THE DIXIE GROUP

2015 ANNUAL REPORT AND PROXY STATEMENT




THE DIXIE GROUP is the premier provider of upper-end carpets and rugs to both the residential and corporate markets. Our brands are known within the design and high-end retailer communities for their sophisticated style, vibrant color and unique design, as well as excellent quality. Our focus on superior product design continues to lead fashion trends and satisfy the discerning consumer and corporate customer.

Fabrica, Masland and Dixie Home encompass the brands of our high-end residential offerings. These brands are known for fine quality, innovative styling that provide beauty and comfort to the home setting. Our commercial offering consists of Masland Contract, Masland Hospitality, Atlas Carpet Mills and Dixie International. Our commercial brands service the high-end corporate, hotel and related commercial markets. We are focused on our core competencies of distinctive design and excellent quality. Our commitment is to provide a distinctive line of brands that satisfy the needs of the upper-end of the soft floor covering market.

LETTER TO SHAREHOLDERS,

In 1920, Dixie Mercerizing Company was founded as a producer of mercerized cotton yarns for the hosiery trade. In response to changes in the textile market, we strategically made the decision to move into the carpet business and sold off all of our textile assets throughout the 1990's. We further narrowed our focus on the upper-end segment of the soft floorcovering market with the divestiture of our North Georgia operations and the establishment of Dixie Home Division in the early 2000's. We experienced significant growth from 2004 until 2007 and then, like the rest of the soft floorcovering industry, suffered a 40% decline in sales during the recession.

During that recessionary period, we developed a plan to accelerate the introduction of new products that has fueled our growth since 2009. For the period of 2010 through 2015, our growth has been over 100% with 85% of that being internal growth while the industry is up 11%. In 2013, we experienced a 30% increase in sales. Such growth exceeded our expectations, requiring us to fundamentally rethink our business as we expanded capacity. We began a series of facility consolidation and restructuring projects that streamlined our Masland and Dixie Home business in North Georgia. We also focused our South Alabama facilities on the Masland Contract and Masland Hospitality brands. We integrated Atlas Carpet Mills into our West Coast dyeing and South Alabama modular carpet tile operations and consolidated a series of rented facilities into primarily corporate-owned facilities. This plan increased our overall capacity by over 50%. This facility consolidation effort has affected every facility we own.

In 2015, we completed the integration of Atlas Carpet Mills into our West Coast dye operations. We have integrated our recently purchased computerized yarn placement operations and launched the Masland Hospitality line as a means to promote this significant addition to our existing product offerings in the hospitality marketplace. We made the decision to expand our Avant series of products by merging their salesforce into our Masland Contract brand. We have completed all of the consolidation plans with the exception of the move of our Saraland, Alabama rug operation into our company-owned Saraland facility planned for early 2016. Finally, we merged three offices into our new corporate office in Dalton, Georgia.

This consolidation was more difficult than originally planned due to two primary factors. First, we experienced a dramatically changed labor market in 2014 and 2015, as we no longer could easily recruit individuals with previous industry experience. As a result, our new associates required extensive training and we experienced significantly higher labor turnover than we had in the period immediately prior to our expansion. Second, we had counted on a stronger market than we experienced in 2015. While our carpet sales were up 4.5% in 2015, we believe the industry was down for the year. We responded to this market shift by adjusting our plans for a period of lower sales growth.

Further, though we have nearly completed the physical moves, it will be well into 2016 until we have overcome all of the obstacles of higher claims expenses and lower product yield that came from product made during this time frame. We have installed improved quality

“We believe the consumer preference for innovative fashion and better quality products continue to provide us with the opportunity to grow our business and outperform the industry.”

systems, thus insuring only good quality product will be shipped to our customers, but we still have a higher waste percentage than we have had historically. Further, we are still experiencing higher claims costs from product shipped in 2014 and 2015.

With the uncertainty in the world markets, reflected in a depressed stock market and turmoil in our energy markets, compounded by the volatility of an election year, we see 2016 as a year of modest growth. As we enter 2016, our plans include fine-tuning the organization. We have also made significant progress in bringing in newer yarn-winding technologies to improve yarn yields and reduce waste. We have been refining our production processes to increase quality levels and will be continuing these efforts to further improve our quality. We have taken actions to focus on lowering cost in multiple areas including logistics, materials purchasing and general administrative operations. In addition, we have lowered our sampling expenses as compared to 2015, a period with particularly high new product introduction costs. Finally, we continue to strengthen our sales presence in key markets around the country. As we look forward to completing our facility consolidation plans, our emphasis will be on reducing debt and improving our balance sheet with lower capital expenditures needed for the immediate future.

As we have taken the long view, building a foundation for the future with a platform that can support future growth, we remember that our company has been built by men and women with a vision of serving their customers. We are celebrating the 150th year of Masland Carpets and invite you to view the pages, showing the changes that Masland has been through in the past century and a half: from converting the facility during World War I & II to make supplies for the military to moving from wool into nylon products in the 1950’s. Similarly, Dixie, celebrating its own 95th birthday this year, has a legacy of adapting to a changing marketplace as it has moved from being a producer of mercerized cotton yarns to a manufacturer of soft floorcovering products.

We want to thank our associates for all of the hard work they have been through this past year, and we appreciate their efforts to move us forward to sustained profitability. We appreciate both our investors and our board of directors for their input during this period of change. And, as we continue to produce fine carpets and rugs that meet the style, design and quality standards our customers have come to expect from us, we would like to thank them for the support that they have shown us throughout the past year.

Sincerely,

DANIEL K. FRIERSON
Chairman and Chief Executive Officer
March 24, 2016

1866
MASLAND

1866 Masland 2016
CELEBRATING 150 YEARS

Masland Carpets and Rugs was founded in Pennsylvania in 1866 and still today boasts of its heritage as the leading carpet manufacturer in the United States. Since 1866, Masland has insisted that its carpets and rugs maintain the highest quality. The tradition of manufacturing quality products has been practiced for over 150 years and continues to be practiced today.

Masland's manufacturing and distribution plants measure over one million square feet. The facility has state-of-the-art technology insuring quality throughout the manufacturing process. The distribution center has capabilities of storing 20,000 rolls of carpet and the rug facility manufactures all rug designs ensuring quality control and production. Today, Masland is recognized as the styling leader and producer of new original products for the marketplace. Masland products exemplify originality, innovative construction and color treatment as well as lasting beauty. Masland Carpets and Rugs has come a long way since 1866 and will continue to make a difference in the floor covering industry. In addition to its superior product, Masland offers an outstanding customer service program. The company takes pride in its associates and continues to grow. Masland continues to play, what it hopes is, a constructive part in the history of its industry and community—realizing that history is only a foundation upon which to build.


Masland Beautiblend Broadlooms
color schemes
to go with your
Masland
Beautiblend
broadloom


MASLAND BROADLOOM
RUGS AND CARPETS

OUR DISTINCTIVE BRANDS

Through an exceptional line of brands, our products are marketed to domestic and international customers in the upper-end residential and commercial markets. From homes to hotels, restaurants to hospitals, Dixie products are featured, providing beauty and comfort to their environments.

FABRICA fulfills the promise of our corporate mission of "Quality without Compromise," Fabrica manufactures carpets and rugs for the most demanding segments of the high-end style residential market. Our distinctive broadloom carpet, custom area rugs and hand-tufted rugs have earned Fabrica an international reputation for exquisite style and exceptional performance.

MASLAND CARPETS AND RUGS was founded in Pennsylvania in 1866 by Charles Henry Masland when he and his brother James opened a dye house in Germantown, Pennsylvania. Today, Masland continues to boast of its heritage as the leading carpet manufacturer in the United States. The tradition of manufacturing quality products has been practiced for over 150 years and continues to be practiced today.

DIXIE HOME was founded in early 2003 on the premise that fashion and design do not have to be limited to the high end of the market. Since that time, Dixie Home has experienced rapid growth and enthusiastic market acceptance for their stylish designed tufted broadloom carpets that fall within more moderately priced segments of the high-style residential market.

MASLAND CONTRACT offers flooring products developed specifically to enhance the aesthetic of commercial interiors with outstanding performance results.

ATLAS CARPET MILLS is dedicated to designing and manufacturing unique broadloom carpet and carpet tile for commercial environments. The Atlas product offering features a range of patterns and textures covering a wide variety of design aesthetics by utilizing the latest technology on an array of unique and different sophisticated machines. Atlas provides its customers with carpets that will significantly enhance their space both aesthetically and by looking better longer.

MASLAND HOSPITALITY blends the latest in style with industry-leading performance to create striking hospitality floor coverings. Masland Hospitality is specified worldwide, providing our customers with the flexibility and capability to make their creative visions a reality.

FABRICA
FINE CARPET & RUGS

Masland
CARPETS & RUGS

DIXIE
HOME

Masland™
contract

Atlas

Masland™
hospitality

THE ENVIRONMENT AND OUR IMPACT UPON IT

THE DIXIE GROUP continues to strive towards the creation of a healthier planet for the people of today, as well as our future generations.

The Dixie Group is committed to embracing new technologies for more efficient ways to manufacture our products, conserving our natural resources, and creating less waste. We understand that everything we do has an impact on our planet, and we are committed to leaving the smallest possible footprint impacting our environment. At The Dixie Group, we have a global perspective about the environment and our impact upon it.

Our philosophy is to embrace four basic principles: the sustainable selection and efficient use of raw materials, the conservation of energy, the management of waste, and the recycling of materials.

SMART MANUFACTURING PROCESS The Dixie Group also believes in working smarter to create all of our products, and eliminating wasteful production methods. Our factories have been recycling scrap metal, fiber waste, cardboard, and plastic sheeting for years. We are proud to say that our Fabrica division won the WRAP Award from the California Integrated Waste Management Board for being recognized as one of the local businesses which had implemented outstanding waste reduction efforts.

When building product portfolios, The Dixie Group places high priority on materials selected for recycled content. We have also initiated programs within our tufting facilities to rewind and recycle short ends of yarn into other production runs, preventing waste which would otherwise end up outside the recycle chain. Our manufacturing facilities also divert over 140,000 pounds of carpet and yarn waste from landfills each year, for reprocessing into other products, such as carpet padding, automobile parts, and roof shingles. When possible, each of the companies within The Dixie Group attempts to house their inventory within one localized facility, in order to eliminate transportation costs of moving supplies from one facility to another.

Consumption of water, electricity and natural gas used in the dyeing and finishing processes has been significantly reduced—in some areas, energy use is down by over 25% since 1999. In our Atmore production facility, 100% of energy consumption is offset 1:1 by renewable energy credits. This is where the amount of energy consumed is matched by energy generated by a clean power facility and added back to the national electric grid.

THE DIXIE GROUP

10-K REPORT

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

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

For the fiscal year ended December 26, 2015
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to ________.

Commission File Number 0-2585

THE DIXIE GROUP

The Dixie Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

Title of class
None

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

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

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

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

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

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

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

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant on June 26, 2015 (the last business day of the registrant's most recently completed fiscal second quarter) was $155,424,559. The aggregate market value was computed by reference to the closing price of the Common Stock on such date. In making this calculation, the registrant has assumed, without admitting for any purpose, that all executive officers, directors, and holders of more than 10% of a class of outstanding Common Stock, and no other persons, are affiliates. No market exists for the shares of Class B Common Stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act.

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

Class	Outstanding as of February 26, 2016	
Common Stock, $3.00 Par Value	15,155,273	shares
Class B Common Stock, $3.00 Par Value	851,693	shares
Class C Common Stock, $3.00 Par Value	0	shares

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the following document are incorporated by reference:
Proxy Statement of the registrant for annual meeting of shareholders to be held May 3, 2016 (Part III).

THE DIXIE GROUP, INC.

Index to Annual Report
on Form 10-K for
Year Ended December 26, 2015

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, materially adverse changes in economic conditions generally in carpet, rug and floorcovering markets we serve and other risks detailed from time to time in our filings with the Securities and Exchange Commission.

PART I.

Item 1. BUSINESS

General

Our business consists principally of marketing, manufacturing and selling carpet and rugs to high-end residential and commercial customers through our various sales forces and brands. A small portion of our manufacturing capacity is used to provide carpet and yarn related services to other manufacturers.

From 1920 until 1993 we were exclusively in the textile business. We sold our textile assets and began acquiring floorcovering businesses in 1993. We focus exclusively on the upper-end of the soft floorcovering market where we believe we have strong brands and competitive advantages with our style and design capabilities and customer relationships.

Our business is concentrated in areas of the soft floorcovering markets where innovative styling, design, color, quality and service, as well as limited distribution, are welcomed and rewarded. Our Fabrica, Masland, and Dixie Home brands have a significant presence in the high-end residential soft floorcovering markets. Our Atlas Carpet Mills, Masland Contract and Masland Hospitality brands, participate in the upper end specified commercial marketplace. Dixie International sells all of our brands outside of the North American market. Our brands are well known, highly regarded and complementary; by being differentiated, we offer meaningful alternatives to the discriminating customer.

We have one line of business, carpet and rug manufacturing.

Our Brands

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

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

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

Atlas Carpet Mills, acquired in 2014, is our premium commercial brand. Atlas has long been known for superior style and design. Atlas' focus is the specified design community including architects and designers who serve the upper end commercial marketplace. The Atlas brand has unique styling, as evident in both its broadloom and modular carpet tile product offerings. Atlas' high quality offerings are manufactured utilizing just in time manufacturing techniques in our California operations.

Masland Contract markets and manufactures broadloom and modular carpet tile for the specified commercial marketplace. Its commercial products are marketed to the architectural and specified design community and directly to commercial end users, as well as to consumers through specialty floorcovering retailers. Masland Contract has strong brand recognition within the upper-end contract market, and competes through innovative styling, color, patterns, quality and service.

Masland Hospitality, a new commercial business launched in 2014, is designed to focus on the hospitality market with both custom designed and running line products. Utilizing the computerized yarn placement technology we acquired with our Burtco acquisition in 2014, as well as offerings utilizing our state of the art Infinity tufting technology, this brand provides excellent service and design flexibility to the hospitality market serving upper-end hotels, conference centers and senior living markets. Its broadloom and rug product offerings are designed for the interior designer in the upper-end of the hospitality market who appreciates sophisticated texture, color and patterns with excellent service.

Industry

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

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

Competition

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

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

Backlog

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

Trademarks

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

Customer and Product Concentration

As a percentage of our net sales, one customer, Lowe's, a mass merchant, accounted for approximately 9% in 2015, 9% in 2014 and 13% in 2013. No other customer was more than 10 percent of our sales during the periods presented. During 2015, sales to our top ten customers accounted for 15% percent of our sales and our top 20 customers accounted for 18% percent of our sales. We do not make a material amount of sales in foreign countries.

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

	2015	2014	2013
Residential floorcovering products	**64%**	67%	73%
Commercial floorcovering products	**36%**	33%	27%

Seasonality

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

Environmental

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

Raw Materials

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

Utilities

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

Working Capital

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

Employment Level

At December 26, 2015, we employed 1,822 associates in our operations.

Available Information

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

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

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

Item 1A. RISK FACTORS

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

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

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

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

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

A significant amount of our sales are generated through certain retail and mass merchant channels of distribution. A significant reduction of sales through such channels could adversely affect our business.

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 materially adversely affect our ability to generate sufficient funds to satisfy the terms of our senior loan agreements and other debt obligations. Additionally, the inability to access debt or equity markets at competitive rates in sufficient amounts to satisfy our obligations could adversely impact our business.

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

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

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, both from other providers of soft surfaces and the growth of hard surface alternatives, may also result in decreased demand for our products and in the loss of market share. In addition, we face, and will continue to face, competitive pressures on our sales price and cost of our products. As a result of any of these factors, there could be a material adverse effect on our sales and profitability.

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

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. In addition, long lead times for certain of our products may make it hard for us to quickly respond to changes in consumer demands. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of flooring products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels, which could have a material adverse effect on our financial condition.

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

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

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

Nylon yarn is the principal raw material used in our floorcovering products. A significant portion of such yarn is purchased from one supplier. Our yarn supplier is one of the leading fiber suppliers within the industry and is the exclusive supplier of certain innovative branded fiber technology upon which we rely. We believe our offerings of this innovative fiber technology contribute materially to the competitiveness of our products. While we believe there are other sources of nylon yarns, an unanticipated termination or interruption of our current supply of nylon yarn could have a material adverse effect on our ability to supply our product to our customers and have a material adverse impact on our competitiveness if we are unable to replace our nylon supplier with another supplier that can offer similar innovative fiber products. An interruption in the supply of these or other raw materials or sourced products used in the Company's business or in the supply of suitable substitute materials or products would disrupt the Company's operations, which could have a material adverse effect on the Company's business.

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table lists our facilities according to location, type of operation and approximate total floor space as of February 26, 2016:

Location	Type of Operation	Approximate Square Feet
Administrative:		
Saraland, AL	Administrative	29,000
Commerce, CA*	Administrative	21,800
Santa Ana, CA	Administrative	4,000
Calhoun, GA	Administrative	10,600
Dalton, GA*	Administrative	47,900
Chattanooga, TN*	Administrative	3,500
	Total Administrative	116,800
Manufacturing and Distribution:		
Atmore, AL	Carpet Manufacturing, Distribution	610,000
Roanoke, AL	Carpet Yarn Processing	204,000
Saraland, AL	Carpet Tile Manufacturing, Distribution	384,000
Saraland, AL*	Samples and Rug Manufacturing, Distribution	132,000
Commerce, CA*	Carpet Manufacturing, Distribution	51,700
Commerce, CA*	Carpet Manufacturing	250,000
Santa Ana, CA	Carpet and Rug Manufacturing, Distribution	200,000
Adairsville, GA	Samples and Rug Manufacturing, Distribution	292,000
Calhoun, GA *	Carpet Wool Manufacturing	99,000
Calhoun, GA	Carpet Dyeing & Processing	193,300
Chickamauga, GA*	Carpet Manufacturing	107,000
Eton, GA	Carpet Manufacturing, Distribution	408,000
	Total Manufacturing and Distribution	2,931,000
* Leased properties	TOTAL	3,047,800

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

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

Item 3. LEGAL PROCEEDINGS

The Company is one of multiple parties to two lawsuits, both filed in Madison County Illinois, styled Sandra D. Watts, Individually and as Special Administrator of the Estate of Dianne Averett, Deceased vs. 4520 Corp., Inc. f/k/a Benjamin F. Shaw Company, et al No. 12-L-2032 and styled Brenda Bridgeman, Individually and as Special Administrator of the Estate of Robert Bridgeman, Deceased, vs. American Honda Motor Co., Inc., f/k/a Metropolitan Life Insurance Co., et al No. 15-L-374. Each lawsuit has a claim for damages to be determined in excess of $50,000 filed on behalf of the estate of an individual which alleges that the deceased contracted mesothelioma as a result of exposure to asbestos while employed by the Company. Discovery in both matters is ongoing, and tentative trial dates of February 2017 and January 2018 have been set. The Company has denied liability, is defending the matters vigorously and is unable to estimate its potential exposure to loss, if any, at this time.

Item 4. MINE SAFETY DISCLOSURES

Not applicable

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

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, positions and offices held by the executive officers of the registrant as of February 26, 2016, are listed below along with their business experience during the past five years.

Name, Age and Position	Business Experience During Past Five Years
Daniel K. Frierson, 74 Chairman of the Board, and Chief Executive Officer, Director	Director since 1973, Chairman of the Board since 1987 and Chief Executive Officer since 1980. He is the Chairman of the Company's Executive Committee. He is currently Chairman of The Carpet and Rug Institute. He serves as Director of Astec Industries, Inc. headquartered in Chattanooga, Tennessee; and Louisiana-Pacific Corporation headquartered in Nashville, Tennessee.
D. Kennedy Frierson, Jr., 49 Vice President and Chief Operating Officer	Director since 2012 and Vice President and Chief Operating Officer since August 2009. Vice President and President Masland Residential from February 2006 to July 2009. President Masland Residential from December 2005 to January 2006. Executive Vice President and General Manager, Dixie Home, 2003 to 2005. Business Unit Manager, Bretlin, 2002 to 2003.
Jon A. Faulkner, 55 Vice President and Chief Financial Officer	Vice President and Chief Financial Officer since October 2009. Vice President of Planning and Development from February 2002 to September 2009. Executive Vice President of Sales and Marketing for Steward, Inc. from 1997 to 2002.
Paul B. Comiskey, 65 Vice President and President, Dixie Residential	Vice President and President of Dixie Residential since August 2009. Vice President and President, Dixie Home from February 2007 to July 2009. President, Dixie Home from December 2006 to January 2007.Senior Vice President of Residential Sales, Mohawk Industries, Inc. from 1998 to 2006. Executive Vice President of Sales and Marketing for World Carpets from 1996 to 1998.
V. Lee Martin, 64 Vice President and President, Masland Contract	President, Masland Contract since August 2012 and Vice President since February 2013. President, Step 2 Surfaces, LLC from 2011 to August 2012. Corporate Vice President, Sales and Marketing, for J & J Industries from 1994 to 2011.
W. Derek Davis, 65 Vice President, Human Resources and Corporate Secretary	Vice President of Human Resources since January 1991 and Corporate Secretary since January 2016. Corporate Employee Relations Director, 1988 to 1991.

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

PART II.

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

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

As of February 26, 2016, the total number of holders of our Common Stock was approximately 3,000 including an estimated 2,550 shareholders who hold our Common Stock in nominee names. The total number of holders of our Class B Common Stock was 11.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

On August 8, 2007, we announced an authorization to repurchase up to $10 million of our Common Stock. There were no repurchases of shares of our Common Stock during the three months ended December 26, 2015. Approximately $2.5 million remains for purchasing pursuant to the authorization.

Quarterly Financial Data, Dividends and Price Range of Common Stock

Following are quarterly financial data, dividends and price range of Common Stock for the four quarterly periods in the years ended December 26, 2015 and December 27, 2014. Due to rounding, the totals of the quarterly information for each of the years reflected below may not necessarily equal the annual totals. The discussion of restrictions on payment of dividends is included in Note 10 to the Consolidated Financial Statements included herein.

THE DIXIE GROUP, INC.

QUARTERLY FINANCIAL DATA, DIVIDENDS AND PRICE RANGE OF COMMON STOCK

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

2015	1ST	2ND	3RD	4TH
Net sales	$ 95,855	$ 109,957	$ 108,908	$ 107,763
Gross profit	23,339	29,306	27,265	26,320
Operating income (loss)	(2,683)	2,177	1,253	1,243
Income (loss) from continuing operations	(2,380)	516	84	(498)
Loss from discontinued operations	(88)	(12)	(18)	(30)
Net income (loss)	$ (2,468)	$ 504	$ 66	$ (528)
Basic earnings (loss) per share:				
Continuing operations	$ (0.15)	$ 0.03	$ 0.01	$ (0.03)
Discontinued operations	(0.01)	—	—	—
Net income (loss)	$ (0.16)	$ 0.03	$ 0.01	$ (0.03)
Diluted earnings (loss) per share:				
Continuing operations	$ (0.15)	$ 0.03	$ 0.01	$ (0.03)
Discontinued operations	(0.01)	—	—	—
Net income (loss)	$ (0.16)	$ 0.03	$ 0.01	$ (0.03)
Common Stock Prices:				
High	$ 9.60	$ 11.40	$ 11.50	$ 9.89
Low	7.77	8.76	8.81	4.75

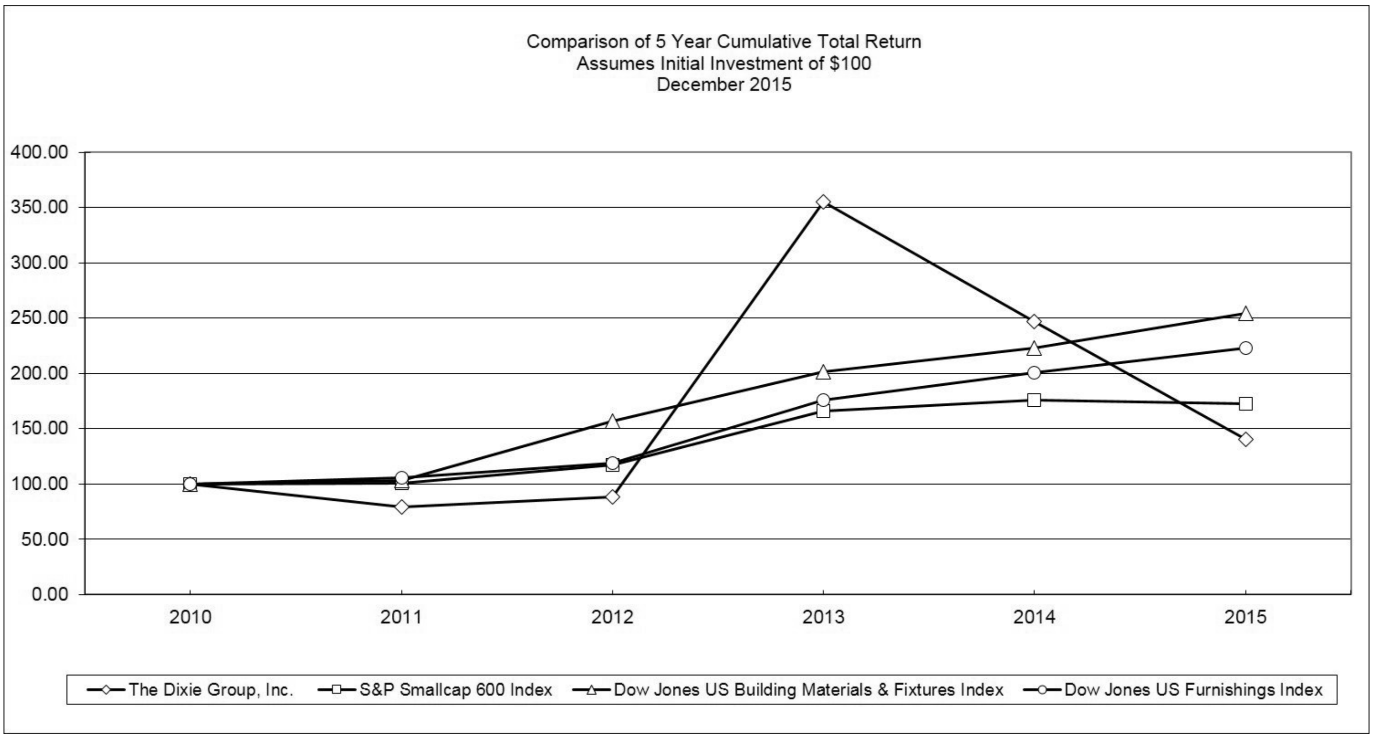
2014	1ST (1)	2ND	3RD	4TH (2)
Net sales	$ 85,082	$ 107,926	$ 109,006	$ 104,574
Gross profit	18,101	26,671	26,599	24,126
Operating income (loss)	(2,241)	588	832	(4,415)
Income (loss) from continuing operations	4,821	(510)	(8)	(3,630)
Loss from discontinued operations	(193)	(135)	(177)	(103)
Loss on disposal of discontinued operations	$ —	$ —	$ —	$ (1,467)
Net income (loss)	$ 4,628	$ (645)	$ (185)	$ (5,200)
Basic earnings per share:				
Continuing operations	$ 0.36	$ (0.04)	$ —	$ (0.24)
Discontinued operations	(0.02)	(0.01)	(0.01)	(0.01)
Disposal of discontinued operations	$ —	$ —	$ —	$ (0.10)
Net income (loss)	$ 0.34	$ (0.05)	$ (0.01)	$ (0.35)
Diluted earnings (loss) per share:				
Continuing operations	$ 0.36	$ (0.04)	$ —	$ (0.24)
Discontinued operations	(0.02)	(0.01)	(0.01)	(0.01)
Disposal of discontinued operations	$ —	$ —	$ —	$ (0.10)
Net income (loss)	$ 0.34	$ (0.05)	$ (0.01)	$ (0.35)
Common Stock Prices:				
High	$ 16.80	$ 18.41	$ 10.78	$ 9.44
Low	12.10	9.77	7.42	6.00

(1) The first quarter of 2014 included a pre-tax bargain purchase of $10,937 related to the acquisition of Atlas Carpet Mills, Inc.
(2) The fourth quarter of 2014 included a loss of $1,467, net of tax, on the disposal of the Carousel specialty tufting and weaving operation that was part of the 2013 Robertex, Inc. acquisition.

Shareholder Return Performance Presentation

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

In accordance with SEC rules, set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on our Common Stock against the total return of the Standard & Poor's 600 Stock Index, plus both the Dow Jones Furnishings Index and the Dow Jones Building Materials & Fixtures Index, in each case for the five year period ended December 26, 2015. The comparison assumes that $100.00 was invested on December 25, 2010, in our Common Stock, the S&P 600 Index, and each of the two Peer Groups, and assumes the reinvestment of dividends.



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

Item 6. SELECTED FINANCIAL DATA

Selected financial data for the periods presented have been restated to classify the results of Carousel operations discontinued in December 2014 as discontinued operations.

The Dixie Group, Inc.
Historical Summary
(dollars in thousands, except share and per share data)

FISCAL YEARS	2015 (1)	2014 (2)(3)	2013 (4)	2012	2011 (5)
OPERATIONS					
Net sales	$ 422,483	$ 406,588	$ 344,374	$ 266,372	$ 270,110
Gross profit	106,230	95,497	85,570	65,372	65,506
Operating income (loss)	1,990	(5,236)	8,855	1,815	5,668
Income (loss) from continuing operations before taxes	(2,992)	1,726	4,979	(1,054)	1,956
Income tax provision (benefit)	(714)	1,053	(577)	(401)	684
Income (loss) from continuing operations	(2,278)	673	5,556	(653)	1,272
Depreciation and amortization	14,119	12,850	10,230	9,396	9,649
Dividends	—	—	—	—	—
Capital expenditures	6,826	9,492	11,438	3,386	6,740
Assets purchased under capital leases & notes, including deposits utilized and accrued purchases	5,403	23,333	1,865	666	14
FINANCIAL POSITION					
Total assets (6)	$ 298,218	$ 290,447	$ 243,557	$ 196,820	$ 176,779
Working capital (6)	98,632	100,602	89,057	71,343	60,557
Long-term debt (6)	115,907	117,153	100,521	79,040	63,998
Stockholders' equity	90,804	92,977	70,771	64,046	64,385
PER SHARE					
Income (loss) from continuing operations:					
Basic	$ (0.15)	$ 0.03	$ 0.42	$ (0.05)	$ 0.10
Diluted	(0.15)	0.03	0.42	(0.05)	0.10
Dividends:					
Common Stock	—	—	—	—	—
Class B Common Stock	—	—	—	—	—
Book value	5.67	5.90	5.32	4.88	4.99
GENERAL					
Weighted-average common shares outstanding:					
Basic	15,535,980	14,381,601	12,736,835	12,637,657	12,585,396
Diluted	15,535,980	14,544,073	12,851,917	12,637,657	12,623,054
Number of shareholders (7)	3,000	3,000	2,350	1,800	1,750
Number of associates	1,822	1,740	1,423	1,200	1,171

(1) Includes expenses of $2,946, or $2,243 net of tax, for facility consolidation expenses in 2015.
(2) Includes the results of operations of Atlas Carpet Mills, Inc. and Burtco Enterprises, Inc. subsequent to their acquisitions on March 19, 2014 and September 22, 2014, respectively.
(3) Includes expenses of $5,514, or $3,364 net of tax, for facility consolidation expenses, $1,133, or $691 net of tax, for impairment of assets and income of $11,110, or $6,777 net of tax, for bargain purchases on the acquisitions of Atlas Carpet Mills and Burtco Enterprises.
(4) Includes the results of operations of Robertex, Inc subsequent to its acquisition on June 30, 2013.
(5) Includes income of $563, or $356 net of tax, for facility consolidation expenses in 2011.
(6) Amounts have been retrospectively adjusted for the adoption of Accounting Standards Update No. 2015-03 for debt issuance costs and Accounting Standards Update No. 2015-17 for deferred taxes. (See Note 2 in the Consolidated Financial Statements)
(7) The approximate number of record holders of our Common Stock for 2011 through 2015 includes Management's estimate of shareholders who held our Common Stock in nominee names as follows: 2011 - 1,250 shareholders; 2012 - 1,255 shareholders; 2013 - 1,900 shareholders; 2014 - 2,550 shareholders; 2015 - 2,550 shareholders.

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

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

OVERVIEW

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

During 2015, our net sales increased 3.9% compared with 2014. Sales of residential products decreased 0.4% in 2015 versus 2014, while, we estimate, the industry was down slightly. We anticipate the residential remodeling market to have marginal growth for next year. Commercial product sales increased 14.4% during 2015, while, we believe, the industry reflected an increase in the low single digits. We anticipate the commercial market to have moderate growth for next year.

We have completed the bulk of our capacity expansion and consolidation initiatives. However, during these endeavors, we experienced high training, quality and waste costs. We experienced a dramatically changed labor market in 2014 and 2015 as we no longer could easily recruit individuals with previous industry experience; therefore, our new hires required extensive training. In addition, we had significantly higher labor turnover than we had experienced in the period immediately prior to our expansion. We believe we have significantly improved our quality throughout 2015 as our new associates became trained in their new roles; however, we are still experiencing higher waste and claims cost from inventory produced during this period of consolidation. The status of our restructuring and facilities consolidation plans are discussed below.

Our Warehousing, Distribution & Manufacturing Consolidation Plan was developed to align our warehousing, distribution and manufacturing with our growth and manufacturing strategy. The plan was designed to create a better cost structure as well as improve distribution capabilities and customer service. In June of 2014, the Board of Directors approved a modification of this plan to include the elimination of both carpet dyeing and yarn dyeing in our Atmore, Alabama facility. Elimination of dyeing at this facility was designed to more fully accommodate our distribution and manufacturing realignment. Accordingly, the dyeing operations in Atmore were moved to our Colormaster continuous dyeing facility, our Calhoun Wool skein dyeing operation and other outside dyeing processors.

Total expenses of the Warehousing, Distribution & Manufacturing Consolidation Plan are anticipated to be approximately $6.5 million. Expenses incurred in 2015 were $2.0 million and $6.1 million since initiation of the plan in 2014. We estimate additional spending primarily related to the movement of our Saraland, Alabama rug operation moving from a rented facility into a company-owned facility of approximately $406 thousand under this plan through early 2016. These expenses of the plan primarily consist of moving and relocating inventory and equipment, facility restoration, information technology expenses and expenses relating to conversion and realignment of equipment. We also incurred non-cash asset impairment charges of $1.1 million subsequent to the first quarter of 2014 related to manufacturing changes and equipment taken out of service in our facilities.

On March 19, 2014, we acquired Atlas Carpet Mills. As a part of the Atlas acquisition, we discontinued operations at the Atlas dyeing facility in Los Angeles and moved the carpet dyeing of their products to our Susan Street dyeing operation located in Santa Ana, California. We initiated an Atlas Integration Plan to accommodate the dyeing move and address the modification of computer systems. The costs of these initiatives were $1.7 million. This plan was completed in the second quarter of 2015.

In April 2015, the Company's Board of Directors approved the Corporate Office Consolidation Plan, to cover the costs of consolidating three of the Company's existing leased divisional and corporate offices to a single leased facility located in Dalton, Georgia. The Company paid a fee to terminate one of the leases, did not renew a second facility and vacated the third facility. Related to the vacated facility, the Company recorded the estimated costs related to the fulfillment of its contractual lease obligation and on-going facilities maintenance, net of an estimate of sub-lease expectations. Costs related to the consolidation include the lease termination fee, contractual lease obligations and moving costs. Expenses of this plan were $728 thousand in 2015 with estimated remaining costs to be approximately $60 thousand.

RESULTS OF OPERATIONS

Fiscal Year Ended December 26, 2015 Compared with Fiscal Year Ended December 27, 2014

	Fiscal Year Ended					
	December 26, 2015	% of Net Sales	December 27, 2014	% of Net Sales	Increase (Decrease)	% Change
Net sales	422,483	100.0 %	406,588	100.0 %	15,895	3.9 %
Cost of sales	316,253	74.9 %	311,091	76.5 %	5,162	1.7 %
Gross profit	106,230	25.1 %	95,497	23.5 %	10,733	11.2 %
Selling and administrative expenses	100,422	23.8 %	93,182	22.9 %	7,240	7.8 %
Other operating expense, net	872	0.2 %	904	0.2 %	(32)	(3.5)%
Facility consolidation expenses	2,946	0.7 %	5,514	1.4 %	(2,568)	(46.6)%
Impairment of assets	—	— %	1,133	0.3 %	(1,133)	(100.0)%
Operating income (loss)	1,990	0.4 %	(5,236)	(1.3)%	7,226	(138.0)%
Interest expense	4,935	1.2 %	4,302	1.1 %	633	14.7 %
Other (income) expense, net	47	— %	(154)	— %	201	(130.5)%
Gain on purchase of businesses	—	— %	(11,110)	(2.7)%	11,110	(100.0)%
Income (loss) before taxes	(2,992)	(0.8)%	1,726	0.3 %	(4,718)	(273.3)%
Income tax provision (benefit)	(714)	(0.2)%	1,053	0.3 %	(1,767)	(167.8)%
Income (loss) from continuing operations	(2,278)	(0.6)%	673	— %	(2,951)	(438.5)%
Loss from discontinued operations	(148)	— %	(608)	(0.1)%	460	(75.7)%
Loss on disposal of discontinued operations	—	— %	(1,467)	(0.4)%	1,467	(100.0)%
Net income (loss)	(2,426)	(0.6)%	(1,402)	(0.5)%	(1,024)	73.0 %

Net Sales. Net sales for the year ended December 26, 2015 were $422.5 million compared with $406.6 million in the year-earlier period, an increase of 3.9% for the year-over-year comparison. Sales for the carpet industry were down slightly for annual 2015 compared with the prior year. Our 2015 year-over-year carpet sales comparison reflected an increase of 4.5% in net sales. Sales of residential carpet were down 0.4% and sales of commercial carpet increased 14.4%. Revenue from carpet yarn processing and carpet dyeing and finishing services decreased 11.9% in 2015 compared with 2014. We believe our growth in both the residential and commercial sales were positively affected by the introduction of new and innovative product offerings.

Cost of Sales. Cost of sales, as a percentage of net sales, decreased 1.6 percentage points, as a percentage of net sales in 2015 compared with 2014. During the expansion and restructuring initiatives, we have experienced high training, quality and waste costs. These costs were offset by improvements in operating efficiencies and lower raw material costs.

Gross Profit. Gross profit, as a percentage of net sales, increased 1.6 percentage points in 2015 compared with 2014. The increase in gross profit as a percentage of net sales was attributable to the factors discussed above.

Selling and Administrative Expenses. Selling and administrative expenses were $100.4 million in 2015 compared with $93.2 million in 2014, or an increase of 0.9% as a percentage of sales. Our increase in selling and administrative expenses as a percentage of sales was primarily driven by the higher levels of investment in new products in our Residential and Commercial brands compared with the prior year.

Other Operating Expense, Net. Net other operating (income) expense was an expense of $872 thousand in 2015 compared with expense of $904 thousand in 2014.

Operating Income (Loss). Operations reflected operating income of $2.0 million in 2015 compared with an operating loss of $5.2 million in 2014. Facility consolidation expenses of $2.9 million and $5.5 million were included in the 2015 and 2014 results, respectively. In addition, related asset impairment expenses of $1.1 million were included in the 2014 operating results.

Interest Expense. Interest expense increased $633 thousand in 2015 principally due to higher interest rates associated with previously locked in future interest rate swaps from 2015 until 2021 to fix a portion of the Company's revolving credit facility.

Other (Income) Expense, Net. Other (income) expense, net was an expense of $47 thousand compared with income of $154 thousand in 2014. Earnings from equity investments of $209 thousand were included in 2014.

Gain on Purchase of Businesses. During 2014, we recognized gains of $11.1 million on business acquisitions. The acquisition of Atlas resulted in a gain of $10.9 million and the acquisition of Burtco resulted in a gain of $173 thousand.

Income Tax Provision (Benefit). Our effective income tax rate was a benefit of 23.9% in 2015. In 2015, we increased our valuation allowances by $977 thousand related to state income tax loss carryforwards and state income tax credit carryforwards. This was the result of a pretax loss in 2015 that put the Company in a three-year cumulative loss. Therefore, we cannot rely on future earnings to project the utilization of these carryforwards. Additionally, 2015 included approximately $441 thousand of federal tax credits. Our effective income tax rate was 61.0% in 2014 and included an increase of $569 thousand in increased valuation allowances related to state income tax carryforwards and state income tax credit carryforwards.

Loss from Discontinued Operations and Loss on Disposal of Discontinued Operations, net of tax. In the fourth quarter of 2014, we discontinued the Carousel specialty tufting and weaving operation that was part of the 2013 Robertex, Inc. acquisition. As a result, we recognized a loss on the disposal of the discontinued operation of $1.5 million, net of tax, which included the impairment of certain intangibles associated with Carousel and its related machinery and equipment. Additionally, 2014 included a loss from the discontinued Carousel operations of $598 thousand, net of tax.

Net Income (Loss). Continuing operations reflected a loss of $2.3 million, or $0.15 per diluted share in 2015, compared with income from continuing operations of $673 thousand, or $0.03 per diluted share in 2014. Our discontinued operations reflected a loss of $148 thousand, or $0.01 per diluted share in 2015 compared with a loss of $608 thousand, or $0.04 per diluted share, and a loss on disposal of discontinued operations of $1.5 million, or $0.10 per diluted share in 2014. Including discontinued operations, we had a net loss of $2.4 million, or $0.16 per diluted share, in 2015 compared with a net loss of $1.4 million, or $0.11 per diluted share, in 2014.

Fiscal Year Ended December 27, 2014 Compared with Fiscal Year Ended December 28, 2013

	Fiscal Year Ended					
	December 27, 2014	% of Net Sales	December 28, 2013	% of Net Sales	Increase (Decrease)	% Change
Net sales	406,588	100.0 %	344,374	100.0 %	62,214	18.1 %
Cost of sales	311,091	76.5 %	258,804	75.2 %	52,287	20.2 %
Gross profit	95,497	23.5 %	85,570	24.8 %	9,927	11.6 %
Selling and administrative expenses	93,182	22.9 %	76,221	22.1 %	16,961	22.3 %
Other operating expense, net	904	0.2 %	494	0.1 %	410	83.0 %
Facility consolidation expenses	5,514	1.4 %	—	— %	5,514	100.0 %
Impairment of assets	1,133	0.3 %	—	— %	1,133	100.0 %
Operating income (loss)	(5,236)	(1.3)%	8,855	2.6 %	(14,091)	(159.1)%
Interest expense	4,302	1.1 %	3,756	1.1 %	546	14.5 %
Other (income) expense, net	(154)	— %	26	— %	(180)	(692.3)%
Gain on purchase of businesses	(11,110)	(2.7)%	—	— %	(11,110)	100.0 %
Refinancing expenses	—	— %	94	— %	(94)	(100.0)%
Income (loss) before taxes	1,726	0.3 %	4,979	1.5 %	(3,253)	(65.3)%
Income tax provision (benefit)	1,053	0.3 %	(577)	(0.2)%	1,630	(282.5)%
Income (loss) from continuing operations	673	— %	5,556	1.7 %	(4,883)	(87.9)%
Loss from discontinued operations	(608)	(0.1)%	(266)	(0.1)%	(342)	128.6 %
Loss on disposal of discontinued operations	(1,467)	(0.4)%	—	— %	(1,467)	100.0 %
Net income (loss)	(1,402)	(0.5)%	5,290	1.6 %	(6,692)	(126.5)%

Net Sales. Net sales for the year ended December 27, 2014 were $406.6 million compared with $344.4 million in the year-earlier period, an increase of 18.1%, or 7.1% excluding Atlas, for the year-over-year comparison. Sales for the carpet industry were flat for annual 2014 compared with the prior year. Our 2014 year-over-year carpet sales comparison reflected an increase of 18.1% in net sales, or 7.5% excluding Atlas. Sales of residential carpet were up 8.2% and sales of commercial carpet increased 45.5%, or 5.5% excluding Atlas. Revenue from carpet yarn processing and carpet dyeing and finishing services increased $1.9 million in 2014 compared with 2013 primarily as a result of processing services performed by Atlas under an equity investment relationship. We believe our growth in both the residential and commercial sales were positively affected by the introduction of new and innovative products and the expansion of our wool product offerings.

Cost of Sales. Cost of sales, as a percentage of net sales, increased 1.3 percentage points, as a percentage of net sales in 2014 compared with 2013. The expansion and restructuring initiatives undertaken along with the expansion of our workforce negatively affected our operating results in the form of training costs, production inefficiencies, increased levels of waste and scrap and generally higher operating costs.

Gross Profit. Gross profit increased $9.9 million in 2014 compared with 2013. The increase in gross profit was primarily attributable to higher sales. However, the gross profit dollars in 2014 were negatively impacted by our actions taken to address our capacity constraints.

Selling and Administrative Expenses. Selling and administrative expenses were $93.2 million in 2014 compared with $76.2 million in 2013, or an increase of 0.7% as a percentage of sales. Our selling expense increase as a percentage of sales was primarily driven by the higher relative selling expense of Atlas and higher levels of investment in new products and marketing in our Masland Contract brand compared with the prior year.

Other Operating (Income) Expense, Net. Net other operating (income) expense was an expense of $904 thousand in 2014 compared with expense of $494 thousand in 2013. The change in 2014 was primarily a result of an increase in losses on currency valuations and the amortization of an intangible asset associated with the 2014 Atlas acquisition.

Operating Income (Loss). Operations reflected an operating loss of $5.2 million in 2014 compared with operating income of $8.9 million in 2013. Facility consolidation expenses of $5.5 million and related asset impairment expenses of $1.1 million were included in the 2014 operating results.

Interest Expense. Interest expense increased $546 thousand in 2014 principally due to higher levels of debt to support our growth and the acquisition of capital assets under various debt arrangements.

Other (Income) Expense, Net. Other (income) expense, net was income of $154 thousand in 2014 compared with expense of $26 thousand in 2013. $209 thousand of earnings from equity investments were included in 2014.

Gain on Purchase of Businesses. During 2014, we recognized gains of $11.1 million on business acquisitions. The acquisition of Atlas resulted in a gain of $10.9 million and the acquisition of Burtco resulted in a gain of $173 thousand.

Income Tax Provision (Benefit). Our effective income tax rate was 61.0% in 2014 and included an increase of $569 thousand in increased valuation allowances related to state income tax carryforwards and state income tax credit carryforwards. Our income tax provision was a benefit of $643 thousand in 2013 on positive earnings primarily as a result of the reversal of $1.2 million of previously established reserves for state income tax loss and tax credit carryforwards. The recognition or reversal of such reserves established by taxing jurisdiction is based on a number of factors including current and forecasted earnings. Additionally, 2013 included certain tax credits of approximately $520 thousand related to the years 2009 - 2011 determined to be available for utilization and $304 thousand of 2012 research and development tax credits that could not be recognized until the extension of the credit was approved by Congress in 2013.

Loss from Discontinued Operations and Loss on Disposal of Discontinued Operations, net of tax. In the fourth quarter of 2014, we discontinued the Carousel specialty tufting and weaving operation that was part of the 2013 Robertex, Inc. acquisition. As a result, we recognized a loss on the disposal of the discontinued operation of $1.5 million, net of tax, which included the impairment of certain intangibles associated with Carousel and its related machinery and equipment. Additionally, 2014 included a loss from the discontinued Carousel operations of $598 thousand, net of tax, compared with a loss of $198 thousand, net of tax in 2013.

Net Income (Loss). Continuing operations reflected income of $673 thousand, or $0.03 per diluted share in 2014, compared with income from continuing operations of $5.6 million, or $0.42 per diluted share in 2013. Our discontinued operations reflected a loss of $608 thousand, or $0.04 per diluted share, and a loss on disposal of discontinued operations of $1.5 million, or $0.10 per diluted share in 2014 compared with a loss from discontinued operations of $266 thousand, or $0.02 per diluted share in 2013. Including discontinued operations, we had a net loss of $1.4 million, or $0.11 per diluted share, in 2014 compared with net income of $5.3 million, or $0.40 per diluted share, in 2013.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 26, 2015, cash provided by operations was $8.6 million. Inventories increased $10.9 million which was offset by an increase in accounts payable and accrued expenses of $7.6 million. Inventories were increased to improve service to our customers and to build inventories from a supplier that was going through a year-end software conversion.

Capital asset acquisitions for the year ended December 26, 2015 were $12.2 million; $6.8 million of cash used in investing activities, $3.3 million of equipment acquired under notes and capital leases, $1.9 million of previous deposits utilized for capital additions and $200 thousand for accrued purchases. Depreciation and amortization for the year ended December 26, 2015 were $14.1 million. We expect capital expenditures to be approximately $10.0 million in 2016 for capital expenditures while depreciation and amortization is expected to be approximately $13.5 million. Planned capital expenditures in 2016 are primarily for new equipment.

During the year ended December 26, 2015, cash used in financing activities was $2.0 million. In January 2015, we entered into a ten-year $6.3 million mortgage note payable to finance an owned facility in Saraland, Alabama. We had additional proceeds of $1.0 million from equipment notes payable. These proceeds are offset by payments on notes payable and lease obligations of $9.7 million.

We believe our operating cash flows, credit availability under our revolving credit facility and other sources of financing are adequate to finance our anticipated liquidity requirements. As of December 26, 2015, the unused borrowing availability under our revolving credit facility was $39.8 million. Our revolving credit facility requires us to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that borrowing availability is less than $16.5 million. As of the date hereof, our fixed coverage ratio was less than 1.1 to 1.0, accordingly the unused availability accessible by us is the amount above $16.5 million. Significant additional cash expenditures above our normal liquidity requirements or significant deterioration in economic conditions could affect our business and require supplemental financing or other funding sources. There can be no assurance that such supplemental financing or other sources of funding can be obtained or will be obtained on terms favorable to us.

Debt Facilities

Revolving Credit Facility. The revolving credit facility provides for a maximum of $150.0 million of revolving credit, subject to borrowing base availability. The borrowing base is currently equal to specified percentages of the Company's eligible accounts receivable, inventories, fixed assets and real property less reserves established, from time to time, by the administrative agent under the facility. The revolving credit facility matures on March 14, 2019. The revolving credit facility is secured by a first priority lien on substantially all of our assets.

At our election, advances of the revolving credit facility bear interest at annual rates equal to either (a) LIBOR for 1, 2 or 3 month periods, as selected by us, plus an applicable margin of either 1.50%, 1.75% or 2.00%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate plus 1.00%, plus an applicable margin of either 0.50%, 0.75% or 1.00%. The applicable margin is determined based on availability under our revolving credit facility with margins increasing as availability decreases. We pay an unused line fee on the average amount by which the aggregate commitments exceed utilization of the senior credit facility equal to 0.375% per annum. The weighted-average interest rate on borrowings outstanding under our revolving credit facility was 2.23% at December 26, 2015 and 2.29% at December 27, 2014.

The revolving credit facility includes certain affirmative and negative covenants that impose restrictions on our financial and business operations. The revolving credit facility requires us to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that borrowing availability is less than $16.5 million. As of December 26, 2015, our unused borrowing availability under the revolving credit facility was $39.8 million. As of December 26, 2015, our fixed charge coverage ratio was less than 1.1 to 1.0, accordingly, the unused availability accessible by us is the amount above $16.5 million.

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

On January 23, 2015, we entered into a ten-year $6.3 million note payable to finance an owned facility in Saraland, Alabama. The note payable is scheduled to mature on January 7, 2025 and is secured by the facility. The note payable bears interest at a variable rate equal to one month LIBOR plus 2.0% and is payable in equal monthly installments of principal of $26 thousand, plus interest calculated on the declining balance of the note, with a final payment of $3.1 million due on maturity. In addition, we entered into a forward interest rate swap with an amortizing $5.7 million notional amount effective January 7, 2017 which effectively fixes the interest rate at 4.30%.

Obligation to Development Authority of Gordon County. On November 2, 2012, we signed a 6% seller-financed note of $5.5 million with Lineage PCR, Inc. ("Lineage") related to the acquisition of the continuous carpet dyeing facility in Calhoun, Georgia. Effective December 28, 2012 through a series of agreements between us, the Development Authority of Gordon County, Georgia (the "Authority") and Lineage, obligations with identical payment terms as the original note to Lineage are now payment obligations to the Authority. These transactions were consummated in order to provide us with a tax abatement to the related real estate and equipment at this facility. The tax abatement plan provides for abatement for certain components of the real and personal property taxes for up to ten years. At any time, we have the option to pay off the obligation, plus a nominal amount. The debt to the Authority bears interest at 6% and is payable in equal monthly installments of principal and interest of $106 thousand over 57 months.

Note Payable - Robertex Acquisition. On July 1, 2013, we signed a 4.5% seller-financed note of $4.0 million, which was recorded at a fair value of $3.7 million with Robert P. Rothman related to the acquisition of Robertex Associates, LLC ("Robertex") in Calhoun, Georgia. The note is payable in five annual installments of principal of $800 thousand plus interest. The note matures June 30, 2018.

Equipment Notes Payable. Our equipment financing notes have terms ranging from three to seven years, are secured by the specific equipment financed, bear interest ranging from 1.00% to 6.86% and are due in monthly installments of principal and interest ranging from $3 thousand to $53 thousand through September 2022. The notes do not contain financial covenants. (See Note 10 to our Consolidated Financial Statements).

Capital Lease Obligations. Our capital lease obligations have terms ranging from three to seven years, are secured by the specific equipment leased, bear interest ranging from 2.90% to 7.37% and are due in monthly installments of principal and interest ranging from $1 thousand to $43 thousand through January 2022. (See Note 10 to our Consolidated Financial Statements).

Contractual Obligations

The following table summarizes our future minimum payments under contractual obligations as of December 26, 2015.

	Payments Due By Period (dollars in millions)						
	2016	2017	2018	2019	2020	Thereafter	Total
Debt	$ 7.1	$ 5.7	$ 4.6	$ 83.3	$ 1.9	$ 11.5	114.1
Interest - debt (1)	4.0	3.9	3.7	2.3	1.9	2.5	18.3
Capital leases	3.0	3.0	2.8	1.6	1.4	0.9	12.7
Interest - capital leases	0.6	0.4	0.3	0.2	0.1	—	1.6
Operating leases	3.2	3.2	2.9	2.1	1.7	5.3	18.4
Purchase commitments	2.6	0.6	0.4	—	—	—	3.6
Totals	20.5	16.8	14.7	89.5	7.0	20.2	168.7

(1) Interest rates used for variable rate debt were those in effect at December 26, 2015.

Stock-Based Awards

We recognize compensation expense related to share-based stock awards based on the fair value of the equity instrument over the period of vesting for the individual stock awards that were granted. At December 26, 2015, the total unrecognized compensation expense related to unvested restricted stock awards was $2.5 million with a weighted-average vesting period of 5.0 years. At December 26, 2015, there was no unrecognized compensation expense related to unvested stock options.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements at December 26, 2015 or December 27, 2014.

Income Tax Considerations

During 2015, we increased our valuation allowances by $977 thousand related to state income tax loss carryforwards and state income tax credit carryforwards. The increase was based on a number of factors including current and future earnings assumptions by taxing jurisdictions.

During 2016 and 2017, we do not anticipate any cash outlays for income taxes. This is due to tax loss carryforwards and tax credit carryforwards that will be used to offset taxable income. At December 26, 2015, we were in a net deferred tax asset position of $4.7 million. We performed an analysis, including an evaluation of certain tax planning strategies available to us, related to the net deferred tax asset and believe that the net deferred tax asset is recoverable in future periods. Approximately $12.4 million of future taxable income would be required to realize the deferred tax asset.

Discontinued Operations - Environmental Contingencies

We have reserves for environmental obligations established at five previously owned sites that were associated with our discontinued textile businesses. We have a reserve of $1.6 million for environmental liabilities at these sites as of December 26, 2015. The liability established represents our best estimate of loss and is the reasonable amount to which there is any meaningful degree of certainty given the periods of estimated remediation and the dollars applicable to such remediation for those periods. The actual timeline to remediate, and thus, the ultimate cost to complete such remediation through these remediation efforts, may differ significantly from our estimates. Pre-tax cost for environmental remediation obligations classified as discontinued operations were primarily a result of specific events requiring action and additional expense in each period.

Fair Value of Financial Instruments

At December 26, 2015, we had $584 thousand of liabilities measured at fair value that fall under a level 3 classification in the hierarchy (those subject to significant management judgment or estimation).

Certain Related Party Transactions

During 2015, we purchased a portion of our product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of our company. Mr. Shaw reported holding approximately 8.4% of our Common Stock, which as of year-end represented approximately 4% of the total vote of all classes of our Common Stock. Engineered Floors is one of several suppliers of such materials. Total purchases from Engineered Floors for 2015, 2014 and 2013 were approximately $8.8 million, $11.3 million and $12.0 million, respectively; or approximately 2.8%, 3.6% and 4.6% of our consolidated costs of sales in 2015, 2014 and 2013, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. We have no contractual commitments with Mr. Shaw associated with our business relationship with Engineered Floors. Transactions with Engineered Floors were reviewed by our board of directors.

We are party to a 5-year lease with the seller of Atlas Carpet Mills, Inc. to lease three manufacturing facilities as part of the acquisition in 2014. The lessor is controlled by an associate of the Company. Rent paid to the lessor during 2015 and 2014 was $458 thousand and $343 thousand, respectively. The lease was based on current market values for similar facilities.

We are party to a 10-year lease with the Rothman Family Partnership to lease a manufacturing facility as part of the Robertex acquisition in 2013. The lessor is controlled by an associate of the Company. Rent paid to the lessor during 2015, 2014 and 2013 was $262 thousand, $257 thousand and $127 thousand, respectively. The lease was based on current market values for similar facilities. In addition, we have a note payable to Robert P. Rothman related to the acquisition of Robertex, Inc. (See Note 10).

Recent Accounting Pronouncements

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

Critical Accounting Policies

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

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

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

- **Revenue recognition.** Revenues, including shipping and handling amounts, are recognized when the following criteria are met: there is persuasive evidence that a sales agreement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed or determinable, and collection is reasonably assured. Delivery is considered to have occurred when the customer takes title to products, which is generally on the date of shipment. At the time revenue is recognized, we record a provision for the estimated amount of future returns including product warranties and customer claims based primarily on historical experience and any known trends or conditions.

- **Customer claims and product warranties.** We provide product warranties related to manufacturing defects and specific performance standards for our products. We record reserves for the estimated costs of defective products and failure to meet applicable performance standards. The levels of reserves are established based primarily upon historical experience and our evaluation of pending claims. Because our evaluations are based on historical experience and conditions at the time our financial statements are prepared, actual results could differ from the reserves in our Consolidated Financial Statements.

- **Accounts receivable allowances**. We provide allowances for expected cash discounts and doubtful accounts based upon historical experience and periodic evaluations of the financial condition of our customers. If the financial conditions of our customers were to significantly deteriorate, or other factors impair their ability to pay their debts, credit losses could differ from allowances recorded in our Consolidated Financial Statements.

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

- **Goodwill.** Goodwill is tested annually for impairment during the fourth quarter or earlier if significant events or substantive changes in circumstances occur that may indicate that goodwill may not be recoverable. The goodwill impairment tests are based on determining the fair value of the specified reporting units based on management judgments and assumptions using the discounted cash flows. The valuation approaches are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about sales growth rates, operating margins and the weighted average cost of capital ("WACC"). When developing these key judgments and assumptions, we consider economic, operational and market conditions that could impact the fair value of the reporting unit. However, estimates are inherently uncertain and represent only management's reasonable expectations regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. Should a significant or prolonged deterioration in economic conditions occur key judgments and assumptions could be impacted.

- **Contingent Consideration.** Contingent consideration liabilities represent future amounts we may be required to pay in conjunction with various business combinations. The ultimate amount of future payments is based on incremental gross margin growth related to the contingent liability. We estimate the fair value of the contingent consideration liability by forecasting estimated cash payments based on incremental gross margin growth and discounting the associated cash payment amounts to their present values using a credit-risk-adjusted interest rate. We evaluate our estimates of the fair value of contingent consideration liabilities on a periodic basis. Any changes in the fair value of contingent consideration liabilities are recorded through earnings. The total estimated fair value of contingent consideration liabilities was $584 thousand and $1.9 million at December 26, 2015 and December 27, 2014, respectively, and was included in accrued expenses and other liabilities in our consolidated balance sheets.

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

- **Income taxes.** The Company's effective tax rate is based on its income, statutory tax rates and tax planning opportunities available in the jurisdictions in which it operates. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in a future period. The Company evaluates the recoverability of these future tax benefits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates, including business forecasts and other projections of financial results over an extended period of time. In the event that the Company is not able to realize all or a portion of its deferred tax assets in the future, a valuation allowance is provided. The Company would recognize such amounts through a charge to income in the period in which that determination is made or when tax law changes are enacted. The Company had valuation allowances of $5.3 million at December 26, 2015 and $4.3 million at December 27, 2014. For further information regarding the Company's valuation allowances, see Note 14 to the consolidated financial statements.

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

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

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

At December 26, 2015, $36,571, or approximately 29% of our total debt, was subject to floating interest rates. A 10% fluctuation in the variable interest rates applicable to this floating rate debt would have an annual after-tax impact of approximately $8 thousand.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such terms are defined in Rules 13(a)-15(e) and 15(d)-15(e)) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of December 26, 2015, the date of the financial statements included in this Form 10-K (the “Evaluation Date”). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

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

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

Our management report on internal control over financial reporting and the report of our independent registered public accounting firm on our internal control over financial reporting are contained in Item 15(a)(1) of this report.

Item 9B. OTHER INFORMATION

None.

PART III.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The sections entitled "Information about Nominees for Director" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 3, 2016 are incorporated herein by reference. Information regarding the executive officers of the registrant is presented in PART I of this report.

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

Audit Committee Financial Expert

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

Audit Committee

We have a standing audit committee. At December 26, 2015, members of our audit committee are Michael L. Owens, Chairman, William F. Blue, Jr., Charles E. Brock, Walter W. Hubbard, Lowry F. Kline, Hilda W. Murray and John W. Murrey, III.

Item 11. EXECUTIVE COMPENSATION

The sections entitled "Compensation Discussion and Analysis", "Executive Compensation Information" and "Director Compensation" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 3, 2016 are incorporated herein by reference.

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

The section entitled "Principal Shareholders", as well as the beneficial ownership table (and accompanying notes), in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 3, 2016 are incorporated herein by reference.

Equity Compensation Plan Information as of December 26, 2015

The following table sets forth information as to our equity compensation plans as of the end of the 2015 fiscal year:

Plan Category	(a) Number of securities to be issued upon exercise of the outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity Compensation Plans approved by security holders	194,532 (1)	$ 6.10 (2)	430,957

(1) Includes the options to purchase 103,500 shares of Common Stock under our 2006 Stock Awards Plan and 91,032 Performance Units issued under the Directors Stock Plan, each unit being equivalent to one share of Common Stock. Does not include shares of Common Stock issued but not vested pursuant to outstanding restricted stock awards.

(2) Includes the aggregate weighted-average of (i) the exercise price per share for outstanding options to purchase 103,500 shares of Common Stock under our 2006 Stock Awards Plan and (ii) the price per share of the Common Stock on the grant date for each of 91,032 Performance Units issued under the Directors' Stock Plan (each unit equivalent to one share of Common Stock).

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

The section entitled "Certain Transactions Between the Company and Directors and Officers" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held May 3, 2016 is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The section entitled "Audit Fees Discussion" in the Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held May 3, 2016 is incorporated herein by reference.

PART IV.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

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

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

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

SIGNATURES

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

Date: March 9, 2016	The Dixie Group, Inc.
	/s/ DANIEL K. FRIERSON
	By: Daniel K. Frierson
	Chairman of the Board and Chief Executive Officer

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

Signature	Capacity	Date
/s/ DANIEL K. FRIERSON Daniel K. Frierson	Chairman of the Board, Director and Chief Executive Officer	March 9, 2016
/s/ JON A. FAULKNER Jon A. Faulkner	Vice President, Chief Financial Officer	March 9, 2016
/s/ D. KENNEDY FRIERSON, JR. D. Kennedy Frierson, Jr.	Vice President, Chief Operating Officer and Director	March 9, 2016
/s/ WILLIAM F. BLUE, JR. William F. Blue, Jr.	Director	March 9, 2016
/s/ CHARLES E. BROCK Charles E. Brock	Director	March 9, 2016
/s/ WALTER W. HUBBARD Walter W. Hubbard	Director	March 9, 2016
/s/ LOWRY F. KLINE Lowry F. Kline	Director	March 9, 2016
/s/ HILDA S. MURRAY Hilda S. Murray	Director	March 9, 2016
/s/ JOHN W. MURREY, III John W. Murrey, III	Director	March 9, 2016
/s/ MICHAEL L. OWENS Michael L. Owens	Director	March 9, 2016

ANNUAL REPORT ON FORM 10-K

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

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 26, 2015

THE DIXIE GROUP, INC.

DALTON, GEORGIA

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

THE DIXIE GROUP, INC. AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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

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

Management's Report on Internal Control Over Financial Reporting

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

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures, as well as diverse interpretation of U. S. generally accepted accounting principles by accounting professionals. It is also possible that internal control over financial reporting can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. These inherent limitations are known features of the financial reporting process; therefore, while it is possible to design into the process safeguards to reduce such risk, it is not possible to eliminate all risk. Our internal control over financial reporting has been audited by Dixon Hughes Goodman LLP an independent registered public accounting firm, as stated in their report on internal control over financial reporting as of December 26, 2015.

Management, including our principal executive officer and principal financial officer, has used the criteria set forth in the report entitled *"Internal Control - Integrated Framework"* published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) to evaluate the effectiveness of its internal control over financial reporting. Management has concluded that its internal control over financial reporting was effective as of December 26, 2015, based on those criteria.

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

Jon A. Faulkner
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

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

We have audited The Dixie Group, Inc.'s (the "Company") internal control over financial reporting as of December 26, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

In our opinion, The Dixie Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 26, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Dixie Group, Inc. as of December 26, 2015 and December 27, 2014, and the related consolidated statements of statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the two years in the period ended December 26, 2015 and our report dated March 9, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
March 9, 2016

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of The Dixie Group, Inc. as of December 26, 2015 and December 27, 2014, and the related consolidated statements of statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the two years in the period ended December 26, 2015. Our audits also included the financial statement schedule for the each of the two years in the period ended December 26, 2015 listed in the Index at Item 15(a) 2. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Dixie Group, Inc. as of December 26, 2015 and December 27, 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 26, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financials statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Dixie Group, Inc.'s internal control over financial reporting as of December 26, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2016, expressed an unqualified opinion thereon.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
March 9, 2016

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity of The Dixie Group, Inc. for the year ended December 28, 2013. Our audit also included the financial statement schedule for the year ended December 28, 2013 listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of The Dixie Group, Inc. for the year ended December 28, 2013 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information for the year ended December 28, 2013 set forth therein.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 12, 2014, except for Note 21, as it relates to the year ended December 28, 2013, as to which the date is March 12, 2015

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

	December 26, 2015	December 27, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 281	$ 394
Receivables, net	50,806	50,524
Inventories	115,146	104,207
Prepaid expenses	3,362	5,970
TOTAL CURRENT ASSETS	169,595	161,095
PROPERTY, PLANT AND EQUIPMENT, NET	101,146	102,489
GOODWILL AND OTHER INTANGIBLES	6,461	6,766
OTHER ASSETS	21,016	20,097
TOTAL ASSETS	$ 298,218	$ 290,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 26,483	$ 22,108
Accrued expenses	34,338	29,307
Current portion of long-term debt	10,142	9,078
TOTAL CURRENT LIABILITIES	70,963	60,493
LONG-TERM DEBT	115,907	117,153
OTHER LONG-TERM LIABILITIES	20,544	19,824
TOTAL LIABILITIES	207,414	197,470
COMMITMENTS AND CONTINGENCIES (See Note 18)		
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 15,155,274 shares for 2015 and 15,007,423 shares for 2014	45,466	45,022
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 851,693 shares for 2015 and 764,191 shares for 2014	2,555	2,293
Additional paid-in capital	155,734	155,127
Accumulated deficit	(110,378)	(107,952)
Accumulated other comprehensive income (loss)	(2,573)	(1,513)
TOTAL STOCKHOLDERS' EQUITY	90,804	92,977
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 298,218	$ 290,447

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
NET SALES	**$ 422,483**	$ 406,588	$ 344,374
Cost of sales	**316,253**	311,091	258,804
GROSS PROFIT	**106,230**	95,497	85,570
Selling and administrative expenses	**100,422**	93,182	76,221
Other operating expense, net	**872**	904	494
Facility consolidation expenses	**2,946**	5,514	—
Impairment of assets	**—**	1,133	—
OPERATING INCOME (LOSS)	**1,990**	(5,236)	8,855
Interest expense	**4,935**	4,302	3,756
Other (income) expense, net	**47**	(154)	26
Gain on purchase of businesses	**—**	(11,110)	—
Refinancing expenses	**—**	—	94
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	**(2,992)**	1,726	4,979
Income tax provision (benefit)	**(714)**	1,053	(577)
INCOME (LOSS) FROM CONTINUING OPERATIONS	**(2,278)**	673	5,556
Loss from discontinued operations, net of tax	**(148)**	(608)	(266)
Loss on disposal of discontinued operations, net of tax	**—**	(1,467)	—
NET INCOME (LOSS)	**$ (2,426)**	$ (1,402)	$ 5,290
BASIC EARNINGS (LOSS) PER SHARE:			
Continuing operations	**$ (0.15)**	$ 0.03	$ 0.42
Discontinued operations	**(0.01)**	(0.04)	(0.02)
Disposal of discontinued operations	**0.00**	(0.10)	0.00
Net income (loss)	**$ (0.16)**	$ (0.11)	$ 0.40
BASIC SHARES OUTSTANDING	**15,536**	14,382	12,737
DILUTED EARNINGS (LOSS) PER SHARE:			
Continuing operations	**$ (0.15)**	$ 0.03	$ 0.42
Discontinued operations	**(0.01)**	(0.04)	(0.02)
Disposal of discontinued operations	**0.00**	(0.10)	0.00
Net income (loss)	**$ (0.16)**	$ (0.11)	$ 0.40
DILUTED SHARES OUTSTANDING	**15,536**	14,544	12,852
DIVIDENDS PER SHARE:			
Common Stock	**$ —**	$ —	$ —
Class B Common Stock	**—**	—	—

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
NET INCOME (LOSS)	**$ (2,426)**	$ (1,402)	$ 5,290
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized gain (loss) on interest rate swaps	**(2,410)**	(3,110)	381
Income taxes	**(916)**	(1,182)	145
Unrealized gain (loss) on interest rate swaps, net	**(1,494)**	(1,928)	236
Reclassification of loss into earnings from interest rate swaps (1)	**777**	372	284
Income taxes	**295**	141	108
Reclassification of loss into earnings from interest rate swaps, net	**482**	231	176
Amortization of unrealized loss on dedesignated interest rate swaps (1)	**—**	—	158
Income taxes	**—**	—	60
Amortization of unrealized loss on dedesignated interest rate swaps, net	**—**	—	98
Unrecognized net actuarial gain on postretirement benefit plans	**48**	67	32
Income taxes	**18**	26	12
Unrecognized net actuarial gain on postretirement benefit plans, net	**30**	41	20
Reclassification of net actuarial gain into earnings from postretirement benefit plans (2)	**(40)**	(31)	(35)
Income taxes	**(15)**	(12)	(13)
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	**(25)**	(19)	(22)
Reclassification of prior service credits into earnings from postretirement benefit plans (2)	**(86)**	(88)	(88)
Income taxes	**(33)**	(34)	(34)
Reclassification of prior service credits into earnings from postretirement benefit plans, net	**(53)**	(54)	(54)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(1,060)**	(1,729)	454
COMPREHENSIVE INCOME (LOSS)	**$ (3,486)**	$ (3,131)	$ 5,744

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

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations	**$ (2,278)**	$ 673	$ 5,556
Loss from discontinued operations	**(148)**	(608)	(266)
Loss on disposal of discontinued operations	**—**	(1,467)	—
Net income (loss)	**(2,426)**	(1,402)	5,290
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities, net of acquisitions:			
Depreciation and amortization -			
Continuing operations	**14,119**	12,850	10,230
Discontinued operations	**—**	59	32
Provision (benefit) for deferred income taxes	**(730)**	264	(1,037)
Net (gain) loss on property, plant and equipment disposals	**(114)**	11	195
Impairment of assets -			
Continuing operations	**—**	1,133	—
Discontinued operations	**—**	2,363	—
Gain on purchase of businesses	**—**	(11,110)	—
Stock-based compensation expense	**1,406**	1,195	847
Excess tax benefits from stock-based compensation	**(318)**	(379)	(151)
Bad debt expense	**146**	399	40
Write-off of deferred financing costs	**—**	—	94
Changes in operating assets and liabilities:			
Receivables	**(335)**	(1,686)	(11,519)
Inventories	**(10,939)**	743	(19,283)
Other current assets	**751**	679	(878)
Accounts payable and accrued expenses	**7,606**	(925)	11,642
Other operating assets and liabilities	**(557)**	(733)	(1,423)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**8,609**	3,461	(5,921)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sales of property, plant and equipment	**68**	473	48
Deposits on property, plant and equipment	**—**	(1,184)	—
Purchase of property, plant and equipment	**(6,826)**	(9,492)	(11,438)
Proceeds from sale of equity investment	**—**	870	—
Proceeds from sale of assets held for sale	**—**	5,501	—
Net cash paid in business acquisitions	**—**	(17,739)	(2,170)
NET CASH USED IN INVESTING ACTIVITIES	**(6,758)**	(21,571)	(13,560)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (payments) borrowings on revolving credit facility	**(2,328)**	(2,378)	25,152
Borrowings on notes payable - buildings	**6,290**	—	—
Payments on notes payable - buildings	**(705)**	(35)	(10,141)
Payments on notes payable related to acquisitions	**(1,840)**	(1,761)	(852)
Borrowings on notes payable - equipment and other	**1,923**	5,193	6,741
Payments on notes payable - equipment and other	**(4,387)**	(3,017)	(2,063)
Payments on capital leases	**(2,742)**	(1,539)	(688)
Change in outstanding checks in excess of cash	**1,816**	(2,683)	1,350
Proceeds from equity offering, net of issuance costs	**—**	24,559	—
Proceeds from exercise of stock options	**275**	192	190
Repurchases of Common Stock	**(584)**	(497)	(207)
Excess tax benefits from stock-based compensation	**318**	379	151
Payments for debt issuance costs	**—**	(164)	(388)

NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(1,964)**	18,249	19,245
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(113)**	139	(236)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**394**	255	491
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 281**	$ 394	$ 255

	Year Ended		
	December 26, 2015	December 27, 2014	December 28, 2013
SUPPLEMENTAL CASH FLOW INFORMATION:			
Equipment purchased under capital leases	**496**	10,078	1,865
Equipment purchased under notes payable	**2,850**	4,925	—
Deposits utilized on purchased equipment, net	**1,857**	—	—
Building purchased under notes payable	**—**	8,330	—
Assets acquired in acquisitions, net of cash acquired	**—**	36,649	8,062
Liabilities assumed in acquisitions	**—**	(6,397)	(836)
Note payable related to acquisition	**—**	—	(3,749)
Accrued consideration for working capital adjustment in acquisitions	**—**	(216)	(1,307)
Accrued consideration for holdbacks in acquisition	**—**	(887)	—
Deposits on property, plant & equipment financed	**—**	(965)	—
Accrued purchases of equipment	**200**	—	—
Shortfall of tax benefits from stock-based compensation	**(102)**	(607)	—
Note receivable on sale of equipment	**93**	—	—

See accompanying notes to the consolidated financial statements.

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

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 29, 2012	**$ 36,522**	**$ 2,858**	**$ 136,744**	**$ (111,840)**	**$ (238)**	**$ 64,046**
Common Stock issued - 50,464 shares	151	—	39	—	—	190
Repurchases of Common Stock - 38,815 shares	(116)	—	(91)	—	—	(207)
Restricted stock grants issued - 173,249 shares	346	174	(520)	—	—	—
Class B converted into Common Stock - 140,477 shares	421	(421)	—	—	—	—
Stock-based compensation expense	—	—	847	—	—	847
Excess tax benefits from stock-based compensation	—	—	151	—	—	151
Net income	—	—	—	5,290	—	5,290
Other comprehensive income	—	—	—	—	454	454
Balance at December 28, 2013	**37,324**	**2,611**	**137,170**	**(106,550)**	**216**	**70,771**
Common Stock issued - 30,952 shares	86	7	99	—	—	192
Common Stock issued under equity offering - 2,500,000 shares	7,500	—	17,059	—	—	24,559
Repurchases of Common Stock - 47,296 shares	(142)	—	(355)	—	—	(497)
Restricted stock grants issued - 101,315 shares	208	96	(304)	—	—	—
Restricted stock grants forfeited - 125,000 shares	(15)	(360)	375	—	—	—
Class B converted into Common Stock - 20,400 shares	61	(61)	—	—	—	—
Stock-based compensation expense	—	—	1,195	—	—	1,195
Excess tax benefits from stock-based compensation	—	—	(112)	—	—	(112)
Net loss	—	—	—	(1,402)	—	(1,402)
Other comprehensive loss	—	—	—	—	(1,729)	(1,729)
Balance at December 27, 2014	**45,022**	**2,293**	**155,127**	**(107,952)**	**(1,513)**	**92,977**
Common Stock issued - 53,372 shares	161	—	114	—	—	275
Common Stock issued under Directors' Stock Plan - 30,738	92	—	(92)	—	—	—
Repurchases of Common Stock - 64,304 shares	(193)	—	(391)	—	—	(584)
Restricted stock grants issued - 224,625 shares	326	347	(673)	—	—	—
Restricted stock grants forfeited - 9,078 shares	(27)	—	27	—	—	—
Class B converted into Common Stock - 28,459 shares	85	(85)	—	—	—	—
Stock-based compensation expense	—	—	1,406	—	—	1,406
Excess tax benefits from stock-based compensation	—	—	216	—	—	216
Net loss	—	—	—	(2,426)	—	(2,426)
Other comprehensive loss	—	—	—	—	(1,060)	(1,060)
Balance at December 26, 2015	**$ 45,466**	**$ 2,555**	**$ 155,734**	**$ (110,378)**	**$ (2,573)**	**$ 90,804**

See accompanying notes to the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Company's businesses consist principally of marketing, manufacturing and selling finished carpet and rugs. The Company has one reportable segment, carpet and rug manufacturing. The Company sells carpet and rug products in both residential and commercial applications. Additionally, the Company provides manufacturing support to its carpet businesses through its separate processing operations.

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

Fiscal Year

The Company ends its fiscal year on the last Saturday of December. All references herein to "2015," "2014," and "2013," mean the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013, respectively. All years presented contained 52 weeks.

Reclassifications

The Company reclassified certain amounts in 2014 and 2013 to conform to the 2015 presentation.

Discontinued Operations

The financial statements separately report discontinued operations and the results of continuing operations (See Note 21).

Cash and Cash Equivalents

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

Market Risk

The Company sells carpet to floorcovering retailers, the interior design, architectural and specifier communities and supplies carpet yarn and carpet dyeing and finishing services to certain manufacturers. The Company's customers are located principally throughout the United States. As a percentage of net sales, one customer accounted for approximately 9% in 2015, 9% in 2014 and 13% in 2013. No other customer accounted for more than 10% of net sales in 2015, 2014 or 2013, nor did the Company make a significant amount of sales to foreign countries during 2015, 2014 or 2013.

Credit Risk

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

Inventories

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

Property, Plant and Equipment

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

Impairment of Long-Lived Assets

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

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over the fair value of identified net assets acquired in business combinations. The Company's goodwill is tested for impairment annually in the fourth quarter of each year or more frequently if events or circumstances indicate that the carrying value of goodwill associated with a reporting unit may not be fully recoverable.

The first step in the goodwill assessment process is to identify potential goodwill impairments and involves a comparison of the carrying value of a reporting unit, including goodwill, to the fair value of the reporting unit. The Company has identified its reporting units as its residential floorcovering business and commercial floorcovering business. For this purpose, the Company estimates fair value of the reporting unit based on expected current and future cash flows discounted at the Company's weighted-average cost of capital ("WACC"). Such an estimate necessarily involves judgments and assumptions concerning, among other matters, future sales and operating margins, as well as interest rates and other financial factors used to calculate the WACC.

If an impairment is indicated in the first step of the assessment, a second step in the assessment is performed by comparing the "implied fair value" of the Company's reporting units' goodwill with the carrying value of the reporting units' goodwill. For this purpose, the "implied fair value" of goodwill for each reporting unit that has goodwill associated with its operations is determined in the same manner as the amount of goodwill is determined in a business combination. (See Note 7).

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

Customer Claims and Product Warranties

The Company generally provides product warranties related to manufacturing defects and specific performance standards for its products. At the time sales are recorded, the Company records reserves for the estimated costs of defective products and failure of its products to meet applicable performance standards. The level of reserves the Company establishes is based primarily upon historical experience, including the level of sales and evaluation of pending claims.

Self-Insured Benefit Programs

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

Income Taxes

The Company recognizes deferred income tax assets and liabilities for the future tax consequences of the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company recognizes interest and penalties related to uncertain tax positions, if any, in income tax expense.

Derivative Financial Instruments

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

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

Treasury Stock

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

Revenue Recognition

Revenues, including shipping and handling amounts, are recognized when the following criteria are met: there is persuasive evidence that a sales agreement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed or determinable, and collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title to the goods and assumes the risks and rewards of ownership, which is generally on the date of shipment. At the time revenue is recognized, the Company records a provision for the estimated amount of future returns based primarily on historical experience and any known trends or conditions that exist at the time revenue is recognized. Revenues are recorded net of taxes collected from customers.

Advertising Costs and Vendor Consideration

The Company engages in promotional and advertising programs that include rebates, discounts, points and cooperative advertising programs. Expenses relating to these programs are charged to results of operations during the period of the related benefits. These arrangements do not require significant estimates of costs. Substantially all such expenses are recorded as a deduction from sales. The cost of cooperative advertising programs is recorded as selling and administrative expenses when the Company can identify a tangible benefit associated with the program, and can reasonably estimate that the fair value of the benefit is equal to or greater than its cost. The amount of advertising and promotion expenses included in selling and administrative expenses was not significant for the years 2015, 2014, or 2013.

Cost of Sales

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

Selling and Administrative Expenses

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

Operating Leases

Rent is expensed over the lease period, including the effect of any rent holiday and rent escalation provisions, which effectively amortizes the rent holidays and rent escalations on a straight-line basis over the lease period. Leasehold improvements are amortized over the shorter of their economic lives or the lease term, excluding renewal options. Any leasehold improvement made by the Company and funded by the lessor is treated as a leasehold improvement and amortized over the shorter of its economic life or the lease term. Any funding provided by the lessor for such improvements is treated as deferred costs and amortized over the lease period.

Stock-Based Compensation

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity or liability instrument issued. Restricted stock grants with pro-rata vesting are expensed using the straight-line method. (Terms of the Company's awards are specified in Note 16).

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-08, *"Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity"*. The ASU was issued to change the requirements for reporting discontinued operations and to enhance the disclosures in this area. The ASU requires a disposal of a component of an entity or a group of components of an entity to be reported in discontinued operations only if the disposal represents a strategic shift and will have a major effect on an entity's operations and financial results. The ASU was effective prospectively for disposals of a component in interim and annual reporting periods beginning after December 15, 2014. The adoption of this ASU did not have a material effect on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". The ASU requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, *"Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date."* The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

Management has not yet selected a transition method and is currently evaluating the impact of the pending adoption of this ASU on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-15, *"Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern."* The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03, "*Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.*" The amendments in ASU 2015-03 require entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company early adopted this ASU and the impact of the adoption resulted in the reclassification of unamortized debt issuance costs of $1,056 in 2014 from other assets to long-term debt on the Company's Consolidated Balance Sheets.

In April 2015, the FASB issued ASU No. 2015-05, *"Customer's Accounting for Fees Paid in a Cloud Computing Arrangement."* ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. The Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

In July 2015, the FASB issued ASU No. 2015-11, "*Inventory (Topic 330): Simplifying the Measurement of Inventory*." Topic 330, *Inventory*, currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The amendments do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company measures substantially all inventories using the LIFO method; therefore, the Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

In September 2015, the FASB issued ASU No. 2015-16, "*Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.*" The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, rather than retrospectively adjusting amounts previously reported. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. Effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

(amounts in thousands, except per share data)

In November 2015, the FASB issued ASU 2015-17, *"Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,"* which requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. The ASU is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company early adopted ASU 2015-17 and applied it retrospectively to all periods presented. In 2014, the Company presented a current deferred tax asset of $12,722 and a long-term deferred tax liability of $9,376. Upon adoption of the standard, the Company presented a non-current deferred tax asset of $3,346 in the Company's Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, *"Financial Instruments?Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,"* which addresses the recognition, measurement, presentation and disclosure of financial assets and liabilities. The ASU primarily affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, *"Leases - (Topic 842)"* which requires the Company to present right-of-use assets and lease liabilities on the Company's balance sheet. The new guidance will be effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the impact of the adoption of this ASU on the Company's Consolidated Financial Statements.

NOTE 3 - RECEIVABLES, NET

Receivables are summarized as follows:

	2015	2014
Customers, trade	**$ 46,110**	$ 46,422
Other receivables	**5,166**	4,552
Gross receivables	**51,276**	50,974
Less allowance for doubtful accounts	**(470)**	(450)
Receivables, net	**$ 50,806**	$ 50,524

Bad debt expense was $146 in 2015, $399 in 2014, and $40 in 2013.

NOTE 4 - INVENTORIES

Inventories are summarized as follows:

	2015	2014
Raw materials	**$ 46,164**	$ 40,649
Work-in-process	**21,306**	19,976
Finished goods	**58,037**	57,913
Supplies and other	**192**	126
LIFO reserve	**(10,553)**	(14,457)
Inventories	**$ 115,146**	$ 104,207

(amounts in thousands, except per share data)

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

		2015		2014
Land and improvements	**$**	**7,610**	$	7,327
Buildings and improvements		**61,396**		61,557
Machinery and equipment		**174,636**		170,620
Assets under construction		**2,819**		966
		246,461		240,470
Accumulated depreciation		**(145,315)**		(137,981)
Property, plant and equipment, net	**$**	**101,146**	$	102,489

Depreciation of property, plant and equipment, including amounts for capital leases, totaled $13,525 in 2015, $12,212 in 2014 and $9,834 in 2013.

NOTE 6 - ACQUISITIONS

2014 Acquisitions

Atlas Carpet Mills, Inc.

Effective March 19, 2014, the Company acquired all outstanding stock of Atlas Carpet Mills, Inc. ("Atlas") for total purchase price consideration of $18,759, including a cash payment of $16,543, accrued consideration relating to holdbacks for certain inventories and customer claims of $923 and accrued consideration for a working capital adjustment of $1,293. The Company financed the transaction with availability under its amended credit facility. The Company incurred direct acquisition costs of approximately $645 related to this acquisition. These incremental costs are classified as selling and administrative expenses in the Company's Consolidated Statements of Operations.

Atlas is a California-based manufacturer and marketer of high-end commercial broadloom and tile carpeting serving soft floorcovering markets. Atlas has a strong reputation for exceptional design, quality and service. This brand is sold through the existing Atlas sales force and broadens the Company's product offerings for commercial applications along with the Company's Masland Contract brand.

The acquisition was accounted for as a business combination which generally requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The acquisition did not represent a significant business combination. The fair value of the net assets acquired exceeded the purchase price resulting in a bargain purchase of $10,937 ($6,781 after tax). The following table summarizes the fair values of the assets acquired and liabilities assumed as of March 19, 2014 based on the purchase price allocation. The components of the purchase price allocation consisted of the following:

(amounts in thousands, except per share data)

Cash	$	2,466
Receivables		4,998
Inventories		10,981
Other current assets		797
Assets held for sale		5,152
Property, plant and equipment		6,716
Finite intangible asset		3,300
Other assets		859
Accounts payable		(2,286)
Accrued expenses		(2,883)
Capital lease obligation		(404)
Fair value of net assets acquired	$	29,696
Total consideration		18,759
Gain on purchase of business	$	(10,937)

The Company believes that several factors were significant in the recognition of a gain from the acquisition of Atlas. Atlas had higher cost of dyeing due to the lack of capacity utilization and therefore needed to lower costs by combining dye facilities with another operation. In addition, Atlas had a higher cost of modular carpet tile manufacturing due to outsourcing the tile manufacturing operations. Therefore, Atlas would have had to make significant investments in product and manufacturing equipment to be competitive in the modular carpet manufacturing business. Finally, the Seller had the desire to see Atlas operated as an independent brand and organization in the future. All of these objectives were achieved by combining Atlas with the Company in a mutually advantageous relationship.

The Company determined that it was impracticable to provide comparative pro forma financial information related to the acquisition. Significant estimates of amounts to be included in pro forma financial information would be required and subject to an inordinate level of subjectivity. Net sales related to Atlas included in the Company's Consolidated Statement of Operations from the date of the acquisition to December 27, 2014 was $37,620. Net sales for 2015 for Atlas was $44,247.

Burtco Enterprises, Inc.

Effective September 22, 2014, the Company acquired certain assets and assumed certain liabilities of Burtco Enterprises, Inc. ("Burtco") for total purchase price consideration of $2,549, including a cash payment of $2,430 and accrued consideration for a working capital adjustment of $119. The Company incurred direct acquisition costs of approximately $101 related to this acquisition. These incremental costs are classified as selling and administrative expenses in the Company's Consolidated Statements of Operations.

Since 1979, Burtco has created high-quality, custom-crafted carpet designed for the hospitality industry. Burtco manufactures both wool and solution-dyed computer yarn placement (CYP) products that are used in public spaces and hotel guest rooms. These products broaden the product offerings for commercial applications under the Company's Masland Contract brand.

The acquisition was accounted for as a business combination which generally requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The acquisition did not represent a significant business combination. The fair value of the net assets acquired totaled $2,722. The fair value of the net assets acquired exceeded the purchase price resulting in a pre-tax bargain purchase of $173.

2013 Acquisition

Robertex Associates, Inc.

On June 30, 2013, the Company acquired Robertex Associates, Inc. ("Robertex") from Robert P. Rothman. The Company acquired all the outstanding shares of capital stock of Robertex for an aggregate purchase price of $7,334, which included cash of $2,278, a seller-financed note of $3,749 and an accrued contingent liability of $1,307. The seller-financed note consists of five annual payments of principal and interest. The accrued contingent liability is payable in five annual payments based upon incremental growth in gross margins of selected products for five years subsequent to the acquisition. The Company has incurred direct incremental costs of approximately $350 related to this acquisition. These incremental costs are classified in selling and administrative expenses in the Company's Consolidated Statements of Operations. This acquisition is designed to increase the Company's market share in the wool markets it currently serves. Robertex produces wool floorcovering products.

(amounts in thousands, except per share data)

The acquisition was accounted for as a business combination which requires, among other things, that assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The acquisition did not represent a material business combination. The following table summarizes the estimates of fair values of the assets acquired and liabilities assumed as of June 30, 2013 based on the purchase price allocation. The components of the purchase price allocation consisted of the following:

Cash	$	108
Accounts receivable		115
Inventory		2,139
Other current assets		14
Property, plant and equipment		1,863
Finite intangible assets		2,222
Goodwill		1,709
Accounts payable		(643)
Accrued expenses		(193)
Total purchase price	$	7,334

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill is $3,389 as of December 26, 2015 and December 27, 2014. The following table represents the details of the Company's intangible assets subject to amortization:

	2015			2014		
	Gross	**Accumulated Amortization**	**Net**	Gross	Accumulated Amortization	Net
Customer relationships	**$ 208**	**$ (48)**	**$ 160**	$ 208	$ (32)	$ 176
Rug design coding	**144**	**(43)**	**101**	144	(29)	115
Trade names	**3,300**	**(489)**	**2,811**	3,300	(214)	3,086
Total	**$ 3,652**	**$ (580)**	**$ 3,072**	$ 3,652	$ (275)	$ 3,377

During 2014, the Company discontinued its Carousel operations which resulted in the impairment of customer relationships of $786 and trade names of $1,271 (See Note 21). These amounts have been included in the loss on disposal of discontinued operations in the Company's Consolidated Statements of Operations.

Amortization expense for intangible assets is summarized as follows:

	2015	2014	2013
Customer relationships	**$ 16**	$ 59	$ 40
Rug design coding	**14**	15	14
Trade names	**275**	277	34
Amortization expense	**$ 305**	$ 351	$ 88

(amounts in thousands, except per share data)

The estimated future amortization expense during each of the next five fiscal years is as follows:

Year		Amount
2016	$	305
2017		305
2018		305
2019		305
2020		305

NOTE 8 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

		2015		2014
Compensation and benefits (1)	**$**	**9,173**	$	8,894
Provision for customer rebates, claims and allowances		**8,995**		7,960
Advanced customer deposits		**6,674**		3,501
Outstanding checks in excess of cash		**3,006**		1,190
Other		**6,490**		7,762
Accrued expenses	**$**	**34,338**	$	29,307

(1) Includes a liability related to the Company's self-insured Workers' Compensation program. This program is collateralized by letters of credit in the aggregate amount of $1,847.

NOTE 9 - PRODUCT WARRANTY RESERVES

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

		2015		2014
Product warranty reserve at beginning of period	**$**	**2,214**	$	1,850
Warranty reserve assumed in business combination		**—**		209
Warranty liabilities accrued		**6,201**		4,720
Warranty liabilities settled		**(8,695)**		(5,102)
Changes for pre-existing warranty liabilities		**2,439**		537
Product warranty reserve at end of period	**$**	**2,159**	$	2,214

(amounts in thousands, except per share data)

NOTE 10 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2015	2014
Revolving credit facility	**$ 80,569**	$ 82,897
Notes payable - buildings	**13,881**	8,295
Acquisition note payable - Development Authority of Gordon County	**2,314**	3,413
Acquisition note payable - Robertex	**2,321**	3,062
Notes payable - equipment and other	**15,008**	14,623
Capital lease obligations	**12,751**	14,998
Deferred financing costs, net	**(795)**	(1,057)
Total long-term debt	**126,049**	126,231
Less: current portion of long-term debt	**(10,142)**	(9,078)
Long-term debt	**$ 115,907**	$ 117,153

Revolving Credit Facility

The revolving credit facility provides for a maximum of $150,000 of revolving credit, subject to borrowing base availability. The borrowing base is currently equal to specified percentages of the Company's eligible accounts receivable, inventories, fixed assets and real property less reserves established, from time to time, by the administrative agent under the facility. The revolving credit facility matures on March 14, 2019. The revolving credit facility is secured by a first priority lien on substantially all of the Company's assets.

At the Company's election, advances of the revolving credit facility bear interest at annual rates equal to either (a) LIBOR for 1, 2 or 3 month periods, as selected by the Company, plus an applicable margin of either 1.50%, 1.75% or 2.00%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate plus 1.00%, plus an applicable margin of either 0.50%, 0.75% or 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases. The Company pays an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.375% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 2.23% at December 26, 2015 and 2.29% at December 27, 2014.

The revolving credit facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations. The revolving credit facility requires the Company to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that borrowing availability was less than $16,500. As of December 26, 2015, the unused borrowing availability under the revolving credit facility was $39,821. As of December 26, 2015, the Company's fixed charge coverage ratio was less than 1.1 to 1.0, accordingly, the unused availability accessible by the Company is the amount above $16,500.

Notes Payable - Buildings

On November 7, 2014, the Company entered into a ten-year $8,330 note payable to purchase a previously leased distribution center in Adairsville, Georgia. The note payable is scheduled to mature on November 7, 2024 and is secured by the distribution center. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of $35, plus interest calculated on the declining balance of the note, with a final payment of $4,165 due on maturity. In addition, the Company entered into an interest rate swap with an amortizing notional amount effective November 7, 2014 which effectively fixes the interest rate at 4.50%.

On January 23, 2015, the Company entered into a ten-year $6,290 note payable to finance an owned facility in Saraland, Alabama. The note payable is scheduled to mature on January 7, 2025 and is secured by the facility. The note payable bears interest at a variable rate equal to one-month LIBOR plus 2.0% and is payable in equal monthly installments of principal of $26, plus interest calculated on the declining balance of the note, with a final payment of $3,145 due on maturity. In addition, the Company entered into a forward interest rate swap with an amortizing notional amount effective January 7, 2017 which effectively fixes the interest rate at 4.30%.

(amounts in thousands, except per share data)

Acquisition Note Payable - Development Authority of Gordon County

On November 2, 2012, the Company signed a 6.00% seller-financed note of $5,500 with Lineage PCR, Inc. (“Lineage”) related to the acquisition of a continuous carpet dyeing facility in Calhoun, Georgia. Effective December 28, 2012, through a series of agreements between the Company, the Development Authority of Gordon County, Georgia (the “Authority”) and Lineage, obligations with identical payment terms as the original note to Lineage became payment obligations to the Authority. These transactions were consummated in order to provide a tax abatement to the Company related to the real estate and equipment at this facility. The tax abatement plan provides for abatement for certain components of the real and personal property taxes for up to ten years. At any time, the Company has the option to pay off the obligation, plus a nominal amount. The debt to the Authority bears interest at 6.00% and is payable in equal monthly installments of principal and interest of $106 over 57 months.

Acquisition Note Payable - Robertex

On July 1, 2013, the Company signed a 4.50% seller-financed note of $4,000, which was recorded at a fair value of $3,749, with Robert P. Rothman related to the acquisition of Robertex Associates, LLC ("Robertex") in Calhoun, Georgia. The note is payable in five annual installments of principal of $800 plus interest. The note matures June 30, 2018.

Notes Payable - Equipment and Other

The Company's equipment financing notes have terms ranging from 3 to 7 years, bear interest ranging from 1.00% to 6.86% and are due in monthly or quarterly installments through their maturity dates. In connection with certain of the notes, the Company is required to maintain funds in a separate escrow account. At December 26, 2015 and December 27, 2014, the balances held were $0 and $574, respectively, and are included in other current assets on the Company’s Consolidated Balance Sheets. The Company's equipment financing notes are secured by the specific equipment financed and do not contain any financial covenants.

Capital Lease Obligations

The Company's capitalized lease obligations have terms ranging from 3 to 7 years, bear interest ranging from 2.90% to 7.37% and are due in monthly or quarterly installments through their maturity dates. The Company's capital lease obligations are secured by the specific equipment leased.

Interest Payments and Debt Maturities

Interest payments for continuing operations were $4,449 in 2015, $3,757 in 2014, and $3,067 in 2013. Maturities of long-term debt for periods following December 26, 2015 are as follows:

	Long-Term Debt	Capital Leases (See Note 18)	Total
2016	$ 7,124	$ 3,018	$ 10,142
2017	5,687	3,044	8,731
2018	4,584	2,804	7,388
2019	83,330	1,623	84,953
2020	1,866	1,362	3,228
Thereafter	11,501	901	12,402
Total maturities of long-term debt	$ 114,092	$ 12,752	$ 126,844
Deferred financing costs, net	(795)	—	(795)
Total long-term debt	$ 113,297	$ 12,752	$ 126,049

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

(amounts in thousands, except per share data)

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

The following table reflects the fair values of assets and liabilities measured and recognized at fair value on a recurring basis on the Company's Consolidated Balance Sheets as of December 26, 2015 and December 27, 2014:

	2015	2014	Fair Value Hierarchy Level
Assets:			
Interest rate swaps (1)	$ —	$ 34	Level 2
Liabilities:			
Interest rate swaps (1)	$ 4,689	$ 3,040	Level 2
Contingent consideration (2)	584	1,855	Level 3

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

(2) As a result of the Colormaster and Crown Rug acquisitions in 2012 and the Robertex acquisition in 2013, the Company recorded contingent consideration liabilities at fair value. These fair value measurements were based on calculations that utilize significant inputs not observable in the market including forecasted revenues, gross margins and discount rates and thus represent Level 3 measurements. These fair value measurements are directly impacted by the Company's estimates. Accordingly, if the estimates are higher or lower than the estimates within the fair value measurement, the Company would record additional charges or benefits, respectively, as appropriate.

Changes in the fair value measurements using significant unobservable inputs (Level 3) during the years ending December 26, 2015 and December 27, 2014 were as follows:

	2015	2014
Beginning balance	$ 1,855	$ 2,751
Fair value adjustments	(657)	(625)
Settlements	(614)	(271)
Ending balance	$ 584	$ 1,855

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during 2015 or 2014. If any, the Company recognizes the transfers in or transfers out at the end of the reporting period.

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

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 281	$ 281	$ 394	$ 394
Notes receivable, including current portion	282	282	282	282
Interest rate swaps	—	—	34	34
Financial Liabilities:				
Long-term debt and capital leases, including current portion	126,049	123,318	126,231	118,719
Interest rate swaps	4,689	4,689	3,040	3,040

The fair values of the Company's long-term debt and capital leases were estimated using market rates the Company believes would be available for similar types of financial instruments and represent level 2 measurements. The fair values of cash and cash equivalents and notes receivable approximate their carrying amounts due to the short-term nature of the financial instruments.

(amounts in thousands, except per share data)

NOTE 12 - DERIVATIVES

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

The following is a summary of the Company's interest rate swaps as of December 26, 2015:

Type	Notional Amount		Effective Date	Fixed Rate	Variable Rate
Interest rate swap	$ 10,000		October 3, 2011 through September 1, 2016	1.330%	1 Month LIBOR
Interest rate swap	$ 10,000		March 1, 2013 through September 1, 2016	1.620%	1 Month LIBOR
Interest rate swap	$ 5,000		June 1, 2013 through September 1, 2016	1.700%	1 Month LIBOR
Interest rate swap	$ 25,000		September 1, 2016 through September 1, 2021	3.105%	1 Month LIBOR
Interest rate swap	$ 25,000		September 1, 2015 through September 1, 2021	3.304%	1 Month LIBOR
Interest rate swap	$ 7,879	(1)	November 7, 2014 through November 7, 2024	4.500%	1 Month LIBOR
Interest rate swap	$ 5,661	(2)	January 7, 2017 through January 7, 2025	4.300%	1 Month LIBOR

(1) Interest rate swap notional amount amortizes by $35 monthly to maturity.
(2) Interest rate swap notional amount amortizes by $26 monthly to maturity.

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

	Location on Consolidated Balance Sheets	Fair Value 2015	Fair Value 2014
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps	Other Assets	**$ —**	$ 34
Total Asset Derivatives		**$ —**	$ 34
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Accrued Expenses	**$ 1,159**	$ 650
Interest rate swaps, long-term portion	Other Long-Term Liabilities	**3,530**	2,390
Total Liability Derivatives		**$ 4,689**	$ 3,040

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

	Amount of Gain or (Loss) Recognized in AOCIL on the effective portion of the Derivative		
	2015	2014	2013
Derivatives designated as hedging instruments:			
Cash flow hedges - interest rate swaps	**$ (2,410)**	$ (3,110)	$ 381

	Amount of Gain or (Loss) Reclassified from AOCIL on the effective portion into Income (1)(2)		
	2015	2014	2013
Derivatives designated as hedging instruments:			
Cash flow hedges - interest rate swaps	**$ (777)**	$ (372)	$ (442)

(1) The amount of gain (loss) reclassified from AOCIL is included in interest expense on the Company's Consolidated Statements of Operations.
(2) The amount of loss expected to be reclassified from AOCIL into earnings during the next 12 months subsequent to fiscal 2015 is $1,159.

(amounts in thousands, except per share data)

The amount of gain (loss) recognized in income on the ineffective portion of interest rate swaps, if any, is included in other (income) expense, net on the Company's Consolidated Statements of Operations. There was no ineffective portion for the periods presented.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company sponsors a 401(k) defined contribution plan that covers a significant portion, or approximately 86% of the Company's associates. This plan includes a mandatory Company match on the first 1% of participants' contributions. The Company matches the next 2% of participants' contributions if the Company meets prescribed earnings levels. The plan also provides for additional Company contributions above the 3% level if the Company attains certain additional performance targets. Matching contribution expense for this 401(k) plan was $454 in 2015, $382 in 2014 and $610 in 2013.

Additionally, the Company sponsors a 401(k) defined contribution plan that covers those associates at one facility who are under a collective-bargaining agreement, or approximately 14% of the Company's associates. Under this plan, the Company generally matches participants' contributions, on a sliding scale, up to a maximum of 2.75% of the participant's earnings. Matching contribution expense for the collective-bargaining 401(k) plan was $82 in 2015, $87 in 2014 and $86 in 2013.

Non-Qualified Retirement Savings Plan

The Company sponsors a non-qualified retirement savings plan that allows eligible associates to defer a specified percentage of their compensation. The obligations owed to participants under this plan were $14,155 at December 26, 2015 and $14,331 at December 27, 2014 and are included in other long-term liabilities in the Company's Consolidated Balance Sheets. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company utilizes a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the plan. Amounts are invested in Company-owned life insurance in the Rabbi Trust and the cash surrender value of the policies was $14,981 at December 26, 2015 and $15,316 at December 27, 2014 and is included in other assets in the Company's Consolidated Balance Sheets.

Multi-Employer Pension Plan

The Company contributes to a multi-employer pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees.These union-represented employees represented approximately 14% of the Company's total employees. The risks of participating in multi-employer plans are different from single-employer plans. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. If the Company chooses to stop participating in the multi-employer plan, the Company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in the multi-employer pension plan for 2015 is provided in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three digit plan number. The most recent Pension Protection Act (PPA) zone status available in 2015 and 2014 is for the plan's year-end at 2014 and 2013, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates a plan for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented (1)	Contributions (2)			Surcharge Imposed (1)	Expiration Date of Collective-Bargaining Agreement
		2015	2014		2015	2014	2013		
The Pension Plan of the National Retirement Fund	13-6130178 - 001	Red	Red	Implemented	$ 268	$ 279	$ 279	Yes	6/3/2017

(1) The collective-bargaining agreement requires the Company to contribute to the plan at the rate of $0.47 per compensated hour for each covered employee. The Company will make additional contributions, as mandated by law, in accordance with the fund's 2010 Rehabilitation Plan which required a surcharge equal to $0.03 per hour (from $0.47 to $0.50) effective June 1, 2014 to May 31, 2015 and a surcharge equal to $0.03 per hour (from $0.50 to $0.53) effective June 1, 2015 to May 31, 2016, respectively. Based upon current employment and benefit levels, the Company's contributions to the multi-employer pension plan are expected to be approximately $281 for 2016.

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

(amounts in thousands, except per share data)

Postretirement Plans

The Company inherited a legacy postretirement benefit plan that provides life insurance to a limited number of associates as a result of a prior acquisition. The Company also sponsors a postretirement benefit plan that provides medical insurance for a limited number of associates who retired prior to January 1, 2003 and life insurance to a limited number of associates upon retirement as part of a collective bargaining agreement.

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

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 315**	$ 596
Service cost	**7**	7
Interest cost	**18**	22
Participant contributions	**2**	12
Actuarial gain	**(48)**	(317)
Benefits paid	**(5)**	(5)
Medicare Part D subsidy	**1**	—
Benefit obligation at end of year	**290**	315
Change in plan assets:		
Fair value of plan assets at beginning of year	**—**	—
Employer contributions	**2**	(7)
Participant contributions	**2**	12
Benefits paid	**(5)**	(5)
Medicare Part D subsidy	**1**	—
Fair value of plan assets at end of year	**—**	—
Unfunded amount	**$ (290)**	$ (315)

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

	2015	2014
Accrued expenses	**$ 12**	$ 15
Other long-term liabilities	**278**	300
Total liability	**$ 290**	$ 315

Benefits expected to be paid on behalf of associates for postretirement benefit plans during the period 2016 through 2025 are summarized as follows:

Years	Postretirement Plans
2016	$ 12
2017	11
2018	11
2019	11
2020	11
2021 - 2025	61

(amounts in thousands, except per share data)

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

	2015	2014
Weighted-average assumptions as of year-end:		
Discount rate (benefit obligations)	**4.25%**	4.73%

Assumptions used and related effects of health care cost are summarized as follows:

	2015	2014
Health care cost trend assumed for next year	**8.00%**	8.00%
Rate to which the cost trend is assumed to decline	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate	**2017**	2016

The effect of a 1% change in the health care cost trend on the Company's postretirement benefit plans is summarized as follows:

	2015		2014	
	1% Increase	**1% Decrease**	1% Increase	1% Decrease
Accumulated postretirement benefit obligation	**$ —**	**$ —**	$ 2	$ (2)

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

	2015	2014	2013
Service cost	**$ 7**	$ 7	$ 7
Interest cost	**18**	22	23
Amortization of prior service credits	**(86)**	(88)	(88)
Recognized net actuarial gains	**(40)**	(31)	(35)
Settlement gain	**—**	(251)	(105)
Net periodic benefit cost (credit)	**$ (101)**	$ (341)	$ (198)

Pre-tax amounts included in AOCIL for the Company's postretirement benefit plans at 2015 are summarized as follows:

	Postretirement Benefit Plans	
	Balance at 2015	2016 Expected Amortization
Prior service credits	**$ (16)**	$ (4)
Unrecognized actuarial gains	**(435)**	(40)
Totals	**$ (451)**	$ (44)

(amounts in thousands, except per share data)

NOTE 14 - INCOME TAXES

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

	2015	2014	2013
Current			
Federal	**$ 277**	$ 1,081	$ 282
State	**(261)**	(292)	178
Total current	**16**	789	460
Deferred			
Federal	**(641)**	232	(955)
State	**(89)**	32	(82)
Total deferred	**(730)**	264	(1,037)
Income tax provision (benefit)	**$ (714)**	$ 1,053	$ (577)

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

	2015	2014	2013
Federal statutory rate	**35%**	35%	35%
Statutory rate applied to income (loss) from continuing operations before taxes	**$ (1,047)**	$ 604	$ 1,743
Plus state income taxes, net of federal tax effect	**(227)**	(169)	96
Total statutory provision (benefit)	**(1,274)**	435	1,839
Increase (decrease) attributable to:			
Nondeductible meals and entertainment	**147**	143	112
Domestic production activities deduction	**—**	112	(208)
Federal tax credits	**(441)**	(483)	(1,612)
Reserve for uncertain tax positions	**35**	109	286
Goodwill	**(124)**	(124)	283
Change in valuation allowance	**977**	569	(1,190)
Non-taxable insurance proceeds	**—**	—	(71)
Stock-based compensation	**—**	117	—
Other items	**(34)**	175	(16)
Income tax provision (benefit)	**$ (714)**	$ 1,053	$ (577)

In 2015, the Company increased valuation allowances by $977 related to state income tax loss carryforwards and state income tax credit carryforwards to reflect the estimated amount of deferred tax assets that may not be realized during the carryforward periods.

In 2014, the Company increased valuation allowances by $569 related to state income tax loss carryforwards and credit carryforwards. This was primarily the result of actual 2014 pretax earnings being significantly less that the 2014 forecasted earnings used in the 2013 analysis, a change in California apportionment rules that limit the utilization of net operating loss and credit carryforwards in future years and a projected tax loss in 2014 that resulted in the need to record a valuation allowance against that loss in separate company reporting states.

During 2013, the Company reversed $1,190 of previously established reserves related to state income tax loss carryforwards and state income tax credit carryforwards. The reversal of the reserves was based on a number of factors including current and future earnings assumptions by taxing jurisdiction. Additionally, 2013 included certain tax credits of approximately $520 related to 2009 - 2011 determined to be available for utilization and $304 of 2012 research and development tax credits that could not be recognized until the extension of the credit was approved by Congress in 2013.

Income tax payments, net of income tax refunds received for continuing and discontinued operations were $48 in 2015, $345 in 2014 and $58 in 2013.

(amounts in thousands, except per share data)

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

	2015	2014
Deferred tax assets:		
Inventories	**$ 3,927**	$ 2,842
Retirement benefits	**3,337**	3,215
State net operating losses	**3,563**	3,417
Federal net operating losses	**4,345**	3,503
State tax credit carryforwards	**1,731**	1,740
Federal tax credit carryforwards	**2,943**	2,472
Allowances for bad debts, claims and discounts	**3,688**	3,175
Other	**4,856**	4,776
Total deferred tax assets	**28,390**	25,140
Valuation allowance	**(5,294)**	(4,317)
Net deferred tax assets	**23,096**	20,823
Deferred tax liabilities:		
Property, plant and equipment	**18,370**	17,477
Total deferred tax liabilities	**18,370**	17,477
Net deferred tax asset	**$ 4,726**	$ 3,346

At December 26, 2015, $4,345 of deferred tax assets related to approximately $12,415 of federal net operating loss carryforwards and $3,563 of deferred tax assets related to approximately $80,881 of state net operating loss carryforwards. In addition, $2,943 of federal tax credit carryforwards and $1,731 of state tax credit carryforwards were available to the Company. The federal net operating loss carryforwards and the federal tax credit carryforwards will expire between 2030 and 2036. The state net operating loss carryforwards and the state tax credit carryforwards will expire between 2016 and 2036. A valuation allowance of $5,294 is recorded to reflect the estimated amount of deferred tax assets that may not be realized during the carryforward periods. At December 26, 2015, the Company is in a net deferred tax asset position of $4,726 which is included in other assets in the Company's Consolidated Balance Sheets. The Company performed an analysis related to the net deferred tax asset and believes that the net tax asset is recoverable in future periods.

Tax Uncertainties

The Company accounts for uncertainty in income tax positions according to FASB guidance relating to uncertain tax positions. Unrecognized tax benefits were $375 and $400 at December 26, 2015 and December 27, 2014, respectively. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of December 26, 2015 and December 27, 2014.

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

	2015	2014	2013
Balance at beginning of year	**$ 400**	$ 291	$ 5
Additions based on tax positions taken during a prior period	**—**	—	250
Additions based on tax positions taken during a current period	**35**	109	41
Reductions related to settlement of tax matters	**(60)**	—	—
Reductions related to a lapse of applicable statute of limitations	**—**	—	(5)
Balance at end of year	**$ 375**	$ 400	$ 291

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 2011 remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2011. A few state jurisdictions remain open to examination for tax years subsequent to 2010.

NOTE 15 - COMMON STOCK AND EARNINGS (LOSS) PER SHARE

Common & Preferred Stock

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

On May 20, 2014, the Company completed an equity offering of 2,500,000 shares of Common Stock at a price of $10.65 per share, raising approximately $24,559 after deducting underwriter fees and costs directly related to the offering. The Company used the net proceeds from the offering for general corporate purposes and to reduce the balance under the Company's revolving credit facility, including borrowings associated with the acquisition of Atlas Carpet Mills.

Earnings (Loss) Per Share

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

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

	2015	2014	2013
Basic earnings (loss) per share:			
Income (loss) from continuing operations	**$ (2,278)**	$ 673	$ 5,556
Less: Allocation of earnings to participating securities	**—**	(197)	(218)
Income (loss) from continuing operations available to common shareholders - basic	**$ (2,278)**	$ 476	$ 5,338
Basic weighted-average shares outstanding (1)	**15,536**	14,382	12,737
Basic earnings (loss) per share - continuing operations	**$ (0.15)**	$ 0.03	$ 0.42
Diluted earnings (loss) per share:			
Income (loss) from continuing operations available to common shareholders - basic	**$ (2,278)**	$ 476	$ 5,338
Add: Undistributed earnings reallocated to unvested shareholders	**—**	3	2
Income (loss) from continuing operations available to common shareholders - basic	**$ (2,278)**	$ 479	$ 5,340
Basic weighted-average shares outstanding (1)	**15,536**	14,382	12,737
Effect of dilutive securities:			
Stock options (2)	**—**	97	54
Directors' stock performance units (2)	**—**	65	61
Diluted weighted-average shares outstanding (1)(2)	**15,536**	14,544	12,852
Diluted earnings (loss) per share - continuing operations	**$ (0.15)**	$ 0.03	$ 0.42

(1) Includes Common and Class B Common shares, in thousands.
(2) Because their effects are anti-dilutive, 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. Aggregate shares excluded were 333 in 2015, 434 in 2014 and 510 in 2013.

NOTE 16 - STOCK PLANS AND STOCK COMPENSATION EXPENSE

The Company recognizes compensation expense relating to share-based payments based on the fair value of the equity instrument issued and records such expense in selling and administrative expenses in the Company's Consolidated Condensed Financial Statements. The number of shares to be issued is determined by dividing the specified dollar value of the award by the market value per share on the grant date. The Company's stock compensation expense was $1,406 in 2015, $1,195 in 2014 and $847 in 2013.

2006 Stock Awards Plan

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

Restricted Stock Awards

Each executive officer has the opportunity to earn a Primary Long-Term Incentive Award of restricted stock and separately receive an award of restricted stock denominated as “Career Shares.” The number of shares issued, if any, is based on the market price of the Company’s Common Stock at the time of grant of the award, subject to a $5.00 per share minimum value. Primary Long-Term Incentive Awards vest over 3 years. For participants over age 60, Career Share Awards fully vest when the participant becomes (i) qualified to retire from the Company and (ii) has retained such shares 2 years following the grant date. For the participants under age 60, Career Shares vest ratably over 5 years beginning on the participant's 61st birthday.

On March 12, 2015, the Company issued 114,625 shares of restricted stock to officers and other key employees. The grant-date fair value of the awards was $1,021, or $8.910 per share, and is expected to be recognized as stock compensation expense over a weighted-average period of 7.4 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On April 29, 2015, the Company granted 100,000 shares of restricted stock to the Company's Chief Executive Officer. The grant-date fair value of the award was $982, or $9.815 per share and will be recognized as stock compensation expense over a 4 year vesting period from the date the award was granted. Vesting of the award is subject to both a service condition and performance condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On August 1, 2015, the Company granted 10,000 shares of restricted stock to an employee. The grant-date fair value of the award was $100, or $9.980 per share and will be recognized as stock compensation over a 3 year vesting period from the date the award was granted. The award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

During 2014, the Company issued 101,315 shares of restricted stock to officers and other key employees. The grant-date fair value of the awards was $1,588, or $15.675 per share, and will be recognized as stock compensation expense over the vesting periods which range from 2 to 13 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

During 2013, the Company issued 173,249 shares of restricted stock to officers and other key employees. The grant-date fair value of the awards was $899, or $5.190 per share, and will be recognized as stock compensation expense over the vesting periods which range from 2 to 14 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

(amounts in thousands, except per share data)

Restricted stock activity for the three years ended December 26, 2015 is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 29, 2012	464,886	$ 6.57
Granted	173,249	5.19
Vested	(112,336)	4.15
Outstanding at December 28, 2013	525,799	6.64
Granted	101,315	15.68
Vested	(144,875)	4.50
Forfeited	(125,000)	12.78
Outstanding at December 27, 2014	357,239	7.92
Granted	224,625	9.36
Vested	(155,991)	7.18
Forfeited	(9,078)	10.97
Outstanding at December 26, 2015	416,795	$ 8.90

As of December 26, 2015, unrecognized compensation cost related to unvested restricted stock was $2,532. That cost is expected to be recognized over a weighted-average period of 5.0 years. The total fair value of shares vested was approximately $1,410, $1,512 and $669 during the year 2015, 2014 and 2013, respectively.

Stock Performance Units

Prior to 2014, the Company's non-employee directors received an annual retainer of $12 in cash and $12 in value of Stock Performance Units (subject to a $5.00 minimum per unit) under the Director's Stock Plan. In 2014 and 2015, the Company's non-employee directors received $18 in cash and $18 in value of Stock Performance Units. If market value at the date of the grants is above $5.00 per share; there is no reduction in the number of units issued. However, if the market value at the date of the grants is below $5.00, units will be reduced to reflect the $5.00 per share minimum. Upon retirement, the Company issues the number of shares of Common Stock equivalent to the number of Stock Performance Units held by non-employee directors at that time. As of December 26, 2015, 91,032 Stock Performance Units were outstanding under this plan.

Stock Options

All stock options issued under the Company's 2000 Plan were exercisable generally at a cumulative rate of 25% per year after the second year from the date the options were granted. Options granted under the Company's 2006 Plan are exercisable for periods determined at the time the awards are granted. Effective 2009, the Company established a $5.00 minimum exercise price on all options granted. No options were granted during 2015, 2014 or 2013.

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

(amounts in thousands, except per share data)

Option activity for the three years ended December 26, 2015 is summarized as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Fair Value of Options Granted During the Year
Outstanding at December 29, 2012	697,407	$ 11.00		$ —
Exercised	(37,052)	5.15		—
Outstanding at December 28, 2013	660,355	11.33		—
Exercised	(53,950)	10.22		—
Forfeited	(167,170)	14.36		—
Outstanding at December 27, 2014	439,235	10.31		—
Exercised	(89,435)	6.78		—
Forfeited	(246,300)	13.82		—
Outstanding at December 26, 2015	103,500	$ 5.00	3.9	$ —
Options exercisable at:				
December 28, 2013	630,855	$ 11.63		—
December 27, 2014	439,235	10.31		—
December 26, 2015	103,500	5.00	3.9	—

At December 26, 2015, the intrinsic value of outstanding stock options was $59 and the intrinsic value of exercisable stock options was $59. The intrinsic value of stock options exercised during the years ended 2015, 2014 and 2013 was $221, $140 and $206, respectively. At December 26, 2015, there was no unrecognized compensation expense related to unvested stock options.

(amounts in thousands, except per share data)

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Interest Rate Swaps	Post-Retirement Liabilities	Total
Balance at December 29, 2012	(654)	416	(238)
Unrealized gain (loss) on interest rate swaps, net of tax of $145	236	—	236
Reclassification of loss into earnings from interest rate swaps, net of tax of $108	176	—	176
Amortization of unrealized loss on dedesignated interest rate swaps, net of tax of $60	98	—	98
Unrecognized net actuarial gain on postretirement benefit plans, net of tax of $12	—	20	20
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of $13	—	(22)	(22)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of $34	—	(54)	(54)
Balance at December 28, 2013	(144)	360	216
Unrealized loss on interest rate swaps, net of tax of $1,182	(1,928)	—	(1,928)
Reclassification of loss into earnings from interest rate swaps, net of tax of $141	231	—	231
Unrecognized net actuarial gain on postretirement benefit plans, net of tax of $26	—	41	41
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of $12	—	(19)	(19)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of $34	—	(54)	(54)
Balance at December 27, 2014	(1,841)	328	(1,513)
Unrealized loss on interest rate swaps, net of tax of $916	(1,494)	—	(1,494)
Reclassification of loss into earnings from interest rate swaps, net of tax of $295	482	—	482
Unrecognized net actuarial gain on postretirement benefit plans, net of tax of $18	—	30	30
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of $15	—	(25)	(25)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of $33	—	(53)	(53)
Balance at December 26, 2015	**$ (2,853)**	**$ 280**	**$ (2,573)**

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Commitments

The Company had purchase commitments of $1,737 at December 26, 2015, primarily related to machinery and equipment. The Company enters into fixed-price contracts with suppliers to purchase natural gas to support certain manufacturing processes. The Company had contract purchases of $1,151 in 2015, $977 in 2014 and $1,109 in 2013. At December 26, 2015, the Company has commitments to purchase natural gas of $900 for 2016, $626 for 2017 and $355 for 2018.

(amounts in thousands, except per share data)

The Company leases certain equipment under capital leases and certain buildings, machinery and equipment under operating leases. Commitments for minimum rentals under non-cancelable leases, including any applicable rent escalation clauses, are as follows:

	Capital Leases	Operating Leases
2016	$ 3,611	$ 3,220
2017	3,477	3,171
2018	3,080	2,937
2019	1,783	2,084
2020	1,444	1,661
Thereafter	922	5,309
Total commitments	14,317	18,382
Less amounts representing interest	(1,566)	—
Total	$ 12,751	$ 18,382

Rental expense was approximately $3,593, $4,066 and $2,434 during the years 2015, 2014 and 2013, respectively.

Property, plant and equipment includes machinery and equipment under capital leases which have asset cost and accumulated depreciation of $16,654 and $3,985, respectively, at December 26, 2015, and $16,353 and $2,033, respectively, at December 27, 2014.

Contingencies

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

Environmental Remediation

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

Legal Proceedings

The Company is one of multiple parties to two lawsuits, both filed in Madison County Illinois, styled Sandra D. Watts, Individually and as Special Administrator of the Estate of Dianne Averett, Deceased vs. 4520 Corp., Inc. f/k/a Benjamin F. Shaw Company, et al No. 12-L-2032 and styled Brenda Bridgeman, Individually and as Special Administrator of the Estate of Robert Bridgeman, Deceased, vs. American Honda Motor Co., Inc., f/k/a Metropolitan Life Insurance Co., et al No. 15-L-374. Each lawsuit has a claim for damages to be determined in excess of $50 filed on behalf of the estate of an individual which alleges that the deceased contracted mesothelioma as a result of exposure to asbestos while employed by the Company. Discovery in both matters is ongoing, and tentative trial dates of February 2017 and January 2018 have been set. The Company has denied liability, is defending the matters vigorously and is unable to estimate its potential exposure to loss, if any, at this time.

The Company was a plaintiff in a lawsuit against a former raw material supplier. In its lawsuit, the Company alleged that the former supplier sold defective materials to the Company over a period of time, which, when applied to certain of the Company's products, caused those products to become defective and unmerchantable in the ordinary course of the Company's business. On January 31, 2014, the Company and the supplier settled its claim for $400. The difference in the amount previously recognized and the settlement amount was recorded in other operating (income) expense in 2013.

(amounts in thousands, except per share data)

NOTE 19 - OTHER (INCOME) EXPENSE

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

	2015	2014	2013
Other operating (income) expense, net:			
Insurance proceeds	$ —	$ —	$ (202)
(Gain) loss on property, plant and equipment disposals	(114)	(30)	195
Loss on currency exchanges	602	587	217
Amortization of intangibles	305	351	88
Retirement expenses	212	135	154
Contract settlement	—	—	172
Miscellaneous (income) expense	(133)	(139)	(130)
Other operating (income) expense, net	$ 872	$ 904	$ 494

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

	2015	2014	2013
Other (income) expense, net:			
Earnings from equity investments	14	(209)	—
Loss on sale of non-operating assets	—	41	—
Miscellaneous (income) expense	33	14	26
Other (income) expense, net	$ 47	$ (154)	$ 26

NOTE 20 - FACILITY CONSOLIDATION EXPENSES

2014 Warehousing, Distribution & Manufacturing Consolidation Plan

The Company developed a plan to align its warehousing, distribution and manufacturing to support its growth and manufacturing strategy resulting in better cost structure and improved distribution capabilities and customer service. The key element and first major step of this plan was the acquisition of a facility to serve as a finished goods warehouse and a cut-order and distribution center in Adairsville, Georgia. Costs related to the consolidation include moving and relocation expenses, information technology expenses and expenses relating to conversion and realignment of equipment. In addition, this plan includes the elimination of both carpet dyeing and yarn dyeing in the Company's Atmore, Alabama facility designed to more fully accommodate the distribution and manufacturing realignment. As a result, the dyeing operations in Atmore were moved to the Company's continuous dyeing facility, skein dyeing operation and other outside dyeing processors. These costs should be completed in the first half of fiscal 2016. In addition, certain machinery and equipment was disposed of resulting in an impairment charge during 2014.

2014 Atlas Integration Plan

As a part of the March 19, 2014 acquisition of Atlas, the Company developed a plan to close the operations of the Atlas dyeing facility in Los Angeles and move the carpet dyeing of their products to the Company's dyeing operation located in Santa Ana, California. Costs related to the consolidation include equipment relocation, computer systems modifications and severance costs. These costs were completed in fiscal 2015.

2015 Corporate Office Consolidation Plan

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

(amounts in thousands, except per share data)

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

	Accrued Balance at December 28, 2013	2014 Expenses (1)	2014 Cash Payments	Accrued Balance at December 27, 2014	As of December 27, 2014: Total Costs Incurred to Date	As of December 27, 2014: Total Expected Costs
Warehousing, Distribution and Manufacturing Consolidation Plan	$ —	$ 4,047	$ (4,047)	$ —	$ 4,047	$ 5,398
Atlas Integration Plan	—	1,467	(1,467)	—	1,467	1,846
Corporate Office Consolidation Plan	—	—	—	—	—	—
Total All Plans	$ —	$ 5,514	$ (5,514)	$ —	$ 5,514	$ 7,244
Asset impairments (2)		$ 1,133			$ 1,133	$ 1,133

	Accrued Balance at December 27, 2014	2015 Expenses (1)	2015 Cash Payments	Accrued Balance at December 26, 2015	As of December 26, 2015: Total Costs Incurred to Date	As of December 26, 2015: Total Expected Costs
Warehousing, Distribution and Manufacturing Consolidation Plan	$ —	$ 2,016	$ (2,016)	$ —	$ 6,063	$ 6,469
Atlas Integration Plan	—	202	(202)	—	1,669	1,669
Corporate Office Consolidation Plan	—	728	(387)	341	728	788
Total All Plans	$ —	$ 2,946	$ (2,605)	$ 341	$ 8,460	$ 8,926
Asset impairments (2)		$ —			$ 1,133	$ 1,133

(1) Costs incurred under these plans are classified as "facility consolidation expenses" in the Company's Consolidated Statements of Operations.
(2) Asset impairments under these plans, when applicable, are classified as "loss on impairments" in the Company's Consolidated Statements of Operations.

NOTE 21 - DISCONTINUED OPERATIONS

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

	2015	2014	2013
Net sales - Carousel operations	**$ 417**	$ 1,168	$ 691
Income (loss) from discontinued operations:			
Income (loss) from Carousel operations	**$ (116)**	$ (863)	$ (264)
Workers' compensation costs from former textile operations	**(53)**	(55)	(23)
Environmental remediation costs from former textile operations	**(68)**	(62)	(74)
Loss from discontinued operations, before taxes	**$ (237)**	$ (980)	$ (361)
Income tax benefit	**(89)**	(372)	(95)
Loss from discontinued operations, net of tax	**$ (148)**	$ (608)	$ (266)
Loss on disposal of Carousel discontinued operations before income taxes	**$ —**	$ (2,363)	$ —
Income tax benefit	**—**	(896)	—
Loss on disposal of discontinued operations, net of tax	**$ —**	$ (1,467)	$ —

In the fourth quarter of 2014, the Company discontinued the Carousel specialty tufting and weaving operation that was part of the 2013 Robertex, Inc. acquisition. As a result, the Company had a loss on the disposal of the discontinued operation which included the impairment of certain intangibles associated with Carousel and its related machinery and equipment. Operating results associated with Carousel have been classified as discontinued operations for all periods presented.

Undiscounted reserves are maintained for the self-insured workers' compensation obligations related to the Company's former textile operations. These reserves are administered by a third-party workers' compensation service provider under the supervision of Company personnel. Such reserves are reassessed on a quarterly basis. Pre-tax cost incurred for workers' compensation as a component of discontinued operations primarily represents a change in estimate for each period from unanticipated medical costs associated with the Company's obligations.

Reserves for environmental remediation obligations are established on an undiscounted basis. The Company has an accrual for environmental remediation obligations of $1,591 and $1,637 as of December 26, 2015 and December 27, 2014, respectively. 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 our estimates. Pre-tax cost for environmental remediation obligations classified as discontinued operations were primarily a result of specific events requiring action and additional expense in each period.

NOTE 22 - RELATED PARTY TRANSACTIONS

The Company is a party to a 5-year lease with the seller of Atlas Carpet Mills, Inc. to lease three manufacturing facilities as part of the acquisition in 2014. The lessor is controlled by an associate of the Company. Rent paid to the lessor during 2015 and 2014 was $458 and $343, respectively. The lease was based on current market values for similar facilities.

The Company purchases a portion of its product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of the Company. Mr. Shaw holds approximately 8.4% of the Company's Common Stock, which as of year-end, represented approximately 4% of the total vote of all classes of the Company's Common Stock. Engineered Floors is one of several suppliers of such materials to the Company. Total purchases from Engineered Floors for 2015, 2014 and 2013 were approximately $8,800, $11,300 and $12,000, respectively; or approximately 2.8%, 3.6%, and 4.6% of the Company's cost of goods sold in 2015, 2014, and 2013, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. The Company has no contractual commitments with Mr. Shaw associated with its business relationship with Engineered Floors. Transactions with Engineered Floors were reviewed by the Company's board of directors.

The Company is a party to a 10-year lease with the Rothman Family Partnership to lease a manufacturing facility as part of the Robertex acquisition in 2013. The lessor is controlled by an associate of the company. Rent paid to the lessor during 2015, 2014, and 2013 was $262, $257, and $127, respectively. The lease was based on current market values for similar facilities.

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

Description	Balance at Beginning of Year	Additions - Charged to Costs and Expenses	Additions - Charged to Other Account - Describe	Deductions - Describe	Balance at End of Year
Year ended December 26, 2015:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	$ 450	$ 146	$ —	$ 126 (1)	$ 470
Reserves classified as liabilities:					
Provision for claims, allowances and warranties	4,647	14,254	—	13,217 (3)	5,684
Year ended December 27, 2014:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	$ 141	$ 399	$ —	$ 90 (1)	$ 450
Reserves classified as liabilities:					
Provision for claims, allowances and warranties	3,377	9,249	606 (2)	8,585 (3)	4,647
Year ended December 28, 2013:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	$ 216	$ 40	$ —	$ 115 (1)	$ 141
Reserves classified as liabilities:					
Provision for claims, allowances and warranties	2,509	7,141	—	6,273 (3)	3,377

(1) Uncollectible accounts written off, net of recoveries.
(2) Assumed reserve in business combinations.
(3) Reserve reductions for claims, allowances and warranties settled.

ANNUAL REPORT ON FORM 10-K

ITEM 15(b)

EXHIBITS

YEAR ENDED DECEMBER 26, 2015

THE DIXIE GROUP, INC.

DALTON, GEORGIA

Exhibit Index

EXHIBIT NO.	EXHIBIT DESCRIPTION	INCORPORATION BY REFERENCE
(1.1)	Underwriting Agreement for 2,500,000 Shares of The Dixie Group, Inc.	Incorporated by reference to Exhibit (1.1) to Dixie's Current Report on Form 8-K dated May 20, 2014.*
(2.1)	Securities Purchase Agreement between Masland Carpets, LLC and Robert P. Rothman dated as of June 30, 2013.	Incorporated by reference to Exhibit (2.1) to Dixie's Current Report on Form 8-K dated June 30, 2013. *
(3.1)	Text of Restated Charter of The Dixie Group, Inc. as Amended - Blackline Version.	Incorporated by reference to Exhibit (3.4) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2003. *
(3.2)	Amended By-Laws of The Dixie Group, Inc. as of February 22, 2007.	Incorporated by reference to Exhibit 3.1 to Dixie's Current Report on Form 8-K dated February 26 2007.*
(5.1)	Shelf Registration Statement on Form S-3.	Incorporated by reference to Exhibit (5.1) to Dixie's Current Report on Form 8-K dated May 20, 2014.*
(10.1)	The Dixie Group, Inc. Director's Stock Plan. **	Incorporated by reference to Exhibit (10.1) to Dixie's Annual Report on Form 10-K for the year ended December 27, 1997. *
(10.2)	The Dixie Group, Inc. New Non-qualified Retirement Savings Plan effective August 1, 1999. **	Incorporated by reference to Exhibit (10.1) to Dixie's Quarterly Report on Form 10-Q for the quarter ended June 26, 1999. *
(10.3)	The Dixie Group, Inc. Deferred Compensation Plan Amended and Restated Master Trust Agreement effective as of August 1, 1999. **	Incorporated by reference to Exhibit (10.2) to Dixie's Quarterly Report on Form 10-Q for the quarter ended June 26, 1999. *
(10.4)	The Dixie Group, Inc. Stock Incentive Plan, as amended. **	Incorporated by reference to Annex A to Dixie's Proxy Statement dated April 5, 2002 for its 2002 Annual Meeting of Shareholders. *
(10.5)	Form of Stock Option Agreement under The Dixie Group, Inc. Stock Incentive Plan. **	Incorporated by reference to Exhibit (10.23) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2001. *
(10.6)	Form of Stock Rights and Restrictions Agreement for Restricted Stock Award under The Dixie Group, Inc. Stock Incentive Plan, as amended.**	Incorporated by reference to Exhibit (10.35) to Dixie's Annual Report on Form 10-K for the year ended December 25, 2004. *
(10.7)	Form of Stock Option Agreement under The Dixie Group, Inc. Stock Incentive Plan for Non-Qualified Options Granted December 20, 2005.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated December 20, 2005. *
(10.8)	Summary Description of the Director Compensation Arrangements for The Dixie Group, Inc.**	Incorporated by reference to Exhibit (10.34) to Dixie's Annual Report on Form 10-K for the year ended December 25, 2004. *
(10.9)	The Dixie Group, Inc. 2006 Stock Awards Plan. **	Incorporated by reference to Annex A to the Company's Proxy Statement for its 2006 Annual Meeting of Shareholders, filed March 20, 2006. *
(10.10)	Summary Description of the 2006 Incentive Compensation Plan, approved February 23, 2006.**	Incorporated by reference to Current Report on Form 8-K dated March 1, 2006. *
(10.11)	Summary Description of The Dixie Group, Inc., 2006 Incentive Compensation Plan/Range of Incentives.**	Incorporated by reference to Exhibit (10.62) to Dixie's Annual Report on Form 10-K for the year ended December 28, 2013 .*
(10.12)	Material terms of the performance goals for the period 2007-2011, pursuant to which incentive compensation awards may be made to certain key executives of the Company based on the results achieved by the Company during such years, approved March 14, 2006.**	Incorporated by reference to Current Report on Form 8-K dated March 20, 2006. *

(10.13)	Form of Award of Career Shares under the 2006 Incentive Compensation Plan for Participants holding only shares of the Company's Common Stock.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated June 6, 2006. *
(10.14)	Form of Award of Career Shares under the 2006 Incentive Compensation Plan for Participants holding shares of the Company's Class B Common Stock.**	Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated June 6, 2006. *
(10.15)	Form of Award of Long Term Incentive Plan Shares under the 2006 Incentive Compensation Plan for Participants holding only shares of the Company's Common Stock.**	Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated June 6, 2006. *
(10.16)	Form of Award of Long Term Incentive Plan Shares under the 2006 Incentive Compensation Plan for Participants holding shares of the Company's Class B Common Stock.**	Incorporated by reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated June 6, 2006. *
(10.17)	Award of 125,000 shares of Restricted Stock under the 2006 Stock Awards Plan to Daniel K. Frierson.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated June 7, 2006. *
(10.18)	Summary description of The Dixie Group, Inc. 2007 Annual Compensation Plan.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated February 26, 2007.*
(10.19)	Merger agreement between The Dixie Group, Inc. and Unite Here National Retirement Fund regarding the Company's Masland Bargaining Unit Defined Benefit Pension Plan.**	Incorporated by reference to Exhibit (99.1) to Dixie's Current Report on Form 8-K dated December 28, 2007*
(10.20)	Summary description of The Dixie Group, Inc. 2008 Annual Incentive Plan.**	Incorporated by reference to Exhibit 10.1 to Dixie's Current Report on Form 8-K dated February 15, 2008*
(10.21)	Summary description of The Dixie Group, Inc. 2009 Annual Incentive Plan.**	Incorporated by reference to Exhibit 10.1 to Dixie's Current Report on Form 8-K dated March 26, 2009*
(10.22)	Amended and restated award of 125,000 shares of Restricted Stock under the 2006 Stock Awards Plan to Daniel K. Frierson.**	Incorporated by reference to Exhibit 10.1 to Dixie's Current Report on Form 8-K dated May 21, 2009.*
(10.23)	Summary description of The Dixie Group, Inc. 2010 Incentive Compensation Plan/Range of Incentives.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 3, 2010.*
(10.24)	Summary Description of The Dixie Group, Inc. 2011 Incentive Compensation Plan/Range of Incentives.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated February 1, 2011.*
(10.25)	Summary Description of The Dixie Group, Inc. 2012 Incentive Compensation Plan/Range of Incentives.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 12, 2012.*
(10.26)	Summary Description of The Dixie Group, Inc. 2012 Incentive Compensation Plan/Range of Incentives.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated August 22, 2012.*
(10.27)	Summary Description of The Dixie Group, Inc. 2013 Incentive Compensation Plan/Range of Incentives.**	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated February 15, 2013.*
(10.28)	Summary Description of The Dixie Group, Inc. 2014 Incentive Compensation Plan/Range of Incentives.**	Incorporated by reference to Exhibit (10.62) to Dixie's Annual Report on Form 10-K for the year ended December 28, 2013 .*
(10.29)	Rule 10b5-1 and 10b-18 Repurchase Agreement by and between The Dixie Group, Inc. and Raymond James & Associates, Inc. dated December 11, 2007*	Incorporated by reference to Exhibit (99.1) to Dixie's Current Report on Form 8-K dated December 11, 2007*
(10.30)	Agreement by and between Raymond James & Associates, Inc. dated November 6, 2008, to repurchase shares of The Dixie Group, Inc.'s Common Stock.	Incorporated by reference to Exhibit (99.1) to Dixie's Current Report on Form 8-K dated November 6, 2008.*
(10.31)	Fixed Rate Swap Agreement between Bank of America, N.A. and The Dixie Group, Inc.	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated April 19, 2010.*
(10.32)	Fixed Rate Swap Agreement between Bank of America, N.A. and The Dixie Group, Inc.	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated July 8, 2010.*
(10.33)	Termination of interest rate swap between Bank of America, N.A. and The Dixie Group, Inc. dated April 19, 2010.	Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated July 8, 2010.*

(10.34)	Master Lease Agreement, Corporate Guaranty and Schedule to the Master Lease Agreement by and between General Electric Capital Corporation and Masland Carpets, LLC dated August 21, 2009.	Incorporated by reference to Exhibit (10.1, 10.2, 10.3) to Dixie's Current Report on Form 8-K dated August 25, 2009.*
(10.35)	Amended and Modified Financing Agreement, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and General Electric Credit Corporation, as lender, dated June 26, 2012.	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated June 26, 2012.*
(10.36)	Agreement to Reduce Security Deposit Amount and Amendment to Security Deposit Pledge Agreement, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and General Electric Credit Corporation, as lender, dated June 26, 2012.	Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated June 26, 2012.*
(10.37)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Purchase and Sale Agreement dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.38)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Bill of Sale, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012. *
(10.39)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Lease Agreement, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.40)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Short Form Lease Agreement, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.41)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Option Agreement, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.42)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Pilot Agreement, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.43)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Loan Agreement, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.44)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Loan and Security Agreement, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.45)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Deed to Secure Debt and Security Agreement, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.46)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Notice and Consent to Assignment, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.47)	Obligation to the Development Authority of Gordon County; by and among Masland Carpets, LLC, Absolute Assignment of Deed to Secure Debt and Security Agreement and Other Loan Documents, dated December 28, 2012.	Incorporated by reference to Exhibit (4.12) to Dixie's Annual Report on Form 10-K for the year ended December 29, 2012 .*
(10.48)	Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Series 2014 Bond, dated October 17, 2014.	Incorporated by reference to Exhibit (10.48) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.49)	Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, PILOT Agreement, dated October 1, 2014	Incorporated by reference to Exhibit (10.49) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*

(10.50)	Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Bond Purchase Loan Agreement, dated October 1, 2014	Incorporated by reference to Exhibit (10.50) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.51)	Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Option Agreement, dated October 1, 2014	Incorporated by reference to Exhibit (10.51) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.52)	Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Bill of Sale, dated October 1, 2014	Incorporated by reference to Exhibit (10.52) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.53)	Obligation to the Development Authority of Murray County; by and among TDG Operations, LLC, Assignment of Rents and Leases and Security Agreement dated October 1, 2014	Incorporated by reference to Exhibit (10.53) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.54)	Project Development Agreement, by and between TDG Operations, LLC, a Georgia Limited Liability Company doing business as Masland Carpets and the City of Atmore, Alabama, dated December 11, 2014.	Incorporated by reference to Exhibit (10.54) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.55)	Credit Agreement, by and among The Dixie Group, Inc. and certain of its subsidiaries, as Borrowers, cert of its subsidiaries, as Guarantor, the Lenders from time to time party thereto, Wells Fargo Bank Capital Finance LLC, as Administrative Agent, and co-lender and Bank of America and the Other parties thereto, dated September 13, 2011.	Incorporated by reference to Exhibit (10.10) to Dixie's Current Report on Form 8-K dated September 14, 2011.*
(10.56)	Security Agreement, by and among The Dixie Group, Inc. and certain of its subsidiaries, as Borrowers, certain of its subsidiaries, as Guarantor, the Lenders from time to time party thereto, Wells Fargo Bank Capital Finance LLC, as Administrative Agent, and co-lender and Bank of America and the Other parties thereto, dated September 13, 2011.	Incorporated by reference to Exhibit (10.11) to Dixie's Current Report on Form 8-K dated September 14, 2011.*
(10.57)	Form of Mortgages, by and among The Dixie Group, Inc. and certain of its subsidiaries, as Borrowers, certain of its subsidiaries, as Guarantor, the Lenders from time to time party thereto, Wells Fargo Bank Capital Finance LLC, as Administrative Agent, and co-lender and Bank of America and the Other parties thereto, dated September 13, 2011.	Incorporated by reference to Exhibit (10.12) to Dixie's Current Report on Form 8-K dated September 14, 2011.*
(10.58)	Credit Agreement, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and Wells Fargo Bank, N.A. as lender, dated September 13, 2011.	Incorporated by reference to Exhibit (10.20) to Dixie's Current Report on Form 8-K dated September 14, 2011.*
(10.59)	Security Agreement, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and Wells Fargo Bank, N.A. as lender, dated September 13, 2011.	Incorporated by reference to Exhibit (10.21) to Dixie's Current Report on Form 8-K dated September 14, 2011.*
(10.60)	First Mortgage, by and between The Dixie Group, Inc. and certain of its subsidiaries named therein, and Wells Fargo Bank, N.A. as lender, dated September 13, 2011.	Incorporated by reference to Exhibit (10.22) to Dixie's Current Report on Form 8-K dated September 14, 2011.*
(10.61)	First Amendment to Credit Agreement dated as of November 2, 2012, by and among The Dixie Group, Inc., certain of its subsidiaries, and Wells Fargo Bank, N.A. as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated November 5, 2012.*
(10.62)	First Amendment to Credit Agreement dated as of November 2, 2012, by and among The Dixie Group, Inc., certain of it subsidiaries, and Wells Fargo Capital Finance, LLC as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated November 5, 2012.*
(10.63)	Intercreditor Agreement dated as of November 2, 2012, by and among Wells Fargo Capital Finance, LLC and Wells Fargo Bank, N.A. as Agents and The Dixie Group, Inc. and certain of its subsidiaries.	Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated November 5, 2012.*

(10.64)	Second Amendment to Credit Agreement dated as of April 1, 2013, by and among The Dixie Group, Inc. certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.01) to Dixie's Current Report on Form 8-K dated April 3, 2013.*
(10.65)	Third Amendment to Credit Agreement dated as of May 22, 2013, by and among The Dixie Group, Inc. certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.57) to Dixie's Annual Report on Form 10-K for the year ended December 28, 2013 .*
(10.66)	Fourth Amendment to Credit Agreement dated as of July 1, 2013, by and among The Dixie Group, Inc. certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.58) to Dixie's Annual Report on Form 10-K for the year ended December 28, 2013 .*
(10.67)	Fifth Amendment to Credit Agreement dated as of July 30, 2013, by and among The Dixie Group, Inc. certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 10-Q dated August 7, 2013. *
(10.68)	Sixth Amendment to Credit Agreement dated as of August 30, 2013, by and among The Dixie Group, Inc. certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 10-Q dated November 6, 2013. *
(10.69)	Seventh Amendment to Credit Agreement dated as of January 20, 2014, by and among The Dixie Group, Inc. certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated January 21, 2014. *
(10.70)	Eighth Amendment to Credit Agreement dated as of March 14, 2014, by and among The Dixie Group, Inc. certain of its subsidiaries and Wells Fargo Capital Finance, LLC, as Agent and the persons identified as Lenders therein.	Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 20, 2014. *
(10.71)	Term Note 1 dated November 7, 2014, by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association.	Incorporated by reference to Exhibit (10.71) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.72)	Deed to Secure Debt, Assignment of Rents and Leases, Security Agreement and Fixture Filing by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association, dated November 7, 2014.	Incorporated by reference to Exhibit (10.72) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.73)	Term Note 2 dated November 7, 2014, by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association.	Incorporated by reference to Exhibit (10.73) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.74)	Amendment to Term Loan Agreement, Note 2, dated November 7, 2014, by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association.	Incorporated by reference to Exhibit (10.74) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.75)	Term Note 3 dated January 23, 2015, by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association.	Incorporated by reference to Exhibit (10.75) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.76)	Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing by TDG Operations, LLC, a Georgia limited liability company and First Tennessee Bank National Association, dated January 23, 2015.	Incorporated by reference to Exhibit (10.76) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.77)	Mortgagee's Subordination and Consent, dated January 23, 2015, by and between Wells Fargo Capital Finance, LLC, as Agent, and The Dixie Group, Inc. and it subsidiaries, as Borrower, and First Tennessee Bank National Association, as Mortgagee.	Incorporated by reference to Exhibit (10.77) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*

(10.78)	Amended and Restated Mortgagee's Subordination and Consent, dated January 23, 2015, by and between Wells Fargo Capital Finance, LLC, as Agent, and The Dixie Group, Inc. and it subsidiaries, as Borrower, and First Tennessee Bank National Association, as Mortgagee.	Incorporated by reference to Exhibit (10.78) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.79)	Amendment to Deed to Secure Debt, Assignment of Rents and Leases, Security Agreement and Fixture Filing, dated January 23, 2015, between TDG Operations, LLC, a Georgia limited liability company, and First Tennessee Bank National Association.	Incorporated by reference to Exhibit (10.79) to Dixie's Annual Report on Form 10-K for the year ended December 27, 2014 .*
(10.80)	Stock Purchase Agreement between TDG Operations, LLC, a wholly owned subsidiary of The Dixie Group, Inc. and James Horwich, Trustee under the Horwich Trust of 1973, to purchase all outstanding capital stock of Atlas Carpet Mills, Inc.	Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 20, 2014. *
(10.81)	Summary of Annual Incentive Compensation Plan Applicable to 2015	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 13, 2015. *
(10.82)	Form of LTIP award (B shareholder)	Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 13, 2015. *
(10.83)	Form of LTIP award (common only)	Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 13, 2015. *
(10.84)	Form of Career Share award (B shareholder)	Incorporated by reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 13, 2015. *
(10.85)	Form of Career Share award (common only)	Incorporated by reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 13, 2015. *
(10.86)	Form of Retention Grant (Service Condition only)	Incorporated by reference to Exhibit (10.6) to Dixie's Current Report on Form 8-K dated March 13, 2015. *
(10.87)	Form of Retention Grant (Performance Condition and Service Condition)	Incorporated by reference to Exhibit (10.7) to Dixie's Current Report on Form 8-K dated March 13, 2015. *
(10.88)	Form of Award of 100,000 share of Restricted Stock under the 2006 Stock Awards Plan to Daniel K. Frierson	Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated April 30,2015. *
(10.89)	Thornton Edge LLC Lease for Reed Road Facility	Incorporated by reference to Exhibit (10.1) to Dixie's Current Report on Form 10-Q dated November 4, 2015. *
(10.90)	Thornton Edge LLC First Lease Amendment for Reed Road Facility	Incorporated by reference to Exhibit (10.2) to Dixie's Current Report on Form 10-Q dated November 4, 2015. *
(10.91)	Thornton Edge LLC Second Lease Amendment for Reed Road Facility	Incorporated by reference to Exhibit (10.3) to Dixie's Current Report on Form 10-Q dated November 4, 2015. *
(14)	Code of Ethics, as amended and restated, February 15, 2010.	Incorporated by reference to Exhibit 14 to Dixie's Annual Report on Form 10-K for year ended December 26, 2009.*
(16)	Letter from Ernst & Young LLP regarding change in certifying accountant.	Incorporated by reference to Exhibit 16 to Dixie's Form 8-K dated November 15, 2013.*
(21)	Subsidiaries of the Registrant.	Filed herewith.
(23.1)	Consent of Dixon Hughes Goodman LLP Independent Registered Public Accounting Firm.	Filed herewith.
(23.2)	Consent of Ernst & Young LLP Independent Registered Public Accounting Firm.	Filed herewith.
(31.1)	CEO Certification pursuant to Securities Exchange Act Rule 13a-14(a).	Filed herewith.
(31.2)	CFO Certification pursuant to Securities Exchange Act Rule 13a-14(a).	Filed herewith.

(32.1)	CEO Certification pursuant to Securities Exchange Act Rule 13a-14(b).	Filed herewith.
(32.2)	CFO Certification pursuant to Securities Exchange Act Rule 13a-14(b).	Filed herewith.
(101.INS)	XBRL Instance Document	Filed herewith.
(101.SCH)	XBRL Taxonomy Extension Schema Document	Filed herewith
(101.CAL)	XBRL Taxaonomy Extension Calculation Linkbase Document	Filed herewith.
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

* Commission File No. 0-2585.

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

THE DIXIE GROUP

PROXY STATEMENT

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

SCHEDULE 14A INFORMATION
(Rule 14a-101)

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

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

Check the appropriate box:

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

THE DIXIE GROUP

The Dixie Group, Inc.

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

Payment of Filing Fee (Check the appropriate box):

☑ No fee required.

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

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

2) Aggregate number of securities to which transaction applies:

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

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

☐ Fee paid previously with preliminary materials.

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

1) Amount Previously Paid:

2) Form, Schedule or Registrant Statement No.:

3) Filing Party:

4) Date Filed:

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of The Dixie Group, Inc.:

The Annual Meeting of Shareholders of The Dixie Group, Inc. will be held at the Chattanoogan Hotel, Chattanooga, Tennessee, on May 3, 2016 at 8:00 a.m., Eastern Time, for the following purposes:

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

2. To consider and approve the adoption of the Company's 2016 Incentive Compensation Plan, pursuant to which the Company may issue up to an aggregate of 800,000 shares of its Common Stock or Class B Common Stock on the terms and conditions set forth in the plan; and

3. To consider and approve the material terms of the Performance Goals applicable to 2016 - 2020;

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

5. To ratify appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2016; and

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

Only shareholders of record of the Common Stock and Class B Common Stock at the close of business on February 26, 2016, are entitled to notice of, and to vote at, the Annual Meeting or any adjournment thereof.

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

The Dixie Group, Inc.

Daniel K. Frierson
Chairman of the Board

Dalton, Georgia
Dated: March 24, 2016

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

Important Notice

Regarding Internet

Availability of Proxy Materials

for the

Annual Meeting of Shareholders

to be held on

May 3, 2016

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

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

ANNUAL MEETING OF SHAREHOLDERS
May 3, 2016

PROXY STATEMENT

INTRODUCTION

The enclosed Proxy is solicited on behalf of the Board of Directors of the Company for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. This Proxy Statement and the enclosed Proxy will be mailed on or about March 24, 2016, to shareholders of record of the Company's Common Stock and Class B Common Stock as of the close of business on February 26, 2016.

At the Annual Meeting, holders of the Company's Common Stock, $3.00 par value per share ("Common Stock"), and Class B Common Stock, $3.00 par value per share ("Class B Common Stock"), will be asked to: (i) elect nine (9) individuals to the Board of Directors for a term of one year each, (ii) approve the adoption of the Company's 2016 Incentive Compensation Plan, pursuant to which the Company may issue up to an aggregate of 800,000 shares of its Common Stock or Class B Common Stock on the terms and conditions set forth in the plan, (iii) approve the material terms of the Performance Goals applicable to 2016 - 2020; (iv) cast an advisory vote on the Company's executive compensation for its named executive officers; (v) ratify the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2016, and (vi) transact any other business that may properly come before the meeting.

The Board of Directors recommends that the Company's shareholders vote (i) **FOR** electing the nine (9) nominees for director; (ii) **FOR** approving the adoption of the Company's 2016 Incentive Compensation Plan; (iii) **FOR** approving the material terms of the Performance Goals applicable to 2016 - 2020; (iv) **FOR** approving the Company's executive compensation of its named executive officers; and (v) **FOR** ratifying the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2016.

RECORD DATE, VOTE REQUIRED AND RELATED MATTERS

The Board has fixed the close of business on February 26, 2016, as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting. In accordance with the Company's Charter, each outstanding share of Common Stock is entitled to one vote, and each outstanding share of Class B Common Stock is entitled to 20 votes, exercisable in person or by properly executed Proxy, on each matter brought before the Annual Meeting. Cumulative voting is not permitted. As of February 26, 2016, 15,155,273 shares of Common Stock, representing 15,155,273 votes, were held of record by approximately 3,000 shareholders (including an estimated 2,550 shareholders whose shares are held in nominee names) and 851,693 shares of Class B Common Stock, representing 17,033,860 votes, were held by 11 individual shareholders, together representing an aggregate of 32,189,133 votes.

Shares represented at the Annual Meeting by properly executed Proxy will be voted in accordance with the instructions indicated therein unless such Proxy has previously been revoked. If no instructions are indicated, such shares will be voted (i) **FOR** electing the nine (9) nominees for director; (ii) **FOR** approving the adoption of the Company's 2016 Incentive Compensation Plan; (iii) **FOR** approving the material terms of the Performance Goals applicable to 2016 - 2020; (iv) **FOR** approving the Company's executive compensation of its named executive officers; and (v) **FOR** ratifying the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2016.

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

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

The presence, in person or by Proxy, of the holders of a majority of the aggregate outstanding vote of Common Stock and Class B Common Stock entitled to vote is necessary to constitute a quorum at the Annual Meeting. In accordance with Tennessee law, Directors are elected by the affirmative vote of a plurality of the votes cast in person or by Proxy at the Annual Meeting.

The affirmative vote of a majority of the total votes cast is necessary for approval of the Company's 2016 Incentive Compensation Plan.

The affirmative vote of a majority of the total votes cast is necessary for approval of the material terms of the Performance Goals applicable to 2016 - 2020.

Ratification of the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2016 will be approved if the votes properly cast favoring ratification exceed the votes cast opposing ratification.

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

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

A copy of the Company's Annual Report for the year-ended December 26, 2015, is enclosed herewith.

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

PRINCIPAL SHAREHOLDERS

Shareholders of record at the close of business on February 26, 2016, the Record Date, will be entitled to notice of and to vote at the Annual Meeting.

The following is information regarding beneficial owners of more than 5% of the Company's Common Stock or Class B Common Stock. Beneficial ownership information is also presented for (i) the executive officers named in the Summary Compensation Table; (ii) all directors and nominees; and (iii) all directors and executive officers, as a group, as of February 26, 2016 (except as otherwise noted).

Name and Address of Beneficial Owner	Title of Class	Number of Shares Beneficially Owned(1)(2)		% of Class	
Daniel K. Frierson					
111 East and West Road	Common Stock	990,227	(3)	6.2	%
Lookout Mountain, TN 37350	Class B Common Stock	851,693	(4)	100.0	%
Dimensional Fund Advisors, L.P.					
Palisades West, Building One,					
6300 Bee Cave Road	Common Stock	1,080,877	(5)	7.1	%
Austin, TX 78746					
Hodges Capital Holdings, Inc.					
2905 Maple Avenue	Common Stock	1,963,345	(6)	13.0	%
Dallas, TX 75201					
Royce & Associates, LLC					
1414 Avenue of the Americas	Common Stock	1,511,889	(7)	10.0	%
New York, NY 10019					
Robert E. Shaw					
115 West King Street	Common Stock	1,275,000	(8)	8.4	%
Dalton, GA 30722-1005					
T. Rowe Price Associates, Inc.					
T. Rowe Price Small-Cap Value Fund, Inc.					
100 E. Pratt Street	Common Stock	1,461,520	(9)	9.6	%
Baltimore, MD 21202					
Wells Fargo & Company, on behalf of the following subsidiaries:					
Wells Capital Management Incorporated					
Wells Fargo Advisors, LLC					
Wells Fargo Fund Management, LLC					
Wells Fargo Bank, National Association					
420 Montgomery Street	Common Stock	1,294,149	(10)	8.5	%
San Francisco, CA 94104					

Additional Directors and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1)		% of Class
William F. Blue, Jr.	Common Stock	2,962	(11)	*
Charles E. Brock	Common Stock	7,341	(12)	*
Paul B. Comiskey	Common Stock	99,607	(13)	*
W. Derek Davis	Common Stock	68,211	(14)	*
Jon A. Faulkner	Common Stock	125,143	(15)	*
D. Kennedy Frierson, Jr.	Common Stock	192,409	(16)	1.3 %
	Class B Common Stock	161,972	(4)	
Walter W. Hubbard	Common Stock	18,201	(17)	*
Lowry F. Kline	Common Stock	50,699	(18)	*
V. Lee Martin	Common Stock	30,946	(19)	*
Hilda S. Murray	Common Stock	7,341	(20)	*
John W. Murrey, III	Common Stock	36,479	(21)	*
Michael L. Owens	Common Stock	3,175	(22)	*
All Directors, Named Executive Officers and	Common Stock	1,468,184	(23)	**9.1** %
Executive Officers as Group (13 Persons) **	Class B Common Stock	851,693	(24)	**100.0** %

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

** *The total vote of Common Stock and Class B Common Stock represented by the shares held by all directors and executive officers as a group is **17,650,351** votes or **54.7%** of the total vote.*

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

(2) Does not include 286,683 shares of Common Stock owned by The Dixie Group, Inc. 401(k) Retirement Savings Plan (the "401(k) Plan") for which Daniel K. Frierson is a fiduciary and for which T. Rowe Price Trust Company serves as Trustee. Participants in the 401(k) Plan may direct the voting of all shares of Common Stock held in their accounts, and the Trustee must vote all shares of Common Stock held in the 401(k) Plan in the ratio reflected by such direction. Participants may also direct the disposition of such shares. Accordingly, for purposes of these disclosures, shares held for participants in the 401 (k) Plan are reported as beneficially owned by the participants.

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

	Number of Shares Common Stock		Number of Shares Class B Common Stock	
Shares held outright	3,263		397,304	(a)
Shares held in his Individual Retirement Account	3,567	(a)	17,061	(a)
Shares held in 401(k) Plan	796	(a)	—	
Shares held by his wife	—		94,879	(c)
Shares held by his children, their spouses and grandchildren	59,540	(b)	214,551	(c)
Unvested restricted stock	21,368	(a)	122,412	(a)
Shares held by family Unitrust	—		5,486	(a)
Options to acquire Common Stock, exercisable within 60 days	50,000	(a)	—	
Deemed conversion of his Class B Common Stock	851,693		—	
Total	990,227		851,693	

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

(4) The 851,693 includes 309,430 shares of Class B Common Stock are held subject to a Shareholder's Agreement among Daniel K. Frierson, his wife, their five children and respective family trusts, pursuant to which Daniel K. Frierson has been granted a proxy to vote such shares.

(5) Dimensional Fund Advisors, L.P. has reported beneficial ownership of an aggregate of 1,080,877 shares of Common Stock, as follows: 1,080,877 shares of Common Stock, for which it has sole voting power, and 1,080,877 shares of Common Stock for which it has sole dispositive power. The reported information is based upon the Schedule 13G filed by Dimensional Fund Advisors, L.P. with the Securities and Exchange Commission on February 9, 2016.

(6) Hodges Capital Holdings, Inc., First Dallas Securities, Inc., Hodges Capital Management, Inc., Hodges Fund, Hodges Pure Contrarian Fund, and Hodges Small Intrinsic Value Fund has reported beneficial ownership of an aggregate of 1,963,345 shares of Common Stock. Hodges Capital Holdings, Inc. reports having shared voting power of 1,658,780 and 1,963,345 shared dispositive power. First Dallas Securities reports having 46,000 shared dispositive power. Hodges Capital Management, Inc. reports having shared voting power of 1,625,000 and 1,883,565 shared dispositive power. Hodges Fund reports having shared voting power of 1,300,000 and 1,300,000 shared dispositive power. Hodges Pure Contrarian Fund reports having shared voting power of 50,000 and 50,000 shared dispositive power. Hodges Small Intrinsic Value Fund reports having shared voting power of 275,000 and 275,000 shared dispositive power. The reported information is based upon the Schedule 13G filed by Hodges Capital Holdings, Inc. with the Securities and Exchange Commission on February 12, 2016.

(7) Royce & Associates LLC has reported beneficial ownership of 1,511,889 shares of Common Stock for which it has sole dispositive power and sole voting power. The reported information is based upon the Schedule 13G filed by Royce & Associates LLC with the Securities and Exchange Commission on January 12, 2016.

(8) Robert E. Shaw has reported the beneficial ownership of an aggregate of 1,275,000 shares of Common Stock for which he has 1,275,000 shared voting power and 1,275,000 shared dispositive power. The reported information is based upon the 13G filed by Mr. Shaw with the Securities and Exchange Commission on February 4, 2016.

(9) T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc. have reported beneficial ownership of an aggregate of 1,461,520 shares of Common Stock. T. Rowe Price Associates, Inc. reports having sole dispositive power for all 1,461,520 shares and sole voting power for 171,120 of such shares, while T. Rowe Price Small-Cap Value Fund, Inc. reports sole voting power for 1,271,700 shares. The reported information is based upon the Schedule 13G filed jointly by T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc. with the Securities and Exchange Commission on February 16, 2016.

(10) Wells Fargo & Company has reported the beneficial ownership of an aggregate of 1,294,149 shares of Common Stock, on behalf the following subsidiaries: Wells Capital Management Incorporated, Wells Fargo Advisors, LLC, Wells Fargo Funds Management, LLC, and Wells Fargo Bank, National Association. It has reported sole power to vote 9,002 shares and sole power to dispose of 9,002 of such shares and 1,182,215 shares of Common Stock for which it has shared voting power. The reported information is based on a Form 13G filed on January 13, 2016.

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

	Number of Shares Common Stock
Shares held outright	—
Performance Units, convertible into shares of Common Stock on retirement as a director	2,962
Total	2,962

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

	Number of Shares Common Stock
Shares held outright	—
Performance Units, convertible into shares of Common Stock on retirement as a director	7,341
Total	7,341

(13) Mr. Paul B. Comiskey's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	30,751
Unvested Restricted Stock	50,056
Held in 401(k) Plan	800
Exercisable Stock Options	18,000
Total	99,607

(14) Mr. W. Derek Davis's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	40,854
Shares held by his wife	4,500
Unvested Restricted Stock	16,100
Held in 401(k) Plan	4,257
Exercisable Stock Options	2,500
Total	68,211

(15) Mr. Jon A. Faulkner's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	48,557
Unvested Restricted Stock	65,586
Exercisable Stock Options	11,000
Total	125,143

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

	Number of Shares Common Stock	Number of Shares Class B Common Stock	
Shares held outright	—	78,868	(a)
Shares held by his wife	100	—	
Shares held in trust(s) for children	2,585	10,000	(a)
Shares held in 401(k)	2,301	—	
Unvested Restricted Stock	3,451	73,104	(a)
Options to acquire Common Stock, exercisable within 60 days	22,000	—	
Deemed conversion of Class B Stock	161,972	—	(a)
Total	192,409	161,972	

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

(17) Mr. Walter W. Hubbard's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Performance Units, convertible into shares of Common Stock on retirement as a director	18,201
Total	18,201

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

	Number of Shares Common Stock
Shares held outright	31,198
Performance Units, convertible into shares of Common Stock on retirement as a director	19,501
Total	50,699

(19) Mr. V. Lee Martin's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	14,054
Unvested Restricted Stock	16,892
Total	30,946

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

	Number of Shares Common Stock
Shares held outright	—
Performance Units, convertible into shares of Common Stock on retirement as a director	7,341
Total	7,341

(21) Mr. John W. Murrey's beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	3,468
Performance Units, convertible into shares of Common Stock on retirement as a director	32,511
Held by wife	500
Total	36,479

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

	Number of Shares Common Stock
Shares held outright	—
Performance Units, convertible into shares of Common Stock on retirement as a director	3,175
Total	3,175

(23) Includes: (i) 172,145 shares of Common Stock owned directly by individuals in this group; (ii) 8,154 shares of Common Stock allocated to accounts in the 401(k) Plan of members of this group; (iii) options, which are either immediately exercisable, or exercisable within 60 days of the Record Date to purchase 103,500 shares of Common Stock; (iv) 91,032 shares of Common Stock held pursuant to performance units issued as payment of one-half of the annual retainer for the Company's non-employee directors; (v) 64,640 shares of Common Stock owned by immediate family members of certain members of this group; (vi) 3,567 shares held in individual retirement accounts; (vii) 173,453 unvested restricted shares of Common Stock held by individuals in this group, which shares may be voted by such individuals; and (viii) 851,693 shares of Class B Common Stock held by individuals in this group, that could be converted on a share for share basis into shares of Common Stock.

(24) Includes: (i) 851,693 shares of Class B Common Stock held subject to the Shareholder Agreement described in Note (4) above.

PROPOSAL ONE
ELECTION OF DIRECTORS

Information About Nominees for Director

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

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

William F. Blue, Jr., age 57, is Chairman of the Board of The Hopeway Foundation in Charlotte, North Carolina. From 2008 until his retirement in 2014, he served as Vice Chairman of Investment Banking and Capital Markets, part of Wells Fargo Securities, LLC, in Charlotte. Throughout his 28-year investment banking career, he represented foreign and domestic corporations in financing and advisory assignments, including acquisitions, divestitures, recapitalizations, fairness opinions, and public and private equity and debt offerings. From 1998 until 2008, Mr. Blue served as group head of the Wachovia Consumer and Retail Investment Banking group. Before joining Wachovia, he was a managing director in the Mergers and Acquisitions group of NationsBanc Montgomery Securities, the predecessor firm to Banc of America Securities. Mr. Blue is a member of the Company's Audit Committee, Compensation Committee and Executive Committee. He has been a director of the Company since October 2014.

Charles E. Brock, age 51, is the President and Chief Executive Officer of Launch Tennessee, a public-private partnership, focused on the development of high-growth companies in Tennessee. Previously, he served as the Executive Entrepreneur of The Company Lab, a Chattanooga organization that serves as "the Front Door for Entrepreneurs" in Southeast Tennessee and one of Launch Tennessee's regional accelerators. Mr. Brock was a founding partner of the Chattanooga Renaissance Fund, a locally based angel investment group. Mr. Brock also serves as a director of Four Bridges Capital Advisors, a Chattanooga based boutique investment bank as well as director of CapitalMark Bank and Trust. Mr. Brock is a member of the Company's Audit Committee and a member of the Company's Nominations and Corporate Governance Committee. He has been a director of the Company since 2012.

Daniel K. Frierson, age 74, is Chairman of the Board of the Company, a position he has held since 1987. He also has been Chief Executive Officer of the Company since 1980 and a director of the Company since 1973. Mr. Frierson is Chairman of the Company's Executive Committee. Mr. Frierson is currently Chairman of The Carpet and Rug Institute. Mr. Frierson serves as a director of Astec Industries, Inc., a manufacturer of specialized equipment for building and restoring the world's infrastructure headquartered in Chattanooga, Tennessee, and Louisiana-Pacific Corporation, a manufacturer and distributor of building materials headquartered in Nashville, Tennessee.

D. Kennedy Frierson, Jr., age 49, is Chief Operating Officer of the Company, a position he has held since 2009. He has been President of Masland Residential, General Manager of Dixie Home, President of Bretlin as well as various other positions in operations, sales and senior management of the Company since 1998. He has been a director of the Company since 2012.

Walter W. Hubbard, age 72, served as President and Chief Executive Officer of Honeywell Nylon, Inc., a wholly-owned subsidiary of Honeywell International, a manufacturer of nylon products from 2003 until his retirement in 2005. Prior to becoming President of Honeywell Nylon, Mr. Hubbard served as Group Vice President, Fiber Products of BASF Corporation from 1994 until 2003. Mr. Hubbard is a member of the Company's Audit Committee and the Company's Compensation Committee. He has been a director of the Company since 2005.

Lowry F. Kline, age 75, served as a director of Coca-Cola Enterprises, Inc. from April 2000 until April 2008, serving as Chairman from April 2002 until April 2008, and as Vice Chairman from April 2000 to April 2003. Mr. Kline served as Chief Executive Officer of Coca-Cola Enterprises, Inc. from April 2001 until January 2004 and from December 2005 to April 2006. Prior to becoming Chief Executive Officer for Coca-Cola Enterprises, Inc., he held a number of positions with said company, including Chief Administrative Officer, Executive Vice President and General Counsel. Mr. Kline is a member of the Board of Directors of Jackson Furniture Industries, Inc., headquartered in Cleveland, Tennessee. Mr. Kline is Chairman of the Company's Compensation Committee, a member of the Company's Audit Committee and a member of the Company's Executive Committee. He has been a director of the Company since 2004.

Hilda S. Murray, age 61, is the Corporate Secretary and Executive Vice President of TPC Printing & Packaging, a specialty packaging and printing company in Chattanooga, TN. She is also founder and President of Greener Planet, LLC, an environmental compliance consultant to the packaging and printing industry. Ms. Murray is a member of the Company's Audit Committee and the Company's Nominations and Corporate Governance Committee. She has been a director of the Company since 2012.

John W. Murrey, III, age 73, previously served as a senior member of the law firm of Witt, Gaither & Whitaker, P.C. in Chattanooga, Tennessee until June 30, 2001. Since 1993, Mr. Murrey has served as a director of Coca-Cola Bottling Co. Consolidated, a Coca-Cola bottler headquartered in Charlotte, North Carolina and has served on its Audit Committee. From 2003 to 2007, he also served as a director of U. S. Xpress Enterprises, Inc., a truckload carrier headquartered in Chattanooga, Tennessee, and was Chairman of its Audit Committee. Mr. Murrey has been a director of the Company since 1997 and is a member of the Company's Audit Committee and is Chairman of the Company's Nominations and Corporate Governance Committee.

Michael L. Owens, age 59, is Assistant Dean of Graduate Programs and Lecturer in the College of Business at the University of Tennessee at Chattanooga, Chattanooga, Tennessee. Prior to joining the University of Tennessee at Chattanooga, Mr. Owens was President of Coverdell & Company, Atlanta, Georgia. Prior to joining Coverdell, he was Senior Vice President and Chief Operating Officer of Monumental Life Insurance Company. He has been a director of the Company since 2014 and is Chairman of the Company's Audit Committee.

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

Considerations with Respect to Nominees

In selecting the slate of nominees for 2016, the Independent Directors of the Board considered the familiarity of the Company's incumbent Directors with the business and prospects of the Company, developed as a result of their service on the Company's Board. The Board believes that such familiarity will be helpful in their service on the Company's Board. With respect to all nominees, the Independent Directors of the Board noted the particular qualifications, experience, attributes and skills possessed by each nominee. These qualifications are reflected in the business experience listed under each nominee's name, above. In order of the list of nominees, such information may be summarized as follows: Mr. Blue is an experienced investment banker having been Vice Chairman of Wells Fargo Securities and involved with capital formation, mergers, acquisitions and financing of various types of ventures. Mr. Brock is experienced in establishing new businesses having been involved in the establishment of both Foxmark Media and CapitalMark Bank and Trust. Mr. Daniel K. Frierson has served with the Company in several management and executive capacities his entire adult life, and has been Chief Executive Officer since 1980 and a Board member since 1973. In such capacity, he has been instrumental in planning and implementing the transition of the Company to its current position as a manufacturer of residential and commercial soft floorcovering products. Additionally, Mr. Frierson has experience as a board member of other public companies as well as significant trade group experience relevant to the Company's business. He is well known and respected throughout the industry. Mr. D. Kennedy Frierson, Jr. has served with the Company in various capacities since 1992. He is currently Chief Operating Officer and has most recently led the Company's Masland Residential business. Mr. Hubbard has highly relevant industry experience with businesses that are fiber producers and fiber suppliers, and that have served as fiber suppliers to the Company. Mr. Hubbard's experience in the management of Honeywell Nylon and BASF Corporation, as outlined above, has given him valuable experience in management, relevant to his duties as a Director of the Company. Ms. Murray has a long history of executive management experience at TPC Printing and Packaging, a provider to the specialty packaging business as well as experience with environmental controls and footprint through Greener Planet. Mr. Kline has a long history of management and board level experience with the world's largest bottler and distributor of Coca Cola Products. Additionally, he has an extensive background in business, corporate and securities law. Mr. Kline has served as a Director of the Company for several years, as reflected above, and chairs the Company's Compensation committee. Mr. Murrey has extensive experience in corporate, securities and business law, has experience drawn from board and committee service with several publicly-traded companies, other than the Company; prior to his retirement in 2001, he represented the Company as counsel. Mr. Murrey is chairman of the Company's Nominations and Corporate Governance committee. Mr. Owens has extensive business and management experience, having served as President of Coverdell & Company prior to joining the University of Tennessee at Chattanooga. In addition, he has auditing experience having been employed as a certified public accountant and is Chairman of the Company's Audit committee

The Board of Directors recommends that the Company's shareholders vote FOR electing the nine (9) nominees for director.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors

The Board of Directors of the Company met five (5) times in 2015.

Committees, Attendance, and Directors' Fees

The Company has a standing Executive Committee, Audit Committee, Compensation Committee, and Nominations and Corporate Governance Committee. Copies of the Charter of the Company's Audit Committee, Compensation Committee and Nominations and Corporate Governance Committee may be found on the Company's website at www.thedixiegroup.com/investor/investor.html.

Members of the Executive Committee are Daniel K. Frierson, Chairman, William F. Blue, Jr. and Lowry F. Kline. Except as otherwise limited by law or by resolution of the Board of Directors, the Executive Committee has and may exercise all of the powers and authority of the Board of Directors for the management of the business and affairs of the Company, which power the Executive Committee exercises between the meetings of the full Board of Directors. The Executive Committee did not meet in 2015.

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

The Audit Committee met four (4) times in 2015.

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

The Compensation Committee may request recommendations from the Company's management concerning the types and levels of compensation to be paid to the Company's executive officers. Additionally, the Compensation Committee is authorized to engage compensation consultants and may review and consider information and recommendations of compensation consultants otherwise engaged by the Company or the Board of Directors in connection with the assessment, review and structuring of compensation plans and compensation levels. For a description of the Compensation Committee actions with respect to Compensation of Executive Officers in 2015, see ***Compensation Discussion and Analysis - Compensation for 2015***.

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

The Compensation Committee met three (3) times in 2015.

The members of the Nominations and Corporate Governance Committee are John W. Murrey, III, Chairman, Charles E. Brock, and Hilda S. Murray. The Nominations and Corporate Governance Committee develops and recommends for board approval corporate governance guidelines.

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

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

- at all times at least a majority of directors must be "independent" in the opinion of the Board as determined in accordance with relevant regulatory and NASD standards;

- at all times at least three members of the Board must satisfy heightened standards of independence for Audit Committee members; and

- at all times the Board should have at least one member who satisfies the criteria to be designated by the Board as an "audit committee financial expert".

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

The newly formed Nominations and Corporate Governance Committee held its first formal meeting on February 11, 2016.

Board Leadership Structure

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

Director Attendance

During 2015, no director attended fewer than 75% of the total number of meetings of the Board of Directors and any Committee of the Board of Directors on which he served. All directors are invited and encouraged to attend the annual meeting of shareholders. In general, all directors attend the annual meeting of shareholders unless they are unable to do so due to unavoidable commitments or intervening events. All nine (9) of the directors attended the 2015 annual meeting of shareholders.

Director Compensation

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

Independent Directors

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

Executive Sessions of the Independent Directors

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

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, and regulations of the SEC thereunder, require the Company's executive officers and directors and persons who beneficially own more than 10% of the Company's Common Stock, as well as certain affiliates of such persons, to file initial reports of such ownership and monthly transaction reports covering any changes in such ownership with the SEC and the National Association of Securities Dealers. Executive officers, directors and persons owning more than 10% of the Company's Common Stock are required by SEC regulations to furnish the Company with all such reports they file. Based on its review of the copies of such reports received by it, the Company believes that, during fiscal year 2015, all filing requirements applicable to its executive officers, directors, and owners of more than 10% of the Company's Common Stock have been met.

Management Succession

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

Certain Transactions between the Company and Directors and Officers

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

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

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

Certain Related Party Transactions

During its fiscal year ended December 26, 2015, the Company purchased a portion of its product needs in the form of fiber, yarn, carpet and dyeing services from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of the Company. Mr. Shaw has reported holding approximately 8.4% of the Company's Common Stock, which, as of year-end, represented approximately 4.0% of the total vote of all classes of the Company's Common Stock. Engineered Floors is one of several suppliers of such products to the Company. Total purchases from Engineered Floors for 2015 were approximately $8 million; or approximately 2.8% of the Company's cost of goods sold in 2015. In accordance with the terms of its charter, the Compensation Committee reviewed the Company's supply relationship with Engineered Floors. The dollar value of Mr. Shaw's interest in the transactions with Engineered Floors is not known to the Company.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

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

The Committee has reviewed and discussed with management the audited financial statements of the Company for the year ended December 26, 2015 (the "Audited Financial Statements"). In addition, the Committee has discussed with Dixon Hughes Goodman LLP all matters required by applicable auditing standards.

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

Based on the foregoing review and discussions and relying thereon, the Committee has recommended to the Company's Board of Directors the inclusion of the Company's Audited Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 26, 2015, to be filed with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

Michael L. Owens, Chairman
William F. Blue, Jr.
Charles E. Brock
Walter W. Hubbard
Lowry F. Kline
Hilda S. Murray
John W. Murrey, III

AUDIT COMMITTEE FINANCIAL EXPERT

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

COMPENSATION DISCUSSION AND ANALYSIS

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

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

The Elements of Executive Officer Compensation

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

Compensation for 2015. During 2015, the Compensation Committee engaged Pay Governance, an independent compensation consultant, to assist the Committee in structuring awards of restricted shares for the Chief Executive Officer, the President of the Company's Residential business and selected key associates designed to serve as incentives to continued service. The Committee considered the independence of the consultant and reviewed its recommendations concerning the retention awards. Following consideration of the Consultant's recommendations, the Committee adopted the retention award plans.

Effective February 24, 2015, the Compensation Committee selected performance goals and a range of possible incentives for the Company's 2015 Incentive Compensation Plan (the "2015 Plan"). Pursuant to the 2015 Plan, each executive officer had the opportunity to earn a Cash Incentive Award, a Primary Long-Term Incentive Award of restricted stock, and an award of restricted stock denominated as "Career Shares." The potential range of cash incentives and conditions to vesting of the restricted stock awards are described below.

For 2015, each executive officer also received customary retirement plan benefits and other customary employment benefits, as in prior years.

Salary for 2015. The base salaries for the executive officers were not adjusted during 2015. See the 2015 Summary Compensation Table for a tabular presentation of the amount of salary and other compensation elements paid in proportion to total compensation for each named executive officer.

Potential Incentive Awards for 2015. The CEO and all executive officers whose responsibilities primarily relate to corporate level administration had the opportunity to earn a cash payment ranging from 15% to no more than 105% of such executive's base salary (from 45% to 105% for the Chief Executive Officer and Chief Operating Officer, and from 30% to 90% for the Chief Financial Officer). Fifty percent of the amount of the potential award was based on achievement of specified levels of operating income from continuing operations for the Company's consolidated operating income, as adjusted for unusual items, 30% of the amount was based on achievement of specified levels of the Company's residential business operations, as adjusted for unusual items, and 20% of the amount was based on achievement of specified levels of the Company's commercial business operating income, as adjusted for unusual items.

Executive officers whose responsibilities primarily relate to one of the Company's business units, had the opportunity to earn a cash payment ranging from 15% to no more than 75% of such participant's base salary. Fifty five percent of the amount was based on achievement of specified levels of their annual business unit operating income, as adjusted for unusual items, 30% was based on the achievement of specified levels of the Company's consolidated operating income, as adjusted for unusual items, and 15% was based on achievement of specified levels of the annual operating income of the Company's other business units, as adjusted for unusual items.

Primary Long-Term Incentive Share Awards and Career Shares Awards for 2015. The incentive plan provided for two possible awards of restricted stock in addition to the retention awards: Primary Long-Term Incentive Share Awards and Career Share Awards. Receipt of the Primary Long-Term Incentive Share Awards and Career Share Awards were made contingent on the Company's achievement of minimum levels of adjusted operating income and, in the case of Career Share Awards, having a profitable operating income, as adjusted.

The Primary Long-Term Incentive Share Award was designed as a possible award of restricted shares, in value equal to no more than 35% of the executive's base salary as of the beginning of 2015 plus any cash incentive award paid for such year. Any Primary Long-Term Incentive Share Awards, if earned, vest ratably over three years.

Career Shares were designed as a possible award of restricted stock valued at 20% of each executive officer's base salary as of the beginning of the year, excluding the Company's Chief Operating Officer and Chief Financial Officer. The level of career share awards was increased to 35% and 30%, respectively, of the Chief Operating Officer's and Chief Financial Officer's base salary, with vesting of such awards occurring ratably over 5 years beginning after the participant's 61st birthday.

In accordance with past practice, any such award, if earned, would be granted in 2017. For participants age 61 or older, the Career Share Awards vest ratably over two years from the date of the grant. For the participants age 60 or younger, shares vest ratably over five years from the date of grant after participant reaches age 61.

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

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

2015 Incentive Awards. No cash Awards were made for 2015 for the named executive officers. No Primary Long-Term Incentive Share Awards were granted in 2016 with respect to 2015 for the named executive officers. Career Share Awards were granted in 2016 with respect to 2015 for the following named executive officers: Mr. Daniel K. Frierson - 25,000 shares, Mr. D. Kennedy Frierson, Jr. - 22,400 shares, Mr. Paul B. Comiskey - 12,000 shares, Mr. Jon A. Faulkner -16,200 shares and Mr. V. Lee Martin - 9,200 shares.

2015 Retention Awards. Retention grants of restricted stock were awarded as follows: 100,000 shares to the Company's Chief Executive Officer, Daniel K. Frierson, and 10,000 and 20,000 shares to the Company's President Residential, Paul B. Comiskey. Each of the additional awards is subject to a Continued Service Condition. In the case of the award to the Chief Executive Officer, the award is subject to a Performance Condition, namely that the Company's cumulative Operating Income as Adjusted as of fiscal year end 2018 (or in the case of death, disability, change of control, or other involuntary termination without cause, the end of the most recent quarterly accounting period), must equal or exceed 440% of the Company's Operating Income as Adjusted as of fiscal year end 2014.

Incentive Compensation Applicable to 2016. Following year-end, the Committee adopted an incentive plan for 2016 providing for possible cash incentive awards and restricted stock awards in the form of Long-Term Incentive Share Awards and Career Share awards, as in prior years, and similar in structure to the annual plan adopted for 2015. Any such awards, if earned, would be paid, in the case of the cash award, or granted, in the case of the restricted stock awards, in March 2017. Terms of the plan applicable to 2016 are set forth in more detail under Proposal Three, below.

The Compensation Committee also revised and approved the material terms of the performance goals that would be applicable to 2016-2020. The description of performance criteria from which the Compensation Committee may choose in structuring performance awards is restated to include all potential criteria available under the 2016 Incentive Compensation Plan. Accordingly, the material terms of the performance goals as revised and restated are being submitted to the Company's shareholders for their approval. **See "Proposal Three, To Consider and Approve the Material Terms of the Performance Goals Applicable to 2016-2020"**.

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

Executive officers may elect to contribute a limited amount of their compensation to the qualified plan and make deferrals into the non-qualified plan (up to 90% of total compensation). Although the plans permit the Company to make discretionary contributions in an aggregate amount equal to up to 3% of the executive officer's cash compensation, for 2015 the Company made a contribution of 1% to the qualified plan, while no Company contributions were made to the non-qualified plan.

Compensation Considerations for 2015. The tax effect of possible forms of compensation on the Company and on the executive officers is a factor considered in determining types of compensation to be awarded. Similarly, the accounting treatment accorded various types of compensation may be an important factor used to determine the form of compensation. For 2015, the Committee considered the possible tax effects of cash incentives and equity incentive awards that may not qualify as "incentive compensation" under Section 162m of the Internal Revenue Code. The Company held a "Say on Pay" vote at its annual meeting in 2015. At that meeting, in excess of 95% of the votes were cast "For" approval of our executive compensation as described in the Proxy Statement for that meeting. The Committee intends to consider these results as part of its ongoing review of executive compensation.

Termination Benefits. Upon a Participant's reaching retirement age (as defined in the plan), all Long-Term Incentive Plan and Career Share restricted stock awards vest to the extent such awards have been expensed in the Company's financial statements. As of year-end, Daniel K. Frierson, Paul B. Comiskey and V. Lee Martin were the only Named Executive Officers eligible for retirement in accordance with the terms of the restricted stock awards. If Mr. Frierson had retired at year end, the number of shares subject to such awards that would have vested and the value of such shares would have been 21,136 shares and $117,726. If Mr. Comiskey had retired at year end, the number of shares subject to such awards that would have vested and the value of such shares would have been 9,545 shares and $53,164. If Mr. Martin had retired at year end, the number of shares subject to such awards that would have vested and the value of such shares would have been 7,079 shares and $39,427. For purposes of valuing the foregoing awards, the Company used the year-end market value of the Company's Common Stock, which was $5.57/share.

No termination benefit was paid to or accrued for any executive officer named in the accompanying tables in the fiscal year ended December 26, 2015.

Compensation Committee Report

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

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

Respectfully submitted,

Lowry F. Kline, Chairman
William F. Blue, Jr.
Walter W. Hubbard

EXECUTIVE COMPENSATION INFORMATION

The following table sets forth information as to all compensation earned during the fiscal years ended December 28, 2013 and December 27, 2014 and December 26, 2015 to (i) the Company's Chief Executive Officer; and (ii) the Company's Chief Financial Officer, and (iii) the three other most highly compensated executive officers who served as such during the fiscal year ended December 26, 2015 (the "Named Executive Officers"). For a more complete discussion of the elements of executive compensation, this information should be read in conjunction with the other tabular information presented in the balance of this section.

Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary ($) (c)(1)	Bonus ($) (d)(2)	Stock Awards ($) (e)(3)	Option Awards ($) (f)	Nonqualified Compensation Earnings ($) (h)(4)	All Other Compensation ($) (i)(5)	Total ($) (j)
Daniel K Frierson Chief Executive Officer	2015	625,000	—	1,102,427	—	—	5,004	1,732,431
	2014	625,000	326,650	481,802	—	—	6,866	1,440,318
	2013	587,083	104,592	288,720	—	—	5,329	985,724
D. Kennedy Frierson, Jr. Chief Operating Officer	2015	320,000	—	108,355	—	—	5,004	433,359
	2014	320,000	148,532	222,460	—	—	6,597	697,589
	2013	285,000	47,549	133,783	—	—	4,785	471,117
Paul B. Comiskey Vice President, President Residential	2015	300,000	—	325,349	—	—	5,004	630,353
	2014	300,000	151,174	217,224	—	—	6,755	675,153
	2013	270,833	44,643	128,359	—	—	4,913	448,748
Jon A. Faulkner, Chief Financial Officer	2015	270,000	—	78,363	—	—	5,004	353,367
	2014	270,000	127,003	188,743	—	—	6,634	592,380
	2013	240,833	41,090	113,427	—	—	4,546	399,896
V. Lee Martin, Vice President, President Masland Contract	2015	230,000	—	44,505	—	—	4,907	279,412
	2014	243,333	108,415	175,058	—	—	6,216	533,022
	2013	238,333	12,768	52,357	—	—	1,672	305,130

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

(2) Cash bonuses are shown in the year granted, not earned, because employment through year-end is a condition of earning the award. No cash incentive was earned for 2015.

(3) Amounts reflect the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for the year presented of stock awards to the Named Executive Officers.

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

(5) The following table is a summary and quantification of all amounts included in column (i).

All Other Compensation

Name (a)	Year (b)	Registrant Contributions to Defined Contributions Plans ($)(c)	Insurance Premiums ($)(d)	Other ($)(f)	Total Perquisites and Other Benefits ($)(g)(1)
Daniel K. Frierson	2015	2,125	2,879		5,004
	2014	3,987	2,879		6,866
	2013	2,450	2,879		5,329
D. Kennedy Frierson, Jr.	2015	2,125	2,879		5,004
	2014	3,987	2,610		6,597
	2013	2,450	2,335		4,785
Paul B. Comiskey	2015	2,125	2,879		5,004
	2014	3,987	2,768		6,755
	2013	2,450	2,463		4,913
Jon A. Faulkner	2015	2,125	2,879		5,004
	2014	3,987	2,647		6,634
	2013	2,450	2,096		4,546
V. Lee Martin	2015	2,125	2,782		4,907
	2014	4,000	2,216		6,216
	2013	—	1,672		1,672

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

Grants of Plan-Based Awards

Estimated Future Payouts Under Equity Incentive Plan Awards (1)

Name (a)	Grant Date (b)	Shares of Stock or Units (#) (i)	Grant Date Fair Value of Stock and Option Awards ($)
Daniel K. Frierson	3/12/2015	13,572	120,927
	4/29/2015	100,000	981,500
D. Kennedy Frierson, Jr.	3/12/2015	12,161	108,355
Paul B. Comiskey	3/12/2015	6,515	58,049
	3/12/2015	10,000	89,100
	3/12/2015	20,000	178,200
Jon A. Faulkner	3/12/2015	8,795	78,363
V. Lee Martin	3/12/2015	4,995	44,505

(1) The amount set forth in the table reflects the grant date fair value of the award determined in accordance with FASB ASC Topic 718, with respect to the awards granted February 24, 2015.

All awards of restricted stock made to the Named Executive Officers under the 2015 Incentive Compensation Plan were granted in 2016, in accordance with the terms of the plan. Such awards are as follows:

Name	Long-Term Incentive Award Shares	Career Shares (1)	Total Shares
Daniel K. Frierson*	—	25,000	25,000
D. Kennedy Frierson, Jr.*	—	22,400	22,400
Paul B. Comiskey	—	12,000	12,000
Jon A. Faulkner	—	16,200	16,200
V. Lee Martin	—	9,200	9,200

*Pursuant to Mr. Daniel K. Frierson's election, 12,500 shares of the total of his awards were granted as shares of Class B Common Stock and pursuant to Mr. D. Kennedy Frierson, Jr.'s election, 21,765 shares of the total of his awards were granted as Class B Common Stock.

(1) Share awards are subject to a $5.00 minimum valuation per share when determining the amount of shares to be rewarded.

Option Exercises and Stock Vested

Name (a)	Option Awards Number of Shares Acquired on Exercise (#)(b)	Option Awards Value Realized on Exercise ($)(c)	Stock Awards Number of Shares Acquired on Vesting (#)(d)	Stock Awards Value Realized on Vesting ($)(e)(1)
Daniel K. Frierson	49,287	117,360	49,493	440,983
D. Kennedy Frierson, Jr.	—	—	15,843	141,161
Paul B. Comiskey	—	—	22,069	196,635
Jon A. Faulkner	—	—	13,442	119,768
V. Lee Martin	—	—	11,296	106,467

(1) The value realized is calculated as the closing price on the relevant vesting date times the number of vested shares.

The following table sets forth information concerning the Company's Non-Qualified Defined Contribution Plan for each of the Named Executive Officers for the fiscal year ended December 26, 2015. The Company does not maintain any other non-tax qualified deferred compensation plans. There were no withdrawals or distributions by or to the Named Executive Officers in the fiscal year ended 2015.

Nonqualified Deferred Compensation

Name (a)	Executive Contribution in Last FY ($) (1)(b)	Registrant Contribution in Last FY ($) (c)	Aggregate Earnings in Last FY ($) (2)(d)	Aggregate Withdrawals/ Distributions ($)(e)	Aggregate Balance at Last FYE ($) (3)(f)
Daniel K. Frierson	31,250	—	(77,208)	—	2,019,980
D. Kennedy Frierson, Jr.	19,200	—	(785)	—	429,882
Paul B. Comiskey	18,000	—	(257)	—	73,354
Jon A. Faulkner	32,400	—	2,432	—	1,156,307
V. Lee Martin	—	—	—	—	—

(1) For each of the named executive officers, the entire amount reported in this column (b) is included within the amount report in column (c) of the 2015 Summary Compensation Table.

(2) None of the amounts reported in this column (d) are reported in column (h) of the 2015 Summary Compensation Table because the Company does not pay guaranteed, above-market or preferential earnings on deferred compensation.

(3) Amounts reported in this column (f) for each named executive officer include amounts previously reported in the Company's Summary Compensation Table last year when earned if that officer's compensation was required to be disclosed in the previous year. This total reflects the cumulative value of each named executive officer's deferrals and investment experience.

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

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards	
Name (a)	Exercisable (#)(b)	Unexercisable (#)(c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Option (#)(d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(j)
Daniel K. Frierson	50,000	—	—	5.00	11/4/2019	143,780	800,855
D. Kennedy Frierson, Jr.	22,000	—	—	5.00	11/4/2019	76,555	426,411
Paul B. Comiskey	18,000	—	—	5.00	11/4/2019	50,056	278,812
Jon A. Faulkner	11,000	—	—	5.00	11/4/2019	65,586	365,314
V. Lee Martin	—	—	—	—	—	16,892	94,088

(1) The market value of the restricted stock set forth in the table has been calculated by multiplying the closing price of the Company's Common Stock at year-end ($5.57/share) by the number of shares of unvested restricted stock subject to the award.

DIRECTOR COMPENSATION

Name (a)	Fees earned or paid in cash ($) (b)(1)	Stock Awards ($) (c)(2)	Option Awards ($) (d)	All Other Compensation ($) (e)	Total ($)
William F. Blue, Jr.	29,500	18,000	—	—	47,500
Charles E. Brock	31,500	18,000	—	—	49,500
J. Don Brock	4,000	—	—	—	4,000
Walter W. Hubbard	32,500	18,000	—	—	50,500
Lowry F. Kline	40,500	18,000	—	—	58,500
Hilda S. Murray	29,500	18,000	—	—	47,500
John W. Murrey, III	36,500	18,000	—	—	54,500
Michael L. Owens	37,500	18,000	—	—	55,500

(1) Directors who are employees of the Company do not receive any additional compensation for their services as members of the Board of Directors. Non-employee directors receive an annual retainer of $36,000, payable $18,000 in cash and the remainder in Performance Units (subject, for payments made in 2013, 2014 and 2015, to a $5.00 minimum value per unit). In addition to the annual retainer, directors who are not employees of the Company received $1,500 for each Board meeting attended and $1,000 for each committee meeting attended. Chairmen of the Audit and Compensation committees receive an additional annual payment of $8,000 and the Chairmen of the Nominations and Corporate Governance Committee receives an additional annual payment of $4,000. Also, directors receive reimbursement of the expenses they incur in attending all board and committee meetings. In addition to the annual retainer, directors who are not employees of the Company receive $1,500 for each Board meeting attended and $1,000 for each committee meeting attended.

(2) The value presented is the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The value of the Performance Units awarded to each non-employee director under the Directors Stock Plan in 2015 was $18,000.

At fiscal year-end, each non-employee director held the following outstanding equity awards:

Name (a)	Performance Units (#)(b)(1)
William F. Blue, Jr.	2,962
Charles E. Brock	7,341
Walter W. Hubbard	18,201
Lowry F. Kline	19,501
Hilda S. Murray	7,341
John W. Murrey, III	32,511
Michael L. Owens	3,175

(1) The performance units represent an equal number of shares of the Company's Common Stock. At year-end, the aggregate value of such stock was $507,048, determined by multiplying the number of performance units by the year-end per share market value of the Company's Common Stock ($5.57/share).

PROPOSAL TWO

TO APPROVE ADOPTION OF THE COMPANY'S 2016 INCENTIVE COMPENSATION PLAN

On February 11, 2016, the Compensation Committee approved and recommended to the Board of Directors The Dixie Group, Inc. 2016 Incentive Compensation Plan (the "2016 Incentive Compensation Plan"), providing for the issuance of a maximum of 800,000 shares of Common Stock and/or Class B Common Stock in connection with the grant of options and/or other stock-based or stock-denominated awards. The Board of Directors approved the 2016 Incentive Compensation Plan and recommended it be submitted to shareholders for approval at the annual meeting. If approved by shareholders at our annual meeting, the 2016 Incentive Compensation Plan will become effective on May 3, 2016. A copy of the 2016 Incentive Plan is attached as Appendix A. If approved the term of the plan will be from May 2016 to May 2025. Material terms of the Performance Goals applicable to 2016 - 2020 are separately presented for shareholder approval under Proposal Three. **See "Proposal Three, To Consider and Approve the Material Terms of the Performance Goals Applicable to 2016 - 2020"**.

The 2016 Incentive Compensation Plan and the allocation of shares thereunder is intended to supersede and replace The Dixie Group, Inc. 2006 Stock Awards Plan, as amended (the "2006 Plan") and the allocation of shares thereunder. As part of this proposal, the existing 2006 Plan, with approximately 281,742 shares available for grant as of March 11, 2016, will be terminated with respect to new awards.

The 2016 Incentive Compensation Plan includes the following features that protect the interests of our shareholders:

Administration by a Compensation Committee composed entirely of independent directors.

A fixed number of shares available for grant that will not automatically increase because of an "evergreen" feature.

Exercise prices (when applicable) must be at least 100% of fair market value on the date of the award.

Option Awards (and other awards granted with applicable exercise prices) may not be re-priced by any action that has the effect of reducing the exercise price of such option (or other such award).

The 2016 Incentive Compensation Plan sets the maximum number of options that may be granted to any one Participant during any fiscal year of the Company at 150,000. The maximum number of shares of restricted stock that may be granted to any one employee during any fiscal year of the Company is set at 330,000, and the maximum number of performance units that may be granted to any non-employee director in any one fiscal year is set at 20,000.

No material amendments will be made without the approval of shareholders.

Termination of Existing Plan

If the proposal to adopt the 2016 Incentive Compensation Plan is approved, the 2006 Plan will be terminated. Awards previously granted under the 2006 Plan will continue to be governed by the terms of that plan and will not be affected by its termination. However, no new grants will be made under the 2006 Plan, and no additional shares will become available for grant thereunder.

Description of The Dixie Group, Inc. 2016 Incentive Compensation Plan (subject to shareholder approval)

The following is a brief description of certain important features of the 2016 Incentive Compensation Plan, the full text of which is attached as Appendix A. This summary does not purport to be complete and is qualified in its entirety by reference to Appendix A. If the proposal to adopt the 2016 Incentive Compensation Plan is approved, we intend to promptly file a registration statement on Form S-8 under the Securities Act of 1933, as amended, registering the shares available for issuance under the 2016 Incentive Compensation Plan.

General. The 2016 Incentive Compensation Plan provides for various types of awards denominated in shares of Common Stock and/or Class B Common Stock to employees, officers, directors and agents of the Company and its participating subsidiaries. The primary purposes of the 2016 Incentive Compensation Plan are to attract and retain such persons by providing competitive compensation opportunities, to provide incentives for those who contribute to the long-term performance and growth of the Company, and to align employee and director interests with those of our shareholders.

Administration. The 2016 Incentive Compensation Plan is administered by the Compensation Committee of the Board. All members of the Compensation Committee must satisfy the requirements for independence of the Securities Exchange Act Rule 16b-3 and remain qualified as "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Compensation Committee has the authority to administer and interpret the 2016 Incentive Compensation Plan, to determine the employees to whom awards will be granted under the 2016 Incentive Compensation Plan and, subject to the terms of the 2016 Incentive Compensation Plan, the type and size of each award, the terms and conditions for vesting, cancellation and forfeiture of awards and the other features applicable to each award or type of award. The Committee may accelerate or defer the vesting or payment of awards, cancel or modify outstanding awards, waive any conditions or restrictions imposed with respect to awards or the stock issued pursuant to awards and make any and all other determinations that it deems appropriate, subject to the limitations contained in the 2016 Incentive Compensation Plan, including minimum vesting requirements, prohibitions against re-pricing, and provisions designed to maintain compliance with the requirements of Sections 422 (for incentive stock options), 162 (m) and 409A of the Internal Revenue Code, as well as other applicable laws and stock exchange rules.

The Committee may delegate some or all of its authority over administration of the 2016 Incentive Compensation Plan to one or more officers or directors, except with respect to persons who are Section 16(a) officers or covered employees (as defined in the 2016 Incentive Compensation Plan).

Eligibility. All “employees” of the Company - within the SEC’s broad definition set forth in the instructions to the Form S-8 registration statement, which includes employees, officers, directors and (subject to certain restrictions) consultants and advisors to the Company - are eligible to receive awards under the 2016 Incentive Compensation Plan. Participation is discretionary - awards are subject to approval by the Compensation Committee.

Shares Subject to the Plan. The maximum number of shares of Common Stock and/or Class B Common Stock that may be issued as awards pursuant to the 2016 Incentive Compensation Plan is 800,000 shares.

The maximum number of shares of Common Stock that may be issued under the 2016 Incentive Compensation Plan will not be affected by the payment in cash of dividends or dividend equivalents in connection with outstanding awards, the granting or payment of stock-denominated awards that by their terms may be settled only in cash, or awards that are granted through the assumption of, or in substitution for, outstanding awards previously granted to individuals who have become employees as a result of a merger, consolidation, or acquisition or other corporate transaction involving the Company or a subsidiary. Additionally, shares used by a participant to exercise an option, and shares withheld by the Company to cover the withholding tax liability associated with the exercise of an option are not counted toward the maximum number of shares that may be issued under the 2016 Incentive Compensation Plan and, accordingly, will not reduce the number of shares that will be available for future awards.

Shares of Common Stock and/or Class B Common Stock issued in connection with awards under the 2016 Incentive Compensation Plan may be shares that are authorized but unissued, or previously issued shares that have been reacquired, or both. If an award under the 2016 Incentive Compensation Plan is forfeited, canceled, terminated or expires prior to the issuance of shares, the shares subject to the award will be available for future grants under the 2016 Incentive Compensation Plan. Shares subject to outstanding awards granted under other plans shall not be subject to future issuance under the 2016 Incentive Compensation Plan, if such awards are forfeited, canceled, terminated or expire prior to the issuance of shares.

Limit on Awards. The aggregate number of shares of Common Stock and/or Class B Common Stock subject to awards of stock options that may be granted to any one Participant during any fiscal year of the Company may not exceed 150,000. The maximum number of shares of restricted stock that may be granted to any one Participant during any fiscal year of the Company is set at 330,000, and the maximum number of performance units that may be granted to any non-employee director in any fiscal year is set at 20,000. Performance units may be granted annually to non-employee directors in payment of up to one half of such directors' annual retainer, which may be set at the beginning of each annual term.

Proportional Exercise for Common Stock and Class B Common Stock. All awards granted under the 2016 Plan shall be denominated and documented with reference to the number of shares of Common Stock subject to such award; provided, however, that any participant who owns shares of the Company’s Class B Common Stock shall be entitled to elect, on the election date applicable to any award, to receive a portion of such award in shares of Class B Common Stock in an amount no greater than the proportion of Class B Common Stock then held by such participant.

Types of Awards. The following types of awards may be granted under the 2016 Incentive Compensation Plan. All of the awards described below are subject to the conditions, limitations, restrictions, vesting and forfeiture provisions determined by the Compensation Committee, in its sole discretion, subject to such limitations as are provided in the 2016 Incentive Compensation Plan. The number of shares subject to any award is also determined by the Compensation Committee, in its discretion. At the discretion of the Compensation Committee, awards may be made subject to or may vest on an accelerated basis upon the achievement of performance criteria, which may be established on a Company-wide basis or with respect to one or more business units or divisions or subsidiaries and may be based upon the attainment of criteria as may be determined by the Committee and set forth in the participant’s Award Agreement. Awards which vest in less than six (6) months from the date of grant may be made to employees who are exempt from the overtime pay provisions of the Federal Fair Labor Standards Act.

Qualifying Performance Award. The Committee may, in its sole discretion, grant a Qualifying Performance Award to any Section 162(m) Participant, which shall be subject to the terms and conditions established by the Committee in connection with the award and specified in the applicable award document, but in all events subject to the attainment of Section 162(m) Performance

Goals as may be specified by the Committee, in accordance with the 2016 Incentive Compensation Plan. The material terms of the Performance Goals (applicable to 2016-2020) are discussed below in Proposal Three, and submitted to shareholders for their review and approval. Awards to Section 162(m) Participants need not be structured as Qualifying Performance Awards.

***Restricted Stock**.* A restricted stock award is an award of outstanding shares of Common Stock and/or Class B Common Stock that does not vest until after a specified period of time, or upon the satisfaction of other vesting conditions as determined by the Compensation Committee, and which may be forfeited if conditions to vesting are not met. Participants generally receive dividend payments on the shares subject to an award of restricted stock during the vesting period, and are also generally entitled to vote the shares underlying their awards.

***Stock Unit; Performance Units**.* A stock unit is an award denominated in shares of Common Stock and/or Class B Common Stock that may be settled either in shares and/or cash, subject to terms and conditions determined by the Compensation Committee. Awards of stock units to non-employee directors as part of their annual director's fee are called Performance Units. Directors who are employees of the Company do not receive any additional compensation for their services as members of the Board of Directors. Non-employee directors receive an annual retainer, payable one-half in cash and one-half in value of Performance Units. Performance Units are redeemable upon a director's retirement for an equivalent number of shares of the Company's Common Stock, and the number of units issued is determined by the market value of the Company's Common Stock on the date of grant of the units. The maximum number of performance units that may be granted to any non-employee director in any one fiscal year is set at 20,000.

***Stock Payment**.* The Compensation Committee may issue unrestricted shares of Common Stock and/or Class B Common Stock under the 2016 Incentive Compensation Plan, alone or in tandem with other awards, in such amounts and subject to such terms and conditions as the Compensation Committee shall determine. A stock payment may be granted as, or in payment of, a bonus (including without limitation any compensation that is intended to qualify as performance-based compensation for purposes of Section 162(m) of the Code), or to provide incentives or recognize special achievements or contributions.

***Non-Qualified Stock Options**.* An award of a non-qualified stock option under the 2016 Plan grants a participant the right to purchase a certain number of shares of Common Stock and/or Class B Common Stock during a specified term in the future, after a vesting period, at an exercise price equal to at least 100% of the fair market value of the Common Stock on the grant date. The exercise price may be paid by any of the means described below under "Payment of Exercise Price." A non-qualified stock option is an option that does not qualify under Section 422 of the Code.

***Incentive Stock Options**.* An incentive stock option is a stock option that meets the requirements of Section 422 of the Code, which include an exercise price of no less than 100% of fair market value on the grant date, a term of no more than 10 years, and that the option be granted from a plan that has been approved by shareholders. Additional requirements apply to an incentive stock option granted to a participant who beneficially owns stock representing more than 10% of the total voting power of all outstanding stock of the Company on the date of grant. If certain holding period requirements are met and there is no disqualifying disposition of the shares, the participant will be able to receive capital gain (rather than ordinary income) treatment under the Code with respect to any gain related to the exercise of the option.

***Payment of Exercise Price**.* Payment of the exercise price of a non-qualified stock option or incentive stock option may be made in cash or, if permitted by the Compensation Committee, by tendering shares of Common Stock and/or Class B Common Stock owned by the participant and acquired at least six (6) months prior to exercise, having a fair market value equal to the exercise price, by a combination of cash and shares of Common Stock and/or Class B Common Stock or by authorizing the sale of shares otherwise issuable upon exercise, with the sale proceeds applied towards the exercise price. Additionally, the Committee may provide that stock options can be net exercised - that is exercised by issuing shares having a value approximately equal to the difference between the aggregate value of the shares as to which the option is being exercised and the aggregate exercise price for such number of shares.

***Prohibition Against Re-pricing**.* The 2016 Incentive Compensation Plan prohibits any adjustment to an award of options that would constitute a re-pricing (within the meaning of U.S. generally accepted accounting principles or any applicable stock exchange rule) of awards, and defined, for these purposes, as any action that would have the effect of reducing the exercise price of an option or other such awards.

***Additional Forfeiture Provisions**.* Awards granted under the 2016 Incentive Compensation Plan may be made subject to forfeiture if, after a termination of employment, the Participant engages in certain activities that breach an obligation or duty of the Participant to the Company, or that are materially injurious to or in competition with the Company.

***Deferrals**.* The Compensation Committee may postpone the exercise of awards, or the issuance or delivery of shares or cash pursuant to any award for such periods and upon such terms and conditions as the Compensation Committee determines, but not in contravention of Section 409A of the Code. In addition, the Compensation Committee may, but not in contravention of Section 409A of the Code, determine that all or a portion of a payment to a participant, whether in cash and/or shares, will be deferred in order to prevent the Company or any subsidiary from being denied a United States federal income tax deduction under Section 162(m) of the Code with respect to an award granted under the 2016 Incentive Compensation Plan.

Non-Transferability. During the vesting period, awards granted under the 2016 Incentive Compensation Plan are not transferable other than by will or the laws of descent and distribution, and the shares underlying any award are not transferable until they have been issued and all applicable restrictions have either lapsed or been waived by the Compensation Committee. However, the Compensation Committee may permit non-qualified stock options, or shares issued as a result of an option exercise that are subject to a restriction on transferability, to be transferred one time to a participant's immediate family member or a trust for the benefit of a participant's immediate family members. During a participant's lifetime, all rights with respect to an award maybe exercised only by the participant (or, if applicable pursuant to the preceding sentence, by a permitted transferee).

Adjustments. Subject to certain limitations, the maximum number of shares available for issuance under the 2016 Incentive Compensation Plan, the number of shares covered by outstanding awards, the exercise price applicable to outstanding awards and the limit on awards to a single employee may be adjusted by the Compensation Committee if it determines that any stock split, extraordinary dividend, stock dividend, distribution (other than ordinary cash dividends), recapitalization, merger, consolidation, reorganization, combination or exchange of shares or other similar event equitably requires such an adjustment.

Change of Control. Upon a "Change of Control," as defined in the 2016 Incentive Compensation Plan, the Compensation Committee, may, in its discretion and as it deems appropriate as a consequence of such Change in Control, accelerate, purchase, adjust, modify or terminate awards or cause awards to be assumed by the surviving corporation in the transaction that triggered such Change in Control. Any such actions that would cause awards under the 2016 Incentive Compensation Plan to become subject to Section 409A of the Code, however, generally may not be taken unless the Compensation Committee affirmatively determines to subject the 2016 Incentive Compensation Plan to the provisions of Section 409A.

Amendment and Termination. The 2016 Incentive Compensation Plan may be amended or terminated by the Compensation Committee at any time, provided that no amendment that would require stockholder approval under any applicable law or regulation (including the rules of any exchange on which the Company's shares are then listed for trading) or under any provision of the Code, may become effective without stockholder approval. A termination, suspension or amendment of the 2016 Incentive Compensation Plan may not adversely affect the rights of any participant with respect to a previously granted award, without the participant's written consent.

New Plan Benefits Under the 2016 Plan. Future benefits under the 2016 Incentive Compensation Plan are not currently determinable; however, the benefits to any director, officer or employee from future equity awards will not increase solely because of approval of the 2016 Incentive Compensation Plan. The amounts and terms of any future awards under the 2016 Incentive Compensation Plan, as well as the participants to which such awards may be made, depend on discretionary decisions of the Compensation Committee. While the Compensation Committee expects that any shares which ultimately may become issuable as Qualifying Performance Awards for 2016 will be issued as restricted stock awards under the 2016 Incentive Compensation Plan, the number of shares (if any) to be issued pursuant to such awards cannot be determined until it is known whether, and to what extent, the related performance goals have been met. If the 2016 Incentive Compensation Plan had been in effect during 2015, no awards of Primary Long Term Incentive restricted stock would have been made pursuant to the terms of the Company's 2015 Incentive Compensation Plan, because the relevant performance criteria to permit such awards under that plan were not satisfied; however, an award of career shares would have been made in the same amount as awarded in 2016 for 2015.

Certain United States Federal Income Tax Consequences

The following is a brief summary of the principal United States federal income tax consequences of transactions under the 2016 Incentive Compensation Plan, based on current United States federal income tax laws. This summary is not intended to be exhaustive, does not constitute tax advice and, among other things, does not describe state, local or foreign tax consequences, which may be substantially different.

Restricted Stock. A participant generally will not be taxed at the time a restricted stock award is granted, but will recognize taxable income when the award vests or otherwise is no longer subject to a substantial risk of forfeiture. The amount of taxable income recognized will equal the fair market value of the shares subject to the award (or the portion of the award that is then vesting) at that time. Participants may elect to be taxed based on the fair market value of the shares at the time of grant by making an election under Section 83(b) of the Code within 30 days of the award date. If a restricted stock award with respect to which a participant has made such an election under Section 83(b) is subsequently canceled, no deduction or tax refund will be allowed for the amount previously recognized as income.

Unless a participant makes a Section 83(b) election, dividends paid to a participant on shares of an unvested restricted stock award will be taxable to the participant as ordinary income. If the participant made a Section 83(b) election, the dividends will be taxable to the participant as dividend income, which generally is subject to the same rate as capital gains income.

Except as provided under "Certain Limitations on Deductibility of Executive Compensation" below, the Company will ordinarily be entitled to a deduction at the same time and in the same amounts as the ordinary income recognized by the participant with respect to an award of restricted stock. Unless a participant has made a Section 83(b) election, the Company will also be entitled to a deduction, for federal income tax purposes, for dividends paid on unvested restricted stock awards.

Stock Units. A participant will generally not recognize taxable income on the grant of a stock unit award. Subsequently, when the terms and conditions prescribed by the Compensation Committee for payment of the award have been satisfied and settlement is made in either cash or stock, the participant will recognize ordinary income equal to the amount of any cash received and the fair market value of any shares of the Company's Common Stock received as of the date of such settlement, reduced by the amount (if any) that the participant is required to pay to exercise the award. Any dividend equivalents paid on the unvested stock unit awards are taxable as ordinary income when paid to the participant.

Except as provided under "Certain Limitations on Deductibility of Executive Compensation" below, the Company will ordinarily be entitled to a deduction at the same time and in the same amounts as the ordinary income recognized by the participant with respect to an award of stock units. The Company will also be entitled to a deduction, for federal income tax purposes, on any dividend equivalent payments made to the participant.

Stock Awards. A participant will recognize taxable income on the grant of unrestricted stock, in an amount equal to the fair market value of the shares on the grant date. Except as provided under "Certain Limitations on Deductibility of Executive Compensation" below, the Company will ordinarily be entitled to a deduction at the same time and in the same amounts as the ordinary income recognized by the participant with respect to such a stock award.

Non-Qualified Stock Options. Generally, a participant will not recognize taxable income on the grant of a non-qualified stock option provided the exercise price of the option is equal to the fair market value of the underlying stock at the time of grant. Upon the exercise of a non-qualified stock option, a participant will recognize ordinary income in an amount equal to the difference between the fair market value of the Common Stock received on the date of exercise and the option cost (number of shares purchased multiplied by the exercise price per share). The participant will recognize ordinary income upon the exercise of the option even though the shares acquired may be subject to further restrictions on sale or transferability. Except as provided under "Certain Limitations on Deductibility of Executive Compensation" below, the Company will ordinarily be entitled to a deduction on the exercise date equal to the ordinary income recognized by the participant upon exercise.

Generally, upon a subsequent sale of shares acquired in an option exercise, the difference between the sale proceeds and the cost basis of the shares sold will be taxable as a capital gain or loss, including any sale of shares freed from sale restrictions to fund the payment of taxes incurred at exercise.

Incentive Stock Options (ISOs). No taxable income is recognized by a participant on the grant of an ISO. If a participant exercises an ISO in accordance with the terms of the ISO and does not dispose of the shares acquired within two years from the date of the grant of the ISO, nor within one year from the date of exercise, the participant will be entitled to treat any gain or loss related to the exercise of the ISO as capital gain or loss (instead of ordinary income), and the Company will not be entitled to a deduction by reason of the grant or exercise of the ISO. The amount of the gain or loss upon a subsequent sale will be long-term capital gain or loss equal to the difference between the amount realized on the sale and the participant's basis in the shares acquired. If a participant sells or otherwise disposes of the shares acquired without satisfying the required minimum holding period, such "disqualifying disposition" will give rise to ordinary income equal to the excess of the fair market value of the shares acquired on the exercise date (or, if less, the amount realized upon disqualifying disposition) over the participant's tax basis in the shares acquired. Additionally, the exercise of an ISO will give rise to an item of tax preference that may result in alternative minimum tax liability for the participant. Except as provided under "Certain Limitations on Deductibility of Executive Compensation" below, the Company will ordinarily be entitled to a deduction equal to the amount of the ordinary income taxable to a participant as a result of any disqualifying disposition.

Withholding. The Company retains the right to deduct or withhold, or require the participant to remit to his or her employer, an amount sufficient to satisfy federal, state and local and foreign taxes, required by law or regulation to be withheld with respect to any taxable event as a result of the 2016 Incentive Compensation Plan.

Certain Limitations on Deductibility of Executive Compensation. With certain exceptions, Section 162(m) of the Code limits the deduction to the Company for compensation paid to certain executive officers to $1 million per executive per taxable year unless such compensation is considered "qualified performance-based compensation" within the meaning of Section 162(m) or is otherwise exempt from Section 162(m). The 2016 Incentive Compensation Plan is intended to permit options to qualify for this exemption, and it permits the Committee to grant other awards designed to qualify for this exemption.

Treatment of "Excess Parachute Payments". The accelerated vesting of awards under the 2016 Incentive Compensation Plan upon a change of control of the Company could result in a participant being considered to receive "excess parachute payments" (as defined in Section 280G of the Code), which payments are subject to a 20% excise tax imposed on the participant. The Company would not be able to deduct the excess parachute payments made to a participant.

The Board of Directors recommends that the Company's shareholders vote FOR the approval of the 2016 Incentive Compensation Plan.

Equity Compensation Plan Information as of December 26, 2015

The following table sets forth information as to the Company's current equity compensation plans as of the end of the Company's 2015 fiscal year. This table does not include any information with respect to the 2016 Stock Awards Plan or the 2016 Incentive Compensation Plan.

Plan Category	(a) Number of securities to be issued upon exercise of the outstanding options, warrants and rights		(b) Weighted-average exercise price of outstanding options, warrants and rights		(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity Compensation Plans approved by security holders	194,532	(1)	6.10	(2)	430,957

(1) Includes the option to purchase 103, 500 shares of Common Stock under our 2006 Stock Awards Plan and 91,032 Performance Units issued under the Directors Stock Plan, each unit being equivalent to one share of common stock. Does not include Common Stock shares issued but not vested pursuant to awards under our 2006 Stock Awards Plan.

(2) Includes the aggregate weighted-average of (i) the exercise price per share for outstanding options to purchase 103,500 shares of Common Stock under the Company's 2006 Stock Incentive Plans and (ii) the price per share of the Common Stock on the grant date for each of 91,032 Performance Units issued under the Directors' Stock Plan (each unit equivalent to one share of Common Stock).

PROPOSAL THREE

TO CONSIDER AND APPROVE THE MATERIAL TERMS OF THE PERFORMANCE GOALS APPLICABLE TO 2016 - 2020.

The Company seeks generally to preserve its ability to claim tax deductions for compensation paid to its executive officers. Section 162(m) of the Internal Revenue Code (the code) sets limits on deductibility for compensation paid to (i) the Chief Executive Officer and (ii) the other most highly compensated executive officers whose compensation is reported in the Summary Compensation Table (covered employees). "Qualified performance based compensation", as defined in the Code, (which can include compensation from stock options, stock units, stock payments, cash awards and grants of restricted stock) is not subject to the applicable deductibility limits if certain conditions are met. One of the conditions is shareholder approval of the material terms of the performance goals under which compensation is paid.

On February 11, 2016, the Compensation Committee adopted the 2016 Incentive Compensation Plan, and revised and approved the material terms of the Performance Goals applicable to 2016 - 2020. The material terms of the performance goals upon which awards may be based are being submitted to you for shareholder approval at the Annual Meeting, in order to allow awards granted under the plan to satisfy the requirements for "qualified performance based compensation" under the Code, thereby allowing the company to take a federal income tax deduction for the related compensation expense notwithstanding the limitations of Section 162(m).

Material Terms of the Performance Goals Applicable to 2016 - 2020

Under the 2016 Incentive Compensation Plan, both cash incentive and stock based incentive awards may be granted. The material terms of the performance goals for such awards consist of: (i) the class of employees eligible to receive the awards, ***see Eligible Employees***; (ii) the performance criteria on which goals are based, ***see Performance Criteria***; and (iii) the maximum payout of an award that can be provided to any employee and to all covered employees under the plan during a specified period, ***see Maximum Payout***.

Eligible Employees*.* All Covered Employees (as defined under IRC Section 162(m) of the Code) and any additional key executives chosen by the compensation committee are eligible to receive awards under the plan. This group currently consists of approximately 30 individuals.

Performance Criteria*.* The performance goals related to awards that may be paid to participants under the Plan include one or more of the following measures in the discretion of the Compensation Committee: minimum annual levels of profitability; minimum annual levels of corporate and/or business unit Operating Income, as adjusted for specific and unusual items; corporate and/or business unit earnings before interest (EBIT) or earnings before interest taxes, and depreciation, as adjusted (EBITDA); total shareholder return, return on capital, return on equity, pre-tax earnings, earnings growth, revenue growth, operating income, operating profit, earnings per share, and return on investment or working capital, any one or more of which may be measured with respect to the Company, or any one or more of its subsidiaries or business units, and either in absolute terms or as compared to another company or other companies. Maximum payouts for each category of awards are described below**.**

Cash Incentive Awards*.* A cash incentive award component may be established for each participant in an amount expressed as a percentage of such participant's base salary as of the beginning of the applicable year. Such percentage or percentages may be set annually by the compensation Committee.

Share Based Awards*.* The Compensation Committee may elect annually to establish awards of restricted stock, stock options, performance units or other types of awards permitted under the Company's 2016 Incentive Compensation Plan, to each participant, the value of which may be equal to a percentage of the sum of such participant's base salary at the beginning of the applicable year plus any cash incentive award paid for such year. The Committee shall determine such percentage annually. All such awards may be made contingent upon attainment of one or more of the performance goals listed above and as set annually by the Committee.

Maximum Payout*.* The maximum annual Cash Incentive Award that could be paid to any one participant for 2016 - 2020 is $750,000 and the maximum annual amount of cash awards that can be paid to all covered employees is $3,000,000.

The maximum annual value of stock based awards that could be issued to any one participant for 2016 - 2020 would be $1,650,000 or 330,000 shares and the maximum annual value of stock awards that could be issued to all covered employees would be $3,750,000 or 750,000 shares using the $5.00 per share minimum price provided by the plan.

Within the terms of the 2016 Incentive Compensation Plan, and subject to the limitations of the material terms of the performance goals as approved by shareholders, the Committee will select annual performance criteria, specific targets, and types and amounts of potential incentive awards applicable to each year in the 2016 - 2020 period. Thereafter, the material terms of the Performance Goals will be again submitted to shareholder for approval.

As described below, the Committee has established a plan specific to 2016, pursuant to which Qualifying Performance Awards may be granted in 2017. Whether such awards will be granted is subject to meeting applicable performance and service criteria, and to the discretion of the Compensation Committee. Accordingly, benefits for 2016 are not currently determinable. Maximum payouts applicable to 2016 are set forth below.

The 2016 Plan

Performance Criteria. For awards that may be earned for 2016, the Committee has chosen minimum annual levels of corporate and business unit Operating Income, as adjusted, with respect to the cash incentive and restricted stock awards denominated as Long-Term Incentive Plan Awards and Career Share Awards.

Cash Incentive Awards. For 2016, the Cash Incentive Award component is equal to a range of 15% to a maximum of 105% of base salary as of the beginning of the year. For 2016, the percentage weight given to Operating Income achievement levels was set at 55%, 30% and 15%, respectively, for business unit, Company, and other business unit results, to determine the cash incentive for officers whose primary responsibility relates to one of the Company's business units. For the Chief Executive Officer and all other participants whose primary responsibility is at the corporate level, the percentage weight given to Operating Income achievement levels was set at 50%, 30% and 20%, respectively, for Company, residential, and contract business unit results to determine the cash incentive.

Share Based Awards. For 2016, each participant may earn a restricted stock award consisting of Long-Term Incentive Shares and career Shares. Vesting of the restricted share awards of Long-Term Incentive Shares and Career Shares is as follows: any Primary Long-Term Incentive Share Awards, if earned, vest ratably over three years. Career Share Awards for the participants age 60 or younger, shares vest ratably over five years from the date of grant and after the participant reaches age 61. Additionally, all such awards are subject to vesting or forfeiture under certain conditions as follows: death, disability or a change in control will result in immediate vesting of all such awards: termination without cause will also result in immediate vesting of all such awards; voluntary termination of employment prior to retirement, or termination for cause will result in forfeiture of all unvested awards; upon reaching retirement age (age 65 for this purpose), awards vest to the extent that the Company has recognized compensation expense related to the shares subject to the awards.

Maximum Payout for 2016. The maximum awards that may be granted to the named executive officers for 2016, which may be payable in 2017 are as follows: cash incentive: Mr. Daniel K. Frierson - $626,250; Mr. D. Kennedy Frierson, Jr. - $336,000; Mr. Paul B. Comiskey - $225,000; Mr. Jon A. Faulkner - $243,000; Mr. V. Lee Martin - $172,500. The maximum number of restricted shares that may be subject to awards for 2016 are as follows: Mr. Daniel K. Frierson - 114,688; Mr. D. Kennedy Frierson, Jr. - 68,320; Mr. Paul B. Comiskey - 48,750; Mr. Jon A. Faulkner - 52,110; Mr. V. Lee Martin - 37,375.

The maximum cash awards that may be granted to all covered employees for 2016 is $1,805,250. The maximum value of stock based compensation that may be granted to all participants for 2016 is $1,793,100, or 358,620 shares using a $5.00 per share minimum price provided by the plan.

General

The Compensation Committee has the authority to establish, review and certify achievement of the performance criteria and to administer and interpret the Incentive Compensation Plan. The plan also provides that the Committee may, in its discretion, reduce, but not increase, any participant's award (by amount equal to up to 30% of such award) based on subjective criteria related to the individuals' performance during the year.

The Compensation Committee must review and certify achievement of any applicable performance and service criteria prior to any grant or payment of any award.

In accordance with past practice, determination of whether and to what extent awards under the plan applicable to 2016 will be granted, will be made by the Compensation Committee during the first quarter of 2017.

The affirmative vote of a majority of the total votes cast that are represented in person or by proxy at the Annual Meeting is necessary for approval of the material terms of the performance goals for the plan. Abstentions and broker non-votes will not be treated as negative votes in determining whether a majority of the total votes has been obtained.

The Board of Directors recommends that the Company’s shareholders vote FOR approval of the material terms of the Performance Goals applicable to 2016 - 2020.

PROPOSAL FOUR

ADVISORY VOTE ON EXECUTIVE COMPENSATION

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

Our executive compensation programs are designed to attract, motivate, and retain our Named Executive Officers, who are critical to our success. Please read the *Compensation Discussion and Analysis* for additional details about our executive compensation programs, including information about the fiscal 2015 compensation of our Named Executive Officers.

We are asking our Shareholders to indicate their approval of our Named Executive Officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our Named Executive Officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the philosophy, policies and practices described in this proxy statement.

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

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

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

<u>The Board of Directors recommends that the Company's shareholders vote FOR the approval of Proposal Four.</u>

PROPOSAL FIVE

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR 2016

The firm of Dixon Hughes Goodman LLP served as independent registered public accountants for the Company for fiscal year 2015. Subject to ratification of its decision by the Company's shareholders, the Company has selected the firm of Dixon Hughes Goodman LLP to serve as its independent registered public accountants for its 2016 fiscal year. A representative of Dixon Hughes Goodman LLP is expected to be present at the Annual Meeting and will have the opportunity to make a statement if he so desires and to respond to appropriate questions from shareholders.

<u>The Board of Directors recommends that that the Company's shareholders vote FOR Proposal Five.</u>

In the event that the Company's shareholders do not ratify the selection of Dixon Hughes Goodman LLP as independent registered public accountants for fiscal 2016, the Board of Directors will consider other alternatives, including appointment of another firm to serve as independent registered public accountants for fiscal 2016.

AUDIT FEES DISCUSSION

The following table sets forth the fees paid to Dixon Hughes Goodman LLP for services provided during fiscal year 2014 and 2015:

	2015	2014
Audit related fees paid to Dixon Hughes Goodman LLP (1)	$ 682,239	$ 886,716
Tax related fees paid to Dixon Hughes Goodman LLP	$ —	$ 35,084
Secondary stock offering fees paid to Dixon Hughes Goodman LLP	$ —	$ 47,594
Total Audit Fees	$ 682,239	$ 969,394

(1) Represents fees for professional services paid to Dixon Hughes Goodman LLP provided in connection with the audit of the Company’s annual financial statements, and audit of the effectiveness of internal control over financial reporting during the 2014 and 2015, review of the Company’s quarterly financial statements, review of other SEC filings and technical accounting issues.

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

SHAREHOLDER PROPOSALS FOR INCLUSION IN NEXT YEAR'S PROXY STATEMENT

In the event any shareholder wishes to present a proposal at the 2017 Annual Meeting of Shareholders, such proposal must be received by the Company on or before November 18, 2016, to be considered for inclusion in the Company's proxy materials. All shareholder proposals should be addressed to the Company at its principal executive offices, P.O. Box 2007, Dalton, Georgia 30722-2007, Attention: Corporate Secretary, and must comply with the rules and regulations of the Securities and Exchange Commission.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

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

ADDITIONAL INFORMATION

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

OTHER MATTERS

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

The Dixie Group, Inc.

Daniel K. Frierson
Chairman of the Board

Dated: March 24, 2016

APPENDIX A

THE DIXIE GROUP, INC.

2016 INCENTIVE COMPENSATION PLAN

1. **Purpose**

The primary purposes of The Dixie Group, Inc. 2016 Incentive Compensation Plan are to attract, retain and motivate employees, officers, agents and other eligible plan participants, including non-employee directors of the Company, and to compensate them for their contributions to the growth and profits of the Company.

2. **Definitions**

Except as otherwise provided in an applicable Award Document, the following capitalized terms shall have the meanings indicated below for purposes of the Plan and any Award:

"Administrator" means the Committee or subcommittee or individual appointed by the Committee.

"Award" means any award of Restricted Stock, Performance Units, Options, Cash or Other Awards (or any combination thereof) made under and pursuant to the terms of the Plan.

"Award Date" means the date specified in a Participant's Award Document as the grant date of the Award.

"Award Document" means a written document (including in electronic form) that sets forth the terms and conditions of an Award. Award Documents shall be authorized in accordance with Section 11(c).

"Board" means the Board of Directors of The Dixie Group, Inc.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable rulings, regulations and guidance thereunder.

"Committee" means the Compensation Committee of the Board, any successor committee thereto or any other committee of the Board appointed by the Board to administer the Plan or to have authority with respect to the Plan, or any subcommittee appointed by such Committee. With respect to any provision regarding the grant of Qualifying Performance Awards, the Committee shall consist of at least two "outside directors" as defined under Section 162(m) of the Code.

"Company" means The Dixie Group, Inc. and all of its Subsidiaries.

"Eligible Individuals" means the individuals described in Section 6 who are eligible for Awards.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the applicable rulings and regulations thereunder.

"Fair Market Value" means, with respect to a Share, the fair market value thereof as of the relevant date of determination, as determined in accordance with a valuation methodology approved by the Committee.

"Incentive Stock Option" means an Option that is intended to qualify for special federal income tax treatment pursuant to Sections 421 and 422 of the Code, as now constituted or subsequently amended, or pursuant to a successor provision of the Code, and which is so designated in the applicable Award Document.

"Option" or ***"Stock Option"*** means a right, granted to a Participant pursuant to Section 9, to purchase Shares of The Dixie Group, Inc. common stock.

"Other Award" means any other form of award authorized under Section 11.

"Participant" means an individual to whom an Award has been made.

"Performance Unit" means a right, granted to a non-employee Participant pursuant to Section 8, to receive Shares, as authorized by the Committee.

"Plan" means The Dixie Group, Inc.2016 Incentive Compensation Plan, as amended from time to time in accordance with Section 14(e).

"Qualifying Performance Award" means an Award granted pursuant Section 10.

"Restricted Stock" means Shares granted or sold to a Participant pursuant to Section 7.

"Section 162(m) Participant" means, for a given performance period, any individual designated by the Committee by not later than 90 days following the start of such performance period (or such other time as may be required or permitted by Section 162(m) of the Code) as an individual whose compensation for such performance period may be subject to the limit on deductible compensation imposed by Section 162(m) of the Code.

"Section 162(m) Performance Goals" means any performance goals approved by The Dixie Group, Inc. stockholders and the performance objectives established by the Committee in accordance with Section 10 or any other performance goals approved by The Dixie Group, Inc.'s stockholders pursuant to Section 162(m) of the Code.

"Section 409A" means Section 409A of the Code.

"Shares" means shares of Stock.

"Stock" means the Common Stock, Par Value $3.00 per share, of The Dixie Group, Inc., and, where permitted under the Plan, the Class B Common Stock, Par Value $3.00 per share of The Dixie Group, Inc.

"Subsidiary" means (i) a corporation or other entity with respect to which The Dixie Group, Inc., directly or indirectly, has the power, whether through the ownership of voting securities, by contract or otherwise, to elect at least a majority of the members of such corporation's board of directors or analogous governing body, or (ii) any other corporation or other entity in which The Dixie Group, Inc., directly or indirectly, has an equity or similar interest and which the Committee designates as a Subsidiary for purposes of the Plan.

3. **Effective Date and Term of Plan**

(a) *Effective Date*. The Plan shall become effective upon its adoption by the Board, subject to its approval by The Dixie Group, Inc.'s stockholders. Prior to such stockholder approval, the Committee may grant Awards conditioned on stockholder approval, but no Shares may be issued or delivered pursuant to any such Award until The Dixie Group, Inc.'s stockholders have approved the Plan. If such stockholder approval is not obtained at or before the first annual meeting of stockholders to occur after the adoption of the Plan by the Board, the Plan and any Awards made thereunder shall terminate *ab initio* and be of no further force and effect.

(b) *Term of Plan*. No Awards may be made under the Plan after May 3, 2026.

4. **Stock Subject to Plan**

(a) *Overall Plan Limit*. The total number of Shares that may be delivered pursuant to Awards shall be 800,000 as calculated pursuant to Section 4(c). The number of Shares available for delivery under the Plan shall be adjusted as provided in Section 4(b). Shares delivered under the Plan may be authorized but unissued shares or treasury shares that The Dixie Group, Inc. acquires in the open market, in private transactions or otherwise.

(b) *Adjustments for Certain Transactions*. In the event of a stock split, reverse stock split, stock dividend, recapitalization, reorganization, merger, consolidation, extraordinary dividend or distribution, split-up, spin-off, combination, reclassification or exchange of shares, warrants or rights offering to purchase Stock at a price substantially below Fair Market Value or other change in corporate structure or any other event that affects The Dixie Group, Inc.'s capitalization, the Committee shall equitably adjust (i) the number and kind of shares authorized for delivery under the Plan, including the maximum number of Shares available for Awards of Options as provided in Section 4(d), the maximum number of Incentive Stock Options as provided in Section 4(e) and the individual Qualifying Performance Award maximum under Section 10, and (ii) the number and kind of shares subject to any outstanding Award and the exercise or purchase price per share, if any, under any outstanding Award. The Committee shall make all such adjustments, and its determination as to what adjustments shall be made, and the extent thereof, shall be final. Unless the Committee determines otherwise, such adjusted Awards shall be subject to the same vesting schedule and restrictions to which the underlying Award is subject.

(c) *Calculation of Shares Available for Delivery*. In calculating the number of Shares that remain available for delivery pursuant to Awards at any time, the following rules shall apply (subject to the limitation in Section 4(e)):

(i) The number of Shares available for delivery shall be reduced by the number of Shares subject to an Award and, in the case of an Award that is not denominated in Shares, the number of Shares actually delivered upon payment or settlement of the Award.

(ii) The number of Shares tendered (by actual delivery or attestation) or withheld from an Award to pay the exercise price of the Award or to satisfy any tax withholding obligation or liability of a Participant shall be added back to the number of Shares available for delivery pursuant to Awards.

(iii) The number of Shares in respect of any portion of an Award that is canceled or that expires without having been paid or settled by the Company shall be added back to the number of Shares available for delivery pursuant to Awards to the extent such Shares were counted against the Shares available for delivery pursuant to clause (i).

(iv) If an Award is settled or paid by the Company in whole or in part through the delivery of consideration other than Shares, or by delivery of fewer than the full number of Shares that was counted against the Shares available for delivery pursuant to clause (i), there shall be added back to the number of Shares available for delivery pursuant to Awards the excess of the number of Shares that had been so counted over the number of Shares (if any) actually delivered upon payment or settlement of the Award.

(v) Any Shares underlying Substitute Awards shall not be counted against the number of Shares available for delivery pursuant to Awards and shall not be subject to Section 4(d).

(d) *Individual Limit on Options*. The maximum number of Shares that may be subject to Options granted to a Participant in any fiscal year shall be 150,000 Shares. The limitation imposed by this Section 4(d) shall not include Options granted to a Participant pursuant to Section 162(m) Performance Goals.

(e) *ISO Limit*. The full number of Shares available for delivery under the Plan may be delivered pursuant to Incentive Stock Options, except that in calculating the number of Shares that remain available for Awards of Incentive Stock Options the rules set forth in Section 4(c) shall not apply to the extent not permitted by Section 422 of the Code.

5. **Administration**

(a) *Committee Authority Generally*. The Committee shall administer the Plan and shall have full power and authority to make all determinations under the Plan, subject to the express provisions hereof, including without limitation: (i) to select Participants from among the Eligible Individuals; (ii) to make Awards; (iii) to determine the number of Shares subject to each Award or the cash amount payable in connection with an Award; (iv) to establish the terms and conditions of each Award, including, without limitation, those related to vesting, cancellation, payment, exercisability, and the effect, if any, of certain events on a Participant's Awards, such as the Participant's termination of employment with the Company; (v) to specify and approve the provisions of the Award Documents delivered to Participants in connection with their Awards; (vi) to construe and interpret any Award Document delivered under the Plan; (vii) to prescribe, amend and rescind rules and procedures relating to the Plan; (viii) to make all determinations necessary or advisable in administering the Plan and Awards, including, without limitation, determinations as to whether (and if so as of what date) a Participant has commenced, or has experienced a termination of, employment; provided, however, that to the extent full or partial payment of any Award that constitutes a deferral of compensation subject to Section 409A is made upon or as a result of a Participant's termination of employment, the Participant will be considered to have experienced a termination of employment if, and only if, the Participant has experienced a separation from service with the Participant's employer for purposes of Section 409A; (ix) to vary the terms of Awards to take account of securities law and other legal or regulatory requirements of jurisdictions in which Participants work or reside or to procure favorable tax treatment for Participants; and (x) to formulate such procedures as it considers to be necessary or advisable for the administration of the Plan.

(b) *Authority to Construe and Interpret.* The Committee shall have full power and authority, subject to the express provisions hereof, to construe and interpret the Plan.

(c) *Committee Discretion*. All of the Committee's determinations in carrying out, administering, construing and interpreting the Plan shall be made or taken in its sole discretion and shall be final, binding and conclusive for all purposes and upon all persons. In the event of any disagreement between the Committee and an Administrator, the Committee's determination on such matter shall be final and binding on all interested persons, including any Administrator. The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, Awards under the Plan (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations, and to enter into non-uniform and selective Award Documents, as to the persons receiving Awards under the Plan, and the terms and provisions of Awards under the Plan.

(d) *No Liability*. Subject to applicable law: (i) no member of the Committee or any Administrator shall be liable for anything whatsoever in connection with the exercise of authority under the Plan or the administration of the Plan except such person's own willful misconduct; (ii) under no circumstances shall any member of the Committee or any Administrator be liable for any act or omission of any other member of the Committee or an Administrator; and (iii) in the performance of its functions with respect to the Plan, the Committee and an administrator shall be entitled to rely upon information and advice furnished by the Company's officers, the Company's accountants, the Company's counsel and any other party the Committee or the Administrator deems necessary, and no member of the Committee or any Administrator shall be liable for any action taken or not taken in good faith reliance upon any such advice.

6. **Eligibility**

All "employees" of the Company - within the SEC's broad definition set forth in the instructions to the Form S-8 registration statement, which includes employees, officers, directors and (subject to certain restrictions) consultants and advisors to the Company - are eligible to receive awards under the 2016 Incentive Compensation Plan. Participation is discretionary - awards are subject to approval by the Compensation Committee.

7. **Restricted Stock**

An Award of Restricted Stock shall be subject to the terms and conditions established by the Committee in connection with the Award and specified in the applicable Award Document. Restricted Stock may, among other things, be subject to restrictions on transfer, vesting requirements or cancellation under specified circumstances.

8. **Performance Units**

Performance Units may be granted to non-employee directors as payment for a portion or all of such Participant's annual directors' fees or other compensation to such persons who perform services for the Company. An Award of Performance Units shall be subject to the terms and conditions established by the Committee in connection with the Award and specified in the applicable Award Document. Each Performance Unit awarded to a Participant shall correspond to one Share. Upon satisfaction of the terms and conditions of the Award, a Performance Unit will be payable in Stock equal to the Fair Market Value on the grant date of one Share. As a holder of Performance Units, a Participant shall have only the rights of a general unsecured creditor of The Dixie Group, Inc. A Participant shall not be a stockholder with respect to the Shares underlying Performance Units unless and until the Performance Units convert to Shares. Performance Units may, among other things, be subject to restrictions on transfer, vesting requirements or cancellation under specified circumstances. For purposes of such awards to non-employee directors, there shall be an annual limit of 20,000 Performance Units (20,000 shares) per Participant.

9. **Options**

(a) *Options Generally*. An Award of Options shall be subject to the terms and conditions established by the Committee in connection with the Award and specified in the applicable Award Document. The Committee shall establish (or shall authorize the method for establishing) the exercise price of all Options awarded under the Plan, except that the exercise price of an Option shall not be less than 100% of the Fair Market Value of one Share on the Award Date (110% in the case of a 10% Shareholder). Upon satisfaction of the conditions to exercisability of the Award, a Participant shall be entitled to exercise the Options included in the Award and to have delivered, upon The Dixie Group, Inc.'s receipt of payment of the exercise price and completion of any other conditions or procedures specified by The Dixie Group, Inc., the number of Shares in respect of which the Options shall have been exercised. Options may be either nonqualified stock options or Incentive Stock Options. Options and the Shares acquired upon exercise of Options may, among other things, be subject to restrictions on transfer, vesting requirements or cancellation under specified circumstances.

(b) *Prohibition on Repricing of Options*. Anything in the Plan to the contrary notwithstanding, the Committee may not reprice any Option. "Reprice" means any action that has the effect of reducing the exercise price of such Option.

(c) *Payment of Exercise Price*. Subject to the provisions of the applicable Award Document and to the extent authorized by rules and procedures of The Dixie Group, Inc. from time to time, the exercise price of the Option may be paid in cash, by actual delivery or attestation to ownership of freely transferable Shares already owned by the person exercising the Option, or by such other means as The Dixie Group, Inc. may authorize.

(d) *Maximum Term on Stock Options*. No Incentive Stock Option shall have an expiration date that is later than the tenth anniversary of the Award Date thereof.

10. **Qualifying Performance Awards**

(a) The Committee may, in its sole discretion, grant a Qualifying Performance Award to any Section 162(m) Participant. A Qualifying Performance Award shall be subject to the terms and conditions established by the Committee in connection with the Award and specified in the applicable Award Document, but in all events shall be subject to the attainment of Section 162(m) Performance Goals as may be specified by the Committee. Qualifying Performance Awards may be denominated as a cash amount, number of Shares or other securities of the Company, or a combination thereof. Subject to the terms of the Plan, the Section 162 (m) Performance Goals to be achieved during any performance period, the length of any performance period, the amount of any Qualifying Performance Award granted and the amount of any payment or transfer to be made pursuant to any Qualifying Performance Award shall be determined by the Committee. The Committee shall have the discretion, by Section 162(m) Participant and by Award, to reduce (but not to increase) some or all of the amount that would otherwise be payable under the Award by reason of the satisfaction of the Section 162(m) Performance Goals set forth in the Award. In making any such determination, the Committee is authorized in its discretion to take into account additional factors that the Committee may deem relevant to the assessment of individual or Company performance for the performance period.

(b) In any calendar year, no one Section 162(m) Participant may be granted Awards pursuant to Section 10(a) that allow for cash payments in an aggregate amount determined in excess of $750,000 and the maximum annual aggregate amount that can be paid, in cash awards, to all Participants is $3,000,000.00. To the extent that one or more Qualifying Performance Awards granted to any one Section 162(m) Participant during any calendar year are denominated in Shares, the maximum value of any such Awards to any one Participant shall be $1,650,000, and the maximum annual number of shares that could be issued to any one participant is 330,000 shares. The maximum annual value of stock Awards that may be issued to all Participants for any given year is $3,750,000.00. The maximum annual number of shares that may be issued for all Participants who are Covered Employees under this Section 10 is 750,000.

(c) Section 162(m) Performance Goals may vary by Section 162(m) Participant and by Award, and may be based upon the attainment of specific or per-share amounts of, or changes in, one or more, or a combination of two or more, of the following: minimum annual levels of profitability; minimum annual levels of corporate and/or business unit operating income, as adjusted for specific and unusual items so designated by the Compensation Committee; corporate and/or business unit earnings before interest (EBIT) or earnings before interest, taxes, depreciation and amortization (EBITDA), as adjusted for specific and unusual items so designated by the Compensation Committee; total shareholder return; return on capital; return on equity; pre-tax earnings; earnings growth; revenue growth operating profit; earnings per share; and return on investment or working capital or other specific non-financial objective that enhances the value of the Company to its shareholders. Any of the preceding measures may be set or determined with respect to the Company, or any one of its subsidiaries or business units, and measured either in absolute terms or as compared to an external metric or another company or other companies.

(d) Following the completion of any performance period applicable to a Qualifying Performance Award, the Committee shall certify in writing the applicable performance and amount, if any, payable to Section 162(m) Participants for such performance period. The amounts payable to a Section 162(m) Participant will be paid (or granted in the case of awards of restricted stock granted subject to service conditions) following the end of the performance period after such certification by the Committee in accordance with the terms of the Qualifying Performance Award, but no later than the first March 15 following the Performance Period.

(e) Without further action by the Board, this Section 10 shall cease to apply on the effective date of the repeal of Section 162(m) of the Code (and any successor provision thereof).

11. **General Terms and Provisions**

(a) *Awards in General.* Awards may be granted as an award of Cash, as Stock, as Restricted Stock, as a Qualified Performance Award, as Options or as Performance Units. Awards may be granted independent of other Awards. The grant, vesting or payment of an Award may, among other things, be conditioned on the attainment of performance objectives, including without limitation objectives based in whole or in part on net income, pre-tax income, return on equity, earnings per share, total shareholder return or book value per share. Performance objectives for Awards intended to qualify as Qualifying Performance Awards shall be based on Performance Goals as specified in Section 10(c).

(b) *Dividends and Distributions.* If The Dixie Group, Inc. pays any dividend or makes any distribution to holders of Stock, the Committee may in its discretion authorize payments (which may be in cash, Stock (including Restricted Stock) or Performance Units or a combination thereof) with respect to the Shares corresponding to an Award, or may authorize appropriate adjustments to outstanding Awards, to reflect such dividend or distribution. The Committee may make any such payments subject to vesting, deferral, restrictions on transfer or other conditions. Any determination by the Committee with respect to a Participant's entitlement to receive any amounts related to dividends or distributions to holders of Stock, as well as the terms and conditions of such entitlement, if any, will be part of the terms and conditions of the Award, and will be included in the Award Document for such Award.

(c) *Award Documentation and Award Terms*. The terms and conditions of an Award shall be set forth in an Award Document authorized by the Committee. The Award Document shall include any vesting, exercisability, payment and other restrictions applicable to an Award (which may include, without limitation, the effects of termination of employment, cancellation of the Award under specified circumstances, restrictions on transfer or provision for mandatory resale to the Company).

(d) *Proportional Exercise for Common Stock and Class B Common Stock*. All Awards granted under the Plan shall be denominated and documented with reference to the number of shares of Common Stock subject to such Award; provided, however, that any Participant who already owns shares of the Company's Class B Common Stock prior to exercising any Award granted to him under the Plan shall be entitled to elect to receive shares of both Common Stock and Class B Common Stock with respect to such Award, with the maximum number of shares of Class B Common Stock that the Participant may elect to receive being limited to a number that will not increase the ratio of the number of shares of Class B Common Stock held by the Participant to the total number of shares of Common Stock and Class B Common Stock held by such Participant on the Election Date (as defined below). For any Award which is an ISO or Nonqualified Stock Option (or portion thereof, in the case of Options which vest in installments over time), the Election Date shall be the date on which such Award (or any applicable installment) is exercised, unless the Participant chooses to express such election on the date of grant. For any Award of Restricted Stock, the Election Date shall be the date on which the Award is granted. Any Participant who holds shares of Class B Common Stock and fails to effectively make the applicable election as described above will receive only shares of Common Stock with respect to such Award. All references to "Common Stock" in the Plan or in any Award agreement issued under the Plan shall be deemed to refer to the appropriate number of shares of Common Stock and Class B Common Stock as applied to any eligible Participant who makes the election provided by this Section 11(d).

(e) *Voting*. Participants shall have the right to vote shares of Common Stock (or Class B Common Stock) allocated to an Award of Restricted Stock. The shares allocated to such Award shall be voted in accordance with instructions received from Participants, or pursuant to such other method as the Committee may establish to enable Participants holding any such Award to vote, or to direct the voting of, such shares.

12. **Certain Restrictions**

(a) *Stockholder Rights*. Except as otherwise provided in Section 4(b) or 11(b), no adjustments shall be made for dividends or distributions on, or other events relating to, Shares subject to an Award for which the record date is prior to the date such Shares are delivered. Except for the risk of cancellation and the restrictions on transfer that may apply to certain Shares (including restrictions relating to any dividends or other rights) or as otherwise set forth in the applicable Award Document, the Participant shall be the beneficial owner of any Shares delivered to the Participant in connection with an Award and, upon such delivery shall be entitled to all rights of ownership, including, without limitation, the right to vote the Shares and to receive cash dividends or other dividends (whether in Shares, other securities or other property) thereon.

(b) *Transferability*. No Award granted under the Plan shall be transferable, whether voluntarily or involuntarily, other than by will or by the laws of descent and distribution; provided that, except with respect to Incentive Stock Options, the Committee may permit transfers on such terms and conditions as it shall determine. During the lifetime of a Participant to whom Incentive Stock Options were awarded, such Incentive Stock Options shall be exercisable only by the Participant.

13. **Representation; Compliance with Law**

The Committee may condition the grant, exercise, settlement or retention of any Award on the Participant making any representations required in the applicable Award Document. Each Award shall also be conditioned upon the making of any filings and the receipt of any consents or authorizations required to comply with, or required to be obtained under, applicable law.

14. **Miscellaneous Provisions**

(a) *Satisfaction of Obligations*. As a condition to the making or retention of any Award, the vesting, exercise or payment of any Award or the lapse of any restrictions pertaining thereto, The Dixie Group, Inc. may require a Participant to pay such sum to the Company as may be necessary to discharge the Company's obligations with respect to any taxes, assessments or other governmental charges (including FICA and other social security or similar tax) imposed on property or income received by a Participant pursuant to the Award or to satisfy any obligation that the Participant owes to the Company. In accordance with rules and procedures authorized by The Dixie Group, Inc., (i) such payment may be in the form of cash or other property, including the tender of previously owned Shares, and (ii) in satisfaction of such taxes, assessments or other governmental charges or, exclusively in the case of an Award that does not constitute a deferral of compensation subject to Section 409A, of other obligations that a Participant owes to the Company, The Dixie Group, Inc. may make available for delivery a lesser number of Shares in payment or settlement of an Award, may withhold from any payment or distribution of an Award or may enter into any other suitable arrangements to satisfy such withholding or other obligation. To the extent an Award constitutes a deferral of compensation subject to Section 409A, the Company may not offset from the payment of such Award amounts that a Participant owes to the Company with respect to any such other obligation except to the extent such offset is not prohibited by Section 409A and would not cause a Participant to recognize income for United States federal income tax purposes prior to the time of payment of the Award or to incur interest or additional tax under Section 409A.

(b) *No Right to Continued Employment*. Neither the Plan nor any Award shall give rise to any right on the part of any Participant to continue in the employ of the Company.

(c) *Headings*. The headings of sections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of the Plan.

(d) *Governing Law*. The Plan and all rights hereunder shall be construed in accordance with and governed by the laws of the State of Tennessee, without regard to any conflicts or choice of law, rule or principle that might otherwise refer the interpretation of the award to the substantive law of another jurisdiction.

(e) *Amendments and Termination*. The Board or Committee may modify, amend, suspend or terminate the Plan in whole or in part at any time and may modify or amend the terms and conditions of any outstanding Award (including by amending or supplementing the relevant Award Document at any time); provided, however, that no such modification, amendment, suspension or termination shall, without a Participant's consent, materially adversely affect that Participant's rights with respect to any Award previously made; and provided, further, that the Committee shall have the right at any time, without a Participant's consent and whether or not the Participant's rights are materially adversely affected thereby, to amend or modify the Plan or any Award under the Plan in any manner that the Committee considers necessary or advisable to comply with any law, regulation, ruling, judicial decision, accounting standards, regulatory guidance or other legal requirement. Notwithstanding the preceding sentence, neither the Board nor the Committee may accelerate the payment or settlement of any Award, including, without limitation, any Award subject to a prior deferral election, that constitutes a deferral of compensation for purposes of Section 409A except to the extent such acceleration would not result in the Participant incurring interest or additional tax under Section 409A. No amendment to the Plan may render any Board member who is not a Company employee eligible to receive an Award at any time while such member is serving on the Board.

THE DIXIE GROUP

DIRECTORS

Daniel K. Frierson (1)
Chairman of the Board

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

Charles E. Brock (3) (4)
President and Chief Executive Officer,
Launch Tennessee

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

Walter W. Hubbard (2) (4)
Retired President and Chief Executive Officer,
Honeywell Nylon, Inc.

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

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

John W. Murrey, III (3) (4)
Retired, Assistant Professor,
Appalachian School of Law

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

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

OFFICERS

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

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

Paul B. Comiskey
Vice President and President,
Dixie Residential

V. Lee Martin
Vice President and President,
Masland Contract

Jon A. Faulkner
Vice President and
Chief Financial Officer

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

CORPORATE INFORMATION

Corporate Administrative Office
The Dixie Group, Inc.
PO Box 2007
Dalton, Georgia 30722-2007
(706) 876-5800

Independent Registered Public Accountants
Dixon Hughes Goodman LLP
191 Peachtree Street, NE
Suite 2700
Atlanta, Georgia 30303

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

Form 10-K and Other Information
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 2015, is included with this report.

Legal Counsel
Miller & Martin PLLC
1000 Volunteer Building
832 Georgia Avenue
Chattanooga, Tennessee 37402

Annual Meeting
The Annual Meeting of Shareholders of The Dixie Group, Inc. will be held at 8:00 A.M. EDT on May 3, 2016, at The Chattanoogan Hotel, Chattanooga, Tennessee.

Investor Contact
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Vice President and Chief Financial Officer
The Dixie Group, Inc.
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(706) 876-5814

Stock Transfer Agent
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College Station, Texas 77845

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