DIXIE GROUP INC
Form 10-Q
August 03, 2017

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 July 1, 2017
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.)
475 Reed Road, Dalton, Georgia	30720	(706) 876-5800
(Address of principal executive offices)	(zip code)	(Registrant's telephone number, including area code)

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) 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 July 27, 2017
Common Stock, $3 Par Value	15,264,441 shares
Class B Common Stock, $3 Par Value	861,499 shares
Class C Common Stock, $3 Par Value	0 shares

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THE DIXIE GROUP, INC.

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PART I. FINANCIAL INFORMATION

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

	July 1, 2017 (Unaudited)	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 133	$ 140
Receivables, net	53,612	43,605
Inventories, net	111,991	97,237
Prepaid expenses	4,272	4,376
TOTAL CURRENT ASSETS	170,008	145,358
PROPERTY, PLANT AND EQUIPMENT, NET	93,128	92,807
GOODWILL AND OTHER INTANGIBLES	6,003	6,156
OTHER ASSETS	25,255	24,666
TOTAL ASSETS	$ 294,394	$ 268,987
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 30,329	$ 20,683
Accrued expenses	31,894	32,826
Current portion of long-term debt	8,905	10,122
TOTAL CURRENT LIABILITIES	71,128	63,631
LONG-TERM DEBT	114,828	98,256
OTHER LONG-TERM LIABILITIES	20,221	19,978
TOTAL LIABILITIES	206,177	181,865
COMMITMENTS AND CONTINGENCIES (See Note 17)		
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued and outstanding - 15,264,441 shares for 2017 and 15,248,338 shares for 2016	45,793	45,745
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued and outstanding - 861,499 shares for 2017 and 870,714 shares for 2016	2,584	2,612
Additional paid-in capital	156,734	156,381
Accumulated deficit	(115,158)	(115,656)
Accumulated other comprehensive income (loss)	(1,736)	(1,960)
TOTAL STOCKHOLDERS' EQUITY	88,217	87,122
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 294,394	$ 268,987

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Six Months Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
NET SALES	$107,187	$105,316	$204,728	$194,550
Cost of sales	78,761	77,074	151,141	146,802
GROSS PROFIT	28,426	28,242	53,587	47,748
Selling and administrative expenses	25,261	24,320	49,742	47,986
Other operating (income) expense, net	(14)	118	39	385
Facility consolidation expenses, net	—	401	—	1,814
OPERATING INCOME (LOSS)	3,179	3,403	3,806	(2,437)
Interest expense	1,357	1,333	2,719	2,657
Other expense, net	26	4	29	12
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	1,796	2,066	1,058	(5,106)
Income tax provision (benefit)	570	451	408	(1,964)
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,226	1,615	650	(3,142)
Income (loss) from discontinued operations, net of tax	(123)	62	(152)	52
NET INCOME (LOSS)	$1,103	$1,677	$498	$(3,090)
BASIC EARNINGS (LOSS) PER SHARE:				
Continuing operations	$0.08	$0.10	$0.04	$(0.20)
Discontinued operations	(0.01)	0.00	(0.01)	0.00
Net income (loss)	$0.07	$0.10	$0.03	$(0.20)
BASIC SHARES OUTSTANDING	15,707	15,645	15,690	15,623
DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	$0.08	$0.10	$0.04	$(0.20)
Discontinued operations	(0.01)	0.00	(0.01)	0.00
Net income (loss)	$0.07	$0.10	$0.03	$(0.20)
DILUTED SHARES OUTSTANDING	15,826	15,783	15,805	15,623
DIVIDENDS PER SHARE:				
Common Stock	$—	$—	$—	$—
Class B Common Stock	—	—	—	—

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Six Months Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
NET INCOME (LOSS)	$1,103	$1,677	$498	$(3,090)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized loss on interest rate swaps	(359)	(1,234)	(303)	(2,673)
Income taxes	(136)	(469)	(115)	(1,016)
Unrealized loss on interest rate swaps, net	(223)	(765)	(188)	(1,657)
Reclassification of loss into earnings from interest rate swaps (1)	324	289	683	583
Income taxes	123	110	260	222
Reclassification of loss into earnings from interest rate swaps, net	201	179	423	361
Reclassification of net actuarial gain into earnings from postretirement benefit plans (2)	(8)	(10)	(16)	(20)
Income taxes	(3)	(4)	(6)	(8)
Reclassification of net actuarial gain into earnings from postretirement benefit plans, net	(5)	(6)	(10)	(12)
Reclassification of prior service credits into earnings from postretirement benefit plans (2)	(1)	(1)	(2)	(2)
Income taxes	—	—	(1)	(1)
Reclassification of prior service credits into earnings from postretirement benefit plans, net	(1)	(1)	(1)	(1)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(28)	(593)	224	(1,309)
COMPREHENSIVE INCOME (LOSS)	$1,075	$1,084	$722	$(4,399)

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

See accompanying notes to the consolidated condensed financial statements.

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

	Six Months Ended	
	July 1, 2017	June 25, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) from continuing operations	$650	$(3,142)
Income (loss) from discontinued operations	(152)	52
Net income (loss)	498	(3,090)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,406	6,823
Provision (benefit) for deferred income taxes	390	(1,683)
Net loss on property, plant and equipment disposals	41	259
Stock-based compensation expense	488	751
Bad debt expense (credit)	17	(95)
Changes in operating assets and liabilities:		
Receivables	(10,024)	4,780
Inventories	(14,754)	8,980
Other current assets	104	(2,833)
Accounts payable and accrued expenses	8,624	(1,426)
Other operating assets and liabilities	(524)	(815)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(8,734)	11,651
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of property, plant and equipment	—	1
Purchase of property, plant and equipment	(6,224)	(2,070)
NET CASH USED IN INVESTING ACTIVITIES	(6,224)	(2,069)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) on revolving credit facility	18,944	(4,406)
Payments on notes payable - buildings	(365)	(365)
Payments on notes payable related to acquisitions	(1,393)	(549)
Borrowings on notes payable - equipment and other	1,932	645
Payments on notes payable - equipment and other	(2,210)	(2,402)
Payments on capital leases	(1,931)	(1,502)
Change in outstanding checks in excess of cash	90	(1,070)
Repurchases of Common Stock	(116)	(119)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	14,951	(9,768)
DECREASE IN CASH AND CASH EQUIVALENTS	(7)	(186)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	140	281
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$133	$95
SUPPLEMENTAL CASH FLOW INFORMATION:		

Interest paid	$2,660	$2,413
Income taxes paid (received), net	105	(123)
Equipment purchased under capital leases	229	169
Equipment purchased under notes payable	59	—
Shortfall of tax benefits from stock-based compensation	—	(179)

See accompanying notes to the consolidated condensed financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial statements which do not include all the information and notes required by such accounting principles for annual financial statements. In the opinion of management, all adjustments (generally consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the accompanying financial statements. The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2016. Operating results for the three and six month periods ended July 1, 2017 are not necessarily indicative of the results that may be expected for the entire 2017 year.

The Company has one reportable segment, floorcovering.

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. Public business entities 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 its 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 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 its 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 the 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 its 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, which consist primarily of building and equipment leases, to determine the impact.

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 its financial statements due to the nature of the Company's customers and the limited amount of write-offs in past years.

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

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

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 its 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 its financial statements.

In February 2017, the FASB issued ASU 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets."   This ASU clarifies the scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sales. The amendments are effective at the same time as the new revenue standard. For public entities, the amendments are effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. The Company is currently assessing if there will be any impact on its financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which will change the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Service cost will be included within the same income statement line item as other compensation costs arising from services rendered during the period, while other components of net periodic benefit pension cost will be presented separately outside of operating income. Additionally, only service costs may be capitalized in assets. ASU 2017-07 is effective 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 its financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." This ASU provides amendments to the current guidance on determining which changes to the terms and conditions of share-based payment awards require the application of modification accounting. The effects of a modification should be accounted for unless there are no changes between the fair value, vesting conditions, and classification of the modified award and the original award immediately before the original award is modified. ASU 2017-09 is effective for fiscal years 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 its financial statements.

NOTE 3 - RECEIVABLES, NET

Receivables are summarized as follows:

	July 1, 2017	December 31, 2016
Customers, trade	$50,658	$ 39,749
Other receivables	3,044	3,963
Gross receivables	53,702	43,712
Less: allowance for doubtful accounts	(90)	(107)
Receivables, net	$53,612	$ 43,605

Bad debt expense (credit) was $(13) and $17 for the three and six months ended July 1, 2017, respectively, and $(68) and $(95) for the three and six months ended June 25, 2016, respectively.

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

NOTE 4 - INVENTORIES, NET

Inventories are summarized as follows:

	July 1, 2017	December 31, 2016
Raw materials	$39,107	$ 34,261
Work-in-process	21,580	16,739
Finished goods	62,954	57,053
Supplies and other	135	120
LIFO reserve	(11,785)	(10,936)
Inventories, net	$111,991	$ 97,237

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	July 1, 2017	December 31, 2016
Land and improvements	$7,789	$ 7,781
Buildings and improvements	61,913	62,055
Machinery and equipment	177,681	177,745
Assets under construction	8,282	2,386
	255,665	249,967
Accumulated depreciation	(162,537)	(157,160)
Property, plant and equipment, net	$93,128	$ 92,807

Depreciation of property, plant and equipment, including amounts for capital leases, totaled $3,068 and $6,150, respectively, in the three and six months ended July 1, 2017 and $3,177 and $6,526, respectively, in the three and six months ended June 25, 2016.

NOTE 6 - GOODWILL AND OTHER INTANGIBLES

The carrying amount of goodwill is $3,389 as of July 1, 2017 and December 31, 2016. The Company has a net carrying amount of $2,614 and $2,767 as of July 1, 2017 and December 31, 2016, respectively, for certain intangible assets subject to amortization. Amortization expense was $76 for the three months ended July 1, 2017 and June 25, 2016, respectively. Amortization expense was $153 for the six months ended July 1, 2017 and June 25, 2016, respectively.

NOTE 7 - ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	July 1, 2017	December 31, 2016
Compensation and benefits	$8,425	$ 7,492
Provision for customer rebates, claims and allowances	8,598	8,882

Advanced customer deposits	6,229	8,212
Outstanding checks in excess of cash	2,164	2,074
Other	6,478	6,166
Accrued expenses	$31,894	$ 32,826

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

NOTE 8 - PRODUCT WARRANTY RESERVES

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

	Three Months Ended		Six Months Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Product warranty reserve at beginning of period	$1,944	$2,168	$2,307	$2,159
Warranty liabilities accrued	1,590	1,685	2,913	3,037
Warranty liabilities settled	(1,503)	(1,785)	(2,971)	(3,545)
Changes for pre-existing warranty liabilities	114	146	(104)	563
Product warranty reserve at end of period	$2,145	$2,214	$2,145	$2,214

NOTE 9 - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	July 1, 2017	December 31, 2016
Revolving credit facility	$89,528	$ 70,583
Notes payable - buildings	12,784	13,150
Acquisition note payable - Development Authority of Gordon County	536	1,147
Acquisition note payable - Robertex	782	1,564
Notes payable - equipment and other	9,264	11,633
Capital lease obligations	11,594	11,145
Deferred financing costs, net	(755)	(844)
Total long-term debt	123,733	108,378
Less: current portion of long-term debt	8,905	10,122
Long-term debt	$114,828	$ 98,256

Revolving Credit Facility

The revolving credit facility provides for a maximum of $150,000 of revolving credit, subject to borrowing base availability. The borrowing base is currently equal to specified percentages of the Company's eligible accounts receivable, inventories, fixed assets and real property less reserves established, from time to time, by the administrative agent under the facility. The revolving credit facility matures on September 23, 2021. 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. As of July 1, 2017, the applicable margin on our revolving credit facility was 1.50%. 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 4.02% at July 1, 2017 and 4.40% at December 31, 2016.

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 July 1, 2017, the unused borrowing availability under the revolving credit facility was $38,482; 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 $21,982 (the amount above $16,500) at July 1, 2017.

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

Notes Payable - Buildings

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

On January 23, 2015, the Company entered into a ten-year $6,290 note payable to finance an owned facility in Saraland, Alabama. The note payable is scheduled to mature on January 7, 2025 and is secured by the facility. The note payable bears interest at a variable rate equal to one month LIBOR plus 2.0% and is payable in equal monthly installments of principal of $26, plus interest calculated on the declining balance of the note, with a final payment of $3,145 due on maturity. In addition, the Company entered into an interest rate swap with an amortizing notional amount effective January 7, 2017 which effectively fixes 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 3 to 7 years, bear interest ranging from 1.00% to 7.68% and are due in monthly 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.

NOTE 10 - 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.

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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 July 1, 2017 and December 31, 2016:

	July 1, 2017	December 31, 2016	Fair Value Hierarchy Level
Liabilities:			
Interest rate swaps (1)	$3,298	$ 3,695	Level 2
Contingent consideration (2)	56	200	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 six months ending July 1, 2017 and June 25, 2016 were as follows:

	July 1, 2017	June 25, 2016
Beginning balance	$200	$ 584
Fair value adjustments	(144)	(177)
Settlements	—	(97)
Ending balance	$56	$ 310

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the three and six months ending July 1, 2017 or June 25, 2016. If any, the Company recognizes the transfers in or transfers out at the end of the reporting period.

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

	July 1, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$133	$ 133	$ 140	$ 140
Notes receivable	282	282	282	282
Financial liabilities:				
Long-term debt and capital leases, including current portion	123,731	122,931	108,378	105,270
Interest rate swaps	3,298	3,298	3,695	3,695

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 11 - 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 July 1, 2017:

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	$7,254	(1)	November 7, 2014 through November 7, 2024	4.500%	1 Month LIBOR
Interest rate swap	$5,530	(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 financial statements:

	Location on Consolidated Balance Sheets	Fair Value July 1, 2017	Fair Value December 31, 2016
Liability Derivatives:			
Derivatives designated as hedging instruments:			
Interest rate swaps, current portion	Accrued Expenses	$1,083	$ 1,342
Interest rate swaps, long-term portion	Other Long-Term Liabilities	2,215	2,353
Total Liability Derivatives		$3,298	$ 3,695

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		Six Months Ended
July 1, 2017	June 25, 2016	