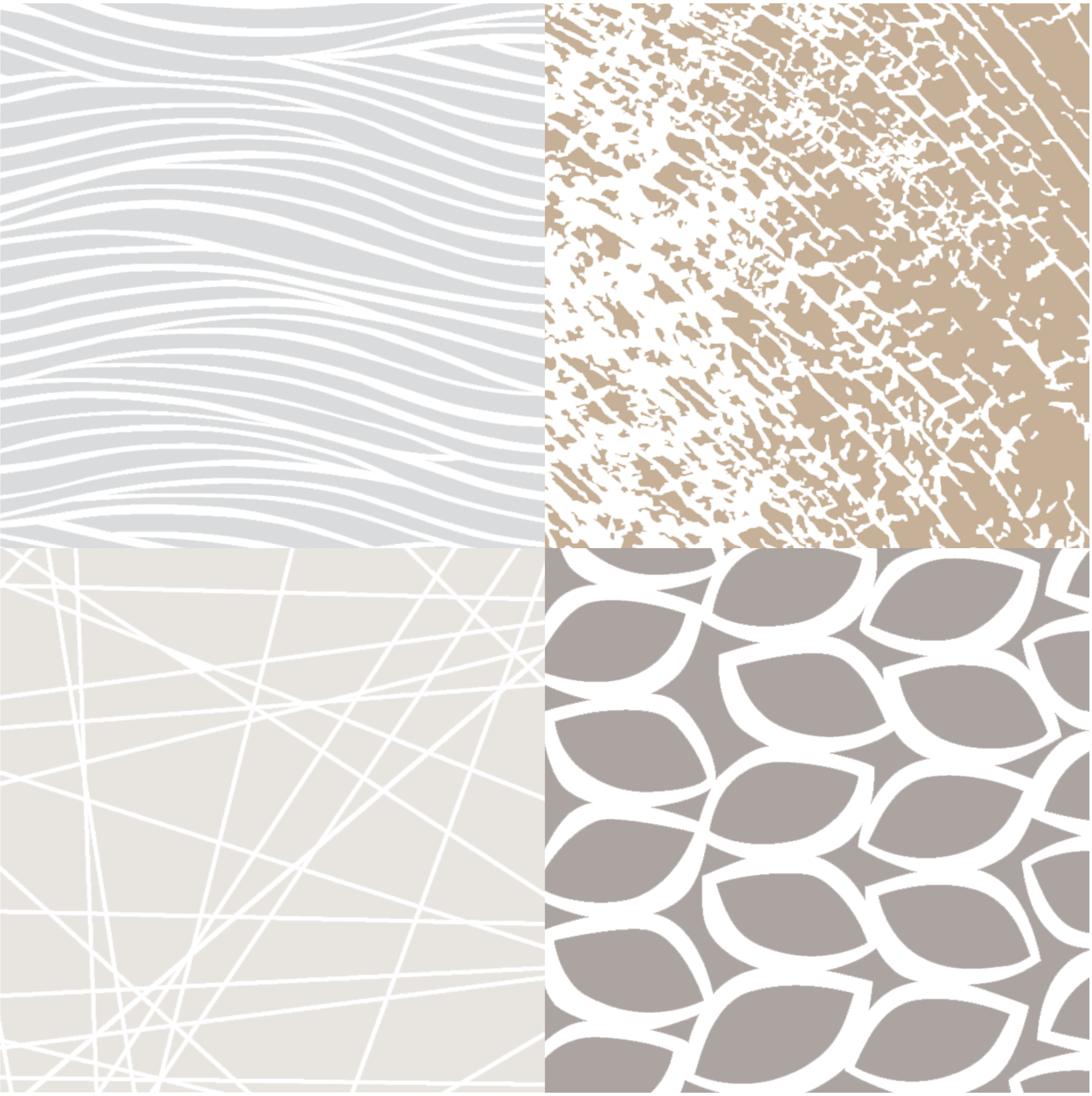
THE DIXIE GROUP



2016 ANNUAL REPORT AND PROXY STATEMENT

THE DIXIE GROUP, INC. 2016 ANNUAL REPORT AND PROXY STATEMENT


THE DIXIE GROUP is the prominent provider of high-end carpets and rugs to both the residential and corporate markets. Our focus on sophistication and style, brilliant color, exclusive design, and superb quality are all known in upper-end retailer communities. Our emphasis 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 primary competencies of distinctive design and excellent quality. Our commitment is to provide a unique line of brands that satisfy the needs of the upper-end of the soft floor covering market.



Letter to Shareholders,

2016 was a year of adjustment and change, both in the marketplace and in our company. We had multiple challenges during the year. The market did not cooperate as the soft floorcovering industry sales were affected by both the general economy slowdown during the election cycle and the continued shift to hard surfaces. We struggled with our commercial product sales and the continued shift to modular carpet tile. Finally, internally we had a major inventory adjustment during the first and fourth quarters with production significantly below sales, severely impacting our operating results.

Despite this difficult year from a profit perspective, we have made several significant changes to improve our results in the future. We completed our restructuring earlier in the year, setting the stage for a more productive manufacturing environment. This completes the separation of our east coast commercial and residential businesses. Our claims expense has declined significantly as our workforce training has taken effect, improving our quality. We refinanced our debt, pushing out the maturity until 2021. We have reduced our inventory to levels in line with our sales and reflecting the improvements in reduced waste and shorter throughput times. Our service is back in line with customer expectations. At the year end, the industry announced a price increase based on many increases in cost of both labor and raw material. This increase included both residential and commercial products.

We launched a series of new distinctive products in our residential market in 2016. Our Fabrica brand continues to create patterns that maintain our history of elegant fashion, such as the recently released Alluvial pattern. Masland continues to launch new patterns such as "This and That" with a hint of texture with tonal variations that create contrast and visual depth with a pointillist touch. With the introduction of many beautiful new products, and the disruption of the restructuring behind us, our residential brands should continue to outperform the industry.

Commercially last year we lagged the industry due to our lack of growth in modular carpet tile products. We have addressed this issue through multiple changes. The first action has been to promote David Hobbs to President and Don Dolan to Executive Vice President of Sales of Masland Contract. David's background serving the modular carpet tile marketplace with Don's strengths in our traditional specified designer market we feel will get us back on track with this important area of growth. Secondly, we moved our Avant offering into the Masland Contract brand to give these products greater exposure. Both our Atlas and Masland Contract brands are ramping up the number of product launches for 2017, expanding both the styling and price points we service, particularly in modular carpet tile. New products, including the Atlas successful launch of our Bellissimo Collection, made with our multi-color Visionweave technology and Masland Contract's success with Lava, show how we are regaining momentum in this market. We are beginning to see the results of this effort in our current business.

In the coming years the housing market will be in the middle of two massive demographic waves, millennials and baby boomers, with both groups driving demand for at least the next decade. This trend should provide steady growth in the floorcovering market. We are particularly pleased with the growth in single family housing and the rate of existing home sales. In addition there has been a significant change in the flooring marketplace as hard surface products have grown at a rate much faster than soft surface products over the last several years. Today, on a square foot basis, hard surface flooring makes up approximately 45% of the floor covering market. We have responded to this accelerated shift to hard surface flooring by launching several initiatives in both our residential and commercial brands. We introduced the Calibrè line of luxury vinyl tile products in the fall of 2016 through our Masland Contract brand. Masland Contract has brought their own unique styling to the market as they do with their soft flooring categories. These products have been engineered for high performance, available for quick delivery, with exceptional styling and a great value.

Residentially, our Dixie Home and Masland Residential brands are supplying Stainmaster PetProtect® luxury vinyl tile which includes a "Claw Scratch Shield" coating to help resist scratching from pets along with "Pet Traction Action" for pet paws. With its resistance to liquid absorption, the new LVT flooring effectively resists pet odors and stains. Dixie Home will be offering this superior residential product line with a limited lifetime warranty while Masland will be offering a commercial grade version of the PetProtect® line featuring a limited lifetime residential warranty and a 12-year limited commercial warranty, one of the heaviest wear layers available in the industry, keeping us a step ahead of the competition. As the primary supplier with the Stainmaster PetProtect® luxury vinyl tile product offering, we feel that our residential business is carving out a high end niche that meets the needs of the more discerning customer. Finally, we are planning to launch a high end engineered wood line through our Fabrica brand that will offer more sophisticated looks and sizes to the design channels we currently serve.

We see this next year as one in which we will continue to emphasize cost reduction projects and continued operational improvements as we forge new areas of growth in our existing soft surface and new hard surface markets. We are optimistic about our opportunities as the country settles down after a year of dramatic swings both politically and economically. We have hired T.M. Nuckols, formerly of Invista, to succeed Paul Comiskey as head of our residential business as Paul plans to retire in early 2018. Paul has built a fine team of professionals in the residential market as he has led the consolidation of our three residential brands into a cohesive unit. T.M., long acquainted with Dixie, brings a history of supporting differentiated branded product in the soft floorcovering market.

We want to thank all of 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 changes in the marketplace. And, as we continue to supply fine floorcovering products 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 23, 2017






DIXIE HOME

Masland CARPETS & RUGS

FABRICA FINE CARPET & RUGS

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. Through an exceptional line of brands, our upper-end residential products are marketed to domestic and international customers in residential markets.

While we continue to lead with carpet as our primary offering we will enter into the Luxury Vinyl Tile segment this year with our Masland and Dixie Home brands. Our STAINMASTER™ PetProtect™ LVT offerings perfectly complement the already diverse range of residential flooring options with a range of high-end designs, constructions and price points, allowing us to immediately compete in the fastest growing residential flooring segment.

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.

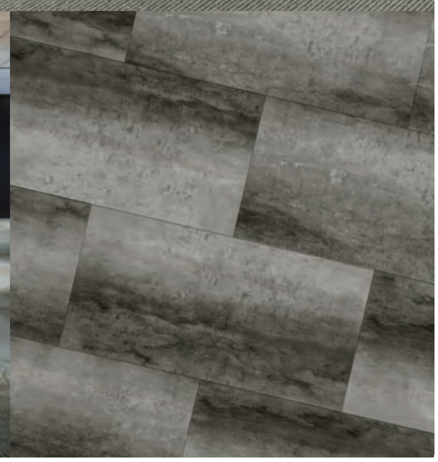
DIXIE HOME was founded in early 2003 on the premise that fashion and design do not have to be limited to the high end of the market. Since that time, Dixie Home has experienced rapid growth and enthusiastic market acceptance for their stylish designed tufted broadloom carpets that fall within more moderately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

Dixie has assembled a group of unique commercial brands with one common denominator. Each of our divisions market to brand conscious companies where smart design enhances their image and helps them achieve their goals. The diverse spaces we build products for—hotels, office buildings, restaurants, universities and more, are all design conscious and we style and construct products that will reflect their brand image in the best possible way.

MASLAND CONTRACT draws on over 150 years of expertise in flooring and combines the latest trends in commercial design to bring a performance line of innovative products to the markets we serve. Masland Contract has long been a style leader and now with the introduction of Luxury Vinyl Tile and an extensive area rug line to compliment hard surface, we are capable of any solution for brand savvy interiors.

ATLAS CARPET MILLS is a style leader that has been designing and manufacturing unique broadloom, carpet tile and area rugs for commercial environments over the past 40 years. Known for creating award-winning products, the company provides a wide array of exceptional patterns and textures for interior spaces that require superior aesthetics and performance. In addition to the diverse running line collection, Atlas also offers extensive custom design capabilities for its customers. The use of Atlas products provides the ability to differentiate an environment from competitors, thereby attracting and maintaining both external and internal customers.

MASLAND HOSPITALITY offers high styled products to a market that places high emphasis on defining brand as a way to distinguish themselves from the rest of the industry. Coupled with a wide array of technologies to provide custom solutions, Masland Hospitality is strategically positioned to provide unparalleled distinction to hoteliers around the world.



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.

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 31, 2016
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 24, 2016 (the last business day of the registrant's most recently completed fiscal second quarter) was $46,495,937. 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 24, 2017	
Common Stock, $3.00 Par Value	15,248,338	shares
Class B Common Stock, $3.00 Par Value	870,714	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, 2017 (Part III).

THE DIXIE GROUP, INC.

Index to Annual Report
on Form 10-K for
Year Ended December 31, 2016

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 floorcovering products to high-end residential and commercial customers through our various sales forces and brands. We focus exclusively on the upper-end of the floorcovering market where we believe we have strong brands and competitive advantages with our style and design capabilities and customer relationships. Our Fabrica, Masland, and Dixie Home brands have a significant presence in the high-end residential floorcovering markets. Our Atlas 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 business is primarily 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. However, the growth rate, measured as market sales volume in square feet, has been substantially higher for hard surface products than soft surface products over the past several years. Therefore, during the fourth quarter of 2016, we began offering luxury vinyl tile ("LVT") products under the Calibre brand which was our first hard surface offering in the commercial markets. These new LVT products are being sold by our existing Masland Contract sales force. Residentially, our Dixie Home and Masland Residential brands will be supplying Stainmaster PetProtect® luxury vinyl. Finally, we are preparing to launch a high-end engineered wood line through our Fabrica brand.

We have one line of business, floorcovering.

Our Brands

Our brands are well known, highly regarded and complementary; by being differentiated, we offer meaningful alternatives to the discriminating customer.

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 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. Beginning in 2017, it will offer luxury vinyl tile products to the marketplace it serves. 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.

Dixie Home provides stylishly designed, differentiated products that offer affordable fashion to residential consumers. Dixie Home markets an array of residential tufted broadloom and rugs to selected retailers and home centers under the Dixie Home and private label brands. Beginning in 2017, it will offer luxury vinyl tile products to the marketplace it serves. 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 residential 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 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. During 2016, Masland Contract began offering luxury vinyl tile to the 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 focuses on the hospitality market with both custom designed and running line products. Utilizing computerized yarn placement technology, 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

We are a flooring manufacturer in an industry composed of a wide variety of companies from small privately held firms to large multinationals. In 2015, the U.S. floorcovering industry reported $23.1 billion in sales, up approximately 4.2% over 2014's sales of $22.2 billion. In 2015, the primary categories of flooring in the U.S., based on sales, were carpet and rug (46%), wood (16%), resilient (includes vinyl and LVT) and rubber (14%), ceramic tile (14%), stone (6%) and laminate (4%). In 2015, the primary categories of flooring in the U.S., based on square feet, were carpet and rug (55%), resilient (includes vinyl and LVT) and rubber (18%), ceramic tile (12%), wood (8%), laminate (5%) and stone (2%). Each of these categories is influenced by the residential construction, commercial construction, and residential remodeling markets. These markets are influenced by many factors including consumer confidence, spending for durable goods, turnover in housing and the overall strength of the economy.

The carpet and rug category has two primary markets, residential and commercial, with the residential market making up the largest portion of the industry's sales. A substantial portion of industry shipments is made in response to replacement demand. Residential products consist of broadloom carpets and rugs in a broad range of styles, colors and textures. 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 luxury vinyl tile and wood. Though soft floorcovering is still the dominant floorcovering surface, it has gradually lost market share to hard floorcovering surfaces over the last 25 years. We believe our products are among the leaders in styling and design in the high-end residential 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 floorcovering markets are styling, color, product design, quality and service. In the high-end residential and commercial markets, we compete with various other floorcovering suppliers. Nevertheless, we believe we have competitive advantages in several areas. We have an attractive portfolio of brands that we believe are well known, highly regarded by customers and complementary; by being differentiated, we offer meaningful alternatives to the discriminating customer. We believe our investment in new yarns, 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, such as the providers of Stainmaster® for which we utilize both branded yarns and luxury vinyl tile, and significant customers in most of our markets. Finally, our reputation for innovative design excellence and our experienced management team enhance our competitive position. See "Risk Factors" in Item 1A of this report.

Backlog

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

Trademarks

Our floorcovering businesses own a variety of trademarks under which our products are marketed. Among such trademarks, the names "Fabrica", "Masland", "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 10% in 2016, 9% in 2015, and 9% in 2014. No other customer was more than 10 percent of our sales during the periods presented. During 2016, 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:

	2016	2015	2014
Residential floorcovering products	**66%**	64%	67%
Commercial floorcovering products	**34%**	36%	33%

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 bulk continuous filament for 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 international sources. Our other raw materials are purchased primarily from domestic suppliers, although the majority of our luxury vinyl tile is sourced outside the United States. 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 31, 2016, we employed 1,746 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 we participate, is highly dependent on general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels, availability of credit and demand for housing. We derive a majority of our sales from the replacement segment of the market. Therefore, economic changes that result in a significant or prolonged decline in spending for remodeling and replacement activities could have a material adverse effect on our business and results of operations.

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

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

A significant amount of our sales are generated through 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 our 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 and the accelerated growth of hard surface alternatives, have resulted in decreased demand for our soft floorcovering products and in the loss of market share to hard surface products. As a result, competition from providers of other soft surfaces has intensified and may result in decreased demand for our products. In addition, we face, and will continue to face, competitive pressures on our sales price and cost of our products. As a result of any of these factors, there could be a material adverse effect on our sales and profitability.

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

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. In addition, long lead times for certain 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 sourcing the majority of our new luxury vinyl tile and wood product lines from overseas. We are not able to predict whether commodity costs will significantly increase or decrease in the future. If commodity costs increase in the future and we are not able to reduce or eliminate the effect of the cost increases by reducing production costs or implementing price increases, our profit margins could decrease. If commodity costs decline, we may experience pressures from customers to reduce our selling prices. The timing of any price reductions and decreases in commodity costs may not align. As a result, our margins could be affected.

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

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

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

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

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, regulations or regulatory guidelines could give rise to additional compliance or remediation costs that could have a material adverse effect on our business, results of operations and financial condition. For example, producer responsibility regulations regarding end-of-life disposal could impose additional cost and complexity to our business.

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

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

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

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

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

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

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

Item 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 24, 2017:

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, Rug and Tile Manufacturing, Distribution	384,000
Commerce, CA*	Carpet Manufacturing, Distribution	253,800
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	2,751,100
* Leased properties	TOTAL	2,867,900

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

We have been sued, together with the 3M Company and approximately 30 other carpet manufacturers, by the Gadsden (Alabama) Water Works in the circuit court of Etowah County Alabama [The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al, civil action No. 31-CV-2016-900676.00], in a case seeking monetary damages and injunctive relief related to the use of certain chemical compounds in the manufacture and finishing of carpet products “in and around Dalton Georgia.” On motion of the defendants, the case was removed to the U.S. District Court for the Northern District of Alabama (Middle Division) Case No. 4:16-CV-01755-SGC. As alleged in the lawsuit, the chemicals are perflourinated compounds (“PFC”) perflourinated acid (“PFOA”) and perfluorooctane sulfonate (“PFOS”) manufactured by 3M and used in certain finishing and treatment processes by the defendants and, as a consequence of such use, either discharged into or leached into the water systems around Dalton, Georgia. The Complaint seeks damages "in excess of $10 thousand dollars", but otherwise unspecified in amount in addition to injunctive relief. We intend to defend the matter vigorously and are unable to estimate our potential exposure to loss, if any, at this time.

We are 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 entails 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 have been set. We have denied liability, are defending the matters vigorously and are unable to estimate our 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 24, 2017, 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, 75 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, 56 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.
E. David Hobbs, 65 Vice President and President, Masland Contract	President, Masland Contract since September 2016. Executive President of Operations, Masland Contract from 2012 to September 2016. Vice President of Planning, Mohawk Industries from 2010 to 2011, Interface Americas from 1984 to 2010, President, Interface Americas from 2005 to 2009.
W. Derek Davis, 66 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 24, 2017, the total number of holders of our Common Stock was approximately 3,000 including an estimated 2,600 shareholders who hold our Common Stock in nominee names. The total number of holders of our Class B Common Stock was 10.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Fiscal Month Ending	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number (or approximate dollar value) of Shares That May Yet Be Purchased Under Plans or Programs
October 29, 2016	—	$ —	—	
November 26, 2016	4,234	3.96	4,234	
December 31, 2016	200	3.40	200	
Three Fiscal Months Ended December 31, 2016	4,434	$ 3.93	4,434	$ 2,344,158

(1) During the three months ended December 31, 2016, 4,234 shares were withheld from an employee in lieu of cash payments for withholding taxes due for a total amount of $16,767.

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 31, 2016 and December 26, 2015. Due to rounding, the totals of the quarterly information for each of the years reflected below may not necessarily equal the annual totals. There is a restriction on the payment of dividends under our revolving credit facility.

THE DIXIE GROUP, INC.

QUARTERLY FINANCIAL DATA, DIVIDENDS AND PRICE RANGE OF COMMON STOCK

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

2016	1ST	2ND	3RD	4TH (1)
Net sales	$ 89,234	$ 105,316	$ 100,297	$ 102,606
Gross profit	19,506	28,242	25,831	21,846
Operating income (loss)	(5,840)	3,403	1,916	(2,894)
Income (loss) from continuing operations	(4,757)	1,615	573	(2,638)
Loss from discontinued operations	(10)	(3)	(39)	(79)
Income (loss) on disposal of discontinued operations	—	65	—	(5)
Net income (loss)	$ (4,767)	$ 1,677	$ 534	$ (2,722)
Basic earnings (loss) per share:				
Continuing operations	$ (0.30)	$ 0.10	$ 0.04	$ (0.17)
Discontinued operations	—	—	—	(0.01)
Net income (loss)	$ (0.30)	$ 0.10	$ 0.04	$ (0.18)
Diluted earnings (loss) per share:				
Continuing operations	$ (0.30)	$ 0.10	$ 0.04	$ (0.17)
Discontinued operations	—	—	—	(0.01)
Net income (loss)	$ (0.30)	$ 0.10	$ 0.04	$ (0.18)
Common Stock Prices:				
High	$ 5.66	$ 4.89	$ 5.15	$ 5.56
Low	3.25	3.00	3.15	3.20

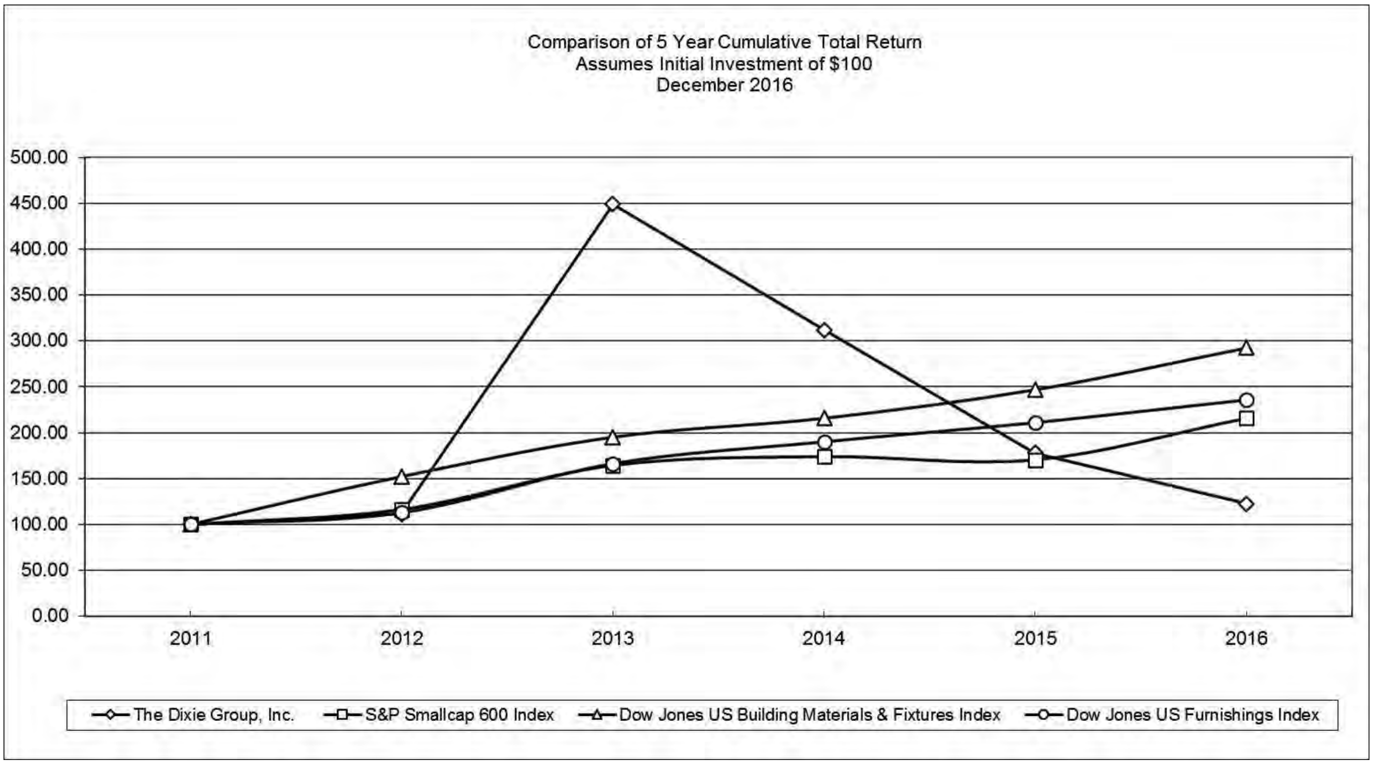
2015	1ST	2ND	3RD	4TH
Net sales	$ 95,855	$ 109,957	$ 108,908	$ 107,763
Gross profit	23,339	29,306	27,265	26,320
Operating income (loss)	(2,683)	2,177	1,253	1,243
Income (loss) from continuing operations	(2,380)	516	84	(498)
Loss from discontinued operations	(88)	(12)	(18)	(30)
Net income (loss)	$ (2,468)	$ 504	$ 66	$ (528)
Basic earnings 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

(1) The fourth quarter of 2016 contains 14 weeks, all other quarters presented in 2016 and 2015 contain 13 weeks.

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 31, 2016. The comparison assumes that $100.00 was invested on December 31, 2011, 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

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

FISCAL YEARS	2016 (1)	2015 (2)	2014 (3)(4)	2013 (5)	2012
OPERATIONS					
Net sales	$ 397,453	$ 422,483	$ 406,588	$ 344,374	$ 266,372
Gross profit	95,425	106,230	95,497	85,570	65,372
Operating income (loss)	(3,415)	1,990	(5,236)	8,855	1,815
Income (loss) from continuing operations before taxes	(8,829)	(2,992)	1,726	4,979	(1,054)
Income tax provision (benefit)	(3,622)	(714)	1,053	(577)	(401)
Income (loss) from continuing operations	(5,207)	(2,278)	673	5,556	(653)
Depreciation and amortization	13,515	14,119	12,850	10,230	9,396
Dividends	—	—	—	—	—
Capital expenditures	4,904	6,826	9,492	11,438	3,386
Assets purchased under capital leases & notes, including deposits utilized and accrued purchases	427	5,403	23,333	1,865	666
FINANCIAL POSITION					
Total assets	$ 268,987	$ 298,218	$ 290,447	$ 243,557	$ 196,820
Working capital	81,727	98,632	100,602	89,057	71,343
Long-term debt	98,256	115,907	117,153	100,521	79,040
Stockholders' equity	87,122	90,804	92,977	70,771	64,046
PER SHARE					
Income (loss) from continuing operations:					
Basic	$ (0.33)	$ (0.15)	$ 0.03	$ 0.42	$ (0.05)
Diluted	(0.33)	(0.15)	0.03	0.42	(0.05)
Dividends:					
Common Stock	—	—	—	—	—
Class B Common Stock	—	—	—	—	—
Book value	5.40	5.67	5.90	5.32	4.88
GENERAL					
Weighted-average common shares outstanding:					
Basic	15,638,112	15,535,980	14,381,601	12,736,835	12,637,657
Diluted	15,638,112	15,535,980	14,544,073	12,851,917	12,637,657
Number of shareholders (6)	3,000	3,000	3,000	2,350	1,800
Number of associates	1,746	1,822	1,740	1,423	1,200

(1) Includes expenses of $1,456, or $859 net of tax, for facility consolidation expenses in 2016.
(2) Includes expenses of $2,946, or $1,915 net of tax, for facility consolidation expenses in 2015.
(3) 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.
(4) 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.
(5) Includes the results of operations of Robertex, Inc subsequent to its acquisition on June 30, 2013.
(6) The approximate number of record holders of our Common Stock for 2012 through 2016 includes Management's estimate of shareholders who held our Common Stock in nominee names as follows: 2012 - 1,255 shareholders; 2013 - 1,900 shareholders; 2014 - 2,550 shareholders; 2015 - 2,550 shareholders; 2016 - 2,600 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 floorcovering products to high-end residential and commercial customers through our various sales forces and brands. We focus exclusively on the upper-end of the floorcovering market where we believe we have strong brands and competitive advantages with our style and design capabilities and customer relationships. Our Fabrica, Masland, and Dixie Home brands have a significant presence in the high-end residential floorcovering markets. Our Atlas 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 2016, our net sales decreased 5.9%, or 7.2% on a “net sales as adjusted” basis, compared with 2015. Sales of residential products decreased 1.8%, or 3.0% on a “net sales as adjusted” basis, in 2016 versus 2015, while, we estimate, the industry was down in low single digits. We anticipate the residential housing market will have steady but moderate growth over next several years. Commercial product sales decreased 10.0%, or 11.5% on a “net sales as adjusted” basis, during 2016, while, we believe, the industry was down slightly. We anticipate the commercial market to have moderate growth for next year. (See Reconciliation of Net Sales to Net Sales as Adjusted below.)

In 2016, we incurred an operating loss of $3.4 million compared with operating income of $2.0 million in 2015. Despite improvements in quality-related costs due to more strict and consistent quality standards and reduced associate medical expenses from a new plan design, the unabsorbed fixed cost due to the lower sales volume substantially offset those cost savings in 2016. In addition, operations were impacted by the reduction of inventories as we under produced our sales volume, thus negatively affecting our cost structure during the year.

During 2016, we completed our capacity expansion and facility consolidation plans which began in 2014. Under these plans, we aligned our warehousing, distribution and manufacturing with our growth and manufacturing strategy. They were designed to create a better cost structure as well as improve distribution capabilities and provide for more efficient manufacturing processes. In addition, we consolidated three of our leased divisional and corporate offices to a single leased facility. Total expenses of the plans since inception were $9.9 million including $1.5 million during 2016.

Despite a difficult year from a profitability perspective, we have made several changes to improve our results in the future. By completing our restructuring plans earlier in the year, we have set the stage for a more productive manufacturing environment. We reduced our claims expense significantly as our workforce training has taken affect and improved our quality. We have reduced inventory to levels commensurate with our sales and our service is in line with our customers expectations. In addition, the industry announced a price increase based on increases in cost of both labor and raw material. This price increase includes both residential and commercial products.

In response to the high rate of growth for hard surface products in the last several years, we decided to initiate a series of product launches in luxury vinyl tile and engineered wood hard surface flooring products. During the fourth quarter of 2016, we began offering luxury vinyl tile (“LVT”) products under the Calibre brand which was our first hard surface offering in the commercial markets. These new LVT products are being sold by our existing Masland Contract sales force. Residentially, our Dixie Home and Masland Residential brands will be supplying Stainmaster PetProtect® luxury vinyl tile in 2017. Finally, we are preparing to launch a high-end engineered wood line through our Fabrica brand. The growth rate, measured as market sales volume in square feet, has been substantially higher for hard surface products than soft surface products over the past 4 years.

RESULTS OF OPERATIONS

Fiscal Year Ended December 31, 2016 Compared with Fiscal Year Ended December 26, 2015

	Fiscal Year Ended					
	December 31, 2016	% of Net Sales	December 26, 2015	% of Net Sales	Increase (Decrease)	% Change
Net sales	397,453	100.0 %	422,483	100.0 %	(25,030)	(5.9)%
Cost of sales	302,028	76.0 %	316,253	74.9 %	(14,225)	(4.5)%
Gross profit	95,425	24.0 %	106,230	25.1 %	(10,805)	(10.2)%
Selling and administrative expenses	96,983	24.4 %	100,422	23.8 %	(3,439)	(3.4)%
Other operating expense, net	401	0.1 %	872	0.2 %	(471)	(54.0)%
Facility consolidation expenses, net	1,456	0.4 %	2,946	0.7 %	(1,490)	(50.6)%
Operating income (loss)	(3,415)	(0.9)%	1,990	0.4 %	(5,405)	(271.6)%
Interest expense	5,392	1.4 %	4,935	1.2 %	457	9.3 %
Other expense, net	22	— %	47	— %	(25)	(53.2)%
Loss before taxes	(8,829)	(2.3)%	(2,992)	(0.8)%	(5,837)	195.1 %
Income tax benefit	(3,622)	(0.9)%	(714)	(0.2)%	(2,908)	407.3 %
Loss from continuing operations	(5,207)	(1.4)%	(2,278)	(0.6)%	(2,929)	128.6 %
Loss from discontinued operations	(131)	— %	(148)	— %	17	(11.5)%
Income on disposal of discontinued operations	60	— %	—	— %	60	— %
Net loss	(5,278)	(1.4)%	(2,426)	(0.6)%	(2,852)	117.6 %

Our fiscal year ended December 31, 2016 had 53 weeks and fiscal year ended December 26, 2015 had 52 weeks. Discussions below related to percentage changes in net sales for the annual periods have been adjusted to reflect the comparable number of weeks and are qualified with the term "net sales as adjusted". For comparative purposes, we define "net sales as adjusted" as net sales less the last week of sales in a 53 week fiscal year. We believe "net sales as adjusted" will assist our financial statement users in obtaining comparable data between the reporting periods. (See reconciliation of net sales to net sales as adjusted in the table below.)

Reconciliation of Net Sales to Net Sales as Adjusted

	Fiscal Year Ended					
	December 31, 2016	Week 53	Net Sales as Adjusted December 31, 2016	December 26, 2015	Increase (Decrease)	Net Sales as Adjusted % Change
Net sales as adjusted	$ 397,453	$ (5,380)	$ 392,073	$ 422,483	$ (30,410)	(7.2)%

Net Sales. Net sales for the year ended December 31, 2016 were $397.5 million compared with $422.5 million in the year-earlier period, a decrease of 5.9%, or 7.2% on a "net sales as adjusted" basis, for the year-over-year comparison. Sales for the carpet industry were down slightly for 2016 compared with the prior year. Our 2016 year-over-year carpet sales comparison reflected a decrease of 4.7%, or 6.0% on a "net sales as adjusted" basis, in net sales. Sales of residential carpet were down 1.8%, or 3.0% on a "net sales as adjusted" basis, and sales of commercial carpet decreased 10.0%, or 11.5% on a "net sales as adjusted" basis. Revenue from carpet yarn processing and carpet dyeing and finishing services decreased 45.4%, or 45.7% on a "net sales as adjusted" basis, in 2016 compared with 2015. We experienced weaker demand across all brands during 2016 compared with 2015.

Cost of Sales. Cost of sales, as a percentage of net sales, increased 1.1 percentage points, as a percentage of net sales in 2016 compared with 2015. During 2015, we were challenged with high quality-related costs as we consolidated several of our facilities. In addition, we experienced high associate medical expenses. During 2016, we reduced our quality-related costs through several quality improvement initiatives and lowered our associate medical expenses with a new plan design. These improvements were substantially offset by unabsorbed fixed cost due to the lower sales volumes experienced in 2016. In addition, operations were impacted by the reduction of inventories as we under produced our sales volume, thus negatively affecting our cost structure during the year.

Gross Profit. Gross profit, as a percentage of net sales, decreased 1.1 percentage points in 2016 compared with 2015. The decrease 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 $97.0 million in 2016 compared with $100.4 million in 2015, or an increase of 0.6% as a percentage of sales. Selling and administrative expenses increased as a percentage of sales primarily as a result of the lower sales volumes offset in part to lower sample expenses during 2016.

Other Operating Expense, Net. Net other operating (income) expense was an expense of $401 thousand in 2016 compared with expense of $872 thousand in 2015. We recognized a gain of $841 thousand from a settlement related to the 2010 BP oil spill offset by a $460 thousand expense related to the disposal of certain machinery and equipment.

Facility Consolidation Expenses, Net. Facility consolidation expenses were $1.5 million in 2016 compared with $2.9 million in the year-earlier period. Facility consolidation expenses decreased in 2016 as we completed our consolidation plans during the year. During 2016, we initially accrued $690 thousand to finalize the cleanup of the site of our former waste water treatment plant that was disposed of in 2014. During the fourth quarter of 2016, we lowered the accrual by $359 thousand as we were able to refine the plan. Accordingly, if the actual costs are higher or lower, we would record an additional charge or benefit, respectively, as appropriate.

Operating Income (Loss). Operations reflected an operating loss of $3.4 million in 2016 compared with operating income of $2.0 million in 2015. The increase in operating loss was attributable to the factors above.

Interest Expense. Interest expense increased $457 thousand in 2016 principally due to long-term fixed interest rate swap contracts that are at higher rates than a year ago offset by lower levels of debt during 2016.

Other (Income) Expense, Net. Other (income) expense, net was an expense of $22 thousand compared with expense of $47 thousand in 2015.

Income Tax Provision (Benefit). Our effective income tax rate was a benefit of 41.0% in 2016. In 2016, we increased our valuation allowances by $106 thousand related to state income tax loss carryforwards and state income tax credit carryforwards. Additionally, 2016 included approximately $395 thousand of federal tax credits. 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. Additionally, 2015 included approximately $441 thousand of federal tax credits.

Net Income (Loss). Continuing operations reflected a loss of $5.2 million, or $0.33 per diluted share in 2016, compared with a loss from continuing operations of $2.3 million, or $0.15 per diluted share in 2015. Our discontinued operations reflected a loss of $131 thousand, or $0.01 per diluted share and income on disposal of discontinued operations of $60 thousand, or $0.00 per diluted share in 2016 compared with a loss of $148 thousand, or $0.01 per diluted share in 2015. Including discontinued operations, we had a net loss of $5.3 million, or $0.34 per diluted share, in 2016 compared with a net loss of $2.4 million, or $0.16 per diluted share, in 2015.

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, net	2,946	0.7 %	5,514	1.4 %	(2,568)	100.0 %
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 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.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2016, cash provided by operations was $23.9 million. Inventories decreased $17.9 million and receivables decreased $7.2 million which was offset by a decrease in accounts payable and accrued expenses of $6.8 million. In order to better service our customers during our facility consolidations, we had increased inventory levels over the past few years. In addition, inventories were increased last year to build inventories from a supplier that was going through a year-end software conversion. Now that those activities are complete, we decreased inventories to more normal levels. Receivables decreased on lower sales volume.

Capital asset acquisitions for the year ended December 31, 2016 were $5.3 million; $4.9 million of cash used in investing activities, $169 thousand of equipment acquired under capital leases and $258 thousand for accrued purchases. Depreciation and amortization for the year ended December 31, 2016 were $13.5 million. We expect capital expenditures to be approximately $8.0 million in 2017 while depreciation and amortization is expected to be approximately $13.3 million. Planned capital expenditures in 2017 are primarily for new equipment.

During the year ended December 31, 2016, cash used in financing activities was $19.2 million. We had payments of $10.0 million on the revolving credit facility and payments of $10.5 million on notes payable and lease obligations.

We believe our operating cash flows, credit availability under our revolving credit facility and other sources of financing are adequate to finance our anticipated liquidity requirements under our current operating conditions. As of December 31, 2016, the unused borrowing availability under our revolving credit facility was $45.6 million. Our revolving credit facility requires us to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that borrowing availability is less than $16.5 million. As of the date hereof, our fixed coverage ratio was less than 1.1 to 1.0, accordingly the unused availability accessible by us was $29.1 million (the amount above $16.5 million) at December 31, 2016. 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. On September 23, 2016, we amended our revolving credit facility to revise certain definitions and extend the maturity date from March 2019 to September 2021. 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 our 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 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 ranging between 1.50% and 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 ranging between 0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases, with the exception that the applicable margin cannot go below 1.75% until after March 31, 2017. As of December 31, 2016, the applicable margin on our revolving credit facility was 1.75%. We pay an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.375% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 4.40% at December 31, 2016 and 3.12% at December 26, 2015.

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 was less than $16.5 million. As of December 31, 2016, the unused borrowing availability under the revolving credit facility was $45.6 million; however, since our fixed charge coverage ratio was less than 1.1 to 1.0, the unused availability accessible by us was $29.1 million (the amount above $16.5 million) at December 31, 2016.

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 will effectively fix the interest rate at 4.30%.

Acquisition Note Payable - 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.

Acquisition Note Payable - Robertex. 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.

Notes Payable - Equipment and Other. Our equipment financing notes have terms ranging from five to seven years, bear interest ranging from 1.00% to 6.86% and are due in monthly or quarterly installments through their maturity dates. The notes are secured by the specific equipment financed and 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, bear interest ranging from 2.90% to 7.37% and are due in monthly or quarterly installments through their maturity dates. The capital lease obligations are secured by the specific equipment leased. (See Note 10 to our Consolidated Financial Statements).

Contractual Obligations
The following table summarizes our future minimum payments under contractual obligations as of December 31, 2016

	Payments Due By Period (dollars in millions)						
	2017	2018	2019	2020	2021	Thereafter	Total
Debt	$ 6.8	$ 4.6	$ 2.8	$ 1.9	$ 72.3	$ 9.7	98.1
Interest - debt (1)	4.5	4.2	4.0	3.9	3.0	1.1	20.7
Capital leases	3.3	3.1	1.9	1.7	1.1	—	11.1
Interest - capital leases	0.5	0.3	0.2	0.1	—	—	1.1
Operating leases	3.1	2.8	1.9	1.4	1.0	4.3	14.5
Purchase commitments	4.2	0.4	—	—	—	—	4.6
Totals	22.4	15.4	10.8	9.0	77.4	15.1	150.1

(1) Interest rates used for variable rate debt were those in effect at December 31, 2016.

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 31, 2016, the total unrecognized compensation expense related to unvested restricted stock awards was $1.9 million with a weighted-average vesting period of 6.9 years. At December 31, 2016, the total unrecognized compensation expense related to Directors' Stock Performance Units was $41 thousand with a weighted-average vesting period of 0.3 years. At December 31, 2016, there was no unrecognized compensation expense related to unvested stock options.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements at December 31, 2016 or December 26, 2015.

Income Tax Considerations

During 2016, we increased our valuation allowances by $106 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 2017 and 2018, 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 31, 2016, we were in a net deferred tax asset position of $7.6 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 $20.0 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 $1.7 million for environmental liabilities at these sites as of December 31, 2016. 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 31, 2016, we had $200 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 2016, 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. An affiliate of Mr. Shaw reported holding approximately 7.4% of our Common Stock, which as of year-end represented approximately 3.4% 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 2016, 2015 and 2014 were approximately $7.3 million, $8.8 million and $11.3 million, respectively; or approximately 2.4%, 2.8% and 3.6% of our consolidated costs of sales in 2016, 2015 and 2014, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. We have no contractual commitments with Mr. Shaw associated with our business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by our board of directors.

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 our company. Rent paid to the lessor during 2016, 2015 and 2014 was $793 thousand, $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 our company. Rent paid to the lessor during 2016, 2015 and 2014 was $267 thousand, $262 thousand and $257 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 to our Consolidated Financial Statements).

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 and comparable company market valuation approaches. We have identified our reporting unit as our floorcovering business for the purposes of allocating goodwill and assessing impairments. 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, the weighted average cost of capital ("WACC") and comparable company market multiples. 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 or a decline in comparable company market multiples, then key judgments and assumptions could be impacted. We performed our annual assessment of goodwill in the fourth quarters of 2016, 2015 and 2014 and no impairment was indicated.

- **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 $200 thousand and $584 thousand at December 31, 2016 and December 26, 2015, 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.** Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available in the jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in a future period. We evaluate the recoverability of these future tax benefits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates, including business forecasts and other projections of financial results over an extended period of time. In the event that we are not able to realize all or a portion of our deferred tax assets in the future, a valuation allowance is provided. We 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. We had valuation allowances of $5.4 million at December 31, 2016 and $5.3 million at December 26, 2015. For further information regarding our 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 31, 2016, $26,270, or approximately 24% of our total debt, was subject to floating interest rates. A one-hundred basis point fluctuation in the variable interest rates applicable to this floating rate debt would have an annual after-tax impact of approximately $155.

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 31, 2016, the date of the financial statements included in this Form 10-K (the “Evaluation Date”). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

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

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

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

Item 9B. OTHER INFORMATION

None.

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, 2017 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 31, 2016, 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, 2017 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, 2017 are incorporated herein by reference.

Equity Compensation Plan Information as of December 31, 2016

The following table sets forth information as to our equity compensation plans as of the end of the 2016 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	219,732 (1)	$ 5.94 (2)	774,800

(1) Includes the options to purchase 103,500 shares of Common Stock under our 2006 Stock Awards Plan and 116,232 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 116,232 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, 2017 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, 2017 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 13, 2017	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 13, 2017
/s/ JON A. FAULKNER Jon A. Faulkner	Vice President, Chief Financial Officer	March 13, 2017
/s/ D. KENNEDY FRIERSON, JR. D. Kennedy Frierson, Jr.	Vice President, Chief Operating Officer and Director	March 13, 2017
/s/ WILLIAM F. BLUE, JR. William F. Blue, Jr.	Director	March 13, 2017
/s/ CHARLES E. BROCK Charles E. Brock	Director	March 13, 2017
/s/ WALTER W. HUBBARD Walter W. Hubbard	Director	March 13, 2017
/s/ LOWRY F. KLINE Lowry F. Kline	Director	March 13, 2017
/s/ HILDA S. MURRAY Hilda S. Murray	Director	March 13, 2017
/s/ JOHN W. MURREY, III John W. Murrey, III	Director	March 13, 2017
/s/ MICHAEL L. OWENS Michael L. Owens	Director	March 13, 2017

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 31, 2016

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.

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 31, 2016, 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 accompanying consolidated balance sheets of The Dixie Group, Inc. (the "Company") as of December 31, 2016 and December 26, 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. 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 audits.

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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting as of December 31, 2016. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 31, 2016 and December 26, 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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 set forth therein.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
March 13, 2017

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

	December 31, 2016	December 26, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 140**	$ 281
Receivables, net	**43,605**	50,806
Inventories, net	**97,237**	115,146
Prepaid expenses	**4,376**	3,362
TOTAL CURRENT ASSETS	**145,358**	169,595
PROPERTY, PLANT AND EQUIPMENT, NET	**92,807**	101,146
GOODWILL AND OTHER INTANGIBLES	**6,156**	6,461
OTHER ASSETS	**24,666**	21,016
TOTAL ASSETS	**$ 268,987**	$ 298,218
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 20,683**	$ 26,483
Accrued expenses	**32,826**	34,338
Current portion of long-term debt	**10,122**	10,142
TOTAL CURRENT LIABILITIES	**63,631**	70,963
LONG-TERM DEBT	**98,256**	115,907
OTHER LONG-TERM LIABILITIES	**19,978**	20,544
TOTAL LIABILITIES	**181,865**	207,414
COMMITMENTS AND CONTINGENCIES (See Note 18)		
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 15,248,338 shares for 2016 and 15,155,274 shares for 2015	**45,745**	45,466
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 870,714 shares for 2016 and 851,693 shares for 2015	**2,612**	2,555
Additional paid-in capital	**156,381**	155,734
Accumulated deficit	**(115,656)**	(110,378)
Accumulated other comprehensive income (loss)	**(1,960)**	(2,573)
TOTAL STOCKHOLDERS' EQUITY	**87,122**	90,804
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 268,987**	$ 298,218

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 31, 2016	December 26, 2015	December 27, 2014
NET SALES	**$ 397,453**	$ 422,483	$ 406,588
Cost of sales	**302,028**	316,253	311,091
GROSS PROFIT	**95,425**	106,230	95,497
Selling and administrative expenses	**96,983**	100,422	93,182
Other operating expense, net	**401**	872	904
Facility consolidation expenses, net	**1,456**	2,946	5,514
Impairment of assets	**—**	—	1,133
OPERATING INCOME (LOSS)	**(3,415)**	1,990	(5,236)
Interest expense	**5,392**	4,935	4,302
Other (income) expense, net	**22**	47	(154)
Gain on purchase of businesses	**—**	—	(11,110)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	**(8,829)**	(2,992)	1,726
Income tax provision (benefit)	**(3,622)**	(714)	1,053
INCOME (LOSS) FROM CONTINUING OPERATIONS	**(5,207)**	(2,278)	673
Loss from discontinued operations, net of tax	**(131)**	(148)	(608)
Income (loss) on disposal of discontinued operations, net of tax	**60**	—	(1,467)
NET LOSS	**$ (5,278)**	$ (2,426)	$ (1,402)
BASIC EARNINGS (LOSS) PER SHARE:			
Continuing operations	**$ (0.33)**	$ (0.15)	$ 0.03
Discontinued operations	**(0.01)**	(0.01)	(0.04)
Disposal of discontinued operations	**(0.00)**	—	(0.10)
Net loss	**$ (0.34)**	$ (0.16)	$ (0.11)
BASIC SHARES OUTSTANDING	**15,638**	15,536	14,382
DILUTED EARNINGS (LOSS) PER SHARE:			
Continuing operations	**$ (0.33)**	$ (0.15)	$ 0.03
Discontinued operations	**(0.01)**	(0.01)	(0.04)
Disposal of discontinued operations	**(0.00)**	—	(0.10)
Net loss	**$ (0.34)**	$ (0.16)	$ (0.11)
DILUTED SHARES OUTSTANDING	**15,638**	15,536	14,544
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 31, 2016	December 26, 2015	December 27, 2014
NET LOSS	**$ (5,278)**	$ (2,426)	$ (1,402)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized loss on interest rate swaps	**(263)**	(2,410)	(3,110)
Income taxes	**(100)**	(916)	(1,182)
Unrealized loss on interest rate swaps, net	**(163)**	(1,494)	(1,928)
Reclassification of loss into earnings from interest rate swaps (1)	**1,291**	777	372
Income taxes	**491**	295	141
Reclassification of loss into earnings from interest rate swaps, net	**800**	482	231
Unrecognized net actuarial gain (loss) on postretirement benefit plans	**(3)**	48	67
Income taxes	**(1)**	18	26
Unrecognized net actuarial gain (loss) on postretirement benefit plans, net	**(2)**	30	41
Reclassification of net actuarial gain into earnings from postretirement benefit plans (2)	**(33)**	(40)	(31)
Income taxes	**(13)**	(15)	(12)
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	**(20)**	(25)	(19)
Reclassification of prior service credits into earnings from postretirement benefit plans (2)	**(4)**	(86)	(88)
Income taxes	**(2)**	(33)	(34)
Reclassification of prior service credits into earnings from postretirement benefit plans, net	**(2)**	(53)	(54)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**613**	(1,060)	(1,729)
COMPREHENSIVE LOSS	**$ (4,665)**	$ (3,486)	$ (3,131)

(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 31, 2016	December 26, 2015	December 27, 2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations	**$ (5,207)**	$ (2,278)	$ 673
Loss from discontinued operations	**(131)**	(148)	(608)
Income (loss) on disposal of discontinued operations	**60**	—	(1,467)
Net loss	**(5,278)**	(2,426)	(1,402)
Adjustments to reconcile net loss to net cash provided by operating activities, net of acquisitions:			
Depreciation and amortization -			
Continuing operations	**13,515**	14,119	12,850
Discontinued operations	**—**	—	59
Provision (benefit) for deferred income taxes	**(3,260)**	(730)	264
Net (gain) loss on property, plant and equipment disposals	**725**	(114)	11
Impairment of assets -			
Continuing operations	**—**	—	1,133
Discontinued operations	**—**	—	2,363
Gain on purchase of businesses	**—**	—	(11,110)
Stock-based compensation expense	**1,324**	1,406	1,195
Excess tax benefits from stock-based compensation	**(3)**	(318)	(379)
Bad debt expense	**38**	146	399
Changes in operating assets and liabilities:			
Receivables	**7,163**	(335)	(1,686)
Inventories	**17,909**	(10,939)	743
Other current assets	**(1,014)**	751	679
Accounts payable and accrued expenses	**(6,827)**	7,606	(925)
Other operating assets and liabilities	**(371)**	(557)	(733)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**23,921**	8,609	3,461
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sales of property, plant and equipment	**1**	68	473
Deposits on property, plant and equipment	**—**	—	(1,184)
Purchase of property, plant and equipment	**(4,904)**	(6,826)	(9,492)
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)
NET CASH USED IN INVESTING ACTIVITIES	**(4,903)**	(6,758)	(21,571)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net payments on revolving credit facility	**(9,986)**	(2,328)	(2,378)
Borrowings on notes payable - buildings	**—**	6,290	—
Payments on notes payable - buildings	**(731)**	(705)	(35)
Payments on notes payable related to acquisitions	**(1,924)**	(1,840)	(1,761)
Borrowings on notes payable - equipment and other	**2,674**	1,923	5,193
Payments on notes payable - equipment and other	**(4,653)**	(4,387)	(3,017)
Payments on capital leases	**(3,171)**	(2,742)	(1,539)
Change in outstanding checks in excess of cash	**(932)**	1,816	(2,683)
Proceeds from equity offering, net of issuance costs	**—**	—	24,559
Proceeds from exercise of stock options	**—**	275	192
Repurchases of Common Stock	**(152)**	(584)	(497)
Excess tax benefits from stock-based compensation	**3**	318	379
Payments for debt issuance costs	**(287)**	—	(164)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(19,159)**	(1,964)	18,249
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(141)**	(113)	139
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**281**	394	255
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 140**	$ 281	$ 394

	Year Ended		
	December 31, 2016	December 26, 2015	December 27, 2014
SUPPLEMENTAL CASH FLOW INFORMATION:			
Equipment purchased under capital leases	**169**	496	10,078
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
Liabilities assumed in acquisitions	**—**	—	(6,397)
Accrued consideration for working capital adjustment in acquisitions	**—**	—	(216)
Accrued consideration for holdbacks in acquisition	**—**	—	(887)
Deposits on property, plant & equipment financed	**—**	—	(965)
Accrued purchases of equipment	**258**	200	—
Shortfall of tax benefits from stock-based compensation	**(192)**	(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 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**
Repurchases of Common Stock - 35,815 shares	(107)	—	(45)	—	—	(152)
Restricted stock grants issued - 149,215 shares	354	93	(447)	—	—	—
Restricted stock grants forfeited - 1,314 shares	(4)	—	4	—	—	—
Class B converted into Common Stock - 12,144 shares	36	(36)	—	—	—	—
Stock-based compensation expense	—	—	1,324	—	—	1,324
Excess tax benefits from stock-based compensation	—	—	(189)	—	—	(189)
Net loss	—	—	—	(5,278)	—	(5,278)
Other comprehensive income	—	—	—	—	613	613
Balance at December 31, 2016	**$ 45,745**	**$ 2,612**	**$ 156,381**	**$ (115,656)**	**$ (1,960)**	**$ 87,122**

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, rugs and luxury vinyl tile in the domestic floorcovering market. The Company has one reportable segment, floorcovering. The Company sells floorcovering 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 "2016," "2015," and "2014," mean the fiscal years ended December 31, 2016, December 26, 2015, and December 27, 2014, respectively. The year 2016 contained 53 weeks, all other years presented contained 52 weeks.

Reclassifications

The Company reclassified certain amounts in 2015 and 2014 to conform to the 2016 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 10% in 2016, 9% in 2015 and 9% in 2014. No other customer accounted for more than 10% of net sales in 2016, 2015 or 2014, nor did the Company make a significant amount of sales to foreign countries during 2016, 2015 or 2014.

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. In accordance with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 350, *"Intangibles-Goodwill and Other,"* the Company tests goodwill 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 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 and comparable company market valuation approaches. The Company has identified its reporting unit as its floorcovering business for the purposes of allocating goodwill and assessing impairments. 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, the weighted average cost of capital ("WACC") and comparable company market multiples. When developing these key judgments and assumptions, the Company considers 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 or a decline in comparable company market multiples, then key judgments and assumptions could be impacted.

In the first step of the goodwill assessment process, the Company compares the carrying value of a reporting unit, including goodwill, to the fair value of the reporting unit to identify potential goodwill impairments. The Company estimates the fair value of the reporting unit by using both a discounted cash flow and comparable company market valuation approach. 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 2016, 2015, or 2014.

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 May 2014, the Financial Accounting Standards Board ("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 and all subsequently issued clarifying ASUs 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 deferred 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. Management is continuing to evaluate the standard’s impact on the Company’s Consolidated Financial Statements. The Company has developed a project team relative to the process of adopting this ASU and is currently completing a detailed review of the Company’s revenue arrangements to determine any necessary adjustments to existing accounting policies. For the majority of these arrangements, no significant impacts are expected as these transactions generally consist of a single performance obligation to transfer promised goods or services. The Company currently anticipates utilizing the retrospective method upon adoption.

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 was effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. The adoption of this ASU in 2016 did not have a significant impact on the Consolidated Financial Statements.

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 did not change GAAP for a customer's accounting for service contracts. The adoption of this ASU in 2016 did not 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 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. This ASU does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. This ASU is 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. This ASU was effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The adoption of this ASU in 2016 did not have a significant impact on the Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 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 No. 2016-02, "*Leases (Topic 842),"* which requires lessees to recognize on the balance sheet a right-of use asset, representing its right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is continuing to evaluate the impact of the adoption of this ASU on the Consolidated Financial Statements. The Company has developed a project team relative to the process of adopting this ASU and is currently completing a detailed review of the Company's leasing arrangements to determine the impact.

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,"* which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. 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 June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,"* which amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. For public entities, ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

In August 2016, the FASB issued ASU No. 2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,"* which provides clarification guidance on certain cash flow presentation issues that have developed due to diversity in practice. These issues include certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. For public entities, ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. The Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, *"Statement of Cash Flows (Topic 230): Restricted Cash,"* which clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. Under the ASU, changes in restricted cash and restricted cash equivalents would be included along with those of cash and cash equivalents in the statement of cash flows. In addition, a reconciliation between the balance sheet and the statement of cash flows would be disclosed when the balance sheet includes more than one line item for cash and cash equivalents and restricted cash and cash equivalents. For public entities, ASU 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted. Entities are required to apply the standard's provisions on a retrospective basis. The Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

In January 2017, the FASB issued ASU No. 2017-01, *"Business Combinations (Topic 805): Clarifying the Definition of a Business,"* which narrows the existing definition of a business and provides a framework for evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business. The definition of a business affects areas of accounting such as acquisitions, disposals and goodwill. Under this ASU, fewer acquired sets are expected to be considered businesses. For public entities, ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted under certain circumstances. The Company would apply this guidance to applicable transactions after the adoption date.

(amounts in thousands, except per share data)

In January 2017, the FASB issued ASU No. 2017-04, *"Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*." Under the new standard, goodwill impairment would be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This ASU eliminates existing guidance that requires an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. For public entities, ASU 2017-04 is effective for annual or any interim goodwill impairment tests in annual periods beginning after December 15, 2019, with early adoption permitted. The Company does not believe the adoption of this ASU will have a significant impact on the Consolidated Financial Statements.

NOTE 3 - RECEIVABLES, NET

Receivables are summarized as follows:

	2016	2015
Customers, trade	**$ 39,749**	$ 46,110
Other receivables	**3,963**	5,166
Gross receivables	**43,712**	51,276
Less: allowance for doubtful accounts	**(107)**	(470)
Receivables, net	**$ 43,605**	$ 50,806

Bad debt expense was $38 in 2016, $146 in 2015, and $399 in 2014.

NOTE 4 - INVENTORIES, NET

Inventories are summarized as follows:

	2016	2015
Raw materials	**$ 34,261**	$ 46,164
Work-in-process	**16,739**	21,306
Finished goods	**57,053**	58,037
Supplies and other	**120**	192
LIFO reserve	**(10,936)**	(10,553)
Inventories, net	**$ 97,237**	$ 115,146

Reduction of inventory quantities in 2016 resulted in liquidations of LIFO inventories carried at prevailing costs established in prior years and increased cost of sales by $141 in 2016.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	2016	2015
Land and improvements	**$ 7,781**	$ 7,610
Buildings and improvements	**62,055**	61,396
Machinery and equipment	**177,745**	174,636
Assets under construction	**2,386**	2,819
	249,967	246,461
Accumulated depreciation	**(157,160)**	(145,315)
Property, plant and equipment, net	**$ 92,807**	$ 101,146

Depreciation of property, plant and equipment, including amounts for capital leases, totaled $12,944 in 2016, $13,525 in 2015 and $12,212 in 2014.

(amounts in thousands, except per share data)

NOTE 6 - 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. The components of the purchase price allocation consisted of the following:

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.

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.

(amounts in thousands, except per share data)

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.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill is $3,389 as of December 31, 2016 and December 26, 2015. The Company performed its annual assessment of goodwill in the fourth quarters of 2016, 2015 and 2014 and no impairment was indicated. The following table represents the details of the Company's intangible assets subject to amortization:

	2016			2015		
	Gross	**Accumulated Amortization**	**Net**	Gross	Accumulated Amortization	Net
Customer relationships	**$ 208**	**$ (64)**	**$ 144**	$ 208	$ (48)	$ 160
Rug design coding	**144**	**(57)**	**87**	144	(43)	101
Trade names	**3,300**	**(764)**	**2,536**	3,300	(489)	2,811
Total	**$ 3,652**	**$ (885)**	**$ 2,767**	$ 3,652	$ (580)	$ 3,072

Amortization expense for intangible assets is summarized as follows:

	2016	2015	2014
Customer relationships	**$ 16**	$ 16	$ 59
Rug design coding	**14**	14	15
Trade names	**275**	275	277
Amortization expense	**$ 305**	$ 305	$ 351

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

Year	Amount
2017	$ 305
2018	305
2019	305
2020	305
2021	305

NOTE 8 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	2016	2015
Compensation and benefits (1)	**$ 7,492**	$ 9,173
Provision for customer rebates, claims and allowances	**8,882**	8,995
Advanced customer deposits	**8,212**	6,674
Outstanding checks in excess of cash	**2,074**	3,006
Other	**6,166**	6,490
Accrued expenses	**$ 32,826**	$ 34,338

(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 $1,873.

(amounts in thousands, except per share data)

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.

	2016	2015
Product warranty reserve at beginning of period	$ 2,159	$ 2,214
Warranty liabilities accrued	6,406	6,201
Warranty liabilities settled	(6,687)	(8,695)
Changes for pre-existing warranty liabilities	429	2,439
Product warranty reserve at end of period	$ 2,307	$ 2,159

NOTE 10 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2016	2015
Revolving credit facility	$ 70,583	$ 80,569
Notes payable - buildings	13,150	13,881
Acquisition note payable - Development Authority of Gordon County	1,147	2,314
Acquisition note payable - Robertex	1,564	2,321
Notes payable - equipment and other	11,633	15,008
Capital lease obligations	11,145	12,751
Deferred financing costs, net	(844)	(795)
Total long-term debt	108,378	126,049
Less: current portion of long-term debt	10,122	10,142
Long-term debt	$ 98,256	$ 115,907

Revolving Credit Facility

On September 23, 2016, the Company amended its revolving credit facility to revise certain definitions and extend the maturity date from March 2019 to September 2021. 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 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 ranging between 1.50% and 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 ranging between 0.50% and 1.00%. The applicable margin is determined based on availability under the revolving credit facility with margins increasing as availability decreases, with the exception that the applicable margin cannot go below 1.75% until after March 31, 2017. As of December 31, 2016, the applicable margin on our revolving credit facility was 1.75%. The Company pays an unused line fee on the average amount by which the aggregate commitments exceed utilization of the revolving credit facility equal to 0.375% per annum. The weighted-average interest rate on borrowings outstanding under the revolving credit facility was 4.40% at December 31, 2016 and 3.12% at December 26, 2015.

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 31, 2016, the unused borrowing availability under the revolving credit facility was $45,614; however, since the Company's fixed charge coverage ratio was less than 1.1 to 1.0, the unused availability accessible by the Company was $29,114 (the amount above $16,500) at December 31, 2016.

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%.

(amounts in thousands, except per share data)

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 will effectively fix the interest rate at 4.30%.

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 5 to 7 years, bear interest ranging from 1.00% to 6.86% and are due in monthly or quarterly installments through their maturity dates. The Company's equipment financing notes are secured by the specific equipment financed and do not contain any financial covenants.

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 $5,088 in 2016, $4,449 in 2015, and $3,757 in 2014. Maturities of long-term debt for periods following December 31, 2016 are as follows:

	Long-Term Debt	Capital Leases (See Note 18)	Total
2017	$ 6,782	$ 3,340	$ 10,122
2018	4,584	3,115	7,699
2019	2,761	1,949	4,710
2020	1,866	1,677	3,543
2021	72,320	1,050	73,370
Thereafter	9,764	14	9,778
Total maturities of long-term debt	$ 98,077	$ 11,145	$ 109,222
Deferred financing costs, net	(844)	—	(844)
Total long-term debt	$ 97,233	$ 11,145	$ 108,378

(amounts in thousands, except per share data)

NOTE 11 - FAIR VALUE MEASUREMENTS

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

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

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

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

The 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 31, 2016 and December 26, 2015:

	2016	2015	Fair Value Hierarchy Level
Liabilities:			
Interest rate swaps (1)	**$ 3,695**	$ 4,689	Level 2
Contingent consideration (2)	**200**	584	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 Robertex acquisition in 2013, the Company recorded a contingent consideration liability at fair value. This fair value measurement was 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. This fair value measurement is directly impacted by the Company's estimates. Accordingly, if the estimates within the fair value measurement are higher or lower, 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 31, 2016 and December 26, 2015 were as follows:

	2016	2015
Beginning balance	**$ 584**	$ 1,855
Fair value adjustments	**(230)**	(657)
Settlements	**(154)**	(614)
Ending balance	**$ 200**	$ 584

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during 2016 or 2015. If any, the Company recognizes the transfers in or transfers out at the end of the reporting period.

(amounts in thousands, except per share data)

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

	2016		2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	**$ 140**	**$ 140**	$ 281	$ 281
Notes receivable, including current portion	**282**	**282**	282	282
Financial liabilities:				
Long-term debt and capital leases, including current portion	**108,378**	**105,270**	126,049	123,318
Interest rate swaps	**3,695**	**3,695**	4,689	4,689

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.

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 31, 2016:

Type	**Notional Amount**		**Effective Date**	**Fixed Rate**	**Variable Rate**
Interest rate swap	$ 25,000		September 1, 2016 through September 1, 2021	3.105%	1 Month LIBOR
Interest rate swap	$ 25,000		September 1, 2015 through September 1, 2021	3.304%	1 Month LIBOR
Interest rate swap	$ 7,462	(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**	
		2016	2015
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Accrued Expenses	**$ 1,342**	$ 1,159
Interest rate swaps, long-term portion	Other Long-Term Liabilities	**2,353**	3,530
Total Liability Derivatives		**$ 3,695**	$ 4,689

(amounts in thousands, except per share data)

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		
	2016	2015	2014
Derivatives designated as hedging instruments:			
Cash flow hedges - interest rate swaps	**$ (263)**	$ (2,410)	$ (3,110)

	Amount of Gain or (Loss) Reclassified from AOCIL on the effective portion into Income (1)(2)		
	2016	2015	2014
Derivatives designated as hedging instruments:			
Cash flow hedges - interest rate swaps	**$ (1,291)**	$ (777)	$ (372)

(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 2016 is $1,342.

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 87% 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 $425 in 2016, $454 in 2015 and $382 in 2014.

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 13% 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 $71 in 2016, $82 in 2015 and $87 in 2014.

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 $14,992 at December 31, 2016 and $14,155 at December 26, 2015 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 $15,679 at December 31, 2016 and $14,981 at December 26, 2015 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 13% 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 2016 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 2016 and 2015 is for the plan's year-end at 2015 and 2014, 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.

(amounts in thousands, except per share data)

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status 2016	Pension Protection Act Zone Status 2015	FIP/RP Status Pending/ Implemented (1)	Contributions (2) 2016	Contributions (2) 2015	Contributions (2) 2014	Surcharge Imposed (1)	Expiration Date of Collective-Bargaining Agreement
The Pension Plan of the National Retirement Fund	13-6130178 - 001	Red	Red	Implemented	$ 274	$ 268	$ 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, a surcharge equal to $0.03 per hour (from $0.50 to $0.53) effective June 1, 2015 to May 31, 2016, and a surcharge equal to $0.02 per hour (from $0.53 to $0.55) effective June 1, 2016 to May 31, 2017, respectively. Based upon current employment and benefit levels, the Company's contributions to the multi-employer pension plan are expected to be approximately $287 for 2017.
(2) The Company's contributions to the plan do not represent more than 5% of the total contributions to the plan for the most recent plan year available.

Postretirement Plans

The Company 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 dental 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:

	2016	2015
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 290**	$ 315
Service cost	**7**	7
Interest cost	**15**	18
Participant contributions	**—**	2
Actuarial (gain) loss	**3**	(48)
Benefits paid	**(1)**	(5)
Medicare Part D subsidy	**—**	1
Benefit obligation at end of year	**314**	290
Change in plan assets:		
Fair value of plan assets at beginning of year	**—**	—
Employer contributions	**1**	2
Participant contributions	**—**	2
Benefits paid	**(1)**	(5)
Medicare Part D subsidy	**—**	1
Fair value of plan assets at end of year	**—**	—
Unfunded amount	**$ (314)**	$ (290)

(amounts in thousands, except per share data)

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

	2016	2015
Accrued expenses	**$ 13**	$ 12
Other long-term liabilities	**301**	278
Total liability	**$ 314**	$ 290

Benefits expected to be paid on behalf of associates for postretirement benefit plans during the period 2017 through 2026 are summarized as follows:

Years	Postretirement Plans
2017	$ 13
2018	12
2019	12
2020	12
2021	12
2022 - 2026	66

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

	2016	2015
Weighted-average assumptions as of year-end:		
Discount rate (benefit obligations)	**4.00%**	4.25%

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

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

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

	2016	2015	2014
Service cost	**$ 7**	$ 7	$ 7
Interest cost	**15**	18	22
Amortization of prior service credits	**(4)**	(86)	(88)
Recognized net actuarial gains	**(33)**	(40)	(31)
Settlement gain	**—**	—	(251)
Net periodic benefit cost (credit)	**$ (15)**	$ (101)	$ (341)

Pre-tax amounts included in AOCIL for the Company's postretirement benefit plans at 2016 are summarized as follows:

	Postretirement Benefit Plans	
	Balance at 2016	2017 Expected Amortization
Prior service credits	**$ (12)**	$ (4)
Unrecognized actuarial gains	**(400)**	(33)
Totals	**$ (412)**	$ (37)

(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:

	2016	2015	2014
Current			
Federal	$ (396)	$ 277	$ 1,081
State	34	(261)	(292)
Total current	(362)	16	789
Deferred			
Federal	(3,003)	(641)	232
State	(257)	(89)	32
Total deferred	(3,260)	(730)	264
Income tax provision (benefit)	$ (3,622)	$ (714)	$ 1,053

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:

	2016	2015	2014
Federal statutory rate	35%	35%	35%
Statutory rate applied to income (loss) from continuing operations before taxes	$ (3,090)	$ (1,047)	$ 604
Plus state income taxes, net of federal tax effect	(145)	(227)	(169)
Total statutory provision (benefit)	(3,235)	(1,274)	435
Effect of differences:			
Nondeductible meals and entertainment	148	147	143
Domestic production activities deduction	—	—	112
Federal tax credits	(395)	(441)	(483)
Reserve for uncertain tax positions	31	35	109
Goodwill	(13)	(124)	(124)
Change in valuation allowance	106	977	569
Stock-based compensation	—	—	117
Other items	(264)	(34)	175
Income tax provision (benefit)	$ (3,622)	$ (714)	$ 1,053

In 2016, the company increased valuation allowances by $106 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 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 than 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.

Income tax payments, net of (income tax refunds) received for continuing and discontinued operations were $(190) in 2016, $48 in 2015 and $345 in 2014.

(amounts in thousands, except per share data)

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

	2016	2015
Deferred tax assets:		
Inventories	**$ 4,057**	$ 3,927
Retirement benefits	**3,387**	3,337
State net operating losses	**3,672**	3,563
Federal net operating losses	**5,930**	4,345
State tax credit carryforwards	**1,728**	1,731
Federal tax credit carryforwards	**3,361**	2,943
Allowances for bad debts, claims and discounts	**3,442**	3,688
Other	**5,001**	4,856
Total deferred tax assets	**30,578**	28,390
Valuation allowance	**(5,400)**	(5,294)
Net deferred tax assets	**25,178**	23,096
Deferred tax liabilities:		
Property, plant and equipment	**17,568**	18,370
Total deferred tax liabilities	**17,568**	18,370
Net deferred tax asset	**$ 7,610**	$ 4,726

At December 31, 2016, $5,930 of deferred tax assets related to approximately $16,943 of federal net operating loss carryforwards and $3,672 of deferred tax assets related to approximately $83,088 of state net operating loss carryforwards. In addition, $3,361 of federal tax credit carryforwards and $1,728 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 2029 and 2036. The state net operating loss carryforwards and the state tax credit carryforwards will expire between 2017 and 2037. A valuation allowance of $5,400 is recorded to reflect the estimated amount of deferred tax assets that may not be realized during the carryforward periods. At December 31, 2016, the Company is in a net deferred tax asset position of $7,610 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 $406 and $375 at December 31, 2016 and December 26, 2015, respectively. Such benefits, if recognized, would affect the Company's effective tax rate. There were no significant interest or penalties accrued as of December 31, 2016 and December 26, 2015.

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

	2016	2015	2014
Balance at beginning of year	**$ 375**	$ 400	$ 291
Additions based on tax positions taken during a current period	**31**	35	109
Reductions related to settlement of tax matters	**—**	(60)	—
Balance at end of year	**$ 406**	$ 375	$ 400

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 2012 remain open to examination for U.S. federal income taxes. The majority of state jurisdictions remain open for tax years subsequent to 2012. A few state jurisdictions remain open to examination for tax years subsequent to 2011.

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:

	2016	2015	2014
Basic earnings (loss) per share:			
Income (loss) from continuing operations	**$ (5,207)**	$ (2,278)	$ 673
Less: Allocation of earnings to participating securities	**—**	—	(197)
Income (loss) from continuing operations available to common shareholders - basic	**$ (5,207)**	$ (2,278)	$ 476
Basic weighted-average shares outstanding (1)	**15,638**	15,536	14,382
Basic earnings (loss) per share - continuing operations	**$ (0.33)**	$ (0.15)	$ 0.03
Diluted earnings (loss) per share:			
Income (loss) from continuing operations available to common shareholders - basic	**$ (5,207)**	$ (2,278)	$ 476
Add: Undistributed earnings reallocated to unvested shareholders	**—**	—	3
Income (loss) from continuing operations available to common shareholders - basic	**$ (5,207)**	$ (2,278)	$ 479
Basic weighted-average shares outstanding (1)	**15,638**	15,536	14,382
Effect of dilutive securities:			
Stock options (2)	**—**	—	97
Directors' stock performance units (2)	**—**	—	65
Diluted weighted-average shares outstanding (1)(2)	**15,638**	15,536	14,544
Diluted earnings (loss) per share - continuing operations	**$ (0.33)**	$ (0.15)	$ 0.03

(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 220 in 2016, 333 in 2015 and 434 in 2014.

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 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 $1,324 in 2016, $1,406 in 2015 and $1,195 in 2014.

2016 Incentive Compensation Plan

On May 3, 2016, the Company's shareholders' approved and adopted the Company's 2016 Incentive Compensation Plan (the "2016 Incentive Compensation Plan") which provides for the issuance of a maximum of 800,000 shares of Common Stock and/or Class B Common Stock for the grant of options, and/or other stock-based or stock-denominated awards to employees, officers, directors, and agents of the Company and its participating subsidiaries. The 2016 Incentive Compensation Plan and the allocation of shares thereunder superseded and replaced The Dixie Group, Inc. Stock Awards Plan, as amended (the "2006 Plan") and the allocation of shares thereunder. The 2006 Plan was terminated with respect to new awards. Awards previously granted under the 2006 Plan continue to be governed by the terms of that plan and are not affected by its termination.

2006 Stock Awards Plan

The Company had a Stock Awards Plan, ("2006 Plan"), as amended, which provided 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 11, 2016, the Company issued 149,215 shares of restricted stock to officers and other key employees. The grant-date fair value of the awards was $651, or $4.360 per share, and is expected to be recognized as stock compensation expense over a weighted-average period of 8.7 years from the date the awards were granted. Each award is subject to a continued service condition. The fair value of each share of restricted stock awarded was equal to the market value of a share of the Company's Common Stock on the grant date.

On March 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.

(amounts in thousands, except per share data)

Restricted stock activity for the three years ended December 31, 2016 is summarized as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value
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
Granted	149,215	4.36
Vested	(107,318)	8.88
Forfeited	(1,314)	15.68
Outstanding at December 31, 2016	457,378	$ 7.41

As of December 31, 2016, unrecognized compensation cost related to unvested restricted stock was $1,915. That cost is expected to be recognized over a weighted-average period of 6.9 years. The total fair value of shares vested was approximately $456, $1,410 and $1,512 during 2016, 2015 and 2014, respectively.

Stock Performance Units

The Company's non-employee directors receive an annual retainer of $18 in cash and $18 in value of Stock Performance Units (subject to a $5.00 minimum per unit) under the Director's Stock Plan. 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 31, 2016, 116,232 Stock Performance Units were outstanding under this plan. As of December 31, 2016, unrecognized compensation cost related to Stock Performance Units was $41. That cost is expected to be recognized over a weighted-average period of 0.3 years.

Stock Options

Options granted under the Company's 2006 Plan were 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 2016, 2015 or 2014.

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 31, 2016 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 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		—
Exercised	—	—		—
Forfeited	—	—		—
Outstanding at December 31, 2016	103,500	$ 5.00	2.8	$ —
Options exercisable at:				
December 27, 2014	439,235	$ 10.31		—
December 26, 2015	103,500	5.00		—
December 31, 2016	103,500	5.00	2.8	—

At December 31, 2016, there was no intrinsic value of outstanding stock options and no intrinsic value of exercisable stock options. The intrinsic value of stock options exercised during 2016, 2015 and 2014 was $0, $221 and $140, respectively. At December 31, 2016, 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 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)
Unrealized loss on interest rate swaps, net of tax of $100	(163)	—	(163)
Reclassification of loss into earnings from interest rate swaps, net of tax of $491	800	—	800
Unrecognized net actuarial loss on postretirement benefit plans, net of tax of $1	—	(2)	(2)
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net of tax of $13	—	(20)	(20)
Reclassification of prior service credits into earnings from postretirement benefit plans, net of tax of $2	—	(2)	(2)
Balance at December 31, 2016	**$ (2,216)**	**$ 256**	**$ (1,960)**

NOTE 18 - COMMITMENTS AND CONTINGENCIES

Commitments

The Company had purchase commitments of $3,517 at December 31, 2016, 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 $855 in 2016, $1,151 in 2015 and $977 in 2014. At December 31, 2016, the Company has commitments to purchase natural gas of $640 for 2017 and $428 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
2017	$ 3,836	$ 3,114
2018	3,439	2,779
2019	2,141	1,895
2020	1,776	1,436
2021	1,074	1,042
Thereafter	14	4,267
Total commitments	12,280	14,533
Less amounts representing interest	(1,135)	—
Total	$ 11,145	$ 14,533

Rental expense was approximately $3,575, $3,593 and $4,066 during 2016, 2015 and 2014, respectively.

Property, plant and equipment includes machinery and equipment under capital leases which have asset cost and accumulated depreciation of $17,987 and $5,881, respectively, at December 31, 2016, and $16,654 and $3,985, respectively, at December 26, 2015.

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 Notes 20 & 21)

Legal Proceedings

The Company has been sued, together with the 3M Company and approximately 30 other carpet manufacturers, by the Gadsden (Alabama) Water Works in the circuit court of Etowah County Alabama [The Water Works and Sewer Board of the City of Gadsden v. 3M Company, et al, civil action No. 31-CV-2016-900676.00], in a case seeking monetary damages and injunctive relief related to the use of certain chemical compounds in the manufacture and finishing of carpet products "in and around Dalton Georgia." On motion of the defendants, the case was removed to the U.S. District Court for the Northern District of Alabama (Middle Division) Case No. 4:16-CV-01755-SGC. As alleged in the lawsuit, the chemicals are perflourinated compounds ("PFC") perflourinated acid ("PFOA") and perfluorooctane sulfonate ("PFOS") manufactured by 3M and used in certain finishing and treatment processes by the defendants and, as a consequence of such use, either discharged into or leached into the water systems around Dalton, Georgia. The Complaint seeks damages "in excess of $10", but otherwise unspecified in amount in addition to injunctive relief. The Company intends to defend the matter vigorously and is unable to estimate its potential exposure to loss, if any, at this time.

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 entails 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 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.

(amounts in thousands, except per share data)

NOTE 19 - OTHER (INCOME) EXPENSE

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

	2016	2015	2014
Other operating expense, net:			
(Gain) loss on property, plant and equipment disposals	**$ 725**	$ (114)	$ (30)
Loss on currency exchanges	**167**	602	587
Amortization of intangibles	**305**	305	351
Retirement expenses	**154**	212	135
BP settlement gain (1)	**(841)**	—	—
Miscellaneous (income) expense	**(109)**	(133)	(139)
Other operating expense, net	**$ 401**	$ 872	$ 904

(1) On November 21, 2016, the Company entered into a full and final release agreement with BP Exploration and Production, Inc. and various related entities pursuant to which the Company released any and all claims related to the Deepwater Horizon oil spill which occurred on April 20, 2010. In exchange for this release, the Company will receive a net amount of $841 from the settlement. Payment of the settlement amount is scheduled to be paid by April 15, 2017. As of December 31, 2016, this amount is included in receivables and other operating income (expense), net on the Company's Consolidated Financial Statements.

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

	2016	2015	2014
Other (income) expense, net:			
Earnings from equity investments	**—**	14	(209)
Loss on sale of non-operating assets	**—**	—	41
Miscellaneous (income) expense	**22**	33	14
Other (income) expense, net	**$ 22**	$ 47	$ (154)

NOTE 20 - FACILITY CONSOLIDATION EXPENSES, NET

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 included moving and relocation expenses, information technology expenses and expenses relating to conversion and realignment of equipment. In addition, this plan included 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.

To complete the Warehousing, Distribution & Manufacturing Consolidation Plan, the Company moved its Saraland rug operation from an expiring leased building to an owned facility in March 2016. The Company completed this consolidation plan during 2016. As a result of eliminating its dyeing operations in Atmore, Alabama, the Company disposed of its waste water treatment plant in 2014. Subsequently, after extensive testing, it was determined that the Company still had some contaminants above background levels and that it would need to install a soil cap. During the first quarter of 2016, the Company accrued $690 to finalize the cleanup of the site of the Company's former waste water treatment plant. During the fourth quarter of 2016, the Company lowered the accrual by $359 as the Company was able to refine the plan. Accordingly, if the actual costs are higher or lower, the Company would record an additional charge or benefit, respectively, as appropriate.

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 included equipment relocation, computer systems modifications and severance costs. These costs were completed in fiscal 2015.

(amounts in thousands, except per share data)

2015 Corporate Office Consolidation Plan

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

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

					As of December 31, 2016	
	Accrued Balance at December 26, 2015	2016 Expenses (1)	2016 Cash Payments	Accrued Balance at December 31, 2016	Total Costs Incurred to Date	Total Expected Costs
Warehousing, Distribution and Manufacturing Consolidation Plan	$ —	$ 1,381	$ 1,115	$ 266	$ 7,444	$ 7,444
Atlas Integration Plan	—	—	—	—	1,669	1,669
Corporate Office Consolidation Plan	341	75	168	248	803	803
Total All Plans	$ 341	$ 1,456	$ 1,283	$ 514	$ 9,916	$ 9,916
Asset impairments (2)					$ 1,133	$ 1,133

	Accrued Balance at December 27, 2014	2015 Expenses (1)	2015 Cash Payments	Accrued Balance at December 26, 2015
Warehousing, Distribution and Manufacturing Consolidation Plan	$ —	$ 2,016	$ 2,016	$ —
Atlas Integration Plan	—	202	202	—
Corporate Office Consolidation Plan	—	728	387	341
Total All Plans	$ —	$ 2,946	$ 2,605	$ 341

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

(amounts in thousands, except per share data)

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:

	2016	2015	2014
Net sales - Carousel operations	**$ —**	$ 417	$ 1,168
Loss from discontinued operations:			
Loss from Carousel operations	**$ —**	$ (116)	$ (863)
Workers' compensation costs from former textile operations	**(2)**	(53)	(55)
Environmental remediation costs from former textile operations	**(216)**	(68)	(62)
Loss from discontinued operations, before taxes	**$ (218)**	$ (237)	$ (980)
Income tax benefit	**(87)**	(89)	(372)
Loss from discontinued operations, net of tax	**$ (131)**	$ (148)	$ (608)
Income (loss) on disposal of Carousel discontinued operations before income taxes	**$ 100**	$ —	$ (2,363)
Income tax provision (benefit)	**40**	—	(896)
Income (loss) on disposal of discontinued operations, net of tax	**$ 60**	$ —	$ (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, resulting in the impairment of customer relationships of $786 and trade names of $1,271. These amounts have been included in the loss on disposal of discontinued operations in the Company's Consolidated Statements of Operations.

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

Reserves for environmental remediation obligations are established on an undiscounted basis. The Company has an accrual for environmental remediation obligations related to discontinued operations of $1,686 as of December 31, 2016 and $1,591 as of December 26, 2015. 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 2016, 2015, and 2014 was $793, $458, and $343. The lease was based on current market values for similar facilities.

The Company purchases a portion of its product needs in the form of fiber, yarn and carpet from Engineered Floors, an entity substantially controlled by Robert E. Shaw, a shareholder of the Company. An affiliate of Mr. Shaw holds approximately 7.4% of the Company's Common Stock, which represents approximately 3.4% 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 2016, 2015 and 2014 were approximately $7,300, $8,800 and $11,300, respectively; or approximately 2.4%, 2.8%, and 3.6% of the Company's cost of goods sold in 2016, 2015, and 2014, respectively. Purchases from Engineered Floors are based on market value, negotiated prices. The Company has no contractual commitments with Mr. Shaw associated with its business relationship with Engineered Floors. Transactions with Engineered Floors are reviewed annually by the Company's board of directors.

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 2016, 2015, and 2014 was $267, $262, and $257, respectively. The lease was based on current market values for similar facilities. In addition, the Company has a note payable to Robert P. Rothman related to the acquisition of Robertex Inc. (See Note 10).

NOTE 23 - SUBSEQUENT EVENT

On March 10, 2017, the Company granted 40,000 shares of restricted stock to certain key employees of the Company. The grant-date fair value of the awards was $140, or $3.500 per share, and will be recognized as stock compensation expense over a 3 year vesting period 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.

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 31, 2016:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	$ 470	$ 38	$ —	$ 401 (1)	$ 107
Reserves classified as liabilities:					
Provision for claims, allowances and warranties	5,684	10,362	—	10,026 (3)	6,020
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

(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 31, 2016

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 Lendors 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. *
(10.92)	Summary of Incentive Plan for 2016	Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated March 11,2016. *
(10.93)	Long Term Incentive Plan Award B Shareholder	Incorporated by Reference to Exhibit (10.2) to Dixie's Current Report on Form 8-K dated March 11,2016. *
(10.94)	Long Term Incentive Plan Award Common	Incorporated by Reference to Exhibit (10.3) to Dixie's Current Report on Form 8-K dated March 11,2016. *
(10.95)	Career Shares B Shareholder	Incorporated by Reference to Exhibit (10.4) to Dixie's Current Report on Form 8-K dated March 11,2016. *
(10.96)	Career Shares Common	Incorporated by Reference to Exhibit (10.5) to Dixie's Current Report on Form 8-K dated March 11,2016. *

(10.97)	Tenth Amendment to Credit Agreement, First Amendment to Security Agreement, and First Amendment to Guaranty	Incorporated by Reference to Exhibit (10.1) to Dixie's Current Report on Form 8-K dated September 26,2016.*
(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)	Consent of Dixon Hughes Goodman 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, 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 Corporate Office, 475 Reed Road, Dalton, Georgia, on May 3, 2017 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 cast an advisory vote on the Company's Executive Compensation for its named executive officers ("Say-on-Pay");

3. To ratify appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2017; and

4. 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 24, 2017, 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 23, 2017

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, 2017

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, 2017

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 23, 2017, to shareholders of record of the Company's Common Stock and Class B Common Stock as of the close of business on February 24, 2017.

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) cast an advisory vote on the Company's executive compensation for its named executive officers; (iii) ratify the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2017, and (iv) 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 Company's executive compensation of its named executive officers; and (iii) **FOR** ratifying the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2017.

RECORD DATE, VOTE REQUIRED AND RELATED MATTERS

The Board has fixed the close of business on February 24, 2017, 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 24, 2017, 15,248,338 shares of Common Stock, representing 15,248,338 votes, were held of record by approximately 3,000 shareholders (including an estimated 2,600 shareholders whose shares are held in nominee names) and 870,714 shares of Class B Common Stock, representing 17,414,280 votes, were held by 10 individual shareholders, together representing an aggregate of 32,662,618 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 Company's executive compensation of its named executive officers; and (iii) **FOR** ratifying the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2017.

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.

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.

Ratification of the appointment of Dixon Hughes Goodman LLP to serve as independent registered public accountants of the Company for 2017 will be approved if the votes properly cast favoring ratification exceed the votes cast opposing ratification.

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 31, 2016, 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 24, 2017, 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 24, 2017 (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	1,005,634	(3)	6.2 %
Lookout Mountain, TN 37350	Class B Common Stock	870,714	(4)	100.0 %
Dimensional Fund Advisors, L.P.				
Palisades West, Building One,				
6300 Bee Cave Road	Common Stock	1,091,102	(5)	7.2 %
Austin, TX 78746				
Hodges Capital Holdings, Inc.				
2905 Maple Avenue	Common Stock	2,280,660	(6)	15.0 %
Dallas, TX 75201				
Royce & Associates, LLC				
745 Fifth Avenue	Common Stock	1,366,631	(7)	9.0 %
New York, NY 10151				
Robert E. Shaw				
115 West King Street	Common Stock	1,125,000	(8)	7.4 %
Dalton, GA 30722-1005				
Wells Fargo & Company, on behalf of the following subsidiaries:				
Wells Capital Management Incorporated				
Wells Fargo Fund Management, LLC				
Wells Fargo Clearing Services, LLC				
420 Montgomery Street	Common Stock	1,554,810	(9)	10.2 %
San Francisco, CA 94163				

Additional Directors and Executive Officers	Title of Class	Number of Shares Beneficially Owned (1)		% of Class	
William F. Blue, Jr.	Common Stock	18,091	(10)		*
Charles E. Brock	Common Stock	10,941	(11)		*
Paul B. Comiskey	Common Stock	106,486	(12)		*
W. Derek Davis	Common Stock	73,222	(13)		*
Jon A. Faulkner	Common Stock	139,522	(14)		*
D. Kennedy Frierson, Jr.	Common Stock	214,487	(15)	1.4	%
	Class B Common Stock	180,700	(4)	20.8	%
E. David Hobbs	Common Stock	7,259	(16)		*
Walter W. Hubbard	Common Stock	21,801	(17)		*
Lowry F. Kline	Common Stock	54,299	(18)		*
V. Lee Martin	Common Stock	30,381	(19)		*
Hilda S. Murray	Common Stock	10,941	(20)		*
John W. Murrey, III	Common Stock	40,079	(21)		*
Michael L. Owens	Common Stock	6,775	(22)		*
All Directors, Named Executive Officers and	Common Stock	1,556,333	(23)	**9.6**	**%**
Executive Officers as Group (14 Persons) **	Class B Common Stock	870,714	(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 **18,099,899** votes or **55.4%** 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 244,775 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		405,306	(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	55,690	(b)	230,072	(c)
Unvested restricted stock	21,404	(a)	117,910	(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	870,714		—	
Total	1,005,434		870,714	

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

(4) The 870,714 includes 324,951 shares of Class B Common Stock are held subject to a Shareholder's Agreement among Daniel K. Frierson, his wife, two of their five children (including D. Kennedy Frierson, Jr.) and certain family trusts which hold Class B Common Stock, pursuant to which Daniel K. Frierson has been granted a proxy to vote such shares. The Shareholder's Agreement relates only to shares of Class B Common Stock held by each of the parties to the agreement. Pursuant to the agreement Daniel K. Frierson is granted a proxy to vote such shares of Class B Common Stock so long as they remain subject to the agreement. The Class B Common Stock is convertible on a share for share basis in to shares of Common Stock; however, upon conversion such shares are no longer subject to the agreement. Nevertheless, the parties to the agreement may be deemed to be members of a "group" for purposes of Section 13(d) of the act and for purposes of reporting beneficial ownership of the Common Stock of The Dixie Group, Inc., and accordingly Daniel K. Frierson, and the other parties to the agreement have jointly filed a report on Schedule 13(d) reporting beneficial ownership of the Common Stock which they own.

(5) Dimensional Fund Advisors, L.P. has reported beneficial ownership of an aggregate of 1,091,102 shares of Common Stock, as follows: 1,071,615 shares of Common Stock, for which it has sole voting power, and 1,091,102 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, 2017.

(6) Hodges Capital Holdings, Inc. Craig Hodges, First Dallas Securities, Inc., Hodges Capital Management, Inc., Hodges Fund, Hodges Pure Contrarian Fund, and Hodges Small Fund has reported beneficial ownership of an aggregate of 2,280,660 shares of Common Stock. Hodges Capital Holdings, Inc. reports having shared voting power of 1,903,855 and 2,280,666 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 17, 2017.

(7) Royce & Associates LLC has reported beneficial ownership of 1,366,631 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 6, 2017.

(8) Robert E. Shaw has reported the beneficial ownership of an aggregate of 1,125,000 shares of Common Stock for which he has 1,125,000 shared voting power and 1,125,000 shared dispositive power. The reported information is based upon the 13G filed by Mr. Shaw with the Securities and Exchange Commission on February 8, 2017.

(9) Wells Fargo & Company has reported the beneficial ownership of an aggregate of 1,554,810 shares of Common Stock, on behalf the following subsidiaries: Wells Capital Management Incorporated, Wells Fargo Funds Management, LLC, and Wells Fargo Clearing Services, LLC. It has reported 764,313 shares of Common Stock for which it has shared voting power. The reported information is based on a Form 13G filed on January 9, 2017.

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

	Number of Shares Common Stock
Shares held outright	11,529
Performance Units, convertible into shares of Common Stock on retirement as a director	6,562
Total	18,091

(11) 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	10,941
Total	10,941

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

	Number of Shares Common Stock
Shares held outright	39,023
Unvested Restricted Stock	48,663
Held in 401(k) Plan	800
Exercisable Stock Options	18,000
Total	106,486

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

	Number of Shares Common Stock
Shares held outright	47,502
Shares held by his wife	4,500
Unvested Restricted Stock	14,463
Held in 401(k) Plan	4,257
Exercisable Stock Options	2,500
Total	73,222

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

	Number of Shares Common Stock
Shares held outright	54,033
Unvested Restricted Stock	74,489
Exercisable Stock Options	11,000
Total	139,522

(15) 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	—	85,140	(a)
Shares held by his wife	100	—	
Shares held in trust(s) for children	2,585	12,000	(a)
Shares held in 401(k)	2,301	—	
Unvested Restricted Stock	6,801	83,560	(a)
Options to acquire Common Stock, exercisable within 60 days	22,000	—	
Deemed conversion of Class B Stock	180,700	—	(a)
Total	214,487	180,700	

(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.

(16) Mr. E. David Hobbs' beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	2,364
Unvested Restricted Stock	4,895
Total	7,259

(17) Mr. Walter W. Hubbard'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	21,801
Total	21,801

(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	23,101
Total	54,299

(19) Mr. V. Lee Martin resigned from the company on September 15, 2016. His beneficial ownership may be summarized as follows:

	Number of Shares Common Stock
Shares held outright	30,381
Unvested Restricted Stock	—
Total	30,381

(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	10,941
Total	10,941

(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	36,111
Held by wife	500
Total	40,079

(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	6,775
Total	6,775

(23) Includes: (i) 221,579 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) 116,232 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) 60,690 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) 170,715 unvested restricted shares of Common Stock held by individuals in this group, which shares may be voted by such individuals; and (viii) 870,714 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) 870,714 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 58, 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 29-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, the Company's Compensation Committee and the Company's Executive Committee. He has been a director of the Company since October 2014.

Charles E. Brock, age 52, 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 Pinnacle Financial Partners. 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 75, 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 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. Mr. Frierson is Chairman of the Company's Executive Committee.

D. Kennedy Frierson, Jr., age 50, 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 73, 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 76, 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 and is a former director of McKee Foods Corporation, headquartered in Collegedale, 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 62, is the Corporate Secretary and Executive Vice President of TPC Printing & Packaging, a specialty packaging and printing company in Chattanooga, Tennessee. 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 74, 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 60, 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 2017, 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 six (6) times in 2016.

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 Charters of the Company's Audit Committee, Compensation Committee and Nominations and Corporate Governance Committees 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 acted once, by written consent, in 2016.

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 2016.

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 2016, see ***Compensation Discussion and Analysis - Compensation for 2016***.

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 one (1) time in 2016.

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 Nominations and Corporate Governance Committee met one (1) time in 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 2016, 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.

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 (subject to a $5.00 per share minimum value for determination of the number of performance units to be issued). Performance Units are redeemable upon a director's retirement for an equivalent number of shares of the Company's Common Stock. 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 2016, 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 31, 2016, the Company purchased 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 has reported holding approximately 7.4% of the Company's Common Stock, which, as of year-end, represented approximately 3.4% 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 2016 were approximately $7.3 million; or approximately 2.4% of the Company's cost of goods sold in 2016. 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 31, 2016 (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 31, 2016, 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 Board 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 2016.

Effective February 11, 2016, the Compensation Committee selected performance goals and a range of possible incentives for the Company's 2016 Incentive Compensation Plan (the "2016 Plan"). Pursuant to the 2016 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 2016, each executive officer also received customary retirement plan benefits and other customary employment benefits, as in prior years.

Salary for 2016. The base salaries for the executive officers were not adjusted during 2016. See the 2016 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 2016. 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 and from 15% to 75% for all other officers). 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, as adjusted for unusual items, 30% of the amount was based on achievement of specified levels of operating income 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 2016. The incentive plan provided for two possible awards of restricted stock: Primary Long-Term Incentive Share Awards and Career Share Awards. Receipt of the Primary Long-Term Incentive Share Awards was contingent on the Company's achievement of minimum levels of adjusted operating income and, in the case of Career Share Awards was contingent on the Company's 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 2016 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 set at 35% and 30%, respectively, of the Chief Operating Officer's and Chief Financial Officer's base salary for 2016.

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 the 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 Career Share Awards and in immediate vesting of that portion of Long-Term Incentive Share Awards that have been expensed; 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 15th 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.

2016 Incentive Awards. No cash Awards were made for 2016 for the named executive officers. No Primary Long-Term Incentive Share Awards were granted in 2017 with respect to 2016 for the named executive officers. No Career Share Awards were granted in 2017 with respect to 2016 for the named executive officers.

Incentive Compensation Applicable to 2017. Following year-end, the Committee adopted an incentive plan for 2017 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 2016. 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 2018.

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 2016 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 2016 and 2017. 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. The incentive compensation rules under section 162m are technical and complex. Accordingly, as in past years, 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 2016. At that meeting, in excess of 93% 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, and Paul B. Comiskey 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 21,142 shares and $76,110. 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 9,984 shares and $35,943. For purposes of valuing the foregoing awards, the Company used the year-end market value of the Company's Common Stock, which was $3.60/share.

For the year ended December 31, 2016, termination benefits will be payable to Mr. V. Lee Martin, who resigned September 15, 2016, in the form of a continuation of his salary for the 9 month period following his resignation. Additionally, the restricted stock awards that were vested as of his resignation were paid to him. See All Other Compensation table following the Summary Compensation table.

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 27, 2014 and December 26, 2015 and December 31, 2016 to (i) the Company's Chief Executive Officer; and (ii) the Company's Chief Financial Officer, (iii) the three other most highly compensated executive officers who served as such during the fiscal year ended December 31, 2016 (the "Named Executive Officers"), and Mr. V. Lee Martin, who resigned effective September 2016. 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	2016	625,000	—	109,000	—	—	5,479	739,479
	2015	625,000	—	1,102,427	—	—	5,004	1,732,431
	2014	625,000	326,650	481,802	—	—	6,866	1,440,318
D. Kennedy Frierson, Jr. Chief Operating Officer	2016	320,000	—	97,664	—	—	5,479	423,143
	2015	320,000	—	108,355	—	—	5,004	433,359
	2014	320,000	148,532	222,460	—	—	6,597	697,589
Paul B. Comiskey Vice President, President Residential	2016	300,000	—	52,320	—	—	5,479	357,799
	2015	300,000	—	325,349	—	—	5,004	630,353
	2014	300,000	151,174	217,224	—	—	6,755	675,153
Jon A. Faulkner, Chief Financial Officer	2016	270,000	—	70,632	—	—	5,389	346,021
	2015	270,000	—	78,363	—	—	5,004	353,367
	2014	270,000	127,003	188,743	—	—	6,634	592,380
W. Derek Davis, Vice President, Human Resources	2016	230,000	—	40,112	—	—	5,056	275,168
	2015	230,000	—	44,505	—	—	5,004	279,509
	2014	230,000	120,810	176,861	—	—	6,664	534,335
V. Lee Martin, Vice President, President Masland Contract (6)	2016	162,917	—	40,112	—	—	62,252	265,281
	2015	230,000	—	44,505	—	—	4,907	279,412
	2014	243,333	108,415	175,058	—	—	6,216	533,022

(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 2016.

(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).

(6) Mr. V. Lee Martin resigned on September 15, 2016.

All Other Compensation

Name (a)	Year (b)	Registrant Contributions to Defined Contributions Plans ($)(c)	Insurance Premiums ($)(d)	Other ($)(f) (1&2)	Total Perquisites and Other Benefits ($)(g)
Daniel K. Frierson	2016	2,600	2,879		5,479
	2015	2,125	2,879		5,004
	2014	3,987	2,879		6,866
D. Kennedy Frierson, Jr.	2016	2,600	2,879		5,479
	2015	2,125	2,879		5,004
	2014	3,987	2,610		6,597
Paul B. Comiskey	2016	2,600	2,879		5,479
	2015	2,125	2,879		5,004
	2014	3,987	2,768		6,755
Jon A. Faulkner	2016	2,600	2,789		5,389
	2015	2,125	2,879		5,004
	2014	3,987	2,647		6,634
W. Derek Davis	2016	2,300	2,756		5,056
	2015	2,125	2,879		5,004
	2014	3,987	2,677		6,664
V. Lee Martin	2016	2,300	2,452	57,500	62,252
	2015	2,125	2,782		4,907
	2014	4,000	2,216		6,216

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

(2) Mr. Martin will receive severance payments following his resignation for a period of 9 months from date of separation equal to his monthly salary. Under the stock awards grants Mr. Martin forfeited 1,314 primary long-term incentive shares and received 13,086 vested primary long term incentive and career shares.

Grants of Plan-Based Awards

Estimated Future Payouts Under Equity Incentive Plan Awards (1)

Name (a)	Grant Date (b)	Securities Underlying Options (#) (j)	Base Price of Option ($/#) (k)	Shares of Stock or Units (#) (i)	Grant Date Fair Value of Stock and Option Awards ($)
Daniel K. Frierson	3/11/2016			25,000	109,000
D. Kennedy Frierson, Jr.	3/11/2016			22,400	97,664
Paul B. Comiskey	3/11/2016			12,000	52,320
Jon A. Faulkner	3/11/2016			16,200	70,632
W. Derek Davis	3/11/2016			9,200	40,112
V. Lee Martin	3/11/2016			9,200	40,112

(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 11, 2016.

No awards were made to the Named Executive Officers under the 2016 Incentive Compensation Plan.

Option Exercises and Stock Vested

	Option Awards		Stock Awards	
Name (a)	Number of Shares Acquired on Exercise (#)(b)	Value Realized on Exercise ($)(c) (1)	Number of Shares Acquired on Vesting (#)(d)	Value Realized on Vesting ($)(e)(2)
Daniel K. Frierson	—	—	29,466	132,450
D. Kennedy Frierson, Jr.	—	—	8,594	38,630
Paul B. Comiskey	—	—	13,393	60,202
Jon A. Faulkner	—	—	7,297	32,800
W. Derek Davis	—	—	10,837	48,712
V. Lee Martin	—	—	24,778	102,794

(1) The value realized is calculated as average of the high and low price on the relevant exercise date minus the option price times the number of acquired shares.
(2) The value realized is calculated as the average of the high and low 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 31, 2016. 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 ($) (b)(1)(2)	Registrant Contribution in Last FY ($) (c)(1)(2)	Aggregate Earnings in Last FY ($) (d)(1)(2)(3)	Aggregate Withdrawals/ Distributions ($)(e)	Aggregate Balance at Last FYE ($) (f)
Daniel K. Frierson	31,250	—	138,440	—	2,190,973
D. Kennedy Frierson, Jr.	19,200	—	42,351	—	492,233
Paul B. Comiskey	18,000	—	8,488	—	100,592
Jon A. Faulkner	32,400	—	79,161	—	1,269,218
W. Derek Davis	—	—	389	—	9,241
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 2016 Summary Compensation Table.

(2) None of the amounts reported in this column (d) are reported in column (h) of the 2016 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	139,314	501,530
D. Kennedy Frierson, Jr.	22,000	—	—	5.00	11/4/2019	90,361	325,300
Paul B. Comiskey	18,000	—	—	5.00	11/4/2019	48,663	175,187
Jon A. Faulkner	11,000	—	—	5.00	11/4/2019	74,489	268,160
W. Derek Davis	2,500	—	—	5.00	11/4/2019	14,463	52,067
V. Lee Martin	—	—	—	—	—	—	

(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 ($3.60/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 ($) (d)(3)	All Other Compensation ($) (e)(4)	Total ($)
William F. Blue, Jr.	32,000	16,920	—	—	48,920
Charles E. Brock	32,000	16,920	—	—	48,920
Walter W. Hubbard	32,000	16,920	—	—	48,920
Lowry F. Kline	40,000	16,920	—	—	56,920
Hilda S. Murray	32,000	16,920	—	—	48,920
John W. Murrey, III	36,000	16,920	—	—	52,920
Michael L. Owens	39,000	16,920	—	—	55,920

(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 2014, 2015 and 2016, to a $5.00 minimum value per unit). For 2016 the value awarded was $16,920 in Performance Units determined as of the date of grant. 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 2016 was $16,920.

At fiscal year-end, each non-employee director was issued the following outstanding equity awards, with respect to service for 2016:

Name (a)	Performance Units (#)(b)(1)
William F. Blue, Jr.	3,600
Charles E. Brock	3,600
Walter W. Hubbard	3,600
Lowry F. Kline	3,600
Hilda S. Murray	3,600
John W. Murrey, III	3,600
Michael L. Owens	3,600

(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 $90,720, determined by multiplying the number of performance units issued by the year-end per share market value of the Company's Common Stock ($3.60/share).

PROPOSAL TWO

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 2016 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 Two 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.

The Board of Directors recommends that the Company's shareholders vote FOR the approval of Proposal Two.

PROPOSAL THREE

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR 2017

The firm of Dixon Hughes Goodman LLP served as independent registered public accountants for the Company for fiscal year 2016. 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 2017 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.

The Board of Directors recommends that that the Company's shareholders vote FOR Proposal Three.

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 2017, the Board of Directors will consider other alternatives, including appointment of another firm to serve as independent registered public accountants for fiscal 2017.

AUDIT FEES DISCUSSION

The following table sets forth the fees paid to Dixon Hughes Goodman LLP for services provided during fiscal year 2015 and 2016:

	2016	2015
Audit related fees paid to Dixon Hughes Goodman LLP (1)	$ 663,899	$ 682,239
Fees related to a registration statement	$ 8,187	$ —
Total Audit Fees	$ 672,086	$ 682,239

(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, review of the Company's quarterly financial statements, review of other SEC filings and technical accounting issues during 2015 and 2016, and audit of the effectiveness of internal control over financial reporting during 2015.

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 2018 Annual Meeting of Shareholders, such proposal must be received by the Company on or before November 17, 2017, 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 23, 2017

THE DIXIE GROUP

Directors

Daniel K. Frierson [1]
Chairman of the Board
The Dixie Group, Inc.

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,
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

Jon A. Faulkner
Vice President and
Chief Financial Officer

W. Derek Davis
Vice President, Human Resources

Paul B. Comiskey
Vice President and President,
Dixie Residential

T.M. Nuckols
Executive Vice President,
Dixie Residential

E. David Hobbs
Vice President and President,
Masland Commercial

Corporate Information

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Investor Contact
Jon A. Faulkner
Vice President and
Chief Financial Officer
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475 Reed Road
Dalton, Georgia 30720
(706) 876-5814

Form 10-K and Other Information
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, is included with this report.

Annual Meeting
The Annual Meeting of Shareholders of The Dixie Group, Inc. will be held at 8:00 A.M. EDT on May 3, 2017, at the Corporate Office in Dalton, Georgia.

Stock Listing
The Dixie Group's Common Stock is listed on the NASDAQ Global Market under the symbol DXYN.

Stock Transfer Agent
Computershare Investor Services, LLC
Post Office Box 30170
College Station, Texas 77845

The Dixie Group maintains a website, www.thedixiegroup.com, where additional information about the Company may be obtained.