DIXIE GROUP INC
Form 10-Q
November 06, 2013

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

Form 10-Q

(Mark One)
R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 28, 2013
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to __________

Commission File Number: 0-2585

THE DIXIE GROUP, INC.
(Exact name of Registrant as specified in its charter)

Tennessee		62-0183370
(State or other jurisdiction of incorporation or organization)		(I.R.S. Employer Identification No.)
104 Nowlin Lane, Suite 101, Chattanooga, TN	37421	(423) 510-7000
(Address of principal executive offices)	(zip code)	(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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.

o Large accelerated filer	o Accelerated filer
o Non-accelerated filer (Do not check if a smaller reporting company)	R Smaller reporting company

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

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

Class	Outstanding as of October 21, 2013
Common Stock, $3 Par Value	12,429,669 shares
Class B Common Stock, $3 Par Value	872,562 shares
Class C Common Stock, $3 Par Value	0 shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(dollars in thousands, except share data)

	September 28, 2013 (Unaudited)	December 29, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$590	$491
Receivables, net	48,157	32,469
Inventories	90,470	72,245
Deferred income taxes	6,678	5,615
Other current assets	5,269	4,235
TOTAL CURRENT ASSETS	151,164	115,055
PROPERTY, PLANT AND EQUIPMENT, NET	74,269	69,483
OTHER ASSETS	23,836	17,232
TOTAL ASSETS	$249,269	$201,770
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$26,538	$14,891
Accrued expenses	23,831	19,147
Current portion of long-term debt	4,259	4,059
TOTAL CURRENT LIABILITIES	54,628	38,097
LONG-TERM DEBT	102,751	80,166
DEFERRED INCOME TAXES	4,591	3,824
OTHER LONG-TERM LIABILITIES	18,840	15,637
TOTAL LIABILITIES	180,810	137,724
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 12,429,669 shares for 2013 and 12,173,961 shares for 2012	37,289	36,522
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 872,562 shares for 2013 and 952,784 shares for 2012	2,618	2,858
Additional paid-in capital	136,945	136,744
Accumulated deficit	(108,147)	(111,840)
Accumulated other comprehensive income (loss)	(246)	(238)
TOTAL STOCKHOLDERS' EQUITY	68,459	64,046
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$249,269	$201,770

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
NET SALES	$90,210	$65,822	$249,267	$195,238
Cost of sales	68,110	49,265	186,453	147,260
GROSS PROFIT	22,100	16,557	62,814	47,978
Selling and administrative expenses	20,228	15,785	55,964	46,530
Other operating (income) expense, net	42	(48)	72	48
OPERATING INCOME	1,830	820	6,778	1,400
Interest expense	896	781	2,760	2,270
Other (income) expense, net	3	(189)	21	(281)
Refinancing expenses	—	—	94	—
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	931	228	3,903	(589)
Income tax provision (benefit)	(501)	(41)	142	(349)
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,432	269	3,761	(240)
Loss from discontinued operations, net of tax	(20)	(167)	(67)	(272)
NET INCOME (LOSS)	$1,412	$102	$3,694	$(512)
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	$0.11	$0.02	$0.28	$(0.02)
Discontinued operations	(0.00)	(0.01)	(0.01)	(0.02)
Net income (loss)	$0.11	$0.01	$0.27	$(0.04)
BASIC SHARES OUTSTANDING	12,760	12,650	12,722	12,630
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	$0.11	$0.02	$0.28	$(0.02)
Discontinued operations	(0.00)	(0.01)	(0.01)	(0.02)
Net income (loss)	$0.11	$0.01	$0.27	$(0.04)
DILUTED SHARES OUTSTANDING	12,899	12,713	12,828	12,630
DIVIDENDS PER SHARE:				
Common Stock	$—	$—	$—	$—
Class B Common Stock	—	—	—	—

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
NET INCOME (LOSS)	$1,412	$102	$3,694	$(512)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized loss on interest rate swaps	(418)	(142)	(171)	(465)
Reclassification of loss into earnings from interest rate swaps	52	23	124	71
Amortization of unrealized loss on dedesignated interest rate swaps	—	73	98	219
Reclassification of net actuarial gain into earnings from postretirement benefit plans	(6)	(6)	(18)	(17)
Reclassification of prior service credits into earnings from postretirement benefit plans	(14)	(14)	(41)	(40)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(386)	(66)	(8)	(232)
COMPREHENSIVE INCOME (LOSS)	$1,026	$36	$3,686	$(744)

See accompanying notes to the consolidated condensed financial statements.

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THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(dollars in thousands)

	Nine Months Ended September 28, 2013	September 29, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	$3,761	$(240)
Loss from discontinued operations	(67)	(272)
Net income (loss)	3,694	(512)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	7,821	7,137
Provision (benefit) for deferred income taxes	(291)	(546)
Net gain on property, plant and equipment disposals	—	(186)
Stock-based compensation expense	669	750
Excess tax benefits from stock-based compensation	(126)	—
Write-off of deferred financing costs	94	—
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(15,573)	(2,817)
Inventories	(16,283)	(7,052)
Other current assets	(979)	(1,725)
Accounts payable and accrued expenses	16,479	943
Other operating assets and liabilities	(381)	(267)
NET CASH USED IN OPERATING ACTIVITIES	(4,876)	(4,275)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of property, plant and equipment	13	186
Purchase of property, plant and equipment	(8,738)	(1,987)
Net cash paid in business acquisitions	(2,170)	—
NET CASH USED IN INVESTING ACTIVITIES	(10,895)	(1,801)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on revolving credit line	25,814	6,002
Payments on mortgage note payable	(10,141)	(553)
Payments on note payable related to acquisition	(623)	—
Borrowings on equipment financing	4,128	2,503
Payments on equipment financing	(836)	(1,002)
Payments on capitalized leases	(461)	(95)
Borrowings on notes payable	—	795
Payments on notes payable	(632)	(583)
Change in outstanding checks in excess of cash	(1,051)	(923)
Proceeds from stock option exercises	141	—
Repurchases of Common Stock	(207)	(199)
Excess tax benefits from stock-based compensation	126	—
Payments for debt issuance costs	(388)	(53)
NET CASH PROVIDED BY FINANCING ACTIVITIES	15,870	5,892

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	99	(184)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	491	298
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$590	$114

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SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$2,308	$2,042
Income taxes paid, net of tax refunds	35	1,315
Assets purchased under capital leases	1,787	631
Fair value of assets acquired in acquisition, net of cash received	8,391	—
Liabilities assumed in acquisition	(836)	—
Note payable related to acquisition	(3,749)	—
Accrued consideration related to acquisition	(1,636)	—

See accompanying notes to the consolidated condensed financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial statements which do not include all the information and footnotes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (generally consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements. The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 29, 2012. Operating results for the three and nine month periods ended September 28, 2013 are not necessarily indicative of the results that may be expected for the entire 2013 year.

The Company is in one line of business, carpet manufacturing.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". This ASU eliminated the option to report other comprehensive income and its components in the statement of stockholders' equity and required the presentation of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The Company adopted this ASU in December 2011 and presented the components of other comprehensive income in a separate statement following the statement of operations. In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". ASU 2011-12 deferred the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to other comprehensive income. In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". ASU 2013-02 requires the Company to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, the Company is required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. As the new standard does not change the current requirements for reporting net income or other comprehensive income in the financial statements, the adoption of this ASU did not have a material effect on the Company's Consolidated Condensed Financial Statements.

In December 2011, the FASB issued ASU No. 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.” The amendments in this ASU require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. In January 2013, the FASB issued ASU No. 2013-01, "Balance Sheet (Topic 210)—Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities". The ASU clarifies that ordinary trade receivables are not in the scope of ASU No. 2011-11. ASU No. 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the Codification or subject to a master netting arrangement or similar agreement. The effective date is the same as the effective date of ASU 2011-11. The Company does not expect that the adoption of these ASUs will have a material effect on the Company’s Consolidated Condensed Financial Statements.

In July 2012, the FASB issued ASU No. 2012-02, "Intangibles--Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." This ASU states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Codification Subtopic 350-30, "Intangibles--Goodwill and Other, General Intangibles Other than Goodwill." Under the guidance in this ASU, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this ASU did not have a material effect on the Company’s Consolidated Condensed Financial Statements.

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THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data) (Cont'd.)

In February 2013, the FASB issued ASU No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date". This ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in GAAP. For public entities, the ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The ASU shall be applied retrospectively to all prior periods presented for those obligations within the scope of this Subtopic that exist at the beginning of an entity's fiscal year of adoption. Early adoption is permitted. The Company does not expect that the adoption of this ASU will have a material effect on the Company's Consolidated Condensed Financial Statements.

In July 2013, the FASB issued ASU No. 2013-10, "Derivatives and Hedging (Topic 815) - Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes". This ASU allows the use of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a benchmark interest rate for hedge accounting purposes in addition to interest rates on direct Treasury obligations of the United States government and LIBOR. In addition, the ASU removes the restriction on using different benchmark rates for similar hedges. The ASU became effective on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this ASU did not have a material effect on the Company's Consolidated Condensed Financial Statements.

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". This ASU requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets. This ASU is effective for annual and interim periods beginning after December 15, 2013, with early adoption permitted. The Company does not expect that the adoption of this ASU will have a material effect on the Company's Consolidated Condensed Financial Statements.

NOTE 3 - RECEIVABLES, NET

Receivables are summarized as follows:

	September 28, 2013	December 29, 2012
Customers, trade	$46,293	$31,043
Other receivables	2,062	1,642
Gross receivables	48,355	32,685
Less allowance for doubtful accounts	(198)	(216)
Net receivables	$48,157	$32,469

NOTE 4 - INVENTORIES

Inventories are summarized as follows:

	September 28, 2013	December 29, 2012
Raw materials	$30,830	$23,002
Work-in-process	18,739	13,786
Finished goods	54,445	49,251
Supplies, repair parts and other	567	470
LIFO reserve	(14,111)	(14,264)
Total inventories	$90,470	$72,245

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THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data) (Cont'd.)

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	September 28, 2013	December 29, 2012
Land and improvements	$7,071	$6,950
Buildings and improvement	50,519	50,293
Machinery and equipment	147,807	137,432
	205,397	194,675
Accumulated depreciation	(131,128)	(125,192)
Property, plant and equipment, net	$74,269	$69,483

NOTE 6 - ACQUISITIONS

On June 30, 2013, the Company acquired Robertex Associates, Inc. ("Robertex") from Robert P. Rothman. The Company acquired all the outstanding shares of capital stock of Robertex for an aggregate purchase price of $7,663, which included cash, a seller-financed note, deferred payments and an accrued contingent liability. The seller-financed note consists of five annual payments of principal and interest. The deferred payment is payable in five equal annual installments and the accrued contingent liability is payable in five annual payments based upon incremental growth in gross margins of selected products for five years subsequent to the acquisition. The Company has incurred direct incremental costs of approximately $257 related to this acquisition. These incremental costs are classified in selling and administrative expenses in the Company's Consolidated Condensed Statements of Operations.

This acquisition is designed to increase the Company's market share in the wool markets it currently serves. Robertex produces wool floorcovering products under its Robertex and Carousel brands.

The purchase price consideration was as follows:

Cash paid	$2,278
Seller-financed note	3,749
Deferred payments to seller	205
Contingent consideration	1,431
Total purchase price	$7,663

The acquisition has been accounted for as a business combination which requires, among other things, that assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The acquisition did not represent a material business combination. The following table summarizes the preliminary estimates of fair values of the assets acquired and liabilities assumed as of June 30, 2013 based on the preliminary purchase price allocation. The Company is in the process of validating and refining the assumptions and estimates required in establishing the fair values of the identifiable assets and liabilities. The final purchase price allocation may differ from the preliminary amounts disclosed below. The components of the preliminary purchase price allocation consisted of the following:

Cash	$108
Accounts receivable	115
Inventory	1,942

Other current assets	1
Property, plant and equipment	1,863
Definite-lived intangible assets	2,222
Goodwill	2,248
Accounts payable	(643)
Accrued expenses	(193)
Total purchase price	$7,663

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THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data) (Cont'd.)

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill:

The components of goodwill are as follows:

	Goodwill	Accumulated Impairment Losses	Net
Balance at December 29, 2012	$1,680	$—	$1,680
Additional goodwill recognized during the period (1)	2,248	—	2,248
Impairment losses recognized during the period	—	—	—
Other changes in the carrying amounts during the period	—	—	—
Balance at September 28, 2013	$3,928	$—	$3,928

(1) Represents goodwill related to the Robertex Associates, Inc. acquisition as discussed in Note 6.

Intangible Assets Subject to Amortization:

The following table represents the components of the Company's intangible assets:

	September 28, 2013			December 29, 2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships	$1,062	$ (24)	$1,038	$208	$—	$208
Rug design coding	144	(11)	133	144	—	144
Trade Names	1,368	(17)	1,351	—	—	—
Total	$2,574	$ (52)	$2,522	$352	$—	$352

Amortization expense for intangible assets is summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Customer relationships	$16	$—	$24	$—
Rug design coding	4	—	11	—
Trade Names	17	—	17	—
Amortization expense	$37	$—	$52	$—

NOTE 8 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	September 28, 2013	December 29, 2012
Compensation and benefits	$7,647	$5,637
Provision for customer rebates, claims and allowances	5,766	4,389
Advanced customer deposits	2,801	1,828
Outstanding checks in excess of cash	1,472	2,523
Other	6,145	4,770
Total accrued expenses	$23,831	$19,147

THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data) (Cont'd.)

NOTE 9 - PRODUCT WARRANTY RESERVES

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. Product warranty reserves are included in accrued expenses in the Company's Consolidated Condensed Financial Statements. The following is a summary of the Company's product warranty activity.

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Warranty reserve at beginning of period	$1,566	$1,208	$1,297	$1,219
Warranty liabilities accrued	1,225	803	3,179	2,349
Warranty liabilities settled	(1,111)	(740)	(2,888)	(2,367)
Changes for pre-existing warranty liabilities	40	(50)	132	20
Warranty reserve at end of period	$1,720	$1,221	$1,720	$1,221

NOTE 10 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	September 28, 2013	December 29, 2012
Revolving credit facility	$85,936	$60,122
Mortgage note payable	—	10,141
Obligation to Development Authority of Gordon County	4,696	5,339
Note payable - Robertex acquisition	3,769	—
Equipment notes payable	8,364	5,071
Notes payable	—	632
Capital lease obligations	4,245	2,920
Total long-term debt	107,010	84,225
Less: current portion of long-term debt	(4,259)	(4,059)
Total long-term debt, less current portion	$102,751	$80,166

Revolving Credit Facility

On April 1, 2013, the Company amended its secured senior revolving credit facility (the "amended senior credit facility"). The amended senior credit facility extends the maturity date of the facility to April 1, 2018 and provides for a maximum of $110,000 of revolving credit, subject to borrowing base availability, including limited amounts of credit in the form of letters of credit and swingline loans. The borrowing base is 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.

At the Company's election, revolving loans under the amended senior credit facility bear interest at annual rates equal to either (a) LIBOR for 1, 2 or 3 month periods, as selected by the Company, plus an applicable margin of either

1.50%, 1.75% or 2.00%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate plus 1.00%, plus an applicable margin of either 0.50%, 0.75% or 1.00%. The applicable margin is determined based on availability under the amended senior credit facility with margins increasing as availability decreases. The Company also pays an unused line fee on the average amount by which the aggregate commitments exceed utilization of the senior credit facility equal to 0.375% per annum.

The amended senior credit facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on debt, liens, investments, fundamental changes in the Company's business, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company's business. The

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THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data) (Cont'd.)

Company is also required to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that borrowing availability is less than $12,100.

On July 1, 2013, in connection with the acquisition of Robertex, the Company entered into a Fourth Amendment to its senior credit facility to include the relevant assets in the Company's borrowing base, as well as, allow for the seller-financed note within the Robertex securities purchase agreement.

On July 30, 2013, the Company entered into a Fifth Amendment to its senior credit facility. The amendment increased the size of the revolver portion of the credit facility by $20,000 to a maximum of $130,000 (contingent on availability). In addition, the amendment provided for an increase in the fixed asset and real property borrowing bases, an increase in the level of the availability “trigger level” to $14,440 from $12,100, and extended the term of the facility to August 1, 2018.

The Company can use the proceeds of the amended senior credit facility for general corporate purposes, including financing acquisitions and refinancing other indebtedness. As of September 28, 2013, the unused borrowing availability under the amended senior credit facility was $26,374.

Mortgage Note Payable

On April 1, 2013, in connection with the amended senior credit facility, the Company terminated the five-year $11,063 mortgage loan which had a balance of $9,833. The mortgage loan was secured by the Company's Susan Street real estate and liens secondary to the senior credit facility. The mortgage loan was scheduled to mature on September 13, 2016. Prior to the termination, the mortgage loan bore interest at a variable rate equal to one month LIBOR plus 3.00% and was payable in equal monthly installments of principal of $61, plus interest calculated on the declining balance of the mortgage loan, with a final payment of $7,436 due on maturity.

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 Condensed Balance Sheets as of September 28, 2013 and December 29, 2012:

	September 28, 2013	December 29, 2012	Fair Value Hierarchy Level
Assets:			
Rabbi trust (1)	$13,475	$11,894	Level 2
Interest rate swaps (2)	209	—	Level 2
Liabilities:			
Interest rate swaps (2)	$1,206	$1,086	Level 2
Deferred compensation plan (3)	12,433	11,066	Level 1
Contingent consideration (4)	3,211	1,928	Level 3

(1) The Company maintains a rabbi trust that serves as an investment designed to offset its deferred compensation plan liability. The investment assets of the trust consist of company-owned life insurance policies for which the Company recognizes income or expense based upon changes in cash surrender value.

(2) The fair value of the interest rate swaps was obtained from external sources. 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

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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.

(3) Senior management and other highly compensated associates may defer a specified percentage of their compensation into a non-qualified deferred compensation plan. Changes in the value of the deferred compensation under this plan are recognized each period based on the fair value of the underlying measurement funds.

(4) As a result of acquisitions in 2013 and 2012, the Company recorded contingent consideration liabilities at fair value. These fair value measurements were based on significant inputs related to future sales volumes in the Crown Rug and Colormaster acquisitions and incremental growth in gross margins of selected products of the Company in the Robertex acquisition and thus represent Level 3 measurements. Accordingly, changes in management's judgments or estimations could result in additional charges or benefits, respectively, as appropriate.

Changes in the fair value measurements using significant unobservable inputs (Level 3) during the nine months ending September 28, 2013 and September 29, 2012 were as follows:

	September 28, 2013	September 29, 2012
Beginning balance	$1,928	$—
Contingent consideration liabilities recorded at fair value at acquisition	1,431	—
Change in fair value of contingent consideration liabilities	102	—
Settlements	(250)	—
Ending balance	$3,211	$—

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the three or nine months ended September 28, 2013 or September 29, 2012.

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

	September 28, 2013		December 29, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$590	$590	$491	$491
Notes receivable, including current portion	282	282	307	307
Interest rate swaps	209	209	—	—
Financial liabilities:				
Long-term debt and capital leases, including current portion	107,010	102,090	84,225	80,174
Interest rate swaps	1,206	1,206	1,086	1,086

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.

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The following is a summary of the Company's interest rate swaps as of September 28, 2013:

Type	Notional Amount	Effective Date	Fixed Rate	Variable Rate
Interest rate swap	$10,000	October 3, 2011 through September 1, 2016	1.330%	1 Month LIBOR
Interest rate swap	$10,000	March 1, 2013 through September 1, 2016	1.620%	1 Month LIBOR
Interest rate swap	$5,000	June 1, 2013 through September 1, 2016	1.700%	1 Month LIBOR
Interest rate swap	$25,000	September 1, 2016 through September 1, 2021	3.105%	1 Month LIBOR
Interest rate swap	$25,000	September 1, 2015 through September 1, 2021	3.304%	1 Month LIBOR

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

	Location on Consolidated Condensed Balance Sheets	Fair Value September 28, 2013	December 29, 2012
Asset Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps	Other Assets	$209	$—
Total Asset Derivatives		$209	$—
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Accrued Expenses	$327	$439
Interest rate swaps, long term portion	Other Long-Term Liabilities	879	647
Total Liability Derivatives		$1,206	$1,086

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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			
	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Derivatives designated as hedging instruments:				
Cash flow hedges - interest rate swaps	$(674)	$(230)	$(275)	$(748)

	Amount of Gain or (Loss) Reclassified from AOCIL on the effective portion into Income (1)(2)			
	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Derivatives designated as hedging instruments:				
Cash flow hedges - interest rate swaps	$(84)	$(155)	$(357)	$(467)

	Amount of Gain or (Loss) Recognized on the ineffective portion in Income on Derivative (3)			
	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Derivatives designated as hedging instruments:				
Cash flow hedges - interest rate swaps	$—	$—	$—	$—

	Amount of Gain or (Loss) Recognized in Income on Derivative (4)			
	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Derivatives not designated as hedging instruments:				
Interest rate swaptions	$—	$5	$—	$87

(1) The amount of gain (loss) reclassified from AOCIL is included in interest expense on the Company's Consolidated Condensed Statements of Operations.
(2) The amount of loss expected to be reclassified from AOCIL into earnings during the next 12 months subsequent to September 28, 2013 is $327.
(3) 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 Condensed Statements of Operations.
(4)

The amount of gain (loss) recognized in income for derivatives not designated as hedging instruments is included in other (income) expense, net on the Company's Consolidated Condensed Statements of Operations.

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

The Company sponsors a 401(k) defined contribution plan that covers a significant portion, or approximately 75% of the Company's associates. This plan was modified in 2012 to include 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 $246 and $51 for the three months ended September 28, 2013 and September 29, 2012, respectively and $681 and $182 for the nine months ended September 28, 2013 and September 29, 2012, respectively.

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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 25% 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 $22 and $16 for the three months ended September 28, 2013 and September 29, 2012, respectively and $63 and $61 for the nine months ended September 28, 2013 and September 29, 2012, respectively.

Non-Qualified Retirement Savings Plan

The Company sponsors a non-qualified retirement savings plan that allows eligible associates to defer a specified percentage of their compensation. The obligations owed to participants under this plan were $12,433 at September 28, 2013 and $11,066 at December 29, 2012 and are included in other long-term liabilities in the Company's Consolidated Condensed Balance Sheets. The obligations are unsecured general obligations of the Company and the participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company utilizes a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the plan. Amounts are invested in Company-owned life insurance in the Rabbi Trust and the cash surrender value of the policies was $13,475 at September 28, 2013 and $11,894 at December 29, 2012 and is included in other assets in the Company's Consolidated Condensed Balance Sheets.

Multi-Employer Pension Plan

The Company contributes to a multi-employer pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees. Expenses related to the multi-employer pension plan were $72 and $59 for the three months ended September 28, 2013 and September 29, 2012, respectively and $202 and $193 for the nine months ended September 28, 2013 and September 29, 2012, respectively.

Postretirement Plans

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

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

	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Service cost	$2	$2	$6	$6
Interest cost	5	6	16	18
Amortization of prior service credits				