

**DIXIE GROUP, INC.**  
**Compensation/Governance Committee Charter**

**Purpose**

The Compensation/Governance Committee ("Committee") is appointed by the Board of Directors (the "Board") of Dixie Group, Inc. (the "Company") primarily (i) to discharge the Board's responsibilities relating to compensation of the directors and executive officers of the Company, and (ii) to approve and evaluate all compensation plans, policies and programs of the Company as they affect the directors and executive officers: In addition to these responsibilities, the Committee shall (i) develop and recommend to the Board a set of corporate governance principles (the "Corporate Governance Guidelines") applicable to the Company, and (ii) oversee evaluation of the Board and management in accordance with such guidelines. In addition to its primary responsibilities as outlined above, the Committee shall assist the Board in discharging the responsibilities of a nominating committee by identifying individuals qualified to become members of the Board of Directors, consistent with criteria approved by the Board, and recommend to the Board of Director nominees for the next annual meeting of stockholders or to fill vacancies and, to recommend to the Board directors members to serve on each of the standing committees.

**Committee Operations**

The Committee shall consist of three or more members, each of whom shall be, in the judgment of the Board, "independent" under the rules of the NASDAQ, a "non-employee director" for purposes of Rule 16b-3 of the Securities Exchange Act of 1934, and an "outside director" for purposes of Section 162(m) of the Internal Revenue Code.

Members of the Committee shall be appointed by the Board and shall serve at the pleasure of the Board and for such term or term as the Board may determine. The Board shall take into account such matters as it deems appropriate relating to the background, experience, aptitudes and interest of members of the Board, as well as the needs of the Committee in determining from time to time which directors should serve as members of the Committee. The Board shall have the power at any time to remove any member of the Committee and to fill vacancies on the Committee. The Board shall designate one member of the Committee as its chairperson (the "Chairperson").

The Committee shall generally meet in person or telephonically at such times when deemed necessary or desirable by the Chairperson or the Committee. The Committee may delegate specific functions to subcommittees, officers or other committees in order to perform its duties and responsibilities.

The Committee shall fix its rules of procedure, in such manner as it shall deem appropriate.

## **Resources and Authority**

The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain and terminate a compensation consultant to assist in the evaluation of executive officer compensation. The Committee shall have full authority to approve the consultant's fees and other retention terms. The Committee shall also have authority to obtain advice and assistance from internal or external legal, accounting or other experts, consultants or advisors and to set the terms and fees for such engagements.

## **Committee Duties and Responsibilities**

Compensation Responsibilities. The Committee shall:

1. Annually review and approve corporate goals and objectives relevant to the Chief Executive Officer's ("CEO") compensation, set the target or opportunity level, evaluate the CEO's performance in light of those goals and objectives, and set the CEO's compensation components (base salary, annual incentive and long-term incentive) based on this evaluation. In determining the long-term incentive component of the CEO's compensation, the Committee may consider, among other factors it deems relevant, the Company's performance, the CEO's individual performance, the CEO's stock ownership status, the value of similar incentive awards to chief executive officers at similar or comparable companies, the awards given to the Company's executive officers in past years and such other matters as the Committee may, from time to time, deem appropriate.
2. Annually review and approve for the other executive officers, (i) annual base salary levels, (ii) annual incentive awards (cash, equity or other), (iii) long-term incentive awards, (iv) any employment agreement, severance arrangement, change in control agreement, in each case as, when and if appropriate to the individual, and (v) any special or other supplemental benefits.
3. In consultation with management, oversee regulatory compliance with respect to compensation matters, including the Company's policies on structuring compensation programs to preserve tax deductibility, and, as and when required, or desirable, establishing performance goals and certifying that performance goals have been attained for purposes of Section 162(m) of the Internal Revenue Code.
4. Review and recommend to the Board the form and amount of director compensation.
5. Periodically review and assess the adequacy of this Charter and recommend any proposed changes to the Board for approval.
6. Discharge any other duties or responsibilities expressly delegated to the Committee by the Board from time to time relating to the Company's compensation programs, whether by resolution or by the terms of a plan approved by the Board.

7. Review and approve the Compensation Discussion and Analysis (the "CD&A") required to be included in the Company's proxy statement and annual report on Form 10-K by the rules and regulations of the Securities and Exchange Commission (the "SEC") with management and, based on such review and discussion, determine whether or not to recommend to the Board that the CD&A be so included.
8. Review and approve the annual Committee Report for inclusion in the Company's proxy solicitation materials, as necessary to comply with the rules and regulations promulgated from time to time by the SEC.
9. Oversee the Company's compliance with any applicable requirement that shareholders approve equity compensation plans.
10. Delegate authority to committee members or subcommittees as it deems appropriate.
11. A report on adherence to the Company's Code of Business Conduct, and any recommendations for amendments to the Code of Business Conduct.

Governance Responsibilities. The Committee shall:

1. Develop and recommend to the Board the Corporate Governance Guidelines, and review and assess periodically the adequacy of such Corporate Governance Guidelines and recommend to the Board appropriate changes thereto.
2. Oversee the evaluation of the Board and management, which shall include receiving comments annually from all directors in such form as the Committee may deem effective and reporting to the Board with an assessment of the Board's performance as appropriate.
3. Periodically review the membership of the committees of the Board and, after taking into consideration the experience and other needs of the committees and the interests of the directors, make recommendations to the Board regarding changes in committee assignments.
4. Review annually the disclosure required by rules of the Securities and Exchange Commission in the Company's annual proxy solicitation materials regarding operations of the Committee relating to the Company's governance.

**Nominating Responsibilities and Process.** In addition to its responsibilities with respect to the Company's financial reporting process, the Committee shall have the following responsibilities with respect to the nomination of candidates for election as directors:

- (1) The Committee shall review periodically with the Board the criteria set forth in the Corporate Governance Guidelines for selecting new directors as well as the composition of the Board as a whole, and determine whether any changes should be made to such criteria and

whether any competency set forth in the criteria is not sufficiently represented on the Board as a whole so as to warrant a recommendation to the Board to take appropriate action.

(2) The Committee shall identify individuals believed to be qualified to become Board members, consistent with criteria approved by the Board, and recommend to the Board the nominees to stand for election as directors at the annual meeting of stockholders or, if applicable, at a special meeting of stockholders. In the case of a vacancy in the office of a director (including a vacancy created by an increase in the size of the Board), the Committee shall recommend to the Board an individual to fill such vacancy.

(3) The Board will consider stockholder recommendations of proposed director nominees if such recommendations are timely filed and includes the required information. To be timely, recommendations must be received in writing at the principal executive offices of the Company within 245 days after the mailing of the Company's proxy statement for the prior year's annual meeting. The required information is as follows:

- 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.

(4) Review periodically the size of the Board and determine whether sufficient reasons exist to recommend to the Board a change in the size from that set forth in the Corporate Governance Guidelines.

(5) Develop and recommend to the Board standards to be applied in making determinations as to the presence or absence of a material relationship between the Company and a director as an aspect of determining the "independence" of a director having a relationship with the Company.

(7) Periodically review the membership of the Board committees and, after taking into consideration the experience and other needs of the committees and the interests of the directors, make recommendations to the Board regarding changes in committee assignments, including that of chairperson for each standing committee, which will generally become effective at the date of the next regular Board meeting following the date of the annual meeting of stockholders at which the Board determines to make such changes, except for removing a member or filling a vacancy on a committee which may occur at any time.

(8) Review annually the disclosure required by rules of the Securities and Exchange Commission in the Company's annual proxy statement regarding operations of the Committee relating to the Company's nominating procedures.