

REFINITIV

# DELTA REPORT

## 10-Q

DIXIE GROUP INC

10-Q - SEPTEMBER 28, 2024 COMPARED TO 10-Q - JUNE 29, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 1490

CHANGES	266
DELETIONS	201
ADDITIONS	1023

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

## Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **June 29, 2024** **September 28, 2024**

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, INC.

(Exact name of Registrant as specified in its charter)

Tennessee		62-0183370
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
475 Reed Road, Dalton, Georgia	30720	(706) 876-5800
(Address of principal executive offices)	(zip code)	(Registrant's telephone number, including area code)
Not Applicable		
(Former name, former address and former fiscal year, if changed since last report)		

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$3 Par Value	DXYN	NASDAQ Stock Market, LLC OTCQB

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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. o

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

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

Class	Outstanding as of <span style="color: yellow;">August 1, 2024</span> <span style="color: green;">October 25, 2024</span>
Common Stock, \$3 Par Value	<span style="color: yellow;">14,133,810</span> <span style="color: green;">14,012,784</span> shares
Class B Common Stock, \$3 Par Value	1,249,302 shares
Class C Common Stock, \$3 Par Value	0 shares

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## THE DIXIE GROUP, INC.

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	<a href="#">Consolidated Condensed Statements of Operations (Unaudited) - Three and <span style="color: yellow;">and Six</span> <span style="color: green;">Nine</span> Months Ended <span style="color: yellow;">June</span> <span style="color: green;">September 29</span> <span style="color: blue;">8, 2024</span> and <span style="color: yellow;">July</span> <span style="color: green;">September 1, 30, 2023</span></a>	<span style="color: yellow;">4</span>
	<a href="#">Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited) - Three and <span style="color: yellow;">a</span> <span style="color: green;">Nin</span> <span style="color: blue;">Six</span> Months Ended <span style="color: yellow;">June</span> <span style="color: green;">September 29</span> <span style="color: blue;">8, 2024</span> and <span style="color: yellow;">July</span> <span style="color: green;">September 1, 30, 2023</span></a>	<span style="color: yellow;">5</span>
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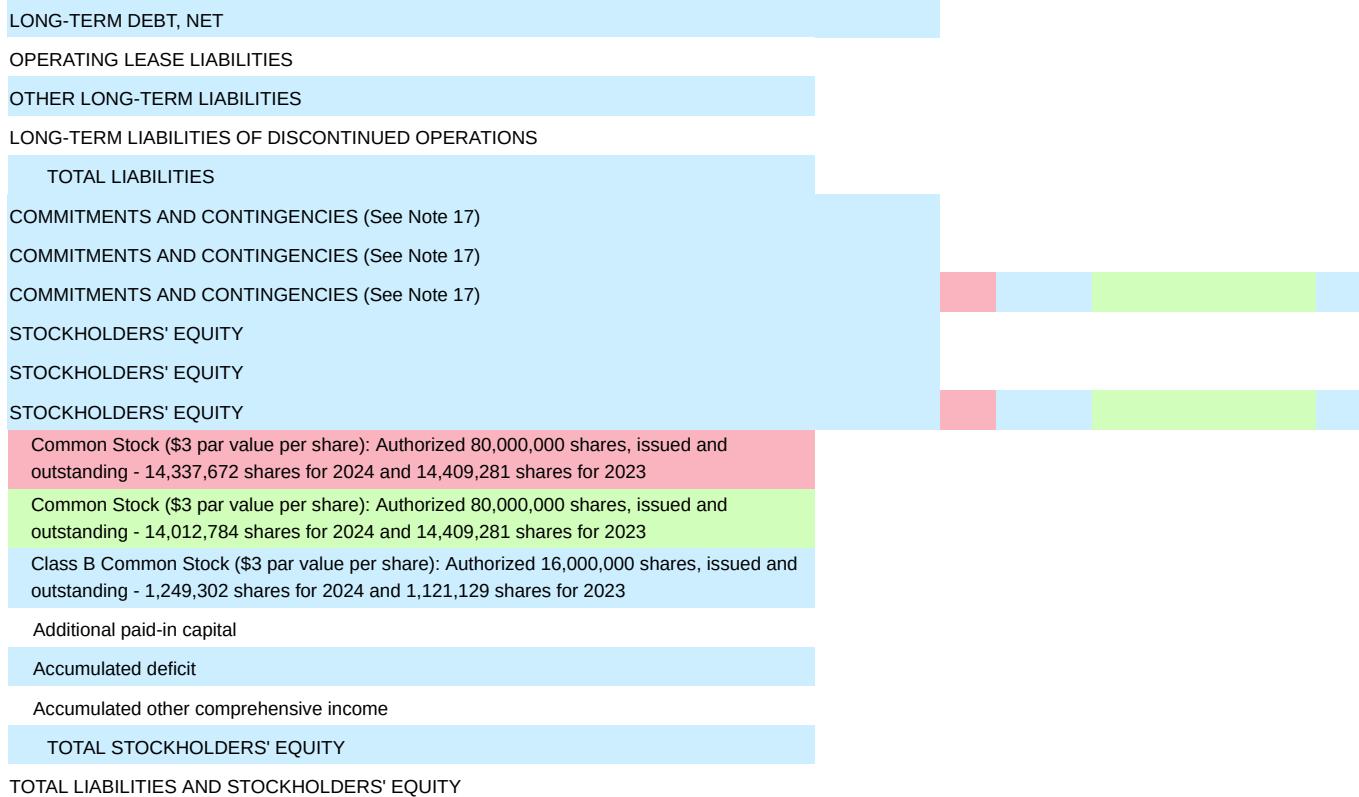
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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

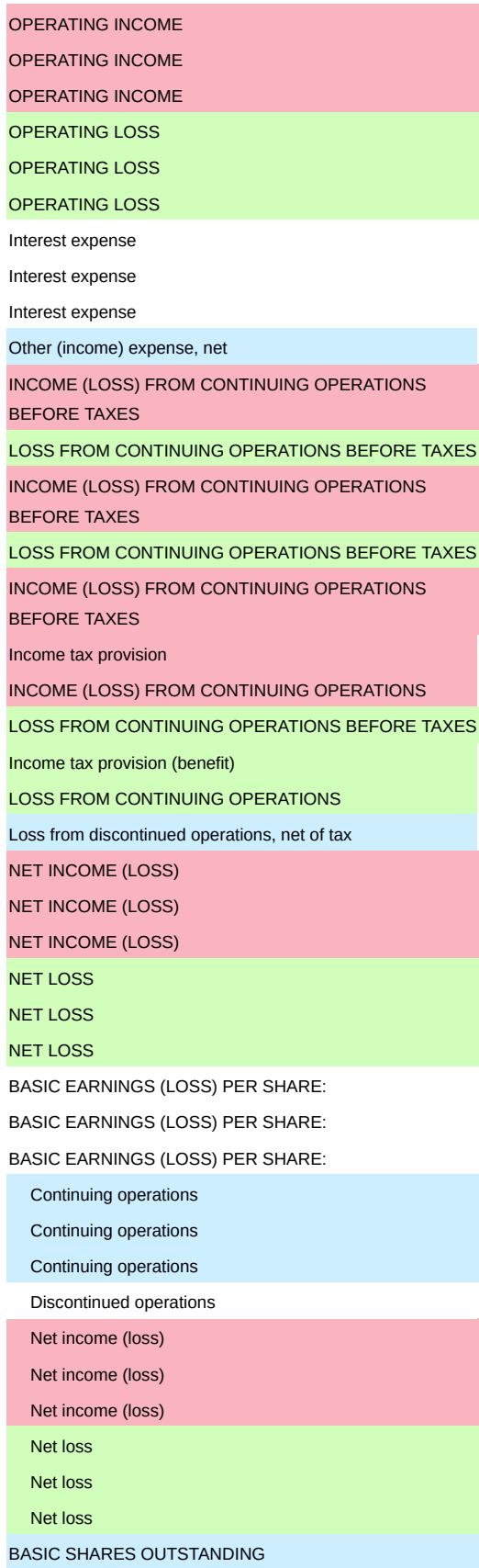
	June 29, 2024	December 30, 2023	September 28, 2024	December 30, 2023
<b>ASSETS</b>				
CURRENT ASSETS				
CURRENT ASSETS				
CURRENT ASSETS				
Cash and cash equivalents				
Cash and cash equivalents				
Cash and cash equivalents				
Receivables, net of allowances for expected credit losses of \$454 and \$440				
Receivables, net of allowances for expected credit losses of \$415 and \$440				
Inventories, net				
Prepaid and other current assets				
Current assets of discontinued operations				
TOTAL CURRENT ASSETS				
PROPERTY, PLANT AND EQUIPMENT, NET				
OPERATING LEASE RIGHT-OF-USE ASSETS				
OTHER ASSETS				
OTHER ASSETS				
OTHER ASSETS				
LONG-TERM ASSETS OF DISCONTINUED OPERATIONS				
TOTAL ASSETS				
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable				
Accrued expenses				
Current portion of long-term debt				
Current portion of operating lease liabilities				
Current liabilities of discontinued operations				
TOTAL CURRENT LIABILITIES				
LONG-TERM DEBT, NET				
LONG-TERM DEBT, NET				



See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC. CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)							
	Three Months Ended		Six Months Ended		Three Months Ended		Nine Months Ended
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023	September 28, 2024	September 30, 2023	September 28, 2024
NET SALES							
Cost of sales							
GROSS PROFIT							
Selling and administrative expenses							
Selling and administrative expenses							
Selling and administrative expenses							
Other operating income, net							
Other operating (income) expense, net							
Facility consolidation and severance expenses, net							



BASIC SHARES OUTSTANDING
BASIC SHARES OUTSTANDING
DILUTED EARNINGS (LOSS) PER SHARE:
DILUTED EARNINGS (LOSS) PER SHARE:
DILUTED EARNINGS (LOSS) PER SHARE:
Continuing operations
Continuing operations
Continuing operations
Discontinued operations
Net income (loss)
Net income (loss)
Net income (loss)
Net loss
Net loss
Net loss

DILUTED SHARES OUTSTANDING

DILUTED SHARES OUTSTANDING

DILUTED SHARES OUTSTANDING

DIVIDENDS PER SHARE:

DIVIDENDS PER SHARE:

DIVIDENDS PER SHARE:

Common Stock

Common Stock

Common Stock

Class B Common Stock

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Six Months Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
NET INCOME (LOSS)	\$ 603	\$ (1,726)	\$ (1,891)	\$ (3,484)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Reclassification of net actuarial gain into earnings from postretirement benefit plans (1)	(5)	(6)	(10)	(11)

Income taxes	—	—	—	—
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	(5)	(6)	(10)	(11)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(5)	(6)	(10)	(11)
COMPREHENSIVE INCOME (LOSS)	<b>\$ 598</b>	<b>\$ (1,732)</b>	<b>\$ (1,901)</b>	<b>\$ (3,495)</b>

	Three Months Ended		Nine Months Ended	
	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
	\$ (3,911)	\$ (2,394)	\$ (5,802)	\$ (5,878)
NET LOSS				
OTHER COMPREHENSIVE LOSS, NET OF TAX:				
Reclassification of net actuarial gain into earnings from postretirement benefit plans (1)	(5)	(5)	(15)	(16)
Income taxes	—	—	—	—
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	(5)	(5)	(15)	(16)
TOTAL OTHER COMPREHENSIVE LOSS, NET OF TAX	(5)	(5)	(15)	(16)
COMPREHENSIVE LOSS	<b>\$ (3,916)</b>	<b>\$ (2,399)</b>	<b>\$ (5,817)</b>	<b>\$ (5,894)</b>

(1) Amounts for postretirement plans reclassified from accumulated other comprehensive income to net loss were included in selling and administrative expenses in the Company's consolidated condensed statements of operations.

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC. CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED) (amounts in thousands)				
CASH FLOWS FROM OPERATING ACTIVITIES	Six Months Ended		Nine Months Ended	
	June 29, 2024	July 1, 2023	September 28, 2024	September 30, 2023
		2023		2023
CASH FLOWS FROM OPERATING ACTIVITIES	CASH FLOWS FROM OPERATING ACTIVITIES		CASH FLOWS FROM OPERATING ACTIVITIES	
Loss from continuing operations				
Loss from discontinued operations				
Net loss				

Net loss	
Net loss	
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	
Net gain on property, plant and equipment disposals	
Net gain on property, plant and equipment disposals	
Net gain on property, plant and equipment disposals	
Stock-based compensation expense	
Stock-based compensation expense	
Stock-based compensation expense	
Expense (credit) for expected credit losses	
Expense (credit) for expected credit losses	
Expense (credit) for expected credit losses	
Changes in operating assets and liabilities:	
Changes in operating assets and liabilities:	
Expense for expected credit losses	
Expense for expected credit losses	
Expense for expected credit losses	
Gain on extinguishment of debt	
Changes in operating assets and liabilities:	
Receivables	
Inventories	
Prepaid and other current assets	
Accounts payable and accrued expenses	
Other operating assets and liabilities	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
NET CASH USED IN OPERATING ACTIVITIES - DISCONTINUED OPERATIONS	
CASH FLOWS FROM INVESTING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Net proceeds from sales of property, plant and equipment	
Purchase of property, plant and equipment	
Purchase of property, plant and equipment	
Purchase of property, plant and equipment	
Investment in joint venture, net of capital distributions	
Joint venture capital distributions	
NET CASH USED IN INVESTING ACTIVITIES	
NET CASH USED IN INVESTING ACTIVITIES	

NET CASH USED IN INVESTING ACTIVITIES	
NET CASH PROVIDED BY INVESTING ACTIVITIES -	
DISCONTINUED OPERATIONS	
CASH FLOWS FROM FINANCING ACTIVITIES	
CASH FLOWS FROM FINANCING ACTIVITIES	
CASH FLOWS FROM FINANCING ACTIVITIES	
Net borrowings (payments) on revolving credit facility	
Payments on notes payable - buildings and other term loans	
Payments on notes payable - buildings and other term loans	
Payments on notes payable - buildings and other term loans	
Payments on notes payable - other	
Payments on notes payable - other	
Payments on notes payable - other	
Payments on finance leases	
Change in outstanding checks in excess of cash	
Change in outstanding checks in excess of cash	
Change in outstanding checks in excess of cash	
Repurchases of Common Stock	
Repurchases of Common Stock	
Repurchases of Common Stock	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>	
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>	
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid	
Income taxes paid, net of (tax refunds)	
Income taxes paid, net of (tax refunds)	
Interest paid for financing leases	
Income taxes paid, net of (tax refunds)	
Right-of-use assets obtained in exchange for new operating lease liabilities	
Right-of-use assets obtained in exchange for new operating lease liabilities	
Right-of-use assets obtained in exchange for new operating lease liabilities	
Equipment purchased under finance lease	
Deposits utilized on property, plant & equipment purchases	
Deposits utilized on property, plant & equipment purchases	
Deposits utilized on property, plant & equipment purchases	

See accompanying notes to the consolidated condensed financial statements.

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

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Income	Comprehensive Income	Total Stockholders' Equity	Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Income	Comprehensive Income	Total Stockholders' Equity
<b>Balance at December 30, 2023</b>														
Repurchases of Common Stock - 52,091 shares														
Class B converted into Common Stock - 5,980 shares														
Restricted stock grants issued - 411,537 shares														
Stock-based compensation expense														
Stock-based compensation expense														
Stock-based compensation expense														
Net loss														
Other comprehensive loss														
Other comprehensive loss														

Other  
comprehensive  
loss

**Balance at**  
**March 30,**  
**2024**

Repurchases  
of Common  
Stock -  
351,183  
shares

Common Stock  
issued - 37,501  
shares

Restricted stock  
grants issued -  
32,000 shares

Restricted stock  
grants issued -  
32,000 shares

Restricted stock  
grants issued -  
32,000 shares

Restricted  
stock grants  
forfeited -  
21,200 shares

Stock-based  
compensation  
expense

Net income

Other  
comprehensive  
loss

**Balance at**

**June 29, 2024**

Repurchases  
of Common  
Stock -  
324,888  
shares

Stock-based  
compensation  
expense

Stock-based  
compensation  
expense

Stock-based  
compensation  
expense

Net loss

Other  
comprehensive  
loss

**Balance at  
September 28,  
2024**

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Comprehensive Income	Other Comprehensive Income	Total Stockholders' Equity
<b>Balance at December 31, 2022</b>	\$ 43,360	\$ 3,388	\$ 158,331	\$ (173,784)	\$ 219	\$ 31,514	
Repurchases of Common Stock - 55,994 shares	(168)	—	124	—	—	—	(44)
Class B converted into Common Stock - 8,029 shares	25	Class B <sup>(25)</sup>	—	—	—	Accumulated Other	—
Stock-based compensation expense	Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Comprehensive Income	Comprehensive Income	Total Stockholders' Equity
Net loss	—	—	—	(1,758)	—	—	(1,758)
<b>Balance at December 31, 2022</b>	<b>\$ 43,360</b>	<b>\$ 3,388</b>	<b>\$ 158,331</b>	<b>\$ (173,788)</b>	<b>\$ 219</b>	<b>\$ 31,514</b>	
Repurchases of Common Stock - 55,994 shares	(168)	—	124	—	—	(5)	(48)
Class B converted into Common Stock - 8,029 shares	25	Class B <sup>(25)</sup>	—	—	—	—	—
Restricted stock grants issued - 40,000 shares	120	—	(120)	—	—	—	—
Stock-based compensation expense	—	—	197	—	—	—	197
Restricted stock grants forfeited - 10,167 shares	(31)	—	31	—	—	—	—
Net loss	—	—	—	(1,758)	—	—	(1,758)
Stock-based compensation expense	—	—	171	—	—	—	171
Cumulative effect of CECL adoption	—	—	—	(198)	—	—	(198)
Net loss	—	—	—	(1,726)	—	—	(1,726)
Other comprehensive income	—	—	—	—	(5)	—	(5)
Other comprehensive income	—	—	—	—	—	(6)	(6)
<b>Balance at April 1, 2023</b>	<b>\$ 43,217</b>	<b>\$ 3,363</b>	<b>\$ 158,652</b>	<b>\$ (175,740)</b>	<b>\$ 214</b>	<b>\$ 29,706</b>	
<b>Balance at April 1, 2023</b>	<b>\$ 43,217</b>	<b>\$ 3,363</b>	<b>\$ 158,652</b>	<b>\$ (175,740)</b>	<b>\$ 214</b>	<b>\$ 29,706</b>	
Restricted stock grants issued - 40,000 shares	120	—	158,734	—	—	—	28,145
Table of Contents <sup>7</sup>	—	—	(120)	—	—	—	—
Restricted stock grants forfeited - 10,167 shares	(31)	—	31	—	—	—	—
Stock-based compensation expense	—	—	171	—	—	—	171
Net loss	—	—	—	(1,726)	—	—	(1,726)
Other comprehensive income	—	—	—	—	(6)	—	(6)
<b>Balance at July 1, 2023</b>	<b>\$ 43,306</b>	<b>\$ 3,363</b>	<b>\$ 158,734</b>	<b>\$ (177,466)</b>	<b>\$ 208</b>	<b>\$ 28,145</b>	
Stock-based compensation expense	—	—	182	—	—	—	182
Net loss	—	—	—	(2,394)	—	—	(2,394)
Other comprehensive income	—	—	—	—	(5)	—	(5)
<b>Balance at September 30, 2023</b>	<b>\$ 43,306</b>	<b>\$ 3,363</b>	<b>\$ 158,916</b>	<b>\$ (179,860)</b>	<b>\$ 203</b>	<b>\$ 25,928</b>	

See accompanying notes to the consolidated condensed financial statements.

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

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements which do not include all the information and notes required by such accounting principles for annual financial statements. In the

opinion of management, all adjustments (generally consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements. The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in The Dixie Group, Inc.'s and its wholly-owned subsidiaries (the "Company") 2023 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 30, 2023. Significant intercompany accounts and transactions have been eliminated in consolidation. The balance sheet as of December 30, 2023 has been derived from the audited financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements. Operating results for the three and **six** **nine** month periods ended **June 29, 2024** **September 28, 2024** are not necessarily indicative of the results that may be expected for the entire 2024 year.

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

The consolidated condensed financial statements separately report discontinued operations and the results of continuing operations. Unless specifically noted otherwise, footnote disclosures reflect the results of continuing operations only. The results of discontinued operations are presented in Note 20.

#### **Variable Interest Entities**

The Company determines at the inception of each arrangement whether an entity in which it has made an investment or in which the Company has other variable interests is considered a variable interest entity ("VIE"). The Company consolidates VIEs when it is the primary beneficiary. The Company is the primary beneficiary of a VIE when it has the power to direct activities that most significantly affect the economic performance of the VIE and have the obligation to absorb the majority of their losses or benefits. If the Company is not the primary beneficiary in a VIE, the Company accounts for the investment or other variable interests in a VIE in accordance with applicable GAAP. At each reporting period, the Company assesses whether any changes in our interest or relationship with the entity affect our determination of whether the entity is a VIE and, if so, whether the Company is the primary beneficiary.

The Company entered into an arrangement to pool extrusion machinery whereby the Company and an independent entity, "the entity", separately purchased machinery to concurrently produce fiber to reduce manufacturing costs. The entity purchases the raw materials, employs the staff and owns and manages the facility and the production of the fiber. The Company receives all fiber produced on its own machines and pays the entity **for an amount equal to the cost of raw materials and an agreed upon allocation of direct and indirect production and overhead costs of the fiber operations.** The Company accounts for all amounts paid to the entity as the cost of raw material inventory.

During the second quarter of 2024, the Company determined that the entity is a VIE and **its** **the Company's** arrangement represents a variable interest in the entity. The Company has determined that the governance and operating structures of this VIE do not allow **us** **it** to direct the activities that would significantly affect **their** **the entity's** economic performance. In addition, the Company does not have an obligation to absorb losses of the entity. Therefore, the Company is not the primary beneficiary, and the results of operations and financial position of this VIE are not included in **its** **the Company's** consolidated condensed financial statements. The Company believes **the** **its** maximum exposure of this unconsolidated VIE is the current carrying value of the equipment at the entity's location. The carrying value and maximum exposure of this unconsolidated VIE was **\$7,434** **\$7,507** as of **June 29, 2024** **September 28, 2024**, and is included within property, plant and equipment, net on the Company's consolidated condensed balance sheets. Any additional potential losses cannot be determined.

#### **Nasdaq Delisting Notification or Failure to Satisfy a Continued Listing Rule or Standard**

Effective at the opening of business on October 3, 2024, the Company's Common Stock was suspended and delisted from Nasdaq and began trading on the Over-the-Counter Market pink sheets under the stock symbol DXYN. Effective October 4, 2024, the Company was upgraded to the Over-the-Counter OTCQB Market ("the OTCQB") trading under the same symbol DXYN.

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**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
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#### **Reclassifications**

The Company reclassified certain amounts in 2023 in the consolidated condensed statements of cash flows and Note 10 Leases to conform to the 2024 presentation. In 2023, the Company included its failed sales and leaseback transactions in its lease footnote with a note indicating they were included. In 2024, the Company included these transactions in its debt footnote and reclassified amounts in the comparative 2023 period.

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### NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

#### 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 consolidated 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 consolidated financial statements.

### NOTE 3 - REVENUE

#### Revenue Recognition Policy

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

#### Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Company's revenue by end-user markets for the three and **six** **nine** month periods ended **June 29, 2024** **September 28, 2024** and **July 1, 2023** **September 30, 2023**:

Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended
June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023	

	September 28, 2024	September 30, 2023	September 28, 2024	September 30, 2023
Residential floorcovering products				
Other services				
Total net sales				

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*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.

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**Contract Balances**

Other than receivables that represent an unconditional right to consideration, which are presented in Note 4, the Company does not recognize any contract assets which give conditional rights to receive consideration, because the Company does not incur costs to obtain customer contracts that are recoverable. The Company often receives cash payments from customers in advance of the Company's performance for limited production run orders resulting in contract liabilities. These contract liabilities are classified in accrued expenses in the consolidated condensed balance sheets based on the timing of when the Company expects to recognize revenue, which is typically less than a year. The net decrease or increase in the contract liabilities is primarily driven by order activity for limited runs requiring deposits offset by the recognition of revenue and the application of deposit on the receivables ledger for such activity during the period. The activity in the advanced deposits for the three and **six** nine month periods ended **June 29, 2024** **September 28, 2024** and **July 1, 2023** **September 30, 2023** is as follows:

	Three Months Ended	Three Months Ended		Six Months Ended	Three Months Ended	Nine Months Ended
	<b>June 29, 2024</b>	<b>July 1, 2023</b>	<b>June 29, 2024</b>	<b>July 1, 2023</b>		
					<b>September</b>	<b>September</b>
	<b>September 28, 2024</b>	<b>September 30, 2023</b>	<b>28, 2024</b>	<b>30, 2023</b>		
Beginning contract liability						

Revenue recognized from contract liabilities included in the beginning balance

Increases due to cash received, net of amounts recognized in revenue during the period

Ending contract liability

**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.

#### **Warranties**

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

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#### **NOTE 4 - RECEIVABLES, NET**

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. The Company's allowance for expected credit losses is computed using a number of factors including past credit loss experience and the aging of amounts due from our customers, in addition to other customer-specific factors. The Company also considered recent trends and developments related to the current macroeconomic environment such as unemployment rates, interest rates and inflation in determining its ending allowance for credit losses for accounts receivable. If the financial condition of the Company's customers were to deteriorate, resulting in a change in their ability to make payments, or additional changes in macroeconomic factors occur, additional allowances may be required. Receivables are summarized as follows:

	June 29, 2024	December 30, 2023
	September 28, 2024	December 30, 2023
Customers, trade		
Other receivables		
Gross receivables		
Less: allowance for expected credit losses (1)		
Receivables, net		

(1) The Company recognized an expense (credit) to the provision for expected credit losses of \$(14) \$1 and \$74 \$75 and recognized write-offs, net of recoveries of \$6 \$40 and \$60 \$100 for the three and **six nine** months ended **June 29, 2024** **September 28, 2024**, respectively. The Company recognized an expense (credit) to the provision for expected credit losses of \$38 \$49 and \$28 \$21 and recognized write-offs, net of recoveries of \$33 \$21 and \$61 \$82 for the three and **six nine** months ended **July 1, 2023** **September 30, 2023**, respectively.

## NOTE 5 - INVENTORIES, NET

Inventories are summarized as follows:

	June 29, 2024	December 30, 2023
	September 28, 2024	December 30, 2023
Raw materials		
Work-in-process		
Finished goods		
Supplies and other		
LIFO reserve		
Inventories, net		

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

Property, plant and equipment consists of the following:

	June 29, 2024	December 30, 2023
	September 28, 2024	December 30, 2023
Land and improvements		
Buildings and improvements		
Machinery and equipment		
Assets under construction		
	208,479	
	209,033	
Accumulated depreciation		
Property, plant and equipment, net		

Depreciation of property, plant and equipment, including amounts for finance leases, totaled ~~\$1,696~~ \$1,688 and ~~\$3,172~~ \$4,860 in the three and ~~six~~ nine months ended ~~June 29, 2024~~ September 28, 2024, respectively and ~~\$1,591~~ \$1,684 and ~~\$3,148~~ \$4,832 in the three and ~~six~~ nine months ended ~~July 1, 2023~~ September 30, 2023, respectively.

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## NOTE 7 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	June 29, 2024	December 30, 2023
	September 28, 2024	December 30, 2023

Compensation and benefits
Provision for customer rebates, claims and allowances
Advanced customer deposits
Outstanding checks in excess of cash
Other
Accrued expenses

#### NOTE 8 - PRODUCT WARRANTY RESERVES

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

	Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023	September 28, 2024
Product warranty reserve at beginning of period				September 30, 2023	September 28, 2024
Warranty liabilities accrued					September 30, 2023
Warranty liabilities settled					
Product warranty reserve at end of period					
Product warranty reserve at end of period					
Product warranty reserve at end of period					

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

Long-term debt consists of the following:

	June 29, 2024	December 30, 2023
	September 28, 2024	December 30, 2023
Revolving credit facility		
Term loans		
Notes payable - other		
Notes payable - other		
Notes payable - other		
Finance lease obligations		
Finance lease obligations		
Finance lease obligations		
Deferred financing costs, net		
Total debt		
Less: current portion of long-term debt		
Long-term debt		

#### 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 **June 29, 2024** **September 28, 2024**, the applicable margin on the Company's revolving credit facility was 2.50% for SOFR and **1.50%**.

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**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 **8.02%** **7.93%** at **June 29, 2024** **September 28, 2024** and 8.15% at December 30, 2023.

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. The Company is only subject to the financial covenants if borrowing availability is less than **\$8,866**, **\$8,832**, 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 **June 29, 2024** **September 28, 2024**, the unused borrowing availability under the revolving credit facility was **\$13,620**, **\$11,716**.

#### 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.

#### 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 applicable financial covenants. In the Company's self-assessment of going concern, with reflection on the Company's operating losses in 2024 and 2023, 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**, **Plan**, the **return from the elimination of cash discounts**, lower planned **sample investments and cost savings expected to be generated from the operations of the Company's extrusion equipment**. 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. The Company's Senior Secured Revolving Credit Facility matures on October 30, 2025.

The Company is considering options to replace its senior debt, but there can be no assurance that the Company will be able to extend or replace its senior debt or that other supplemental financing or other sources of funding can be obtained or will be obtained on terms favorable to the Company.

#### 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 \$11,500. Concurrent with the sale of the Property, the Company and the Purchaser entered into a twenty-year lease agreement (the "Lease Agreement"), whereby the Company will lease back the Property at an annual rental rate of \$977, subject to annual rent increases of 1.25%. Under the Lease Agreement, the Company has two (2) consecutive options to extend the term of the Lease by ten years for each such option. This transaction was recorded as a failed sale and leaseback. The Company recorded a liability for the amounts received, will continue to depreciate the asset, and has imputed an interest rate 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 7.84% and matures on December 1, 2024.

The Company's other financing notes have terms up to 1 year, bear interest ranging from 6.34% to 6.50% 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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**THE DIXIE GROUP, INC.**  
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**Finance Lease Obligations**

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

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**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
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**NOTE 10 - LEASES**

**Leases as Lessee**

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

	Balance Sheet Location	Balance Sheet Location	June 29, 2024	December 30, 2023	Balance Sheet Location	September 28, 2024	December 30, 2023
<b>Operating Leases:</b>							
Operating lease right-of-use assets							
Operating lease right-of-use assets							
Operating lease right-of-use assets							
Current portion of operating lease liabilities							
Current portion of operating lease liabilities							
Current portion of operating lease liabilities							
Noncurrent portion of operating lease liabilities							
Total operating lease liabilities							
<b>Finance Leases:</b>							

**Finance Leases:****Finance Leases:**

Finance lease right-of-use assets
Finance lease right-of-use assets
Finance lease right-of-use assets
Current portion of finance lease liabilities
Current portion of finance lease liabilities
Current portion of finance lease liabilities

Noncurrent portion of finance lease liabilities

Total financing lease liabilities

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

	Three Months Ended June 29, 2024	Three Months Ended July 1, 2023	Six Months Ended June 29, 2024	Three Months Ended July 1, 2023	Three Months Ended September 28, 2024	Nine Months Ended September 30, 2023
Operating lease cost						
Finance lease cost:						
Finance lease cost:						
Finance lease cost:						
Amortization of lease assets						
Amortization of lease assets						
Amortization of lease assets						
Interest on lease liabilities						
Total finance lease costs						

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Other supplemental information related to leases is summarized as follows:

	June 29, 2024	July 1, 2023
Weighted average remaining lease term (in years):		
Operating leases		
Operating leases		
Operating leases	6.76	6.18
Finance leases	4.17	2.92
		Finance leases
		3.92
		4.52

Weighted average discount rate:							
Weighted average discount rate:							
Weighted average discount rate:							
Operating leases							
Operating leases							
Operating leases	<b>6.80 %</b>		6.40 %		<b>6.81 %</b>	6.40	%
Finance leases	<b>6.69 %</b>		6.40 %	Finance leases	<b>6.69 %</b>	6.64	%
Cash paid for amounts included in the measurement of lease liabilities:							
Cash paid for amounts included in the measurement of lease liabilities:							
Cash paid for amounts included in the measurement of lease liabilities:							
Operating cash flows from operating leases							
Operating cash flows from operating leases							
Operating cash flows from operating leases							
Operating cash flows from finance leases							
Financing cash flows from finance leases							

The following table summarizes the Company's future minimum lease payments under non-cancellable contractual obligations for operating and financing liabilities as of **June 29, 2024** **September 28, 2024**:

Fiscal Year	Fiscal Year	Operating Leases	Finance Leases	Fiscal Year	Operating Leases	Finance Leases
2024						
Remaining for 2024						
2025						
2026						
2027						
2028						
Thereafter						
Total future minimum lease payments (undiscounted)						
Less: Present value discount						
Total lease liability						

#### Leases as Lessor

The Company leases or subleases to third parties certain excess space in its facilities, 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.

Lease income and sublease income related to fixed lease payments recognized in the consolidated condensed financial statements is summarized as follows:

Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended
<b>June 29, 2024</b>	July 1, 2023	<b>June 29, 2024</b>	July 1, 2023	
<b>September 28, 2024</b>	September 30, 2023	<b>September 28, 2024</b>	September 30, 2023	
Operating lease income				

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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 **June 29, 2024** **September 28, 2024**:

Fiscal Year	Fiscal Year	Gross Lease Payments	Payments to Head Lessor	Net Lease Payments	Fiscal Year	Gross Lease Payments	Payments to Head Lessor	Net Lease Payments
2024								
2025								
2026								
2027								
2028								
Thereafter								
Total								

In the third quarter of 2024, the Company signed a sublease agreement for 370,000 square feet of warehouse space in its leased facility in Saraland, Alabama. The lease is a ten year lease at a gross lease value of \$23,296, excluding certain required landlord payments. This lease replaces the existing five year subleases of 200,000 total square feet in our Saraland, Alabama facility.

**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:

	June 29, 2024		December 30, 2023		September 28, 2024		December 30, 2023		
			Carrying Amount	Fair Value	Carrying Amount		Fair Value	Carrying Amount	Fair Value
Financial assets:	Financial assets:				Financial assets:				
Cash and cash equivalents									
Financial liabilities:									
Financial liabilities:									
Financial liabilities:									
Long-term debt, including current portion									
Finance leases, including current portion									

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 approximately 98% of the Company's current associates. This plan includes a mandatory Company match on the first 1% of participants' contributions. The Company matches the next 2% of participants' contributions if the Company meets prescribed earnings levels. The plan also provides for additional Company contributions above the 3% level if the Company attains certain additional performance targets. Matching contribution expense for this 401(k) plan was ~~\$89~~ ~~\$92~~ and ~~\$86~~ ~~\$63~~ for the three months ended ~~June 29, 2024~~ ~~September 28, 2024~~ and ~~July 1, 2023~~ ~~September 30, 2023~~, respectively and ~~\$185~~ ~~\$277~~ and ~~\$174~~ ~~\$230~~ for the ~~six~~ ~~nine~~ months ended ~~June 29, 2024~~ ~~September 28, 2024~~ and ~~July 1, 2023~~ ~~September 30, 2023~~, respectively.

Additionally, the Company sponsors a 401(k) defined contribution plan that covers associates at one facility who are under a collective-bargaining agreement. The number of associates under the plan represents approximately 2% of the Company's total current 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 and ~~\$1~~ ~~\$2~~ for the three months ended ~~June 29, 2024~~ ~~September 28, 2024~~ and ~~July 1, 2023~~ ~~September 30, 2023~~, respectively and ~~\$2~~ ~~\$3~~ and ~~\$5~~ ~~\$8~~ for the ~~six~~ ~~nine~~ months ended ~~June 29, 2024~~ ~~September 28, 2024~~ and ~~July 1, 2023~~ ~~September 30, 2023~~, respectively.

**Non-Qualified Retirement Savings Plan**

The Company sponsors a non-qualified retirement savings plan that allows eligible associates to defer a specified percentage of their compensation. The obligations for continuing operations owed to participants under this plan were ~~\$15,521~~ ~~\$16,142~~ at ~~June 29, 2024~~ ~~September 28, 2024~~ and \$14,289 at December 30, 2023 and are included in other long-term liabilities in the Company's consolidated condensed balance sheets. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company utilizes a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the plan. Amounts are invested in Company-owned life insurance in the Rabbi Trust and the cash surrender value of the policies for continuing operations was ~~\$15,811~~ ~~\$16,142~~ at ~~June 29, 2024~~ ~~September 28, 2024~~ and \$14,836 at December 30, 2023 and is included in other assets in the Company's consolidated condensed balance sheets.

**Multi-Employer Pension Plan**

The Company contributes to a multi-employer pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees. Expenses related to the multi-employer pension plan were \$7 and ~~\$7~~ ~~\$6~~ for the three months ended ~~June 29, 2024~~ ~~September 28, 2024~~ and ~~July 1, 2023~~ ~~September 30, 2023~~, respectively and ~~\$13~~ ~~\$20~~ and ~~\$10~~ ~~\$16~~ for the ~~six~~ ~~nine~~ months ended ~~June 29, 2024~~ ~~September 28, 2024~~ and ~~July 1, 2023~~ ~~September 30, 2023~~, respectively. If the Company were to withdraw from the multi-employer plan, a withdrawal liability would be due, the amount of which would be determined by the plan. The withdrawal liability, as determined by the plan, would be a function of contribution rates, fund status, discount rates and various other factors at the time of any such withdrawal.

**NOTE 13 - INCOME TAXES**

The effective income benefit tax rate for the three and ~~six~~ months ending ~~June 29, 2024~~ ~~September 28, 2024~~ was ~~0.60%~~ ~~(0.11)%~~ and ~~1.16%~~ the effective tax rate for the ~~nine~~ months ending ~~September 28, 2024~~ was ~~0.30%~~, respectively compared with a effective income tax rate of ~~1.31%~~ ~~6.00%~~ and ~~1.08%~~ ~~3.04%~~ for the ~~six~~ ~~three~~ and ~~nine~~ months ending ~~July 1, 2023~~ ~~September 30, 2023~~, respectively. Because the Company maintains a full valuation allowance against its deferred income tax balances, the Company is only able to recognize refundable credits and a small amount of state taxes in the tax expense for the three and ~~six~~ ~~nine~~ months of 2024. The Company is in a net deferred tax liability position of \$91 and \$91 at ~~June 29, 2024~~ ~~September 28, 2024~~ and December 30, 2023, respectively, which is included in other long-term liabilities in the Company's consolidated condensed balance sheets.

The Company accounts for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. Unrecognized tax benefits were ~~\$569~~ ~~\$556~~ and \$555 at ~~June 29, 2024~~ ~~September 28, 2024~~ and December 30, 2023, respectively. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of ~~June 29, 2024~~ ~~September 28, 2024~~ and December 30, 2023.

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** **2020** remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to **2019**, **2020**. A few state jurisdictions remain open to examination for tax years subsequent to **2018**, **2019**.

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

**NOTE 14 - EARNINGS (LOSS) PER SHARE**

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

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**THE DIXIE GROUP, INC.**  
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The following table sets forth the computation of basic and diluted earnings (loss) per share from continuing operations:

	Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023	September 28, 2024	September 28, 2024
<b>Basic earnings (loss) per share:</b>						
Income (loss) from continuing operations						
Income (loss) from continuing operations						
Income (loss) from continuing operations						
<b>Basic loss per share:</b>						
Loss from continuing operations						
Loss from continuing operations						
Loss from continuing operations						
Less: Allocation of earnings to participating securities						
Income (loss) from continuing operations available to common shareholders - basic						
Loss from continuing operations available to common shareholders - basic						
Basic weighted-average shares outstanding (1)						
Basic earnings (loss) per share - continuing operations						
Basic loss per share - continuing operations						
<b>Diluted earnings (loss) per share:</b>						
<b>Diluted earnings (loss) per share:</b>						

<b>Diluted earnings (loss) per share:</b>
Income (loss) from continuing operations available to common shareholders - basic
Income (loss) from continuing operations available to common shareholders - basic
Income (loss) from continuing operations available to common shareholders - basic
<b>Diluted loss per share:</b>
<b>Diluted loss per share:</b>
Loss from continuing operations available to common shareholders - basic
Loss from continuing operations available to common shareholders - basic
Loss from continuing operations available to common shareholders - basic
Add: Undistributed earnings reallocated to unvested shareholders
Income (loss) from continuing operations available to common shareholders - basic
Loss from continuing operations available to common shareholders - basic
Basic weighted-average shares outstanding (1)
<b>Effect of dilutive securities:</b>
Stock options (2)
Stock options (2)
Stock options (2)
Directors' stock performance units (2)
Diluted weighted-average shares outstanding (1)(2)
<b>Diluted earnings (loss) per share - continuing operations</b>
<b>Diluted loss per share - continuing operations</b>

(1) Includes Common and Class B Common shares, excluding unvested participating securities of 906 thousand as of **June 29, 2024** **September 28, 2024** and 732 thousand as of **July 1, 2023** **September 30, 2023**.

(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. There were 487 thousand and 574 thousand aggregate shares excluded for the three and **six** **nine** months ended **June 29, 2024** **September 28, 2024** and **July 1, 2023** **September 30, 2023**, respectively.

#### NOTE 15 - STOCK-BASED COMPENSATION EXPENSE

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity instrument issued and records such expense in selling and administrative expenses in the Company's consolidated condensed statements of operations. The Company's stock compensation expense was **\$103** **\$119** and **\$171** **\$182** for the three months ended **June 29, 2024** **September 28, 2024** and **July 1, 2023** **September 30, 2023**, respectively and **\$259** **\$378** and **\$368** **\$550** for the **six** **nine** months ended **June 29, 2024** **September 28, 2024** and **July 1, 2023** **September 30, 2023**, respectively.

On March 12, 2024, the Company issued 411,537 shares of restricted stock to certain key employees. The grant-date fair value of the awards was \$251, or \$0.61 per share, and is expected to be recognized as stock compensation expense over a weighted-average period of 5.0 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On May 1, 2024, the Company issued 32,000 shares of restricted stock to the Company's non-employee directors. The grant-date fair value of the awards was \$17, or \$0.52 per share, and is expected to be recognized as stock compensation expense over a weighted-average period of 1.0 year from the date the awards were granted. Each award is subject to a continued

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**THE DIXIE GROUP, INC.**  
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service condition. The fair value of each restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

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**THE DIXIE GROUP, INC.**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
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**NOTE 16 - ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

	Post-Retirement Liabilities
Balance at December 30, 2023	\$ 268
Reclassification of net actuarial gain into earnings from postretirement benefit plans	(10) (15)
Balance at <b>June 29, 2024</b> <b>September 28, 2024</b>	<b>\$ 258 253</b>

**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

**Contingencies**

The Company assesses its exposure related to legal matters, including those pertaining to product liability, safety and health matters and other items that arise in the regular course of its business. If the Company determines that it is probable a loss has been incurred, the amount of the loss, or an amount within the range of loss, that can be reasonably estimated will be recorded. The Company has not identified any legal matters that could have a material adverse effect on its consolidated condensed results of operations, financial position or cash flows.

**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 denied liability and is 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. The Company has filed an answer denying liability and is vigorously defending the matter.

On May 7, 2024, the Company was sued, together with 15 other named defendants, in a matter styled William Hartwell Brooks, et al v the City of Calhoun Georgia, In the Superior Court of Gordon County Georgia, civil action number 24CV74289. The case seeks unspecified monetary and other damages alleged to have been suffered by plaintiffs as landowners by the discharge of PFAS chemicals in proximity to or directly adjacent to their properties. The Company has filed an answer denying liability and is vigorously defending the matter.

#### **Nasdaq Delisting Notification or Failure to Satisfy a Continued Listing Rule or Standard**

The Company received notice from NASDAQ on September 27, 2023 that its closing bid price was below \$1 per share for 30 consecutive business days. The Company has requested, and has been granted, an additional 180 calendar days from March 25, 2024 to meet the applicable minimum bid price requirement. As a result of the extension, the Company now has until September 23, 2024 to regain compliance with the bid price requirement. The Company will continue to monitor the closing bid price and will consider all available options to regain compliance. If the Company does not regain compliance with the bid price requirement by September 23, 2024 NASDAQ will provide notification that its shares will be subject to delisting. At such time, the Company may appeal the delisting determination to a NASDAQ Hearings panel. The Company would remain listed pending the panel's decision. There can be no assurance that if the Company appeals a subsequent delisting determination that such appeal would be successful.

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

#### **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).

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

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

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

Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended
June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023	September 28, 2024
				September 30, 2023
				September 28, 2024
				September 30, 2023

Other operating (income) expense, net:

Gain on property, plant and equipment disposals
Gain on property, plant and equipment disposals
Gain on property, plant and equipment disposals
Loss on currency exchanges

(Income) loss on currency exchanges
Retirement expense
Retirement expense
Retirement expense
Insurance proceeds
Insurance proceeds
Insurance proceeds
Lease (income) expense, net
Lease income
Lease expenses
Miscellaneous (income) expense

Other operating (income) expense, net

The Company allocates expenses associated with the leases to other operating expense. Included in other income, net for the three and nine months ended September 30, 2023 was a gain of \$625 related to an extinguishment of a debt arrangement.

#### **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 consolidated its East Coast tufting operations into one plant in North Georgia, relocated the distribution of luxury vinyl flooring from its Saraland, Alabama facility to its Atmore, Alabama facility and identified space in its Saraland, Alabama and Atmore, Alabama facilities as available for lease or sublease. Costs for the plan 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:

Consolidation of East Coast Manufacturing Plan

Consolidation of East Coast Manufacturing Plan

Consolidation of East Coast Manufacturing Plan

Asset Impairments/Non-Cash Items

Asset Impairments/Non-Cash Items

Asset Impairments/Non-Cash Items

Consolidation of East Coast Manufacturing Plan

Consolidation of East Coast Manufacturing Plan

Consolidation of East Coast Manufacturing Plan

Asset Impairments/Non-Cash Items

Asset Impairments/Non-Cash Items

Asset Impairments/Non-Cash Items

(1) Costs incurred under these plans are classified as "facility consolidation and severance expenses, net" in the Company's consolidated condensed statements of operations.

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**THE DIXIE GROUP, INC.**  
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## 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:

Three Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Nine Months Ended
June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023	September 28, 2024
				September 30, 2023
				September 28, 2024
				September 30, 2023

Loss from discontinued operations:

- Workers' compensation costs from former textile operations
- Workers' compensation costs from former textile operations
- Workers' compensation costs from former textile operations
- Environmental remediation costs from former textile operations
- Commercial business operations
- Loss from discontinued operations, before taxes
- Income tax benefit
- Loss from discontinued operations, net of tax

### 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 ~~\$2,181~~ \$2,176 as of June 29, 2024 September 28, 2024 and \$2,205 as of December 30, 2023. 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 included 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 5 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 condensed balance sheets:

June 29, 2024	December 30, 2023
September 28, 2024	December 30, 2023

Current Assets of Discontinued Operations:

Receivables, net

Receivables, net

Receivables, net

Inventories, net

Current Assets Held for Discontinued Operations

Long Term Assets of Discontinued Operations:

Long Term Assets of Discontinued Operations:

Long Term Assets of Discontinued Operations:

Property, plant and equipment, net

Property, plant and equipment, net

Property, plant and equipment, net

Other assets

Long Term Assets Held for Discontinued Operations

Current Liabilities of Discontinued Operations:

Current Liabilities of Discontinued Operations:

Current Liabilities of Discontinued Operations:

Accounts payable

Accounts payable

Accounts payable

Accrued expenses

Current Liabilities Held for Discontinued Operations

Long Term Liabilities of Discontinued Operations:

Long Term Liabilities of Discontinued Operations:

Long Term Liabilities of Discontinued Operations:

Other long term liabilities

Other long term liabilities

Other long term liabilities

Long Term Liabilities Held for Discontinued Operations

For the three and **six** **nine** months ended **June 29, 2024** **September 28, 2024** and **July 1, 2023** **September 30, 2023**, the Company reclassified the following operations of the Commercial business included in discontinued operations in the accompanying consolidated condensed statements of operations:

	Three Months Ended	Three Months Ended		Six Months Ended	Three Months Ended	Nine Months Ended
	<b>June 29, 2024</b>	<b>July 1, 2023</b>		<b>June 29, 2024</b>	<b>July 1, 2023</b>	
			<b>September</b>			
		<b>September 28, 2024</b>	<b>September 30, 2023</b>	<b>28, 2024</b>	<b>September 30, 2023</b>	
Net sales						
Cost of sales						
Gross profit						
Selling and administrative expenses						
Selling and administrative expenses						
Selling and administrative expenses						

Other operating income, net

Loss from discontinued Commercial business operations

#### **NOTE 21 - SUBSEQUENT EVENTS**

Subsequent to the end of the second quarter, the Company signed a sublease agreement for 370,000 square feet of warehouse space in its leased facility in Saraland, Alabama. The lease is a ten year lease at a gross lease value of \$23,296, excluding certain required landlord payments. This lease replaces the existing five year subleases of 200,000 total square feet in our Saraland, Alabama facility.

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

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

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

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

#### **OVERVIEW**

Our business consists principally of marketing, manufacturing and selling floorcovering products to high-end 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 **and** TRUCOR brands have a significant presence in the high-end residential floorcovering markets. Dixie International sells all of our brands outside of the North American market.

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

Our business is sensitive to macroeconomic events in the United States. High interest rates, delayed consumer discretionary spending due to inflationary pressures, and other macroeconomic factors continue to impact new home construction and residential renovation and remodeling activity. Residential remodeling is a primary sales driver of flooring products, and most flooring is replaced before a home is listed for sale or just after a home purchase is completed. The current housing market conditions have suppressed remodeling activity as home sales remain soft. Housing turnover rates remain suppressed due to high home mortgage rates and consumers continue to face a higher cost of living and delay discretionary spending on large durable goods purchases such as flooring. We have, to some extent, offset the impact of a soft housing market and decreased renovation activity through cost containment, productivity and lower input costs. Due to low housing availability, aging stock and greater household formation, we believe demand in our markets will accelerate when interest rates decline. We believe that a number of circumstances may influence trends in 2024, including the impact of inflation and higher interest rates, but the extent and duration of such impact cannot be predicted.

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** Nasdaq on September 27, 2023 that our closing bid price was below \$1 per share for 30 consecutive business days. We **have** requested, and **have been** granted, an additional 180 calendar days from March 25, 2024 to **September 24, 2024** to meet the applicable minimum bid price requirement. As **On September 24, 2024**, the Company received a **result of** letter from Nasdaq notifying the **extension**, we now have until **September 23, 2024** to regain compliance with the bid price requirement. We will continue to monitor the closing bid price and will consider all available options to regain compliance. If we do **Company** that it had **not** regained compliance

with the bid price requirement by September 23, 2024 NASDAQ will provide notification that our shares will be the required compliance date and, as a result, the Company's Common Stock was subject to delisting. At such time, Effective at the opening of business on October 3, 2024, our Common Stock was suspended and delisted from Nasdaq and began trading on the Over-the-Counter Market pink sheets under the stock symbol DXYN. Effective October 4, 2024, we may appeal were upgraded to the delisting determination to a NASDAQ Hearings panel. We would remain listed pending Over-the-Counter OTCQB Market ("the panel's decision. There can be no assurance that if we appeal a subsequent delisting determination that such appeal would be successful. OTCQB") trading under the same symbol DXYN.

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## RESULTS OF OPERATIONS

The following tables provide information derived from our unaudited condensed consolidated financial statements for the periods indicated. Percentages used are expressed as a percent of net sales. The discussion that follows each table should be read in conjunction with our unaudited consolidated condensed financial statements as well as our 2023 Annual Report on Form 10-K for the year ended December 30, 2023.

Three Months Ended **June 29, 2024** **September 28, 2024** Compared with the Three Months Ended **July 1, 2023** **September 30, 2023**

### Net Sales from Continuing Operations

Three Months Ended

(\$ in thousands)

(\$ in thousands)

(\$ in thousands)	June 29, 2024		July 1, 2023		September 28, September 30, 2024		September 30, 2023		Inc. / (Dec.)				
	Net Sales	Net Sales	\$ 70,507	\$ 74,009	\$(3,502)	\$(3,502)	(4.7)%	Net Sales	\$ 64,877	\$ 68,576	\$(3,699)	\$(3,699)	(5.4)%

For the **second** **third** quarter of 2024, our net sales from continuing operations decreased **4.7%** **5.4%** compared with the **second** **third** quarter of 2023. The lower net sales were attributed to lower demand within the floorcovering industry and related markets driven by continued high interest rates and inflation.

Three Months Ended					
June 29, 2024			July 1, 2023		
September 28, 2024			September 30, 2023		
Net sales	Net sales	100.0 %	Net sales	100.0 %	100.0 %
Cost of sales	Cost of sales	71.9 %	Cost of sales	73.3 %	75.4 %
Gross profit	Gross profit	28.1 %	Gross profit	26.7 %	24.6 %
Selling and administrative expenses	Selling and administrative expenses	24.6 %	Selling and administrative expenses	25.7 %	27.1 %
Other operating income, net		(0.1)%		(0.3)%	
Other operating( income) expense, net		0.3 %		(0.2)%	
Facility consolidation and severance expenses, net	Facility consolidation and severance expenses, net	0.3 %	Facility consolidation and severance expenses, net	1.0 %	0.4 %
Operating income					0.8 %
Operating income					

Operating income	<b>3.3 %</b>	<b>0.3 %</b>
Operating loss		
Operating loss		
Operating loss	<b>(3.2)%</b>	<b>(1.3)%</b>

#### Gross Profit

Gross profit as a percentage of net sales was **28.1%** **24.6%** in the **second** **third** quarter of 2024 compared with **26.7%** **26.6%** in the **second** **third** quarter of 2023. The **higher** **lower** gross profit percentage in 2024 was primarily driven by operational efficiencies as lower sales volume, higher healthcare and utility costs and additional lease expense due to the **result** **sale and leaseback** of **facility consolidations**, the Adairsville distribution center in 2023.

#### Selling and Administrative Expenses

Selling and administrative expenses were **\$17.4 million** **\$17.6 million**, or **24.6%** **27.1%** of net sales, in the **second** **third** quarter of 2024 compared with **\$19.0 million** **\$18.7 million**, or **25.7%** **27.3%** of net sales in the year earlier period. Selling and administrative expenses as a percentage of net sales decreased in the **second** **third** quarter of 2024 as compared to the **second** **third** quarter of 2023 primarily due to lower sample and marketing expenses **in** **during** the **second** **quarter** of 2024.

#### Other Operating Income, (Income) Expense, Net

Net other operating **income** **(income) expense** was **\$105** an expense of **\$193 thousand** in the **third** quarter of 2024 compared with **\$147 thousand** of **income** in the **second** **quarter** of 2024 compared with **\$234 thousand** of **income** in the **second** **third** quarter of 2023.

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#### Facility Consolidation and Severance Expenses, Net

Facility consolidation and severance expenses in the **second** **third** quarter of 2024 were **\$247** **\$283 thousand** compared with **\$719** **\$552 thousand** in the **second** **third** quarter of 2023. The expenses in 2024 and 2023 were related to our restructuring plan for the consolidation of our east coast manufacturing.

#### Operating Income Loss

We reported an operating **income** **loss** of **\$2.3 million** **\$2.1 million** in the **second** **third** quarter of 2024 compared with an operating **income** **loss** of **\$253** **\$913 thousand** in the **second** **third** quarter of 2023. The increase in operating **income** **loss** was primarily the result of operational efficiencies as lower sales volume, higher healthcare and utility costs and additional lease expense due to the **result** **sale and leaseback** of **facility consolidations** the Adairsville distribution center in the **second** **quarter** of 2024.

#### Interest Expense

Interest expense decreased **\$229** **\$167 thousand** in the **second** **third** quarter of 2024 compared with the **second** **third** quarter of 2023. The decrease is primarily the result of a lower debt level in 2024 offset by an increase in interest rates on our variable rate debt.

#### Other (Income) Expense, Net

Net other **(income) expense** was **\$4** **\$2 thousand** of **expense** **income** in the **second** **third** quarter of 2024 compared with **\$3** **\$622 thousand** of **income** in the **second** **third** quarter of 2023. Net other **(income) expense** included a gain of **\$625 thousand** related to an extinguishment of a debt arrangement in the **third** quarter of 2023.

#### Income Tax Provision (Benefit)

We recorded an income tax **expense** **benefit** from continuing operations of **\$4 thousand** in the **second** **third** quarter of 2024 compared to a income tax expense of **\$21** **\$125 thousand** in the **second** **third** quarter of 2023.

The effective income benefit tax rate for the three months ending **June 29, 2024** **September 28, 2024** was 0.60% (0.11)% compared with a income tax rate of 1.31% 6.00% for the three months ending **July 1, 2023** **September 30, 2023**. Because we maintain a full valuation allowance against our deferred tax balances, we are only able to recognize refundable credits and a small amount of state taxes in the tax expense for the second quarter of 2024 and 2023. We are in a net deferred tax liability position of \$91 thousand at **June 29, 2024** **September 28, 2024** and \$91 thousand at December 30, 2023, which is included in other long-term liabilities in our consolidated condensed balance sheets.

We account for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. Unrecognized tax benefits were \$569 \$556 thousand and \$555 thousand at **June 29, 2024** **September 28, 2024** and December 30, 2023, respectively. Such benefits, if recognized, would affect our effective tax rate. There were no significant interest or penalties accrued as of **June 29, 2024** **September 28, 2024** and December 30, 2023.

#### Net Income (Loss) Loss

Continuing operations reflected income a loss of \$667 thousand, \$3.7 million, or \$0.04 \$0.26 per diluted share, in the **second** **third** quarter of 2024 compared with a loss of \$1.6 million \$2.2 million, or \$0.11 \$0.15 per diluted share, in the same period in 2023. The loss from discontinued operations was \$64 \$182 thousand in the **second** **third** quarter of 2024 compared to a loss of \$106 \$183 thousand in the **second** **third** quarter of 2023. See Note 20 to the consolidated condensed financial statements for additional details related to discontinued operations.

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#### Six Nine Months Ended **June 29, 2024** **September 28, 2024** Compared with the Six Nine Months Ended **July 1, 2023** **September 30, 2023**

##### Net Sales from Continuing Operations

Six Months Ended		Nine Months Ended				
(\$ in thousands)		(\$ in thousands)				
		June 29, 2024	July 1, 2023	September 28, September 30, 2024 2023		
(\$ in thousands)				Inc. / (Dec.)	2024	2023
Net Sales	Net Sales	\$ 135,761	\$ 141,093	\$(5,332)	\$(5,332)	(3.8)%
				Net Sales	\$ 200,638	\$ 209,669
					\$(9,031)	\$(9,031)
					(4.3)%	

For the first **six** **nine** months of 2024, our net sales from continuing operations decreased 3.8% 4.3% compared with the first **six** **nine** months of 2023. The lower net sales were attributed to lower demand within the floorcovering industry and related markets driven by continued high interest rates and inflation.

Six Months Ended		
June 29, 2024		
Nine Months Ended		
September 28, 2024		
Net sales	Net sales	100.0 %
Cost of sales	Cost of sales	73.8 %
Gross profit	Gross profit	26.2 %
		100.0 % Net sales
		73.3 % Cost of sales
		26.7 % Gross profit
		100.0 % 100.0 %
		74.3 % 73.4 %
		25.7 % 26.6 %

Selling and administrative expenses	Selling and administrative expenses	24.9 %	25.1 %	Selling and administrative expenses	25.6 %	25.9 %
Other operating income, net		(0.1)%	(0.1)%			
Other operating (income) expense, net		— %	(0.2)%			
Facility consolidation and severance expenses, net	Facility consolidation and severance expenses, net	0.4 %	1.3 %	Facility consolidation and severance expenses, net	0.4 %	1.1 %
Operating income						
Operating income						
Operating income		1.0 %	0.4 %			
Operating loss						
Operating loss						
Operating loss		(0.3)%	(0.2)%			

#### Gross Profit

Gross profit as a percentage of net sales was 26.2% 25.7% in the first six nine months of 2024 compared with 26.7% 26.6% in the first six nine months of 2023. The lower gross profit percentage in 2024 was primarily driven by lower sales volume, higher unabsorbed fixed healthcare and utility costs in and additional lease expense due to the first quarter sale and leaseback of the year Adairsville distribution center in 2023.

#### Selling and Administrative Expenses

Selling and administrative expenses were \$33.7 million \$51.3 million, or 24.9% 25.6% of net sales, in the first six nine months of 2024 compared with \$35.5 million \$54.2 million, or 25.1% 25.9% of net sales in the year earlier period. Selling and administrative expenses as a percentage of net sales decreased in the first six nine months of 2024 as compared to the first six nine months of 2023 primarily due to lower sample and marketing expenses in the first six months of 2024.

#### Other Operating Income, (Income) Expense, Net

Net other operating income (income) expense was \$52 \$141 thousand of expense in the first six nine months of 2024 compared with \$166 \$313 thousand of expense income in the first six nine months of 2023.

#### Facility Consolidation and Severance Expenses, Net

Facility consolidation and severance expenses in the first six nine months of 2024 were \$489 \$772 thousand compared with \$1.8 million \$2.3 million in the first six nine months of 2023. The expenses in 2024 and 2023 were related to our restructuring plan for the consolidation of our east coast manufacturing.

#### Operating Income Loss

We reported an operating income loss of \$1.4 million \$669 thousand in the first six nine months of 2024 compared with an operating income loss of \$560 \$354 thousand in the first six nine months of 2023. The increase in operating income loss was primarily the result of operational efficiencies as lower sales volume, higher healthcare and utility costs and additional lease expense due to the result sale and leaseback of facility consolidations the Adairsville distribution center in the first six months of 2024 and lower selling expenses.

2023.

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#### Interest Expense

Interest expense decreased \$555 \$723 thousand in the first six nine months of 2024 compared with the first six nine months of 2023. The decrease is primarily the result of a lower debt level in 2024 offset by an increase in interest rates on our variable rate debt.

## Other (Income) Expense, Net

Net other (income) expense was \$8 thousand of expense in the first **six** **nine** months of 2024 compared with **\$10** **\$634** thousand of income in the first **six** **nine** months of 2023. Net other (income) expense included a gain of \$625 thousand related to an extinguishment of a debt arrangement in the first **nine** months of 2023.

## Income Tax Provision (Benefit)

We recorded an income tax expense from continuing operations of **\$20** **\$16** thousand in the first **six** **nine** months of 2024 compared to a income tax expense of **\$34** **\$159** thousand in the first **six** **nine** months of 2023.

The effective income tax rate for the **six** **nine** months ending **June 29, 2024** **September 28, 2024** was **1.16%** **0.30%** compared with a income rate of **1.08%** **3.04%** for the **six** **nine** months ending **July 1, 2023** **September 30, 2023**. Because we maintain a full valuation allowance against our deferred tax balances, we are only able to recognize refundable credits and a small amount of state taxes in the tax expense for the first **six** **nine** months of 2024 and 2023.

## Net Income (Loss) Loss

Continuing operations reflected a loss of **\$1.7 million** **\$5.5 million**, or **\$0.12** **\$0.37** per diluted share, in the first **six** **nine** months of 2024 compared with a loss of **\$3.1 million** **\$5.4 million**, or **\$0.22** **\$0.36** per diluted share, in the same period in 2023. The loss from discontinued operations was **\$148** **\$329** thousand in the first **six** **nine** months of 2024 compared to a loss of **\$313** **\$496** thousand in the first **six** **nine** months of 2023. See Note 20 to the consolidated condensed financial statements for additional details related to discontinued operations.

## LIQUIDITY AND CAPITAL RESOURCES

During the **six** **nine** months ended **June 29, 2024** **September 28, 2024**, cash used in operating activities in continuing operations was **\$2.3 million** **\$497 thousand**. An increase in accounts receivable used **\$4.4 million** **\$3.0 million** during the first **six** **nine** months of 2024. Prepaid and other current assets used **\$5.3 million** **\$2.6 million** primarily as a result of prepaid sample and marketing expenses. A **decrease** **increase** in inventory **generated** **\$80** used **\$543** thousand and an increase in accounts payable and accrued expenses generated **\$5.4 million** **\$5.8 million** primarily driven by the quarter end timing of payments based on supplier terms.

Purchases of capital assets for the **six** **nine** months **June 29, 2024** **September 28, 2024** resulted in a **\$1.4 million** **\$1.9 million** cash out flow to the business. Depreciation and amortization for the **six** **nine** months ended **June 29, 2024** **September 28, 2024** were **\$3.3 million** **\$5.0 million**. We expect capital expenditures to be approximately \$2.8 million in 2024 while depreciation and amortization is expected to be approximately \$6.2 million.

During the **six** **nine** months ended **June 29, 2024** **September 28, 2024**, cash provided by financing activities was **\$3.8 million** **\$3.6 million**. We had net borrowings on our revolving credit facility of **\$5.6 million** **\$7.2 million** and net payments on notes payable and financing leases of **\$2.3 million** **\$3.5 million**.

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** **Nasdaq** on September 27, 2023 that our closing bid price was below \$1 per share for 30 consecutive business days. We **have** **requested**, and **have been** **were** granted, an additional 180 calendar days from March 25, 2024 to **September 24, 2024** to meet the applicable minimum bid price requirement. **As** **On** **September 24, 2024**, **the** **Company** **received** **a** **result** **of** **letter** **from** **Nasdaq** **notifying** **the** **extension**, **we** **now** **have** **until** **September 23, 2024** **to** **regain** **compliance** **with** **the** **bid** **price** **requirement**. **We** **will** **continue** **to** **monitor** **the** **closing** **bid** **price** **and** **will** **consider** **all** **available** **options** **to** **regain** **compliance**. **If** **we** **do** **Company** **that** **it** **had** **not** **regain** **regained** **compliance** **with** **the** **bid** **price** **requirement** **by** **September 23, 2024** **NASDAQ** **will** **provide** **notification** **that** **our** **shares** **will** **be** **the** **required** **compliance** **date** **and**, **as** **a** **result**, **the** **Company's** **Common** **Stock** **was** **subject** **to** **delisting**. **At** **such** **time**, **we** **may** **appeal** **Effective** **at** **the** **delisting** **determination** **to** **a** **NASDAQ** **Hearings** **panel**. **We** **would** **remain** **listed** **pending** **the** **panel's** **decision**. **There** **can** **be** **no** **assurance** **that** **if** **we** **appeal** **a** **subsequent** **delisting** **determination** **that** **such** **appeal** **would** **be** **successful**. **To** **the** **extent** **that** **we** **are** **unable** **to** **stay** **in** **compliance** **with** **the** **relevant** **NASDAQ** **bid** **price** **listing** **rule**, **there** **is** **a** **risk** **that** **opening** **of** **business** **on** **October 3, 2024**, **our** **common** **stock** **may** **be** **Common** **Stock** **was** **suspended** **and** **delisted** **from** **NASDAQ**, **which** **would** **adversely** **impact** **liquidity** **of** **our** **common** **Nasdaq** **and** **began** **trading** **on** **the** **Over-the-Counter** **Market** **pink** **sheets** **under** **the** **stock** **and** **potentially** **result** **in** **even** **lower** **bid** **prices** **symbol** **DXYN**. **Effective** **October 4, 2024**, **we** **were** **upgraded** **to** **the** **Over-the-Counter** **OTCQB** **Market** **("the** **OTCQB**) **trading** **under** **the** **same** **symbol** **DXYN**. **Our** **delisting** **from** **Nasdaq** **could** **make** **it** **more** **difficult** **for** **our** **common** **stock**. **us** **to** **raise** **additional** **capital** **if** **needed**.

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**, the return from the elimination of cash discounts, lower planned sample investments and cost savings expected to be generated from the operations of our extrusion equipment. Availability under our Senior Secured Revolving Credit Facility on **June 29, 2024** **September 28, 2024** was **\$13.6 million** **\$11.7 million**. Significant additional cash expenditures

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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

Our Senior Secured Revolving Credit Facility matures on October 30, 2025. In consideration of this, we have begun discussions with lenders to secure longer term financing in place of our senior debt. However, there can be

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no assurance that we will be able to extend or replace our senior debt or 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.

#### **Changes to Critical Accounting Policies**

Our critical accounting policies were outlined in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2023 Annual Report on Form 10-K filed with the Securities and Exchange Commission. There have been no changes in our critical accounting policies during 2024.

#### **Recent Accounting Pronouncements**

Recent accounting pronouncements are disclosed in Note 2 to the consolidated condensed financial statements.

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

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

At June 29, 2024 September 28, 2024, \$76,206, \$77,319, or approximately 87% 88% of our total debt, was subject to short-term floating interest rates. A one-hundred basis point fluctuation in the variable interest rates applicable to this floating rate debt would have an annual after-tax impact of approximately \$762, \$773. Included in the \$762, \$77,319, is the amount outstanding for term loans of \$23,003, \$22,485. Both loans are currently set to bear interest of 5% for five years. Every five years, these rates will be reset to reflect the then current 5-year treasury rate plus a margin. A one-hundred basis point fluctuation in the interest rates applicable to this floating rate debt would have an annual after-tax impact of approximately \$230, \$225. See Note 9 to the consolidated condensed financial statements for further discussion of these loans.

#### **Item 4. Controls and Procedures**

We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13(a)-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of June 29, 2024 September 28, 2024, the date of the financial statements included in this Form 10-Q (the "Evaluation Date"). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

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

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures, as

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

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## PART II. OTHER INFORMATION

### Item 1. 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 denied liability and are 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. We have filed an answer denying liability and are vigorously defending the matter.

On May 7, 2024, we were sued, together with 15 other named defendants, in a matter styled William Hartwell Brooks, et al v the City of Calhoun Georgia, In the Superior Court of Gordon County Georgia, civil action number 24CV74289. The case seeks unspecified monetary and other damages alleged to have been suffered by plaintiffs as landowners by the discharge of PFAS chemicals in proximity to or directly adjacent to their properties. We have filed an answer denying liability and are vigorously defending the matter.

### 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.**

**If we are not able Our Common Stock was delisted from the Nasdaq Stock Market, which could make trading in our Common Stock more difficult for investors, potentially leading to maintain a minimum bid declines in our share price of \$1 per share for and liquidity and could limit our common stock, we may be subjectability to delisting from The NASDAQ Stock Market. raise additional capital.**

**NASDAQ** 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** Nasdaq on September 27, 2023 that our closing bid price was below \$1 per share for 30 consecutive business days. We **have** requested, and **have been** granted, an additional 180 calendar days from March 25, 2024 to **September 24, 2024** to meet the applicable minimum bid price requirement. **As On September 24, 2024, the Company received a result of letter from Nasdaq notifying the extension, we now have until September 23, 2024 to regain compliance with the bid price requirement. We will continue to monitor the closing bid price and will consider all available options to regain compliance. If we do** Company that it had not **regain** regained compliance with the bid price requirement by **September 23, 2024** **NASDAQ** will provide notification that our shares will be the required compliance date and, as a result, the Company's Common Stock was subject to delisting. **At such time, Effective at the opening of business on October 3, 2024, our Common Stock was suspended and delisted from Nasdaq and began trading on the Over-the-Counter Market pink sheets under the stock symbol DXYN. Effective October 4, 2024, we may appeal** were upgraded to the Over-the-Counter OTCQB Market ("the OTCQB") trading under the same symbol DXYN.

Our delisting determination to a NASDAQ Hearings panel. We would remain listed pending the panel's decision. There can be no assurance that if we appeal a subsequent delisting determination that such appeal would be successful. To the extent that we are unable to stay from Nasdaq could make trading in compliance with the relevant NASDAQ bid price listing rule, there is a risk that our common stock more difficult for investors, potentially leading to declines in our share price and liquidity. Shareholders may have a difficult time getting a quote for the sale or purchase of our stock, the sale or purchase of our stock will likely be delisted from NASDAQ, which would adversely impact made more difficult and the trading volume and liquidity of our common stock and potentially could decline. Our delisting from Nasdaq could also result in even lower bid prices negative publicity and could also make it more difficult for us to raise additional capital. The absence of such a listing may adversely impact the acceptance of our common stock. Common Stock as currency or the value accorded by other parties.

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**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 or other pandemics 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 or other pandemics, 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 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.

**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

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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. 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. 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. Supply constraints may impact our ability to successfully develop products and effectively service our customers. We have developed and

are developing products and product offerings using fiber systems from multiple external fiber suppliers as well as from vertically integrated production of our yarn supply through dedicated internal extrusion operations. There can be no certainty as to the success of our efforts to develop and market such products. We continually evaluate our sources of yarn and other raw materials for competitive costs, performance characteristics, brand value, and diversity of supply.

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**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

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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 ("EPA") has declared an intent to focus on perceived risks posed by certain chemicals (principally PFOA and PFOAS) previously used by the carpet industry. Recently, such chemicals have been declared to be hazardous substances by the EPA. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Repurchases of Common Stock**

The following table provides information regarding our repurchases of our Common Stock Shares during the three months ended **June 29, 2024** **September 28, 2024**:

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 (2)	Maximum Number (or approximate dollar value) of Shares That May Yet Be Purchased Under Plans or Programs (2)
May 4, 2024	—	\$ —	—	—
June 1, 2024	179,348	0.91	179,348	
June 29, 2024	171,835	0.88	171,835	
Three Months Ended June 29, 2024	351,183	\$ 0.89	351,183	\$ 2,486,736

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 (2)	Maximum Number (or approximate dollar value) of Shares That May Yet Be Purchased Under Plans or Programs (2)
August 3, 2024	211,874	\$ 0.67	211,874	
August 31, 2024	113,014	0.83	113,014	
September 28, 2024	—	—	—	
Three Months Ended September 28, 2024	324,888	\$ 0.73	324,888	\$ 2,250,641

(1) On May 1, 2024, our Board of Directors approved the repurchase of up to \$2,800,000 of our Common Stock. We currently have an active 10b-5-1. The purchases disclosed in the above table were made pursuant to that authorization, and under a plan structured to repurchase shares meet the requirements of Common Stock Rule 10b-5-1. That plan was terminated on August 22, 2024.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a.) Exhibits

**10.1 Sublease Agreement between TDG Operations, LLC and Austal USA, LLC dated August 1, 2024.**

31.1 [CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

31.2 [CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

32.1 [CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

32.2 [CFO Certification pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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**SIGNATURES**

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

THE DIXIE GROUP, INC.

(Registrant)

Date: August 9, 2024 October 28, 2024

By: /s/ Allen L. Danzey

Allen L. Danzey

Vice President and Chief Financial Officer

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**Saraland Warehouse Lease**

**SUBLEASE AGREEMENT**

**THIS SUBLICENSE AGREEMENT** (this "Sublease") is made as of this 1st day of August, 2024 (the "Effective Date") by and between **TDG OPERATIONS, LLC**, a Georgia limited liability company ("Sublandlord"), and **AUSTAL USA, LLC**, an Alabama limited liability company ("Subtenant").

**WHEREAS**, Sublandlord and Subtenant are parties to that certain Sublease Agreement dated June 26, 2023<sup>1</sup> and that certain Sublease Agreement dated July 19, 2023 (the "Existing Subleases"); and

**WHEREAS**, Sublandlord and Subtenant desire to terminate the Existing Subleases and enter into this Sublease, upon the terms set forth herein;

**NOW, THEREFORE**, Sublandlord and Subtenant hereby mutually covenant and agree as follows:

### **I. GRANT, TERM, AND PRIMARY LEASE**

**1.0 Termination of Existing Subleases; Grant of New Sublease.** The Existing Subleases are hereby terminated and replaced herewith. Sublandlord, for and in consideration of the rents herein reserved and of the covenants and agreements herein contained on the part of the Subtenant to be performed, hereby leases to Subtenant, and Subtenant hereby lets from Sublandlord, approximately 370,000 square feet of rentable space in the building (the "Building") commonly known as The Saraland Plant, located at 716 Bill Myles Drive, Saraland, Mobile County, Alabama, located on the land legally described in Exhibit A attached hereto (the "Land") as shown on the drawing identified as Exhibit B attached hereto (the "Subleased Premises"), along with the exclusive use and access control to east side fenced and gated parking area approximately 3.5 acres shown on such Exhibit B. Subtenant shall be granted non-exclusive rights to utilize the driveways, sidewalks and automobile parking areas on west side of Building with the exception of designated parking reserved for Sublandlord as noted in Exhibit B.

**1.1** The term of this Sublease (the "Term") shall commence on the date possession of the Subleased Premises shall be delivered to Subtenant in accordance with Section 8.1. below (hereinafter referred to as the "Commencement Date"), which Commencement Date shall be confirmed in writing acknowledged by Sublandlord and Subtenant. The total Tenn shall include ten (10) one-year rental term periods, as defined in section 3.0 of this sublease agreement. Each one-year rental term period shall automatically renew for a new consecutive one-year rental term period, under the rental terms as defined in section 3.0 of this sublease agreement, and such automatic renewal shall end ten (10) years and three (3) months after the Commencement Date, unless an event of default has occurred and is continuing, Subtenant shall have the right and option to extend the initial Term of this Sublease for one (1) additional period of four (4) years (a "Renewal Tenn"), exercisable by written notice to Sublandlord no less than one hundred eighty (180) days prior to expiration of the then current lease term. If so exercised, the initial Term together with the Renewal Term, will become the "Term." Base rent during the Renewal Term will continue to be subject to the two (2) percent annual escalations set forth in Section 3.0 below.

**1.2 Primary Lease.** Saraland Industrial, LLC, an Alabama limited liability company (the "Landlord"), is the owner of fee simple title to the Land and leases the Building and Land to Sublandlord pursuant to that certain Lease Agreement dated January 14, 2019 between the Landlord and Sublandlord (the "Primary Lease"). Subtenant acknowledges and agrees that it has read and agrees to comply with the terms of the Primary Lease.

<sup>1</sup>The premises of this sublease is hereinafter referred to as the "EB storage Area."

## II. PURPOSE

**2.0 Purpose.** The Subleased Premises shall be used and occupied by Subtenant only for the purpose of equipment storage and other incidental uses in connection therewith.

**2.1 Uses Prohibited.** Subtenant will not permit the Subleased Premises to be used in any manner which would render the insurance thereon, or on the Building, void or the insurance risk more hazardous. Subtenant shall not use or occupy the Subleased Premises, or permit the Subleased Premises to be used or occupied, contrary to any statute, rule, order, ordinance, requirement or regulation applicable thereto; or in any manner which would violate any certificate of occupancy affecting the same; or which would cause structural injury to the improvements; or cause the value or usefulness of the Subleased Premises, or any part thereof, to diminish; or which would constitute a public or private nuisance or waste.

## III. RENT

**3.0 Rent.** The first three (3) months of the Sublease following the Commencement Date shall be free of base rent, and payments of base rental shall commence on the date that is three (3) months following the Commencement Date (the "Rent Commencement Date"). Beginning on the Rent Commencement Date, Subtenant shall pay to Sublandlord an annual base rental as follows:



The base rental is inclusive of and deemed to cover a proportionate share of the real property taxes, insurance, utilities and maintenance costs. All such costs are managed and paid directly by Sublandlord. As set forth in Exhibit E, should certain costs increase above the amount included in the budget, Sublandlord reserves the right to collect additional rent to cover the Subtenant's proportional share of such costs as further described in Exhibit E. Such additional rent shall be due in equal monthly installments commencing on the rent payment date that follows the 60-day notice period of cost overruns as described in Exhibit E, and thereafter shall be due in advance and without demand on the first day of each calendar month during the Term, for so long as cost overruns are occurring.

**3.1 Time of Payment.** Subtenant shall pay to Sublandlord (at such address as Sublandlord shall designate in writing from time to time) monthly in advance, without demand, a sum equal to one-twelfth of the annual base rental, with the first such payment being made on the Rent Commencement Date and subsequent payments on or before the first (1st) day of each calendar month thereafter. All payments of rent shall be made without deduction, set off, discount or abatement in lawful money of the United States. Subtenant may elect to pay the base rental by electronic funds transfer. If the Rent Commencement Date is not the first day of a calendar month, the monthly rent payment for the first and last partial months hereof shall be pro-rated based on the actual number of days during each such month that this Sublease is in effect.

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**3.2 Interest on Late Payments.** Each and every installment of base rent and each payment of additional rent or other sum due hereunder from Subtenant to Sublandlord which shall not be paid within ten (10) days of its due date shall bear interest at the prime rate announced from time to time by The Wall Street Journal plus three (3%) percent (the "Default Rate") per annum, from the date when the same is payable under the terms of this Sublease until paid.

## IV. TAXES

**4.0 Taxes.** The Subtenant will pay promptly when due, and indemnify and hold the Sublandlord and Landlord harmless from, all personal property taxes on personal property of the Subtenant on the Subleased Premises, all taxes, assessments, fees or charges now or hereafter

imposed or assessed against or in respect of the Subtenant's occupancy of the Subleased Premises, and all federal, state and local income taxes, sales taxes, use taxes, Social Security taxes, unemployment taxes and taxes withheld from wages or salaries paid to the Subtenant's employees, the nonpayment of which might give rise to a lien on the Subleased Premises or the Subtenant's interest therein, and to furnish, if requested by the Sublandlord or Landlord, evidence of such payments. The Subtenant will cause the Subtenant's property to be assessed and billed separately from the real and personal property of the Sublandlord. If, for any reason, all or any part of the Subtenant's property will be assessed or taxed with the Sublandlord's real or personal property, the Subtenant will pay to the Sublandlord the Subtenant's share of such taxes upon delivery by the Sublandlord to the Subtenant of a statement in writing setting forth the amount of such taxes applicable to the Subtenant's property.

## **V. INSURANCE**

**5.0 Types of Insurance to be Maintained by Sublandlord.** At all times during the Term, Sublandlord shall obtain and keep in full force and effect at least the following insurance coverages:

- (a) property damage insurance covering the Building and the Land against damage or destruction by fire, earthquake, windstorm, flood, explosions from mechanical equipment, and such other casualties as Sublandlord may reasonably determine are prudent for the Building. Said insurance shall be in an amount equal to the full replacement value of the Subleased Premises;
- (b) rent loss insurance in an amount sufficient to pay Sublandlord, for a period of twelve (12) months, all rent due to Sublandlord under this Sublease;
- (c) general liability insurance and such other and additional insurance as is customarily maintained by landlords on similar Subleased Premises in such amounts and form as Sublandlord shall reasonably determine. Subtenant shall be named as an additional insured on the general liability policy; and
- (d) such other insurance as may be required under the Primary Lease.

**5.1 Types of Insurance to be Maintained by Subtenant.** At all times during the Term, Subtenant, at Subtenant's sole expense, shall obtain and keep in full force and effect:

- (a) all risk property damage insurance covering Subtenant's personal property located in the Subleased Premises not covered under the policy described in Section 5.0(a) above;
- (b) commercial, general liability insurance against claims for personal injury, bodily injury and property damage occurring on or in or about the Subleased Premises naming Sublandlord,

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## **SUBLEASE AGREEMENT**

Landlord, and its mortgagees as additional insureds in such amount and in such form as Sublandlord shall reasonably determine but in no event less than One Million Dollars (\$1,000,000.00) per occurrence; and

- (c) worker's compensation insurance in amounts required by applicable law or statute covering all personnel employed in connection with any work done on or about the Subleased Premises with respect to which claims for death or bodily injury could be asserted against Landlord, Sublandlord, Subtenant, or the Subleased Premises.

**5.2 Form of Insurance.** The aforesaid insurance shall be in companies and in form, substance and amount (where not stated above) satisfactory to Landlord, Sublandlord and any mortgagee, and shall contain standard mortgage clauses satisfactory to Landlord/Sublandlord's mortgagee. The aforesaid insurance shall not be subject to cancellation except after at least thirty (30) days' prior written notice to Landlord and Sublandlord and any mortgagee holding a first or second lien on the Subleased Premises. The original insurance policies (or manually executed certificates thereof reasonably satisfactory to Landlord/Sublandlord) together with satisfactory evidence of payment of the premiums thereon, shall be deposited with Sublandlord at the Commencement Date and renewals thereof not less than thirty (30) days prior to the end of the term of each such coverage.

**5.3 Mutual Waiver of Subrogation Rights.** Whenever (a) any loss, cost, damage or expense resulting from fire, explosion or any other casualty or occurrence is incurred by either of the parties to this Sublease in connection with the Subleased Premises, and (b) such party is then covered in whole or in part by insurance with respect to such loss, cost, damage or expense, then the party so insured hereby releases the other party from any liability it may have on account of such loss, cost, damage or expense to the extent of any amount recovered by reason of such insurance and waives any right of subrogation which might otherwise exist in or accrue to any person on account thereof, provided that such release of liability and waiver of the right of subrogation shall not be operative in any case where the effect thereof is to invalidate such insurance coverage.

## VI. DAMAGE OR DESTRUCTION

**6.0 Sublandlord's Obligation to Rebuild; Termination Right.** In the event of damage to or destruction of the Subleased Premises, in whole or in part, Subtenant promptly shall notify Sublandlord. If the damage or destruction renders less than 95% of the Subleased Premises useable due to fire or other casualty, Sublandlord shall apply the insurance proceeds from the policies described in **Section 5.0(a)** above, to repair, restore or rebuild the unusable portion; provided, such insurance proceeds must be sufficient to cover the cost and the Subleased Premises must be able to be restored to Subtenant within one hundred twenty (120) days of notice from Subtenant of the event. Rent shall be reduced or abated, in proportion to the percentage of the Subleased Premises rendered unusable by the casualty or repair, restoration, or rebuilding, during the period of such repair, restoration or rebuilding to the extent such damage or destruction is not due to Subtenant's negligence or willful misconduct. If Sublandlord does not (i) commence the repairs or rebuilding of the Subleased Premises within forty-five (45) days of notice from Subtenant of the event causing the damage, or (ii) complete the repair, restoration or rebuilding of the Subleased Premises within one hundred twenty (120) days of notice from Subtenant of the event causing the damage, then Subtenant shall have the right to terminate this Sublease and be relieved of all further obligations hereunder. If a fire, explosion or other casualty renders less than 95% of the Subleased Premises useable or if any level of damage to the Subleased Premises could not be rebuilt within one hundred twenty (120) days of notice from Subtenant of the event causing the damage, either party may terminate this Sublease within thirty (30) days after the occurrence of the event causing the damage.

**6.1 Excess Insurance Proceeds.** Any excess of money received from insurance proceeds after the repair or rebuilding of the Subleased Premises shall be retained by the Sublandlord, except to the extent

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that proceeds from insurance coverage described in Section 5.01(a) are required to meet Subtenant's obligations under Section 6.2. in which event such excess proceeds shall be paid to Subtenant upon completion of such obligations.

**6.2 Subtenant's Obligation to Rebuild.** In the event of damage to or destruction of interior leasehold improvements of the Subleased Premises, Subtenant shall promptly repair, restore, rebuild, or replace them; provided, however, that if either party terminates this Sublease pursuant to the provisions of Section 6.0, then Subtenant shall be entitled to keep the insurance proceeds from coverage described in Section 5.1(a).

**6.3 Landlord/Lender Provisions.** The provisions of Articles V and VI shall apply to the extent they are consistent with the terms of the Primary Lease and Sublandlord's mortgage financing. If Landlord or any mortgagees require a different treatment of the insurance policy proceeds, such requirements shall be controlling.

## **VII. CONDEMNATION**

**7.0 Taking of Whole.** If the all of the Subleased Premises shall be taken or condemned for a public or quasi-public use or purpose by any competent authority, or if such a significant portion of the Subleased Premises or the parking areas serving the Building is so taken that the balance of the Subleased Premises cannot be used for the same purpose as expressed in Article II above, then and in either of such events this Sublease shall terminate when possession of the Subleased Premises shall be so taken and surrendered. Subtenant shall continue to pay rent and additional rent through the date of such termination.

**7.1 Partial Taking.** If only a part of the Subleased Premises or the parking areas serving the Building shall be so taken or condemned, and as a result thereof the balance of the Subleased Premises can be used for the same purpose as expressed in Article II above, this Sublease shall not terminate, and Sublandlord, to the extent of the net amount of Award (as defined below), after deducting all of Landlord's and Sublandlord's reasonable expenses incurred in connection with the condemnation, shall repair and restore the Subleased Premises and parking areas. Any portion of such Award not expended for such repairing or restoration shall be retained by the Landlord or Sublandlord, as applicable. Rent shall abate or be reduced in the same proportion as the area of the Subleased Premises taken or condemned bears to the area of the Subleased Premises before such taking or condemnation. Notwithstanding anything to the contrary in this Section 7.1, if there is a partial taking or condemnation of five percent (5%) or more of the Subleased Premises, then at Subtenant's option and on thirty (30) days prior written notice to Sublandlord, this Sublease shall terminate on the date of such partial taking or condemnation.

**7.2 Temporary Taking.** No temporary taking of the Subleased Premises shall terminate this Sublease or give Subtenant any right to any rental abatement, unless such temporary taking is longer than 5 business days, in which case Rent shall abate or be reduced for the duration of such taking and in the same proportion as the area of the Subleased Premises taken bears to the area of the Subleased Premises before such taking. Such a temporary taking will be treated as if Subtenant had sublet the Subleased Premises to the condemner and had assigned the proceeds of the subletting to Sublandlord to be applied on account of Subtenant's obligations hereunder. Any award for such a temporary taking during the Term shall be applied first, to Sublandlord's costs of collection and, second, on account of sums owing by Subtenant hereunder, and if such amounts applied on account of sums owing by Subtenant hereunder should exceed the entire amount owing by Subtenant for the remainder of the Term, the excess will paid to Subtenant.

**7.3 Damages.** All compensation, awards or damages for any condemnation of all or any part of the Subleased Premises (the "Award"), including without limitation all damages as compensation for diminution in value of the leasehold, reversion and fee of the Subleased Premises, shall belong to the

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Sublandlord, and Subtenant hereby assigns to Sublandlord all its right, title and interest to any such Award. Subtenant shall have the right to separately claim from the condemning authority, only if awarded in addition to the Award, such other compensation as may be separately awarded to or recovered by Subtenant by reason of the condemnation and for or on account of cost or loss which Subtenant might incur in removing Subtenant's stored merchandise, its own equipment, furniture and trade fixtures, provided in no event shall the Award to Sublandlord be reduced or otherwise diminished thereby.

## **VIII. IMPROVEMENTS, MAINTENANCE AND REPAIRS**

## 8.0 [Intentionally deleted].

### 8.1 Possession of Subleased Premises.

a) Delivery of Possession; Condition: The date Sublandlord shall deliver possession of the Subleased Premises to Subtenant, shall be the Commencement Date. Prior to such delivery, the Subleased Premises shall be in broom-swept, tenantable condition.

b) Punchlist Inspection: Sublandlord and subtenant, having performed a joint inspection of the Subleased Premises and provided written memorandum (attached as Exhibit C) with respect to condition of the Subleased premises and agreed upon matters of repair (heretofore referred to as "Sublandlord's Improvement Work"), agree that such memorandum accurately represents the condition of the Subleased Premises at the Effective Date. Such matters of repair as agreed upon in the memorandum are to be performed by the Sublandlord at its sole cost and expense and in a manner so as not to interfere unreasonably with the use and occupancy of the Subleased Premises by Subtenant for the conduct of its business operations. If Sublandlord fails to remedy such matters or defects as presented in the memorandum, and within the timeline agreed upon in the memorandum, subject to extension due to any delays caused by Sublandlord or force majeure, then Subtenant shall have the right to terminate the lease agreement.

c) Subtenant's Right of Entry: Subtenant, at its sole cost and expense, shall have the right to enter upon the Subleased Premises after the Effective Date to perform certain work, including Subtenant's Improvement Work (as defined below) and the installation of trade fixtures and personal property; provided that Subtenant shall perform such work in a manner such that there shall be no unreasonable delay in the performance of Sublandlord's Improvement Work, but Subtenant shall not be obligated to pay any rent or other amount to Sublandlord prior to the Rent Commencement Date, unless Subtenant shall commence its business operations.

**8.2 Subtenant Improvements.** Subtenant shall provide Sublandlord and Landlord with prior written notice and a description of all improvements to be made to the Subleased Premises by Subtenant. Sublandlord and Landlord shall have ten (10) business days from receipt of said notice to approve or disapprove such proposed improvements, which approval shall not be unreasonably withheld or delayed. Any improvements, alterations, and renovations to the Subleased Premises by Subtenant pursuant to this Section 8.2 shall, at Sublandlord's or Landlord's election given in writing to Subtenant at least thirty (30) days prior to the end of the Term hereof, or with Sublandlord's notice of any earlier termination hereof, either be removed by Subtenant or remain on the Subleased Premises; provided, however, that Subtenant shall have the right to remove prior to such expiration or termination, its trade fixtures and other personal property. The provisions of this Section 8.2 apply to signs placed on the Subleased Premises by Subtenant, except for signs which are located wholly within the Subleased Premises and not visible from the exterior of the Subleased Premises. All signs installed by Subtenant shall be maintained by Subtenant in good condition and Subtenant shall remove all such signs at the termination of this Sublease and shall repair any damage caused by such installation, existence or removal

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### 8.3 This Section Intentionally Left Blank

**8.4 Maintenance Responsibility of Sublandlord.** Sublandlord shall be responsible for keeping and maintaining the Land, the roof, structural members, and exterior walls of the Building in substantially the same order and repair as exists on the Commencement Date, except for ordinary wear and tear and loss by fire or other casualty. Sublandlord shall maintain the driveways, parking areas, any curbing, and landscaping on the Land.

Sublandlord shall have the right to close all or any portions of the common areas to such extent as may, in the opinion of Sublandlord's counsel, be legally sufficient to prevent a dedication thereof or the accrual of any rights to any person or the public therein and to close

temporarily, if necessary any part of the common areas in order to discourage non-customer parking to permit alterations at existing buildings and other improvements or the construction of additional buildings for other improvements.

**8.5 Maintenance Responsibility of Subtenant.** Subtenant, at its expense, will keep and maintain the Subleased Premises (not including the roof, structural members, concrete flooring and exterior walls of the Building, heating, ventilating, air conditioning, and sprinkler systems serving the Subleased Premises unless any damage thereto is caused by Subtenant's operations or the installation and/or removal of Subtenant's equipment or fixtures), any Subtenant Improvements and any altered, rebuilt, additional or substituted improvements, accessories and components appurtenant thereto, in good repair and appearance (substantially equivalent as they are on the Commencement Date). Any equipment replaced hereunder shall be free of any liens and shall become the property of Sublandlord upon installation.

So long as Sublandlord complies with Subtenant's access procedures, as presented in Exhibit D included with this Sublease, Sublandlord shall have the right, but not the obligation, upon three (3) days prior written notice to Subtenant (or without any notice whatsoever in the case of emergency), to enter upon the Subleased Premises for the purpose of making any repairs thereto and performing any work thereon, which may be necessary by reason of Subtenant's failure to make any such repairs or perform any such maintenance work as provided for in this **Section 8.5**. Except in the case of emergencies, the privilege and right of entry shall be exercised at reasonable times and at reasonable hours. The cost of any such entry, together with the costs of all such repairs and maintenance work, shall be additional rent hereunder, and Subtenant shall pay the same to Sublandlord, immediately upon written demand therefor and upon submission of satisfactory evidence of Sublandlord's payment of such costs, together with interest thereon at the Default Rate from the time of payment by Sublandlord until paid by Subtenant.

Subtenant shall take good care of the Subleased Premises and keep the same free from waste at all times. Subtenant shall store all trash and garbage within the Subleased Premises, arranging for the regular pickup of such trash and garbage at Subtenant's expense. Receiving and delivering of goods and merchandise and removal of garbage and trash shall be made only in the manner and areas prescribed by Sublandlord. Subtenant shall not operate an incinerator or burn trash or garbage within the Subleased Premises or any Common Area.

**8.6 AS IS, WHERE IS.** Sublandlord is unaware of any material defects in the Subleased Premises. Notwithstanding the foregoing and as a material part of the consideration for this Sublease, Sublandlord and Subtenant agree that Subtenant is taking the Subleased Premises "**AS IS, WHERE IS**" with any and all latent and patent defects and further agree that there is no warranty by Sublandlord that the Subleased Premises are fit for any particular purpose or use. Subtenant acknowledges that Subtenant is not relying upon any representations, statements, or other assertions of Sublandlord or any party acting on behalf of Sublandlord, with respect to the condition of the Subleased Premises, but rather is relying on Subtenant's examination of the Subleased Premises. Subtenant takes the Subleased Premises with the express understanding that there are no express or implied warranties made by Sublandlord.

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**IX. ASSIGNMENT AND SUBLetting**

**9.0 Consent Required.** Subtenant shall not assign this Sublease, or sublet any portion of the Subleased Premises without the written consent of Sublandlord which shall not be unreasonably withheld, along with the consent of Landlord, to the extent required and according to the conditions established by the Primary Lease. No assignment or subletting permitted hereunder shall relieve Subtenant of Subtenant's obligations hereunder, and Subtenant shall continue to be liable as a principal and not as a guarantor or surety to the same extent as though no assignment or subletting had been made. In the event of any termination of this Sublease, any permitted sublease or assignment shall be deemed immediately terminated and of no further force or effect. Any sublease or assignment made in violation of this Sublease shall be deemed void and

of no force or effect. Subtenant shall pay, within ten (10) days of receipt of an invoice, Sublandlord's reasonable attorneys' fees and costs in connection with the review, processing and documentation of any transfer for which Sublandlord's consent is required.

**9.1 Other Transfer of Lease.** Subtenant shall not allow or permit any transfer of this Sublease, or any interest hereunder, by operation of law, or convey, mortgage, pledge, or encumber this Sublease or any interest herein.

**9.2** [Intentionally deleted.]

## X. LIENS AND ENCUMBRANCES

**10.0 Encumbering Title.** Subtenant shall not do any act which shall in any way encumber the title of Landlord or Sublandlord in and to the Subleased Premises, nor shall the interest or estate of Landlord or Sublandlord in the Subleased Premises be in any way subject to any claim by way of lien or encumbrance, whether by operation of law or by virtue of any express or implied contract by Subtenant. Any claim to, or lien upon, the Subleased Premises arising from any act or omission of Subtenant shall accrue only against the leasehold estate of Subtenant and shall be subject and subordinate to the paramount title and rights of Landlord and Sublandlord in and to the Subleased Premises.

**10.1 Liens and Right to Contest.** Subtenant shall not permit the Building, Land or the Subleased Premises to become subject to any mechanics', laborers' or materialmen's lien on account of labor or material furnished to Subtenant or claimed to have been furnished to Subtenant in connection with work of any character performed or claimed to have been performed on the Subleased Premises by, or at the direction or sufferance of, Subtenant; provided, however, that Subtenant shall have the right to contest in good faith and with reasonable diligence, the validity of any such lien or claimed lien if Subtenant shall give to Sublandlord such security as may be deemed satisfactory to Landlord and Sublandlord to insure payment thereof and to prevent any sale, foreclosure, or forfeiture of the Building, Land or the Subleased Premises by reason of non-payment thereof; provided further, however, that on final determination of the lien or claim for lien, Subtenant shall immediately pay any judgment rendered, with all proper costs and charges, and shall have the lien released and any judgment satisfied.

## XI. UTILITIES

**11.0 Utilities.** The cost of all utility services, including water and electricity are included within the base rent and shall be paid by Sublandlord.

## XII. INDEMNITY

**12.0 Subtenant's Indemnity Obligations.** Subtenant will protect, indemnify and save harmless Landlord and Sublandlord and Landlord and Sublandlord's agents from and against all liabilities, obligations,

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claims, damages, penalties, causes of action, costs and expenses (including without limitation, reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Landlord and Sublandlord by reason of (a) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Subleased Premises that are caused by the gross negligence or willful acts of Subtenant, its employees, agents or contractors; (b) any accident, injury to or death of persons or loss of or damage to property occurring in or about the Building, the parking areas, or the adjoining properties, sidewalks, curbs, streets or ways that are caused by the gross negligence or willful acts of Subtenant, its employees, agents or contractors; or (c) performance of any labor or services or the furnishing of any materials or other property by or on behalf of Subtenant in respect of the Subleased Premises or Subtenant's parking area or any part thereof. In case any action, suit or proceeding is brought against Landlord or Sublandlord and/or Landlord or Sublandlord's agents by reason of any such occurrence, Subtenant, at Subtenant's expense, will resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel approved

by Landlord and Sublandlord as applicable. Subtenant's obligations pursuant to this Section 12.0 shall survive the expiration or termination of this Sublease.

**12.1 Sublandlord's Indemnity Obligations.** Sublandlord will protect, indemnify and save harmless Subtenant and Subtenant's agents from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including without limitation, reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Subtenant by reason of any accident, injury to or death of persons or loss of or damage to property occurring on or about the Subleased Premises or in or about the Building, the parking areas, or the adjoining properties, sidewalks, curbs, streets or ways that are caused by the gross negligence or willful acts of Landlord or Sublandlord, and their respective employees, agents or contractors. In case any action, suit or proceeding is brought against Subtenant and/or Subtenant's agents by reason of any such occurrence, Sublandlord, at Sublandlord's expense, will resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel approved by Subtenant. Sublandlord's obligations pursuant to this Section 12.1 shall survive the expiration or termination of this Sublease.

### XIII. INSPECTION

**13.0 Inspection.** So long as Sublandlord or Sublandlord's agent follows the same access procedures set forth in Section 8.5, Landlord, Landlord's agent, Sublandlord or Sublandlord's agent may enter the Subleased Premises at any time, upon reasonable notice to Subtenant, for the purpose of inspecting same or of making repairs which Subtenant may neglect or refuse to make in accordance with the covenants and agreements of this Sublease, and also for the purpose of showing the Subleased Premises to persons wishing to purchase or mortgage the same, at any time during the Term, or, during the last twelve (12) months of the Term, to persons wishing to rent the Subleased Premises. Subtenant shall permit the usual notice of "To Let" or "For Sale" to be placed on the Subleased Premises and to remain thereon without molestation.

### XIV. QUIET ENJOYMENT

**14.0 Quiet Enjoyment.** So long as Subtenant is not in default under the covenants and agreements of this Sublease, Subtenant's quiet and peaceable enjoyment of the Subleased Premises shall not be disturbed or interfered with by Sublandlord or by any person claiming by, through or under Sublandlord.

### XV. RULES AND REGULATIONS

**15.0 Rules and Regulations.** In the event the Sublandlord has multiple subtenants within the subleased property, it may become necessary to establish formal, reasonable Rules and Regulations for the Subleased Premises. Subtenant, for itself, its agents and employees agrees to comply with the Rules and

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Regulations for the Subleased Premises which Sublandlord may hereinafter from time to time promulgate for the care and protection of the Subleased Premises and the safety, comfort and welfare of its occupants by giving Subtenant written notice of such promulgation. If any such Rules and Regulations conflict with any of the provisions of this Sublease, this Sublease shall control. Sublandlord shall not be liable for the failure of any other person to comply with such Rules and Regulations unless such failure was due to Sublandlord's gross negligence or willful acts.

### XVI. SUBORDINATION

**16.0 Subordination.** The rights and interest of Subtenant under this Sublease shall be subject and subordinate to any mortgage or trust deed that may be placed upon the Subleased Premises and to any and all advances to be made thereunder, and to the interest thereon, and all renewals, replacements and extensions thereof. At the request of any current or future mortgagee, Subtenant and mortgagee shall execute a subordination, non-disturbance and attornment agreement in the form and with the provisions customarily used by the mortgagee.

## XVII. SURRENDER

**17.0 Surrender.** Upon the termination of this Sublease, whether by forfeiture, lapse of time or otherwise, or upon the termination of Subtenant's right to possession of the Subleased Premises, Subtenant will at once surrender and deliver up the Subleased Premises, together with all improvements thereon, to Sublandlord in good condition and repair, reasonable wear and tear excepted. Said improvements shall include, but not be limited to, all plumbing, lighting, electrical, heating, cooling and ventilating fixtures and equipment and all duct work. All additions, hardware, non-trade fixtures and all improvements, temporary or permanent (except the additional overhead lighting installed by Subtenant if removed on or before the expiration or other termination of this Sublease) in or upon the Subleased Premises placed there by Subtenant shall become Sublandlord's property and shall remain upon the Subleased Premises upon such termination of this Sublease by lapse of time or otherwise, without compensation or allowance or credit to Subtenant, unless Sublandlord requests their removal in writing at or before the time of such termination of this Sublease. If Sublandlord so requests removal of said additions, hardware, non-trade fixtures and improvements and Subtenant does not make such removal at said termination of this Sublease, or within ten (10) days after such request, whichever is later, Sublandlord may remove the same, and Subtenant on demand shall pay all costs associated with such removal to Sublandlord, together with the cost of repairing any injury or damage to the Subleased Premises or the Building caused by such removal.

**17.1 Removal of Subtenant's Property.** Upon the termination of this Sublease by lapse of time, Subtenant shall remove Subtenant's trade fixtures, equipment and other personal property; provided, however, that Subtenant shall repair and restore any injury or damage to the Subleased Premises which may result from such removal. If Subtenant does not remove such trade fixtures, equipment and personal property prior to the end of the Term, Sublandlord may, at its option, remove the same, and Subtenant shall pay the cost of such removal (including the repair of any injury or damage to the Subleased Premises resulting from such removal) to Sublandlord on demand, or Sublandlord may treat such property as having been conveyed to Sublandlord under this Sublease as a Bill of Sale without further payment or credit by Sublandlord to Subtenant.

**17.2 Holding Over.** Any holding over by Subtenant of the Subleased Premises after the expiration of this Sublease shall operate and be construed to be a tenancy from month to month only, at a monthly rental of 120% of rent payable under the Lease for the last month thereof.

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## XVIII. REMEDIES

**18.0 Sublandlord Defaults.** If Sublandlord defaults in the performance of any of its obligations under this Sublease, Subtenant will notify Sublandlord of the default in writing and Sublandlord will have 30 days after receiving such notice to cure the default. If Sublandlord is not reasonably able to cure the default within a 30 day period, Sublandlord will have an additional reasonable period of time to cure the default (but in no event more than 60 days) as long as Sublandlord commences the cure within the 30 day period and thereafter diligently pursues the cure. In no event is Sublandlord liable to Subtenant or any other person for consequential, special or punitive damages, including, without limitation, lost profits. If Sublandlord shall fail to cure such default within the additional 60-day period, Sublandlord shall be in default under this Sublease and Subtenant may, at Subtenant's sole discretion, perform the obligation on behalf and at the expense of Sublandlord, pay any sum necessary for the performance, and deduct the cost thereof (together with interest at the Default Rate) from the base rent and additional rent or other sum that is due or that will become due under this Sublease.

**18.1 Subtenant Defaults.** Subtenant agrees that the occurrence of any one or more of the following events shall be considered an "Event of Default" by Subtenant hereunder:

(a) Subtenant shall default in any monthly payment of rent, or payment of additional rent or other payment required to be made by Subtenant hereunder when such payment is due and such default shall continue for ten (10) days after Subtenant's receipt of written notice of such default from Sublandlord, provided, however, that Sublandlord need not give such notice and Subtenant shall not have such time to cure more than twice during any calendar year; or

(b) Subtenant shall default in any of the other covenants and agreements herein contained to be kept, observed and performed by Subtenant, and such default shall continue for thirty (30) days after notice thereof in writing to Subtenant; provided that if such default cannot, with due diligence, be cured within such period of thirty (30) days, and if Subtenant prior to the expiration of such thirty (30) days commences to eliminate the cause of such default and proceeds diligently and with reasonable dispatch to take all steps and do all work required to cure such default and does so cure such default, then Sublandlord shall not have the right to declare the said term ended by reason of such default or to repossess without terminating the Lease; provided, however, in no event shall Subtenant have more than 60 days to cure any such default.

(c) Subtenant shall fail to contest the validity of any lien or claimed lien and give security to Sublandlord to insure payment thereof, or having commenced to contest the same and having given such security, shall fail to prosecute such contest with diligence, or shall fail to have the same released and satisfy any judgment rendered thereon, and such default continues for twenty (20) days after notice thereof in writing to Subtenant; or

(d) [Intentionally deleted]; or

(e) Subtenant shall be adjudged a bankrupt, or a decree or order approving, as properly filed, a petition or answer asking reorganization of Subtenant under the Federal bankruptcy laws as now or hereafter amended, or under the laws of any State, shall be entered, and any such decree or judgment or order shall not have been vacated or stayed or set aside within sixty (60) days from the date of the entry or granting thereof; or

(f) Subtenant shall file or admit the jurisdiction of the court and the material allegations contained in any petition in bankruptcy, or any petition pursuant or purporting to be pursuant to the Federal bankruptcy laws now or hereafter amended, or Subtenant shall institute any proceedings or shall give its

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consent to the institution of any proceedings for any relief of Subtenant under any bankruptcy or insolvency laws or any laws relating to the relief of debtors, readjustment of indebtedness, reorganization, arrangements, composition or extension; or

(g) Subtenant shall make any assignment for the benefit of creditors or shall apply for or consent to the appointment of a receiver for Subtenant or any of the property of Subtenant; or

(h) A decree or order appointing a receiver of the property of Subtenant shall be made and such decree or order shall not have been vacated, stayed or set aside within sixty (60) days from the date of entry or granting thereof; or

(i) Subtenant shall take or fail to take any action that causes Sublandlord to be in default under the Primary Lease that is not cured within the notice and cure period outlined in the Primary Lease provided Sublandlord delivers notice thereof in writing to Subtenant.

**18.2 Sublandlord's Rights in Event of Default.** Upon the occurrence of any Event of Default, Sublandlord may, at its option, elect to pursue any one or more of the following remedies:

(a) Terminate this Sublease, without further notice except as may be required by law, at which time, Sublandlord may re-enter the Subleased Premises, using such force as may be permitted by law, and remove all persons, fixtures, and chattels therefrom and Sublandlord shall not be liable for any damages resulting therefrom. Such re-entry and repossession shall not work a forfeiture of the rents to be paid and the covenants to be performed by Subtenant during the full Term. Upon such repossession of the Subleased Premises, all of the obligations and responsibilities of the parties under this Sublease shall terminate except for those that expressly survive the termination of this Sublease, and Subtenant shall continue to be responsible for payment of base rent.

(b) Without terminating this Sublease, repossess the Subleased Premises by forcible entry or detainer suit or otherwise without demand or notice of any kind to Subtenant (except as hereinabove expressly provided for) and without terminating this Sublease, in which event Sublandlord may, but shall be under no obligation to do so, relet all or any part of the Subleased Premises for such rent and upon such terms as shall be reasonably satisfactory to Sublandlord (including the right to relet the Subleased Premises for a term greater or lesser than that remaining under the Term, and the right to relet the Subleased Premises as a part of a larger area, and the right to change the character or use made of the Subleased Premises). For the purpose of such reletting, Sublandlord may decorate or make any repairs, changes, alterations or additions in or to the Subleased Premises that may be necessary or convenient. If Sublandlord does not relet the Subleased Premises, Subtenant shall pay to Sublandlord on demand as liquidated damages and not as a penalty a sum equal to the value of the rent, and other sums provided herein to be paid by Subtenant for the remainder of the Term, and in the event the Subleased Premises are relet during any of such remaining term, and Subtenant has paid all amounts due hereunder, Sublandlord shall reimburse Subtenant for the value of rent previously paid by Subtenant for such period. If the Subleased Premises are relet and a sufficient sum shall not be realized from such reletting after paying all of the expenses of such decorations, repairs, changes, alterations, additions, the expenses of such reletting and the collection of the rent accruing therefrom (including, but not by way of limitation, attorneys' fees and brokers' commissions), to satisfy the rent herein provided to be paid for the remainder of the Term, Subtenant shall pay to Sublandlord on demand any deficiency and Subtenant agrees that Sublandlord may file suit to recover any sums falling due under the terms of this Section from time to time. At all times, Sublandlord shall use commercially reasonable efforts to mitigate its damages, including commercially reasonable efforts to relet the Subleased Premises or using the Subleased Premises for itself.

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(c) Any reletting by Sublandlord or alterations to the building in the Subleased Premises by Sublandlord under this Section 18.2(b) shall require Landlord's consent and approval to the extent required pursuant to the Primary Lease.

**18.3 Remedies Cumulative.** Unless expressly stated otherwise in this Sublease, no remedy herein or otherwise conferred upon or reserved to Sublandlord or Subtenant shall be considered to exclude or suspend any other remedy but the same shall be cumulative and shall be in addition to every other remedy given hereunder now or hereafter existing at law or in equity or by statute, and every power and remedy given by this Sublease to Sublandlord or Subtenant may be exercised from time to time and as often as occasion may rise or as may be deemed expedient. No delay or omission of Sublandlord or Subtenant to exercise any right or power arising from any default, shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein. Neither the rights herein given to Sublandlord to receive, collect, sue for or distrain for any rent or rents, moneys or payments, or to enforce the terms, provisions and conditions of this Sublease, or to prevent the breach or non-observance thereof, or the exercise of any such right or of any other right or remedy hereunder or otherwise granted or arising, shall in any way affect or impair or toll the right or power of Sublandlord to declare the Term hereby granted ended, and to terminate this Sublease, or to repossess without terminating the Lease, as provided for in this Sublease, because of any default in or breach of the covenants, provisions or conditions of this Sublease by Subtenant. Notwithstanding anything contained in this Sublease to the contrary, in no event shall either Landlord/Sublandlord or Subtenant be liable to the other for consequential, special or punitive damages, except in connection

with Subtenant's failure to (a) surrender the Subleased Premises in accordance with Section 17.0 above, or (b) deliver an estoppel certificate in accordance with Section 21.0 below.

**18.4 No Waiver.** No waiver of any breach of any of the covenants of this Sublease shall be construed, taken or held to be a waiver of any other breach or waiver, acquiescence in or consent to any further or succeeding breach of the same covenant.

**18.5 WAIVER OF TRIAL BY JURY, SUBLANDLORD AND SUBTENANT, TO THE FULLEST EXTENT THAT THEY MAY LAWFULLY DO SO, HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING BROUGHT BY ANY PARTY TO THIS SUBLICENSE WITH RESPECT TO THIS SUBLICENSE, THE SUBLICENSED PREMISES, OR ANY OTHER MATTER RELATED TO THIS SUBLICENSE OR THE SUBLICENSED PREMISES.**

#### XIX. INDEMNIFICATION FOR HAZARDOUS MATERIALS

**19.0 Definition.** As used herein, the term "Hazardous Materials" includes, without limitation, any flammable explosives, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or related materials, asbestos or any materials containing asbestos, as defined by any federal, state or local environmental law, ordinance, rule or regulation, as amended from time to time, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. sections 9601 et seq.), the Hazardous Materials Transportation Act (49 U.S.C. sections 1801 et seq.), the Resource Conservation and Recovery Act of 1976 (42 U.S.C. sections 6901 et seq., and the regulations adopted and publications promulgated pursuant thereto.

**19.1 Subtenant's Warranty.** Subtenant shall not store or use, or permit to be stored or used, on the Subleased Premises any Hazardous Materials except in compliance with all applicable federal, state or local environmental laws, ordinances, rules or regulations, as amended from time to time. In no event shall Subtenant take any action that would subject the Subleased Premises to any permit requirements under any such environmental laws.

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**19.2 Indemnification.** Subtenant shall indemnify and hold harmless the Sublandlord and Landlord from any claims, damages, fines, judgments, penalties, costs, liabilities, or losses (including, without limitation, any sums paid for settlement of claims, attorneys, consultant and expert fees) arising during or after the Term as a result of any Hazardous Material located on, stored, used or permitted on any part of the Subleased Premises during the Term. Without limitation of the foregoing, this indemnification shall include any costs incurred because of any investigation of the site or any cleanup, removal, remediation or restoration mandated by a federal, state, or local agency or political subdivision. If demanded in writing, Subtenant shall defend Landlord and Sublandlord (by counsel acceptable to Sublandlord and Landlord) against such claims, damages, fines, judgments, penalties, costs, liabilities, or losses. The warranties and indemnifications by Subtenant set out herein shall commence on the Commencement Date of this Sublease and shall survive the termination of this Sublease.

#### XX. SECURITY DEPOSIT

**20.0 Security Deposit.** Sublandlord will retain the \$100,000.00 on deposit from Subtenant pursuant to the subleases being replaced herewith as a Security Deposit to be held by Sublandlord, with no requirement to place such in a separate bank account, and to be applied, at Sublandlord's option, to cover any delinquent payment of rent or the cost of any other default hereunder, after any applicable notice and cure period. If any amount of the Security Deposit is used by Sublandlord, such amount shall be replenished by Subtenant within ten (10) days after

demand from Sublandlord. Any amount of the Security Deposit remaining after the Term hereof shall be returned to Subtenant within thirty (30) days provided Subtenant is not then in default under any of its obligations hereunder.

## XXI. MISCELLANEOUS

**21.0 Estoppel Certificates.** Subtenant shall at any time and from time to time upon ten (10) days prior written request from Landlord or Sublandlord execute, acknowledge and deliver to Landlord or Sublandlord a written statement certifying that Subtenant has accepted the Subleased Premises, that this Sublease is unmodified and 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), that to the best of Subtenant's knowledge the Sublandlord is not in default hereunder, the date to which the rental and other charges have been paid in advance, or such other accurate certification as may reasonably be required by Landlord or Sublandlord or Landlord or Sublandlord's mortgagee, and agreeing to give copies to any mortgagee of Landlord or Sublandlord of all notices by Subtenant to Landlord or Sublandlord. It is intended that any such statement delivered pursuant to this **Section 21.0** may be relied upon by any prospective purchaser of the Subleased Premises and mortgagee of the Subleased Premises and their respective successors and assigns. Subtenant shall not be obliged to so certify unless the applicable estoppel certificate is prepared by Landlord/Sublandlord and/or Landlord or Sublandlord's mortgagee. However, Subtenant agrees to supply the applicable materials for the preparation of the estoppel certificate. Subtenant shall not be required to comply with this Section 21.0 except after a reasonable interval has passed after each previous estoppel certificate shall have been issued; a reasonable interval means not more than once every 3 months, except as required by Landlord and permitted under the Primary Lease. Subtenant shall be entitled to receive similar estoppel certificates from Landlord or Sublandlord from time to time during the Term of this Sublease upon which Subtenant or its designee may rely as true and correct.

**21.2 Sublandlord's Right to Cure.** Sublandlord may, but shall not be obligated to, cure any default by Subtenant specifically including, but not by way of limitation, Subtenant's failure to obtain insurance, make repairs, or satisfy lien claims, after complying with the notice provisions established in Article XVIII above, and whenever Sublandlord so elects, all costs and expenses paid by Sublandlord in curing such default, including without limitation reasonable attorneys' fees, shall be so much additional rent due on demand from the Sublandlord together with interest (except in the case of said attorneys' fees)

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[Saraland Warehouse Lease](#)

## SUBLEASE AGREEMENT

at the Default Rate from the date of advancement by Sublandlord to the date of repayment by Subtenant to Sublandlord.

**21.3** [Intentionally deleted].

**21.4 Force Majeure.** Except with respect to any monetary obligations of Subtenant hereunder or otherwise, neither Sublandlord nor Subtenant shall be deemed in default with respect to any of the terms, covenants and conditions of this Sublease on their respective parts to be performed, if such failure to timely perform the same is due in whole or in part to any strike, lockout, labor trouble (whether legal or illegal), civil disorder, failure of power, restrictive governmental laws and regulations, riots, insurrections, war, shortages, accidents, casualties, acts of God, acts caused directly by the other party or its agents, employees and invitees, or any other cause beyond the reasonable control of the non-performing party.

**21.5 Attorney Fees.** In the event of a default by either party of its obligations under this Sublease, the prevailing party in any action or proceeding in any court in connection therewith shall be entitled to recover from such other party its costs and expenses, including reasonable legal fees and associated court costs.

**21.6 Amendments Must be in Writing.** None of the covenants, terms or conditions of this Sublease to be kept and performed by either party shall in any manner be altered, waived, modified, changed or abandoned except by a written instrument, duly signed, and delivered by the other party; and no act or acts, omission or omissions, or series of acts or omissions, or waiver, acquiescence or forgiveness by Sublandlord as to any default in or failure of performance, either in whole or in part, by Subtenant, of any of the covenants, terms or conditions of this Sublease, shall be deemed or construed, to be a waiver by Sublandlord of the right at all times thereafter to insist upon the prompt, full and complete performance by Subtenant of each and all the covenants, terms and conditions hereof thereafter to be performed, in the same manner and to the same extent as the same are covenanted herein to be performed by Subtenant.

**21.7 Notices.** All notices to or demands upon Landlord, Sublandlord, or Subtenant desired or required to be given under any of the provisions hereof, shall be in writing. Any notices or demands from Landlord, Sublandlord, or Subtenant to the other shall be deemed to have been duly and sufficiently given if a copy thereof has been (i) delivered by a commercial delivery service, (ii) delivered by United States registered or certified mail, or (iii) delivered by e-mail (with acknowledgement of receipt of such e-mail by the recipient), addressed to:

If to Subtenant: Austal USA, LLC  
100 Austal Way  
Mobile, AL 36602  
Attn: Greg McLaney  
Senior Manager, Materials and logistics  
Email: greg.mclaney@austalusa.com

With a copy to: Austal USA, LLC  
100 Austal Way  
Mobile, AL 36602  
Attention: Jason Montgomery  
E-Mail: jason.montgomery@austalusa.com or at such address(es) as Subtenant may theretofore have furnished to Sublandlord by written notice, and

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Saraland Warehouse Lease

**SUBLEASE AGREEMENT**

If to Subtenant: TDG Operations, LLC  
475 Reed Road  
Dalton, GA 30720  
Attn: Allen Danzey  
Email: allen.danzey@dixiegroup.com

With a copy to: TDG Operations, LLC  
475 Reed Road  
Dalton, GA 30720  
Attention: Elena Medlin  
E-Mail: elena.medlin@dixiegroup.com

Or such other address(es) as Sublandlord may theretofore have furnished to Subtenant by written notice.

If to Landlord: Saraland Industrial, LLC  
P.O. Box 10485

Kansas City, MO 64171  
Attention: Kevan D. Acord  
Email: [kacord@bbtaxlaw.com](mailto:kacord@bbtaxlaw.com)

With a copy to: Brad Nicholson  
The Nicholson Group, LLC  
P.O. Box 10485  
Kansas City, MO 64171  
[brad@nicholsongroup.com](mailto:brad@nicholsongroup.com)

Or such other address(es) as Landlord may theretofore have furnished to Sublandlord or Subtenant by written notice.

The effective date of such notice shall be the day of delivery of the same to the addressee.

**21.8 Recording.** This Sublease shall not be recorded.

**21.9 Time of Essence.** Time is of the essence of this Sublease, and all provisions herein relating thereto shall be strictly construed.

**21.10 Relationship of Parties.** Nothing contained herein shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal and agent or of partnership, joint venture, or limited liability company by the parties hereto, it being understood and agreed that no provision contained in this Sublease nor any acts of the parties hereto shall be deemed to create any relationship other than the relationship of Sublandlord and Subtenant.

**21.11 Captions.** The captions of this Sublease are for convenience only and are not to be construed as part of this Sublease and shall not be construed as defining or limiting in any way the scope or intent of the provisions hereof.

**21.12 Severability.** If any term or provision of this Sublease shall to any extent be held invalid or unenforceable, the remaining terms and provisions of this Sublease shall not be affected thereby, but each term and provision of this Sublease shall be valid and be enforced to the fullest extent permitted by law.

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Saraland Warehouse Lease

**SUBLEASE AGREEMENT**

**21.13 Law Applicable.** This Sublease shall be construed and enforced in accordance with the laws of the state of Alabama.

**21.14 Binding on Successors.** All of the covenants, agreements, conditions and undertakings contained in this Sublease shall extend and inure to and be binding upon the heirs, executors, administrators, successors and assigns of the respective parties hereto the same as if they were in every case specifically named, and wherever in this Sublease reference is made to either of the parties hereto it shall be held to include and apply, wherever applicable, to the heirs, executors, administrators, successors and assigns of such party. Nothing herein contained shall be construed to grant or confer upon any person or persons, firm, corporation or governmental authority, other than the parties hereto, their heirs, executors, administrators, successors and assigns, any right, claim or privilege by virtue of any covenant, agreement, condition or undertaking contained in this Sublease.

**21.15 Sublandlord Limitation of Liability.** The term "Sublandlord" as used in this Sublease, so far as covenants or obligations on the part of Sublandlord are concerned, shall be limited to mean and include only the leasehold estate of Sublandlord under the Primary Lease, and in

the event of any transfer or transfers of such estate, Sublandlord herein named (and in case of any subsequent transfer or conveyances, the then grantor) shall be automatically freed and relieved, from and after the date of such transfer or conveyance, of all liability as respects the performance of any covenants or obligations on the part of Sublandlord contained in this Sublease to be performed thereafter; provided that any funds in the hands of such Sublandlord or the then grantor at the time of such transfer in which Subtenant has an interest, including but not limited to Subtenant's security deposit, shall be turned over to the grantee, and any amount then due and payable to Subtenant by Sublandlord or the then grantor under any provisions of this Sublease shall be paid to Subtenant.

**21.16 Incorporation of Primary Lease.** This Sublease is expressly made subject to the terms and conditions of the Primary Lease, it being understood and agreed that Sublandlord shall be and remain liable for all its obligations under the Primary Lease regardless of the provisions hereof. Except as expressly provided for herein, the terms of the Primary Lease are hereby incorporated in and made part of this Sublease with the same force and effect as though set forth at length herein, it being understood that references in the Primary Lease to (i) the "premises", "subleased premises", "Premises", or words of similar import shall be deemed to refer to the "Premises" hereunder, (ii) "Landlord" and "Tenant" shall be deemed to refer to "Sublandlord" and "Subtenant" hereunder, respectively, (iii) "Minimum Rent" or "annual rent" shall be deemed to refer to the Rent due under this Sublease, (iv) the "term of this Lease" or words of similar import shall be deemed to refer to the "term of this Sublease" and (v) "this Lease" or "this lease" shall be deemed to refer to "this Sublease". In the event of inconsistency between the terms of the Primary Lease and the terms hereof, the terms hereof shall govern.

**21.17 Entire Agreement.** This Sublease contains the entire agreement between the parties and no promise, representation, warranty, covenant, agreement, or understanding not specifically set forth in this Sublease shall be binding upon or inure to the benefit of either party.

**21.18 Interpretation.** The fact that this Sublease shall have been prepared by the attorney for either Sublandlord or Subtenant shall not be used to construe or interpret this Sublease for or against either party. Both parties to this Sublease have had adequate opportunity to consult counsel in regard to this Sublease, and both parties intend that the provisions of this Sublease shall be given their fair meaning and no court shall construe this Sublease more stringently against one party than against the other.

**21.19 Authority.** If Sublandlord or Subtenant shall be a corporation, trust, general or limited partnership, or limited liability company, each individual executing this Sublease on behalf of such entity

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Saraland Warehouse Lease

## **SUBLEASE AGREEMENT**

represents and warrants that he or she is duly authorized to execute and deliver this Sublease on behalf of such entity.

**21.20 Incorporation of Exhibits.** Each of the attached Exhibits hereby is incorporated in and made a part of this Sublease as if fully set forth herein. In the event of any conflict between the body of this Sublease and the provisions set forth in the Exhibits, the provisions set forth in the Exhibits shall be deemed to control.

**21.21 Transmittal.** Submission of this Sublease for examination, even though executed by either Sublandlord or Subtenant, shall not bind the other party in any manner, and no lease or other obligation on the part of either party shall arise until this Sublease shall be executed and delivered by the parties, each to the other.

**21.22 Counterparts.** This Sublease may be executed in two (2) or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

**21.23 Jurisdiction and Venue.** Subtenant expressly consents that the Courts of the State of Alabama shall have jurisdiction over any dispute arising out of this Sublease or the Subleased Premises between Sublandlord and Subtenant, that the County of Mobile shall be the proper place of venue for any such proceeding and that Subtenant expressly waives any rights to object to same.

**21.24 Non-Easement.** Is understood and agreed that this Sublease does not grant any rights to land and to air over property adjoining the land on which the Subleased Premises is situated.

**21.25 No Representations by Sublandlord.** Subtenant acknowledges that neither Sublandlord nor any broker, agent or employee of Sublandlord has made any representations or promises with respect to the Subleased Premises or the Building except as herein expressly set forth, and no right, privileges, easements or licenses are acquired by Subtenant except as herein set forth.

**21.26 Accord and Satisfaction.** No payment by Subtenant or receipt by Sublandlord of a lesser amount than the rent herein stipulated will be deemed to be other than on account of the earliest stipulated rent nor shall any endorsement or statement on any check or letter accompanying any check or payment of rent be deemed an accord and satisfaction, and Sublandlord may accept such check or payment without prejudice to Sublandlord's right to recover the balance of such rent or pursue any other remedy provided for in this Sublease or available at law or in equity.

**21.27 No Option/Offer.** The submission of this Sublease for examination does not constitute a reservation of or option for the Subleased Premises or any other space within the building and shall vest no right in either party. This Sublease will become effective as a Lease only upon execution and delivery thereof by all parties hereto.

**21.28 Americans With Disabilities Act.** Any other provision of this Sublease notwithstanding, the parties hereby agree that the Subleased Premises may be subject to the terms and conditions of the Americans With Disabilities Act (hereinafter the "ADA"). The parties further agree and acknowledge that it shall be the sole responsibility of the Subtenant to comply with any and all provisions of the ADA with regard to any improvements, alterations and additions it makes to the Subleased Premises. The Subtenant further agrees to indemnify and hold the Landlord or Sublandlord harmless against any claims which may arise out of Subtenant's failure to comply with the ADA. Such indemnification shall include, but is not limited to, reasonable attorneys' fees, court costs and judgments as a result of said claims. Within ten days after receipt, Subtenant shall advise the Landlord and Sublandlord in writing and provide the Landlord and Sublandlord with

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Saraland Warehouse Lease

**SUBLEASE AGREEMENT**

copies of any notices of alleged violations of the ADA relating to any portion of the demised Subleased Premises, and any claims made or threatened in writing regarding non-compliance with the ADA relating to any portion of the Subleased Premises or any governmental or regulatory actions or investigations instituted or threatened regarding non-compliance with the ADA and relating to any portion of the Subleased Premises.

*[the remainder of this page is intentionally left blank]*

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Saraland Warehouse Lease

**SUBLEASE AGREEMENT**

**IN WITNESS WHEREOF**, Sublandlord and Subtenant have executed this Sublease the day and year first above written.

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

By: /S/ Allen Danzey (SEAL)

Name: /S/ Allen Danzey

Title: President/ CFO

Attest: /S/ Roger Ensley  
/S/ Roger Ensley  
[Name], [Office]  
[Seal]

STATE OF Georgia

COUNTY OF Whitfield ACKNOWLEDGEMENT

I, the undersigned, a Notary Public in and for said County, in said State, hereby certify that Allen Danzey whose name as the President of TDG Operations, LLC, a Georgia limited liability company, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of the lease, (s)he, as such President and with full authority, executed the same voluntarily for and as the act of said limited liability company.

Given under my hand this 25 day of July, 2024

[AFFIX NOTARY SEAL]

Elena Medlin

Notary Public for GA

My Commission expires: 9/19/2026.

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Saraland Warehouse Lease

**SUBLEASE AGREEMENT**

**SUBTENANT: AUSTALUSA,LLC** an Alabama limited

liability company

By: /S/ Michelle Kruger (SEAL)

Name: /S/ Michelle Kruger

Title: President

Attest:

[Name], [Office]

[Seal]

STATE OF Alabama

COUNTY OF Baldwin ACKNOWLEDGEMENT

I, the undersigned, a Notary Public in and for said County, in said State, hereby certify that Michelle Kruger whose name as the President of TDG Operations, LLC, a Georgia limited liability company, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of the lease, (s)he, as such President and with full authority, executed the same voluntarily for and as the act of said limited liability company.

Given under my hand this 29 day of July, 2024

[AFFIX NOTARY SEAL]

Angela B. McLaughlin

Notary Public for Alabama

My Commission expires: 7/14/2027.

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Saraland Warehouse Lease

**SUBLEASE AGREEMENT**

**EXHIBIT A**

**Legal Description**

That real property situated in the County of Mobile, State of Alabama, described as follows, to-wit:

Beginning at the Southwest corner of Block "2" of Jacintoport, Unit One, Section "A", as recorded in Map Book 21, Page 93 of the Probate Court Records, Mobile County, Alabama, said point being on the North right of way line of Jacintoport Boulevard, thence run South 86 degrees, 40 minutes East along the Southern boundary of said Block "2" and said North line of Jacintoport Boulevard a distance of 615.34 feet to an intersection with the West right of way line of Bill Myles Drive West, said point being the P.C. of a curve to the left having a central angle of 87 degrees 43 minutes 35 seconds and a radius of 50 feet; thence along the Eastern boundary of said Block "2" and said West line of Bill Myles Drive West run Northeastwardly along the arc of said curve 76.63 feet to the P.T. of said curve; thence continuing along said Eastern boundary of said Block "2" and said West line of Bill Myles Drive West run North 05 degrees 33 minutes 36 seconds East 1077.33 feet to a point; thence run North 86 degrees 37 minutes 29 seconds West 663.59 feet to a point on the Western boundary of said Block "2" said point also being in the East right of way line of a 100 foot Southern Railway right of way; thence run South 05 degrees 33 minutes 01 seconds West along said Western boundary of Block "2" and said East line of Southern Railway right of way a distance of 1125.94 feet to the point of beginning.

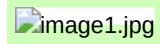
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**SUBLEASE AGREEMENT**

**EXHIBIT B**

**Site Plan showing the Subleased Premises**

**Use of Parking Area on East Side of Building is Included with the Lease**



*SubleasedPremiseAreaOutlinedin Red*

Subtenant to have non-exclusive use of parking area on west side of building. Sublandlord reserves the right to designate parking spaces for Sublandlord's exclusive use as deemed necessary by Sublandlord.

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**EXHIBIT C**

**Punch -List Items**

Sublandlord and Subtenant performed a visual inspection during a walk-through conducted on May 24, 2024 and a subsequent follow up walk through on July 8, 2024. Areas in need of repairs were noted on the May 24, 2024 walkthrough and the requested repairs were noted as being complete on the July 8, 2024 walkthrough. The facility appears to be in overall good standing. Subtenant reserves the right to further inspect the Subleased Premises during the first three (3) months after the Commencement Date and request Sublandlord to record the existence of such items or, alternatively, Sublandlord may repair such items at Sublandlord's expense or allow Subtenant to repair such items at Subtenant's expense.

Additionally, Subtenant is not responsible for fair wear and tear of the Subleased Premises.

Subtenant notes the following item for the purpose of documentation of pre-existing damage:

1. Damaged support column
  - a. Documented for record - this was a pre-existing condition
  - b. Pre-Commencement Date photos are on file.

Saraland Warehouse Lease

**SUBLEASE AGREEMENT**

**EXHIBIT D**

**Subleased Premises Access Requirements to EB storage Area**

**Escort Procedures**

- All visitors must be escorted by EB personnel or authorized Austal USA personnel
- Designated General Dynamics Electric Boat ("EB") personnel will brief all personnel on the escort procedures
- All visitors must be approved by an EB designated representative prior to access, not to be unreasonably withheld or delayed. Visitors must sign the Closed Area-Restricted Area Visitor Log
- All visitors must give EB representative a 24 hours' notice for access unless there is a safety or maintenance issue that must be immediately resolved.

**Restrictions**

- No weapons or alcohol is authorized on the Subleased Premises

**Security Incident**

- Austal's Facility Security Officer or designated representative must be notified immediately of any security incidents or breaches

**Subleased Premises Access Requirements to other areas**

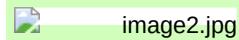
Subtenant is a cleared, government contractor for the United States Government and is required to verify the identification and citizenship of all persons requesting access to its facilities.

- Visitor must complete Subtenant's Visit Request form (SUPF616) and attach proof of citizenship and photo ID and submit the package to Subtenant host or sponsor;
- Host/sponsor will sign and submit the visit request to the Visitor Control office for processing;
- Visitor Control will process the visit request;
- Visitor Control will contact the host with an approval or denial status; and
- Host/sponsor will notify the visitor of the status of the visit request.

Saraland Warehouse Lease

**SUBLEASE AGREEMENT**

**EXHIBIT E**



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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:

1. I have reviewed this quarterly report on Form 10-Q of The Dixie Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

**EXHIBIT 31.2**

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

I, Allen L. Danzey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Dixie Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **August 9, 2024** **October 28, 2024**

**/s/ ALLEN L. DANZEY**

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

**EXHIBIT 32.1**

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

In connection with the Quarterly Report of The Dixie Group, Inc. (the "Company") on Form 10-Q for the quarter ended **June 29, 2024** **September 28, 2024**, 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: **August 9, 2024** **October 28, 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 Quarterly Report of The Dixie Group, Inc. (the "Company") on Form 10-Q for the quarter ended **June 29, 2024** **September 28, 2024**, 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.

*Is/* ALLEN L. DANZEY

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Allen L. Danzey, Chief Financial Officer

Date: August 9, 2024 October 28, 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.

## DISCLAIMER

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