

DIXIE GROUP INC  
Form DEF 14A  
March 16, 2006

**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

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))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**The Dixie Group, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

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(2) Aggregate number of securities to which the transaction applies:

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(3) Per unit price or other underlying value of the 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):

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(4) Proposed maximum aggregate value of the transaction:

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(5) Total fee paid:

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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:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**THE DIXIE GROUP, INC.**

**345-B Nowlin Lane**

**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 Company's Saraland Facility, 716 Bill Myles Drive, Saraland, Alabama, on May 3, 2006, 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 consider and approve the adoption of a new 2006 Stock Awards Plan, pursuant to which the Company may issue up to an aggregate of 800,000 shares of its Common Stock or Class B Common Stock on the terms and conditions set forth in the plan; and
3. To consider and approve the material terms of the performance goals for awards under the Company's 2007-2011 Incentive Compensation Plan; 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 March 8, 2006, 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 17, 2006

**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.**

**THE DIXIE GROUP, INC.**

**345-B Nowlin Lane**

**Chattanooga, Tennessee 37421**

**(423) 510-7000**

**ANNUAL MEETING OF SHAREHOLDERS**

**May 3, 2006**

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**PROXY STATEMENT**

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**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 17, 2006, to shareholders of record of the Company's Common Stock and Class B Common Stock as of the close of business on March 8, 2006.

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) consider and approve adoption of the 2006 Stock Awards Plan, as described more fully hereinafter, (iii) consider and approve the material terms of the performance goals for awards under the Company's 2007-2011 Incentive Compensation Plan; and (iv) transact any other business that may properly come before the meeting.

**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, FOR approving adoption of the 2006 Stock Awards Plan, and FOR approval of the material terms of the performance goals for awards under the Company's 2007-2011 Incentive Compensation Plan.**

**RECORD DATE, VOTE REQUIRED AND RELATED MATTERS**

The Board has fixed the close of business on March 8, 2006, as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting. 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 March 8, 2006, 11,952,744 shares of Common Stock, representing 11,952,744 votes, were held of record by approximately 5,100 shareholders (including an estimated 4,500 shareholders whose shares are held in nominee names, but excluding 1,017 participants in the Company's 401(k) Plan who may direct the voting of shares allocated to their accounts), and 720,560 shares of Class B Common Stock, representing 14,411,200 votes, were held by 13 individual shareholders, together representing an aggregate of 26,363,944 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 **FOR** setting the number of directors at six (6) and electing the six (6) nominees for director, **FOR** adopting the 2006 Stock Awards Plan as set forth in this Proxy Statement, and **FOR** approval of the material terms of the performance goals for awards under the Company's 2007-2011 Incentive Compensation Plan.

Any Proxy given pursuant to this solicitation may be revoked at any time by the shareholder giving it by delivering to the Secretary of the Company a written notice of revocation bearing a later date than the Proxy, by submitting a later-dated, properly executed Proxy, or by 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. The affirmative vote of a plurality of the total votes cast that are represented in person or by Proxy at the Annual Meeting is required to elect the Board of Directors' nominees. 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 2006 Stock Awards Plan and to approve the material terms of the performance goals for awards under the Company's 2007-2011 Incentive Compensation Plan.

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 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 2006 Stock Awards Plan and approval of the material terms of the performance goals for awards under the Company's 2007-2011 Incentive Compensation Plan.

A copy of the Company's Annual Report for the year ended December 31, 2005, 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 proxyholders.

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**PRINCIPAL SHAREHOLDERS**

Shareholders of record at the close of business on March 8, 2006, the Record Date, will be entitled to notice of and to vote at the Annual Meeting.

The following table presents information regarding ownership of the Company's equity securities by beneficial owners of more than 5% of the Common Stock or Class B Common Stock. The table also presents beneficial ownership information for the executive officers named in the Summary Compensation Table, all directors and nominees, and all directors and executive officers as a group as of March 8, 2006.

Name and Address of Beneficial Owner	Title of Class	Number of Shares Beneficially Owned <sup>(1)(2)</sup>	% of Class <sup>(1)</sup>
Daniel K. Frierson	Common Stock	957,560 <sup>(3)</sup>	7.50%
111 East and West Road	Class B Common Stock	596,095 <sup>(4)(5)</sup>	82.73%
Lookout Mountain, TN 37350			
Paul K. Frierson	Common Stock	334,501 <sup>(6)</sup>	2.74%
141 Brow Lake Road	Class B Common Stock	207,981 <sup>(7)</sup>	28.86%
Lookout Mountain, GA 30750			
Van Den Berg Management	Common Stock	1,563,059 <sup>(8)</sup>	13.08%
805 Las Cimas Parkway	Class B Common Stock		
Suite 430			
Austin, TX 78746			
T. Rowe Price Associates, Inc. &	Common Stock	1,165,700 <sup>(9)</sup>	9.75%
T. Rowe Price Small-Cap Value Fund, Inc.	Class B Common Stock		
100 E. Pratt Street			
Baltimore, MD 21202			
Dimensional Fund Advisors, Inc.	Common Stock	999,903 <sup>(10)</sup>	8.37%
1299 Ocean Avenue	Class B Common Stock		
11th Floor			
Santa Monica, CA 90401			
Wellington Management Company, LLP	Common Stock	631,000 <sup>(11)</sup>	5.28%
75 State Street	Class B Common Stock		
Boston, MA 02109			

Additional Directors And Executive Officers	Title of Class	Number of Shares	
		Beneficially Owned <sup>(1)</sup>	% of Class <sup>(1)</sup>
J. Don Brock	Common Stock		*
	Class B Common Stock	46,750 <sup>(12)</sup>	
Kenneth L. Dempsey	Common Stock		*
	Class B Common Stock	94,526 <sup>(13)</sup>	
Jon A. Faulkner	Common Stock		*
	Class B Common Stock	46,923 <sup>(14)</sup>	
Gary A. Harmon	Common Stock		*
	Class B Common Stock	80,851 <sup>(15)</sup>	
Walter W. Hubbard	Common Stock		*
	Class B Common Stock	8,440 <sup>(16)</sup>	
Lowry F. Kline	Common Stock		*
	Class B Common Stock	23,740 <sup>(17)</sup>	
John W. Murrey, III	Common Stock		*
	Class B Common Stock	27,950 <sup>(18)</sup>	
David E. Polley	Common Stock		*
	Class B Common Stock	117,690 <sup>(19)</sup>	
<b>All Directors and Executive Officers as a Group</b>			
Officers as a Group	Common Stock		<b>13.67%</b>
(16 Persons)**	Class B Common Stock	<b>1,834,366<sup>(20)</sup></b> <b>718,772<sup>(21)</sup></b>	<b>99.75%</b>

\* 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 15,491,034 votes or 58.8% of the total vote eligible to be cast at the Annual Meeting.

(1) Under the rules of the Securities and Exchange Commission and for the purposes of the disclosures in this table, 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 are 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 723,536 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.



- (3) Includes: (i) 21,007 shares of Common Stock owned directly by Daniel K. Frierson as to which he has sole investment and voting power; (ii) 111,461 shares of Common Stock owned by the children of Daniel K. Frierson, their spouses and his grandchildren and as to which he may be deemed to share voting and investment power; (iii) options, which are exercisable within 60 days of the date hereof, to purchase 219,944 shares of Common Stock; (iv) 3,567 shares of Common Stock allocated to Daniel K. Frierson's account in the 401(k) Plan as to which he has sole investment power and shared voting power; (v) 5,486 shares of Common Stock held by Daniel K. Frierson as trustee of the Rowena K. Frierson Charitable Remainder Unitrust for the lifetime benefit of Daniel K. Frierson as to which he has sole investment power and sole voting power; and (vi) the deemed conversion of 596,095 shares of Class B Common Stock which are convertible on a share for share basis into shares of Common Stock and which are held by Mr. Frierson as set forth in Notes (4) and (5).
- (4) Includes 510,791 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 (the Shareholder Agreement). The shares of Class B Common Stock subject to the Shareholders Agreement include: (i) 329,193 shares of Class B Common Stock owned directly by Daniel K. Frierson, as to which he has sole investment power and sole voting power; (ii) 94,879 shares of Class B Common Stock held by his wife, as to which he has sole voting power and shared investment power pursuant to the terms of the Shareholder Agreement; and (iii) 86,719 shares of Class B Common Stock held by his five children, as to which he may be deemed to have sole voting and shared investment power pursuant to the terms of the Shareholder Agreement.
- (5) Also includes 85,304 shares of Class B Common Stock held as follows: (a) 17,061 shares of Class B Common Stock held by Daniel K. Frierson, Paul K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the J. Burton Frierson, III family as to which Daniel K. Frierson has shared investment power and shared voting power; (b) 17,061 shares of Class B Common Stock held by Daniel K. Frierson, Paul K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the Paul K. Frierson family as to which Daniel K. Frierson has shared investment power and shared voting power; (c) 17,061 shares of Class B Common Stock held by Daniel K. Frierson, Paul K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the T. Cartter Frierson family as to which Daniel K. Frierson has shared investment power and shared voting power; (d) 17,060 shares of Class B Common Stock held by Daniel K. Frierson, Paul K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the Daniel K. Frierson family as to which Daniel K. Frierson has shared investment power and shared voting power; and (e) 17,061 shares of Class B Common Stock held by Daniel K. Frierson, Paul K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the James W. Frierson family as to which Daniel K. Frierson has shared investment power and shared voting power.
- (6) Includes: (i) 48,453 shares of Common Stock owned directly by Paul K. Frierson as to which he holds sole investment and sole voting power; (ii) 6,080 shares of Common Stock owned by Paul K. Frierson's wife as to which he may be deemed to share investment power and voting power; (iii) 12,207 shares of Common Stock owned by children of Paul K. Frierson as to which he may be deemed to share voting power; (iv) options, which are immediately exercisable, to purchase 51,766 shares of Common Stock; (v) 1,936 shares of Common Stock allocated to Paul K. Frierson's account in the 401(k) Plan as to which he has sole investment power and shared voting power; (vi) 592 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; (vii) 5,486 shares of Common Stock held by Paul K. Frierson as trustee of the Rowena K. Frierson Charitable Remainder Unitrust for the lifetime benefit of Paul K. Frierson as to which he has sole investment power and sole voting power; and (viii) the deemed conversion of 207,981 shares of Class B Common Stock which are convertible on a share for share basis into shares of Common Stock and which are held by Paul K. Frierson as set forth in Note (7).

- (7) Includes: (i) 94,069 shares of Class B Common Stock owned directly by Paul K. Frierson as to which he has sole investment power; (ii) 17,061 shares of Class B Common Stock held by Paul K. Frierson, Daniel K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the J. Burton Frierson, III family as to which Paul K. Frierson has shared investment and shared voting power; (iii) 17,061 shares of Class B Common Stock held by Paul K. Frierson, Daniel K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the Paul K. Frierson family as to which Paul K. Frierson has shared investment and shared voting power; (iv) 17,061 shares of Class B Common Stock held by Paul K. Frierson, Daniel K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the T. Cartter Frierson family as to which Paul K. Frierson has shared investment and shared voting power; (v) 17,060 shares of Class B Common Stock held by Paul K. Frierson, Daniel K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the Daniel K. Frierson family as to which Paul K. Frierson has shared investment and shared voting power; and (vi) 17,061 shares of Class B Common Stock held by Paul K. Frierson, Daniel K. Frierson, and T. Cartter Frierson, as co-trustees, under Agreement with Rowena K. Frierson for the benefit of the James W. Frierson family as to which Paul K. Frierson has shared investment and shared voting power. Also includes 28,608 shares of Class B Common Stock owned by children of Paul K. Frierson as to which he may be deemed to share voting power.
- (8) Van Den Berg Management has reported beneficial ownership of 1,563,059 shares of Common Stock, including 7,000 shares for which it has sole voting and investment power and 1,556,059 shares for which it has shared voting and dispositive power. The reported information is based upon the Schedule 13G/A filed by Van Den Berg Management with the Securities and Exchange Commission on January 10, 2006.
- (9) T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc. have reported beneficial ownership of 1,165,700 shares of Common Stock. T. Rowe Price Associates, Inc. reports having sole dispositive power for all 1,165,700 shares and sole voting power for 279,300 of such shares, while T. Rowe Price Small-Cap Value Fund, Inc. reports sole voting power for the remaining 886,400 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 14, 2006.
- (10) Dimensional Fund Advisors, Inc. has reported beneficial ownership of 999,903 shares of Common Stock, for which it has sole voting and sole dispositive power. The reported information is based upon the Schedule 13G/A filed by Dimensional Fund Advisors, Inc. with the Securities and Exchange Commission on February 6, 2006.
- (11) Wellington Management Company, LLP has reported beneficial ownership of 631,000 shares of Common Stock for which it has shared dispositive power, and has reported shared voting power with respect to 451,000 of such shares. The reported information is based upon the Schedule 13G filed by Wellington Management Company, LLP with the Securities and Exchange Commission on February 14, 2006.

- (12) Includes: (i) 15,000 shares of Common Stock owned directly by Dr. Brock as to which he has sole investment power and sole voting power; (ii) 14,750 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; and (iii) options, which are immediately exercisable, to purchase 17,000 shares of Common Stock.
- (13) Includes: (i) 16,322 shares of Common Stock owned directly by Mr. Dempsey as to which he has sole investment power and sole voting power; (ii) options, which are immediately exercisable, to purchase 68,557 shares of Common Stock; (iii) 3,867 shares of Common Stock allocated to Mr. Dempsey's account in the 401(k) Plan as to which he has sole investment power and shared voting power; and (iv) 5,780 restricted shares of Common Stock held directly by Mr. Dempsey as to which he has sole investment power and sole voting power.
- (14) Includes: (i) 4,916 shares of Common Stock owned directly by Mr. Faulkner as to which he has sole investment power and sole voting power; (ii) options, which are immediately exercisable, to purchase 38,700 shares of Common Stock; (iii) 321 shares of Common Stock allocated to Mr. Faulkner's account in the 401(k) Plan as to which he has sole investment power and shared voting power; and (iv) 2,986 restricted shares of Common Stock held directly by Mr. Faulkner as to which he has sole investment power and sole voting power.
- (15) Includes: (i) 32,475 shares of Common Stock owned directly by Mr. Harmon as to which he has sole investment power and sole voting power; (ii) options, which are immediately exercisable, to purchase 42,200 shares of Common Stock; (iii) 3,136 shares of Common Stock allocated to Mr. Harmon's account in the 401(k) Plan as to which he has sole investment power and shared voting power; and (iv) 3,040 restricted shares of Common Stock held directly by Mr. Harmon as to which he has sole investment power and sole voting power.
- (16) Includes: (i) options held by Mr. Hubbard, which are immediately exercisable, to purchase 8,000 shares of Common Stock and (ii) 440 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.
- (17) Includes: (i) 5,000 shares of Common Stock owned directly by Mr. Kline as to which he has sole investment power and sole voting power; (ii) 1,740 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; and (iii) an option, which is immediately exercisable, to purchase 17,000 shares of Common Stock.
- (18) Includes: (i) 3,200 shares of Common Stock owned directly by Mr. Murrey as to which he has sole investment power and sole voting power; (ii) 500 shares of Common Stock owned by Mr. Murrey's wife as to which he may be deemed to share investment power and voting power; (iii) 14,750 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; and (iv) options, which are immediately exercisable, to purchase 9,500 shares of Common Stock.
- (19) Includes: (i) 41,447 shares of Common Stock owned directly by Mr. Polley as to which he has sole investment power and sole voting power; (ii) 2,893 restricted shares of Common Stock held directly by Mr. Polley as to which he has sole investment power and sole voting power; and (iii) options, which are immediately exercisable, to purchase 73,350 shares of Common Stock.
- (20) Includes: (i) 188,054 shares of Common Stock owned directly by individuals in this group; (ii) options, which are immediately exercisable, to purchase 749,156 shares of Common Stock; (iii) 32,272 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) 76,735 shares of Common Stock owned by immediate family members of certain individuals comprising this group; (v) 21,477 shares of Common Stock allocated to accounts in the 401(k) Plan; (vi) 10,972 shares of Common Stock held by individuals in this group as trustees; (vii) 36,978 restricted shares of Common Stock held by individuals in this group; and (viii) the deemed conversion of 718,722 shares of Class B Common Stock which are convertible on a share for share basis into shares of Common Stock and which are held as set forth in Notes (4), (5) and (7).

<sup>(21)</sup> Includes: (i) 510,791 shares of Class B Common Stock held subject to the Shareholder Agreement described in Note (4) above; (ii) 85,304 shares of Class B Common Stock held as described in Note (5) above; (iii) 94,069 shares of Class B Common Stock held by Paul K. Frierson as described in Note (7) above; and (iv) 28,608 shares of Class B Common Stock owned by Paul K. Frierson's children as to which he shares investment and voting power.

**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*, age 67, 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. Dr. Brock also serves as a director for New Enterprises Stone. 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 64, 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 is Chairman of the Company's Executive Committee and Chairman of the Company's Retirement Plans Committee.

*Paul K. Frierson*, age 68, 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 62, 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. Mr. Hubbard was selected to fill a vacancy on the board during 2005. Mr. Hubbard is a member of the Company's Audit Committee and Compensation Committee.

*Lowry F. Kline*, age 65, has served as a director of Coca-Cola Enterprises, Inc. since April 2000, serving as Chairman since April 2002, 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 to December 2003, and from November 2005 to the present. 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 the American Beverage Association, and is a member of the Executive Committee of the Metro Atlanta Chamber of Commerce. He is also a member of the Board of Trustees of the Woodruff Arts Center. Mr. Kline is Chairman of the Compensation Committee and a member of the Audit Committee.

*John W. Murrey, III*, age 63, 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 serves as a director of U.S. Xpress Enterprises, Inc., a truckload carrier headquartered in Chattanooga, Tennessee, since 2003 and is Chairman of its Audit Committee. Mr. Murrey is a member of the Company's Executive Committee, 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. 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.

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 four (4) times in 2005.

#### **Committees, Attendance, and Directors Fees**

The Company has a standing Executive Committee, Audit Committee, Retirement Plans Committee, and Compensation Committee, but no nominating committee.

Members of the Executive Committee are Daniel K. Frierson, Chairman, J. Don Brock and John W. Murrey, III. Except as otherwise limited by law or by resolution of the Board of Directors, the 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 Committee exercises between the meetings of the full Board of Directors. The Executive Committee met once in 2005.

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 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 Committee approves the type of services to be provided and the estimated fees related to those services. The Committee met six (6) times in 2005.

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 committee met one (1) time in 2005.

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 met four (4) times in 2005.

The Board of Directors has no standing nominating committee. The Board of Directors believes that, as a result of the role of the independent directors, as described below, it is not necessary to have a nominating committee at this time.

The Board selects nominees for election as director from persons approved and recommended by a majority of the independent directors. In selecting nominees for director, the Board does not operate pursuant to a charter; however, the Board has adopted a resolution addressing the nominations process. Each member of the Board is independent, as defined by the applicable rule of the NASD, except for Daniel K. Frierson and Paul K. Frierson.

The independent directors may recommend director nominees to the full Board for approval, and only nominees approved by a majority of the independent directors are recommended to the full Board for approval. In selecting and approving director nominees, the independent directors will consider, among other factors, the existing composition of the Board and their evaluation of the mix of Board members appropriate for the perceived needs of the Company. The independent directors believe continuity in leadership and board tenure maximizes the Board's ability to exercise meaningful board oversight. Because qualified incumbent directors are generally uniquely positioned to provide stockholders the benefit of continuity of leadership and seasoned judgment gained through experience as a director of the Company, the independent directors will generally consider as potential candidates those incumbent directors interested in standing for re-election who they believe have satisfied director performance expectations, including regular attendance at, preparation for and meaningful participation in Board and committee meetings.

The independent directors of the Board also consider 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 the 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.

Walter W. Hubbard was recommended by Daniel K. Frierson to the independent directors for consideration to fill the vacancy occurring in 2005 due to the retirement of director Joseph L. Jennings, Jr., and his appointment was unanimously approved by both the independent directors and the full Board.

Generally, the Board will consider stockholder recommendations of proposed director nominees if such recommendations are serious and timely received. To be timely, recommendations must be received in writing at the principal executive offices of the Company at least 120 days prior to the anniversary date of mailing of the

Company's proxy statement for the prior year's annual meeting. 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.

During 2005, 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. Of the five (5) incumbent directors who were serving on the Board at that time, all five (5) attended the 2005 annual meeting of shareholders.

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 \$12,000 cash and \$12,000 in value of Performance Units under the Directors Stock Plan. In addition to the annual retainer, directors who are not employees of the Company received \$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).

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, and regulations of the Securities and Exchange Commission (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 and written representations that no other reports were required for such persons, the Company believes that, during fiscal year 2005, all filing requirements applicable to its executive officers, directors, and owners of more than 10% of the Company's Common Stock were complied with.

#### **Certain Transactions Between the Company and Directors and Officers**

D. Kennedy Frierson, Jr., the son of Daniel K. Frierson, the Company's Chief Executive Officer and Chairman of the Board, and the nephew of director Paul K. Frierson, was employed as the Company's Executive

Vice President Dixie Home until his appointment as President of Masland Residential in December, 2005 and as Vice President of the Company in February 2006. Mr. Frierson received an annual base salary of \$136,875 and a relocation allowance of \$15,833 in 2005. Mr. Frierson participates in the Company's incentive compensation program and has the opportunity to earn a cash Incentive Award, a Long-Term Incentive Award, and Career Shares under the Company's 2006 Incentive Plan. The Board believes that Mr. Frierson's compensation is comparable to that available to other executives of the Company serving at his level of responsibility and experience.

**SHAREHOLDER RETURN PERFORMANCE PRESENTATION**

The Company has elected to compare its performance to two different industry indexes published by Dow Jones, Inc. The first of these is the Dow Jones Furnishings Index, which is composed of 9 publicly traded companies classified by Dow Jones in the furnishings industry. The second is the Dow Jones Building Materials & Fixtures Index, which is composed of 7 publicly traded companies classified by Dow Jones in the building materials and fixtures industry. These indices are the successors to the specialty indices used by the Company for 2003. Dow Jones discontinued those specialty indices (Furnishings & Appliances and Building Materials) in 2003 and substituted the indices set forth below.

In accordance with SEC rules, set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on the Company's Common Stock against the total return of the Standard & Poor's 600 Stock Index, plus both the Dow Jones Furnishings Index and the Dow Jones Building Materials & Fixtures Index, in each case for the five year period ended December 31, 2005. The comparison assumes that \$100.00 was invested on January 1, 2000, in each of the Company's Common Stock, the S&P 600 Index, and each of the two Peer Groups, and assumes the reinvestment of dividends.

**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 accountants.

The Committee has reviewed and discussed with management the audited financial statements of the Company for the year ended December 31, 2005 (the Audited Financial Statements). In addition, the Committee has discussed with Ernst & Young LLP the matters required by Statement on Auditing Standards No. 61.

The Committee also has received the written report, disclosure and the letter from Ernst & Young LLP required by Independence Standards Board Statement No. 1, 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 the auditing firm 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 Audited Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, 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 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended, and is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act of 1934. For a brief list of Mr. Murrey's relevant experience, please refer to the Election of Directors section of this proxy statement.

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**REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

The Compensation Committee reviews, recommends and sets compensation for all executive officers of the Company. The Committee considers recommendations from senior management and reviews public and private compensation surveys, as well as the publicly-reported executive compensation of other comparable companies. The Committee's final decisions respecting compensation of executive officers are reported to the Board. Individual officers abstain from discussion concerning their own compensation.

The Committee believes that executive compensation should reflect overall Company performance as well as each executive's performance in specific areas of responsibility. The Committee periodically reviews the Company's executive compensation to compare it to the executive compensation of comparable companies. During 2005, the Committee also received and relied upon advice from independent compensation consultants concerning the structure of the officers' compensation. Based upon its review, the Committee believes that for 2005 the Company's executive officers were paid total annual compensation that generally approximates the median compensation levels of comparable companies.

**The Elements of Executive Officer Compensation**

Compensation for each of the Company's executive officers may consist of four elements: base salary; annual bonuses; stock plan awards; and retirement and other fringe benefits. Overall compensation is intended to be competitive and in the median range of compensation for comparable companies. A significant portion of each executive's compensation consists of stock options, restricted stock awards, or other stock ownership elements designed to align the interests of executive officers with the interests of the Company's shareholders.

For 2005, each executive officer's compensation consisted of Base Salary, plus the opportunity to earn two separate bonus components—an Annual Incentive Award and a Long-Term Incentive Award. The Compensation Committee of the Board of Directors determined the range of potential Annual and Long-Term Incentive Award payments that could be earned, the performance criteria for determining the amount earned by each executive, and the form in which Long-Term Incentive Awards would be paid.

***Base Salary***

Recommendations with respect to base salary depend on a variety of factors, including qualifications and experience, duties and responsibilities, and the competitive market for executive talent.

***Annual Incentive Awards***

For executive officers whose responsibilities are primarily related to the operations of one or more business units, and for the Chief Executive Officer, the Annual Incentive Award component provided each participant with the opportunity to earn a cash bonus payment ranging from 16.7% to 100% of such participant's Base Salary.

For executive officers whose responsibilities are primarily related to corporate-level administration, the Annual Incentive Award component provided each participant with the opportunity to earn a cash bonus payment ranging from 7.5% to 60% of such participant's Base Salary.

For 2005, no Annual Incentive Award was made to the CEO or any Named Executive Officer.

***Long-Term Incentive Awards***

An executive achieving a minimum threshold payout under the Annual Incentive Award component of the Plan, could receive an additional Long-Term Incentive Award. Because no Annual Incentive Award was paid to any executive officer for 2005, there were no additional long-term incentive awards paid to any such officer.

***Stock Plan Awards***

Prior to year-end, and prior to anticipated changes in the accounting treatment of stock options, the Committee elected to make awards of non-qualified stock options under the Company's 2000 Incentive Stock Plan. These awards were made to a broad group of executives that included the Chief Executive Officer and all Named Executive Officers, in recognition of the overall favorable performance of the Company. The awards made to the Named Executive Officers and to the Chief Executive Officer were set at levels the Committee believes reflect the individual performance and relative importance of each executive officer to the Company's performance. Such awards also reflect the Committee's intent that a significant portion of each executive's compensation should be linked to growth in the Company's share price.

***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.

Executive officers may elect to contribute a limited amount of their compensation to the qualified plan and to receive a matching Company contribution limited by a formula set forth in the Plan of up to 3% of their compensation. Participants in the non-qualified plan may make deferrals into that plan (up to 90% of total compensation), and also may receive contributions from the Company equal to a percentage (up to 3%) of their compensation in excess of certain levels, and may receive contributions from the Company equal to a percentage of their compensation, based primarily on the Company's return on equity.

**CEO Compensation**

The Chief Executive Officer's compensation in 2005 included his base salary, stock options, retirement plan and other customary benefits. The factors and criteria upon which such compensation was based are similar to those applied to the Company's other executive officers, as described above.

**THE COMPENSATION COMMITTEE:**

Lowry F. Kline, Chairman

John W. Murrey, III

Walter W. Hubbard

**EXECUTIVE COMPENSATION INFORMATION**

The following table sets forth the annual and long-term compensation during the last three fiscal years for (i) the Company's Chief Executive Officer, and (ii) the four other most highly compensated executive officers who earned in excess of \$100,000 during 2005 and who were serving as executive officers of the Company at December 31, 2005 (the "Named Executive Officers"):

**SUMMARY COMPENSATION TABLE**

**Name and Principal Position**