

# **The Dixie Group, Inc.**

## **Audit Committee Charter**

### **Statement of Policy**

The Audit Committee (“Committee”) shall provide assistance to the Board of Directors (“Board”) in fulfilling its responsibility with respect to the Company’s financial statements and the financial reporting process, the system of internal accounting and financial controls, the internal audit function, the annual independent audit of the Company’s financial statements, and compliance with legal and regulatory requirements. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee, the independent auditors, and management of the Company. The Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the power to retain outside counsel or other experts for this purpose.

### **Committee Membership**

The Committee shall consist of at least three independent members of the Board. Independent members of the Board are non-officer or associate members who meet all of the requirements for “independence” set forth in Section 10A(m) of the Securities Exchange Act of 1934 (as added by the Sarbanes-Oxley Act of 2002 (the “Act”) or as thereafter amended) and in any rules of the Securities and Exchange Commission (“SEC”) promulgated thereunder. Additionally, such members must be free of any relationship with the Company that the Board believes may interfere with the exercise of independent judgment. In addition to and not in limitation of the foregoing, the following persons shall not be considered independent:

- (a) A director who has been employed by the Company or any of its affiliates during the current year of determination or in any of the three years prior to such determination;
- (b) A director who accepts any consulting, advisory, or other compensatory fee, or any other fee whatsoever, from the Company or any of its affiliates during the fiscal year prior to such determination, other than compensation for Board service, benefits under a tax-qualified retirement plan or non-discriminatory compensation plan;
- (c) A director who is a member of the immediate family of an individual who is, or has been in any of the three years prior to such determination, employed by the Company or any of its affiliates as an executive officer. Immediate family includes a person’s spouse, parents, children, siblings, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law and anyone who resides in such person’s home;
- (d) A director who is a partner in, or a controlling shareholder or an executive officer of, any for-profit business organization to which the Company made, or from which the Company received, payments (other than those arising solely from investments in the Company’s securities) that exceed 5% of the Company’s or business organization’s consolidated gross revenues for that year, or \$200,000, whichever is more, in any of the three years prior to such determination; and

(e) A director who is employed as an executive of another entity where any of our executives serves on that other entity's Compensation Committee.

Committee members should have:

- (1) Knowledge of the primary industries in which the Company operates;
- (2) The ability to read and understand fundamental financial statements, including the balance sheet, income statement, statements of cash flow and key performance indicators; and
- (3) The ability to understand key business and financial risks and related controls and control processes.

Committee appointments, including that of the chairman shall be approved by the full Board. At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. To the extent required by Section 407 of the Act and subject to the ability of the Company to obtain a qualified Board member, at least one Committee member shall be a "financial expert" within the definition of Section 407 of the Act and the rules and regulations of the SEC promulgated thereunder.

## **Responsibilities and Processes**

**Financial Reporting Process.** The primary responsibilities of the Committee are to oversee the Company's financial reporting process on behalf of the Board and to report the results of its activities to the Board. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements. The Committee should strive to foster an overall corporate tone that facilitates quality financial reporting, sound business risk practices and ethical behavior.

## **Specific Responsibilities**

The Committee shall carry out the following responsibilities.

- (1) It shall have the ultimate authority and responsibility to review and select, evaluate and replace the independent auditors to be employed by the Company and its subsidiaries. It shall be responsible for ensuring the independence of the independent auditors. It shall be responsible for negotiating and establishing the compensation to be paid to the independent auditors and for resolving any disagreements between the Company's management and the auditors regarding the Company's financial reporting.
- (2) It shall meet with and review with the independent auditors, internal auditors and management, as appropriate, all of the following matters:

- (a) The overall scope and plans for the audit including the staffing and cost thereof. The Committee shall obtain a written statement describing all relationships between the independent auditors and the Company as required by generally accepted auditing standards, which statement shall disclose any relationships or services performed that may impact the objectivity and independence of the auditor.
  - (b) The adequacy and effectiveness of the accounting and financial controls of the Company, including the Company's critical accounting policies and any related material estimates used in the preparation of the financial statements, as well as its systems for financial reporting and for monitoring and managing business risks, and legal and ethical compliance programs.
  - (c) Any recommendations for improvement of such policies, controls or procedures, or other areas where new or more detailed policies, controls or procedures are desirable.
  - (d) The annual financial statements included in the Company's Annual Report on Form 10-K and report of the independent auditors thereon, any significant changes or audit adjustments required by the independent auditors, any disputes or disagreements with management that occurred during the course of the audit, any restrictions on or changes in the scope of the audit or access to information requested in connection therewith, any difficulties encountered in performing the audit, and any other matters related to the audit brought to the attention of the Committee.
  - (e) The quarterly financial statements included in the Company's Quarterly Report on Form 10-Q and review thereof by the independent auditors.
  - (f) The consistency of the Company's accounting policies and their application, the reasonableness of significant estimates, judgments and uncertainties reflected in the financial statements, the overall clarity, completeness and quality thereof, changes to significant accounting policies and methods, the selection of new accounting policies and any unusual items in the financial statements.
  - (g) Any evaluations or comments with respect to the Company's financial, accounting, and auditing personnel, and the degree of cooperation that the independent auditors received during the course of the audit.
- (4) It shall provide a report in the Company's annual proxy statement stating that it has reviewed and discussed the audited financial statements with management, discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (or any successor thereto), received from and discussed with the independent auditors disclosures regarding the independence of the auditors required by Independent Standards Board Standard No. 1 (or any successor thereto), and whether it recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K.

(5) It shall review and approve all non-audit services permitted to be performed by the independent auditors, and, if approved, provide appropriate disclosures of such non-audit services.

(6) It shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding any public disclosure, accounting, internal controls or auditing matters and (b) the confidential, anonymous submission by Company employees of concerns regarding any of such matters.

(7) Periodically review and assess the adequacy of this Charter and recommend any proposed changes to the Board for approval.

(8) Perform any other duties and responsibilities expressly delegated to the Committee by the Board from time to time relating to the governance of the Company.

(9) If necessary or desirable it shall retain independent professional advice or independent counsel on any matter within the scope of its duties, with the reasonable fees and expenses of any such independent counsel or advisors to be paid by the Company.