

**THE DIXIE GROUP, INC.
CORPORATE GOVERNANCE GUIDELINES
BOARD OF DIRECTORS**

Guidelines on Significant Corporate Governance Issues

The Board has adopted these corporate governance principles (the “Guidelines”) to assist the Board and its committees. The Guidelines are a flexible framework within which the Board can make decisions and provide oversight, and are not a set of legally binding rules or mandates that lack flexibility. The Guidelines should be revisited periodically to determine that they accurately reflect the position of the Board on the issues addressed. They are an important part of the overall corporate governance of the Company.

A. Board of Directors: Qualifications, Composition and Performance

1. Selection of New Directors and Director Qualifications

Potential nominees for directorships will be screened by the Audit Committee in accordance with its nominations responsibilities and those selected in accordance with the Guidelines for Board membership will be recommended to the Board to fill new positions or vacancies between annual meetings or for the board to recommend for election by the stockholders at the next annual meeting.

Nominees for the position of independent director should be selected with consideration given to the following criteria:

- **Personal qualities and characteristics** that provide evidence of a reputation for high ethical conduct, integrity, sound judgment and accountability for one’s decisions and actions;
- **Current knowledge and experience** in one or more core areas that will enable the Board as a whole to cover adequately the competencies needed on the Board. These competencies include, among other matters, knowledge and experience in finance, accounting, executive management, and marketing, strategic planning and public policy;
- **Commitment of time** that is sufficient for the Board and committee to fulfill its responsibilities; and
- **Collegial effectiveness** so that each member’s skills and personality fit with other directors in building a Board that is effective and responsive to the needs of the Company.

2. Orientation and Continuing Education

Management working with the Board will provide an orientation process for new directors, including background material on the Company, and meetings with senior management. Periodically, there should be additional sessions for directors on matters relevant to the Company, its business and risk profile. Such sessions may be part of the quarterly meeting process.

3. Size of the Board

It is the sense of the Board that 6 members is an appropriate size, but the actual size may be affected by practical considerations as to the needs of the Board from time to time. The Board may be willing to suggest an increase in the size of the Board in order to accommodate the availability of an outstanding candidate or to provide some overlap in membership with a new member prior to one or more board members' retiring.

4. Composition of the board and Standard for Independence

A substantial majority of the Board shall be comprised of directors who, based on an evaluation of all of the relevant facts and circumstances, have no material relationship with the Company and otherwise meet the criteria for "independence" required by NASDAQ.

In accordance with listing standards of NASDAQ, the Board has determined that the "categorical standards" as published from time to time by NASDAQ will be used to determine whether a relationship between a director and the Company is immaterial and requires no further analysis of the relationship in determining "independence."

5. Limit on Number of Board Memberships

While the Company recognizes that its Board members benefit from service on the board of other companies and such service is encouraged, the Board believes it is critical that directors be able to dedicate sufficient time to their service on the Company's Board. To that end, the Company's directors shall serve on no more than three public company boards in addition to the Company's Board.

6. Directors Who Change Their Present Job Responsibility

Individual directors who retire or otherwise change significantly the principal position they held when they were elected to the Board must tender in writing an offer of resignation from the Board as of the date of retirement or change in position. The Board does not believe that a director in this circumstance should necessarily be required to leave the Board. There should, however, be an opportunity for the Audit Committee to review each situation based on the

individual circumstances and needs of the Board and to make a recommendation to the Board as to whether the offer of resignation should be accepted.

7. Annual Evaluation of Board Performance

The Board will conduct an annual self-evaluation to determine whether the Board and its committees are functioning effectively. The Compensation Committee, will oversee the evaluation process and review its evaluation with the Board. Each of the standing committees of the Board should conduct an annual self-evaluation and report the results to the Board.

B. Board of Directors: Responsibilities and Expectations

1. Basic Responsibilities

The basic responsibilities of the directors are to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its stockholders and to provide general oversight in monitoring the affairs of the Company.

2. Reliance

In performing their responsibilities, the directors are entitled to rely in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any of the Company's officers or employees, or committees of the Board, or by any other person as to matters the director reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company. The directors are also entitled (i) to have the Company purchase reasonable directors' and officers' liability insurance on their behalf, and (ii) to the benefits of indemnification and exculpation to the fullest extent permitted by applicable law and the Certificate of Incorporation, the Bylaws and any indemnification agreements.

3. Expectation of Directors

The Board has developed the following expectations of its members to help promote the discharge of their responsibilities and the efficient conduct of the Board's business:

- **Commitment and attendance.** All directors should make every effort to attend meetings of the Board and meetings of committees of which they are members. Members may attend by telephone or video conference, when available, to mitigate conflicts.

- **Review of information.** Information and data important to a director's understanding of the business conducted at a Board or committee meeting should generally be distributed to the directors before the meeting, and the directors should review the materials in advance of the meeting.
- **Confidentiality.** The proceedings and deliberations of the Board and its committees are confidential. Each director shall maintain the confidentiality of information received in connection with his or her service as a director.

C. Executive Session

Executive sessions of non-management directors will generally be scheduled on the agenda for each regularly scheduled quarterly Board meeting.

D. CEO Evaluation and Management Succession

1. CEO Evaluation

Annually, the Compensation Committee will review the performance of the CEO against the Company's goals and objectives and determine the compensation level of the CEO. The Compensation Committee may solicit the views of Board members who are not members of the Compensation Committee in connection with the CEO's performance. The Compensation Committee will report to the Board on its performance review and decisions concerning compensation of the CEO and provide a report on executive compensation as required by applicable law for inclusion in the Company's annual proxy statement.

2. Management Succession

At least annually, the Board shall review issues related to management succession. Included in its review, the Board should address the policies and principles for selecting a successor to the CEO. The succession plan will include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.