PART I.

### Item 1. BUSINESS

#### General

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

Our business participates in markets for soft floorcoverings, which include broadloom carpet and rugs, and hard surfaces, which include luxury vinyl flooring (LVF) and engineered wood. There has been a significant shift in the flooring marketplace as hard surface products have grown at a rate much faster than soft surface products. We continue to respond to this accelerated shift to hard surface flooring by launching several initiatives in hard surface offerings. TRUCOR™ and TRUCOR Prime™ offers a wide range of LVF products. We continue to introduce new products in our 1866 by Masland and Decor by Fabrica collections, which are targeted at high end, luxury soft surface markets including wool broadloom and decorative rugs.

We have one reportable segment, Floorcovering.

#### Our Brands

Our brands are well known, highly regarded and offer meaningful alternatives to the discriminating customer.

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

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

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

#### Industry

We are a flooring manufacturer in an industry composed of a wide variety of companies from small privately held firms to large multinationals. In 2022, according to the most recent information available, the U.S. floorcovering industry reported \$37.6 billion in sales, up approximately 7.5% from the 2021 sales total. In 2022, the primary categories of flooring in the U.S., based on sales dollars, were carpet and rug (34%), luxury vinyl flooring (LVF) (28%), wood (12%), ceramic tile (13%), stone (6%), vinyl (4%), and laminate and other (3%). In 2022, the primary categories of flooring in the U.S., based on square feet, were carpet and rug (39%), luxury vinyl flooring (LVF) (32%), ceramic tile (12%), vinyl (6%), wood (5%), laminate (3%), and stone and other (3%). Each of these categories is influenced by the residential construction, commercial construction, and residential remodeling markets. These markets are influenced by many factors including consumer confidence, spending for durable goods, turnover in housing and the overall strength of the economy.

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

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

#### **Competition**

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

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

#### **Backlog**

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

#### **Trademarks**

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

#### **Customer and Product Concentration**

No customer was more than 10 percent of our net sales during the periods presented. During 2023, sales to our top ten customers accounted for approximately 6% of our sales and our top 20 customers accounted for approximately 10% of our sales. We do not have a material amount of sales in foreign countries.

We do not have any single class of products that accounts for more than 10% of our sales.

#### **Seasonality**

Our sales historically have normally reached their highest level in the second quarter (approximately 26% of our annual sales) and their lowest levels in the first quarter (approximately 23% of our annual sales), with the remaining sales being distributed relatively equally between the third and fourth quarters. Working capital requirements have normally reached their highest levels in the second and third quarters of the fiscal year.

#### **Environmental**

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

## **Raw Materials**

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

## **Utilities**

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

## **Working Capital**

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

## **Human Capital Resources**

At December 30, 2023, our total employed associates was 970.

As stated in the Company's Code of Ethics, Company policy is to promote diversity, prohibit discrimination and harassment in the workplace and to provide a safe and healthy workplace for Company associates.

## **Available Information**

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

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

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

## **Item 1A. Risk Factors**

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

**Our financial condition and results of operations have been and could likely be adversely impacted in the future by COVID-19 or other pandemics and the related negative impact on economic conditions.**

Global and/or local pandemics, such as COVID-19, have negatively impacted 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 the accessibility of vaccines and other preventive measures have lessened the impact, new variants 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 activity or home 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 interest rate levels, consumer confidence and income, corporate and government spending, availability of credit and demand for housing. We derive a majority of our sales from the replacement segment of the market. Therefore, unfavorable economic changes, such as an economic recession, could result in a significant or prolonged decline in spending for remodeling and replacement activities which could have a material adverse effect on our business and results of operations.

The residential floorcovering market is highly dependent on housing activity, including remodeling. The U.S. and global economies, along with the residential markets in such economies, can negatively impact the floorcovering industry and our business. Although the impact of a decline in new housing 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 prolonged deterioration. A significant or prolonged decline in residential housing activity could have a material adverse effect on our business and results of operations.

**We have had 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 recent past sales were 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 has limited future sales opportunities with this customer. In response to this loss in sales volume and other factors, we implemented our restructuring plan to consolidate our east coast manufacturing operations to better match production demand. If we are unable to maintain volume in line with expected production capacity, any excess capacity in the manufacturing facilities could result in an unfavorable impact on gross margins due to under absorbed fixed costs.

**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. Our senior loan agreement and term loans include certain compliance, affirmative, and financial covenants. The impact of continued operating losses on our liquidity position could affect our ability to comply with these covenants by our primary lenders. Additionally, the inability to access debt or equity markets at competitive rates in sufficient amounts to satisfy our obligations could adversely impact our business. Significant increases in interest rates tied to our floating rate debt could have a material adverse effect on our financial results. 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.**

Economic factors, including an economic recession, could have a material adverse effect on demand for our products and on our financial condition and operating results. Uncertainty in the credit markets could affect the availability and cost of credit. If banks and financial institutions with whom we have banking relationships enter receivership or become insolvent in the future, we may be unable to access, and we may lose, some or all of our existing cash and cash equivalents to the extent those funds are not insured or otherwise protected by the FDIC. 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.

**If we are not able to maintain a minimum bid price of \$1 per share for our common stock, we may be subject to delisting from The NASDAQ Stock Market.**

NASDAQ Marketplace Rule 5550(a)(2) requires that, for continued listing on the exchange, we must maintain a minimum bid price of \$1 per share. We received notice from NASDAQ on September 27, 2023 that our closing bid price was below \$1 per share for 30 consecutive business days. If we are not able to regain compliance before March 25, 2024, we may be eligible for an additional 180 days provided we meet other listing requirements. To the extent that we are unable to stay in compliance with the relevant NASDAQ bid price listing rule, there is a risk that our common stock may be delisted from NASDAQ, which would adversely impact liquidity of our common stock and potentially result in even lower bid prices for our common stock.

**Our stock price has been and could remain volatile, which could further adversely affect the market price of our stock, our ability to raise additional capital.**

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.

**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 lower demand for our products. In addition, we face, and will continue to face, competitive pressures on our sales prices 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. 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 will 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 have increased significantly due to market conditions and inflationary pressures, the duration and extent of which is difficult to predict. 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 continue to 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. One of the leading fiber suppliers within the industry had been the exclusive supplier of certain branded fibers upon which we formerly relied. Access to these branded fibers is no longer available. We have developed and are developing products and product offerings using fiber systems from other fiber suppliers, but there can be no certainty as to the success of 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 met with success to date; however, 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, cyber incident 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 cyber crimes 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.

**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. 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 our cost of sales and results of operations.

Regulatory efforts to monitor political, social, and environmental conditions in foreign countries that produce products or components of products purchased by us will necessarily add complexity and cost to our products and processes and may reduce the availability of certain products. Regulatory efforts to prevent or reduce the risk that certain flooring products or elements of such products are produced in regions where forced or involuntary labor are known or believed to occur will result in increased cost to us as we attempt to ensure that none of our products or components of our products are produced in such regions. Such increased cost may make our products less competitive.

**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.

The Environmental Protection Agency has declared an intent to focus on perceived risks posed by certain chemicals (principally PFOA and PFOAS) previously used by the carpet industry. New or revised regulatory actions could result in requirements that industry participants, including us, incur costs related to testing and cleanup of areas affected by such chemical usage. Other chemicals or materials historically used by the industry and us could become the focus of similar governmental action.

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.

We are a manufacturer and distributor of flooring products which require processes and materials that necessarily utilize substantial amounts of carbon-based energy and accordingly involve the emission of "greenhouse gasses." Regulatory monitoring, reporting and, more generally, efforts to eliminate or substantially reduce "greenhouse gasses" will necessarily add complexity and cost to our products and processes decreasing profitability and consumer demand. Additionally, consumer preferences may be affected by publicly announced issues related to "greenhouse gasses" which may negatively affect demand for our products. There can be no assurance that we can cost effectively respond to any such regulatory efforts or that demand for our products can be sustained under such pressures.

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

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

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

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

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

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 1C. CYBERSECURITY**

**Cybersecurity Risk Management and Strategy**

We recognize cybersecurity as a critical aspect of our overall risk management program and are committed to maintaining a cybersecurity program to protect our information assets, systems, and operations. Our cybersecurity risk management program is integrated into our overall enterprise risk management program and shares common methodologies, reporting channels and governance processes that apply across the enterprise risk management program to other legal, compliance, strategic, operational and financial risks areas. We continuously evaluate and enhance our cybersecurity program based on lessons learned, industry best practices and feedback from internal and external stakeholders.

Key aspects of our cybersecurity risk management program include:

- risk assessments designed to help identify, prioritize and mitigate potential material cybersecurity risks to our critical systems and information;
- an internal Information Technology staff responsible for managing our cybersecurity risk assessment processes, our security controls and our response to cybersecurity incidents;
- the use of external service providers, where appropriate, to assess, test or otherwise assist with aspects of our security controls;
- cybersecurity awareness training of our associates, incident response personnel and senior management;
- a cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents; and
- a third-party risk management process for key service providers, suppliers, and vendors.

We did not experience a material cybersecurity incident during the year ended December 30, 2023; however, the scope and impact of any future incident cannot be predicted. See "Item 1A. Risk Factors" for more information on our cybersecurity-related risks.

**Cybersecurity Governance**

Our Board of Directors (the "Board") has oversight responsibility for cybersecurity risk management. The Board oversees management's ongoing activities related to our cybersecurity risk management program. The management team is responsible for the implementation and execution of our cybersecurity program. In addition, the management team provides guidance and direction on cybersecurity priorities, resource allocation and risk tolerance levels. The Board receives quarterly updates from the management team on cybersecurity matters.

## Item 2. PROPERTIES

The following table lists our facilities according to location, type of operation and approximate total floor space as of February 23, 2024:

| Location                        | Type of Operation                           | Approximate Square Feet |
|---------------------------------|---|-------------------------|
| Administrative:                 |   |                         |
| Saraland, AL*                   | Administrative                              | 29,000                  |
| Santa Ana, CA*                  | Administrative                              | 4,000                   |
| Calhoun, GA                     | Administrative                              | 10,600                  |
| Dalton, GA*                     | Administrative                              | 50,800                  |
|                                 | Total Administrative                        | 94,400                  |
| Manufacturing and Distribution: |   |                         |
| Atmore, AL                      | Distribution / Warehouse                    | 610,000                 |
| Roanoke, AL                     | Carpet Yarn Processing                      | 204,000                 |
| Saraland, AL*                   | Warehouse                                   | 384,000                 |
| Porterville, CA*                | Carpet Yarn Processing                      | 249,000                 |
| Santa Ana, CA*                  | Carpet and Rug Manufacturing, Distribution  | 200,000                 |
| Adairsville, GA*                | Samples and Rug Manufacturing, Distribution | 292,000                 |
| Calhoun, GA                     | Carpet Dyeing & Processing                  | 193,300                 |
| Eton, GA                        | Carpet Manufacturing, Distribution          | 408,000                 |
| Chatsworth, GA*                 | Samples Warehouse and Distribution          | 161,400                 |
|                                 | Total Manufacturing and Distribution        | 2,701,700               |
| * Leased properties             | <b>TOTAL</b>                                | <b>2,796,100</b>        |

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

## Item 3. LEGAL PROCEEDINGS

We have been sued together with 15 other defendants in a civil action filed January 22, 2024, in the Superior Court of Gordon County Georgia. The case is styled: Moss Land Company, LLC and Revocable Living Trust of William Darryl Edwards, by and through William Darryl Edwards, Trustee vs. City of Calhoun et al. Civil Action Number 24CV73929. The plaintiffs are two landowners located in Gordon County Georgia. The relief sought is compensation for alleged damages to the plaintiffs' real property, an injunction from alleged further damage to their property and abatement of alleged nuisance related to the presence of PFAS and related chemicals on their property. The Plaintiffs allege that such chemicals have been deposited on their property by the City of Calhoun as a byproduct of treating water containing such chemicals used by manufacturing operations in and around Calhoun Georgia. The defendants include the City of Calhoun Georgia, several other carpet manufacturers, and certain manufacturers and sellers of chemicals containing PFAS. No specific amount of damages has been demanded. We have not yet answered the complaint but anticipate denying liability and vigorously defending the matter.

On March 1, 2024, the City of Calhoun Georgia served an answer and crossclaim for Damages and injunctive relief in the pending matter styled: In re: Moss Land Company, LLC and Revocable living Trust of William Darryl Edwards by and through William Darryl Edwards, Trustee v. The Dixie Group, Inc. In the Superior Court of Gordon County Georgia. case Number: 24CV73929. In its Answer and Crossclaim defendant Calhoun sues The Dixie Group, Inc. and other named carpet manufacturing defendants for unspecified monetary damages and other injunctive relief based on injury claimed to have resulted from defendant's use and disposal of chemical wastewater containing PFAS chemicals. Dixie Group has advised us that it intends to deny liability and to defend the matter vigorously.

## Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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

#### **EXECUTIVE OFFICERS OF THE REGISTRANT**

The names, ages, positions and offices held by the executive officers of the registrant as of February 23, 2024, are listed below along with their business experience during the past five years.

| <b>Name, Age and Position</b>  | <b>Business Experience During Past Five Years</b>   |
|--|---|
| Daniel K. Frierson, 82<br>Chairman of the Board, and Chief Executive Officer, Director | Director since 1973, Chairman of the Board since 1987 and Chief Executive Officer since 1980. He is the Chairman of the Company's Executive Committee. He is past Chairman of The Carpet and Rug Institute.   |
| D. Kennedy Frierson, Jr., 56<br>Vice President and Chief Operating Officer, Director   | Director since 2012 and Vice President and Chief Operating Officer since August 2009. Vice President and President Masland Residential from February 2006 to July 2009. President Masland Residential from December 2005 to January 2006. Executive Vice President and General Manager, Dixie Home, 2003 to 2005. Business Unit Manager, Bretlin, 2002 to 2003. |
| Allen L. Danzey, 54<br>Vice President and Chief Financial Officer                      | Chief Financial Officer since January 2020. Director of Accounting from May 2018 to December 2019. Commercial Division Controller from July 2009 to May 2018. Residential Division Controller and Senior Accountant from February 2005 to July 2009.  |
| Thomas M. Nuckols, Jr., 56<br>Vice President and President, Dixie Residential          | Vice President and President of Dixie Residential since November 2017. Executive Vice President, Dixie Residential from February 2017 to November 2017. Dupont/Invista, from 1989 to 2017, Senior Director of Mill Sales and Product Strategy from 2015 to 2017.  |
| W. Derek Davis, 73<br>Vice President, Human Resources and Corporate Secretary          | Vice President of Human Resources since January 1991 and Corporate Secretary since January 2016. Corporate Employee Relations Director, 1988 to 1991.   |

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

## PART II.

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

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

As of February 23, 2024, the total number of holders of our Common Stock was approximately 3,000 including an estimated 2,480 shareholders who hold our Common Stock in nominee names. The total number of holders of our Class B Common Stock was 10.

#### Recent Sales of Unregistered Securities

None.

#### Issuer Purchases of Equity Securities

| Fiscal Month Ending                         | Total Number of Shares Purchased (1) | 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) |
|---|--------------------------------------|------------------------------|--|--|
| November 4, 2023                            | —                                    | \$ —                         | —  | —  |
| December 2, 2023                            | —                                    | —                            | —  | —  |
| December 30, 2023                           | —                                    | —                            | —  | —  |
| Three Fiscal Months Ended December 30, 2023 | —                                    | \$ —                         | —  | \$ —   |

(1) On August 3, 2022, our Board of Directors approved the repurchase of up to \$3,000 of our Common Stock. Currently, we do not have an active 10b-5-1 plan to repurchase shares of Common Stock.

#### Dividends and Price Range of Common Stock

There is a restriction on the payment of dividends under our revolving credit facility and we have not paid any dividends in the years ended December 30, 2023 and December 31, 2022.

The following table provides the price range of common stock for the four fiscal quarterly periods in the years ended December 30, 2023 and December 31, 2022.

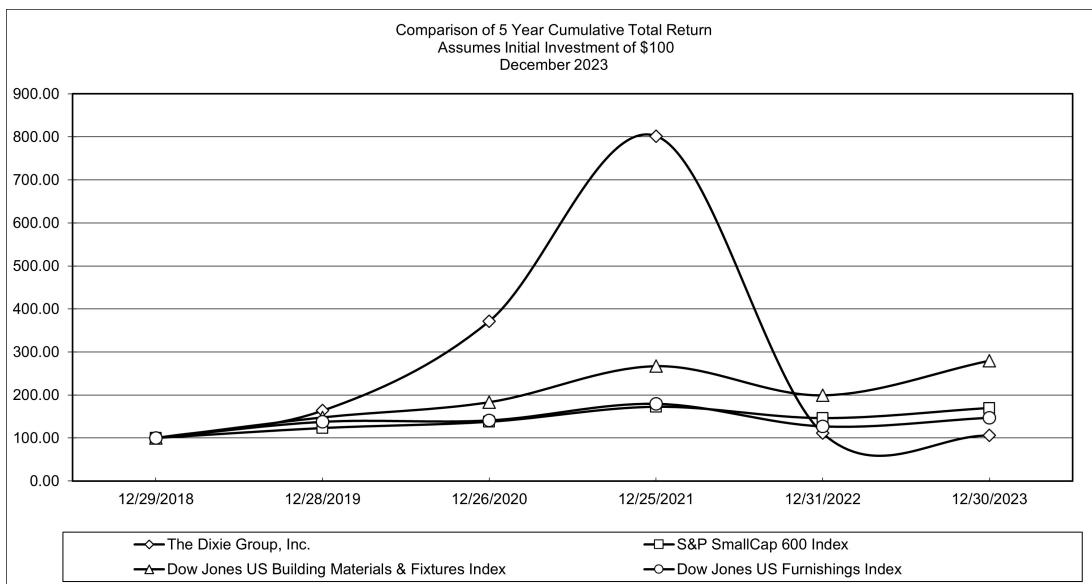
#### THE DIXIE GROUP, INC. QUARTERLY PRICE RANGE OF COMMON STOCK

|                      | FISCAL QUARTER |         |         |         |
|----------------------|----------------|---------|---------|---------|
|                      | 1ST            | 2ND     | 3RD     | 4TH     |
| 2023                 |                |         |         |         |
| Common Stock Prices: |                |         |         |         |
| High                 | \$ 1.06        | \$ 1.36 | \$ 1.34 | \$ 0.98 |
| Low                  | 0.70           | 0.67    | 0.62    | 0.46    |
| 2022                 |                |         |         |         |
| Common Stock Prices: |                |         |         |         |
| High                 | \$ 6.32        | \$ 3.44 | \$ 1.83 | \$ 1.25 |
| Low                  | 2.69           | 1.35    | 1.08    | 0.75    |

## Shareholder Return Performance Presentation

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

Set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on our Common Stock against the total return of the Standard & Poor's Small Cap 600 Stock Index, plus both the Dow Jones US Furnishings Index and the Dow Jones US Building Materials & Fixtures Index, in each case for the five year period ended December 30, 2023. The comparison assumes that \$100.00 was invested on December 29, 2018, in our Common Stock, the S&P Small Cap 600 Index, and each of the two Peer Groups, and assumes the reinvestment of dividends.



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

### Item 6. [RESERVED]

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

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

#### OVERVIEW

Our business consists principally of marketing, manufacturing and selling floorcovering products to high-end 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 DH Floors 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.

## RESULTS OF OPERATIONS

### Fiscal Year Ended December 30, 2023 Compared with Fiscal Year Ended December 31, 2022

|  | Fiscal Year Ended (amounts in thousands) |                |                      |                |                        |            |
|--|--|----------------|----------------------|----------------|------------------------|------------|
|  | December 30,<br>2023                     | % of Net Sales | December 31,<br>2022 | % of Net Sales | Increase<br>(Decrease) | % Change   |
| Net sales  | \$ 276,343                               | 100.0 %        | \$ 303,570           | 100.0 %        | \$ (27,227)            | (9.0)%     |
| Cost of sales                                      | 202,464                                  | 73.3 %         | 249,946              | 82.3 %         | (47,482)               | (19.0)%    |
| Gross profit                                       | 73,879                                   | 26.7 %         | 53,624               | 17.7 %         | 20,255                 | 37.8 %     |
| Selling and administrative expenses                | 74,136                                   | 26.8 %         | 76,957               | 25.4 %         | (2,821)                | (3.7)%     |
| Other operating (income) expense, net              | (9,172)                                  | (3.3)%         | 239                  | 0.1 %          | (9,411)                | (3,937.7)% |
| Facility consolidation and severance expenses, net | 3,867                                    | 1.4 %          | 4,584                | 1.5 %          | (717)                  | (15.6)%    |
| Operating income (loss)                            | 5,048                                    | 1.8 %          | (28,156)             | (9.3)%         | 33,204                 | (117.9)%   |
| Interest expense                                   | 7,217                                    | 2.6 %          | 5,340                | 1.8 %          | 1,877                  | 35.1 %     |
| Other (income) expense, net                        | (431)                                    | (0.2)%         | 6                    | — %            | (437)                  | (7,283.3)% |
| Loss from continuing operations before taxes       | (1,738)                                  | (0.6)%         | (33,502)             | (11.1)%        | 31,764                 | (94.8)%    |
| Income tax provision (benefit)                     | 214                                      | 0.1 %          | (87)                 | — %            | 301                    | (346.0)%   |
| Loss from continuing operations                    | (1,952)                                  | (0.7)%         | (33,415)             | (11.1)%        | 31,463                 | (94.2)%    |
| Loss from discontinued operations, net of tax      | (766)                                    | (0.3)%         | (1,664)              | (0.5)%         | 898                    | (54.0)%    |
| Net loss   | \$ (2,718)                               | (1.0)%         | \$ (35,079)          | (11.6)%        | \$ 32,361              | (92.3)%    |

**Net Sales.** Net sales for the year ended December 30, 2023 were \$276.3 million compared with \$303.6 in the prior period, a decrease of 9.0% for the year-over-year comparison. Fiscal year 2022 consisted of 53 weeks as compared to fiscal year 2023 at 52 weeks. On an average weekly basis, sales in fiscal year 2023 amounted to \$5.3 million per week compared to \$5.7 million per week in 2022, or a 7.2% decrease. The decrease in net sales in 2023 was primarily the result of lower demand within the floorcovering industry and related markets.

**Gross Profit.** Gross profit, as a percentage of net sales, increased 9.0 percentage points in 2023 compared with 2022. In the fourth quarter of 2021, our primary supplier of raw materials for our nylon broadloom products announced an abrupt exit from the business and imposed exorbitantly high price increases on us at levels that we were unable to pass on to our customers. We completed the conversion of our new lower cost raw materials from multiple suppliers in the third quarter of 2022, but gross profit margins were negatively impacted throughout 2022.

In addition, our gross profit margins in 2022 were negatively impacted by extreme increases in the cost of ocean freight for our imported inventory. The rapid pace and high level of the increases prevented us from being able to pass along all of the costs through our pricing to customers. These rates had returned to lower, more expected levels by the end of 2022. In addition, inflationary pressure also negatively impacted our gross profit margins in 2022.

The historically high gross profit margins in 2023 reflect the benefits of our conversion to raw materials suppliers at lower price points, the consolidation of our east coast tufting facilities and efficiencies within our manufacturing operations.

**Selling and Administrative Expenses.** Selling and administrative expenses were \$74.1 million in 2023 compared with \$77.0 million in 2022. Selling and administrative expenses as a percent of the net sales for 2023 and 2022 were 26.8% and 25.4% respectively. Continued investments in samples to support the introduction of our new products, including products within our new decorative lines, drove the increase in selling and administrative expenses as a percent of net sales.

**Other Operating (Income) Expense, Net.** Net other operating (income) expense was an income of \$9.2 million in 2023 compared with an expense of \$239 thousand in 2022. In 2023, we completed a sale and leaseback of our Adairsville, Georgia distribution center resulting in a gain of \$8.2 million. In addition, we leased out excess space in our Saraland, Alabama facility resulting in \$705 thousand of lease income in 2023. In 2022, the expense was primarily the result of a loss on impairment of assets of \$267 thousand and retirement expenses of \$483 thousand net of additional insurance proceeds of \$394 thousand related to a claim at our Roanoke, Alabama facility.

**Facility Consolidation and Severance Expenses, Net.** Facility consolidation expenses were \$3.9 million in 2023 compared with \$4.6 million in 2022. The facility consolidation expenses incurred during 2023 and 2022 were primarily related to our plan for the consolidation of our east coast manufacturing to better align our production capacity with our sales volume and concentrate production into our lower cost facility.

**Operating Income (Loss).** The operating income in 2023 was \$5.0 million compared to an operating loss of \$28.2 million in 2022. The 2022 loss was the result of lower sales volume due to lower demand and the loss of our largest mass merchant customer, higher costs related to our former primary fiber supplier exiting the business, higher freight cost on imported goods, higher material costs as a result of inflation, increased sample costs and high restructuring expenses from our plan to consolidate the east coast manufacturing.

**Interest Expense.** Interest expense was \$7.2 million in 2023 compared with \$5.3 million in 2022. The increase is the result of higher interest rates throughout 2023.

**Other (Income) Expense, Net.** Net other (income) expense was income of \$431 thousand in 2023 compared with \$6 thousand of expense in 2022. The 2023 income included a gain of \$625 thousand related to an extinguishment of a debt arrangement offset by an expense of \$206 thousand related to the write-off of previously deferred financing costs related to our Adairsville, Georgia note payable.

**Income Tax Provision (Benefit).** Our effective income tax rate was a provision of 12.3% in 2023. The provision relates to federal and state cash taxes paid offset by certain federal and state credits and also includes a benefit for the termination of certain derivative contracts for which there existed stranded tax effects within other comprehensive income. In 2023, we decreased our valuation allowance by \$384 thousand related to our net deferred tax asset and specific federal and state net operating losses and federal and state tax credit carryforwards.

Our effective income tax rate was a benefit of 0.26% in 2022. The provision benefit relates to federal and state cash taxes paid offset by certain federal and state credits and also includes a benefit for the termination of certain derivative contracts for which there existed stranded tax effects within other comprehensive income.

**Net Loss.** Continuing operations reflected a loss of \$2.0 million, or \$0.13 per diluted share in 2023, compared with a loss from continuing operations of \$33.4 million, or \$2.21 per diluted share in 2022. Our discontinued operations reflected a loss of \$766 thousand, or \$0.05 per diluted share in 2023 compared with a loss of \$1.7 million, or \$0.11 per diluted share in 2022. Including discontinued operations, we had a net loss of \$2.7 million, or \$0.18 per diluted share, in 2023 compared with net loss of \$35.1 million, or \$2.32 per diluted share, in 2022.

## LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 30, 2023, cash provided by continuing operations was \$4.2 million driven by a reduction of receivables of \$1.1 million and a \$7.5 million decrease in inventories. These favorable contributions to cash were offset by a \$2.0 million increase in prepaid and other current assets.

Net cash provided by investing activities was \$15.1 million during the year ended December 30, 2023. This amount was primarily the result of net proceeds of \$16.1 million from the sale of our Adairsville, Georgia distribution center offset by the purchase of property, plant and equipment of \$1.0 million.

During the year ended December 30, 2023, cash used in financing activities was \$18.0 million. We had net payments of \$4.2 million on the revolving credit facility. We had payments of \$11.4 million on building and other term loans which included \$10.4 payoff of the Adairsville, Georgia facility concurrent with the sale of the facility. Borrowings on notes payable, net of payments was \$822 thousand and finance leases were reduced by payments of \$256 thousand. The balance in amount of checks outstanding in excess of cash at year end 2023 decreased from prior year resulting in a cash outflow of \$1.3 million.

We believe, after having reviewed various financial scenarios, our operating cash flows, credit availability under our revolving credit facility and other sources of financing are adequate to finance our anticipated liquidity requirements under current operating conditions. We have specifically considered the impact of continued operating losses on our liquidity position and our ability to comply with financial covenants by our primary lenders. As part of our evaluation, we considered the improved gross margins driven by cost reductions implemented under our East Coast Consolidation Plan. Availability under the new Senior Secured Revolving Credit Facility on December 30, 2023 was \$14.1 million. Significant additional cash expenditures above our normal liquidity requirements, significant deterioration in economic conditions or continued operating losses could affect our business and require supplemental financing or other funding sources. There can be no assurance that other supplemental financing or other sources of funding can be obtained or will be obtained on terms favorable to us. 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.

## Debt Facilities

**Revolving Credit Facility.** On October 30, 2020, we entered into a \$75.0 million Senior Secured Revolving Credit Facility with Fifth Third Bank National Association as lender. The loan is secured by a first priority security interest on all accounts receivable, cash, and inventory, and provides for borrowing limited by certain percentages of values of the accounts receivable and inventory. The revolving credit facility matures on October 30, 2025.

At our election, advances of the revolving credit facility bear interest at annual rates equal to either (a) SOFR (plus a 0.10% SOFR adjustment) for 1 or 3 month periods, as defined with a floor of 0.75% or published SOFR and previously 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. The applicable margin can be increased by 0.50% if the fixed charge coverage ratio is below a 1.10 to 1.00 ratio. As of December 30, 2023, the applicable margin on our revolving credit facility was 2.50% for SOFR and 1.50% for Prime due to the fixed charge coverage ratio being below 1.10 to 1.00. We pay an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.25% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 8.15% at December 30, 2023 and 6.81% for December 31, 2022.

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, we are in compliance with all such applicable financial covenants. We are only subject to the financial covenants if borrowing availability is less than \$8.3 million, which is equal to 12.5% of the lesser of the total loan availability of \$75.0 million or total collateral available, and remains until the availability is greater than 12.5% for thirty consecutive days. As of December 30, 2023, the unused borrowing availability under the revolving credit facility was \$14.1 million.

**Term Loans.** Effective October 28, 2020, we entered into a \$10.0 million principal amount USDA Guaranteed term loan with AmeriState Bank as lender. The term of the loan is 25 years and bears interest at a minimum 5.00% rate or 4.00% above 5-year treasury, to be reset every 5 years at 3.5% above 5-year treasury. The loan is secured by a first mortgage on our Atmore, Alabama and Roanoke, Alabama facilities. The loan requires certain compliance, affirmative, and financial covenants and, as of the reporting date, we are in compliance with or have received waivers for all such financial covenants.

Effective October 29, 2020, we entered into a \$15.0 million principal amount USDA Guaranteed term loan with the Greater Nevada Credit Union as lender. The term of the loan is 10 years and bears interest at a minimum 5.00% rate or 4.00% above 5-year treasury, to be reset after 5 years at 3.5% above 5-year treasury. Payments on the loan are interest only over the first three years and principal and interest over the remaining seven years. The loan is secured by a first lien on a substantial portion of our machinery and equipment, a certificate of deposit and a second lien on our Atmore and Roanoke facilities. The loan requires certain compliance, affirmative, and financial covenants and, as of the reporting date, we are in compliance with or have received waivers for all such financial covenants.

**Notes Payable - Buildings.** On March 16, 2022, we entered into a twenty-year \$11.0 million note payable to refinance our existing note payable on our distribution center in Adairsville, Georgia (the "Property"). The note payable bore interest at a fixed annual rate of 3.81%. On December 14, 2023, we sold the Property and completed a successful sale and leaseback of the Property. We paid off the existing note in the amount of \$10.4 million. The note had been secured by the Property and a guarantee of the Company. Concurrent with the sale of the Adairsville, Georgia distribution center, we entered into an operating lease to lease back the property for a term of 10 years with two 5 year renewal options. The initial annual rent is \$1.5 million for the first five years increasing to an annual amount of \$1.6 million for the second five years. We are responsible for normal maintenance of the building and facilities.

**Notes Payable - Other.** On January 14, 2019, we entered into a purchase and sale agreement (the "Purchase and Sale Agreement") with Saraland Industrial, LLC, an Alabama limited liability company (the "Purchaser"). Pursuant to the terms of the Purchase and Sale Agreement, we sold our Saraland facility, and approximately 17.12 acres of surrounding property located in Saraland, Alabama (the "Property") to the Purchaser for a purchase price of \$11.5 million. Concurrent with the sale of the Property, we and the Purchaser entered into a twenty-year lease agreement (the "Lease Agreement"), whereby we leased back the Property at an annual rental rate of \$977 thousand, subject to annual rent increases of 1.25%. Under the Lease Agreement, we have two (2) consecutive options to extend the term of the Lease by ten years for each such option. This transaction was recorded as a failed sale and leaseback as the present value of lease payments exceeded 90% of its fair value. We recorded a liability for the amounts received, continued to depreciate the asset, and 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.

Our other financing notes have terms up to 1 year, bear interest ranging from 6.34% to 7.84% and are due in monthly installments through their maturity dates. Our other notes do not contain any financial covenants.

**Finance Lease Obligations.** Our finance lease obligations are due in monthly installments through their maturity dates. Our finance lease obligations are secured by the specific equipment leased. (See Note 10 to our Consolidated Financial Statements).

#### **Stock-Based Awards**

We recognize compensation expense related to share-based stock awards based on the fair value of the equity instrument over the period of vesting for the individual stock awards that were granted. At December 30, 2023, the total unrecognized compensation expense related to unvested restricted stock awards was \$1.1 million with a weighted-average vesting period of 6.9 years.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements at December 30, 2023 or December 31, 2022.

#### **Income Tax Considerations**

For the year ended December 30, 2023, we decreased our valuation allowances by \$384 thousand related to our net deferred tax asset and specific federal and state net operating losses and federal and state credit carryforwards.

During 2024 and 2025, we do not anticipate cash outlays for income taxes to exceed \$200 thousand. This is due to our tax loss carryforwards and tax credit carryforwards that will be used to partially offset taxable income. At December 30, 2023, we were in a net deferred tax liability position of \$91 thousand, which was included in other long-term liabilities in our Consolidated Balance Sheets.

#### **Discontinued Operations - Environmental Contingencies**

We have reserves for environmental obligations established at four previously owned sites that were associated with our discontinued textile businesses. We have a reserve of \$2.2 million for environmental liabilities at these sites as of December 30, 2023. The liability established represents our best estimate of loss and is the reasonable amount to which there is any meaningful degree of certainty given the periods of estimated remediation and the dollars applicable to such remediation for those periods. The actual timeline to remediate, and thus, the ultimate cost to complete such remediation through these remediation efforts, may differ significantly from our estimates. Pre-tax cost for environmental remediation obligations classified as discontinued operations were primarily a result of specific events requiring action and additional expense in each period.

#### **Fair Value of Financial Instruments**

At December 30, 2023, we had no assets or liabilities measured at fair value that fall under a level 3 classification in the hierarchy (those subject to significant management judgment or estimation).

#### **Certain Related Party Transactions**

We purchase a portion of our product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of our Company. An affiliate of Mr. Shaw holds approximately 7.8% of our Common Stock, which represents approximately 3.1% of the total vote of all classes of our Common Stock. Engineered Floors is one of several suppliers of such materials to us. Total purchases from Engineered Floors for 2023 and 2022 were approximately \$64 thousand and \$917 thousand, respectively; or approximately 0.03% and 0.40% of our cost of sales in 2023 and 2022, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. We have no contractual commitments with Mr. Shaw associated with our business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by our board of directors.

#### **Recent Accounting Pronouncements**

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

#### **Critical Accounting Policies**

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

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

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

- **Revenue recognition.** We derive our revenues primarily from the sale of floorcovering products and processing services. Revenues are recognized when control of these products or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those products and services. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue. When we transfer control of our products to the customer prior to the related shipping and handling activities, we have adopted a policy of accounting for shipping and handling activities as a fulfillment cost rather than a performance obligation. Incidental items that are immaterial in the context of the contract are recognized as expense. While we pay sales commissions to certain personnel, we have not capitalized these costs as costs to obtain a contract as we have elected to expense costs as incurred when the expected amortization period is one year or less. We do not have any significant financing components as payment is received at or shortly after the point of sale. We determine revenue recognition through the following steps:
  - Identification of the contract with a customer
  - Identification of the performance obligations in the contract
  - Determination of the transaction price
  - Allocation of the transaction price to the performance obligations in the contract
  - Recognition of revenue when, or as, the performance obligation is satisfied

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

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

- **Customer claims and product warranties.** We generally provide product warranties related to manufacturing defects and specific performance standards for our products for a period of up to two years. We accrue for estimated future assurance warranty costs in the period in which the sale is recorded. The costs are included in Cost of Sales in the Consolidated Statements of Operations and the product warranty reserve is included in accrued expenses in the Consolidated Balance Sheets. We calculate our accrual using the portfolio approach based upon historical experience and known trends. We do not provide an additional service-type warranty.
- **Inventories.** Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out method (LIFO), which generally matches current costs of inventory sold with current revenues, for substantially all inventories. Reserves are also established to adjust inventories that are off-quality, aged or obsolete to their estimated net realizable value. Additionally, rates of recoverability per unit of off-quality, aged or obsolete inventory are estimated based on historical rates of recoverability and other known conditions or circumstances that may affect future recoverability. Actual results could differ from assumptions used to value our inventory.
- **Self-insured accruals.** We estimate costs required to settle claims related to our self-insured medical, dental and workers' compensation plans. These estimates include costs to settle known claims, as well as incurred and unreported claims. The estimated costs of known and unreported claims are based on historical experience. Actual results could differ from assumptions used to estimate these accruals.
- **Income taxes.** Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available in the jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in a future period. We evaluate the recoverability of these future tax benefits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates, including business forecasts and other projections of financial results over an extended period of time. In the event that we are not able to realize all or a portion of our deferred tax assets in the future, a valuation allowance is provided. We recognize such amounts through a charge to income in the period in which that determination is made or when tax law changes are enacted. We had valuation allowances of \$21.0 million at December 30, 2023 and \$21.3 million at December 31, 2022. At December 30, 2023, we were in a net deferred tax liability position of \$91 thousand. For further information regarding our valuation allowances, see Note 13 to the Consolidated Financial Statements.
- **Loss contingencies.** We routinely assess our exposure related to legal matters, environmental matters, product liabilities or any other claims against our assets that may arise in the normal course of business. If we determine that it is probable a loss has been incurred, the amount of the loss, or an amount within the range of loss, that can be reasonably estimated will be recorded.

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

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

At December 30, 2023, \$71,494, or approximately 85% of our total debt, was subject to floating interest rates. A one-hundred basis point fluctuation in the variable interest rates applicable to this floating rate debt would have an annual pre-tax impact of approximately \$715. Included in the \$71,494, is the amount outstanding for term loans of \$23,875. 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 the term loans debt would have an annual pre-tax impact of approximately \$239. See Note 9 for further discussion of these loans.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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

None.

**Item 9A. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13(a)-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of December 30, 2023, the date of the financial statements included in this Form 10-K (the "Evaluation Date"). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

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

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

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

**Item 9B. OTHER INFORMATION**

None.

**Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not Applicable.

### PART III.

#### Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The section entitled "Information about Nominees for Director" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2024 is incorporated herein by reference. Information regarding the executive officers of the registrant is presented in PART I of this report.

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

We adopted insider trading policies and procedures governing transactions in our securities that are designed to promote compliance with applicable insider trading laws, rules and regulations. A copy of the policy is incorporated by reference therein as Exhibit 19.1 to this report.

#### Audit Committee Financial Expert

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

#### Audit Committee

We have a standing audit committee. At December 30, 2023, members of our audit committee are Michael L. Owens, Chairman, William F. Blue, Jr., Charles E. Brock, Lowry F. Kline, and Hilda S. Murray.

#### Item 11. EXECUTIVE COMPENSATION

The sections entitled "Compensation Discussion and Analysis", "Executive Compensation Information" and "Director Compensation" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2024 are incorporated herein by reference.

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

The section entitled "Principal Shareholders", as well as the beneficial ownership table (and accompanying notes), in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2024 are incorporated herein by reference.

#### Equity Compensation Plan Information as of December 30, 2023

The following table sets forth information as to our equity compensation plans as of the end of the 2023 fiscal year:

| Plan Category  | (a)   | (b)   | (c)   |
|--|---|---|---|
|  | Number of securities to be issued upon exercise of the outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| Equity Compensation Plans approved by security holders | 549,320 (1)   | \$ 1.79 (2)   | 935,908 (3)   |

(1) Includes the options to purchase 419,000 shares of Common Stock under our Omnibus Equity Incentive Plan and 130,320 Performance Units issued under the 2016 Incentive Compensation Plan, each unit being equivalent to one share of Common Stock. Does not include shares of Common Stock issued but not vested pursuant to outstanding restricted stock awards.

(2) Includes the aggregate weighted-average of (i) the exercise price per share for outstanding options to purchase 419,000 shares of Common Stock under our Omnibus Equity Incentive Plan and (ii) the price per share of the Common Stock on the grant date for each of 130,320 Performance Units issued under the 2016 Incentive Compensation Plan (each unit equivalent to one share of Common Stock).

(3) Includes 149,908 shares remaining to be issued under the 2016 Incentive Compensation Plan and 786,000 shares remaining to be issued under the Omnibus Equity Incentive Plan.

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

The sections entitled "Certain Transactions Between the Company and Directors and Officers" and "Independent Directors" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 1, 2024 are incorporated herein by reference.

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

The section entitled "Audit Fees Discussion" in the Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held May 1, 2024 is incorporated herein by reference. The independent registered public accounting firm is FORVIS, LLP (PCAOB Firm ID No. 686) located in Atlanta, Georgia.

**PART IV.****Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

**Item 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

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

Date: March 20, 2024

The Dixie Group, Inc.

/s/ DANIEL K. FRIERSON

By: Daniel K. Frierson

Chairman of the Board and Chief Executive Officer

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

| Signature   | Capacity  | Date           |
|---|---|----------------|
| <u>/s/ DANIEL K. FRIERSON</u><br>Daniel K. Frierson             | Chairman of the Board, Director and Chief Executive Officer | March 20, 2024 |
| <u>/s/ ALLEN L. DANZEY</u><br>Allen L. Danzey                   | Vice President, Chief Financial Officer                     | March 20, 2024 |
| <u>/s/ D. KENNEDY FRIERSON, JR.</u><br>D. Kennedy Frierson, Jr. | Vice President, Chief Operating Officer and Director        | March 20, 2024 |
| <u>/s/ WILLIAM F. BLUE, JR.</u><br>William F. Blue, Jr.         | Director  | March 20, 2024 |
| <u>/s/ CHARLES E. BROCK</u><br>Charles E. Brock                 | Director  | March 20, 2024 |
| <u>/s/ LOWRY F. KLINE</u><br>Lowry F. Kline                     | Director  | March 20, 2024 |
| <u>/s/ HILDA S. MURRAY</u><br>Hilda S. Murray                   | Director  | March 20, 2024 |
| <u>/s/ MICHAEL L. OWENS</u><br>Michael L. Owens                 | Director  | March 20, 2024 |

ANNUAL REPORT ON FORM 10-K

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

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 30, 2023

THE DIXIE GROUP, INC.

DALTON, GEORGIA

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

THE DIXIE GROUP, INC. AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements and financial statement schedules of The Dixie Group, Inc. and subsidiaries are included in Item 8 and Item 15(a)(1) and 15(c):  
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|  | Page               |
|--|--------------------|
| <a href="#">Management's report on internal control over financial reporting</a>   | <a href="#">27</a> |
| <a href="#">Report of independent registered public accounting firm</a>  | <a href="#">28</a> |
| <a href="#">Consolidated balance sheets - December 30, 2023 and December 31, 2022</a>  | <a href="#">29</a> |
| <a href="#">Consolidated statements of operations - Years ended December 30, 2023 and December 31, 2022</a>                  | <a href="#">30</a> |
| <a href="#">Consolidated statements of comprehensive income (loss) - Years ended December 30, 2023 and December 31, 2022</a> | <a href="#">31</a> |
| <a href="#">Consolidated statements of cash flows - Years ended December 30, 2023 and December 31, 2022</a>                  | <a href="#">32</a> |
| <a href="#">Consolidated statements of stockholders' equity - Years ended December 30, 2023 and December 31, 2022</a>        | <a href="#">33</a> |
| <a href="#">Notes to consolidated financial statements</a>   | <a href="#">33</a> |
| <a href="#">Schedule II - Valuation and Qualifying Accounts</a>  | <a href="#">57</a> |

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

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

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

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

Management, including our principal executive officer and principal financial officer, has used the criteria set forth in the report entitled "*Internal Control - Integrated Framework*" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) to evaluate the effectiveness of its internal control over financial reporting. Management has concluded that its internal control over financial reporting was effective as of December 30, 2023, based on those criteria.

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

*/s/ Allen L. Danzey  
Chief Financial Officer*

**Report of Independent Registered Public Accounting Firm**

**To the Shareholders, Board of Directors, and Audit Committee of  
The Dixie Group, Inc.**

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of The Dixie Group, Inc. (the "Company") as of December 30, 2023 and December 31, 2022, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the two-year period ended December 30, 2023, and the related notes and schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2023 and December 31, 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 30, 2023, in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits.

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

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

**Critical Audit Matter**

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

**Critical Audit Matter – LIFO Reserve**

As disclosed in Notes 1 and 5 to the consolidated financial statements, the Company recognizes its inventory using the last-in, first-out ("LIFO") method, which requires a reserve to adjust the historical cost carrying value of inventory to the lower of LIFO or market. As of December 30, 2023, the LIFO reserve was approximately \$21,097,000. There is inherent complexity in the accounting for the LIFO reserve including complex calculations based on inventory pools, changes in those pools, and lower of cost or market adjustments.

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

Our audit procedures to test the appropriateness of the LIFO Reserve, among others:

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

/s/ FORVIS, LLP

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

**Atlanta, GA**  
**March 20, 2024**

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

|  | December 30,<br>2023     | December 31,<br>2022     |
|--|--------------------------|--------------------------|
| <b>ASSETS</b>  |                          |                          |
| CURRENT ASSETS   |                          |                          |
| Cash and cash equivalents  | \$ 79                    | \$ 363                   |
| Receivables, net   | 23,686                   | 25,009                   |
| Inventories, net   | 76,211                   | 83,699                   |
| Prepaid expenses   | 12,154                   | 10,167                   |
| Current assets of discontinued operations  | 265                      | 641                      |
| TOTAL CURRENT ASSETS   | <u>112,395</u>           | <u>119,879</u>           |
| PROPERTY, PLANT AND EQUIPMENT, NET   | 31,368                   | 44,916                   |
| OPERATING LEASE RIGHT-OF-USE ASSETS  | 28,962                   | 20,617                   |
| OTHER ASSETS   | 17,130                   | 15,982                   |
| LONG-TERM ASSETS OF DISCONTINUED OPERATIONS  | 1,314                    | 1,552                    |
| TOTAL ASSETS   | <u>\$ 191,169</u>        | <u>\$ 202,946</u>        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                          |                          |
| CURRENT LIABILITIES  |                          |                          |
| Accounts payable   | \$ 13,935                | \$ 14,205                |
| Accrued expenses   | 16,598                   | 17,667                   |
| Current portion of long-term debt  | 4,230                    | 4,573                    |
| Current portion of operating lease liabilities   | 3,654                    | 2,774                    |
| Current liabilities of discontinued operations   | 1,137                    | 2,447                    |
| TOTAL CURRENT LIABILITIES  | <u>39,554</u>            | <u>41,666</u>            |
| LONG-TERM DEBT, NET  | 78,290                   | 94,725                   |
| OPERATING LEASE LIABILITIES  | 25,907                   | 18,802                   |
| OTHER LONG-TERM LIABILITIES  | 14,591                   | 12,480                   |
| LONG-TERM LIABILITIES OF DISCONTINUED OPERATIONS   | 3,536                    | 3,759                    |
| TOTAL LIABILITIES  | <u>161,878</u>           | <u>171,432</u>           |
| COMMITMENTS AND CONTINGENCIES (See Note 17)  |                          |                          |
| STOCKHOLDERS' EQUITY   |                          |                          |
| Common Stock (\$3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 14,409,281 shares for 2023 and 14,453,466 shares for 2022       | 43,228                   | 43,360                   |
| Class B Common Stock (\$3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 1,121,129 shares for 2023 and 1,129,158 shares for 2022 | 3,363                    | 3,388                    |
| Additional paid-in capital   | 159,132                  | 158,331                  |
| Accumulated deficit  | (176,700)                | (173,784)                |
| Accumulated other comprehensive income   | 268                      | 219                      |
| TOTAL STOCKHOLDERS' EQUITY   | <u>29,291</u>            | <u>31,514</u>            |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | <u><u>\$ 191,169</u></u> | <u><u>\$ 202,946</u></u> |

See accompanying notes to the consolidated financial statements.

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

|   | Year Ended           |                      |
|---|----------------------|----------------------|
|   | December 30,<br>2023 | December 31,<br>2022 |
| NET SALES   | \$ 276,343           | \$ 303,570           |
| Cost of sales                                       | 202,464              | 249,946              |
| <b>GROSS PROFIT</b>                                 | <b>73,879</b>        | <b>53,624</b>        |
| <br>Selling and administrative expenses             | 74,136               | 76,957               |
| Other operating (income) expense, net               | (9,172)              | 239                  |
| Facility consolidation and severance expenses, net  | 3,867                | 4,584                |
| <b>OPERATING INCOME (LOSS)</b>                      | <b>5,048</b>         | <b>(28,156)</b>      |
| <br>Interest expense                                | 7,217                | 5,340                |
| Other (income) expense, net                         | (431)                | 6                    |
| <b>LOSS FROM CONTINUING OPERATIONS BEFORE TAXES</b> | <b>(1,738)</b>       | <b>(33,502)</b>      |
| Income tax provision (benefit)                      | 214                  | (87)                 |
| <b>LOSS FROM CONTINUING OPERATIONS</b>              | <b>(1,952)</b>       | <b>(33,415)</b>      |
| Loss from discontinued operations, net of tax       | (766)                | (1,664)              |
| <b>NET LOSS</b>                                     | <b>\$ (2,718)</b>    | <b>\$ (35,079)</b>   |
| <br><b>BASIC EARNINGS (LOSS) PER SHARE:</b>         |                      |                      |
| Continuing operations                               | \$ (0.13)            | \$ (2.21)            |
| Discontinued operations                             | (0.05)               | (0.11)               |
| <b>Net loss</b>                                     | <b>\$ (0.18)</b>     | <b>\$ (2.32)</b>     |
| <br><b>BASIC SHARES OUTSTANDING</b>                 | <b>14,783</b>        | <b>15,121</b>        |
| <br><b>DILUTED EARNINGS (LOSS) PER SHARE:</b>       |                      |                      |
| Continuing operations                               | \$ (0.13)            | \$ (2.21)            |
| Discontinued operations                             | (0.05)               | (0.11)               |
| <b>Net loss</b>                                     | <b>\$ (0.18)</b>     | <b>\$ (2.32)</b>     |
| <br><b>DILUTED SHARES OUTSTANDING</b>               | <b>14,783</b>        | <b>15,121</b>        |
| <br><b>DIVIDENDS PER SHARE:</b>                     |                      |                      |
| Common Stock  | \$ —                 | \$ —                 |
| Class B Common Stock                                | —                    | —                    |

See accompanying notes to the consolidated financial statements.

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

|   | Year Ended           |                      |
|---|----------------------|----------------------|
|   | December 30,<br>2023 | December 31,<br>2022 |
| <b>NET LOSS</b>   | <b>\$ (2,718)</b>    | <b>\$ (35,079)</b>   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:</b>                                       |                      |                      |
| Reclassification of (gain) loss into earnings from interest rate swaps (1)                  | —                    | (7)                  |
| Income taxes  | —                    | (2)                  |
| Reclassification of (gain) loss into earnings from interest rate swaps, net                 | —                    | (5)                  |
| Amortization of unrealized loss on dedesignated interest rate swaps (1)                     | —                    | 210                  |
| Income taxes  | —                    | 33                   |
| Amortization of unrealized loss on dedesignated interest rate swaps, net                    | —                    | 177                  |
| Unrecognized net actuarial gain on postretirement benefit plans                             | 75                   | 39                   |
| Income taxes  | —                    | —                    |
| Unrecognized net actuarial gain on postretirement benefit plans, net                        | 75                   | 39                   |
| Reclassification of net actuarial gain into earnings from postretirement benefit plans (2)  | (26)                 | (22)                 |
| Income taxes  | —                    | —                    |
| Reclassification of net actuarial gain into earnings from postretirement benefit plans, net | (26)                 | (22)                 |
| <b>TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX</b>   | <b>49</b>            | <b>189</b>           |
| <b>COMPREHENSIVE LOSS</b>   | <b>\$ (2,669)</b>    | <b>\$ (34,890)</b>   |

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

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

See accompanying notes to the consolidated financial statements.

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

|   | Year Ended           |                      |
|---|----------------------|----------------------|
|   | December 30,<br>2023 | December 31,<br>2022 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                      |                      |
| Loss from continuing operations   | \$ (1,952)           | \$ (33,415)          |
| Loss from discontinued operations   | (766)                | (1,664)              |
| Net loss  | (2,718)              | (35,079)             |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                      |                      |
| Depreciation and amortization   | 7,331                | 7,624                |
| Benefit for deferred income taxes   | —                    | (31)                 |
| Net (gain) loss on property, plant and equipment disposals                                | (8,198)              | 1,003                |
| Stock-based compensation expense  | 687                  | 766                  |
| Bad debt expense  | 31                   | 62                   |
| Net gain on extinguishment of debt  | (419)                | —                    |
| Changes in operating assets and liabilities:  |                      |                      |
| Receivables   | 1,094                | 15,223               |
| Inventories   | 7,488                | (960)                |
| Prepaid and other current assets  | (1,987)              | (242)                |
| Accounts payable and accrued expenses   | (506)                | (9,647)              |
| Other operating assets and liabilities  | 645                  | 2,121                |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES                                       | 4,214                | (17,496)             |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES - DISCONTINUED OPERATIONS             | (1,595)              | 817                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                      |                      |
| Net proceeds from sales of property, plant and equipment                                  | 16,055               | 88                   |
| Purchase of property, plant and equipment   | (980)                | (4,579)              |
| Investment in joint venture, net of capital distributions                                 | —                    | (50)                 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES                                       | 15,075               | (4,541)              |
| NET CASH PROVIDED BY INVESTING ACTIVITIES - DISCONTINUED OPERATIONS                       | 8                    | 240                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                      |                      |
| Net borrowings (payments) on revolving credit facility                                    | (4,175)              | 18,636               |
| Borrowings on notes payable - buildings and other term loans                              | —                    | 11,000               |
| Payments on notes payable - buildings and other term loans                                | (11,424)             | (5,965)              |
| Borrowings on notes payable - other   | 1,542                | 1,657                |
| Payments on notes payable - other   | (2,364)              | (2,484)              |
| Payments on finance leases  | (256)                | (565)                |
| Change in outstanding checks in excess of cash  | (1,266)              | (1,443)              |
| Repurchases of Common Stock   | (43)                 | (737)                |
| Payments for debt issuance costs  | —                    | (227)                |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES                                       | (17,986)             | 19,872               |
| DECREASE IN CASH AND CASH EQUIVALENTS   | (284)                | (1,108)              |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD  | 363                  | 1,471                |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | <b>\$ 79</b>         | <b>\$ 363</b>        |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>  |                      |                      |
| Interest paid   | \$ 7,020             | \$ 3,409             |
| Income taxes paid, net of (tax refunds)   | (786)                | 6                    |
| Right-of-use assets obtained in exchange for new operating lease                          | 10,765               | 911                  |
| Equipment purchased under finance leases  | 133                  | —                    |
| Commission accrued on sale of building  | 433                  | —                    |
| Receivable on sale of equipment   | —                    | 350                  |

See accompanying notes to the consolidated financial statements.

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

|  | Common Stock     | Class B Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|--|------------------|----------------------|----------------------------|---------------------|--|----------------------------|
| <b>Balance at December 25, 2021</b>                | <b>\$ 44,378</b> | <b>\$ 3,015</b>      | <b>\$ 157,657</b>          | <b>\$ (138,705)</b> | <b>\$ 30</b>                           | <b>\$ 66,375</b>           |
| Repurchases of Common Stock - 640,909 shares       | (1,923)          | —                    | 1,186                      | —                   | —                                      | (737)                      |
| Restricted stock grants issued - 427,911 shares    | 911              | 373                  | (1,284)                    | —                   | —                                      | —                          |
| Restricted stock grants forfeited - 2,000 shares   | (6)              | —                    | 6                          | —                   | —                                      | —                          |
| Stock-based compensation expense                   | —                | —                    | 766                        | —                   | —                                      | 766                        |
| Net loss   | —                | —                    | —                          | (35,079)            | —                                      | (35,079)                   |
| Other comprehensive income                         | —                | —                    | —                          | —                   | 189                                    | 189                        |
| <b>Balance at December 31, 2022</b>                | <b>\$ 43,360</b> | <b>\$ 3,388</b>      | <b>\$ 158,331</b>          | <b>\$ (173,784)</b> | <b>\$ 219</b>                          | <b>\$ 31,514</b>           |
| Repurchases of Common Stock - 55,994 shares        | (168)            | —                    | 125                        | —                   | —                                      | (43)                       |
| Restricted stock grants issued - 55,000 shares     | 165              | —                    | (165)                      | —                   | —                                      | —                          |
| Restricted stock grants forfeited - 51,220 shares  | (154)            | —                    | 107                        | —                   | —                                      | (47)                       |
| Class B converted into Common Stock - 8,029 shares | 25               | (25)                 | —                          | —                   | —                                      | —                          |
| Stock-based compensation expense                   | —                | —                    | 734                        | —                   | —                                      | 734                        |
| Net loss   | —                | —                    | —                          | (2,718)             | —                                      | (2,718)                    |
| Cumulative effect of CECL adoption                 | —                | —                    | —                          | (198)               | —                                      | (198)                      |
| Other comprehensive income                         | —                | —                    | —                          | —                   | 49                                     | 49                         |
| <b>Balance at December 30, 2023</b>                | <b>\$ 43,228</b> | <b>\$ 3,363</b>      | <b>\$ 159,132</b>          | <b>\$ (176,700)</b> | <b>\$ 268</b>                          | <b>\$ 29,291</b>           |

See accompanying notes to the consolidated financial statements.

**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(amounts in thousands, except per share data)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business**

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

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

Unless specifically noted otherwise, footnote disclosures reflect the results of continuing operations only. The results of discontinued operations are presented in Note 20.

**Principles of Consolidation**

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

**Use of Estimates in the Preparation of Financial Statements**

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

**Fiscal Year**

The Company ends its fiscal year on the last Saturday of December. All references herein to "2023" and "2022" mean the fiscal years ended December 30, 2023 and December 31, 2022 respectively. Fiscal year 2023 contained 52 weeks and Fiscal year 2022 contained 53 weeks.

**Reclassifications**

The Company reclassified certain amounts in 2022 in Note 9 Long-Term Debt and Credit Arrangements and Note 10 Leases to conform to the 2023 presentation. In 2022, the Company included its failed sales and leaseback transactions in its lease footnote with a note indicating they were included. In 2023, the Company included these transactions in its debt footnote and reclassified amounts in the comparative 2022 year.

**Discontinued Operations**

The consolidated financial statements separately report discontinued operations and the results of continuing operations (See Note 20).

**Cash and Cash Equivalents**

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

**Market Risk**

The Company sells carpet to floorcovering retailers, the interior design, architectural and specifier communities and supplies carpet yarn and carpet dyeing and finishing services to certain manufacturers. The Company's customers are located principally throughout the United States. No customer accounted for more than 10% of net sales in 2023 or 2022, nor did the Company make a significant amount of sales to foreign countries during 2023 or 2022.

**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(amounts in thousands, except per share data)

**Allowance for Expected Credit Losses**

The Company grants credit to its customers with defined payment terms, performs ongoing evaluations of the credit worthiness of its customers and generally does not require collateral. Accounts receivable are carried at their outstanding principal amounts, less an anticipated amount for discounts and an allowance for expected credit losses, which management believes is sufficient to cover potential credit losses based on historical experience and periodic evaluation of the financial condition of the Company's customers. Estimated credit losses consider relevant information about past events, current conditions and reasonable and supporting forecasts that affect the collectibility of financial assets. Notes receivable are carried at their outstanding principal amounts, less an allowance for expected credit losses to cover potential credit losses based on the financial condition of borrowers and collateral held by the Company.

**Inventories**

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

**Property, Plant and Equipment**

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

**Impairment of Long-Lived Assets**

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

**Self-Insured Benefit Programs**

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

**Income Taxes**

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

**Treasury Stock**

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

**Revenue Recognition**

The Company derives its revenues primarily from the sale of floorcovering products and processing services. Revenues are recognized when control of these products or services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products and services. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue. Shipping and handling fees charged to customers are reported within revenue. When the Company transfers control of its products to the customer prior to the

**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(amounts in thousands, except per share data)

related shipping and handling activities, the Company has adopted a policy of accounting for shipping and handling activities as a fulfillment cost rather than a performance obligation. Incidental items that are immaterial in the context of the contract are recognized as expense. While the Company pays sales commissions to certain personnel, the Company has not capitalized these costs as costs to obtain a contract as the Company has elected to expense costs as incurred when the expected amortization period is one year or less. The Company does not have any significant financing components as payment is received at or shortly after the point of sale. The Company determined revenue recognition through the following steps:

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

#### **Performance Obligations**

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

#### **Variable Consideration**

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

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

#### **Advertising Costs**

The Company engages in promotional and advertising programs. Expenses relating to these programs are charged to results of operations during the period of the related benefits. These arrangements do not require significant estimates of costs. Costs related to cooperative advertising programs are normally recorded as selling and administrative expenses when the Company can reasonably identify the benefit associated with the program and can reasonably estimate that the fair value of the benefit is equal to or greater than its cost. The amount of advertising and promotion expenses included in selling and administrative expenses was not significant for the years 2023 and 2022.

#### **Warranties**

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

#### **Cost of Sales**

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

#### **Selling and Administrative Expenses**

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

**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(amounts in thousands, except per share data)

#### **Operating Leases**

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

The Company has operating leases primarily for real estate and equipment used in manufacturing. Operating lease expense is recognized in continuing operations on a straight-line basis over the lease term within cost of sales and selling and administrative expenses. Financing lease expense is comprised of both interest expense, which is recognized using the effective interest method, and amortization of the right-of-use assets. These expenses are presented consistently with the presentation of other interest expense and amortization or depreciation of similar assets. In determining lease asset values, the Company considers fixed and variable payment terms, prepayments, incentives, and options to extend, terminate or purchase. Renewal, termination, or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised. The Company does not recognize a right-of-use asset and lease liability for leases with a term of twelve months or less.

#### **Stock-Based Compensation**

The Company recognizes compensation expense relating to stock-based payments based on the fair value of the equity or liability instrument issued. Restricted stock grants with pro-rata vesting are expensed using the straight-line method. (Terms of the Company's awards are specified in Note 15). The Company accounts for forfeitures when they actually occur.

#### **NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS**

##### **Adopted Accounting Standards**

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which was further amended by additional accounting standards updates issued by the FASB. The new standard replaced the incurred loss impairment methodology for recognizing credit losses with a new methodology that requires recognition of lifetime expected credit losses when a financial asset is originated or purchased, even if the risk of loss is remote. The new methodology (referred to as the current expected credit losses model, or "CECL") applies to most financial assets measured at amortized cost, including trade receivables, and requires consideration of a broader range of reasonable and supportable information to estimate expected credit losses. The Company adopted the new standard effective January 1, 2023 using a modified retrospective transition approach, with the cumulative impact of \$198 recorded as an increase in the accumulated deficit.

##### **Accounting Standards Yet to Be Adopted**

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which enhances reporting requirements under Topic 280. The enhanced disclosure requirements include: title and position of the Chief Operating Decision Maker (CODM), significant segment expenses provided to the CODM, extending certain annual disclosures to interim periods, clarifying single reportable segment entities must apply ASC 280 in its entirety, and permitting more than one measure of segment profit or loss to be reported under certain circumstances. This change is effective for fiscal years beginning after December 15, 2023 and interim periods beginning after December 15, 2024. This change will apply retrospectively to all periods presented. The Company does not expect the adoption of this ASU to have a material impact on its financial statements.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures (Topic 740)*, which establishes new income tax disclosure requirements in addition to modifying and eliminating certain existing requirements. The new guidance requires consistent categorization and greater disaggregation of information in the rate reconciliation, as well as further disaggregation of income taxes paid. This change is effective for annual periods beginning after December 15, 2024. This change will apply on a prospective basis to annual financial statements for periods beginning after the effective date. However, retrospective application in all prior periods presented is permitted. The Company does not expect the adoption of this ASU to have a material impact on its financial statements.

**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(amounts in thousands, except per share data)

**NOTE 3 - REVENUE**

**Disaggregation of Revenue from Contracts with Customers**

The following table disaggregates the Company's revenue by end-user markets:

|                                    | 2023              | 2022              |
|------------------------------------|-------------------|-------------------|
| Residential floorcovering products | \$ 272,210        | \$ 297,195        |
| Other services                     | 4,133             | 6,375             |
| <b>Total net sales</b>             | <b>\$ 276,343</b> | <b>\$ 303,570</b> |

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

*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 Balance Sheets based on the timing of when the Company expects to recognize revenue, which is typically less than a year. The net decrease or increase in the contract liabilities is primarily driven by order activity for limited runs requiring deposits offset by the recognition of revenue and application of deposit on the receivables ledger for such activity during the period. The activity in the advanced deposits for continuing operations are as follows:

|  | 2023          | 2022            |
|--|---------------|-----------------|
| Beginning contract liability   | \$ 1,055      | \$ 1,285        |
| Revenue recognized from contract liabilities included in the beginning balance         | (881)         | (1,104)         |
| Increases due to cash received, net of amounts recognized in revenue during the period | 792           | 874             |
| <b>Ending contract liability</b>   | <b>\$ 966</b> | <b>\$ 1,055</b> |

**NOTE 4 - RECEIVABLES, NET**

Receivables are summarized as follows:

|   | 2023             | 2022             |
|---|------------------|------------------|
| Customers, trade                              | \$ 22,461        | \$ 23,111        |
| Other receivables                             | 1,665            | 2,009            |
| Gross receivables                             | 24,126           | 25,120           |
| Less: allowance for expected credit losses(1) | (440)            | (111)            |
| <b>Receivables, net</b>                       | <b>\$ 23,686</b> | <b>\$ 25,009</b> |

(1) The Company adopted the new standard, ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, on January 1, 2023 using a modified retrospective transition approach, with the cumulative impact being \$388 from continuing operations. The Company recognized an expense to the provision for the expected credit losses of \$31 and recognized write-offs, net of recoveries of \$90 in 2023.

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**NOTE 5 - INVENTORIES, NET**

Inventories are summarized as follows:

|                    | 2023                    | 2022                    |
|--------------------|-------------------------|-------------------------|
| Raw materials      | \$ 24,368               | \$ 29,209               |
| Work-in-process    | 12,275                  | 13,028                  |
| Finished goods     | 60,553                  | 67,018                  |
| Supplies and other | 112                     | 66                      |
| LIFO reserve       | (21,097)                | (25,622)                |
| Inventories, net   | <u><u>\$ 76,211</u></u> | <u><u>\$ 83,699</u></u> |

Reduction of inventory quantities in 2023 resulted in liquidations of LIFO inventories carried at prevailing costs established in prior years and decreased cost of sales by \$1,145 in 2023.

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment consists of the following:

|                                    | 2023                    | 2022                    |
|------------------------------------|-------------------------|-------------------------|
| Land and improvements              | \$ 3,402                | \$ 3,417                |
| Buildings and improvements         | 41,484                  | 51,132                  |
| Machinery and equipment            | 155,312                 | 155,317                 |
| Assets under construction          | 574                     | 1,606                   |
|                                    | <u><u>200,772</u></u>   | <u><u>211,472</u></u>   |
| Accumulated depreciation           | (169,404)               | (166,556)               |
| Property, plant and equipment, net | <u><u>\$ 31,368</u></u> | <u><u>\$ 44,916</u></u> |

Depreciation of property, plant and equipment, including amounts for finance leases, totaled \$7,122 in 2023 and \$7,412 in 2022.

**NOTE 7 - ACCRUED EXPENSES**

Accrued expenses are summarized as follows:

|   | 2023                    | 2022                    |
|---|-------------------------|-------------------------|
| Compensation and benefits (1)                         | \$ 5,720                | \$ 5,579                |
| Provision for customer rebates, claims and allowances | 6,199                   | 6,465                   |
| Advanced customer deposits                            | 966                     | 1,055                   |
| Outstanding checks in excess of cash                  | 444                     | 1,711                   |
| Other   | 3,269                   | 2,857                   |
| Accrued expenses                                      | <u><u>\$ 16,598</u></u> | <u><u>\$ 17,667</u></u> |

(1) Includes a liability related to the Company's self-insured Workers' Compensation program. This program is collateralized by letters of credit in the aggregate amount of \$4,131. The Company has other letters of credit outstanding totaling \$852.

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**NOTE 8 - PRODUCT WARRANTY RESERVES**

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

|   | 2023          | 2022          |
|---|---------------|---------------|
| Product warranty reserve at beginning of period | \$ 942        | \$ 1,050      |
| Warranty liabilities accrued                    | 716           | 597           |
| Warranty liabilities settled                    | (923)         | (705)         |
| Product warranty reserve at end of period       | <u>\$ 735</u> | <u>\$ 942</u> |

**NOTE 9 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS**

Long-term debt consists of the following:

|   | 2023             | 2022             |
|---|------------------|------------------|
| Revolving credit facility               | \$ 47,619        | \$ 51,794        |
| Term loans                              | 23,875           | 24,547           |
| Notes payable - buildings               | —                | 10,752           |
| Notes payable - other                   | 12,300           | 13,748           |
| Finance lease obligations               | 131              | 254              |
| Deferred financing costs, net           | (1,405)          | (1,797)          |
| Total debt                              | <u>82,520</u>    | <u>99,298</u>    |
| Less: current portion of long-term debt | 4,230            | 4,573            |
| Long-term debt                          | <u>\$ 78,290</u> | <u>\$ 94,725</u> |

**Revolving Credit Facility**

On October 30, 2020, the Company entered into a \$75,000 Senior Secured Revolving Credit Facility with Fifth Third Bank National Association as lender. The loan is secured by a first priority security interest on all accounts receivable, cash, and inventory, and provides for borrowing limited by certain percentages of values of the accounts receivable and inventory. The 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) SOFR (plus a 0.10% SOFR adjustment) for 1 or 3 month periods, as defined with a floor of 0.75% or published SOFR, 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. The applicable margin can be increased by 0.50% if the fixed charge coverage ratio is below a 1.10 to 1.00 ratio. As of December 30, 2023, the applicable margin on the Company's revolving credit facility was 2.50% for SOFR and 1.50% for Prime due to the fixed charge coverage ratio being below 1.10 to 1.00. 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 8.15% at December 30, 2023 and 6.81% for December 31, 2022.

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 financial covenants. The Company is only subject to the financial covenants if borrowing availability is less than \$8,342, which is equal to 12.5% of the lesser of the total loan availability of \$75,000 or total collateral available, and remains until the availability is greater than 12.5% for thirty consecutive days. As of December 30, 2023, the unused borrowing availability under the revolving credit facility was \$14,132.

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**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.

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. Payments on the loan are interest only over the first three years and principal and interest over the remaining seven years. 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.

**Notes Payable - Buildings**

On March 16, 2022, the Company entered into a twenty-year \$11,000 note payable to refinance an existing note payable on its distribution center in Adairsville, Georgia (the "Property"). The refinanced note payable bore interest at a fixed annual rate of 3.81%. Concurrent with the closing of this note, the Company paid off the existing note secured by the Property in the amount of \$5,456 and terminated the existing interest rate swap agreement. On December 14, 2023, the Company sold the Property and completed a successful sale and leaseback of the Property. The Company paid off the existing note in the amount of \$10,368. As a result of the debt extinguishment, the Company recognized an expense of \$206 for previously deferred financing costs on the note. The note had been secured by the Property and a guaranteee of the Company. (See Note 10.)

**Debt Covenant Compliance and Liquidity Considerations**

The Company's agreements for its Revolving Credit Facility and its term loans include certain compliance, affirmative, and financial covenants and, as of the reporting date, the Company is in compliance with or has received waivers for all such financial covenants.

In the Company's self-assessment of going concern, with reflection on the Company's operating losses in 2023 and 2022, the Company considered its future ability to comply with the financial covenants in its existing debt agreements. Topic 205 requires Company management to perform a going concern self-assessment each annual and interim reporting period. In performing its evaluation, management considered known and reasonably knowable information as of the reporting date. The Company also considered the significant unfavorable impact if it were unable to maintain compliance with financial covenants by its primary lenders. As part of the evaluation, the Company considered the improved gross margins driven by cost reductions implemented under its East Coast Consolidation Plan. The financial statements do not include any adjustments that might result from the outcome of the uncertainty of the ability to maintain compliance with the financial covenants.

**Notes Payable - Other**

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 \$1,500. 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 of 7.07% so that the net carrying amount of the financial liability and remaining assets will be zero at the end of the twenty-year lease term.

On September 15, 2023, the Company modified a note payable on equipment which had previously been recorded as a failed sale and leaseback. The note payable bears interest at fixed interest rate of 7.84% and matures on December 1, 2024. The Company recognized a gain of \$25 related to an extinguishment of debt on the note payable.

The Company's other financing notes have terms up to 1 year, bear interest ranging from 6.34% to 7.84% and are due in monthly installments through their maturity dates. The Company's other notes do not contain any financial covenants.

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**Finance Lease Obligations**

The Company's financed lease obligations are due in monthly installments through their maturity dates. The Company's finance lease obligations are secured by the specific equipment leased.

**Debt Maturities**

Maturities of long-term debt for periods following December 30, 2023 are as follows:

|                                    | Long-Term<br>Debt       | Finance Leases (See<br>Note 10) | Total                   |
|------------------------------------|-------------------------|---------------------------------|-------------------------|
| 2024                               | \$ 4,201                | \$ 29                           | \$ 4,230                |
| 2025                               | 50,147                  | 25                              | 50,172                  |
| 2026                               | 2,657                   | 27                              | 2,684                   |
| 2027                               | 2,860                   | 32                              | 2,892                   |
| 2028                               | 3,198                   | 18                              | 3,216                   |
| Thereafter                         | 20,731                  | —                               | 20,731                  |
| Total maturities of long-term debt | <u>\$ 83,794</u>        | <u>\$ 131</u>                   | <u>\$ 83,925</u>        |
| Deferred financing costs, net      | (1,405)                 | —                               | (1,405)                 |
| <b>Total long-term debt</b>        | <b><u>\$ 82,389</u></b> | <b><u>\$ 131</u></b>            | <b><u>\$ 82,520</u></b> |

**NOTE 10 - LEASES**

**Leases as Lessee**

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

|   | Balance Sheet Location                         | 2023                    | 2022                    |
|---|--|-------------------------|-------------------------|
| <b>Operating Leases:</b>                          |  |                         |                         |
| Operating lease right-of-use assets               | Operating lease right-of-use assets            | \$ 28,962               | \$ 20,617               |
| Current portion of operating lease liabilities    | Current portion of operating lease liabilities | \$ 3,654                | \$ 2,774                |
| Noncurrent portion of operating lease liabilities | Operating lease liabilities                    | 25,907                  | 18,802                  |
| <b>Total operating lease liabilities</b>          |  | <b><u>\$ 29,561</u></b> | <b><u>\$ 21,576</u></b> |
| <b>Finance Leases:</b>                            |  |                         |                         |
| Finance lease right-of-use assets                 | Property, plant, and equipment, net            | \$ 138                  | \$ 751                  |
| Current portion of finance lease liabilities      | Current portion of long-term debt              | \$ 29                   | \$ 249                  |
| Noncurrent portion of finance lease liabilities   | Long-term debt                                 | 102                     | 5                       |
| <b>Total financing lease liabilities</b>          |  | <b><u>\$ 131</u></b>    | <b><u>\$ 254</u></b>    |

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

|                                  | 2023                 | 2022                 |
|----------------------------------|----------------------|----------------------|
| <b>Operating lease cost</b>      | <b>\$ 4,115</b>      | <b>\$ 4,192</b>      |
| <b>Finance lease cost:</b>       |                      |                      |
| Amortization of lease assets     | \$ 174               | \$ 378               |
| Interest on lease liabilities    | 10                   | 31                   |
| <b>Total finance lease costs</b> | <b><u>\$ 184</u></b> | <b><u>\$ 409</u></b> |

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Other supplemental information related to leases is summarized as follows:

|   | 2023     | 2022     |
|---|----------|----------|
| Weighted average remaining lease term (in years):                       |          |          |
| Operating leases  | 7.25     | 6.63     |
| Finance leases  | 4.51     | 0.79     |
| Weighted average discount rate:   |          |          |
| Operating leases  | 6.81 %   | 6.40 %   |
| Finance leases  | 6.65 %   | 6.19 %   |
| Cash paid for amounts included in the measurement of lease liabilities: |          |          |
| Operating cash flows from operating leases                              | \$ 4,080 | \$ 3,972 |
| Operating cash flows from finance leases                                | 10       | 31       |
| Financing cash flows from finance leases                                | 256      | 565      |

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

| Fiscal Year  | Operating Leases | Finance Leases |
|--|------------------|----------------|
| 2024   | \$ 5,613         | \$ 37          |
| 2025   | 5,331            | 31             |
| 2026   | 5,124            | 31             |
| 2027   | 5,294            | 34             |
| 2028   | 5,330            | 19             |
| Thereafter   | 11,348           | —              |
| Total future minimum lease payments (undiscounted) | 38,040           | 152            |
| Less: Present value discount                       | (8,479)          | (21)           |
| Total lease liability                              | \$ 29,561        | \$ 131         |

On December 15, 2023, the Company sold its Adairsville, Georgia distribution center. The sales price was \$16,250. The gain on the sale transaction was \$8,198 and is included in other operating (income) expense, net in the consolidated statements of operations. The transaction was accounted for as a successful sale and leaseback transaction.

Concurrent with the sale of the Adairsville, Georgia distribution center, the Company entered into an operating lease to lease back the property for a term of 10 years with two 5 year renewal options. The Company concluded it was not reasonably certain to exercise the renewal options and therefore, did not include in the lease liability or right of use asset. The initial annual rent is \$1,496 for the first five years increasing to an annual amount of \$1,585 for the second five years. The Company is responsible for normal maintenance of the building and facilities.

#### **Leases as Lessor**

The Company leases or subleases certain excess space in its facilities to third parties, which are included as fixed assets. The leases are accounted for as operating leases and the lease or sublease income is included in other operating (income) expense, net. The Company recognizes lease income on a straight-line basis as collectability is probable, including any escalation or lease incentives, as applicable, and the Company continues to recognize the underlying asset. The Company has elected the practical expedient to combine all non-lease components as a combined component. The nature of the Company's sublease agreements do not provide for variable lease payments, options to purchase, or extensions.

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Lease income and sublease income related to fixed lease payments is recognized in other operating (income) expense, net in the in the consolidated statements of operations and is summarized as follows:

|                        | 2023   | 2022 |
|------------------------|--------|------|
| Operating lease income | \$ 705 | \$ — |

The following table summarizes the Company's undiscounted lease payments to be received under operating leases including amounts to be paid by the Company to the head lessor for the next five years and thereafter as of 2023:

| Fiscal Year  | Gross Lease Payments | Payments to Head Lessor | Net Lease Payments |
|--------------|----------------------|-------------------------|--------------------|
| 2024         | \$ 1,305             | \$ 251                  | \$ 1,054           |
| 2025         | \$ 1,253             | \$ 253                  | \$ 1,000           |
| 2026         | \$ 1,278             | \$ 256                  | \$ 1,022           |
| 2027         | \$ 1,303             | \$ 259                  | \$ 1,044           |
| 2028         | \$ 766               | \$ 163                  | \$ 603             |
| Thereafter   | \$ —                 | \$ —                    | \$ —               |
| <b>Total</b> | <b>\$ 5,905</b>      | <b>\$ 1,182</b>         | <b>\$ 4,723</b>    |

**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.

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

|   | 2023            |            | 2022            |            |
|---|-----------------|------------|-----------------|------------|
|   | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <b>Financial assets:</b>                  |                 |            |                 |            |
| Cash and cash equivalents                 | \$ 79           | \$ 79      | \$ 363          | \$ 363     |
| <b>Financial liabilities:</b>             |                 |            |                 |            |
| Long-term debt, including current portion | 82,389          | 79,225     | 99,044          | 88,006     |
| Finance leases, including current portion | 131             | 130        | 254             | 254        |

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.

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**NOTE 12 - EMPLOYEE BENEFIT PLANS**

**Defined Contribution Plans**

The Company sponsors a 401(k) defined contribution plan that covers a significant portion, or approximately 98% of the Company's associates. This plan includes a mandatory Company match on the first 1% of participants' contributions. The Company matches the next 2% of participants' contributions if the Company meets prescribed earnings levels. The plan also provides for additional Company contributions above the 3% level if the Company attains certain additional performance targets. Matching contribution expense for this 401(k) plan was \$652 in 2023 and \$254 in 2022.

Additionally, the Company sponsors a 401(k) defined contribution plan that covers those associates at one facility who are under a collective-bargaining agreement, or approximately 2% of the Company's associates. Under this plan, the Company generally matches participants' contributions, on a sliding scale, up to a maximum of 2.75% of the participant's earnings. Matching contribution expense for the collective-bargaining 401(k) plan was \$1 in 2023 and \$67 in 2022.

**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 for continuing operations owed to participants under this plan were \$14,289 at December 30, 2023 and \$12,346 at December 31, 2022 and are included in other long-term liabilities in the Company's Consolidated Balance Sheets. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company utilizes a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the plan. Amounts are invested in Company-owned life insurance in the Rabbi Trust and the cash surrender value of the policies for continuing operations was \$14,836 at December 30, 2023 and \$12,296 at December 31, 2022 and is included in other assets in the Company's Consolidated Balance Sheets.

**Multi-Employer Pension Plan**

The Company contributes to a multi-employer pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees. These union-represented employees represented approximately 2% of the Company's total employees. The risks of participating in multi-employer plans are different from single-employer plans. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. If the Company chooses to stop participating in the multi-employer plan, the Company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in the multi-employer pension plan for 2023 is provided in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three digit plan number. The most recent Pension Protection Act (PPA) zone status available in 2023 and 2022 is for the plan's year-end at 2022 and 2021, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates a plan for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

| Pension Fund                                     | EIN/Pension Plan Number | Pension Protection Act Zone Status |      | FIP/RP Status Pending/Implemented (1) | Contributions (2) |        |        | Surcharge Imposed (1) | Expiration Date of Collective-Bargaining Agreement |
|--|-------------------------|------------------------------------|------|---------------------------------------|-------------------|--------|--------|-----------------------|--|
|  |                         | 2023                               | 2022 |                                       | 2023              | 2022   | 2021   |                       |  |
| The Pension Plan of the National Retirement Fund | 13-6130178 - 001        | Red                                | Red  | Implemented                           | \$ 23             | \$ 151 | \$ 280 | Yes                   | 6/4/2024   |

(1) The collective-bargaining agreement requires the Company to contribute to the plan at the rate of \$0.47 per compensated hour for each covered employee. The Company will make additional contributions, as mandated by law, in accordance with the fund's 2010 Rehabilitation Plan which required a surcharge equal to \$0.03 per hour (from \$0.47 to \$0.50) effective June 1, 2014 to May 31, 2015, a surcharge equal to \$0.03 per hour (from \$0.50 to \$0.53) effective June 1, 2015 to May 31, 2016, a surcharge equal to \$0.02 per hour (from \$0.53 to \$0.55) effective June 1, 2016 to May 31, 2017, a surcharge equal to \$0.03 per hour (from \$0.55 to \$0.58) effective June 1, 2017 to May 31, 2018, a surcharge equal to \$0.02 per hour (from \$0.58 to \$0.60) effective June 1, 2018 to May 31, 2019, a surcharge equal to \$0.03 per hour (from \$0.60 to \$0.63) effective June 1, 2019 to May 31, 2020, a surcharge equal to \$0.03 per hour (from \$0.63 to \$0.66) effective June 1, 2020 to May 31, 2021, a surcharge equal to \$0.03 per hour (from \$0.66 to \$0.69) effective June 1, 2021 to May 31, 2022, a surcharge equal to \$0.03 per hour (from \$0.69 to \$0.72) effective June 1, 2022 to May 31, 2023 and a surcharge equal to \$0.03 per hour (from \$0.72 to \$0.75) effective June 1, 2023 to May 31, 2024. Based upon current employment and benefit levels, the Company's contributions to the multi-employer pension plan are expected to be approximately \$28 for 2024.

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

**Postretirement Plans**

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

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

|   | 2023            | 2022            |
|---|-----------------|-----------------|
| <b>Change in benefit obligation:</b>            |                 |                 |
| Benefit obligation at beginning of year         | \$ 379          | \$ 396          |
| Service cost                                    | 5               | 8               |
| Interest cost                                   | 16              | 15              |
| Actuarial gain                                  | (75)            | (39)            |
| Benefits paid                                   | (1)             | (1)             |
| <b>Benefit obligation at end of year</b>        | <b>324</b>      | <b>379</b>      |
| <b>Change in plan assets:</b>                   |                 |                 |
| Fair value of plan assets at beginning of year  | —               | —               |
| Employer contributions                          | 1               | 1               |
| Benefits paid                                   | (1)             | (1)             |
| <b>Fair value of plan assets at end of year</b> | <b>—</b>        | <b>—</b>        |
| <b>Unfunded amount</b>                          | <b>\$ (324)</b> | <b>\$ (379)</b> |

The balance sheet classification of the Company's liability for the postretirement benefit plan is included in discontinued operations and is summarized as follows:

|  | 2023          | 2022          |
|--|---------------|---------------|
| Current liabilities of discontinued operations   | \$ 23         | \$ 21         |
| Long-term liabilities of discontinued operations | 301           | 358           |
| <b>Total liability</b>                           | <b>\$ 324</b> | <b>\$ 379</b> |

Benefits expected to be paid on behalf of associates for the postretirement benefit plan during the period 2024 through 2033 are summarized as follows:

| Years   | Postretirement<br>Plan |
|---------|------------------------|
| 2024    | \$ 23                  |
| 2025    | 21                     |
| 2026    | 20                     |
| 2027    | 20                     |
| 2028    | 19                     |
| 2029-33 | 93                     |

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

|   | 2023   | 2022   |
|---|--------|--------|
| <b>Weighted-average assumptions as of year-end:</b> |        |        |
| Discount rate (benefit obligation)                  | 4.00 % | 3.75 % |

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

|                                    | 2023                 | 2022               |
|------------------------------------|----------------------|--------------------|
| Service cost                       | \$ 5                 | \$ 8               |
| Interest cost                      | 16                   | 15                 |
| Recognized net actuarial gains     | (26)                 | (22)               |
| Net periodic benefit cost (credit) | <u><u>\$ (5)</u></u> | <u><u>\$ 1</u></u> |

Pre-tax amounts included in accumulated other comprehensive income for the Company's postretirement benefit plan at 2023 are summarized as follows:

|                              | Postretirement Benefit Plan |                            |
|------------------------------|-----------------------------|----------------------------|
|                              | Balance at 2023             | 2024 Expected Amortization |
| Unrecognized actuarial gains | \$ 369                      | \$ 20                      |
| Totals                       | <u><u>\$ 369</u></u>        | <u><u>\$ 20</u></u>        |

**NOTE 13 - INCOME TAXES**

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

|                                | 2023                 | 2022                  |
|--------------------------------|----------------------|-----------------------|
| Current                        |                      |                       |
| Federal                        | \$ 208               | \$ (117)              |
| State                          | 6                    | 61                    |
| Total current                  | <u><u>214</u></u>    | <u><u>(56)</u></u>    |
| Deferred                       |                      |                       |
| Federal                        | —                    | (25)                  |
| State                          | —                    | (6)                   |
| Total deferred                 | <u><u>—</u></u>      | <u><u>(31)</u></u>    |
| Income tax provision (benefit) | <u><u>\$ 214</u></u> | <u><u>\$ (87)</u></u> |

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

|  | 2023          | 2022           |
|--|---------------|----------------|
| Federal statutory rate   | 21 %          | 21 %           |
| Statutory rate applied to loss from continuing operations before taxes | \$ (365)      | \$ (7,035)     |
| Plus state income taxes, net of federal tax effect                     | 5             | 43             |
| Total statutory provision (benefit)                                    | <u>(360)</u>  | <u>(6,992)</u> |
| Effect of differences:   |               |                |
| Nondeductible meals and entertainment                                  | 31            | —              |
| Executive compensation limitation                                      | —             | 55             |
| Federal tax credits  | (343)         | (279)          |
| State tax credits  | (74)          | (11)           |
| Reserve for uncertain tax positions                                    | 37            | 24             |
| Change in valuation allowance  | 797           | 7,103          |
| Stock-based compensation   | 105           | 66             |
| Other items  | 21            | (53)           |
| Income tax provision (benefit)   | <u>\$ 214</u> | <u>\$ (87)</u> |

The Company has a full valuation allowance against its deferred tax assets. The Company intends to maintain this position until there is sufficient evidence to support the reversal of all or some portion of these allowances. The Company also has certain assets with indefinite lives for which the basis is different for book and tax. In accordance with ASC 740-10-30-18, the deferred tax liability related to these intangible assets cannot be used to offset deferred tax assets when determining the amount of the valuation allowance for deferred tax assets which are not more-likely-than-not to be realized. The result is that the Company is in a net deferred tax liability position of \$91 at December 30, 2023 and December 31, 2022, which is recorded in other long-term liabilities in the Company's Consolidated Balance Sheets.

Due to its full valuation allowance against its deferred tax balances, the Company is only able to recognize refundable credits and a small amount of federal and state taxes in the tax provision (benefit) for 2023 and 2022.

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

|  | 2023            | 2022            |
|--|-----------------|-----------------|
| Deferred tax assets:                           |                 |                 |
| Inventories                                    | \$ 1,649        | \$ 2,759        |
| Retirement benefits                            | 322             | 407             |
| State net operating losses                     | 4,014           | 4,306           |
| Federal net operating losses                   | 2,840           | 4,852           |
| State tax credit carryforwards                 | 1,669           | 1,669           |
| Federal tax credit carryforwards               | 4,579           | 4,590           |
| Allowances for bad debts, claims and discounts | 1,663           | 1,680           |
| Other  | 7,246           | 5,167           |
| Total deferred tax assets                      | <u>23,982</u>   | <u>25,430</u>   |
| Valuation allowance                            | <u>(20,961)</u> | <u>(21,345)</u> |
| Net deferred tax assets                        | <u>3,021</u>    | <u>4,085</u>    |
| Deferred tax liabilities:                      |                 |                 |
| Property, plant and equipment                  | 3,112           | 4,176           |
| Total deferred tax liabilities                 | <u>3,112</u>    | <u>4,176</u>    |
| Net deferred tax liability                     | <u>\$ (91)</u>  | <u>\$ (91)</u>  |

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At December 30, 2023, the Company had approximately \$24,833 of federal net operating loss carryforwards and approximately \$74,018 of state net operating loss carryforwards available from both continuing and discontinued operations. In addition, \$4,579 of federal tax credit carryforwards and \$1,669 of state tax credit carryforwards were available to the Company. The federal tax credit carryforwards will expire between 2029 and 2044. The federal net operating loss carryforwards have no expiration date. The state net operating loss carryforwards and the state tax credit carryforwards will expire between 2023 and 2043. A valuation allowance is recorded to reflect the estimated amount of deferred tax assets attributable to continuing operations that are estimated not to be realizable based on the available evidence. At December 30, 2023, the Company is in a net deferred tax liability position of \$91 which is included in other long-term liabilities in the Company's Consolidated Balance Sheets.

Beginning in 2022, the Tax Cuts and Jobs Act (the "TCJA") amended Section 174 to eliminate current year deductibility of research and experimentation ("R&E") expenditures and software development costs (collectively, "R&E expenditures") and instead requires taxpayers to charge their R&E expenditures to a capital account amortized over 5 years. For the 2023 and 2022 tax years, the Company capitalized \$4,642 and \$4,791 of research and development expenses respectively.

**Tax Uncertainties**

The Company accounts for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. Unrecognized tax benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of December 30, 2023 or December 31, 2022.

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

|  | 2023                 | 2022                 |
|--|----------------------|----------------------|
| Balance at beginning of year                                   | \$ 518               | \$ 494               |
| Additions based on tax positions taken during a current period | 37                   | 24                   |
| Balance at end of year   | <u><u>\$ 555</u></u> | <u><u>\$ 518</u></u> |

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 2019 remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2019. A few state jurisdictions remain open to examination for tax years subsequent to 2018.

**NOTE 14 - COMMON STOCK AND EARNINGS (LOSS) PER SHARE**

**Common & Preferred Stock**

The Company's charter authorizes 80,000,000 shares of Common Stock with a \$3 par value per share and 16,000,000 shares of Class B Common Stock with a \$8 par value per share. Holders of Class B Common Stock have the right to twenty votes per share on matters that are submitted to Shareholders for approval and to dividends in an amount not greater than dividends declared and paid on Common Stock. Class B Common Stock is restricted as to transferability and may be converted into Common Stock on a one share for one share basis. The Company's charter also authorizes 200,000,000 shares of Class C Common Stock, \$3 par value per share, and 16,000,000 shares of Preferred Stock. No shares of Class C Common Stock or Preferred Stock have been issued.

**Repurchases of Common Stock**

On August 3, 2022, the Company's Board of Directors approved the repurchase of up to \$8,000 of the Company's Common Stock. A portion of such purchases was under a plan pursuant to Rule 10b-5-1 of the Securities and Exchange Act ("Plan"). The Company repurchased 605,749 shares under the Plan at a cost of \$642 in 2022.

**Earnings (Loss) Per Share**

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

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

|  | 2023       | 2022        |
|--|------------|-------------|
| <b>Basic earnings (loss) per share:</b>                                  |            |             |
| Loss from continuing operations  | \$ (1,952) | \$ (33,415) |
| Less: Allocation of earnings to participating securities                 | —          | —           |
| Loss from continuing operations available to common shareholders - basic | \$ (1,952) | \$ (33,415) |
| Basic weighted-average shares outstanding (1)                            | 14,783     | 15,121      |
| Basic earnings (loss) per share - continuing operations                  | \$ (0.13)  | \$ (2.21)   |
| <b>Diluted earnings (loss) per share:</b>                                |            |             |
| Loss from continuing operations available to common shareholders - basic | \$ (1,952) | \$ (33,415) |
| Add: Undistributed earnings reallocated to unvested shareholders         | —          | —           |
| Loss from continuing operations available to common shareholders - basic | \$ (1,952) | \$ (33,415) |
| Basic weighted-average shares outstanding (1)                            | 14,783     | 15,121      |
| Effect of dilutive securities:   |            |             |
| Stock options (2)  | —          | —           |
| Directors' stock performance units (2)                                   | —          | —           |
| Diluted weighted-average shares outstanding (1)(2)                       | 14,783     | 15,121      |
| Diluted earnings (loss) per share - continuing operations                | \$ (0.13)  | \$ (2.21)   |

(1) Includes Common and Class B Common shares, excluding 706 and 944 unvested participating securities, in thousands, for 2023 and 2022, respectively.

(2) Shares issuable under stock option plans where the exercise price is greater than the average market price of the Company's Common Stock during the relevant period and directors' stock performance units have been excluded to the extent they are anti-dilutive. Aggregate shares, in thousands, excluded were 549 in 2023 and 130 in 2022.

#### **NOTE 15 - STOCK PLANS AND STOCK COMPENSATION EXPENSE**

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity instrument issued and records such expense in selling and administrative expenses in the Company's Consolidated Statements of Operations. The Company's stock compensation expense was \$687 in 2023 and \$766 in 2022.

##### **Omnibus Equity Incentive Plan**

On May 4, 2022, the Company's shareholders' approved and adopted the Company's Omnibus Equity Incentive Plan (the "Omnibus Equity Incentive Plan" or the "2022 Plan") which provides for the issuance of a maximum of 1,300,000 shares of Common Stock and/or Class B Common Stock for the grant of options, and/or other stock-based or stock-denominated awards to employees, officers, directors and agents of the Company and its participating subsidiaries.

##### **2016 Incentive Compensation Plan**

On May 3, 2016, the Company's shareholders' approved and adopted the Company's 2016 Incentive Compensation Plan (the "2016 Incentive Compensation Plan") which provided for the issuance of a maximum of 800,000 shares of Common Stock and/or Class B Common Stock for the grant of options, and/or other stock-based or stock-denominated awards to employees, officers, directors, and agents of the Company and its participating subsidiaries. The 2016 Incentive Compensation Plan and the allocation of shares thereunder superseded and replaced The Dixie Group, Inc. Stock Awards Plan, as amended (the "2006 Plan") and the allocation of shares thereunder. Awards previously granted under the 2006 Plan continue to be governed by the terms of that plan and are not affected by its termination. On May 6, 2020, the board approved an amendment of the Company's 2016 Incentive Compensation Plan to increase the original number of shares by an additional 500,000. There are 149,908 shares remaining under the 2016 Incentive Plan due to forfeiture or cancellation of unvested awards outstanding under that plan.

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**Restricted Stock Awards**

Pursuant to the Company's Omnibus Equity Incentive Plan, the Company's practice has been to adopt an annual incentive plan which provides for the grant of restricted stock awards denominated as Long-Term Incentive Stock Awards and Career Share awards. Under the plan adopted for 2023, each executive officer has the opportunity to earn a Primary Long-Term Incentive Award of restricted stock and separately receive an award of restricted stock denominated as "Career Shares." The number of shares issued, if any, is based on the market price of the Company's Common Stock at the time of grant of the award, subject to a \$5.00 per share minimum value. Primary Long-Term Incentive Awards vest over three years. For participants over age 60, Career Shares awards fully vest when the participant becomes (i) qualified to retire from the Company and (ii) has retained such shares two years following the grant date. For the participants under age 60, Career Shares vest ratably over five years beginning on the participant's 61st birthday.

Restricted stock activity for the two years ended are summarized as follows:

|   | Number of Shares | Weighted-Average<br>Grant-Date Fair Value |
|---|------------------|---|
| <b>Outstanding at December 25, 2021</b> | <b>669,345</b>   | <b>\$ 3.34</b>                            |
| Granted                                 | 427,911          | 2.73                                      |
| Vested                                  | (151,550)        | 2.86                                      |
| Forfeited                               | (2,000)          | 3.02                                      |
| <b>Outstanding at December 31, 2022</b> | <b>943,706</b>   | <b>\$ 3.14</b>                            |
| Granted                                 | 55,000           | 0.69                                      |
| Vested                                  | (241,211)        | 2.89                                      |
| Forfeited                               | (51,220)         | 2.62                                      |
| <b>Outstanding at December 30, 2023</b> | <b>706,275</b>   | <b>\$ 3.07</b>                            |

As of December 30, 2023, unrecognized compensation cost related to unvested restricted stock was \$1,079. That cost is expected to be recognized over a weighted-average period of 6.9 years. The total fair value of shares vested was approximately \$197 and \$399 during 2023 and 2022, respectively.

**Stock Performance Units**

Prior to 2021, the Company's non-employee directors received an annual retainer of \$18 in cash and \$18 in value of Stock Performance Units (subject to a \$5.00 minimum per unit). If market value at the date of the grants was above \$5.00 per share; there was no reduction in the number of units issued. However, if the market value at the date of the grants was below \$5.00, units would be reduced to reflect the \$5.00 per share minimum. Upon retirement, the Company will issue the number of shares of Common Stock equivalent to the number of Stock Performance Units held by non-employee directors at that time. As of December 30, 2023, there were 130,320 Stock Performance Units were outstanding under this plan. As of December 30, 2023, there was no unrecognized compensation cost related to Stock Performance Units.

**Stock Options**

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

On May 25, 2023, the Company granted 444,000 options with a market condition to certain key employees of the Company at a weighted-average exercise price of \$1.00. The grant-date fair value of these options was \$1.86. These options vest over a two-year period and require the Company's stock to trade at or above \$3.00 for five consecutive trading days during the term of the option to meet the market condition.

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

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The following weighted-average assumptions were used to estimate the fair value of stock options granted during the years ended 2023 and 2022.

|                          | 2023    | 2022    |
|--------------------------|---------|---------|
| Risk-free interest rate  | 3.80 %  | — %     |
| Expected volatility      | 97.96 % | — %     |
| Expected dividends       | — %     | — %     |
| Expected life of options | 5 years | 0 years |

Option activity for the two years ended is summarized as follows:

|   | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (in years) | Weighted-Average Fair Value of Options Granted During the Year |
|---|------------------|---------------------------------|--|--|
| Outstanding at December 25, 2021                | 141,000          | \$ 4.36                         | 0.40   | \$ —   |
| Expired   | (141,000)        | 4.36                            | —  | —  |
| Outstanding at December 31, 2022                | —                | —                               | 0.00   | —  |
| Granted   | 444,000          | 1.00                            | —  | 0.42   |
| Forfeited                                       | (25,000)         | 1.00                            | —  | —  |
| <b>Outstanding at December 30, 2023</b>         | <b>419,000</b>   | <b>\$ 1.00</b>                  | <b>4.40</b>  | <b>\$ —</b>  |
| <b>Options exercisable at December 30, 2023</b> | <b>—</b>         | <b>\$ —</b>                     | <b>—</b>   | <b>\$ —</b>  |

At December 30, 2023, there was no intrinsic value of outstanding stock options and no intrinsic value of exercisable stock options. At December 30, 2023, there was \$123 unrecognized compensation expense related to unvested stock options and is expected to be recognized over a weighted-average period of 1.4 years.

#### NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

|   | Interest Rate Swaps | Post-Retirement Liabilities | Total         |
|---|---------------------|-----------------------------|---------------|
| Balance at December 25, 2021  | \$ (172)            | \$ 202                      | \$ 30         |
| Unrealized gain on interest rate swaps, net of tax of \$0   | —                   | —                           | —             |
| Reclassification of loss into earnings from interest rate swaps, net of tax of \$(2)                        | (5)                 | —                           | (5)           |
| Reclassification of unrealized loss into earnings from designated interest rate swaps, net of tax of \$(3)  | 177                 | —                           | 177           |
| Unrecognized net actuarial gain on postretirement benefit plans, net of tax of \$(0)                        | —                   | 39                          | 39            |
| Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of \$(0) | —                   | (22)                        | (22)          |
| <b>Balance at December 31, 2022</b>   | <b>\$ —</b>         | <b>\$ 219</b>               | <b>\$ 219</b> |
| Unrecognized net actuarial gain on postretirement benefit plans, net of tax of \$(0)                        | —                   | 75                          | 75            |
| Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of \$(0) | —                   | (26)                        | (26)          |
| <b>Balance at December 30, 2023</b>   | <b>\$ —</b>         | <b>\$ 268</b>               | <b>\$ 268</b> |

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**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

**Commitments**

The Company had purchase commitments of \$1,178 at December 30, 2023, primarily related to machinery and equipment. The Company entered into fixed-price contracts with suppliers to purchase natural gas to support certain manufacturing processes in prior years. At December 30, 2023, the Company has no commitments to purchase natural gas for 2023.

**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. The Company does not accrue for legal costs relating to loss contingencies. The Company has not identified any legal matters that could have a material adverse effect on its consolidated results of operations, financial position or cash flows.

**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 20).

**Legal Proceedings**

The Company has been sued together with 15 other defendants in a civil action filed January 22, 2024, in the Superior Court of Gordon County Georgia. The case is styled: Moss Land Company, LLC and Revocable Living Trust of William Darryl Edwards, by and through William Darryl Edwards, Trustee vs. City of Calhoun et al. Civil Action Number 24CV73929. The plaintiffs are two landowners located in Gordon County Georgia. The relief sought is compensation for alleged damages to the plaintiffs' real property, an injunction from alleged further damage to their property and abatement of alleged nuisance related to the presence of PFAS and related chemicals on their property. The Plaintiffs allege that such chemicals have been deposited on their property by the City of Calhoun as a byproduct of treating water containing such chemicals used by manufacturing operations in and around Calhoun Georgia. The defendants include the City of Calhoun Georgia, several other carpet manufacturers, and certain manufacturers and sellers of chemicals containing PFAS. No specific amount of damages has been demanded. The Company has not yet answered the complaint but anticipates denying liability and vigorously defending the matter.

On March 1, 2024, the City of Calhoun Georgia served an answer and crossclaim for Damages and injunctive relief in the pending matter styled: In re: Moss Land Company, LLC and Revocable living Trust of William Darryl Edwards by and through William Darryl Edwards, Trustee v. The Dixie Group, Inc. In the Superior Court of Gordon County Georgia, case Number: 24CV73929. In its Answer and Crossclaim defendant Calhoun sues The Dixie Group, Inc. and other named carpet manufacturing defendants for unspecified monetary damages and other injunctive relief based on injury claimed to have resulted from defendant's use and disposal of chemical wastewater containing PFAS chemicals. Dixie Group has advised us that it intends to deny liability and to defend the matter vigorously.

**NOTE 18 - OTHER (INCOME) EXPENSE, NET**

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

|   | 2023              | 2022          |
|---|-------------------|---------------|
| Other operating (income) expense, net:          |                   |               |
| Lease income                                    | \$ (705)          | \$ —          |
| Insurance proceeds                              | (616)             | (394)         |
| Loss on property, plant and equipment disposals | 2                 | 267           |
| Gain on sale of building                        | (8,198)           | —             |
| Loss on currency exchanges                      | 36                | 148           |
| Retirement expenses                             | 195               | 483           |
| Miscellaneous (income) expense                  | 114               | (265)         |
| Other operating (income) expense, net           | <u>\$ (9,172)</u> | <u>\$ 239</u> |

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The 2023 insurance proceeds includes reimbursement for claims filed for building flood in 2023 and cyber event from 2021. The 2022 insurance proceeds includes an additional insurance reimbursement for \$394 for the replacement of assets and business interruption loss.

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

|                                     | 2023                   | 2022               |
|-------------------------------------|------------------------|--------------------|
| Other (income) expense, net:        |                        |                    |
| Gain on extinguishment of debt, net | \$ (419)               | \$ —               |
| Miscellaneous (income) expense      | (12)                   | 6                  |
| Other (income) expense, net         | <u><u>\$ (431)</u></u> | <u><u>\$ 6</u></u> |

**NOTE 19 - FACILITY CONSOLIDATION AND SEVERANCE EXPENSES, NET**

**2022 Consolidation of East Coast Manufacturing Plan**

During 2022, the Company implemented a plan to consolidate its East Coast manufacturing in order to reduce its manufacturing costs. Under this plan, the Company will consolidate its East Coast tufting operations into one plant in North Georgia and relocate the distribution of luxury vinyl flooring from its Saraland, Alabama facility to its Atmore, Alabama facility. Costs for the plan will include machinery and equipment relocation, inventory relocation, staff reductions and unabsorbed fixed costs during conversion of the Atmore facility.

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

|  |  |                      |                       |  |                                    | As of December 30, 2023 |
|--|--|----------------------|-----------------------|--|------------------------------------|-------------------------|
|  | Accrued Balance<br>at December 31,<br>2022 | 2023<br>Expenses (1) | 2023 Cash<br>Payments | Accrued Balance<br>at December 30,<br>2023 | Total Costs<br>Incurred to<br>Date | Total Expected<br>Costs |
| Consolidation of East Coast Manufacturing Plan | \$ 1,011                                   | \$ 2,886             | \$ 3,861              | \$ 36                                      | \$ 7,715                           | \$ 8,641                |
| Asset Impairments/Non-cash items               | \$ —                                       | \$ 981               | \$ —                  | \$ —                                       | \$ 1,717                           | \$ 1,717                |
|  | Accrued Balance<br>at December 25,<br>2021 | 2022<br>Expenses (1) | 2022 Cash<br>Payments | Accrued Balance<br>at December 31,<br>2022 |                                    |                         |
| Consolidation of East Coast Manufacturing Plan | \$ —                                       | \$ 3,848             | \$ 2,837              | \$ 1,011                                   |                                    |                         |
| Asset Impairments                              | \$ —                                       | \$ 736               | \$ —                  | \$ —                                       |                                    |                         |

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

**NOTE 20 - 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:

|  | 2023                   | 2022                     |
|--|------------------------|--------------------------|
| Workers' compensation costs from former textile operations     | \$ (87)                | \$ (29)                  |
| Environmental remediation costs from former textile operations | (49)                   | (346)                    |
| Commercial business operations                                 | (718)                  | (1,289)                  |
| Loss from discontinued operations, before taxes                | \$ (854)               | \$ (1,664)               |
| Income tax benefit   | (88)                   | —                        |
| Loss from discontinued operations, net of tax                  | <u><u>\$ (766)</u></u> | <u><u>\$ (1,664)</u></u> |

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(amounts in thousands, except per share data)

**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 \$2,205 as of December 30, 2023 and \$2,205 as of December 31, 2022. 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.

**Commercial business operations**

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. Additionally, the Company agreed not to compete with the specified commercial business and the Atlas|Masland markets for a period of five years following September 13, 2021. The agreement allowed for the Company to sell the commercial inventory retained by the company after the divestiture.

The Company reclassified the following assets and liabilities for discontinued operations in the accompanying Consolidated Balance Sheets:

|   | <b>2023</b>     | <b>2022</b>     |
|---|-----------------|-----------------|
| <b>Current Assets of Discontinued Operations:</b>             |                 |                 |
| Receivables, net  | \$ 158          | \$ 385          |
| Inventories, net  | 107             | 255             |
| Prepaid expenses  | —               | 1               |
| <b>Current Assets Held for Discontinued Operations</b>        | <b>\$ 265</b>   | <b>\$ 641</b>   |
| <b>Long Term Assets of Discontinued Operations:</b>           |                 |                 |
| Property, plant and equipment, net                            | \$ 176          | \$ 185          |
| Operating lease right of use assets                           | —               | 63              |
| Other assets  | 1,138           | 1,304           |
| <b>Long Term Assets Held for Discontinued Operations</b>      | <b>\$ 1,314</b> | <b>\$ 1,552</b> |
| <b>Current Liabilities of Discontinued Operations:</b>        |                 |                 |
| Accounts payable  | \$ 128          | \$ 127          |
| Accrued expenses  | 1,009           | 2,245           |
| Current portion of operating lease liabilities                | —               | 75              |
| <b>Current Liabilities Held for Discontinued Operations</b>   | <b>\$ 1,137</b> | <b>\$ 2,447</b> |
| <b>Long Term Liabilities of Discontinued Operations:</b>      |                 |                 |
| Other long term liabilities                                   | \$ 3,536        | \$ 3,759        |
| <b>Long Term Liabilities Held for Discontinued Operations</b> | <b>\$ 3,536</b> | <b>\$ 3,759</b> |

**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(amounts in thousands, except per share data)

For the twelve months ended December 30, 2023 and December 31, 2022, the Company reclassified the following operations of the Commercial business included in discontinued operations in the accompanying Consolidated Statements of Operations:

|  | <b>2023</b>     | <b>2022</b>       |
|--|-----------------|-------------------|
| Net sales  | \$ 199          | \$ 7,790          |
| Cost of sales  | 624             | 8,159             |
| <b>Gross profit (loss)</b>                                     | <b>(425)</b>    | <b>(369)</b>      |
| <br>Selling and administrative expenses                        | <br>178         | <br>1,395         |
| Other operating (income) expense, net                          | 115             | (475)             |
| <b>Loss from discontinued Commercial business before taxes</b> | <b>\$ (718)</b> | <b>\$ (1,289)</b> |

**NOTE 21 - RELATED PARTY TRANSACTIONS**

The Company purchases a portion of its product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of the Company. An affiliate of Mr. Shaw holds approximately 7.8% of the Company's Common Stock, which represents approximately 3.1% of the total vote of all classes of the Company's Common Stock. Engineered Floors is one of several suppliers of such materials to the Company. Total purchases from Engineered Floors for 2023 and 2022 were approximately \$64 and \$917 respectively; or approximately 0.03% and 0.40% of the Company's cost of goods sold in 2023 and 2022, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. The Company has no contractual commitments with Mr. Shaw associated with its business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by the Company's board of directors.

## Item 15(a)(2)

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

| Description                                     | Balance at<br>Beginning of<br>Year | Additions -<br>Charged to<br>Costs and<br>Expenses | Additions -<br>Charged to<br>Other Account -<br>Describe | Deductions -<br>Describe | Balance at<br>End of Year |
|---|------------------------------------|--|--|--------------------------|---------------------------|
| <b>Year ended December 30, 2023:</b>            |                                    |  |  |                          |                           |
| <i>Reserves deducted from asset accounts:</i>   |                                    |  |  |                          |                           |
| Allowance for expected credit losses            | \$ 111                             | \$ 31  | \$ 388 (1)   | \$ 90 (2)                | \$ 440                    |
| <i>Reserves classified as liabilities:</i>      |                                    |  |  |                          |                           |
| Provision for claims, allowances and warranties | \$ 3,383                           | \$ 8,256   | \$ —   | \$ 8,161 (3)             | \$ 3,478                  |
| <b>Year ended December 31, 2022:</b>            |                                    |  |  |                          |                           |
| <i>Reserves deducted from asset accounts:</i>   |                                    |  |  |                          |                           |
| Allowance for expected credit losses            | \$ 108                             | \$ 62  | \$ —   | \$ 59 (2)                | \$ 111                    |
| <i>Reserves classified as liabilities:</i>      |                                    |  |  |                          |                           |
| Provision for claims, allowances and warranties | \$ 3,711                           | \$ 8,639   | \$ —   | \$ 8,967 (3)             | \$ 3,383                  |

(1) The Company adopted the new standard , ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, on January 1, 2023 using a modified retrospective transition approach, with the cumulative impact being \$388 for continuing operations.

(2) Uncollectible accounts written off, net of recoveries. The Allowance for Expected Credit Losses is included in Receivables, net on the Consolidated Balance Sheet. See Note 4 - Receivables, Net for further information.

(3) Net reserve reductions for claims, allowances and warranties settled. The provision for claims, allowances and warranties is included in Accrued Expenses under Current Liabilities on the Consolidated Balance Sheet and included, along with the accrual of rebates, within the Provision for customer rebates, claims and allowances in Note 7 - Accrued Expenses.

**ANNUAL REPORT ON FORM 10-K**  
**ITEM 15(b)**  
**EXHIBITS**

YEAR ENDED DECEMBER 30, 2023  
 THE DIXIE GROUP, INC.  
 DALTON, GEORGIA

Exhibit Index

| <b>EXHIBIT NO.</b> | <b>DESCRIPTION</b>   |
|--------------------|--|
| (3.1)*             | <a href="#">Text of Restated Charter of The Dixie Group, Inc. as Amended - Blackline Version. (Incorporated by reference to Exhibit (3.4) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2003.)</a>   |
| (3.2)*             | <a href="#">Amended By-Laws of The Dixie Group, Inc. as of February 22, 2007. (Incorporated by reference to Exhibit 3.1 to Dixie's Current Report on Form 8-K dated February 26, 2007.)</a>  |
| (5.1)*             | <a href="#">Shelf Registration Statement on Form S-3. (Incorporated by reference to Exhibit (5.1) to Dixie's Current Report on Form 8-K dated May 20, 2014.)</a>   |
| (10.1)*            | <a href="#">The Dixie Group, Inc. New Non-qualified Retirement Savings Plan effective August 1, 1999. (Incorporated by reference to Exhibit (10.1) to Dixie's Quarterly Report on Form 10-Q for the quarter ended June 26, 1999.)*</a>   |
| (10.2)*            | <a href="#">Thornton Edge LLC Lease for Reed Road Facility. (Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)</a>   |
| (10.3)*            | <a href="#">Thornton Edge LLC First Lease Amendment for Reed Road Facility. (Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)</a>   |
| (10.4)*            | <a href="#">Thornton Edge LLC Second Lease Amendment for Reed Road Facility. (Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 10-Q dated November 4, 2015.)</a>  |
| (10.5)*            | <a href="#">2016 Incentive Compensation Plan. (Incorporate by reference to Appendix A to Dixie's Proxy Statement for the Registrant's Annual Meeting of Shareholders held May 3, 2016.)*</a>   |
| (10.6)*            | <a href="#">Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 11, 2016.)*</a>   |
| (10.7)*            | <a href="#">Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 11, 2016.)*</a>  |
| (10.8)*            | <a href="#">Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 11, 2016.)*</a>  |
| (10.9)*            | <a href="#">Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 11, 2016.)*</a>   |
| (10.10)*           | <a href="#">Form of Stock Option Agreement - Class B Holder - 2016 Stock Plan. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated May 31, 2017.)*</a>  |
| (10.11)*           | <a href="#">Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 9, 2018.)*</a>  |
| (10.12)*           | <a href="#">Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 9, 2018.)*</a>   |
| (10.13)*           | <a href="#">Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 9, 2018.)*</a>   |
| (10.14)*           | <a href="#">Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 9, 2018.)*</a>  |
| (10.15)*           | <a href="#">Agreement for the Purchase and Sale of Real Property between Saraland Industrial, LLC and TDG Operations, LLC and Lease Agreement between Saraland Industrial, LLC and TDG Operations. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated January 17, 2019.)</a> |
| (10.16)*           | <a href="#">Long Term Incentive Plan Award B Shareholder. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 8, 2019.)*</a>  |
| (10.17)*           | <a href="#">Long Term Incentive Plan Award Common. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 8, 2019.)*</a>   |
| (10.18)*           | <a href="#">Career Shares B Shareholder. (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 8, 2019.)*</a>   |
| (10.19)*           | <a href="#">Career Shares Common. (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 8, 2019.)*</a>  |
| (10.20)*           | <a href="#">Agreement For the Purchase and Sale of Real Property between CenterPoint Properties Trust and TDG Operations, LLC. (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated October 22, 2019.)</a>   |
| (10.21)*           | <a href="#">Form of Lease between CenterPoint Properties Trust and TDG Operations, LLC. (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated October 22, 2019.)</a>  |

|          |   |
|----------|---|
| (10.22)* | <a href="#">Long Term Incentive Plan Award B Shareholder.</a> (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**   |
| (10.23)* | <a href="#">Long Term Incentive Plan Award Common.</a> (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**  |
| (10.24)* | <a href="#">Career Shares B Shareholder.</a> (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**  |
| (10.25)* | <a href="#">Career Shares Common.</a> (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 13, 2020.)**   |
| (10.26)* | <a href="#">Fifteenth Amendment to Credit Agreement.</a> (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated October 1, 2020.)   |
| (10.27)* | <a href="#">Loan Agreement dated effective as of October 26, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company, and AmeriState Bank, an Oklahoma state banking corporation.</a> (Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated November 2, 2020.)   |
| (10.28)* | <a href="#">Real Estate Mortgage, Security Agreement, Assignment of Rents and Fixture Filing for Atmore, Alabama facility dated effective as of October 26, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company, and AmeriState Bank, an Oklahoma state banking corporation.</a> (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated November 2, 2020.)  |
| (10.29)* | <a href="#">Real Estate Mortgage, Security Agreement, Assignment of Rents and Fixture Filing for Roanoke, Alabama facility dated effective as of October 26, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company, and AmeriState Bank, an Oklahoma state banking corporation.</a> (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated November 2, 2020.) |
| (10.30)* | <a href="#">Loan Agreement dated effective as of October 29, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company (collectively, the "Borrowers"), and Greater Nevada Credit Union, a non-profit cooperative corporation organized under the laws of the State of Nevada.</a> (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated November 2, 2020.)      |
| (10.31)* | <a href="#">Security Agreement dated effective as of October 29, 2020 entered into by and between The Dixie Group, a Tennessee corporation, and TDG Operations, LLC, a Georgia limited liability company, and Greater Nevada Credit Union, a non-profit cooperative corporation organized under the laws of the State of Nevada.</a> (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated November 2, 2020.)                                  |
| (10.32)* | <a href="#">Credit Agreement dated as of October 30, 2020, among The Dixie Group, Inc., and TDG Operations, LLC and Fifth Third Bank, National Association, a national banking association.</a> (Incorporated by Reference to Exhibit (10.6) to Dixie's Current Report on Form 8-K dated November 2, 2020.)   |
| (10.33)* | <a href="#">Guaranty and Security Agreement dated as of October 28, 2020, among The Dixie Group, Inc., and TDG Operations, LLC in favor of Fifth Third Bank, National Association, a national banking association.</a> (Incorporated by Reference to Exhibit (10.7) to Dixie's Current Report on Form 8-K dated November 2, 2020.)  |
| (10.34)* | <a href="#">Long-Term Incentive Plan Award (Class B Shareholder).</a> (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 12, 2021.)**   |
| (10.35)* | <a href="#">Long-Term Incentive Plan Award (Common).</a> (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 12, 2021.)**  |
| (10.36)* | <a href="#">Career Shares (Class B Shareholder).</a> (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 12, 2021.)**  |
| (10.37)* | <a href="#">Career Shares (Common).</a> (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 12, 2021.)**   |
| (10.38)* | <a href="#">Omnibus Equity Incentive Plan as adopted by shareholders on May 4, 2022.</a> (Incorporated by Reference to Appendix A to Dixie's Proxy Statement for the Registrant's Annual Meeting of Shareholders held May 4, 2022.)*  |
| (10.39)* | <a href="#">Long-Term Incentive Plan Award (Class B Shareholder).</a> (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 16, 2022.)**   |
| (10.40)* | <a href="#">Long-Term Incentive Plan Award (Common).</a> (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 16, 2022.)**  |
| (10.41)* | <a href="#">Career Shares (Class B Shareholder).</a> (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 16, 2022.)**  |
| (10.42)* | <a href="#">Career Shares (Common).</a> (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 16, 2022.)**   |
| (10.43)* | <a href="#">Long-Term Incentive Plan Award (Class B Shareholder).</a> (Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 13, 2023.)**   |
| (10.44)* | <a href="#">Long-Term Incentive Plan Award (Common).</a> (Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 13, 2023.)**  |
| (10.45)* | <a href="#">Career Shares (Class B Shareholder).</a> (Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 13, 2023.)**  |

|           |   |
|-----------|---|
| (10.46)*  | <a href="#">Career Shares (Common). (Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 13, 2023.)*</a>  |
| (10.47)*  | <a href="#">Form of Stock Option Agreement (Common) Options Granted Under the Omnibus Equity Incentive Plan Granted May 25, 2023. (Filed herewith.)*</a>  |
| (10.48)*  | <a href="#">Form of Stock Option Agreement (Class B Shareholder) Options Granted Under the Omnibus Equity Incentive Plan Granted May 25, 2023. (Filed herewith.)*</a>                           |
| (10.49)*  | <a href="#">First Amendment to Credit Agreement dated September 10, 2021, among The Dixie Group, Inc. and TDG Operations, LLC and Fifth Third Bank, National Association. (Filed herewith.)</a> |
| (10.50)*  | <a href="#">Second Amendment to Credit Agreement dated July 29, 2022, among The Dixie Group, Inc. and TDG Operations, LLC and Fifth Third Bank, National Association. (Filed herewith.)</a>     |
| (10.51)*  | <a href="#">Third Amendment to Credit Agreement dated June 9, 2023, among The Dixie Group, Inc. and TDG Operations, LLC and Fifth Third Bank, National Association. (Filed herewith.)</a>       |
| (10.52)*  | <a href="#">Agreement for the Purchase and Sale of Real Property between Cannon Commercial, Inc. and TDG Adairsville, LLC. (Filed herewith.)</a>  |
| (10.53)*  | <a href="#">Form of Lease between Adairsville GA, LLC and TDG Operations, LLC. (Filed herewith.)</a>  |
| (14)*     | <a href="#">Code of Ethics, as amended and restated, February 15, 2010. (Incorporated by Reference to Exhibit 14 to Dixie's Annual Report on Form 10-K for year ended December 26, 2009.)</a>   |
| (16)*     | <a href="#">Letter from FORVIS, LLP regarding change in certifying accountant. (Incorporated by Reference to Exhibit 16.1 to Dixie's Form 8-K dated June 3, 2022.)</a>                          |
| (19.1)    | <a href="#">Insider Trading Policies and Procedures. (Filed herewith.)</a>  |
| (21)      | <a href="#">Subsidiaries of the Registrant. (Filed herewith.)</a>   |
| (23)      | <a href="#">Consent of FORVIS, LLP Independent Registered Public Accounting Firm. (Filed herewith.)</a>   |
| (31.1)    | <a href="#">CEO Certification pursuant to Securities Exchange Act Rule 13a-14(a). (Filed herewith.)</a>   |
| (31.2)    | <a href="#">CFO Certification pursuant to Securities Exchange Act Rule 13a-14(a). (Filed herewith.)</a>   |
| (32.1)    | <a href="#">CEO Certification pursuant to Securities Exchange Act Rule 13a-14(b). (Filed herewith.)</a>   |
| (32.2)    | <a href="#">CFO Certification pursuant to Securities Exchange Act Rule 13a-14(b). (Filed herewith.)</a>   |
| (97)*     | <a href="#">Recoupment Policy. (Incorporated by Reference to Exhibit 97 to Dixie's Annual Report on Form 10-K for year ended December 31, 2022.)</a>  |
| (101.INS) | XBRL Instance Document. (Filed herewith.)   |
| (101.SCH) | XBRL Taxonomy Extension Schema Document. (Filed herewith.)  |
| (101.CAL) | XBRL Taxonomy Extension Calculation Linkbase Document. (Filed herewith.)  |
| (101.DEF) | XBRL Taxonomy Extension Definition Linkbase Document. (Filed herewith.)   |
| (101.LAB) | XBRL Taxonomy Extension Label Linkbase Document. (Filed herewith.)  |
| (101.PRE) | XBRL Taxonomy Extension Presentation Linkbase Document. (Filed herewith.)   |

\* Commission File No. 0-2585.

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

## **STOCK OPTION AGREEMENT**

Stock Option Agreement, made this 25<sup>th</sup> day of May, 2023, by and between The Dixie Group, Inc., a Tennessee Corporation (hereinafter referred to as the "Company") and \_\_\_\_\_, an employee or Director of the Company (hereinafter referred to as the "Optionee").

Witnesseth:

**WHEREAS**, the shareholders of the Company approved the Omnibus Equity Plan effective May 4, 2021 (the "Incentive Plan"), for the purpose of providing incentive compensation to certain employees, and key management employees of the Company; and

**WHEREAS**, the Incentive Plan is administered by the Compensation Committee of the Board of Directors of the Company; and

**WHEREAS**, the Incentive Plan permits the grant of options to acquire Common Stock of the Company, on such terms and conditions and subject to such restrictions and limitations as the Compensation Committee shall determine to be appropriate and desirable, within the provisions of the Incentive Plan; and

**WHEREAS**, the Compensation Committee desires to grant the Optionee the options to purchase the Company's Common Stock described herein; and

**WHEREAS**, the Optionee desires to accept such grant.

**NOW THEREFORE**, in consideration of the mutual covenants herein set forth, for other good and valuable consideration, and subject to the terms and conditions of the Incentive Plan which are hereby incorporated by reference, the parties hereto hereby agree as follows:

**1. Administration**. The Compensation Committee of the Board of Directors of the Company shall administer the Incentive Plan in accordance with conditions and limitations prescribed in the Incentive Plan, and may delegate the administration of the Incentive Plan, in whole or in part, as it may determine in its discretion. Options granted hereunder may be cancelled if an Optionee violates the terms of this stock option agreement or the Incentive Plan. Any decision made by the Compensation Committee shall be final, conclusive, and binding on all parties to this Agreement.

**2. Grant of Stock Option(s); Term**. Effective May 25, 2023, and subject to the terms and conditions set forth in the Incentive Plan, the Compensation Committee hereby grants to the Optionee, not in lieu of salary or any other compensation for services, the right and option (hereinafter referred to as the "Option") to purchase from the Company \_\_\_\_\_ shares of the Company's Common Stock, subject to the terms and conditions hereinafter set forth. The Option granted hereby is sometimes referred to herein as the "Option" or "Options," when referring to exercise or vesting of a portion of the Option or otherwise. The Option granted hereby is NOT intended to qualify as an Incentive Stock Option. **The term of the Option granted hereby shall be five years from the date hereof.**

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3. Purchase Price. The purchase price of the optioned stock shall be \$1.00 per share (hereinafter referred to as the "Option Price").

4. Vesting of Option. The Option granted hereby shall vest and become exercisable as follows:

a. The option will vest two years from the option grant date of May 25, 2023, and the average ~~high and low~~ share price (the "Performance Target") of the Company's Common Stock during any period of five (5) consecutive trading days shall have been at least \$ 3.00 per share any time during the life of the option.

5. Time and Manner of Exercise.

a. Minimum Exercise. A minimum of 100 shares or such lesser number as is exercisable if fewer than 100 shares are exercisable, may be purchased by the Optionee from the Company at any one time.

b. Method of exercise and payment. Subject to the provisions of this Agreement, the Option may be exercised in whole or in part by giving written notice of such exercise in the form annexed to this Agreement to the Secretary of the Company at the Company's corporate headquarters. In order to be effective, such notice must be accompanied by payment, in the form of a check made payable to "The Dixie Group, Inc." in the full amount of the option price for the optioned stock being purchased. Alternately, payment for the exercise price may be made (in accordance with such procedures and limitations as the Committee shall determine): (A) by means of surrender of whole shares of the Company's Common Stock owned by the Optionee having a Fair Market Value (as defined in the Incentive Plan) on the date of exercise at least equal to the Option Price of the stock then being purchased (provided, if the shares to be tendered were previously acquired upon the exercise of an ISO Option, such shares must have been owned by the Optionee for at least as long as the relevant ISO holding period) or (B) by means of a combination of the surrender of such Common Stock and payment of the remaining balance of the aggregate exercise price by check or (C) by net exercise of such Options.

c. Certain Additional Restrictions. No Option may be exercised unless the Optionee is an employee of the Company at the time of exercise, except as provided in Section 7 hereof. Neither the Optionee, his heirs, legatees, distributes, or legal representatives of his estate shall have any rights of a stockholder with respect to the optioned stock unless and until such shares have been issued. Unless otherwise provided herein, no adjustments shall be made for dividends or other rights for which the record date is prior to the date of exercise of the option.

6. Anti-Assignment Provision. Except as may be approved by the Compensation Committee the Option shall not be transferrable by the Optionee otherwise than by will or the laws of descent and distribution, and such Option shall be exercisable, during the Optionee's lifetime, only by him (or a duly appointed guardian or personal representative). More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred, pledged, hypothecated, or encumbered in whole or in part either directly or by operation of law or otherwise (except as otherwise

permitted by section 7 hereof) including, but not in way of limitation, by execution, levy, garnishment, attachment, pledge, bankruptcy, or in any other manner. In the event of any unapproved attempted assignment, transfer, pledge, hypothecation or other disposition contrary to the provisions hereof, such Option shall automatically become null and void. Any transfer permitted by the Compensation Committee shall cause the transferee to be treated as the "Optionee" for all purposes of this Agreement unless the Compensation Committee directs otherwise.

7. Termination of Employment or Death of Optionee.

a. Reason Other Than for Death, Disability or Retirement. In the event an Optionee shall cease to be employed by the Company while holding one or more stock options, for any reason other than the Optionee's death, disability or retirement, each option held shall immediately cease to be exercisable on the date of such termination of employment.

b. Disability or Retirement of Optionee. In the event that an Optionee shall cease to be employed by the Company due to the Optionee's Disability or Retirement, then each option held by the Optionee may be exercised by the Optionee to the extent that such option was exercisable at the time of such termination of employment at any time during the remainder of the calendar year which includes the date of such termination.

b. Death of Optionee. In the event that an Optionee should die while any portion of the Option remains exercisable, such Option may be exercised by the Optionee's designated beneficiary to the same extent that such option would have been exercisable prior to his death at any time **during the 90 day period following the Optionee's death (or any shorter period prescribed by IRC Section 409A, if applicable).**

8. Adjustment of Number of Shares of Optioned Stock and Option Price. In the event of any change in the outstanding Common Shares of the Company by reason of any stock split, reverse stock split, stock dividend, recapitalization, merger, consolidation, rights offering, reorganization combination, or exchange of shares, or other extraordinary event, if the Compensation Committee shall determine that such change equitably requires an adjustment in the terms of any Option Agreement, such adjustment may be made by the Compensation Committee in its discretion. Any adjustments made shall be final, conclusive and binding for all purposes of this Agreement. **Notwithstanding the foregoing, no Option may be adjusted, amended, revised or extended if such action would constitute a "repricing" of the Option for purposes of IRC Section 409A.**

9. No Right to Continued Employment. This Agreement shall not be construed as an agreement or commitment by the Company to employ the Optionee during the term of the Option granted hereby or for any fixed period of time whatsoever. This Agreement does not interfere in any way with the right of the Company or any affiliate of the Company to terminate the employment of the Optionee at any time, with or without cause.

10. Withholding. Upon the exercise on an Option, the Company shall not deliver or otherwise make shares of Common Stock available to the Optionee or his beneficiary or representative until the Company has received from the applicable party, in cash or any other form acceptable to the Committee (including, withholding of shares subject to the Option) the amount necessary to enable the Company to remit to the appropriate governmental entity, on behalf to the applicable party, any amounts required to be withheld for tax purposes with respect to such transaction.

11. Governing Law. This Option Agreement has been entered into pursuant to and shall be governed by the laws of the State of Tennessee.

In Witness Whereof, this Agreement has been duly executed by the Optionee and the Company has caused this Agreement to be duly executed by its officers thereunto duly authorized on the date and year first above written.

E DIXIE GROUP, INC.

: \_\_\_\_\_ (SIGNATURE & TITLE)

OPTIONEE

\_\_\_\_\_ (SIGNATURE)

(SSN)\_\_\_\_\_

The Dixie Group, Inc.

[address]

Attn: Corporate Secretary

Ladies and Gentlemen:

Enclosed are (i) my check for \$\_\_\_\_\_ and/or my stock certificate(s) (or other evidence of ownership) representing \_\_\_\_\_ shares of the Dixie Group, Inc. Common Stock and duly endorsed for transfer to The Dixie Group, Inc. which are hereby tendered for the purchase of:

(A) \_\_\_\_\_ shares of The Dixie Group, Inc. Common Stock at \$\_\_\_\_\_ per share pursuant to the exercise of Options granted under the terms of my stock option agreement dated \_\_\_\_\_ and/or

(B) \_\_\_\_\_ shares of The Dixie Group, Inc. Class B Common Stock at \$\_\_\_\_\_ per share pursuant to the exercise of Options granted under the terms of my stock option agreement dated \_\_\_\_\_.

Please register said stock in the name(s) of \_\_\_\_\_ (your name only or in your and your spouse's name as joint tenants with right of survivorship) and forward the certificates, dividends, and all other stockholder information to (exact address) \_\_\_\_\_.

Signature:

SSN

Spouse's SSN (if to be registered as joint tenants)

## **STOCK OPTION AGREEMENT**

Stock Option Agreement, made this 25<sup>th</sup> day of May, 2023, by and between The Dixie Group, Inc., a Tennessee Corporation (hereinafter referred to as the "Company") and \_\_\_\_\_, an employee or Director of the Company (hereinafter referred to as the "Optionee").

Witnesseth:

**WHEREAS**, the shareholders of the Company approved the Omnibus Equity Plan effective May 4, 2021 (the "Incentive Plan"), for the purpose of providing incentive compensation to certain employees, and key management employees of the Company; and

**WHEREAS**, the Incentive Plan is administered by the Compensation Committee of the Board of Directors of the Company; and

**WHEREAS**, the Incentive Plan permits the grant of options to acquire Common Stock (and Class B Common Stock) of the Company, on such terms and conditions and subject to such restrictions and limitations as the Compensation Committee shall determine to be appropriate and desirable, within the provisions of the Incentive Plan; and

**WHEREAS**, the Compensation Committee desires to grant the Optionee the options to purchase the Company's Common Stock described herein; and

**WHEREAS**, the Optionee desires to accept such grant.

**NOW THEREFORE**, in consideration of the mutual covenants herein set forth, for other good and valuable consideration, and subject to the terms and conditions of the Incentive Plan which are hereby incorporated by reference, the parties hereto hereby agree as follows:

**1. Administration**. The Compensation Committee of the Board of Directors of the Company shall administer the Incentive Plan in accordance with conditions and limitations prescribed in the Incentive Plan, and may delegate the administration of the Incentive Plan, in whole or in part, as it may determine in its discretion. Options granted hereunder may be cancelled if an Optionee violates the terms of this stock option agreement or the Incentive Plan. Any decision made by the Compensation Committee shall be final, conclusive, and binding on all parties to this Agreement.

**2. Grant of Stock Option(s); Term**. Effective May 25, 2023, and subject to the terms and conditions set forth in the Incentive Plan, the Compensation Committee hereby grants to the Optionee, not in lieu of salary or any other compensation for services, the right and option (hereinafter referred to as the "Option") to purchase from the Company \_\_\_\_\_ shares of the Company's Common Stock (**or up to an equal number of shares of Class B Common Stock, if a proper election is made by a holder of Class B Common Stock on or before the date of exercise of the Option, in accordance with the terms of the Incentive Plan**), subject to the terms and conditions hereinafter set forth. The Option granted hereby is sometimes referred to herein as the "Option" or "Options," when referring to exercise or vesting of a portion of the Option or otherwise. The Option granted hereby is NOT intended to qualify as

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an Incentive Stock Option. **The term of the Option granted hereby shall be five years from the date hereof.**

3. **Purchase Price**. The purchase price of the optioned stock shall be \$1.00 per share (hereinafter referred to as the "Option Price"). **The Fair Market Value of the Common Stock as of the date hereof is \$.90 per share and the Purchase Price is 10% higher than such fair market value.**

4. **Vesting of Option**. The Option granted hereby shall vest and become exercisable as follows:

a. The option will vest two years from the option grant date of May 25, 2023, If and when the average **high and low** share price (the "Performance Target") of the Company's Common Stock during any period of five (5) consecutive trading days shall have been at least \$ 3.00 per share any time during the life of the option.

5. **Time and Manner of Exercise**.

a. **Minimum Exercise.** A minimum of 100 shares or such lesser number as is exercisable if fewer than 100 shares are exercisable, may be purchased by the Optionee from the Company at any one time.

b. **Method of exercise and payment.** Subject to the provisions of this Agreement, the Option may be exercised in whole or in part by giving written notice of such exercise in the form annexed to this Agreement to the Secretary of the Company at the Company's corporate headquarters. In order to be effective, such notice must be accompanied by payment, in the form of a check made payable to "The Dixie Group, Inc." in the full amount of the option price for the optioned stock being purchased. Alternately, payment for the exercise price may be made (in accordance with such procedures and limitations as the Committee shall determine): (A) by means of surrender of whole shares of the Company's Common Stock owned by the Optionee having a Fair Market Value (as defined in the Incentive Plan) on the date of exercise at least equal to the Option Price of the stock then being purchased (provided, if the shares to be tendered were previously acquired upon the exercise of an ISO Option, such shares must have been owned by the Optionee for at least as long as the relevant ISO holding period) or (B) by means of a combination of the surrender of such Common Stock and payment of the remaining balance of the aggregate exercise price by check or (C) by net exercise of such Options.

c. **Certain Additional Restrictions.** No Option may be exercised unless the Optionee is an employee of the Company at the time of exercise, except as provided in Section 7 hereof. Neither the Optionee, his heirs, legatees, distributes, or legal representatives of his estate shall have any rights of a stockholder with respect to the optioned stock unless and until such shares have been issued. Unless otherwise provided herein, no adjustments shall be made for dividends or other rights for which the record date is prior to the date of exercise of the option.

6. **Anti-Assignment Provision**. Except as may be approved by the Compensation Committee the Option shall not be transferable by the Optionee otherwise than by will or the laws of

descent and distribution, and such Option shall be exercisable, during the Optionee's lifetime, only by him (or a duly appointed guardian or personal representative). More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred, pledged, hypothecated, or encumbered in whole or in part either directly or by operation of law or otherwise (except as otherwise permitted by section 7 hereof) including, but not in way of limitation, by execution, levy, garnishment, attachment, pledge, bankruptcy, or in any other manner. In the event of any unapproved attempted assignment, transfer, pledge, hypothecation or other disposition contrary to the provisions hereof, such Option shall automatically become null and void. Any transfer permitted by the Compensation Committee shall cause the transferee to be treated as the "Optionee" for all purposes of this Agreement unless the Compensation Committee directs otherwise.

7. Termination of Employment or Death of Optionee.

a. Reason Other Than for Death, Disability or Retirement. In the event an Optionee shall cease to be employed by the Company while holding one or more stock options, for any reason other than the Optionee's death, disability or retirement, each option held shall immediately cease to be exercisable on the date of such termination of employment.

b. Disability or Retirement of Optionee. In the event that an Optionee shall cease to be employed by the Company due to the Optionee's Disability or Retirement, then each option held by the Optionee may be exercised by the Optionee to the extent that such option was exercisable at the time of such termination of employment at any time during the remainder of the calendar year which includes the date of such termination.

b. Death of Optionee. In the event that an Optionee should die while any portion of the Option remains exercisable, such Option may be exercised by the Optionee's designated beneficiary to the same extent that such option would have been exercisable prior to his death at any time **during the 90 day period** following the Optionee's death **(or any shorter period prescribed by IRC Section 409A, if applicable).**

8. Adjustment of Number of Shares of Optioned Stock and Option Price. In the event of any change in the outstanding Common Shares of the Company by reason of any stock split, reverse stock split, stock dividend, recapitalization, merger, consolidation, rights offering, reorganization combination, or exchange of shares, or other extraordinary event, if the Compensation Committee shall determine that such change equitably requires an adjustment in the terms of any Option Agreement, such adjustment may be made by the Compensation Committee in its discretion. Any adjustments made shall be final, conclusive and binding for all purposes of this Agreement. **Notwithstanding the foregoing, no Option may be adjusted, amended, revised or extended if such action would constitute a "repricing" of the Option for purposes of IRC Section 409A.**

9. No Right to Continued Employment. This Agreement shall not be construed as an agreement or commitment by the Company to employ the Optionee during the term of the Option granted hereby or for any fixed period of time whatsoever. This Agreement does not interfere in any way with the

right of the Company or any affiliate of the Company to terminate the employment of the Optionee at any time, with or without cause.

10. Withholding . Upon the exercise on an Option, the Company shall not deliver or otherwise make shares of Common Stock available to the Optionee or his beneficiary or representative until the Company has received from the applicable party, in cash or any other form acceptable to the Committee (including, withholding of shares subject to the Option) the amount necessary to enable the Company to remit to the appropriate governmental entity, on behalf to the applicable party, any amounts required to be withheld for tax purposes with respect to such transaction.

11. Governing Law . This Option Agreement has been entered into pursuant to and shall be governed by the laws of the State of Tennessee.

In Witness Whereof, this Agreement has been duly executed by the Optionee and the Company has caused this Agreement to be duly executed by its officers thereunto duly authorized on the date and year first above written.

E DIXIE GROUP, INC.

: \_\_\_\_\_ (SIGNATURE & TITLE)

OPTIONEE

\_\_\_\_\_ (SIGNATURE)

(SSN) \_\_\_\_\_

The Dixie Group, Inc.

[address]

Attn: Corporate Secretary

Ladies and Gentlemen:

Enclosed are (i) my check for \$\_\_\_\_\_ and/or my stock certificate(s) (or other evidence of ownership) representing \_\_\_\_\_ shares of the Dixie Group, Inc. Common Stock and duly endorsed for transfer to The Dixie Group, Inc. which are hereby tendered for the purchase of:

(A) \_\_\_\_\_ shares of The Dixie Group, Inc. Common Stock at \$\_\_\_\_\_ per share pursuant to the exercise of Options granted under the terms of my stock option agreement dated and/or

(B) \_\_\_\_\_ shares of The Dixie Group, Inc. Class B Common Stock at \$\_\_\_\_\_ per share pursuant to the exercise of Options granted under the terms of my stock option agreement dated \_\_\_\_\_.

Please register said stock in the name(s) of \_\_\_\_\_ (your name only or in your and your spouse's name as joint tenants with right of survivorship) and forward the certificates, dividends, and all other stockholder information to (exact address) \_\_\_\_\_.

Signature:

SSN

Spouse's SSN (if to be registered as joint tenants)

**FIRST AMENDMENT TO CREDIT AGREEMENT**

This First Amendment to Credit Agreement (this “Amendment”), dated as of September 10, 2021, is entered into by and among **THE DIXIE GROUP**, a Tennessee corporation (“Dixie”), **TDG OPERATIONS, LLC**, a Georgia limited liability company (“TDG” and together with Dixie, collectively, “Borrower”), **FIFTH THIRD BANK, NATIONAL ASSOCIATION**, a national banking association, as the Agent, L/C Issuer and Swing Line Lender (“Agent”), and the other Lenders from time to time party to the Agreement (as defined below) (“Lenders”).

**BACKGROUND**

A. Borrower, Agent and Lenders entered into that certain Credit Agreement dated as of October 30, 2020 (as may be amended, modified, extended, or restated from time to time, the “Agreement”), pursuant to which Agent and Lenders extended certain financing arrangements to Borrower. Borrower, Agent and Lenders entered into that certain Guaranty and Security Agreement dated as of October 30, 2020 (as may be amended, modified, extended, or restated from time to time, the “Security Agreement”), pursuant to which Borrower granted to Agent and the Lenders a Lien and security interest in the Collateral (as defined in the Security Agreement).

B. The parties hereto have agreed to modify the terms and conditions of the Agreement as more fully set forth herein.

C. Capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Agreement.

NOW THEREFORE, in consideration of the terms, conditions and covenants set forth below, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties, intending to be legally bound hereby, promise and agree as follows:

1. Amendment to Section 2.5 (LIBOR Provisions) . Section 2.5 of the Agreement is hereby amended by deleting subsection (b) thereto and replacing it with the following:

(b) Inability to Determine LIBOR .

(i) Temporary Inability to Determine LIBOR . In the event, prior to commencement of any Interest Period relating to a LIBOR Loan, Agent shall determine or be notified by Required Lenders that: (A) deposits in Dollars (in the applicable amounts) are not being offered to it in the London Interbank Offered Rate market for such Interest Period, (B) by reason of circumstances affecting the London Interbank Offered Rate Market adequate and reasonable methods do not exist for ascertaining LIBOR, (C) LIBOR as determined by Agent will not adequately and fairly reflect the cost to Lenders of funding the LIBOR Loans for such Interest Period, or (D) the making or funding of LIBOR Loans become impracticable; then, Agent shall promptly provide notice of such determination to Borrower and Lenders (which shall be conclusive and binding on Borrower and Lenders), and (x) any request for a LIBOR Loan or for a conversion to or continuation of a LIBOR Loan shall be automatically withdrawn and shall be deemed a request for a Base Rate Loan, (y) each LIBOR Loan will automatically, on the last day of the then-current Interest Period relating thereto, become a Base Rate Loan, and (z) the obligations of Lenders to make LIBOR Loans shall be suspended until Agent or Required Lenders determine that the circumstances

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giving rise to such suspension no longer exist, in which event Agent shall so notify Borrower and Lenders.

(ii) Benchmark Replacement Setting. Notwithstanding anything to the contrary herein or in any other Loan Document (and any Swap Contract shall be deemed not to be a "Loan Document" for purposes of this Section):

(A) Replacing USD LIBOR. On March 5, 2021 the Financial Conduct Authority ("FCA"), the regulatory supervisor of USD LIBOR's administrator ("IBA"), announced in a public statement the future cessation or loss of representativeness of overnight/Spot Next, 1- month, 3-month, 6-month, and 12-month USD LIBOR tenor settings. On the earlier of (1) the date that all Available Tenors of USD LIBOR have either permanently or indefinitely ceased to be provided by IBA or have been announced by the FCA pursuant to public statement or publication of information to be no longer representative and (2) the Early Opt-in Effective Date, if the then-current Benchmark is USD LIBOR, the Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Loan Document in respect of any setting of such Benchmark on such day and all subsequent settings without any amendment to, or further action or consent of any other party to this Agreement or any other Loan Document. If the Benchmark Replacement is Daily Simple SOFR or Daily Compounded SOFR, all interest payments will be payable on a monthly basis.

(B) Replacing Future Benchmarks. Upon the occurrence of a Benchmark Transition Event, the Benchmark Replacement will replace the then-current Benchmark for all purposes hereunder and under any Loan Document in respect of any Benchmark setting at or after 5:00 p.m. (New York City time) on the fifth (5th) Business Day after the date notice of such Benchmark Replacement is provided to Lenders without any amendment to, or further action or consent of any other party to, this Agreement or any other Loan Document so long as Agent has not received, by such time, written notice of objection to such Benchmark Replacement from Lenders comprising the Required Lenders.

At any time that the administrator of the then-current Benchmark has permanently or indefinitely ceased to provide such Benchmark or such Benchmark has been announced by the regulatory supervisor for the administrator of such Benchmark pursuant to public statement or publication of information to be no longer representative of the underlying market and economic reality that such Benchmark is intended to measure and that representativeness will not be restored, the Borrower may revoke any request for a borrowing of, conversion to, or continuation of Loans to be made, converted, or continued that would bear interest by reference to such Benchmark until the Borrower's receipt of notice from Agent that a Benchmark Replacement has replaced such Benchmark, and, failing that, Borrower will be deemed to have converted any such request into a request for a borrowing of or conversion to Base Rate Loans. During the period referenced in the foregoing sentence, the component of the Base Rate based upon the Benchmark will not be used in any determination of the Base Rate.

(C) Term SOFR Reversion . Upon the occurrence of a Term SOFR Transition Event, the Benchmark Replacement will replace the then-current Benchmark for all purposes hereunder and under any Loan Document in respect of any Benchmark setting at or after 5:00 p.m. (New York City time) on the fifth (5th) Business Day after the date a Term SOFR Notice is provided to Lenders without any amendment to, or further action or consent of any other party to, this Agreement or any other Loan Document so long as Agent has not received, by such time, written notice of objection to such Benchmark Replacement from Lenders comprising the Required Lenders.

(D) Benchmark Replacement Conforming Changes . In connection with the implementation and administration of a Benchmark Replacement, Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(E) Notices; Standards for Decisions and Determinations . Agent will promptly notify Borrower and Lenders of (1) the implementation of any Benchmark Replacement and (2) the effectiveness of any Benchmark Replacement Conforming Changes. Any determination, decision, or election that may be made by Agent or, if applicable, any Lender (or group of Lenders) pursuant to this Section, including any determination with respect to a tenor, rate, or adjustment or of the occurrence or non-occurrence of an event, circumstance, or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section.

(F) Unavailability of Tenor of Benchmark . At any time (including in connection with the implementation of a Benchmark Replacement), (1) if the then-current Benchmark is a term rate (including Term SOFR or USD LIBOR), then Agent may remove any tenor of such Benchmark that is unavailable or non-representative for Benchmark (including Benchmark Replacement) settings and (2) Agent may reinstate any such previously removed tenor for Benchmark (including Benchmark Replacement) settings.

(G) Definitions .

“Available Tenor” means, as of any date of determination and with respect to the then-current Benchmark, as applicable, (x) if the then-current Benchmark is a term rate, any tenor for such Benchmark that is or may be used for determining the length of an Interest Period or (y) otherwise, any payment period for interest calculated with reference to such Benchmark, as applicable, pursuant to this Agreement as of such date.

“Benchmark” means, initially, USD LIBOR; provided that if a replacement of the Benchmark has occurred pursuant to this Section titled “Benchmark Replacement Setting,” then “Benchmark” means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate. Any reference to “Benchmark” shall include, as applicable, the published component used in the calculation thereof.

“Benchmark Replacement” means, for any Available Tenor:

(1) For purposes of clause (ii)(A) of this Section, the first alternative set forth below that can be determined by Agent:

(a) the sum of: (i) Term SOFR and (ii) 0.11448% (11.448 basis points) for an Available Tenor of one-month’s duration, 0.26161% (26.161 basis points) for an Available Tenor of three-month’s duration, and 0.42826% (42.826 basis points) for an Available Tenor of six-months’ duration;

(b) the sum of: (i) Daily Simple SOFR and (ii) the spread adjustment selected or recommended by the Relevant Governmental Body for the replacement of the tenor of USD LIBOR with a SOFR-based rate having approximately the same length as the interest payment period specified in clause (a) of this Section;

provided that if the Borrower has a Swap Contract in effect with respect to all or part of the Loan, in order to more closely align the floating interest rate under the Loan with the floating rate option under the Swap Contract, and giving due consideration to evolving standards and market practice, Agent and Borrower may agree to replace the Benchmark Replacement in paragraph (b) of this definition with the sum of (i) Daily Compounded SOFR and (ii) the spread adjustment that would apply to the fallback rate for a derivative transaction referencing the ISDA Definitions; provided further that, in such event, Agent shall provide written notice of such election to the Lenders prior to the replacement of USD LIBOR under clause (a) of this Section; and

(2) For purposes of clause (ii)(B) of this Section, the sum of (a) the alternate benchmark rate and (b) an adjustment (which may be a positive or negative value or zero), in each case, that has been selected by Agent and the Borrower as the replacement for such Available Tenor of such Benchmark giving due consideration to any evolving or then-prevailing market convention, including any applicable recommendations made by the Relevant Governmental Body, for U.S. dollar-denominated syndicated credit facilities at such time;

(3) For purposes of clause (ii)(C) of this Section, the “Benchmark Replacement” shall revert to and shall mean the Benchmark Replacement set forth in paragraph (ii)(A) in respect of any subsequent Benchmark setting.

Notwithstanding anything to the contrary herein, if the Benchmark Replacement as determined pursuant to any clause in this definition would be less than the Floor, the Benchmark Replacement will be

deemed to be the Floor for the purposes of this Agreement and the other Loan Documents.

Further, if the Benchmark interest rate to be replaced is rounded upwards to the next 1/8th of 1% under the terms of this Agreement or any Loan Document, the Benchmark Replacement shall also be rounded up to the next 1/8th; provided further that this provision governing rounding shall not apply if Borrower has a Swap Contract in effect with respect to all or part of Loan.

**"Benchmark Replacement Conforming Changes"** means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Base Rate," the definition of "Business Day," the definition of "Interest Period," timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, the applicability and length of lookback periods or observation shifts, the applicability of breakage provisions, and other technical, administrative or operational matters) that Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by Agent in a manner substantially consistent with market practice (or, if Agent decides that adoption of any portion of such market practice is not administratively feasible or if Agent determines that no market practice for the administration of such Benchmark Replacement exists, in such other manner of administration as Agent decides is reasonably necessary in connection with the administration of this Agreement and the other Loan Documents).

**"Benchmark Transition Event"** means, with respect to any then-current Benchmark other than USD LIBOR, the occurrence of a public statement or publication of information by or on behalf of the administrator of the then-current Benchmark, the regulatory supervisor for the administrator of such Benchmark, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, an insolvency official with jurisdiction over the administrator for such Benchmark, a resolution authority with jurisdiction over the administrator for such Benchmark, or a court or an entity with similar insolvency or resolution authority over the administrator for such Benchmark, announcing or stating that (a) such administrator has ceased or will cease on a specified date to provide all Available Tenors of such Benchmark, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark or (b) all Available Tenors of such Benchmark are or will no longer be representative of the underlying market and economic reality that such Benchmark is intended to measure and that representativeness will not be restored.

**"Daily Compounded SOFR"** means, for any day, SOFR, with interest accruing on a compounded daily basis, with the methodology and conventions for this rate (which may include compounding in arrears with a lookback or observation shift) being established by Agent in

accordance with a methodology and the conventions for this rate recommended (x) by the Relevant Governmental Body for determining "Daily Compounded SOFR" for syndicated credit facilities or (y) by reference to the ISDA Definitions for derivatives comparable to any applicable Swap Contract; provided, that if Agent decides that any such convention is not administratively feasible for Agent, then Agent may establish another convention in its reasonable discretion.

"Daily Simple SOFR" means, for any day, SOFR, with the conventions for this rate (which will include a lookback) being established by Agent in accordance with the conventions for this rate recommended by the Relevant Governmental Body for determining "Daily Simple SOFR" for syndicated credit facilities; provided, that if Agent decides that any such convention is not administratively feasible for Agent, then Agent may establish another convention in its reasonable discretion.

"Early Opt-in Effective Date" means, with respect to any Early Opt-in Election, the sixth (6th) Business Day after the date notice of such Early Opt-in Election is provided to Lenders, so long as Agent has not received, by 5:00 p.m. (New York City Time) on the fifth (5th) Business Day after the date notice of such Early Opt-in Election is provided to the Lenders, written notice of objection to such Early Opt-in Election from Lenders comprising the Required Lenders.

"Early Opt-in Election" means the occurrence of:

- (1) a notification by Agent to (or the request by Borrower to Agent to notify) each of the other parties hereto that at least five currently outstanding U.S. dollar-denominated syndicated credit facilities at such time contain (as a result of amendment or as originally executed) a SOFR-based rate (including SOFR, a term SOFR or any other rate based upon SOFR) as a benchmark rate (and such credit facilities are identified in such notice and are publicly available for review), and
- (2) the joint election by Agent and Borrower to trigger a fallback from USD LIBOR and the provision by Agent of written notice of such election to Lenders.

"Federal Funds Effective Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest one hundredth of one percent (1/100 of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, however, that: (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such a rate on such transactions on the immediately preceding Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the average of quotations for such day on such transactions received by Agent from three federal funds brokers of

recognized standing selected by Agent. Notwithstanding the foregoing, if the Federal Funds Effective Rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“ Floor ” means the benchmark rate floor, if any, provided in this Agreement initially (as of the execution of this Agreement, the modification, amendment, or renewal of this Agreement or otherwise) with respect to USD LIBOR.

“ ISDA Definitions ” means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time by the International Swaps and Derivatives Association, Inc. or such successor thereto.

“ Relevant Governmental Body ” means the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York, or any successor thereto.

“ SOFR ” means a rate per annum equal to the secured overnight financing rate for such Business Day published by the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate) on the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org> (or any successor source for the secured overnight financing rate identified as administrator of the secured overnight financing rate from time to time).

“ Term SOFR ” means, for the applicable corresponding tenor, the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

“ Term SOFR Notice ” means a notification by Agent to Lenders and Borrower of the occurrence of a Term SOFR Transition Event.

“ Term SOFR Transition Event ” means the determination by Agent that (a) Term SOFR has been recommended for use by the Relevant Governmental Body, (b) the administration of Term SOFR is administratively feasible for Agent and (c) a Benchmark Transition Event has previously occurred resulting in a Benchmark Replacement that is not Term SOFR.

“ USD LIBOR ” means the London interbank offered rate for U.S. dollars.

(H) Limitation of Liability . Agent does not warrant or accept any responsibility for, and shall not have any liability with respect to, the administration, submission, or any other matter related to LIBOR or any alternative, successor, or replacement rate, including, without limitation, the implementation of any Benchmark Replacement

or any Benchmark Replacement Conforming Changes or whether the composition or characteristics of any alternative, successor or replacement reference rate will be similar to, or produce the same value or economic equivalence of, LIBOR or have the same volume or liquidity as did LIBOR prior to its discontinuance or unavailability.

2. Consent and Waiver .

(a) Borrower has advised Agent that Borrower desires to open a deposit account with Equipment Term Loan Lender to hold cash collateral for Equipment Term Loan Lender (the "Cash Collateral Account"). The Cash Collateral Account is currently prohibited by Sections 5.2, 5.7(d) and Annex B subsection (c) of the Agreement. Borrower has requested that Agent consent to the Cash Collateral Account and waive certain restrictions contained in the Agreement in connection therewith. Subject to the terms and conditions of this Amendment, Agent hereby consents to the Cash Collateral Account and waives the restrictions contained in Sections 5.2(e), 5.7(d) and Annex B subsection (c) of the Agreement; provided that the amount of cash collateral in the Cash Collateral Account shall not exceed \$2,134,000.00 at any given time. Borrower hereby accepts such consent and waiver subject to the terms and conditions of this Amendment. The consent and waiver contained herein is a one-time consent and waiver related specifically to the Cash Collateral Account and shall not constitute a course of conduct or imply a future waiver of any provision of the Agreement or the other Loan Documents. Except as otherwise waived hereunder, nothing contained in this Amendment shall in any way constitute or be construed as a waiver by Agent or any of the Lenders of any of the rights and remedies available under the Agreement or the other Loan Documents, or applicable law, or be deemed to constitute or create a course of dealing between Borrower and Lenders that may obligate or restrict Lenders in any manner with respect to their future and current dealings with Borrower.

(b) Borrower has further advised Agent of its desire to sell certain assets used or held for use in connection with the Atlas/Masland commercial flooring products business (the "Transaction"). Borrower has requested that Agent consent to, release and waive any and all restrictions contained in the Agreement in connection therewith and agrees to release any security interest in the assets sold as part the Transaction. Subject to the terms and conditions of this Amendment, Agent hereby consents to the Transaction and waives any and all restrictions contained in the Agreement; provided that (i) the Transaction is for fair market value and a mandatory prepayment in the amount of net proceeds of the Transaction is made pursuant to the terms of Section 2.2(b) of the Agreement, (ii) Borrower provides (A) form final draft copies of all acquisition documents related to the Transaction (which shall be in form and substance reasonably satisfactory to Agent) prior to the consummation of the Transaction and (B) executed copies of the all acquisition documents related to the Transaction (which shall be in form and substance satisfactory to Agent) within five (5) Business Days following the consummation of the Transaction, and (iii) Borrower resubmits an updated Borrowing Base Certificate to Agent after giving effect to the Transaction within ten (10) Business Days of the consummation of the Transaction. Borrower hereby accepts such consent and waiver subject to the terms and conditions of this Amendment. The consent and waiver contained herein is a one-time consent and waiver related specifically to the Transaction, and shall not constitute a course of conduct or imply a future waiver of any provision of the Agreement or the other Loan Documents. Except as otherwise waived hereunder, nothing contained in this Amendment shall in any way constitute or be construed as a waiver by Agent or any of the Lenders of any of the rights and remedies available under the Agreement or the other Loan Documents, or applicable law, or be

deemed to constitute or create a course of dealing between Borrower and Lenders that may obligate or restrict Lenders in any manner with respect to their future and current dealings with Borrower.

3. Fees and Expenses . Borrower shall reimburse Agent for all reasonable and documented out of pocket costs and expenses incurred in connection with this Amendment, including, without limitation, attorneys' fees.

4. Conditions Precedent . The effectiveness of this Amendment is subject to the following conditions precedent (each of such documents and/or actions to be in form and substance acceptable to Agent in its sole discretion):

- (a) Execution and delivery of this Amendment by all parties hereto;
- (b) Borrower shall have paid any and all out-of-pocket costs, fees and expenses of Agent (including attorneys' fees) in connection with this Amendment; and
- (c) Agent shall have received such other and further documentation as Agent may reasonably deem necessary or appropriate to accomplish the terms set forth herein.

5. Representations and Warranties . Borrower hereby represents and warrants to Agent that (a) Borrower has the legal power and authority to execute and deliver this Amendment, (b) the officers executing this Amendment have been duly authorized to execute and deliver the same and bind Borrower with respect to the provisions hereof, (c) the execution and delivery hereof by Borrower and the performance and observance by Borrower of the provisions hereof do not violate or conflict with the organizational agreements of Borrower or any law applicable to Borrower or result in a breach of any provisions of or constitute a default under any other agreement, instrument or document binding upon or enforceable against Borrower, (d) this Amendment constitutes a valid and binding obligation upon Borrower in every respect, (e) no event or condition which has had a Material Adverse Effect as to Borrower has occurred from the Closing Date to the date hereof, and (f) upon the effectiveness of this Amendment, no Default or Event of Default is outstanding under the Agreement.

6. Governing Law; Use of Terms Etc . Except as previously amended or as herein specifically amended, directly or by reference, all of the terms and conditions set forth in the Agreement are confirmed and ratified, and shall remain as originally written. This Amendment shall be construed in accordance with the laws of the State of Ohio, without regard to principles of conflict of laws. The Agreement and all other Loan Documents shall remain in full force and effect in all respects as if the unpaid balance of the principal outstanding, together with interest accrued thereon, had originally been payable and secured as provided for therein, as amended from time to time and as modified by this Amendment. Nothing herein shall affect or impair any rights and powers which Agent may have under the Agreement and any and all related Loan Documents.

7. No Set Offs Etc . Borrower hereby declares that it has no set offs, counterclaims or defenses against Agent or any Lender arising out of the Agreement or any related loan documents, and to the extent any such set offs, counterclaims or defenses may exist, whether known or unknown, such items are hereby waived by Borrower.

8. Confirmation of Security Interests . Borrower confirms and agrees that all prior security interests and liens granted to Agent in all existing and future assets of Borrower remains unimpaired and in full force and effect and shall continue to cover and secure all Obligations. Borrower further confirms and represents that all of the collateral of Borrower remains free and clear of all liens other than those in favor of Agent, or as otherwise permitted in the Agreement. Nothing contained herein is intended to in any way

impair or limit the validity, priority or extent of Agent's security interest in and liens upon the collateral of Borrower.

9. Obligations Absolute . Borrower covenants and agrees (a) to pay the balance of any principal, together with all accrued interest, as specified above in connection with any promissory note executed and evidencing any indebtedness incurred in connection with the Agreement, as modified by this Amendment pursuant to the terms set forth therein, and (b) to perform and observe covenants, agreements, stipulations and conditions on its part to be performed hereunder or under the Agreement and all other documents executed in connection herewith or thereof.

10. Release . EACH BORROWER HEREBY RELEASES, WAIVES AND FOREVER RELINQUISHES ALL CLAIMS, DEMANDS, OBLIGATIONS, LIABILITIES AND CAUSES OF ACTION OF WHATEVER KIND OR NATURE, WHETHER KNOWN OR UNKNOWN, INCLUDING ANY SO-CALLED "LENDER LIABILITY" CLAIMS OR DEFENSES WHICH EITHER PARTY HAS, MAY HAVE, OR MIGHT ASSERT NOW OR IN THE FUTURE AGAINST AGENT, LENDERS AND/OR THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ATTORNEYS, ACCOUNTANTS, CONSULTANTS, SUCCESSORS, AND ASSIGNS (INDIVIDUALLY, A "RELEASEE" AND COLLECTIVELY, THE "RELEASEES"), DIRECTLY OR INDIRECTLY, ARISING OUT OF, BASED UPON, OR IN ANY MANNER CONNECTED WITH (A) ANY TRANSACTION, EVENT, CIRCUMSTANCE, ACTION, FAILURE TO ACT, OR OCCURRENCE OF ANY SORT OR TYPE, WHETHER KNOWN OR UNKNOWN, WHICH OCCURRED, EXISTED, OR WAS TAKEN OR PERMITTED PRIOR TO THE EXECUTION OF THIS AMENDMENT WITH RESPECT TO THE OBLIGATIONS, THE AGREEMENT, THE OTHER DOCUMENTS, OR THE ADMINISTRATION THEREOF, (B) ANY DISCUSSIONS, COMMITMENTS, NEGOTIATIONS, CONVERSATIONS, OR COMMUNICATIONS WITH RESPECT TO THE OBLIGATIONS OR (C) ANY THING OR MATTER RELATED TO ANY OF THE FOREGOING PRIOR TO THE EXECUTION OF THIS AMENDMENT. THE INCLUSION OF THIS PARAGRAPH IN THIS AMENDMENT AND THE EXECUTION OF THIS AMENDMENT BY AGENT DOES NOT CONSTITUTE AN ACKNOWLEDGMENT OR ADMISSION BY AGENT OR ANY LENDER OF LIABILITY FOR ANY MATTER, OR A PRECEDENT UPON WHICH ANY LIABILITY MAY BE ASSERTED.

11. Non-Waiver . This Amendment does not obligate Agent or any Lender to agree to any other modification of the Agreement nor does it constitute a course of conduct or dealing on behalf of Agent or any Lender or a waiver of any other rights or remedies of Agent or any Lender. No omission or delay by Agent or any Lender in exercising any right or power under the Agreement, this Amendment or any related instruments, agreements or documents will impair such right or power or be construed to be a waiver of any Default or Event of Default or an acquiescence therein, and any single or partial exercise of any such right or power will not preclude other or further exercise thereof or the exercise of any other right, and no waiver will be valid unless in writing and then only to the extent specified.

12. Incorporation . This Amendment is incorporated by reference into, and made part of, the Agreement which, except as expressly modified herein, remains in full force and effect in accordance with its terms.

13. No Modification . No modification of this Amendment or of any agreement referred to herein shall be binding or enforceable unless in writing and signed on behalf of the party against whom enforcement is sought.

14. Headings . The headings of any section or paragraph of this Amendment are for convenience only and shall not be used to interpret any provision of this Amendment.

15. Successors and Assigns . This Amendment will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

16. Severability . The provisions of this Amendment are to be deemed severable, and the invalidity or unenforceability of any provision shall not affect or impair the remaining provisions which shall continue in full force and effect.

17. Counterparts; Electronic Signature . This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature by facsimile or email shall have the same force and effect as an original signature hereto.

18. Jury Waiver . THE PARTIES HERETO HEREBY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO THIS AMENDMENT, ANY OF THE LOAN DOCUMENTS, ANY DOCUMENT DELIVERED HEREUNDER OR IN CONNECTION HEREWITH, OR ANY TRANSACTION ARISING FROM OR CONNECTED TO ANY OF THE FOREGOING. THE PARTIES REPRESENT THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

[ *Signature pages follow* ]

IN WITNESS WHEREOF, Borrower, Agent and Lenders have executed this Amendment as of the date first written above.

**BORROWER:**

**THE DIXIE GROUP, INC.,**

a Tennessee corporation

By: /s/ Allen Danzey

Name: Allen Danzey

Title: Chief Financial Officer

**TDG OPERATIONS, LLC,**

a Georgia limited liability company

By : /s/ Allen Danzey

Name: Allen Danzey

Title: President and Chief Manager

**AGENT:**

**FIFTH THIRD BANK, NATIONAL ASSOCIATION,**  
a n at i onal b a n king association

By : /s/ William Kane  
Name: William Kane Ti tl e: Vice Pres id ent

**SECOND AMENDMENT TO CREDIT AGREEMENT**

This Second Amendment to Credit Agreement (this "Amendment"), dated as of July 29, 2022, is entered into by and among **THE DIXIE GROUP**, a Tennessee corporation ("Dixie"), **TDG OPERATIONS, LLC**, a Georgia limited liability company ("TDG" and together with Dixie, collectively, "Borrower"), **FIFTH THIRD BANK, NATIONAL ASSOCIATION**, a national banking association, as the Agent, L/C Issuer and Swing Line Lender ("Agent"), and the other Lenders from time to time party to the Agreement (as defined below) ("Lenders").

**BACKGROUND**

A. Borrower, Agent and Lenders entered into that certain Credit Agreement dated as of October 30, 2020, as amended by that certain First Amendment to Credit Agreement dated as of September 10, 2021 (as may be further amended, modified, extended, or restated from time to time, the "Agreement"), pursuant to which Agent and Lenders extended certain financing arrangements to Borrower. Borrower, Agent and Lenders entered into that certain Guaranty and Security Agreement dated as of October 30, 2020 (as may be amended, modified, extended, or restated from time to time, the "Security Agreement"), pursuant to which Borrower granted to Agent and the Lenders a Lien and security interest in the Collateral (as defined in the Security Agreement).

B. The parties hereto have agreed to modify the terms and conditions of the Agreement as more fully set forth herein.

C. Capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Agreement.

NOW THEREFORE, in consideration of the terms, conditions and covenants set forth below, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties, intending to be legally bound hereby, promise and agree as follows:

1. **Amendments to the Agreement**. Subject to the terms and conditions of this Amendment, the Agreement is hereby amended to delete red or green stricken text (indicated textually in the same manner as the following examples: **stricken text** and **stricken text**) and (ii) to add the blue or green double-underlined text (indicated textually in the same manner as the following examples: **double-underlined text** and **double-underlined text**), in each case, as set forth in the conformed copy of the Credit Agreement attached hereto as **Exhibit A**.

2. **Fees and Expenses**. Borrower shall reimburse Agent for all out-of-pocket costs and expenses incurred in connection with this Amendment, including, without limitation, reasonable attorneys' fees.

3. **Conditions Precedent**. The effectiveness of this Amendment is subject to the following conditions precedent (each of such documents and/or actions to be in form and substance acceptable to Agent in its sole discretion):

(a) Execution and delivery of this Amendment by all parties hereto;

(b) Borrower shall have paid any and all out-of-pocket costs, fees and expenses of Agent (including attorneys' fees) in connection with this Amendment; and

(c) Agent shall have received such other and further documentation as Agent may reasonably deem necessary or appropriate to accomplish the terms set forth herein.

4. **Representations and Warranties**. Borrower hereby represents and warrants to Agent that (a) Agent has the legal power and authority to execute and deliver this Amendment, (b) the officers executing this Amendment have been duly authorized to execute and deliver the same and bind Borrower with respect to the provisions hereof, (c) the execution and delivery hereof by Borrower and the performance and observance by Borrower of the provisions hereof do not violate or conflict with the organizational agreements of Borrower or any law applicable to Borrower or result in a breach of any provisions of or

constitute a default under any other agreement, instrument or document binding upon or enforceable against Borrower, (d) this Amendment constitutes a valid and binding obligation upon Borrower in every respect, (e) no event or condition which has had a Material Adverse Effect as to Borrower has occurred from the Closing Date to the date hereof, and (f) upon the effectiveness of this Amendment, no Default or Event of Default is outstanding under the Agreement.

5. Governing Law; Use of Terms Etc. Except as previously amended or as herein specifically amended, directly or by reference, all of the terms and conditions set forth in the Agreement are confirmed and ratified, and shall remain as originally written. This Amendment shall be construed in accordance with the laws of the State of Ohio, without regard to principles of conflict of laws. The Agreement and all other Loan Documents shall remain in full force and effect in all respects as if the unpaid balance of the principal outstanding, together with interest accrued thereon, had originally been payable and secured as provided for therein, as amended from time to time and as modified by this Amendment. Nothing herein shall affect or impair any rights and powers which Agent may have under the Agreement and any and all related Loan Documents.

6. No Set Offs Etc. Borrower hereby declares that it has no set offs, counterclaims or defenses against Agent or any Lender arising out of the Agreement or any related loan documents, and to the extent any such set offs, counterclaims or defenses may exist, whether known or unknown, such items are hereby waived by Borrower.

7. Confirmation of Security Interests. Borrower confirms and agrees that all prior security interests and liens granted to Agent in all existing and future assets of Borrower remains unimpaired and in full force and effect and shall continue to cover and secure all Obligations. Borrower further confirms and represents that all of the collateral of Borrower remains free and clear of all liens other than those in favor of Agent, or as otherwise permitted in the Agreement. Nothing contained herein is intended to in any way impair or limit the validity, priority or extent of Agent's security interest in and liens upon the collateral of Borrower.

8. Obligations Absolute. Borrower covenants and agrees (a) to pay the balance of any principal, together with all accrued interest, as specified above in connection with any promissory note executed and evidencing any indebtedness incurred in connection with the Agreement, as modified by this Amendment pursuant to the terms set forth therein, and (b) to perform and observe covenants, agreements, stipulations and conditions on its part to be performed hereunder or under the Agreement and all other documents executed in connection herewith or thereof.

9. Release. EACH BORROWER HEREBY RELEASES, WAIVES AND FOREVER RELINQUISHES ALL CLAIMS, DEMANDS, OBLIGATIONS, LIABILITIES AND CAUSES OF ACTION OF WHATEVER KIND OR NATURE, WHETHER KNOWN OR UNKNOWN, INCLUDING ANY SO-CALLED "LENDER LIABILITY" CLAIMS OR DEFENSES WHICH EITHER PARTY HAS, MAY HAVE, OR MIGHT ASSERT NOW OR IN THE FUTURE AGAINST AGENT, LENDERS AND/OR THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ATTORNEYS, ACCOUNTANTS, CONSULTANTS, SUCCESSORS, AND ASSIGNS (INDIVIDUALLY, A "RELEASEE" AND COLLECTIVELY, THE "RELEASEES"), DIRECTLY OR INDIRECTLY, ARISING OUT OF, BASED UPON, OR IN ANY MANNER CONNECTED WITH (A) ANY TRANSACTION, EVENT, CIRCUMSTANCE, ACTION, FAILURE TO ACT, OR OCCURRENCE OF ANY SORT OR TYPE, WHETHER KNOWN OR UNKNOWN, WHICH OCCURRED, EXISTED, OR WAS TAKEN OR PERMITTED PRIOR TO THE EXECUTION OF THIS AMENDMENT WITH RESPECT TO THE OBLIGATIONS, THE AGREEMENT, THE OTHER DOCUMENTS, OR THE ADMINISTRATION THEREOF, (B) ANY DISCUSSIONS, COMMITMENTS, NEGOTIATIONS, CONVERSATIONS, OR COMMUNICATIONS WITH RESPECT TO THE OBLIGATIONS OR (C) ANY THING OR MATTER RELATED TO ANY OF THE FOREGOING PRIOR TO THE EXECUTION OF THIS AMENDMENT. THE INCLUSION OF THIS PARAGRAPH IN THIS AMENDMENT AND THE EXECUTION OF THIS AMENDMENT BY AGENT DOES NOT CONSTITUTE AN ACKNOWLEDGMENT OR ADMISSION BY AGENT OR ANY LENDER OF LIABILITY FOR ANY MATTER, OR A PRECEDENT UPON WHICH ANY LIABILITY MAY BE ASSERTED.

10. Non-Waiver. This Amendment does not obligate Agent or any Lender to agree to any other modification of the Agreement nor does it constitute a course of conduct or dealing on behalf of Agent or any

Lender or a waiver of any other rights or remedies of Agent or any Lender. No omission or delay by Agent or any Lender in exercising any right or power under the Agreement, this Amendment or any related instruments, agreements or documents will impair such right or power or be construed to be a waiver of any Default or Event of Default or an acquiescence therein, and any single or partial exercise of any such right or power will not preclude other or further exercise thereof or the exercise of any other right, and no waiver will be valid unless in writing and then only to the extent specified.

11. Incorporation. This Amendment is incorporated by reference into, and made part of, the Agreement which, except as expressly modified herein, remains in full force and effect in accordance with its terms.

12. No Modification. No modification of this Amendment or of any agreement referred to herein shall be binding or enforceable unless in writing and signed on behalf of the party against whom enforcement is sought.

13. Headings. The headings of any section or paragraph of this Amendment are for convenience only and shall not be used to interpret any provision of this Amendment.

14. Successors and Assigns. This Amendment will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

15. Severability. The provisions of this Amendment are to be deemed severable, and the invalidity or unenforceability of any provision shall not affect or impair the remaining provisions which shall continue in full force and effect.

16. Counterparts; Electronic Signature. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature by facsimile or email shall have the same force and effect as an original signature hereto.

17. Jury Waiver. THE PARTIES HERETO HEREBY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO THIS AMENDMENT, ANY OF THE LOAN DOCUMENTS, ANY DOCUMENT DELIVERED HEREUNDER OR IN CONNECTION HEREWITH, OR ANY TRANSACTION ARISING FROM OR CONNECTED TO ANY OF THE FOREGOING. THE PARTIES REPRESENT THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

[ *Signature pages follows* ]

IN WITNESS WHEREOF, Borrower, Agent and Lenders have executed this Amendment as of the date first written above.

**BORROWER :**

**THE DIXIE GROUP, INC.,**  
a Tennessee corporation

By: /s/ Allen L. Danzey  
Name: Allen Danzey  
Title: Chief Financial Officer

**TDG OPERATIONS, LLC,**  
a Georgia limited liability company

By: /s/ Allen L. Danzey  
Name: Allen Danzey  
Title: Chief Financial Officer

Signature Page to Second Amendment to Credit Agreement

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**AGENT :**

**FIFTH THIRD BANK, NATIONAL ASSOCIATION,**  
a national banking association

By: /s/ William Kane  
Name: William Kane  
Title: Vice President

Signature Page to Second Amendment to Credit Agreement

## THIRD AMENDMENT TO CREDIT AGREEMENT

This Third Amendment to Credit Agreement (this "Amendment"), dated as of June 09, 2023, is entered into by and among **THE DIXIE GROUP**, a Tennessee corporation ("Dixie"), **TDG OPERATIONS, LLC**, a Georgia limited liability company ("TDG") and together with Dixie, collectively, "Borrower"), **FIFTH THIRD BANK, NATIONAL ASSOCIATION**, a national banking association, as the Agent, L/C Issuer and Swing Line Lender ("Agent"), and the other Lenders from time to time party to the Agreement (as defined below) ("Lenders").

### BACKGROUND

A. Borrower, Agent and Lenders entered into that certain Credit Agreement dated as of October 30, 2020, as amended by that certain First Amendment to Credit Agreement dated as of September 10, 2021, as further amended by that Second Amendment to Credit Agreement dated July 29, 2022 (as may be further amended, modified, extended, or restated from time to time, the "Agreement"), pursuant to which Agent and Lenders extended certain financing arrangements to Borrower. Borrower, Agent and Lenders entered into that certain Guaranty and Security Agreement dated as of October 30, 2020 (as may be amended, modified, extended, or restated from time to time, the "Security Agreement"), pursuant to which Borrower granted to Agent and the Lenders a Lien and security interest in the Collateral (as defined in the Security Agreement).

B. The parties hereto have agreed to modify the terms and conditions of the Agreement as more fully set forth herein.

C. Capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Agreement.

NOW THEREFORE, in consideration of the terms, conditions and covenants set forth below, and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties, intending to be legally bound hereby, promise and agree as follows:

1. Amendment to Section 5.2 (Investments; Loans and Advances). Section 5.2 of the Agreement is hereby amended by deleting subsection (e) thereto and replacing it with the following:

(e) [Reserved];

2. Amendment to Annex B (Cash Management System). Annex B of the Agreement is hereby amended by deleting subsection (c) thereto and replacing it with the following:

(c) (i) Agent will have sole access to each Lock Box, and at no time shall Borrower remove any item from any Lock Box without Agent's prior written consent, (ii) all available funds received in the Collection Account, in excess of an aggregate amount equal to \$100,000, will be automatically swept each Business Day from the Collection Account and immediately applied to the outstanding balance of the Revolving Loan, without the need for any further notice by Agent to Borrower, (iii) no Loan Party shall, and shall not cause or permit any Subsidiary thereof to, accumulate or maintain cash in the Disbursement Account or payroll accounts as of any date of determination in excess of checks outstanding against such accounts as of that date and amounts necessary to meet minimum balance requirements, and (iv) the Collection Account will be subject only to the signing authority designated from time to time by Agent, and neither Borrower nor any Person other than Agent shall have any control over such deposits or funds, and Agent shall have sole access to the Collection Account. Notwithstanding the foregoing, the Loan Parties may maintain the Prior Lender Accounts and the Excluded Accounts subject to the terms of this Annex B.

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3. Amendment to Appendix A (Defined Terms) . Appendix A of the Agreement is hereby amended by adding the following definitions thereto in proper alphabetical order:

"Excluded Accounts" means any deposit account used solely for funding payroll or segregating payroll taxes or funding other employee wage or benefit payments in the ordinary course of business maintained by Borrower at Wells Fargo Bank, N.A.; provided that, the aggregate outstanding balance in all Excluded Accounts shall not exceed \$1,500,000 at any given time.

4. Fees and Expenses. Borrower shall reimburse Agent for all out-of-pocket costs and expenses incurred in connection with this Amendment, including, without limitation, reasonable attorneys' fees.

5. Conditions Precedent. The effectiveness of this Amendment is subject to the following conditions precedent (each of such documents and/or actions to be in form and substance acceptable to Agent in its sole discretion):

(a) Execution and delivery of this Amendment by all parties hereto;

(b) Borrower shall have paid any and all out-of-pocket costs, fees and expenses of Agent (including attorneys' fees) in connection with this Amendment; and

(c) Agent shall have received such other and further documentation as Agent may reasonably deem necessary or appropriate to accomplish the terms set forth herein.

6. Representations and Warranties. Borrower hereby represents and warrants to Agent that (a) Borrower has the legal power and authority to execute and deliver this Amendment, (b) the officers executing this Amendment have been duly authorized to execute and deliver the same and bind Borrower with respect to the provisions hereof, (c) the execution and delivery hereof by Borrower and the performance and observance by Borrower of the provisions hereof do not violate or conflict with the organizational agreements of Borrower or any law applicable to Borrower or result in a breach of any provisions of or constitute a default under any other agreement, instrument or document binding upon or enforceable against Borrower, (d) this Amendment constitutes a valid and binding obligation upon Borrower in every respect, (e) no event or condition which has had a Material Adverse Effect as to Borrower has occurred from the Closing Date to the date hereof, and (f) upon the effectiveness of this Amendment, no Default or Event of Default is outstanding under the Agreement.

7. Governing Law; Use of Terms Etc. Except as previously amended or as herein specifically amended, directly or by reference, all of the terms and conditions set forth in the Agreement are confirmed and ratified, and shall remain as originally written. This Amendment shall be construed in accordance with the laws of the State of Ohio, without regard to principles of conflict of laws. The Agreement and all other Loan Documents shall remain in full force and effect in all respects as if the unpaid balance of the principal outstanding, together with interest accrued thereon, had originally been payable and secured as provided for therein, as amended from time to time and as modified by this Amendment. Nothing herein shall affect or impair any rights and powers which Agent may have under the Agreement and any and all related Loan Documents.

8. No Set Offs Etc. Borrower hereby declares that it has no set offs, counterclaims or defenses against Agent or any Lender arising out of the Agreement or any related loan documents, and to the extent any such set offs, counterclaims or defenses may exist, whether known or unknown, such items are hereby waived by Borrower.

9. Confirmation of Security Interests. Borrower confirms and agrees that all prior security interests and liens granted to Agent in all existing and future assets of Borrower remains unimpaired and in

full force and effect and shall continue to cover and secure all Obligations. Borrower further confirms and represents that all of the collateral of Borrower remains free and clear of all liens other than those in favor of Agent, or as otherwise permitted in the Agreement. Nothing contained herein is intended to in any way impair or limit the validity, priority or extent of Agent's security interest in and liens upon the collateral of Borrower.

10. Obligations Absolute. Borrower covenants and agrees (a) to pay the balance of any principal, together with all accrued interest, as specified above in connection with any promissory note executed and evidencing any indebtedness incurred in connection with the Agreement, as modified by this Amendment pursuant to the terms set forth therein, and (b) to perform and observe covenants, agreements, stipulations and conditions on its part to be performed hereunder or under the Agreement and all other documents executed in connection herewith or thereof.

11. Release. EACH BORROWER HEREBY RELEASES, WAIVES AND FOREVER RELINQUISHES ALL CLAIMS, DEMANDS, OBLIGATIONS, LIABILITIES AND CAUSES OF ACTION OF WHATEVER KIND OR NATURE, WHETHER KNOWN OR UNKNOWN, INCLUDING ANY SO CALLED "LENDER LIABILITY" CLAIMS OR DEFENSES WHICH EITHER PARTY HAS, MAY HAVE, OR MIGHT ASSERT NOW OR IN THE FUTURE AGAINST AGENT, LENDERS AND/OR THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, ATTORNEYS, ACCOUNTANTS, CONSULTANTS, SUCCESSORS, AND ASSIGNS (INDIVIDUALLY, A "RELEASEE" AND COLLECTIVELY, THE "RELEASEES"), DIRECTLY OR INDIRECTLY, ARISING OUT OF, BASED UPON, OR IN ANY MANNER CONNECTED WITH (A) ANY TRANSACTION, EVENT, CIRCUMSTANCE, ACTION, FAILURE TO ACT, OR OCCURRENCE OF ANY SORT OR TYPE, WHETHER KNOWN OR UNKNOWN, WHICH OCCURRED, EXISTED, OR WAS TAKEN OR PERMITTED PRIOR TO THE EXECUTION OF THIS AMENDMENT WITH RESPECT TO THE OBLIGATIONS, THE AGREEMENT, THE OTHER DOCUMENTS, OR THE ADMINISTRATION THEREOF, (B) ANY DISCUSSIONS, COMMITMENTS, NEGOTIATIONS, CONVERSATIONS, OR COMMUNICATIONS WITH RESPECT TO THE OBLIGATIONS OR (C) ANY THING OR MATTER RELATED TO ANY OF THE FOREGOING PRIOR TO THE EXECUTION OF THIS AMENDMENT. THE INCLUSION OF THIS PARAGRAPH IN THIS AMENDMENT AND THE EXECUTION OF THIS AMENDMENT BY AGENT DOES NOT CONSTITUTE AN ACKNOWLEDGMENT OR ADMISSION BY AGENT OR ANY LENDER OF LIABILITY FOR ANY MATTER, OR A PRECEDENT UPON WHICH ANY LIABILITY MAY BE ASSERTED.

12. Non-Waiver. This Amendment does not obligate Agent or any Lender to agree to any other modification of the Agreement nor does it constitute a course of conduct or dealing on behalf of Agent or any Lender or a waiver of any other rights or remedies of Agent or any Lender. No omission or delay by Agent or any Lender in exercising any right or power under the Agreement, this Amendment or any related instruments, agreements or documents will impair such right or power or be construed to be a waiver of any Default or Event of Default or an acquiescence therein, and any single or partial exercise of any such right or power will not preclude other or further exercise thereof or the exercise of any other right, and no waiver will be valid unless in writing and then only to the extent specified.

13. Incorporation. This Amendment is incorporated by reference into, and made part of, the Agreement which, except as expressly modified herein, remains in full force and effect in accordance with its terms.

14. No Modification. No modification of this Amendment or of any agreement referred to herein shall be binding or enforceable unless in writing and signed on behalf of the party against whom enforcement is sought.

15. Headings. The headings of any section or paragraph of this Amendment are for convenience only and shall not be used to interpret any provision of this Amendment.

16. Successors and Assigns. This Amendment will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

17. Severability. The provisions of this Amendment are to be deemed severable, and the invalidity or unenforceability of any provision shall not affect or impair the remaining provisions which shall continue in full force and effect.

18. Counterparts; Electronic Signature. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Signature by facsimile or email shall have the same force and effect as an original signature hereto.

19. Jury Waiver. THE PARTIES HERETO HEREBY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO THIS AMENDMENT, ANY OF THE LOAN DOCUMENTS, ANY DOCUMENT DELIVERED HEREUNDER OR IN CONNECTION HEREWITH, OR ANY TRANSACTION ARISING FROM OR CONNECTED TO ANY OF THE FOREGOING. THE PARTIES REPRESENT THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

[ *Signature pages follows*]

IN WITNESS WHEREOF, Borrower, Agent and Lenders have executed this Amendment as of the date first written above.

**BORROWER:**

**THE DIXIE GROUP, INC.,**  
a Tennessee corporation

By: /s/ Allen L. Danzey  
Name: Allen L. Danzey

Title: Chief Financial Officer

**TDG OPERATIONS, LLC,**  
a Georgia Limited liability company

By: /s/ Allen L. Danzey  
Name: Allen Danzey

Title: Chief Financial Officer

Signature Page to Third Amendment to Credit Agreement

**AGENT:**

**FIFTH THIRD BANK, NATIONAL ASSOCIATION,**  
a national banking association

By: \_\_\_\_\_ Name: \_\_\_\_\_ Title: \_\_\_\_\_

Signature Page to Third Amendment to Credit Agreement

**REINSTATEMENT AND FIRST AMENDMENT TO  
AGREEMENT FOR THE PURCHASE AND SALE OF REAL PROPERTY**

**THIS REINSTATEMENT AND FIRST AMENDMENT TO AGREEMENT FOR**

**THE PURCHASE AND SALE OF REAL PROPERTY** (this "Amendment") is made this 24th day of October, 2023 (the "Effective Date"), by and between **TOG ADAIRSVILLE, LLC**, a Georgia limited liability company ("Seller"), and **CANNON COMMERCIAL, INC.**, a Texas corporation ("Buyer").

**WITNESSETH:**

**WHEREAS**, Seller and Buyer entered into that certain Agreement for the Purchase and Sale of Real Property dated as of September 29, 2023 (the "Agreement"), for the property located at 400 Princeton Blvd, Adairsville, Georgia, as more particularly described therein; and

**WHEREAS**, on October 17, 2023, Buyer sent notice to Seller terminating the Agreement prior to the expiration of the Inspection Period, as provided in Section 7 of the Agreement; and

**WHEREAS**, Seller and Buyer wish to confirm that the Agreement is reinstated and to modify its terms as provided herein .

**NOW THEREFORE**, in consideration of the mutual premises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. The foregoing recitals are true and correct and are hereby incorporated herein by this reference.
2. The Agreement is hereby reinstated, subject to the amendments and modifications contained herein, and shall be in full force and effect in accordance with its terms and the terms of this Amendment.
3. Any capitalized term that is not otherwise defined herein shall have the meaning ascribed to such term in the Agreement.

4. The Agreement is hereby amended as follows:

The \$200,000.00 Earnest Money deposit with the Escrow Agent, as described in Section 2 of the Agreement, is still on deposit with the Escrow Agent. Within three

(3) business days of the execution of this Amendment, Buyer shall deliver the sum of \$300,000.00, as additional Earnest Money (for a total deposit of \$500,000.00) to the Escrow Agent. Notwithstanding any contrary provision in the Agreement, the said amount shall be nonrefundable to Buyer except as specifically provided in Section 4(c) of this Amendment. Otherwise, the increased Earnest Money deposit shall be held and dispensed with pursuant to the terms of the Agreement.

(a) The Purchase Price, as defined in Section 3 of the Agreement, shall mean the sum of \$16,250,000.00 payable to Seller at Closing in accordance with the terms and conditions stated in the Agreement.

(b) Buyer covenants and agrees, on or before Friday, October 27, 2023, to confirm in writing that it has provided the Lender with all outstanding documents or other diligence items requested of Buyer (and its affiliates and principals) or to confirm in writing to the Lender and Seller any such items not delivered due to such not being in Buyer's possession or control. Additionally, Buyer covenants and agrees thereafter to promptly provide the Lender with any commercially reasonable items requested in connection with the Assumption Approval and Loan Assumption. If the Assumption Approval has not been obtained by Friday, November 17, 2023, Seller shall have the option to terminate the Agreement and have the Deposit returned to Buyer. Unless Seller terminates the Agreement due to the Lender not approving the Loan Assumption, or if Seller is in default under the Agreement, the Deposit shall be non-refundable unless the Lender does not approve the Loan Assumption; provided that in the event Buyer has provided all items requested by the Lender that are within Buyer's possession or control and the Lender has not approved the Loan Assumption, Buyer shall have the right to terminate the Agreement and receive the Deposit by giving Seller written notice thereof no later than Friday, December 1, 2023.

(c) The first sentence in Section 5 of the Agreement is hereby deleted and the following inserted in lieu thereof:

It is the agreement and intention of both parties to close as soon as reasonably practicable after the Assumption Approval but no later than Monday, December 11, 2023 (the outside "**Closing Date**").

(d) The Inspection Period, as defined in Section 7 of the Agreement, shall be deemed to have expired as of the date of this Amendment.

(e) Buyer hereby accepts the exceptions set forth in that certain Title Commitment by the Title Company dated effective September 28, 2023 and issued October 13, 2023. Notwithstanding the foregoing however, Seller agrees that it shall satisfy and remove all items listed in Schedule B, Part I of the Title Commitment, except for the loan documents from the Lender and other documents or actions required by Buyer.

5. The Agreement is hereby further amended to reflect the following changes to the agreed form of Lease to be executed at Closing as described in Section 16 of the Agreement and attached as Exhibit B thereto.:

(a) Section 2.01 of the form of Lease is hereby amended to reflect that "Minimum Rent" payable (i) during the first five years of the Term shall be at the rate of \$1,495,660.00 per year and (ii) during the last five years of the Term shall be at the rate of \$1,585,400.00 per year, in each case payable monthly. Additionally, notwithstanding the foregoing, Tenant shall owe \$0 for Minimum Rent in months 13 and 25 of the Term (the Tenant agreeing to continue to pay all other pass-through expenses and charges).

(b) Section 2.02 of the form of Lease is hereby amended to reflect that Tenant shall deposit \$373, 915.00 (three months of Minimum Rent) as the "Security Deposit" thereunder which shall be held and applied or returned in accordance with Section 2.02 of the Lease.

(c) Section 2.03( d) of the form of Lease (\$1,000 per month management fee) is hereby deleted

6. Except as specified herein, all other terms and conditions of the Agreement shall remain in full force and effect.
7. This Amendment may be executed in any number of counterparts, any one or all of which shall constitute the agreement of the parties.

**[SIGNATURES ON FOLLOWING PAGE]**

IN WITNESS WHEREOF, the parties have agreed to the terms of the Amendment as of the date and year first above written.

**BUYER:**

**CANNON COMMERCIAL, INC.**, a Texas  
Corporation

By: /s/ Kamyar Mateen  
Name: Kamyar Mateen  
Title: President

**SELLER:**

**TDG ADAIRSVILLE, LLC**, a Georgia  
limited liability company

By: /s/ Allen L. Danzey  
Name: Allen L. Danzey  
Title: President/Chief Manager

IN WITNESS WHEREOF, the parties have agreed to the terms of the Amendment as of the date and year first above written.

**BUYER:**

**CANNON COMMERCIAL, INC.**, a Texas  
corporation

By: /s/ Kamyar Mateen  
Name: Kamyar Mateen  
Title: President

**SELLER:**

**TDG ADAIRSVILLE, LLC**, a Georgia  
limited liability company

By: /s/ Allen L. Danzey  
Name: Allen L. Danzey  
Title: President / Chief Manager

**LEASE AGREEMENT**

(400 Princeton Boulevard, Adairsville, Georgia 30103)

THIS LEASE ("Lease") is made and entered into this day of December, 2023, by and between **Adairsville GA, LLC**, a Delaware limited liability company ("Landlord"), and **TDG Operations, LLC**, a Georgia limited liability company ("Tenant"), upon the following terms and conditions:

**ARTICLE I GRANT AND TERM**

1.01 Leased Premises. Landlord demises and leases to Tenant, and Tenant rents from Landlord, the real property described on Exhibit "A" attached hereto and incorporated herein and existing improvements thereon (said real property and improvements located thereon, including the two warehouse buildings (one covering approximately 1,826 square feet and the other covering approximately 292,194 square feet) totaling 294,020 square feet, from time to time herein called the "**Property**"), located at 400 Princeton Boulevard, Adairsville, Georgia 30103; any additions to the Property, any loading docks and all other appurtenances to the Property, all parking lots, public walkways, aisles and driveways for ingress and egress to said improvements and parking areas and to and from the streets and highways, the storm water retention basin, if any, all landscaping, all utility lines and sewers to the perimeter walls of the Property or servicing such improvements, and existing signage, if any (collectively, the "**Leased Premises**"), IN ITS "AS IS, WHERE IS" CONDITION AND WITH ALL FAULTS, SUBJECT TO THE EXISTING STATE OF TITLE (WITHOUT EXPRESS OR IMPLIED WARRANTY OF LANDLORD WITH RESPECT TO THE CONDITION, QUALITY, REPAIR OR FITNESS OF THE LEASED PREMISES FOR A PARTICULAR USE OR TITLE THERETO, ALL SUCH WARRANTIES BEING HEREBY WAIVED AND RENOUNCED BY TENANT), AND THE MINIMUM RENT (AS HEREINAFTER DEFINED) AND ALL OTHER SUMS PAYABLE HEREUNDER BY TENANT SHALL IN NO CASE BE WITHHELD OR DIMINISHED ON ACCOUNT OF ANY DEFECT IN SUCH LEASED PREMISES, ANY CHANGE IN THE CONDITION THEREOF, ANY DAMAGE OCCURRING THERETO OR THE EXISTENCE WITH RESPECT THERETO OF ANY VIOLATION OF LAWS EXCEPT AS OTHERWISE PROVIDED HEREIN.

TENANT ACKNOWLEDGES THAT IT HAS PREVIOUSLY OWNED AND OPERATED ITS BUSINESS ON THE LEASED PREMISES PRIOR TO ITS SALE OF THE SAME TO LANDLORD, AND THAT IT IS INTIMATELY AWARE OF THE NATURE, FEATURES AND CONDITION OF THE PROPERTY AND ALL IMPROVEMENTS THEREON. BY OCCUPYING THE LEASED PREMISES, TENANT SHALL BE DEEMED TO HAVE ACCEPTED THE SAME AND TO HAVE ACKNOWLEDGED THAT THE SAME COMPLY FULLY WITH LANDLORD'S COVENANTS AND OBLIGATIONS HEREUNDER. TENANT ACKNOWLEDGES THAT LANDLORD HAS NOT MADE AND DOES NOT MAKE, AND LANDLORD HEREBY DISCLAIMS, ANY AND ALL WARRANTIES, EXPRESSED OR IMPLIED, WHICH IN ANYWAY RELATE TO THE LEASED PREMISES, THE PROJECT, OR THE CONDITION THEREOF, INCLUDING, WITHOUT LIMITATION,

ANY IMPLIED WARRANTY OF SUITABILITY OR HABITABILITY. TENANT FURTHER UNDERSTANDS THAT LANDLORD HAS RELIED UPON TENANT'S REPRESENTATIONS AND WARRANTIES AFORESAID AND TENANT'S HAVING MADE ALL INSPECTIONS DESIRED BY TENANT PRIOR TO LEASING THE LEASED PREMISES FROM LANDLORD, AND THAT BUT FOR SUCH INSPECTIONS BY TENANT, LANDLORD WOULD NOT HAVE LEASED THE LEASED PREMISES TO TENANT.

Additionally, the parties hereto agree that the obligation of Tenant to pay all Rent and other sums hereunder provided to be paid by Tenant, and the obligation of Landlord to perform Landlord's covenants and duties hereunder constitute independent, separate and unconditional obligations to be performed at all times provided for hereunder,

1.02 Commencement of Rental. Tenant's obligation to pay rent shall commence on the date hereof.

1.03 Length of Term. Subject to Landlord's right to terminate, the term("Term") of this Lease shall be for a period of ten (10) years, commencing on the date hereof. If said commencement date is other than the first day of the month, the first year of the Lease term shall be deemed to be extended to include such partial month and the following twelve (12) months, so as to end on the last day of the month. So long as no Default exists and with twelve (12) months' written notice to Landlord prior to the end of the Term (or extended Term), Tenant shall have two (2) five (5) year options to extend the Term hereof under the same terms at the then fair rental value determined by Landlord and Tenant at least ten (10) months prior to the end of the Term (or extended Term.) If Landlord and Tenant cannot agree upon a fair market rental by such deadline, each will retain a real estate appraiser or broker to determine such fair market rental prior to the date that is nine (9) months prior to the end of the Term (or extended Term) and the average of the two values shall be the fair market value hereunder; provided that if Tenant does not agree with such fair market value determination, Tenant shall have the right to cancel its renewal election by written notice to Landlord within five (5) business days after the fair market value is determined.

1.04 Acceptance of Leased Premises. Tenant accepts the Leased Premises "as-is." No rights or remedies shall accrue to Tenant arising out of the condition of the Property.

## ARTICLE II RENT

2.01 Minimum Rent. "Minimum Rent" shall be payable by Tenant to Landlord in advance, without setoff, on the first day of each and every month throughout the Term at Landlord's office at 10850 Wilshire Blvd., Suite 1000, Los Angeles, CA 90024, or at such other place designated by Landlord, as follows: (i) during the first five years of the Term at the rate of One Million Four Hundred Ninety-Five Thousand Six Hundred Sixty and 00/100 Dollars (\$1,495,660.00) per year and (ii) during the last five years of the Term at the rate of One Million Five Hundred Eighty-Five Thousand Four Hundred and 00/100 Dollars (\$1,585,400.00) per year. Notwithstanding the foregoing, Tenant shall owe \$0 for Minimum Rent in months 13 and 25 of the Term (the Tenant agreeing to continue to pay all other pass-through expenses and charges). Minimum Rent for any fractional month, including the initial month of the Term, shall be prorated and payable in advance based on the then-applicable yearly Minimum Rent set forth above.

2.02 Security Deposit. Tenant shall deposit with Landlord Three Hundred Seventy Three Thousand Nine Hundred Fifteen and 00/100 Dollars (\$373,915.00) ass "Security Deposit" to be held in a segregated account and to be applied to cover any Minimum Rent or Additional Rent hereunder not paid by Tenant after any cure period. The balance of the Security Deposit shall be returned to Tenant within thirty (30) days after the end of the Term hereof, as such may be extended.

2.03 Taxes. During the term of this Lease, Tenant shall pay as additional rent, the real estate taxes and special taxes, current installments of all assessments (general or special), impositions, levies, charges, excises, fees, licenses and other sums levied, assessed, charged or imposed by any governmental authority or other taxing authority (including, without limitation, any water, sewer or drainage fees that any governmental or utility district may assess), or which accrue on the Property or the Leased Premises for each calendar year (or portion thereof) during the term of this Lease, including, without limitation, the tax assessed against Landlord for the Leased Premises or the rental income therefrom, including, without limitation, any "rent tax" (but excluding general income tax), professional fees and expenses incurred by Landlord for ad valorem tax consultants or tax-rendering services, and all penalties, interest, and other charges (with respect to such real estate taxes) payable by reason of any delay in or failure or refusal of Tenant to make timely payment as required under this Lease (collectively, the "**Taxes**") attributable to the Leased Premises. Landlord, at Landlord's option, may bill Tenant on a monthly basis, based on one-twelfth (1/12) of the estimated annual amount for taxes and assessments, and Tenant shall pay Landlord the amount of such billings simultaneously with the payment of Minimum Rent. Landlord agrees to supply to Tenant an explanation for the method of computing said taxes, or a copy of the prior assessment bill or statement of any governmental agencies owed Tax. In the event Tenant does not make said payment as hereinabove required within five (5) business days after written notice thereof, Tenant shall be in default of this Lease. Additionally, with respect to Taxes:

(a) Right to Contest Taxes and Assessments. Tenant, at its expense and with prior written notice to Landlord, may contest any and all such Taxes in the event that Landlord fails to contest the same no less than thirty (30) days prior to the deadline by which a party may file a contest with respect to such Taxes.

(b) Municipal, County, State or Federal Taxes. Tenant shall pay, before delinquency, all municipal, county and state or federal taxes assessed against any leasehold interest of Tenant or any fixtures, furnishings, equipment, stock-in-trade or other personal property of any kind owned, installed or used in or on the Leased Premises.

(c) Real Estate Tax. Without in any way limiting the definition above, "Taxes" shall specifically include:  
(i) any fee, license fee, license tax, business license fee, commercial rental tax, levy, charge, assessment, penalty or tax imposed by any taxing authority against the Property or land upon which the Property is located;  
(ii) any sales or other tax on Landlord's right to receive, or the receipt of, rent or income from the Property or against Landlord's business of leasing the Property but excluding any of Landlord's "personal" income tax; (iii) any tax or charge for fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Property by any governmental agency; (iv) any tax imposed upon this transaction or based upon a re-assessment of the

Property due to a change in ownership or transfer of all or part of Landlord's interest in the Property; (vi) professional fees and expenses incurred by Landlord for ad valorem tax consultants or tax-rendering services, (vii) all penalties, interest, and other charges (with respect to such real estate taxes) payable by reason of any delay in or failure or refusal of Tenant to make timely payment as required under this Lease (viii) other sums levied, assessed, charged or imposed by any governmental authority or other taxing authority (including, without limitation, any water, sewer or drainage fees that any governmental or utility district may assess), or which accrue on the Property or the Leased Premises for each calendar year (or portion thereof) during the term of this Lease, and (ix) any charge or fee replacing any tax previously included within the definition of Taxes.

(d) Intentionally Omitted.

(e) Reconciliation of Monthly Payments of Taxes and Insurance Premiums. If the actual amount of Taxes and, if required under Section 6.01, Insurance premiums with respect to any billing period exceeds the aggregate amount previously paid by Tenant during such period, Tenant shall pay to Landlord the deficiency within thirty (30) days following notice from Landlord. If, however, the aggregate amount previously paid by Tenant with respect thereto exceeds the actual amounts, for such period, then, upon written notice by Tenant to Landlord within thirty (30) days of receipt of notice of surplus, if any, Tenant may elect a credit of such surplus (net of any amounts then owing by Tenant to Landlord) be applied against the next ensuing installment of escrow payments due hereunder by Tenant, or Landlord shall refund such net surplus to Tenant. Further, the annual deadline for reconciliation of tax escrow and, if required under Section 6.01, insurance premium escrow shall not be earlier than sixty (60), and no later than one hundred eighty (180), days after each calendar year.

### ARTICLE III

#### CONDUCT OF BUSINESS BY TENANT

3.01 Use of Premises. Tenant shall only use the Leased Premises for the purpose of manufacturing, storage, sale and distribution of flooring materials and products that are produced and distributed by Tenant; and including products and materials which are not materially different from Tenant's primary business but for no other business or purpose or under any name other than under the name(s) which Tenant uses to market its products in its ordinary course of its business, without the prior written consent of Landlord. Consent may be subject to such conditions as Landlord deems appropriate but shall not be unreasonably withheld or unduly delayed (except as otherwise provided under Section 8.01).

#### ARTICLE IV ALTERATIONS, LIENS AND SIGNS

4.01 Alterations. Tenant shall not, without Landlord's prior written consent, either make or cause to be made any structural or exterior alterations, including additions and improvements, to the Leased Premises or to any exterior building signs or free-standing signs.

Landlord shall not unreasonably withhold or delay its consent. Any alterations, additions or improvements consented to by Landlord shall be made at Tenant's sole expense. Tenant shall secure any and all governmental permits, approvals or authorizations required in connection with any such work and shall hold Landlord harmless from any and all liability, costs, damages, expenses (including attorneys' fees) and liens resulting therefrom. All alterations (expressly including all light fixtures and floor coverings, except removable trade fixtures, appliances and equipment that do not become a part of the Leased Premises), shall immediately become the property of Landlord. All plans and specifications of all work requiring the approval of Landlord shall be prepared by a licensed architect or engineer, as permitted by applicable laws, and such work shall be performed in substantial compliance therewith. Upon completion of any such work, Tenant shall provide Landlord with "as built" plans, copies of all construction contracts, and proof of payment for all labor and materials.

**4.02 Tenant Shall Discharge All Liens.** Tenant shall promptly pay its contractors and materialmen for all work done and performed by Tenant, so as to prevent the assertion or imposition of liens upon or against the Leased Premises, and shall, upon request provide Landlord with lien waivers, and should any such lien be asserted or filed, Tenant shall bond against or discharge the same within thirty (30) days after written request by Landlord. In the event Tenant fails to remove said lien within said thirty (30) days, Landlord may at its sole option elect to satisfy and remove the lien by paying the full amount claimed or otherwise, without investigating the validity thereof, and Tenant shall pay Landlord upon demand the amount paid out by Landlord in Tenant's behalf, including Landlord's costs and expenses with interest or Tenant shall be in default hereunder. Landlord's election to discharge liens as provided hereunder shall not be construed to be a waiver or cure of Tenant's default hereunder.

## ARTICLE V

### MAINTENANCE OF LEASED PREMISES, SURRENDER AND RULES

**5.01** This is an absolutely net lease (except as may be expressly provided herein) and the Minimum Rent and all other sums payable hereunder by Tenant shall be paid without notice or demand as "Additional Rent."

**5.02** Unless any of the following listed conditions have a material adverse effect on Tenant's ability to use the Leased Premises that causes the Tenant to cease operations of its business on the Leased Premises for more than thirty (30) consecutive days, this Lease shall not terminate, nor shall Tenant have any right to terminate this Lease, nor shall Tenant be entitled to any abatement or reduction of Minimum Rent hereunder, nor shall the obligations of Tenant under this Lease be affected, solely by reason of (i) any damage to or destruction of all or any part of the Leased Premises from whatever cause; (ii) the taking of the Leased Premises or any portion thereof by condemnation, requisition, eminent domain proceedings or otherwise for any reason, except as provided herein; (iii) any default on the part of Landlord under this Lease, or under any other agreement to which Landlord and Tenant may be parties; or (iv) any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding unless otherwise specified herein.

5.03 Tenant hereby agrees to pay one hundred percent (100%) of any and all Operating Expenses as hereafter defined for the entire term of the Lease and any extensions thereof in accordance with specific provisions hereinafter set forth. The term "Operating Expenses" shall include, but shall not be limited to, the total costs and expenses incurred in operating, maintaining, protecting, replacing and repairing the exterior and interior of the building and all building facilities on the Leased Premises, the parking and sidewalk areas on the Leased Premises, and any other improvements on the Leased Premises, including, without limitation, the cost and expense of the following: snow removal, landscaping, planting, replanting, and replacing flowers, shrubbery and other plantings; repairs and maintenance, painting and decorating of the building and other improvements; electricity, water, gas and other utilities (including, without limitation, all expenditures intended to reduce the cost of any utilities); maintenance, repair and replacement of fixtures, bulbs and any and all building systems and parts thereof and thereto; sanitary control, extermination, and sump maintenance and improvements; removal of rubbish, garbage and other refuse; security systems and policing of the building and facilities; sewer charges; heating, ventilating and air conditioning the building; cleaning and janitorial services; maintenance of decorations, and lavatories; maintenance and repair of all doors and glass in common areas and building roof (provided Landlord shall be responsible for any roof replacement and structural building repairs and replacements, except to the extent caused by the Tenant or any party under the control or direction of Tenant); fire sprinkler systems; security alarm systems, cost of personnel directly involved in implementing all of the aforementioned; sale and excise taxes and the like upon any of the expenses enumerated herein any and all other expenditures with respect to the operation, repair, maintenance, protection and management by Tenant of the Leased Premises and all buildings, structures, or other improvements thereon.

NOTWITHSTANDING ANYTHING CONTAINED IN THIS LEASE TO THE CONTRARY, SHOULD TENANT CAUSE ANY WORK TO BE PERFORMED ON THE ROOF OF ANY BUILDING COMPRISING THE LEASED PREMISES AND SUCH WORK VOIDS OR OTHERWISE ADVERSELY IMPACTS ANY EXISTING ROOF WARRANTY, TENANT SHALL BE RESPONSIBLE FOR ALL DAMAGES, CLAIMS, COSTS AND EXPENSES INCURRED BY LANDLORD AS A RESULT OF THE VOIDING OR IMPACTING OF THE ROOF WARRANTY. ANY SUCH DAMAGES, CLAIMS, COSTS AND EXPENSES WILL BE DUE AND PAYABLE BY TENANT TO LANDLORD UPON DEMAND BY LANDLORD.

5.04 Trash. Tenant shall keep and maintain garbage, trash, rubbish and refuse in sanitary, closed containers so as not to be visible to the public from without the Leased Premises. Tenant shall cause its garbage and refuse to be taken to such garbage containers as needed and shall cause the same to be periodically emptied in order the same to not overflow. Tenant shall contract with a garbage removal service to pick up Tenant's trash and other waste at such necessary intervals.

5.05 Surrender of Premises. At the expiration of the tenancy hereby created, Tenant shall peaceably surrender the Leased Premises, including all alterations, additions, improvements, decorations and repairs made thereto which were approved by Landlord (but excluding all removable trade fixtures, equipment, signs and other personal property installed by Tenant, provided that in no event shall Tenant remove any of the following materials or equipment without Landlord's prior written consent: any free-standing signs, any power wiring or power panels; lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; carpets or

other floor coverings; or other similar building operating equipment and decorations), in good first class condition and repair, reasonable wear and tear, subject to Landlord's commercially reasonable approval, and damage by casualty, if fully insured, excepted. Tenant shall remove all its property not required to be surrendered to Landlord before sunendering the Leased Premises as aforesaid and shall repair any damage to the Leased Premises or its surfaces caused thereby. Any personal property remaining in the Leased Premises at the expiration of the Lease period may be deemed abandoned by Tenant and Landlord may claim the same and shall in no circumstances have any liability to Tenant therefor or, at Landlord's election, Landlord may cause the removal of such property and Tenant shall pay to Landlord the cost of such removal and repair.

## ARTICLE VI INSURANCE AND INDEMNITY

6.01 Casualty Insurance. Throughout the term of this Lease and any extensions thereof, Tenant shall obtain and pay for all casualty insurance for the building and other improvements on the Leased Premises, with such comprehensive or so-called "all risk" that includes wind and flood and such loss of rental and vandalism endorsements as Landlord may, from time to time, reasonably deem necessary, and shall show Landlord as the primary insured thereon with Landlord's lender as an additional named insured therein. Tenant shall at all times keep such insurance in force and provide Landlord with copies of said policies or certificates evidencing said coverage. Such policy(ies) shall provide for full replacement cost coverage and that such amount of coverage shall be subject to increase at least annually so as to provide full insured hazard or risk loss coverage. In no event shall such coverage be in an amount less than the replacement value of the Leased Premises as of the date of any such loss. If Tenant fails to keep said insurance in effect, or if Landlord does not receive evidence that such insurance is renewed prior to thirty (30) days before its expiration, then Landlord may, but shall not be required to, immediately obtain insurance coverage as provided for herein. However, if required by Landlord's lender (secured by the Leased Premises) or if Tenant is then currently in default hereunder, Landlord, at Landlord's option, may bill Tenant on a monthly basis, based on one-twelfth (1/12) of the estimated annual amount for insurance. Tenant shall pay Landlord the amount of such estimated insurance simultaneously with and in addition to the Minimum Rent. In the event Tenant does not make said payment as hereinabove required within five (5) business days after written notice thereof, Tenant shall be in default of this Lease.

6.02 Liability Insurance. Tenant shall, during the entire term hereof, keep in full force and effect a policy of public liability and property damage insurance with respect to the Leased Premises and the business operated by Tenant and permitted Tenants of Tenant in the Leased Premises in which the limits of coverage shall not be less than \$5,000,000 per occurrence for bodily and/or personal injuries, and in which the coverage for property damage liability shall not be less than \$5,000,000 or a combined single limit of \$5,000,000. The policy shall be in form approved by Landlord, shall name Landlord and Tenant as the insured, and shall contain a clause that the insurer will not cancel, materially modify or fail to renew the insurance without first giving Landlord thirty (30) days' prior written notice.

**6.03 Business Interruption Insurance.** During the Term, Tenant shall procure, maintain and pay for, rental value insurance or business interruption insurance covering risk of loss due to the occurrence of any of the hazards insured against under Tenant's "all risk" coverage insurance and providing coverage in an amount sufficient to permit the payment of Minimum Rent payable hereunder.

**6.04 Umbrella or Excess Liability Insurance.** During the Term, Tenant shall procure, maintain and pay for, umbrella or excess liability insurance written on an occurrence basis and covering claims in excess of the underlying insurance described above, with a \$5,000,000 limit per occurrence. Such insurance shall contain a provision that it will not be more restrictive than the primary insurance and shall drop down as primary insurance in the event that the underlying insurance policy aggregate is exhausted.

**6.05 Insurance Requirements.** Throughout the entire term of this Lease and any extension hereof, Tenant shall keep in force and effect such other policies of insurance in respect of the Leased Premises and the operations thereon, as reasonably required by Landlord or as may be otherwise required Landlord's lender (if secured by the Leased Premises). The policies of insurance required to be obtained by Tenant hereunder shall be issued in favor of and in the name of Tenant, Landlord and Landlord's mortgagee, as their respective interests may appear, and Tenant shall furnish to Landlord a certificate evidencing such coverage, which certificate shall be in ACORD format and provide that the insurance shall not be canceled, modified or allowed to lapse without thirty (30) days prior written notice thereof being given by the insurance carrier to Landlord. The insurance company, independently of its parent's or any reinsurer's rating, shall have a General Policyholder Rating of A, and a Financial Rating of X or better, as reported in the most current issue of Best's Insurance Guide, or as reported by Best on its website, and the form of insurance shall be subject to approval by Landlord, such approval not to be unreasonably withheld or delayed.

**6.06 Waiver of Subrogation.** Notwithstanding anything to the contrary contained in this Lease, Tenant's insurance policies required hereunder shall contain a waiver of any rights of subrogation against Landlord and its mortgagee provided such a provision is not prohibited by applicable law. Each policy hereunder shall contain a clause or endorsement to the effect that any release shall not adversely affect or impair said policies or prejudice the right of the releasing party to recover thereunder. Tenant agrees that each of its policies shall include such a clause or endorsement if available under applicable law.

**6.07 Limit to Landlord's Liability.** Landlord shall not be liable for any damage to property of Tenant or of others located on the Leased Premises, nor for the loss of or damages to any property of Tenant or of others by theft, and Landlord shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, smoke, rain, or snow, bursting of or leaks from any part of the Leased Premises or from the pipes, appliances, or plumbing works, or from the roof, street or subsurface, or from any other place or by dampness, stoppage or leakage from sewer pipes or from any other cause whatsoever, unless such damage or injury is a direct result of the grossly negligent or willful acts of Landlord or its agents. All property of Tenant kept or stored on the Leased Premises shall be so kept and stored at the risk of Tenant only and unless herein otherwise provided, Tenant shall indemnify,

defend, and hold Landlord harmless from any claim arising out of damage to the same. Tenant's sole recourse against Landlord and any successor to Landlord's interest in this Lease, is the interest of Landlord (or of such successor in interest) in the Leased Premises. Tenant will not have any right to satisfy any judgment that it may have against Landlord or against such successor in interest from any other assets of Landlord or such successor, or from their respective equity owners, officers, directors, managers, employees, representatives, and agents. None of Landlord, its successors or assigns, nor any of their respective equity owners, officers, directors, managers, employees, representatives, and agents, shall ever be personally liable for any such judgment, and tenant shall not seek to enforce any such judgment against any of their assets other than the interest of Landlord (or of such successor in interest) in the Leased Premises.

6.08 Indemnification of Landlord. Tenant shall indemnify, save harmless and defend Landlord, its equity owners, officers, directors, managers, employees, representatives, and agents (collectively the "Landlord Parties") from and against any and all claims, actions, damages, losses, risks, suits, judgments, decrees, orders, liability and expense, including without limitation, reasonable legal fees and costs, suffered or incurred by any of them directly or indirectly, which arise out of, are occasioned by, or are in any way attributable to the following events occurring during the Term: (i) Tenant's use and occupancy of the Leased Premises; (ii) the conduct of Tenant's business; (iii) any activity, work or thing done, permitted or suffered by Tenant in or about the Leased Premises; (iv) the condition of the Leased Premises during the Term; (v) any breach of any representation or warranty or default in the performance of any covenant or obligation to be performed by Tenant beyond the expiration of any applicable notice and cure periods under the terms of this Lease or arising from any act, neglect, fault or omission of Tenant, its agents and servants; or (vi) any accident, injury to or death of any person or damage to any property howsoever caused in or on the Leased Premises during the Term, except to the extent that any of such claims, actions, demands, judgments, damages, liabilities or expenses arise from or are caused by the gross negligence or willful misconduct of Landlord or its agents, in which case Landlord shall indemnify and hold Tenant harmless from such claims. In case any action or proceeding shall be brought against Landlord by reason of any such claim, Tenant, upon receipt of notice from Landlord shall defend the same at Tenant's expense (excluding, however, any such claim to the extent caused by Landlord's gross negligence or willful misconduct).

THE FOREGOING INDEMNITY IS INTENDED TO INDEMNIFY LANDLORD AND THE LANDLORD PARTIES AGAINST THE CONSEQUENCES OF THEIR OWN NEGLIGENCE (INCLUDING WITHOUT LIMITATION, LANDLORD'S AND LANDLORD PARTIES' SOLE OR CONCURRENT NEGLIGENCE), EXCLUDING, HOWEVER, GROSS NEGLIGENCE AND WILLFUL MISCONDUCT BY LANDLORD OR ITS AGENTS, AND SHALL NOT TERMINATE UPON RELEASE OR OTHER TERMINATION OF THIS LEASE WITH RESPECT TO ANY CIRCUMSTANCE OR EVENT EXISTING OR OCCURRING PRIOR TO SUCH RELEASE OR TERMINATION, BUT WILL SURVIVE TERMINATION OF THIS

LEASE. In the event of any action or claim against which Landlord is entitled to indemnification hereunder, Landlord or Tenant, as applicable, shall immediately notify the other party of the same and shall furnish such party with all relevant information concerning such action or claim, and Landlord shall be entitled, at Tenant's expense, to participate in, and to the extent that Landlord wishes, to assume the defense thereof.

6.09 If Tenant shall not comply with its covenants made in this Article, Landlord may cause insurance as aforesaid to be issued, in such event Tenant agrees to pay, as additional rent, the premium for such insurance upon Landlord's demand.

## ARTICLE VII PRIORITY OF LEASE

7.01 Subordination . Landlord shall have the right to transfer, mortgage, assign, pledge and convey in whole or in part the Leased Premises, the Property, this Lease and all rights of Landlord existing and to exist, and rents and amounts payable to it under the provisions hereof; and nothing herein contained shall limit or restrict any such right, and, subject to the requirements in Section 7.04 that Tenant attorn to the rights of a subsequent landlord, and the requirements in Section 16.01 that such subsequent landlord honor the rights of Tenant hereunder so long as Tenant is not in default hereunder, the rights of Tenant under this Lease shall be subject and subordinate to all instruments executed and to be executed in connection with the exercise of any such right of Landlord, including, but not limited to, the lien of any mortgage, deed of trust or security agreement now or hereafter placed upon the Leased Premises and the Property and to all renewals or modifications thereof. Said subordination shall not require the agreement or consent of Tenant, but Tenant covenants and agrees, if requested, to execute and deliver upon demand such further instruments subordinating this Lease to the lien of any such mortgage, deed of trust or security agreement as shall be requested by Landlord and/or any mortgagee, proposed mortgagee or holder of any security agreement, and Tenant hereby irrevocably appoints Landlord as its attorney-in-fact to execute and deliver any such instrument for and in the name of Tenant. Landlord agrees to reimburse Tenant for the reasonable attorney fees Tenant may incur in reviewing such subordination agreement.

Notwithstanding anything set out in this Lease to the contrary, in the event the holder of any mortgage or deed of trust elects to have this Lease superior to its mortgage or deed of trust, then, upon Tenant being notified to that effect by such encumbrance holder, this Lease shall be deemed prior to the lien of said mortgage or deed of trust, whether this Lease is adopted prior to or subsequent to the date of said mortgage or deed of trust.

7.02 Notice to Landlord of Default. In the event of any act or omission by Landlord which would give Tenant the right to terminate this Lease or claim a partial or total eviction, or make any claim against Landlord for the payment of money, Tenant will not make such claim or exercise such right until it has given written notice of such act or omission to:

(a) Landlord; and

(b) the holder of any mortgage, deed of trust or other security instrument as to whom Landlord has instructed Tenant to give copies of all of Tenant's notices to Landlord; and

after thirty (30) days shall have elapsed following the giving of such notice, during which such parties or any of them have not commenced diligently to remedy such act or omission or to cause

the same to be remedied. Nothing herein contained shall be deemed to create any rights in Tenant not specifically granted in this Lease or under applicable provisions of law.

7.03 **Estoppel Certificate.** Tenant agrees, at any time, and from time to time, upon not less than fifteen (15) days' prior notice by Landlord, to execute, acknowledge and deliver to Landlord, a statement in writing addressed to Landlord or other party designated by Landlord certifying that this Lease is in full force and effect (or, if there have been modifications, that the same is in full force and effect as modified and stating the modifications), stating the actual commencement and expiration dates of the Lease, stating the dates to which rent, and other charges, if any, have been paid, that the Leased Premises have been completed on or before the date of such certificate and that all conditions precedent to the Lease taking effect have been carried out, that Tenant has accepted possession, that the lease term has commenced, Tenant is occupying the Leased Premises and is open for business, and stating whether or not there exists any default by either party in the performance of any covenant, agreement, term, provision or condition contained in this Lease, and, if so, specifying each such default of which the signer may have knowledge and the claims or offsets, if any, claimed by Tenant, it being intended that any such statement delivered pursuant hereto may be relied upon by Landlord or a purchaser of Landlord's interest and by any mortgagee or prospective mortgagee of any mortgage affecting the Leased Premises or the Property. If Tenant does not deliver such statement to Landlord within such fifteen

(15) day period, Landlord, and any prospective purchaser or encumbrancer, may conclusively presume and rely upon the following facts: (i) that the terms and provisions of this Lease have not been changed except as otherwise represented by Landlord; (ii) that this Lease has not been canceled or terminated except as otherwise represented by Landlord; (iii) that not more than one

(1) month's Minimum Rent or other charges have been paid in advance; and (iv) that Landlord is not in default under the Lease. In such event, Tenant shall be estopped from denying the truth of such facts. Tenant shall also, on fifteen (15) days' written notice, provide an agreement in favor of and in the form customarily used by such encumbrance holder, by the terms of which Tenant will agree to give prompt written notice to any such encumbrance holder in the event of any casualty damage to the Leased Premises or in the event of any default on the part of Landlord under this Lease, and will agree to allow such encumbrance holder a reasonable length of time after notice to cure or cause the curing of such default before exercising Tenant's right of self-help under this Lease, if any, or terminating or declaring a default under this Lease.

7.04 **Attornment.** Tenant agrees that no foreclosure of a mortgage affecting the Leased Premises, nor the institution of any suit, action, summary or other proceeding against Landlord herein, or any successor Landlord, or any foreclosure proceeding brought by the holder of any such mortgage to recover possession of such property, shall by operation of law or otherwise result in cancellation or termination of this Lease or the obligations of Tenant hereunder, and upon the request of the holder of any such mortgagee, Tenant covenants and agrees to execute an instrument in writing satisfactory to such party or parties or to the purchaser of the mortgaged premises in foreclosure whereby Tenant attorns to such successor in interest and such successor in interest agrees to assume the obligations of Landlord hereunder arising from and after the date that title to the Leased Premises is acquired by such successor in interest.

## ARTICLE VIII ASSIGNMENT AND SUBLetting

8.01 Consent Required. Tenant shall not voluntarily or involuntarily or by operation of law, assign, transfer or encumber this Lease, in whole or in part, nor sublet all or any part of the Leased Premises without the prior written consent of Landlord in each instance, and any attempt to do any of the foregoing without the prior express written consent of Landlord shall be void and of no effect. Consent by Landlord may be withheld or conditioned in Landlord's commercially reasonable discretion; provided, however, Tenant and their assigns or sublessees shall not engage in the operation, distribution, handling, storage, or transportation of any currently illegal products or prohibited drug-related activities, including but not limited to cannabis, medical cannabis, and all other cannabis-related products. The consent by Landlord to any assignment or subletting shall not constitute a waiver of the necessity for such consent in any subsequent assignment or subletting.

Landlord agrees to consent to Tenant subleasing all or a portion of the Leased Premises to a subtenant entity that is controlled by Tenant or one of its affiliates, provided that Landlord reasonably determines that the sublease does not impair the Tenant's ability to perform its obligations hereunder.

Notwithstanding any assignment or sublease hereunder (whether permitted in this Lease or consented to by Landlord) Tenant shall remain fully liable on this Lease and shall not be released from performing any of the terms, covenants and conditions hereof without Landlord's specific written release (which may be granted or withheld in Landlord's commercially reasonable discretion).

Landlord shall have the right to convey all or any part of its interest in the real property of which the Leased Premises are a part or its interest in this Lease. All covenants and obligations of Landlord under this Lease shall cease upon the execution of such conveyance, but such covenants and obligations shall run with the land and shall be binding upon the subsequent owner or owners thereof or of this Lease.

In the event that a permitted sublease hereunder generates Minimum Rent in excess of the proportional amount then being paid by Tenant under the terms of this Lease and such sublease is not with a subtenant entity that is controlled by Tenant or one of its affiliates, then in such event Landlord and Tenant shall share equally in such profit pursuant to a document confirming the terms and conditions of such sublease.

## ARTICLE IX

### WASTE, GOVERNMENTAL REGULATIONS AND HAZARDOUS SUBSTANCES

9.01 Waste or Nuisance. Tenant shall not commit or suffer to be committed any waste upon the Leased Premises or any nuisance or other act or thing which may disturb the quiet enjoyment of any other Tenant in the Property.

9.02 Governmental Regulations. Tenant shall, at its sole cost and expense, comply with all material requirements of all county, municipal, state, federal and other applicable governmental authorities, now in force or which may hereafter be in force. Specifically, Tenant shall materially comply with all applicable statutes, ordinances, rules, regulations, codes, orders, requirements, directives, binding written interpretations and binding written policies, rulings, and decrees of all local, municipal, state and federal governments, departments, agencies, commissions, boards or political subdivisions applicable to or having jurisdiction over the use, occupancy, operation and maintenance of the Leased Premises, including without limitation all Environmental Laws (as hereinafter defined), the Americans with Disabilities Act and other access laws, zoning restrictions and those which require the making of any structural, unforeseen or extraordinary changes and including those which involve a change of policy on the part of the governmental body enacting the same ("Laws"); provided, however, that the Tenant shall timely cure and/or follow the issuance of any orders, citations, violations, notices or any communication from a governmental entity with jurisdiction over the Tenant or the Leased Premises. Tenant shall procure and maintain all permits, licenses and other authorizations required for the use of the Leased Premises or any part thereof then being made and for the lawful and proper installation, operation and maintenance of all equipment and appliances necessary or appropriate for the operation and maintenance of the Leased Premises, and shall comply in all respects with the Permitted Exceptions.

9.03 Hazardous Substances.

(a) Tenant represents and warrants to Landlord that it shall not transport, use, store, maintain, generate, manufacture, handle, dispose, release, or discharge any Hazardous Materials (as hereinafter defined) upon or about the Leased Premises in violation of any applicable laws, nor permit any of its agents, representatives, employees, contractors, subcontractors, subtenants, licensees or invitees to engage in such activities upon or about the Leased Premises, and Tenant further agrees to indemnify, defend and hold Landlord harmless from and against any and all claims, demands, actions, damages, losses, risks, litigation, liabilities and expenses (including reasonable attorneys' fees and costs), from any claim now existing or which may arise due to Environmental Liabilities (as defined hereinafter), Tenant's breach of said representation and warranty or violation of Environmental Law (as hereinafter defined). However, the foregoing provisions shall not prohibit products of the type and in the amounts typically used or sold in the ordinary course of business in connection with the operation of the Tenant's business, provided: (i) such substances shall be used and maintained only in such quantities as are reasonably necessary for Tenant's permitted use of the Leased Premises, in accordance with Environmental Law and the manufacturers' instructions therefor; (ii) such substances shall not be disposed of, released, or discharged at the Leased Premises and shall be transported to and from the Leased Premises in compliance with Environmental Law, (iii) if Environmental Law or Tenant's trash removal contractor requires that any such substances from the Leased Premises be disposed of separately from ordinary trash, Tenant shall make arrangements at Tenant's cost and expense for such disposal directly with a qualified and licensed disposal company at a lawful disposal site, and shall ensure that disposal occurs frequently enough to prevent unnecessary storage or accumulation of such substances in the Leased Premises, or on the Land, and (iv) any remaining such substances shall be completely, properly and lawfully removed by Tenant from the Leased Premises upon expiration or earlier termination of this Lease or Tenant's right to possession.

(b) TENANT FOREVER RELEASES AND DISCHARGES LANDLORD AND ITS AFFILIATES FROM AND AGAINST ANY AND ALL LOSSES WHICH ARISE OUT OF , OR ARE ALLEGED TO HAVE ARisen OUT OF: (A) THE VIOLATION OF ANY ENVIRONMENTAL LAW BY ANY PERSON (OTHER THAN LANDLORD OR ANY OF ITS AFFILIATES) IN CONNECTION WITH THE LEASED PREMISES; OR (B) THE PRESENCE, USE, GENERATION, STORAGE, REMEDIATION OR RELEASE OF HAZARDOUS MATERIAL ON, UNDER, AT OR ABOUT THE LEASED PREMISES ATTRIBUTABLE TO THE ACTIONS OR OMISSIONS OF ANY PERSON (INCLUDING LANDLORD AND ITS AFFILIATES). WITHOUT LIMITING THE FOREGOING, THIS RELEASE SHALL INCLUDE ANY AND ALL COSTS FOR ANY INVESTIGATIONS OF THE LEASED PREMISES AND OTHER AFFECTED PROPERTY, ANY CLEANUP, REMOVAL, REPAIR , REMEDIATION OR RESTORATION OF THE LEASED PREMISES AND OTHER AFFECTED PROPERTY, THE PREPARATION OF ANY WORK PLANS REQUIRED OR PERMITTED BY ANY GOVERNMENTAL AUTHORITY, THE PREPARATION OF ANY CORRECTIVE ACTION, CLOSURE OR OTHER PLAN OR REPORT, AND ALL FORESEEABLE AND UNFORESEEABLE CONSEQUENTIAL DAMAGES, IN EACH CASE ARISING DIRECTLY OR INDIRECTLY OUT OF THE PRESENCE, USE, GENERATION, STORAGE, REMEDIATION OR RELEASE OF HAZARDOUS MATERIAL BY ANY PERSON ON, UNDER, AT OR ABOUT THE LEASED PREMISES.

(c) Tenant shall promptly notify Landlord upon the Tenant becoming aware of: (i) any enforcement, cleanup, or other regulatory action taken or threatened against Tenant by any governmental or regulatory authority with respect to the presence of any Hazardous Material at the Leased Premises, or the migration thereof from or to other property, (ii) any demands or claims made or threatened by any party against Tenant relating to any loss or injury resulting from any Hazardous Material, (iii) any unlawful release, discharge, or non-routine, improper or unlawful disposal or transportation of any Hazardous Material on or from the Leased Premises and (iv) any matters where Tenant is required by Environmental Law to give a notice to any governmental or regulatory authority respecting any Hazardous Materials in the Leased Premises. Landlord shall have the right (but not the obligation) to join and participate, as a party, in any legal proceedings or actions affecting the Leased Premises, or the Land initiated in connection with Environmental Law. At such times as Landlord may reasonably request, Tenant shall provide Landlord with a written list identifying any Hazardous Material then actually known to Tenant to be the used, stored, or maintained in, on or upon the Land. Tenant shall additionally provide Landlord information with respect to the use and approximate quantity of each such material, a copy of any material safety data sheet issued by the manufacturer therefor, written information concerning the removal, transportation, and disposal of the same, and such other information as Landlord may reasonably require or as may be required by Environmental Law.

(d) "**Hazardous Materials**" shall mean (i) any lead-based paint, petroleum, hazardous or toxic petroleum-derived substances or petroleum products, flammable explosives, radioactive materials, radon, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing levels of polychlorinated biphenyls (PCBs); (ii) any chemicals or other materials or substances which are regulated, classified or defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", "pollutant" or "contaminant" or any similar

denomination intended to classify substances by reason of toxicity, carcinogenicity, ignitability, corrosivity or reactivity under any Environmental Law; and (iii) any other waste, material (including, building construction materials and debris) or substance that is regulated by, or may in the future form the basis of liability under, any Environmental Law.

(e) **"Environmental Law"** means all Laws and any writ, judgment, decree, injunction or similar order, directive or other requirement of any governmental authority (in each such case whether preliminary or final), and contractual obligations concerning pollution or protection of the environment, sanitation, public and worker health and safety, including Laws relating to wetlands, emissions, discharges, releases, or threatened releases of pollutants, contaminants, or chemical, industrial, hazardous, or toxic materials or wastes into ambient air, surface water, groundwater, or lands or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, or chemical, industrial, hazardous, or toxic materials or wastes, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and all rules and regulations promulgated thereunder, the Comprehensive Environmental Response, Compensation and Liability Information System, as provided for by 40

C.F.R. § 300.5 and all rules and regulations promulgated thereunder, the Resource Conservation and Recovery Act, the Clean Air Act, the Clean Water Act, the Toxic Substance Control Act, the Occupational Safety and Health Act, and similar federal, state, provincial, municipal or local Laws, in all cases as the same have been or may be amended from time to time.

(f) **"Environmental Liabilities"** means those liabilities arising in connection with or in any way relating to the Leased Premises or any activities or operations at any time occurring or conducted at the Leased Premises, the presence of any Hazardous Materials on, about or under the Leased Premises or migrating thereto or therefrom, or any releases or threatened releases of Hazardous Materials from the Leased Premises (including any removal and offsite disposal of Hazardous Materials from the Leased Premises), which in each case arise under or in connection with any applicable Environmental Law, including any and all liabilities arising in connection with or relating to any investigation, remediation or other response or any claim, demand, litigation or other proceeding.

(g) Notwithstanding anything contained in this section to the contrary, Landlord agrees that during the term of this Lease Landlord shall not introduce any Hazardous Materials to the Leased Premises and shall not take any other action that would in any way increase any Environmental Liability.

#### ARTICLE X DESTRUCTION OF LEASED PREMISES

10.01 Damage or Destruction. If the buildings or other improvements located on and constituting a portion of the Leased Premises are damaged or destroyed by fire or other casualty, this Lease shall continue in full force and effect provided Landlord and its mortgagee(s) shall make such casualty insurance proceeds available for the repair and reconstruction of the Premises through an appropriate, as determined by Landlord, independent escrow of such proceeds and otherwise in accordance with Landlord's mortgagee. Landlord shall, as promptly as possible, and, subject to the approval of Landlord and its mortgagee(s) and in compliance with all applicable

laws, restore, repair or rebuild the Leased Premises to substantially the same condition as existed before the damage or destruction using materials of the same or better grade than that of the original construction, including any improvements or alterations required to be made by Law. Landlord shall for this purpose use all, or such part as may be necessary, of the insurance proceeds received from the insurance policies carried on the Leased Premises. If such insurance proceeds are not sufficient to pay such costs, Tenant may elect to pay such deficit. In the event that the Premises are so damaged as to make restoration or repair impractical as determined by Landlord, then Landlord may terminate this Lease as a permitted termination by written notice to Tenant within sixty (60) days of such casualty (the "**Termination Notice**") and Tenant shall be released from its obligation to pay future Minimum Rent from and after the date of Tenant's receipt of such notice. Should Landlord or its mortgagee(s) fail to make such insurance proceeds available for the reconstruction or repair, then Tenant may terminate this Lease as a permitted termination effective as of the date of the casualty, provided any notice is received by Landlord within twenty (20) days of Tenant's receipt of Landlord's written notice in respect of the unavailability of such proceeds.

If by reason of any casualty described above: (i) the Leased Premises is rendered wholly untenable as a result of a risk which is not covered by Landlord's or Tenant's insurance policies; (ii) Landlord's contractor estimates in good faith that such restoration will be completed after three hundred sixty-five (365) days after the casualty, or (iii) the Leased Premises is damaged in whole or in part during the last year of the Lease Term, Tenant shall have the right to terminate this Lease by giving written notice to Landlord within sixty (60) days of receipt of Landlord's contractor's estimate, or the expiration of the foregoing 365-day period, or, if during the last year of the Lease, after the date of such casualty (all as the case may be). If Tenant elects to terminate this Lease, then Tenant shall vacate and surrender the Leased Premises to Landlord within sixty (60) days after receipt of such notice of termination. If Tenant elects not to terminate this Lease as set forth above, Landlord shall proceed promptly and exercising due diligence to restore the Leased Premises.

10.02 Unless this Lease is terminated as aforesaid, this Lease shall remain in full force and effect, and after Landlord's restoration of the Leased Premises, Tenant shall promptly repair, restore, or replace Tenant's improvements, trade fixtures, decorations, signs, and contents in the Leased Premises substantially to the condition thereof existing immediately prior to their damage or destruction.

10.03 Tenant, in the event of a casualty loss caused by Tenant to the Leased Premises, shall pay to Landlord, the cost of the deductible applicable to the insurance policy maintained pursuant to Article 10 of this Lease. Such deductible amount shall be payable to Landlord within ten (10) days of receipt from Landlord of a statement therefore and a payment thereof by Tenant shall be a condition precedent to Landlord's obligations to repair or restore the Leased Premises as provided above.

## ARTICLE XI EMINENT DOMAIN

11.01 Eminent Domain. If any portion of the Leased Premises shall be taken or damaged by condemnation or the exercise of the power of eminent domain, or by agreement reached under

threat thereof (any such event being hereinafter referred to as a "**Taking**"), and such Taking does not (A) render the Building comprising the Leased Premises unavailable for Tenant's continued use as may be reasonably determined and based on Tenant's actual use thereof as of the date of the Taking, or (B) take fifty percent (50.00%) or more of the currently existing parking spaces located thereon, or (C) take more than forty percent (40.00%) of the existing loading dock facilities, or (D) otherwise materially, adversely impairs, denies, or restricts truck or other vehicle access to the loading dock area on the Leased Premises, then (i) this Lease shall continue in full force and effect, and such Taking shall entitle Tenant to an equitable abatement or reduction of Minimum Rent based on the portion of the building square footage of the Leased Premises so taken as it bears to the remaining square footage of the buildings, parking area, and/or loading dock area located on the Leased Premises, and other charges by reason thereof which shall be adjusted as of the date of such Taking; (ii) Landlord shall, as promptly as commercially reasonable, restore, repair or rebuild the Leased Premises to substantially the same condition as existed before the Taking (to the extent reasonably possible, given such Taking) using materials of the same or better grade than that of the materials being replaced, including any improvements or alterations required to be made by Law (hereinafter collectively referred to as the "**Repairs**"; and (iii) Landlord shall, obtain all permits required for such Repairs; provided, however, (x) all sums apportioned as compensation for the loss of or damages to the Leased Premises (hereinafter referred to as the "**Premises Award**") shall, notwithstanding anything to the contrary contained herein (except the immediately following sentence), be awarded, paid or made available to Landlord and its mortgagee(s) and Tenant hereby irrevocably assigns and transfers to Landlord all of Tenant's right, title and interest in and to any condemnation proceeds or awards that may be granted or awarded to Tenant. Notwithstanding the immediately foregoing sentence, however, Landlord shall have no interest in any award made to Tenant for Tenant's moving and relocation expenses or for the loss of Tenant's fixtures and other tangible personal property if a separate award for such items is made to Tenant.

Any repair or restoration work shall be performed within a reasonable time period, done diligently and continually until completed. The Landlord's obligations to rebuild and repair shall in any event be limited to restoring the Leased Premises to substantially the condition in which the same existed prior to such condemnation, exclusive of any of any other alterations, improvements, fixtures and equipment installed by Tenant.

11.02 In the event the entire Premises Award is not to be received by, delivered, or made available to Landlord within three hundred sixty-five (365) days of such Taking for Landlord to restore and complete repair of the Leased Premises to substantially the same condition as it existed prior to such Taking, then Tenant shall have the option to terminate this Lease within thirty (30) days after Landlord's written notice to Tenant of such situation, or it may complete the Repairs at its sole cost and expense; provided, however, Tenant's right to terminate this Lease shall not be conditioned upon Landlord's receipt of the Premises Award. To the extent the Premises Award paid to Landlord exceeds the total cost of the Repairs, Tenant shall have no claim to or interest in such excess Premises Award which may be retained by the Landlord (or to its mortgagee, as directed by Landlord) upon completion of the Repairs. Landlord agrees to give Tenant prompt written notice of any delays in the receipt of any Premises Award.

11.03 The rights and obligations of Landlord and Tenant with respect to such apportionment shall be as provided by this Article, any mortgage, statute, principle of law or rule or equity to the contrary notwithstanding, and each of the parties agrees to cooperate with the other

and to do everything necessary to effect the apportionment herein provided. If Landlord and Tenant cannot agree on a just and equitable apportionment of the final condemnation Award or abatement or reduction of rent, and make other adjustments in a fair and equitable manner within 30 days after the Award becomes final, the disputed matter shall be submitted to the Circuit Court of Bartow County, Georgia. It is the general intent of this Article that, upon condemnation, the parties shall allocate their Award to the extent that their respective interests are depreciated, damaged or destroyed by the exercise of the power of condemnation or of eminent domain.

**11.04** Should all of the Leased Premises be taken under the power of eminent domain or a conveyance in lieu thereof, or if a substantial portion thereof is taken so that the Building or parking areas comprising the Leased Premises are reasonably determined to be unavailable or unsuitable for Tenant's continued use, consistent with Tenant's use of the Leased Premises as of the date of the Taking, then the term of this Lease shall terminate as of the date that title shall vest in the acquiring authority and the rent and other charges shall be adjusted as of the date of such taking and the Awards shall be apportioned pursuant to the provisions of this Article.

## ARTICLE XII DEFAULT OF TENANT

**12.01** Default. The following shall constitute an "Event of Default" under this Lease:

(a) failure of Tenant to pay any rental or charge due hereunder within five (5) business days after written notice thereof (except where Tenant has initiated payment but Landlord did not receive the same because of any act or omission of Landlord); provided, however, that Landlord shall not be required to give any more than two (2) such notices in any 12-month period; or

(b) Tenant failure to maintain any insurance coverages pursuant to this Lease, or the same shall be canceled, terminated, expire, reduced, or materially changed, except, in each case, after five (5) days after written notice from Landlord; or

(c) Tenant's failure to perform any other of the terms, conditions or covenants of this Lease to be observed or performed by Tenant for more than thirty (30) days after written notice thereof, or if such performance cannot be completed within thirty (30) days, Tenant has not started such performance within thirty (30) days and diligently pursued to completion within an additional fifteen (15) days ; provided further, however, that Landlord shall not be required to give any more than two (2) such notices of non-monetary default; or

(d) if Tenant or any Lease guarantor shall become bankrupt or insolvent, or file or have filed against it any bankruptcy proceedings (which, if filed against it, has not been dismissed within 60 days), or take or have taken against it in any court pursuant to any statute, either of the United States or of any state, a petition of bankruptcy or insolvency, or for reorganization or for the appointment of a receiver or trustee of all or a portion of Tenant's property, or if Tenant makes an assignment for the benefit of creditors, or petitions for or enters into an arrangement; or

(e) if Tenant shall abandon the Leased Premises or suffers this Lease to be taken under any writ or execution.

If any Event of Default occurs Landlord, besides all such other rights or remedies it may have, after five (5) business days' notice, shall have the right to enter the Leased Premises and take possession thereof and of all permanent improvements thereon and may remove all persons and property from the Leased Premises by force, summary action, or otherwise, and such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant, all without resort to legal process, and without being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby. Tenant agrees to quit and deliver up the possession of the Leased Premises, including permanent improvements to the Leased Premises, when this Lease terminates by limitation or in any other manner provided for herein.

**12.02 Remedies.** If an Event of Default occurs, in addition to any other rights or remedies it may have in law or in equity, Landlord may elect to do any one or more of the following:

- (a) Terminate this Lease.
- (b) Enter upon and take possession of the Leased Premises without terminating this Lease.
- (c) Alter all locks and other security devices at the Leased Premises with or without terminating this Lease, and pursue, at Landlord's option, one or more remedies pursuant to this Lease, Tenant hereby specifically waiving any state or federal law to the contrary.
- (d) Do whatever Tenant is obligated to do under the terms of this Lease and if necessary, enter upon the Leased Premises using whatever legal means available to Landlord. Tenant agrees that Landlord shall not be liable for any damages resulting to the Tenant from such action, unless caused by the gross negligence or willful misconduct of Landlord .

Upon an Event of Default, Landlord may re-enter, as herein provided, or take possession pursuant to legal proceedings or pursuant to any notice provided for herein, make such alterations and repairs as may be necessary in order to relet the Leased Premises and relet said Leased Premises or any part thereof for such term or terms (which may be for a term extending beyond the term of this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable. Upon each such reletting all rentals received by Landlord from such reletting shall be applied first to the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second, to the payment of any costs and expenses of such reletting, including brokerage fees and reasonable attorneys' fees, and of costs of such alterations and repairs; third, to the payment of the most current rent owed at that time; and the residue, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder from Tenant. If such rentals received from such reletting during any month be less than that to be paid during that month by Tenant hereunder, Tenant shall be liable for the

payment of such deficiency to Landlord. Such deficiency shall be calculated and become payable monthly. No such re-entry or the taking of possession of the Leased Premises by Landlord shall be construed as an election on its part to terminate this Lease or to accept a surrender thereof unless a written notice of such intention be given to Tenant. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach. Should Landlord at any time terminate this Lease for any Event of Default, in addition to any other remedies it may have, it may recover from Tenant all damages it may incur by reason of such breach, including the cost of recovering the Leased Premises, and the worth at the time of such termination of the excess, if any, of the amount of rent and charges equivalent to rent reserved in this Lease for the remainder of the stated term over the then-reasonable rental value of the Leased Premises for the remainder of the stated term, all of which amounts shall be immediately due and payable from Tenant to Landlord. In determining the rent which would be payable by Tenant hereunder subsequent to default, the annual rent for each year of the unexpired term shall be equal to the average annual minimum rent paid by Tenant from the commencement of the term to the time of default, or during the preceding three (3) full calendar years, whichever period is shorter. Any reletting shall be done in such a manner as Landlord may deem proper, and if Tenant believes Landlord's efforts are not sufficient, Tenant shall so notify Landlord in writing and shall specify in detail such additional action Landlord should take. Unless such notice is given, Landlord's efforts to relet shall be deemed to be adequate. Tenant agrees that this Lease is a Lease of "real property in a Property" and that a debtor in possession and/or trustee in bankruptcy acting pursuant to the provisions of the revised bankruptcy code, may assume this Lease only if, in addition to such other conditions of this Lease and of applicable law, said debtor in possession/trustee shall provide Landlord with such written assurances of future performance as are acceptable to Landlord. In addition to other remedies available under this Lease, in the event of an occurrence of an Event of Default or, in the event of a threatened breach by Tenant of any of the covenants or provisions hereof, Landlord shall have the right of injunction and the right to invoke any remedy allowed at law or in equity as if re-entry, summary proceedings and other remedies were not herein provided for. Mention in this Lease of any particular remedy shall not preclude Landlord from any other remedy, in law or in equity. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event Tenant is evicted or dispossessed for any cause, or in the event Landlord obtains possession of the Leased Premises. No receipt of monies by Landlord from or for the account of Tenant or from anyone in possession or occupancy of the Leased Premises after the termination in any way of this Lease or after the giving of any notice of termination, shall reinstate, continue or extend the term of this Lease or affect any notice given to Tenant prior to the receipt of such money; it being agreed that after the service of notice of termination or commencement of a suit, or after final judgment for possession of the Leased Premises, Landlord may receive and collect any rent or other amounts due Landlord, and such payment shall not in any respect reinstate said Lease and shall not waive, affect or impair said notice, said suit or said judgment without the express written consent of Landlord.

**12.03 Legal Expenses.** If suit shall be brought or claim shall be made (whether or not suit is commenced or judgment entered) for recovery of possession of the Leased Premises, and/or the recovery of rent or any other amount due under provisions of this Lease, or because of the breach of any other covenant herein contained on the part of Tenant to be kept or performed, and the breach shall be established, Tenant shall pay to Landlord, in addition to all other sums and relief

available to Landlord, all expenses incurred therefor, including reasonable attorneys' fees to the maximum extent permitted by law. Should any such action be brought by Landlord against Tenant, or by Tenant against Landlord, and Tenant obtains a judgment in its favor and against Landlord, Tenant shall be entitled to pursue a claim against Landlord for Tenant's reasonable attorney's fees incurred in defending against Landlord's claim.

**12.04 Failure to Pay; Late Charge and Interest.** If Tenant at any time shall fail to pay any rental, Taxes, insurance premiums, liens, or to make any payment or perform any act required by this Lease to be made or performed by it, Landlord, without waiving or releasing Tenant from any obligation or default under this Lease, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of Tenant. All sums so paid by Landlord and all costs and expenses so incurred shall accrue interest at a rate equal to the lesser of thirteen and 75/100 percent (13.75%) per annum or the maximum rate permitted by law, from the date of payment or incurring thereof by Landlord and shall constitute additional rent payable by Tenant under this Lease and shall be paid by Tenant to Landlord upon demand (except where Tenant has initiated payment but Landlord did not receive the same because of any act or omission of Landlord). All other sums payable by Tenant to Landlord under this Lease, if not paid when due, shall accrue interest at a rate equal to the lesser of thirteen and 75/100 percent (13.75%) per annum or the maximum rate permitted by law, from their due date until paid, said interest to also constitute additional rent under this Lease and shall be paid to Landlord by Tenant upon demand; provided, however, that the interest rate will not apply to any sums not received timely by Landlord because of any act or omission of Landlord regarding such payment.

In addition to the foregoing default interest, should Landlord fail to receive any Rent due under this Lease within five (5) business days after such payment is due (except in the event that Landlord's failure to receive the same is caused by Landlord's act or omission), Tenant agrees to pay Landlord as a late charge, three percent (3.00%) of any such payment for the first occurrence, and five percent (5.00%) for any occurrence thereafter, (except where Tenant has initiated payment but Landlord did not receive the same because of any act or omission of Landlord), in order to compensate Landlord for expenses incurred for attempting to collect and processing late payments.

#### ARTICLE XIII ACCESS BY LANDLORD

**13.01 Right of Entry.** Except in the event of an emergency (in which case Landlord may enter upon the Leased Premises without notice to Tenant), Landlord or Landlord's agents shall have the right to enter the Leased Premises at all reasonable times with at least forty-eight (48) hours advance oral or written notice to Tenant (including any manager located at the Leased Premises) to examine the same and to show it to purchasers and to make such repairs, alterations, improvements or additions as Landlord may deem necessary or desirable, and Landlord shall be allowed to take all material into and upon said premises that may be required therefor without the same constituting an eviction of Tenant in whole or in part. At any time during the last twelve (12) months of the term or renewal term hereof, Landlord may exhibit the Leased Premises to prospective tenants or purchasers and place upon the Leased Premises the usual notice "To Let."

Nothing herein contained, however, shall be deemed or construed to impose upon Landlord any obligation, responsibility or liability whatsoever for the care, maintenance or repair of the building or any part thereof, except as otherwise herein specifically provided. Landlord's inspection and showing of the Leased Premises shall not unreasonably interfere with the conduct of Tenant's business.

#### ARTICLE XIV TENANT'S PROPERTY

14.01 Taxes on Leasehold. Tenant shall be responsible for and shall pay before delinquency all municipal, county or state taxes assessed during the term of this Lease against any leasehold interest or personal property of any kind owned by or placed in, upon or about the Leased Premises by Tenant.

14.02 Loss and Damage. Landlord shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, rain or snow, or leaks from any part of the Leased Premises, or from the pipes, appliances or plumbing works, or from the roof, street or subsurface, or from any other place, or by dampness or by any other cause of whatsoever nature, and whether originating in the Leased Premises or elsewhere. All property of Tenant kept or stored on the Leased Premises shall be so kept or stored at the risk of Tenant only, and Tenant hereby indemnifies, defends, and holds Landlord harmless from any claims arising out of damage to the same, including subrogation claims by Tenant's insurance carriers, a waiver of which shall be obtained in advance by Tenant.

14.03 Notice by Tenant. Tenant shall give immediate notice to Landlord in case of fire or accidents, or damage to or of defects in the Leased Premises or in the building of which the Leased Premises are a part.

#### ARTICLE XV HOLDING OVER; SUCCESSORS

15.01 Holding Over. Any holding over after the expiration of the term hereof, with or without the consent of Landlord, shall be construed to be a tenancy at will (or at sufferance) at the Minimum Rent of 1.375 times the Minimum Rent reserved for the last month of the Lease term, and with all other rents herein specified (prorated on a monthly basis) and shall otherwise be on the terms and conditions herein specified, so far as applicable.

15.02 Successors and Assigns. Except as otherwise herein provided, this Lease and all the covenants, terms, provisions and conditions herein contained shall inure to the benefit of and be binding upon the heirs, representatives, successors and assigns of each party hereto, and all covenants herein contained shall run with the land and bind any and all successors in title to Landlord.

#### ARTICLE XVI

## QUIET ENJOYMENT

16.01 Landlord's Covenant. Upon payment by Tenant of the rents herein provided, and upon the observance and performance of all the covenants, terms and conditions on Tenant's part to be observed and performed, Tenant shall peaceably and quietly hold and enjoy the Leased Premises for the term hereby demised without hindrance or interruption by Landlord or any other person or persons lawfully or equitably claiming by, through or under Landlord; subject, nevertheless, to all the terms and conditions of this Lease (including, without limitation, Section 16.02 below).

16.02 Landlord will put Tenant in actual possession of the Leased Premises as of the commencement date or such other date as may be agreed upon by the parties hereto, and Tenant, on paying the rent and performing the covenants herein agreed by it to be performed, shall and may peaceably and quietly have, hold and enjoy the Leased Premises for the Term without interference by Landlord or any person lawfully or equitably claiming by, through or under Landlord, subject to (i) the provisions of this Lease, (ii) all Laws (as hereinafter defined), and (iii) all deeds, leases, subleases, options, contracts, extension letters, easements, reciprocal easements, assignments, termination agreements, subordination agreements, non-disturbance agreements, estoppel certificates, amendments or supplements to any of the foregoing, and recorded memoranda of any of the foregoing, all with respect to the Leased Premises, which, in each case (a) are recorded of record prior to the execution hereof, (b) copies of which have been made available to Tenant, or which are referenced with specificity in a document which has been made available to Tenant prior to the execution hereof, or (c) of which Tenant has knowledge prior to the execution hereof (collectively, the "**Permitted Exceptions**"). Exercise by Landlord of its rights to enter the Leased Premises as set forth in this Lease shall not constitute a violation of this Article.

16.03 Quiet Enjoyment. Notwithstanding anything contained in this Lease to the contrary, Landlord, on behalf of itself and or any other person or persons lawfully or equitably claiming by, through or under Landlord, agrees that it shall take no action which would interfere with Tenant's use and quiet enjoyment of the Leased Premises.

## ARTICLE XVII MISCELLANEOUS

17.01 Waiver. The waiver by Landlord of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition herein contained. No covenant, term or condition of this Lease shall be deemed to have been waived by Landlord unless such waiver shall be in writing.

17.02 Accord and Satisfaction. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly rent installments herein stipulated shall be deemed to be other than on account of the most current stipulated rent owed at that time, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction.

17.03 No Partnership. Landlord does not, in any way or for any purpose, become a partner of Tenant in the conduct of its business or otherwise, or joint venturer or a member of a joint enterprise with Tenant.

17.04 Force Majeure. In the event either party hereto shall be delayed or hindered in or prevented from the performance of any act required hereunder as to the repair and replacement of the Premises by reason of strikes, lockouts, labor troubles, inability to procure materials, failure of power, restrictive governmental laws or regulations, riots, insurrection, war or other reason of a like nature not the fault of the party delayed in performing work, then the time allowed for performance of such work shall be extended by a period equivalent to the period of such delay. The provisions of this Section shall not operate to excuse Tenant from the prompt payment of rent, percentage rent, additional rent, or any other payments required by the terms of this Lease.

17.05 Landlord's Liability . If Landlord shall fail to perform any covenant, term or condition of this Lease upon Landlord's part to be performed and, as a consequence of such default, Tenant shall recover a money judgment against Landlord, whether for damages or attorney fees or both, such judgment shall be satisfied only out of the proceeds of sale received upon execution of such judgment and levy thereon against the right, title and interest of Landlord in the Leased Premises as the same may then be encumbered and neither Landlord nor if Landlord be a partnership, any of the partners comprising such partnership shall be liable for any deficiency. IT IS UNDERSTOOD IHA TIN NO EVENT SHALL TENANT HAVE ANY RIGHT TO (I) LEVY EXECUTION AGAINST ANY PROPERTY OF LANDLORD OTHER THAN ITS INTEREST IN THE LEASED PREMISES AS HEREINBEFORE EXPRESSLY PROVIDED, OR (II) COLLECT CONSEQUENTIAL DAMAGES FROM LANDLORD. IN THE EVENT OF THE SALE OR OTHER TRANSFER OF LANDLORD'S RIGHT, TITLE AND INTEREST IN THE LEASED PREMISES, LANDLORD SHALL BE RELEASED FROM ALL LIABILITY AND OBLIGATIONS HEREUNDER.

17.06 Notices and Payments. Any notice by Tenant to Landlord must be served by certified mail, postage prepaid, addressed to Landlord at the place designated for the payment of rent, or at such other address as Landlord may designate from time to time by written notice. Any notice by Landlord to Tenant must be served by certified mail, postage prepaid, addressed to Tenant at the Leased Premises, or at such other address as Tenant may designate from time to time by written notice to Landlord. All notices shall be effective upon delivery or attempted delivery in accordance with this Section. Until otherwise notified in writing, Tenant shall pay all rent reserved herein and all other sums required under this Lease by wire transfer or by check , as determined by Landlord, payable to the order of Landlord, and shall forward the same to Landlord as herein provided.

17.07 Captions and Section Numbers. The captions, section numbers, article numbers and headings appearing in this Lease are inserted only as a matter of convenience and in no way define, limit, construe or describe the scope or intent of such sections or articles of this Lease.

17.08 Definitions. The word "Tenant" shall mean each and every person, firm or corporation mentioned as a Tenant herein, be the same one or more; and if there shall be more than

one Tenant, any notice required or permitted by the terms of this Lease may be given by or to any one thereof, and it shall have the same force and effect as if given by or to all thereof. If there shall be more than one Tenant, they shall all be bound jointly and severally.

17.9 Partial Invalidity. If any term, covenant or condition of this Lease, or the application thereof to any person or circumstance, shall to any extent be invalid or unenforceable, the remainder of this Lease or the application of such term, covenant or condition of this Lease shall be valid and enforceable to the fullest extent permitted by law.

17.10 Recording. A certificate or memorandum of this Lease, prepared by Landlord or Tenant, may be recorded at Tenant's expense. Tenant and Landlord shall execute any such certificate or memorandum upon demand by the other party hereto.

17.11 Entire Agreement. The Lease, the exhibits and rider, if any, set forth all the covenants, promises, agreements, conditions and understandings between Landlord and Tenant concerning the Leased Premises and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them other than as herein set forth. All prior communications, negotiations, arrangements, representations, agreements and understandings, whether oral, written or both, between the parties hereto, and their representatives, are merged herein and extinguished, this Lease superseding and canceling the same. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and executed by the party against which such subsequent alteration, amendment, change or modification is to be enforced. If any provision contained in any rider hereto is inconsistent with any printed provisions of this Lease the provision contained in such rider shall supersede said printed provision. Tenant hereby acknowledges that this Lease contains no restrictive covenants or exclusives in favor of Tenant;

17.12 Applicable Law. This Lease and the rights and obligations of the parties arising hereunder shall be construed in accordance with the laws of the State of Georgia.

17.13 Consents. Whenever Landlord's consent is required herein, such consent shall not be deemed given until Landlord has provided such consent in writing. Landlord agrees that its consent shall be in its sole discretion, except where otherwise provided herein. Tenant shall pay Landlord's reasonable attorneys' fees incurred in connection with Tenant's request for Landlord's consent in connection with a request or approval of a sublease or assignment under Section 8.01 of this Lease.

17.14 Authority. The persons executing this Lease on behalf of Tenant hereby covenant and warrant that Tenant is a duly qualified corporation and all steps have been taken prior to the date hereof to qualify Tenant to do business in the State; all franchise and corporate taxes have been paid to date; all future forms, reports, fees and other documents necessary to comply with applicable laws will be filed when due; and those persons executing this Lease on behalf of Tenant are duly qualified and authorized to bind, and in fact do bind, the corporation.

17.15 Interpretation. Both parties have read this Lease and had the opportunity to employ legal counsel and negotiate changes to the Lease. The Lease is the joint product of the parties and,

in the event of any ambiguity herein, no inference shall be drawn against a party by reason of document preparation.

#### ARTICLE XVIII RIGHT OF FIRST REFUSAL

18.01 Tenant's Right of First Refusal. Landlord hereby grants Tenant and its permitted assigns a right to purchase the Property, on the same terms and conditions set forth in any offer from an unrelated third party that Landlord desires to accept; provided that Tenant must exercise such right of first refusal by giving written notice to Landlord within ten (10) business days after Landlord delivers a copy of such offer to Tenant, and Tenant must close on such purchase within the lesser of ninety (90) days or the closing time period in the third party offer after exercising this right of first refusal.

18.02 Tenant's failure to respond within the foregoing 10-business day period shall be deemed a waiver of Tenant's rights under this Section. However, notwithstanding the foregoing sentence, Tenant agrees to execute upon demand such documents, affidavits or other statements (in recordable form) as Landlord or a title insurance company may require to evidence Tenant's waiver of its right of first refusal rights hereunder. In the event that Tenant fails or refuses to execute such written waiver within five (5) days after Landlord's written request for the same, Landlord may, on behalf of the Tenant, execute any such waiver document or statement as Landlord or a title insurance company may require. In connection with such right, Tenant hereby appoints Landlord attorney in fact for Tenant irrevocably (such power of attorney being coupled with an interest) to execute, acknowledge and deliver any such waiver document or instrument for and in the name of the Tenant and to cause any such instrument to be recorded.

[Signatures on Following Page]

**[Signature Page to Lease Agreement]**

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

LANDLORD:

**ADAIRSVILLE, GA, LLC,**

a Delaware limited liability company

By: /s/ Kamyar Mateen

Name: Kamyar Mateen

Title: Manager

TENANT:

**TDG OPERATIONS, LLC,**

a Georgia limited liability company

By: /s/ Allen L. Danzey

Name: Allen L. Danzey

Title: Vice President

**[Signature Page to Lease Agreement]**

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the day and year first above written.

LANDLORD:

**ADAIRSVILLE GA, LLC,**  
a Delaware limited liability company

By: /s/Kamyar Mateen  
Name: Kamyar Mateen  
Title: Manager

TENANT:

**TDG OPERATIONS, LLC,**  
a Georgia limited liability company

By: /s/ Allen L. Danzey  
Name: Allen L. Danzey Title: Vice President

EXHIBIT "A"  
TO LEASE AGREEMENT LEASED PREMISES LEGAL

DESCRIPTION

All that certain lot, piece or parcel of land, with the buildings and improvements thereon erected, situate, lying and being in the City of Adairsville, County of Bartow, State of Georgia.

All that tract or parcel of land lying and being in the City of Adairsville in Land Lot 199 of the 15th District and 3rd Section of Bartow County, Georgia containing 17.480 acres and being more particularly described as follows:

To find the Point of Beginning, commence at the intersection of the North right-of-way of Martin Luther King, Jr., Drive formerly Mitchell Road (50' RJW) with the line dividing Land Lots 199 and 222 of said District;

Thence South 86 degrees 49 minutes 48 seconds West for a distance of 80.09 feet along the North right-of-way of Martin Luther King, Jr., Drive to a point;

Thence North 87 degrees 21 minutes 11 seconds West for a distance of 150.01 feet along said North right-of-way to a point;

Thence North 87 degrees 21 minutes 11 seconds West for a distance of 174.90 feet along said North right-of-way to an iron pin found at the intersection of said North right-of-way with the West right-of-way of Princeton Boulevard (100' RJW) and the Point of Beginning.

Thence from the Point of Beginning thus established run North 87 degrees 25 minutes 38 seconds West for a distance of 291.24 feet along the North right-of-way of Martin Luther King, Jr., Drive to a point;

Thence North 86 degrees 44 minutes 00 seconds West for a distance of 227.19 feet along said North right-of-way to a point

Thence North 87 degrees 22 minutes 40 seconds West for a distance of 150.02 feet along said North right-of-way to a point;

Thence North 88 degrees 18 minutes 17 seconds West for a distance of 181.10 feet along said North right-of-way to a point;

Thence North 87 degrees 42 minutes 10 seconds West for a distance of 340.44 feet along said North right-of-way to an iron pin found;

Thence North 00 degrees 48 minutes 25 seconds East for a distance of 730.96 feet leaving said North right-of-way to an iron pin found;

Thence South 66 degrees 20 minutes 25 seconds East for a distance of 585.15 feet to an iron pin

placed;

Thence North 51 degrees 57 minutes 18 seconds East for a distance of 465.70 feet to an iron pin placed on the West right-of-way of Princeton Boulevard;

Thence South 38 degrees 49 minutes 08 seconds East for a distance of 246.85 feet along the West right-of-way of Princeton Boulevard to an iron pin found;

Thence along a curve to the right having a radius of 556.7 feet and an arc length of 380.73 feet, being subtended by a chord of South 19 degrees 13 minutes 20 seconds East for a distance of 373.36 feet along said West right-of-way to an iron pin found;

Thence South 00 degrees 22 minutes 07 seconds West for a distance of 290.10 feet along said right-of-way to an iron pin found at the intersection of said West right-of-way with the North right-of-way of Martin Luther King, Jr., Drive and the Point of Beginning.

**EXHIBIT "B" LEASE GUARANTY [SEE  
ATTACHED]**

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## GUARANTY

1. FOR VALUE RECEIVED, and in consideration for, and as an inducement to Landlord, Adairsville GA, LLC, a Delaware limited liability company, to enter into that certain Lease Agreement ("Lease") with TDG Operations, LLC, a Georgia limited liability company, as Tenant, the undersigned, THE DIXIE GROUP, INC., a Tennessee corporation (hereinafter sometimes called "Guarantor", whether one or more), hereby absolutely and unconditionally guarantees the full performance and observance by Tenant, Tenant's heirs, executors, administrators, successors and assigns (the phrase "heirs, executors, administrators, successors and assigns" not altering any of the provisions of said Lease relating to assignment or subletting) of all the covenants, duties and obligations of Tenant under the Lease (including, without limitation, the obligation to pay all rent and other sums payable thereunder), and Guarantor hereby makes itself fully liable for such performance and observance. Guarantor hereby acknowledges that this Guaranty is a guarantee of payment, not a guarantee of collection.

2. Guarantor expressly agrees that the validity of this Guaranty and its obligations hereunder shall in no way be terminated, affected or impaired by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord by said Lease. Guarantor further covenants and agrees that this Guaranty and the full liability of Guarantor hereunder shall remain and continue in full force and effect notwithstanding the occurrence of any one or more of the following types of transactions (whether or not Guarantor shall have received any notice of or consented to any such transaction): (i) any renewal, extension, modification or amendment of said Lease; (ii) any assignment or transfer by Landlord; (iii) any assignment or transfer or subletting by Tenant; (iv) death of any party Tenant (who may be a natural person); (v) any dissolution of Tenant (if Tenant is a corporation); or (vi) the fact that Tenant (if Tenant is a corporation) may be a party to any merger, consolidation or reorganization; provided however, if Tenant is a disappearing party in any such merger, consolidation or reorganization, then Guarantor shall thereupon automatically become primarily liable for the performance of all the covenants, duties and obligations (including, without limitation, the obligation to pay all rent and other sums) of Tenant under said Lease.

3. Failure of Landlord to insist upon strict performance or observance of any of the terms, provisions or covenants of said Lease or to exercise of any right therein contained shall not be construed as a waiver or relinquishment for the future performance or observance of any such term, provision, covenant or right, but the same shall continue and remain in full force and effect. Receipt by Landlord of rent (or any other monetary sum or acceptance of performance of any obligation of Tenant under said Lease) with knowledge of the breach of any provision of said Lease shall not be deemed a waiver of such breach. Waiver by Landlord of any right of Landlord against Tenant under said Lease shall not constitute a waiver as against Guarantor or in any other way inure to the benefit of Guarantor (unless Landlord agrees in writing that the liability of Guarantor under this Guaranty is thereby affected).

4. Guarantor further agrees to indemnify and hold harmless Landlord from all loss, damage, cost and expense (including, without limitation, costs of court and reasonable attorneys' fees incurred by Landlord) in the event of any default by Tenant under such Lease.

5. Guarantor further agrees that with respect to any right of action which shall accrue to Landlord under said Lease, Landlord may, at its option, proceed against Tenant alone (without having made any prior demand upon Guarantor or having commenced any action against Guarantor or having obtained or having attempted to satisfy any judgment against Guarantor) or may proceed against Guarantor and Tenant, jointly or severally, or may proceed against Guarantor alone (without having made any prior demand upon Tenant or having commenced any action against Tenant or having obtained or having attempted to satisfy any judgment against Tenant) or, in the case of there being more than one (1) Guarantor, may proceed against one (1) or more Guarantors (without having made any prior demand upon any other Guarantor or having commenced any action against any other Guarantor or having obtained or attempted to satisfy any judgment against any other Guarantor). With the exception only of the defense of prior payment or prior performance by Tenant (of the obligation which Guarantor is called upon to pay or perform) or the defense that Landlord's claim against Guarantor hereunder is barred by the applicable statute of limitations, all defenses of the law of guaranty, indemnification and suretyship, including without limitation, substantive defenses and procedural defenses, are hereby waived and released by Guarantor. Except as provided in the preceding sentence, under no circumstances shall the liability of Guarantor under this Guaranty be terminated either with respect to any period of time when the liability of Tenant under said Lease continues or with respect to any circumstances as to which the liability of Tenant has not been fully discharged by payment or performance.

6. All of the covenants, duties and obligations of Guarantor under this Guaranty shall be performed in County of Bartow, Georgia, and all matters relating to this Guaranty and the covenants, duties and obligations of Guarantor under this Guaranty shall be governed by the laws of the State of Georgia.

7. Guarantor specifically waives any notice of acceptance of this Guaranty by Landlord.

8. If any obligation of Tenant under said Lease is secured, in whole or in part, by collateral of any type Landlord may, from time to time, at its discretion and with or without valuable consideration, allow substitution or withdrawal of all or any part of such collateral or subordinate or waive any of its lien rights with respect to all or any part of such collateral or release all or any part of such collateral, without notice to or consent of Guarantor and without in any wise impairing, diminishing or releasing the liability of Guarantor under this Guaranty. Under no circumstances shall Landlord be required to first resort to any collateral for any obligation of Tenant as any nature of prerequisite or precondition to invoking the liability of Guarantor under this Guaranty.

9. Guarantor acknowledges and represents to Landlord that Tenant executed said Lease and Guarantor executed this Guaranty prior to the time that Landlord executed said Lease; and Guarantor acknowledges and agrees that the execution and delivery of this Guaranty by Guarantor to Landlord has served as a material inducement to Landlord to itself execute and deliver said Lease; and Guarantor further acknowledges and agrees that but for the execution and delivery of this Guaranty by Guarantor, Landlord would not have executed and delivered said Lease.

10. If Guarantor is a corporation, all of the following provisions of this paragraph shall be applicable: Guarantor acknowledges and agrees that this Guaranty may reasonably be expected to benefit, directly or indirectly, Guarantor. Guarantor warrants and represents that the execution and delivery of this Guaranty by the undersigned officer acting for Guarantor has been authorized by decision of the Board of Directors of Guarantor and that the Board of Directors of Guarantor has decided that this Guaranty may reasonably be expected to benefit, directly or indirectly, Guarantor. Guarantor further acknowledges and agrees that the making of this Guaranty did not result from any fraud on the Guarantor. Guarantor further warrants and represents (and acknowledges that Landlord has relied upon such warranty and representation in entering into the Lease) that the execution and delivery of this Guaranty is not in contravention of Guarantor's Articles of Incorporation Bylaws, or in contravention of any contractual or other legal limitation (statutory or otherwise) binding on Guarantor; and that execution and delivery of this Guaranty has been properly authorized.

11. Guarantor agrees that in the event that Tenant shall become insolvent or shall be adjudicated a bankrupt, or shall file a petition for reorganization, arrangement or other relief under any present or future provisions of the National Bankruptcy Act, or if such a petition be filed by creditors of said Tenant, or if Tenant shall seek a judicial readjustment of the rights of its creditors under any present or future Federal or State law or if a receiver of all or part of its property and assets is appointed by any State or Federal court, no such proceeding or action taken therein shall modify, diminish or in any way affect the liability of Guarantor under this Guaranty and the liability of Guarantor with respect to such Lease shall be of the same scope as if Guarantor had itself executed said Lease as the named tenant thereunder and no "rejection" and/or "termination" of such Lease in any of the proceedings referred to in this paragraph shall be effective to release and/or terminate the continuing liability of Guarantor to Landlord under this Guaranty with respect to such Lease for the remainder of the lease term stated therein unaffected by any such "rejection" and/or "termination" in said proceedings; and if, in connection with any of the circumstances referred to in this paragraph, Landlord should request that Guarantor execute a new Lease for the balance of the term of said Lease (unaffected by any such "rejection" and/or "termination" in any of said proceedings), but in all other respects identical with said Lease, Guarantor shall do so as the named "Tenant" under such new Lease (irrespective of the fact that the existing Lease may have been "rejected" or "terminated" in connection with any proceedings referred to in this paragraph). In the event of failure or refusal of Guarantor to execute such new Lease as herein provided, without limiting any of the legal or equitable remedies of Landlord on account of such failure or refusal, Guarantor agrees that Landlord shall have the right to obtain a decree of specific performance against Guarantor.

12. If Guarantor is a corporation, in the event of the dissolution of Guarantor while this Guaranty is in force, and without regard to whether Tenant shall be in default under the Lease, no distribution or disposition of the assets of Guarantor shall be made without first making provision acceptable to Landlord for the payment or satisfaction of Guarantor's obligations (and contingent obligations) hereunder.

13. If Guarantor is a natural person, in the event of the death of Guarantor while this Guaranty is in force, and without regard to whether Tenant shall be in default under said Lease, no distribution or disposition of the assets of the estate of Guarantor shall be made without first

making provision acceptable to Landlord for the payment or satisfaction of Guarantor's obligations (and contingent obligations) hereunder.

14. Guarantor further represents and warrants that all financial statements and other information submitted by Guarantor to Landlord in connection with the Lease fairly state the matters with which they purport to deal, and neither misstate any material fact nor, whether read separately or in the aggregate, fail to state any material fact necessary to make the statements made not misleading. Further, Guarantor warrants and represents to Landlord that all such financial statements heretofore delivered by Guarantor to Landlord are true and correct, that there are no material adverse changes as of the date hereof and that the execution hereof does not render Guarantor insolvent. Provided that Guarantor is not a publicly traded entity whose financial statements are available online, Guarantor shall provide Landlord with Guarantor's existing financial statements, in form and substance satisfactory to Landlord, within fifteen (15) days following a request by Landlord therefor, but not more often than once in any twelve (12) month period for any reason and one additional time in such 12-month period in connection with a proposed sale or refinancing of all or any portion of the Leased Premises.

15. All rights of Guarantor against Tenant arising by way of subrogation on account of Guarantor's having performed some covenant, duty or obligation of Tenant under said Lease shall be subject and subordinate to all of the rights of Landlord against Tenant with respect to such Lease; and Guarantor shall not exercise any such right of Guarantor against Tenant until all of the covenants, duties and obligations of Tenant under such Lease shall have been fully performed.

16. All rights of any one Guarantor against any other Guarantor arising on account of the first mentioned Guarantor's having performed some covenant, duty or obligation of Tenant under said Lease shall be subject and subordinate to all of the rights of Landlord against such other Guarantor with respect to this Guaranty; and such first mentioned Guarantor shall not exercise any such right of such first mentioned Guarantor against any other Guarantor until all of the covenants, duties and obligations of Tenant under such Lease shall have been fully performed.

17. If enforcement of the rights of Landlord under this Guaranty is placed in the hands of an attorney on account of any default of Guarantor under this Guaranty, Landlord shall, in addition to the other rights of Landlord hereunder, be permitted to recover Landlord's reasonable attorneys' fees from Guarantor. If any dispute hereunder is litigated, the prevailing party shall not be liable for the other party's legal fees or costs but shall be entitled to recover its own reasonable attorneys' fees and court costs from the non-prevailing party.

18. The stated rights of Landlord under this Guaranty shall be understood as not excluding any other legal or equitable rights of Landlord against Guarantor not expressly set forth herein, but shall be understood as being cumulative to all such other legal and equitable rights of Landlord not expressly stated herein.

19. Whenever this Guaranty is executed by more than one party as "Guarantor," all references herein to "Guarantor" shall refer to each and all of the undersigned parties signing this Guaranty as Guarantor; and the liability of said parties for the performance of the covenants, duties and obligations of Guarantor hereunder shall be joint and several.

20. Should any portion of this Guaranty ever be held legally invalid or unenforceable, the balance of this Guaranty shall not thereby be affected, but shall remain in full force and effect in accordance with its terms and provisions.

21. All terms and provisions hereof shall inure to the benefit of the assigns and successors of Landlord and shall be binding upon the heirs, executors, administrators, successors and assigns of Guarantor.

[THE FOLLOWING PAGE IS THE SIGNATURE PAGE]

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SIGNATURE PAGE OF GUARANTY

EXECUTED as of December, 2023.

**THE DIXIE GROUP, INC.**, a Tennessee corporation

By: \_\_\_\_\_

Name : Allen Danzey \_\_\_\_\_

Title: Chief Financial Officer

## Policy Respecting Trading on Inside Information

### **Introduction**

The Board of Directors declares the following to be Company Policy regarding trading on and misuse of inside information. This policy is designed to comply with relevant sections of the Securities Exchange Act of 1934 and to promote compliance with insider trading laws, rules, and regulations as well as applicable listing standards.

### **Administration**

This policy shall be administered by the Compensation Committee of the Board (the "Committee"). Any determination made by the Committee shall be final and binding on all affected individuals.

### **Covered Executives**

This policy applies to the Company's directors, officers, employees, and the Company itself ("Affected Persons").

### **Trading by Affected Persons, Generally**

Affected Persons are strictly prohibited from trading on material non-public information concerning the Company, its business and results of operations (hereinafter sometimes "inside information").

### **Blackout Periods**

In furtherance of this policy, the Company shall designate periods during which the Company's executive officers and the Company itself may be deemed to be in possession of material non-public information concerning the Company and accordingly during which trading by such persons in the Company's securities shall be prohibited ("closed trading periods"). Periods outside of such closed trading periods shall be deemed to be open trading periods during which the Company's executive officers and the Company may trade in the Company's securities. Affected Persons shall be permitted to trade in the Company's securities during open trading periods, generally, unless the Committee determines that there is a risk that such persons may be in possession of material non-public information, or that material information exists that has not yet been made public.

### **10b5-1 Plans**

All trading plans adopted and implemented pursuant to Rule 10b5-1 by Affected Persons ("10b5-1 Plans") shall be reviewed and approved by the Committee. Such plans shall be adopted at a time when the relevant parties are not in possession of material, non-public information concerning the Company, its business and its results of operations. Unless the Committee

determines that the affected plan does not pose a risk of trading on inside information, no 10b5-1 Plan may be adopted or implemented during a closed trading period.

### **Granting of Options**

Option awards to Affected Parties shall generally not be made during closed trading periods or otherwise when the Company is in possession of material non-public information. Exceptions may be made if the Committee determines, because of the structure of the option (strike price, performance target, if applicable, or required holding period) that the value of the option to the optionee at the time of grant will not be materially affected by publication of the inside information.

### **Compliance with Relevant Rules**

The Company shall comply with all Section 16 reporting requirements relevant to trading in Company securities by Affected Persons as well as with all relevant disclosure requirements concerning these matters.

EXHIBIT 21

SUBSIDIARIES OF THE DIXIE GROUP, INC.

| SUBSIDIARY          | STATE/COUNTRY OF INCORPORATION |
|---------------------|--------------------------------|
| TDG Operations, LLC | GA                             |

**EXHIBIT 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No 333-194571) and Forms S-8 (Nos. 333-134779, 333-8994, 333-87534, 333-81163, 333-80971, 333-118504, 333-168412, 333-188321, 333-211157, 333-239208, and 333-264856) of our report dated March 20, 2024, with respect to the consolidated financial statements of The Dixie Group, Inc., included in this Annual Report on Form 10-K for the year ended December 30, 2023.

/s/ FORVIS, LLP

**Atlanta, GA**  
**March 20, 2024**

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**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:

I have reviewed this annual report on Form 10-K of The Dixie Group, Inc.;

1. 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;
2. 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;
3. 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
4. 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: March 20, 2024

*/s/ DANIEL K. FRIERSON*

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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:

I have reviewed this annual report on Form 10-K of The Dixie Group, Inc.;

1. 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;
2. 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;
3. 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
4. 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: March 20, 2024

**/s/ ALLEN L. DANZEY**

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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 Annual Report of The Dixie Group, Inc. (the "Company") on Form 10-K for the year ended December 30, 2023, 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: March 20, 2024

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 Annual Report of The Dixie Group, Inc. (the "Company") on Form 10-K for the year ended December 30, 2023, 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: March 20, 2024

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.

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