DIXIE GROUP INC
Form DEF 14A
March 09, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x 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))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §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):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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 Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

THE DIXIE GROUP, INC.

104 Nowlin Lane, Suite 101

Chattanooga, Tennessee 37421

(423) 510-7000

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 Marriott Grand Hotel, Point Clear, Alabama, on April 27, 2010, at 8:00 a.m., Central Time, for the following purposes:

1. To set the number of directors at six and to elect six individuals to the Board of Directors for a term of one year each;

2. To approve the amendment and restatement of our 2006 Stock Awards Plan to increase the number of shares that may be issued under the plan from 800,000 to 1,300,000.

3. To ratify appointment of Ernst & Young LLP to serve as independent registered public accountants of the Company for 2010; 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 19, 2010, 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.

By Order of the Board of Directors

Daniel K. Frierson

Chairman of the Board

Chattanooga, Tennessee

Dated: March 9, 2010

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

April 27, 2010

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

THE DIXIE GROUP, INC.

104 Nowlin Lane, Suite 101

Chattanooga, Tennessee 37421

(423) 510-7000

ANNUAL MEETING OF SHAREHOLDERS

April 27, 2010

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 9, 2010, to shareholders of record of the Company s Common Stock and Class B Common Stock as of the close of business on February 19, 2010.

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) set the number of directors at six and elect six individuals to the Board of Directors for a term of one year each, (ii) approve the amendment and restatement of our 2006 Stock Awards Plan to increase the number of shares that may be issued under the plan from 800,000 to 1,300,000, (iii) ratify the appointment of Ernst & Young LLP to serve as independent registered public accountants of the company for 2010, 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 setting the number of directors at six (6) and electing the six (6) nominees for director; (ii) FOR approving the amendment and restatement of our 2006 Stock Awards Plan to increase the number of shares that may be issued under the plan from 800,000 to 1,300,000; and (iii) FOR ratifying the appointment of Ernst & Young LLP to serve as independent registered public accountants of the Company for 2010.

RECORD DATE, VOTE REQUIRED AND RELATED MATTERS

The Board has fixed the close of business on February 19, 2010, 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 19, 2010, 11,904,419 shares of Common Stock, representing 11,904,419 votes, were held of record by approximately 1,860 shareholders (including an estimated 1,300 shareholders whose shares are held in nominee names, but excluding 1,000 participants in the Company s 401(k) Plan who may direct the voting of shares allocated to their accounts), and 858,447 shares of Class B Common Stock, representing 17,168,940 votes, were held by 14 individual shareholders, together representing an aggregate of 29,073,359 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** setting the number of directors at six (6) and electing the six (6) nominees for director; and (ii) **FOR** approving the amendment and restatement of our 2006 Stock Awards Plan to increase the number of shares that may be issued under the plan from 800,000 to 1,300,000; and (iii) **FOR** ratifying the appointment of Ernst & Young LLP to serve as independent registered public accountants of the Company for 2010.

Any Proxy given pursuant to this solicitation may be revoked at any time by the shareholder giving it by (i) delivering to the 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 25107, Chattanooga, Tennessee 37422-5107, Attention: Starr T. Klein, Secretary.

The persons designated as proxies were selected by the Board of Directors and are Daniel K. Frierson, J. Don Brock 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 that are represented in person or by Proxy at the Annual Meeting.

The affirmative vote of a majority of the total votes cast that are represented in person or by Proxy at the Annual Meeting is required to approve the amendment and restatement of our 2006 Stock Awards Plan.

Ratification of the appointment of Ernst & Young LLP to serve as independent registered public accountants of the Company for 2010 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 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. Abstentions and broker non-votes will, however, have the effect of negative votes in determining whether a majority of the total votes cast has been obtained for approval of the amendment and restatement of our 2006 Stock Awards Plan. For purposes of ratification of the appointment of Ernst & Young LLP, as independent registered public accountants, abstentions and broker non-votes will not be considered negative votes.

A copy of the Company s Annual Report for the year ended December 26, 2009, 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 19, 2010, 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 19, 2010 (except as otherwise noted).

Name and Address of Beneficial Owner	Title of Class	Number of Shares Beneficially Owned[(1)(2)]	% of Class[(1)]
Daniel K. Frierson 111 East and West Road Lookout Mountain, TN 37350	Common Stock Class B Common Stock	844,370[(3)] 748,391[(3)(4)]	6.66% 87.18%
Paul K. Frierson 141 Brow Lake Road Lookout Mountain, GA 30750	Common Stock Class B Common Stock	168,385[(5)] 111,130[(5)]	1.40% 12.95%
RGM Capital, LLC Robert G. Moses 6621 Willow Park Drive, Ste. 1 Naples, FL 34102	Common Stock Class B Common Stock	1,127,693[(6)]	9.47%
T. Rowe Price Associates, Inc. & T. Rowe Price Small-Cap Value Fund, Inc. 100 E. Pratt Street Baltimore, MD 21202	Common Stock Class B Common Stock	1,205,900[(7)]	10.13%
Dimensional Fund Advisors, L.P. 1299 Ocean Avenue 11th Floor Santa Monica, CA 90401	Common Stock Class B Common Stock	1,001,583[(8)]	8.41%
DUMAC, LLC 406 Blackwell Street, Ste. 300 Durham, NC 27701	Common Stock Class B Common Stock	816,584[(9)]	6.86%
Royce & Associates LLC 1414 Avenue of the Americas	Common Stock Class B Common Stock	956,003[(10)]	8.03%

New York, NY 10019

Name and Address of Beneficial Owner	**Title of Class**	**Number of Shares Beneficially Owned**[(1)(2)]	**% of Class**[(1)]
Wells Fargo & Company, on behalf of the following subsidiaries: Wells Fargo Bank, National Association Evergreen Investment Management Company, LLC Wachovia Bank, National Association Wachovia Capital Markets, LLC	Common Stock Class B Common Stock	885,898[(11)]	7.44%
Robert E. Shaw 115 West King Street P.O. Box 1005 Dalton, GA 30722-1005	Common Stock Class B Common Stock	1,400,000[(12)]	11.76%

Additional Directors And Executive Officers	**Title of Class**	**Number of Shares Beneficially Owned**[(1)]	**% of Class**[(1)]
J. Don Brock	Common Stock Class B Common Stock	52,458[(13)]	*
Paul B. Comiskey	Common Stock Class B Common Stock	35,823[(14)]	*
Kenneth L. Dempsey	Common Stock Class B Common Stock	109,411[(15)]	*
Gary A. Harmon (Retired)	Common Stock Class B Common Stock	101,936[(16)]	*
Walter W. Hubbard	Common Stock Class B Common Stock	14,148[(17)]	*
Jon A. Faulkner	Common Stock Class B Common Stock	71,587[(18)]	*
Lowry F. Kline	Common Stock Class B Common Stock	31,448[(19)]	*
Craig S. Lapeere	Common Stock Class B Common Stock	85,673[(20)]	*
D. Kennedy Frierson	Common Stock Class B Common Stock	43,671[(21)] 64,660	*
John W. Murrey, III	Common Stock Class B Common Stock	33,658[(22)]	*
All Directors, Named Executive Officers and Executive Officers as a Group (14 Persons)**	Common Stock Class B Common Stock	**1,715,657**[(23)] **842,460**[(24)]	**13.22%** **98.14%**

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

** *The total vote of Common Stock and Class B Common Stock represented by the shares held by all directors and executive officers as a group is 17,885,356 votes or 61.52% 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 may be 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 457,819 shares of Common Stock owned by The Dixie Group, Inc. 401(k) Retirement Savings Plan (the 401(k) Plan) for which Daniel K. Frierson and Paul K. Frierson are fiduciaries 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:

	Common Stock	**Class B Common Stock**
Held outright	5,975[(a)]	359,049[(b)]
Held by his wife		94,879[(c)]
Held by his children, their spouses and grandchildren	53,261[(a)]	107,884[(d)]
Unvested restricted stock	5,546[(b)]	146,972[(b)]
Options to acquire Common Stock, exercisable within 60 days	190,577[(b)]	
Shares held in his Individual Retirement Account	3,566[(b)]	
Shares held in 401(k) Plan	1,087[(b)]	
Held as trustee of Rowena K. Frierson Charitable Remainder Unitrust		5,486[(a)]
Held as trustee of trust for benefit of Daniel K. Frierson		17,060[(a)]
Held by trusts for the benefit of Daniel K. Frierson s brother		17,061[(d)]
Deemed conversion of his Class B Common Stock	584,358	
	844,370	**748,391**

a. Sole voting and investment power

b. Shared voting and investment power

c. Sole voting and shared investment power

d. Sole voting and no investment power

(4)

The 748,391 includes: (A) 731,330 shares of Class B Common Stock held subject to a Shareholder s Agreement among Daniel K. Frierson, his wife, and their five children, pursuant to which Daniel K. Frierson has been granted a proxy which expires October 11, 2015 to vote such shares, and (B) 17,061

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shares of Class B Common Stock held by trusts for the benefit of his brother and his brother s family, as to which Mr. Frierson has sole voting and no investment power.

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

	Common Stock	Class B Common Stock
Held outright	33,453[a]	94,069[a]
Held by his wife	6,080[c]	
Options to acquire Common Stock, exercisable within 60 days	4,000[a]	
Shares held in his Individual Retirement Account	1,936[a]	
Held as Trustee of trust for benefit of Paul K. Frierson		17,061[b]
Performance Units convertible into shares of Common Stock	6,300[a]	
Held as trustee of Rowena K. Frierson Charitable Remainder Unitrust	5,486[b]	
Deemed conversion of his Class B Common Stock	111,130	
	168,385	**111,130**

a. Sole voting and investment power

b. Shared voting and investment power

c. Sole voting and shared investment power

(6) RGM Capital, LLC, Robert G. Moses, and DUMAC, LLC have jointly reported beneficial ownership of 1,127,693 shares of Common Stock, with respect to RGM Capital, LLC and Robert G. Moses, and 816,584 shares of Common Stock with respect to DUMAC, LLC. RGM and Robert G. Moses report shared voting and shared dispositive power with respect to 1,127,693 shares, and DUMAC reports shared voting and shared dispositive power with respect to the 816,584 shares of Common Stock. The reported information is based upon the Schedule 13D/A filed by them with the Securities and Exchange Commission on December 30, 2008.

(7) T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc. have reported beneficial ownership of 1,205,900 shares of Common Stock. T. Rowe Price Associates, Inc. reports having sole dispositive power for all 1,205,900 shares and sole voting power for 255,900 of such shares, while T. Rowe Price Small-Cap Value Fund, Inc. reports sole voting power for the remaining 950,000 shares. The reported information is based upon the Schedule 13G/A filed jointly by T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc. with the Securities and Exchange Commission on February 12, 2010.

(8) Dimensional Fund Advisors, L.P. has reported beneficial ownership of an aggregate of 1,001,583 shares of Common Stock, as follows: 999,883 shares of Common Stock, for which it has sole voting power, and 1,001,583 shares of Common Stock for which it has sole dispositive power. The reported information is based upon the Schedule 13G/A filed by Dimensional Fund Advisors, L.P. with the Securities and Exchange Commission on February 8, 2010.

(9) DUMAC, LLC has reported beneficial ownership of 816,584 shares of Common Stock, for which it has shared dispositive and shared voting power. The reported information is based upon the Schedule 13D/A filed by it with the Securities Exchange Commission on December 30, 2008.

(10) Royce & Associates LLC has reported beneficial ownership of 956,003 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 25, 2010.

(11) Wells Fargo & Company has reported the beneficial ownership of an aggregate of 885,898 shares of Common Stock, on behalf of the following subsidiaries: Wells Fargo Bank, National Association; Evergreen Investment Management Company, LLC; Wachovia Bank, National Association; and Wachovia Capital Markets. It has reported sole power to vote 880,093 and sole power to dispose of 829,898 of such shares. The reported information is based on a Form 13D/G filed on January 22, 2010.

(12) Robert E. Shaw has reported the beneficial ownership of 1,400,000 shares of Common Stock for which he has sole voting and sole dispositive power. The reported information is based upon the 13G filed by Mr. Shaw with the Securities and Exchange Commission on June 10, 2009.

(13) Mr. Brock s beneficial ownership may be summarized as follows:

Common Stock, held outright	22,500
Options to acquire Common Stock, exercisable within 60 days	9,500
Performance Units, convertible into shares of Common Stock on retirement as a director	20,458
Total	**52,458**

(14) Mr. Comiskey s beneficial ownership may be summarized as follows:

Common Stock, held outright	14,146
Unvested Restricted Stock	20,590
Held in 401(k) Plan	1,087
Total	**35,823**

(15) Mr. Dempsey s beneficial ownership may be summarized as follows:

Common Stock, held outright	19,482
Options to acquire Common Stock, exercisable within 60 days	66,057
Held in 401(k) Plan	4,952
Unvested Restricted Stock	18,920
Total	**109,411**

(16) Mr. Harmon s beneficial ownership may be summarized as follows:

Common Stock, held outright	51,600
Options to acquire Common Stock, exercisable within 60 days	47,200

Shares held in his individual Retirement Account	3,136
Total	**101,936**

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

Options to acquire Common Stock, exercisable within 60 days	8,000
Performance Units, convertible into Common Stock on retirement as a director	6,148
Total	**14,148**

(18) Mr. Faulkner s beneficial ownership may be summarized as follows

Common Stock, held outright	8,921
Options to acquire Common Stock, exercisable within 60 days	46,200
Unvested Restricted Stock	16,466
Total	**71,587**

(19) Mr. Kline s beneficial ownership may be summarized as follows:

Common Stock, held outright	7,000
Options to acquire Common Stock, exercisable within 60 days	17,000
Performance Units, convertible into shares of Common Stock on retirement as a director	7,448
Total	**31,448**

(20) Mr. Lapeere s beneficial ownership may be summarized as follows:

Common Stock, held outright	7,117
Shares held in 401(k)	1,087
Options to acquire Common Stock, exercisable within 60 days	53,250
Unvested Restricted Stock	24,219
Total	**85,673**

(21) Mr. Kennedy Frierson s beneficial ownership may be summarized as follows:

	Common Stock	**Class B Common Stock**
Held Outright	0	42,673*
Options to acquire Common Stock, exercisable within 60 days	38,000	
Shares held in 401(k)	2,407	
Shares held in trust(s) for children	2,585	6,000
Unvested Restricted Stock	679	15,987*

Total	**43,671**	**64,660**

* 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.

(22) Mr. Murrey s beneficial ownership may be summarized as follows:

Common Stock, held outright	3,200
Options to acquire Common Stock, exercisable within 60 days	9,500
Performance Units, convertible into Common Stock on retirement as a director	20,458
Held by wife	500
Total	**33,658**

(23) Includes: (i) 212,689 shares of Common Stock owned directly by individuals in this group; (ii) options, which are either immediately exercisable, or exercisable within 60 days of the Record Date to purchase 548,896 shares of Common Stock; (iii) 60,812 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; (iv) 66,426 shares of Common Stock owned by immediate family members of certain members of this group; (v) 23,150 shares of Common Stock allocated to accounts in the 401(k) Plan of members of this group; (vi) 5,486 shares held in trust for the benefit of persons in the group; (vii) 118,697 unvested restricted shares of Common Stock held by individuals in this group, which shares may be voted by such individuals; and (viii) 679,501 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) 731,330 shares of Class B Common Stock held subject to the Shareholder Agreement described in Note (4) above; (ii) 94,069 shares of Class B Common Stock held by Paul K. Frierson as described in Note (6) above; and (iii) 17,061 shares of Class B Common Stock held in trust as described in Note (4), above.

PROPOSAL 1

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:

J. Don Brock, Ph. D., age 71, is the Chairman of the Board, Chief Executive Officer and President of Astec Industries, Inc., a manufacturer of asphalt and paving equipment headquartered in Chattanooga, Tennessee. He has been a director of the Company since 1997. Dr. Brock is a member of the Company s Audit Committee and a member of the Company s Executive Committee.

Daniel K. Frierson, age 68, 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 asphalt and paving equipment headquartered in Chattanooga, Tennessee, and Louisiana-Pacific Corporation, a manufacturer and distributor of building materials headquartered in Nashville, Tennessee. Mr. Frierson served briefly as a director of Wellman, Inc., a manufacturer of plastic packaging resins, from May 2006 to August 2006. Mr. Frierson is Chairman of the Company s Executive Committee and Chairman of the Company s Retirement Plans Committee.

Paul K. Frierson, age 72, served as Vice President of the Company and President of the Company s Candlewick Yarns subsidiary from 1989 to 2003. He has been a director of the Company since 1988. Mr. Frierson is a member of the Company s Retirement Plans Committee.

Walter W. Hubbard, age 66, served as President and CEO 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. He has been a director of the Company since 2005. Mr. Hubbard is a member of the Company s Audit Committee and Compensation Committee.

Lowry F. Kline, age 68, has served as a director of Coca-Cola Enterprises, Inc. since April 2000, 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 such 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 McKee Foods Corporation, headquartered in Collegedale, Tennessee, and has served as a member of the Executive Committee of the Metro Atlanta Chamber of Commerce. He has also served as a member of the Board of Trustees of the Woodruff Arts Center. He has been a director of the Company since 2004. Mr. Kline is Chairman of the Compensation Committee and a member of the Audit Committee and the Executive Committee.

John W. Murrey, III, age 67, is an Assistant Professor of Law at the Appalachian School of Law. He previously served as a Senior Member of the law firm of Witt, Gaither & Whitaker, P.C. in Chattanooga, Tennessee until June 30, 2001. He has been a director of the Company since 1997. Mr. Murrey has served as a director of Coca-Cola Bottling Co. Consolidated, a Coca-Cola bottler headquartered in Charlotte, North Carolina since 1993 and has served on its Audit Committee. He also served as a director of U.S. Xpress Enterprises, Inc., a truckload carrier headquartered in Chattanooga, Tennessee, from 2003 until 2007, and was Chairman of its Audit Committee. Mr. Murrey is Chairman of the Company s Audit Committee and a member of the Company s Compensation Committee.

Daniel K. Frierson and Paul K. Frierson are brothers. D. Kennedy Frierson, Jr., the Company s Vice President and Chief Operating Officer, is the son of Daniel K. Frierson and the nephew of Paul 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 this slate of nominees for 2010, the Independent Directors of the Board considered the familiarity of the Company s incumbents 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 addressing the challenges faced by the Company in the current economic and business environment.

In addition, the Independent Directors of the Board noted the particular qualifications, experience, attributes and skills possessed by its current slate of directors. 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: Dr. Brock has a long history of executive management experience with Astec Industries, Inc., an international manufacturing company, headquartered in Chattanooga, Tennessee. Additionally, Dr. Brock has served with the Company as a director since 1997, including service on the Audit and Executive Committees of the Board. 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. Paul Frierson has served with the Company in various management and executive positions his entire adult life, and has a long and relevant history of Board service with the Company, having served as a Director of the Company since 1988. 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. 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 serves on the Company s Audit, Compensation and Executive Committees. 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, and, prior to his retirement in 2001, represented the Company as counsel.

The Board of Directors recommends that the Company s shareholders vote FOR setting the number of directors at six (6) and electing the six (6) nominees for director.

Meetings of the Board of Directors

The Board of Directors of the Company met eight (8) times in 2009.

Committees, Attendance, and Directors Fees

The Company has a standing Executive Committee, Audit Committee, Retirement Plans Committee, and Compensation Committee. As described in detail below, pursuant to provisions in its charter, the Company s Compensation Committee, which consists entirely of independent directors, also performs the functions of a corporate governance committee and a nominating committee. Copies of the Charter of the Company s Audit Committee and Compensation Committee may be found on the Company s website at www.thedixiegroup.com/investor/investor.html, then select Corporate Governance.

Members of the Executive Committee are Daniel K. Frierson, Chairman, J. Don Brock and Lowry F. Kline. Except as otherwise limited by law or by resolution of the Board of Directors, the Executive Committee has and may exercise all of the powers and authority of the Board of Directors for the management of the business and affairs of the Company, which power the Executive Committee exercises between the meetings of the full Board of Directors. The Executive Committee did not meet in 2009.

Members of the Audit Committee are John W. Murrey, III, Chairman, J. Don Brock, Walter W. Hubbard, and Lowry F. Kline. All of the members of the Audit Committee are independent directors as that term is defined by the applicable rule 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 2009.

Members of the Retirement Plans Committee are Daniel K. Frierson, Chairman, and Paul K. Frierson. The Retirement Plans Committee administers the Company s retirement plans. The Retirement Plans Committee met two (2) times in 2009.

Members of the Compensation Committee are Lowry F. Kline, Chairman, Walter W. Hubbard, and John W. Murrey, III. 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 2009, see ***Compensation Discussion and Analysis.***

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.

In addition to its responsibilities with respect to executive and director compensation, the Compensation Committee discharges responsibilities with respect to corporate governance. In that capacity, the Compensation Committee develops and recommends for board approval corporate governance guidelines.

The Compensation Committee s Charter also includes the duties of a nominating committee. Only nominees approved by a majority of the Compensation Committee are recommended to the full Board. In selecting and approving director nominees, the independent directors that make up the Committee consider, among other factors, the existing composition of the Board and the mix of Board members appropriate for the perceived needs of the Company. The Compensation 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 Compensation Committee will generally consider as potential candidates 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 Compensation 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 NASDAQ 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.

The Committee did not specifically consider or address diversity as a separate topic in considering its selection of the current slate of director nominees. The Board did consider the considerable 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 Compensation Committee met three (3) times in 2009.

Nominations for Director Stockholder Recommendations

Generally, the Board will consider stockholder recommendations of proposed director nominees if such recommendations are timely received. To be timely for next year s annual meeting, recommendations must be received in writing at the principal executive offices of the Company no later than November 19, 2010. In addition, any stockholder director nominee recommendation must include the following information:

- the proposed nominee s name and qualifications and the reason for such recommendation;
- the name and record address of the stockholder(s) proposing such nominee;
- the number of shares of stock of the Company which are beneficially owned by such stockholder(s); and
- a description of any financial or other relationship between the stockholder(s) and such nominee or between the nominee and the Company or any of its subsidiaries.

In order to be considered by the Board, any candidate proposed by one or more stockholders will be required to submit appropriate biographical and other information equivalent to that required of all other director candidates.

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 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 sessions 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 registered public auditors, internal auditor and management. This Committee also sets its own agenda and may consider any relevant topic in its executive sessions.

Board s Role in Risk Oversight

The Board receives an annual, in depth review of risks that may potentially affect the Company, as identified and presented by management, including all such risks reflected in the Company s periodic filings. Additionally, the Board receives regular, quarterly updates on all such elements of risk. The Board may, and from time to time has, requested supplemental information and disclosure about any other specific area of interest and concern relevant to risks it believes are faced by the Company and its business.

Director Attendance

During 2009, no director attended fewer than 75% of the total number of meetings of the Board of Directors and any Committee of the Board of Directors on which he served. All directors are invited and encouraged to attend the annual meeting of shareholders. In general, all directors attend the annual meeting of shareholders unless they are unable to do so due to unavoidable commitments or intervening events. All six (6) incumbent directors attended the 2009 annual meeting of shareholders.

Director Compensation

Directors who are employees of the Company do not receive any additional compensation for their services as members of the Board of Directors. Non-employee directors receive an annual retainer of $24,000, payable one-half in cash and one-half in value of Performance Units under the Directors Stock Plan. Performance Units are redeemable upon a director s retirement for an equivalent number of shares of the Company s Common Stock, and the number of units issued is determined generally by the market value of the company s Common Stock on the date of grant of the units. For 2009, however, the number of Performance Units issued was adjusted to reflect a minimum $5.00 value applied to all the Company s equity-based awards and compensation, for the year, resulting in a reduction in the effective value awarded to each Director in the form of Performance Units, to $5,280. 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 ($1,500 for the Committee Chairman). Fees for attending telephonic meetings are one-half those for in-person meetings, such that each non-employee director receives $750 per telephonic board meeting and $500 per committee meeting ($750 for the Chairman of the Committee). For an additional discussion of Director Compensation, see the tabular information below under the heading, Director Compensation.

Independent Directors

The Board has determined that Dr. J. Don Brock, Walter A. Hubbard, Lowry F. Kline and John W. Murrey, III are independent directors 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 2009, all filing requirements applicable to its executive officers, directors, and owners of more than 10% of the Company s Common Stock were complied with, with the following exceptions:

Paul B. Comiskey, the Company s Vice President and President of the Company s Residential Carpet Division, failed to timely file a report on Form 4 with respect to shares withheld by the Company to satisfy tax obligations upon the scheduled vesting of shares of restricted stock. The Company assists its executive officers in meeting their Section 16 filing obligations, and this failure occurred as the result of an inadvertent clerical error.

Jon A. Faulkner, the Company s Chief Financial Officer failed to file two reports on Form 4 with respect to transactions in his Company sponsored 401(k) account. During 2009, Mr. Faulkner selected an automatic rebalancing option with respect to his account; as a result, the plan administrator included Company shares in the rebalancing of Mr. Faulkner s account and erroneously sold shares of Company stock held in such account on two occasions one in September and again in December of 2009 notwithstanding the fact that Mr. Faulkner s name was on a restricted list furnished to the Plan Administrator for all executive officers with respect to such accounts. Mr. Faulkner filed a Form 4 correcting the omission when he discovered the administrator s error.

Management Succession

At least annually, the Board reviews a succession plan, developed by management, addressing the policies and principles for selecting a 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 Compensation 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 Company s Compensation Committee for review. If required and appropriate under the circumstances, the Compensation Committee will consider such transactions for approval or ratification. Full disclosure of the material terms of any such transaction must be made to the Compensation 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 Compensation 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.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

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

The Committee has reviewed and discussed with management the audited financial statements of the Company for the year ended December 26, 2009 (the Audited Financial Statements). In addition, the Committee has discussed with Ernst & Young LLP the matters required by Statement on Auditing Standards No. 114.

The Committee also has received the written report, disclosure and the letter from Ernst & Young LLP 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 Ernst & Young LLP such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee has recommended to the Company s Board of Directors the inclusion of the Company s Audited Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 26, 2009, to be filed with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

John W. Murrey, III, Chairman

J. Don Brock

Lowry F. Kline

Walter W. Hubbard

AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that John W. Murrey, III 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. Murrey s relevant experience, please refer to Mr. Murrey s biographical information as set forth in the Election of Directors section of this proxy statement.

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee of the board of directors sets compensation for the Company s executive officers. Decisions made by the Committee 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, receives advice and information from professional compensation consultants. The Committee did not employ consultants during 2009.

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 in a manner consistent with the 2007-2011 Incentive Plan, discussed below, so that a significant portion of each executive s potential, annual compensation may consist of equity awards. Such awards are generally designed to provide each executive compensation the value of which is tied to increases in the value of the Company s common stock.

For 2009, each executive officer s compensation consisted of base salary, the opportunity to earn both a cash incentive award and awards of restricted stock, and a grant of non-qualified stock options. Each executive officer also received customary retirement plan benefits and other customary employment benefit, as in prior years.

Salary Reductions and Management Changes for 2009. At the beginning of 2009, the Committee reviewed an across the board reduction in executive officer s base salaries equal to between 10 and 15% of such compensation. The Named Executive Officers affected by these reductions were: Daniel K. Frierson, Gary A. Harmon, Jon A. Faulkner, D. Kennedy Frierson, Paul B. Comiskey, Kenneth L. Dempsey and Craig S. Lapeere. In the third quarter of 2009, D. Kennedy Frierson was appointed to serve as the Company s Chief Operating Officer, and Paul B. Comiskey was appointed to serve as the Company s Vice President and President of the Company s Residential Carpet Division. In recognition of these changes, Mr. Kennedy Frierson s base salary was then set at $260,000 and Mr. Comiskey s salary was set at $250,000 (having been previously decreased in accordance with the salary reduction plan). Also, during the year, Mr. Gary A. Harmon retired. Mr. Jon A. Faulkner was appointed the Company s Chief Financial Officer, to replace Mr. Harmon. Mr. Faulkner s base salary was then set at $211,500.

Potential Incentive Awards. In creating the incentive plan for 2009, the Compensation Committee determined that in light of the uncertain economic environment, any cash incentive should be wholly discretionary and determined by the Committee following year end, with the Committee free to consider such factors at the time of its deliberations as it deemed relevant. In accordance with its discretion, the Committee made the following cash incentive award: Mr. Paul B. Comiskey was awarded a cash bonus of $50,000 following the end of the year, on recognition of the performance of Dixie Home, for which he had primary responsibility during 2009.

Primary Long-Term Incentive Share Awards and Career Shares.

In accordance with the past practice, the incentive plan developed for 2009 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 made contingent on the Company s achieving profitable operations for the year. Accordingly, no Primary Long-Term Incentive Share Awards were granted. Career Share Awards were not made contingent on Company profitability; such Awards were granted in 2010 for 2009, as described more fully below and in the footnotes to the tables accompanying this report under Executive Compensation Information.

The Primary Long-Term Incentive Share Award was designed as a possible award of restricted shares to each executive officer, in value equal to 35% of the executive s base salary as of the beginning of 2009 plus any cash incentive award paid for such year. 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. In accordance with the Company s practice, any such award, if earned, would be granted in 2010.

When the Committee adopted the incentive plan for 2009, it determined that any award granted under the plan consisting of the Company s Common Stock or Class B Common Stock would be granted subject to a minimum value per share of $5.00. This minimum value limit was applied to the Career Share Awards granted in 2010 with respect to 2009 and was set as the exercise price for the option awards made during 2009.

The Career Share Awards granted in 2010 with respect to 2009 vest when the participant becomes (i) qualified to retire from the Company and (ii) has retained such shares for 24 months following the grant date. Awards granted to a participant who is age 60 or is already age 60 or older, vest ratably over the stated vesting or retention period of such awards. Additionally, Career Share Awards are subject to accelerated vesting or forfeiture under certain conditions as follows: Death, disability or a change in control will result in immediate vesting of Career Share Awards; termination without cause will also result in immediate vesting of Career Share Awards; voluntary termination of employment prior to retirement, or termination for cause will result in forfeiture of all unvested awards; upon retirement, vesting will accelerate to the extent that the Company has recognized compensation expense related to the shares subject to the awards.

Special Conditions

As stated above, grant of the Primary Long-Term Incentive Share Awards was made contingent on the Company s achieving a positive income from continuing operations. No award of Primary Long-Term Incentive Shares was made for 2009.

The Career Share Awards were not contingent on Company profitability. Such awards were granted in 2010 with respect to 2009, as follows: Mr. Daniel K. Frierson 22,400 shares, Mr. Jon A. Faulkner 8,800 shares, Mr. D. Kennedy Frierson 9,200 shares, Mr. Paul B. Comiskey 10,000 shares, Mr. Kenneth L. Dempsey 10,200 shares, Mr. Craig S. Lapeere 10,800 shares. The number of such shares was determined by application of the $5.00 per share minimum value described above.

***Option Awards*.** In November 2009, the Committee elected to make awards of non-qualified stock options to each executive officer, including the Named Executive Officers, under the 2006 Stock Awards Plan. Such options were granted in recognition of the fact that no equity-based incentive award had been made to the

Company s executive officers for 2008, and no Long Term Incentive Share Award would likely be made to the Company s executive officers for 2009. The non-qualified options were issued with an exercise price of $5.00 per share (substantially above the market price of the Company s Common Stock on the date of issuance), as follows: Daniel K. Frierson options to acquire 50,000 shares; Jon A. Faulkner options to acquire 11,000 shares; D. Kennedy Frierson options to acquire 22,000 shares; Paul B. Comiskey options to acquire 18,000 shares; Kenneth L. Dempsey options to acquire 12,000 shares. Such options, as shown in the Grant of Plan Based Awards, were issued with a term of 10 years.

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 2009, no Company contribution was made to either plan. Although participants may receive additional contributions from the Company based (primarily) on the Company s return on equity, such contributions are discretionary and no such additional contributions were made for 2009.

Compensation Considerations for 2009. As described above, the base salaries of the Company s executive officers were adjusted to reflect the difficult and uncertain economic environment faced by the Company. Additionally, the Committee made any incentive cash compensation discretionary, and eliminated, for 2009, the profitability requirement for Career Share Awards. The term of outstanding underwater options was extended as described below, and the term of the Chief Executive Officer s Restricted Stock Award was extended and modified, also as discussed below. Finally, all executive officers received non-qualified stock options, as described more fully below and in the accompanying tables.

The tax effect of possible forms of compensation on the Company and on the executive officers is generally a factor considered by the Committee in determining types of compensation to be awarded. Similarly, the accounting treatment accorded various types of compensation may be an important factor used to determine the form of compensation. For 2009, the Committee considered the tax effects of the grant of cash incentives and equity incentive awards that do not qualify as incentive compensation under Section 162m of the Internal Revenue Code and concluded that no executive would have compensation that exceeded the applicable threshold.

The Committee also considered carefully the accounting effect of extending the term of underwater stock options and the restricted stock award and concluded that any cost to be borne by the Company as a consequence of such actions would be immaterial.

2007-2011 Incentive Compensation Plan. In March 2006, the Compensation Committee approved the 2007-2011 Incentive Compensation Plan, pursuant to which annual incentive plans are developed and annual incentive compensation awards may be made to key executives (including the executive officers named in the accompanying compensation tables) of the Company based on results achieved by the Company. The material terms of the performance goals of the plan were approved by the Company s shareholders at the 2006 Annual Meeting. Awards granted under the Plan may be treated as performance-based compensation under relevant Internal Revenue Code regulations and may allow the Company to take a federal income tax deduction for the related compensation expense if such awards are based on one or more of the approved performance goals.

The plan is administered by the Compensation Committee which determines the type, range of potential awards and performance criteria for determining awards.

Both cash incentive awards and stock based incentive awards may be made under the plan. Performance goals of awards made under the 2007-2011 plan may include one or more of the following criteria determined annually in the discretion of the Committee: minimum annual levels of profitability; corporate and/or business unit operating income levels, total shareholder return, return on capital; return on equity; pre-tax earnings; after-tax earnings, earnings growth, operating income; EBIT; operating profit; earnings per share and return on investment or working capital, any one or more of which criteria may be measured with respect to the Company or any one or more of its subsidiaries or business units.

For purposes of the plan, EBIT is defined as Operating Income, as determined in accordance with GAAP, adjusted for any unusual or one-time expenses determined in the discretion of the Compensation Committee.

As discussed above, an annual incentive plan is generally developed within the structure provided by the 2007-2011 Incentive Compensation Plan.

***Termination Benefits*.** As discussed above under Special Conditions to Awards, the Company s restricted stock awards provide for acceleration of vesting of awards under certain circumstances upon termination of the participants.

Upon retirement of the Participant, 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 Craig S. Lapeere 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 15,859 shares and $38,855. For Mr. Lapeere the shares vested would have been 10,722, valued at $25,244. For purposes of valuing the foregoing awards, the Company used the year-end market value of the Company s Common Stock which was $2.45/share. Vesting of the restricted stock award made in 2006 to Mr. Frierson of 119,873 shares of Class B Common Stock and 5,127 shares of Common Stock is contingent, in all events other than a change-in-control, on meeting the market condition of the award prior to June 6, 2014. Upon Mr. Harmon s retirement an aggregate of 4,695 shares, valued at $13,733 and previously awarded as Career Shares and Long Term Incentive Shares, vested on October 30, 2009, in accordance with the terms of such Awards. In addition, Mr. Harmon entered into a two year consulting agreement with the Company, dated July 27, 2009, described more fully in footnote 3 of the **All Other Compensation** table.

No termination benefit was paid to or accrued for any executive officer named in the accompanying tables in the fiscal year ended December 26, 2009.

Extended Term for Certain Stock Options

On March 3, 2009, the Committee extended the term of all remaining outstanding underwater options granted under the Company s 2000 Stock Incentive Plan, so that the affected options would be exercisable for a term expiring three years beyond the original termination date. All such options had exercise prices that were substantially in excess of the market price for the Common Stock underlying the options as of the date of the Committee s action. The Committee took this action in recognition of the fact that no Primary Long Term Incentive equity awards would be made for 2009, and no equity awards had been made for 2008. The Committee believes that this action will permit the modified options to serve as a continuing incentive for the affected option holders. The Company recognized for 2009 additional compensation expense with respect to such affected options in an amount equal to the incremental fair value of the awards as recorded for financial statement reporting purposes, as of the date of modification of the options. The additional compensation expense recognized with respect to each executive officer named in the accompanying tables holding options affected by the Committee action, is as follows: Daniel K. Frierson $1,579; Gary A. Harmon $500; Jon A. Faulkner $1,200; Kenneth L. Dempsey $543; and Craig S. Lapeere $38.

Extended Term for Chief Executive Officer s Restricted Stock Award

On May 20, 2009, the Committee extended the term of the Restricted Stock Award initially granted to Daniel K. Frierson, the Company s CEO on June 6, 2006, pursuant to the Company s 2006 Stock Awards Plan, and it extended the time during which the market condition of such Award may be met. The market condition which must be met provides that vesting of the shares subject to the award is contingent on the market price of the Company s Common Stock trading at or above $18.225 for a 20 consecutive trading day period during the term of the award. Pursuant to the amendments, the term has been extended to June 6, 2014 and the time during which the market condition may be met has been extended to June 6, 2014. Conforming changes to the provisions of the Award relating to vesting on an involuntary termination or change in control were also made. The Committee believes that this action will permit the modified Award to serve as a continuing incentive for Mr. Frierson. The Company recognized additional compensation expense with respect to the modified Award in an amount equal to the incremental fair value of the Award as recorded for financial statement reporting purposes, as of the date of modification of the Award. The additional compensation expense recognized with respect to such modification in 2009 was $6,137 and the aggregate incremental grant date fair value of the award computed in accordance with the stock compensation rules used for financial statement reporting purposes is $41,375.

Proposed Increase in Shares Subject to the 2006 Stock Awards Plan

As discussed in more detail below with respect to Proposal Two, the Committee has recommended and the Board of Directors has approved the amendment and restatement of the Dixie Group, Inc. 2006 Stock Awards Plan to increase the maximum number of shares of Common Stock that may be issued under the Plan by 500,000 shares from 800,000 to 1,300,000 shares. Amendment and restatement of the plan is included herein as Proposal Two and is submitted to Shareholders for their approval at this year s annual meeting of Shareholders. If approved, such additional shares would be available for issuance as awards under the 2006 Stock Awards Plan as well as the annual incentive plans developed by the Committee pursuant to the 2007-2011 Incentive Compensation Plan. For a more complete discussion of the proposed amendment and restatement of the 2006 Stock Awards Plan see, **PROPOSAL TWO APPROVE THE AMENDMENT AND RESTATEMENT OF OUR 2006 STOCK AWARDS PLAN** .

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

John W. Murrey, III

Walter W. Hubbard

EXECUTIVE COMPENSATION INFORMATION

The following table sets forth information as to all compensation earned during the fiscal years ended December 29, 2007 and December 27, 2008, and December 26, 2009 to (i) the Company s Chief Executive Officer; (ii) the Company s current and former Chief Financial Officer; and (iii) the four other most highly compensated executive officers who served as such during the fiscal year ended December 26, 2009 (the Named Executive Officers). For a more complete discussion of the elements of executive compensation, this information should be read in conjunction with the other tabular information presented in the balance of this section.

Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary ($) (c)[1]	Bonus ($) (d)[2]	Stock Awards ($) (e)[3]	Option Awards ($) (f)[4]	Non-Equity Incentive Plan Compensation ($) (g)[5]	Nonqualified Compensation Earnings ($) (h)[6]	All Other Compensation ($) (i)[7]	Total (j)
Daniel K. Frierson,	2009	$ 490,000	$	$ 41,375	$ 46,579	$	$ 206,952	$ 7,469	$ 792,375
Chief Executive Officer	2008	560,000		331,308	7,190			34,065	932,564
	2007	560,000		274,995		66,600		24,606	926,201
Gary A. Harmon,	2009	162,542			500		187,734	32,418	383,193
Chief Financial Officer (Retired effective September 2009)	2008								