



T H E   D I X I E   G R O U P

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**THE DIXIE GROUP REPORTS IMPROVED SECOND QUARTER RESULTS**

**CHATTANOOGA, Tenn. (August 1, 2005)** -- The Dixie Group, Inc. (Nasdaq/NM:DXYN) today reported financial results for the second quarter and six months ended June 25, 2005. For the second quarter, income from continuing operations was \$3,584,000, or \$0.28 per diluted share, compared with income from continuing operations of \$3,486,000, or \$0.27 per diluted share, for the second quarter of 2004. Sales for the second quarter of 2005 were \$82,073,000, up 16% from sales of \$70,818,000 in the year-earlier quarter.

For the first six months of fiscal 2005, income from continuing operations was \$5,456,000, or \$0.43 per diluted share, compared with income from continuing operations of \$5,463,000, or \$0.43 per diluted share, for the first half of 2004. Sales for the first six months of 2005 were \$154,107,000, up 14% from sales of \$135,221,000 in the prior-year period.

Commenting on the results, Daniel K. Frierson, chairman and chief executive officer, said, "While we are pleased that our revenue grew 16% and operating income improved 13%, higher interest expense and lower other income resulted in income from continuing operations that was only slightly ahead of the second quarter last year. The improved revenue reflected an 18% year-over-year increase in carpet sales for the second quarter and first six months of 2005. Sales of our residential carpet grew 19% and our commercial carpet sales rose 17% during these periods.

"Gross profit and operating income dollars improved in the second quarter and first half of 2005 as a result of higher sales volume; however, as a percentage of sales, gross profit and operating income were lower in 2005 due to higher costs for raw materials, energy and manufacturing. Although we increased prices to offset higher raw material and energy expenses, there was a significant timing lag in this implementation, but we believe these increases are now in place.

"During April 2005, order entries in our Masland Residential, Masland Commercial and Dixie Home businesses increased 51% over the prior-year levels. This unusual escalation in business activity increased complexities and created a number of operational issues that resulted in fewer shipments from inventory, longer lead times, and greater difficulties in shipping on time. In response, we added staff, lengthened operating schedules, and accelerated our move into a new distribution facility. As a result, manufacturing costs were affected by unusually high amounts of overtime, staffing and training expense, and the costs associated with the move of inventory and staff to our new distribution center. LIFO inventory liquidations that increased prior-year gross profit by 0.4% for the second quarter and 1% for the first six months also affected the year-over-year comparisons.

"Interest expense increased approximately \$500,000 in the second quarter 2005 compared with the same period in 2004, principally due to market gains related to an interest rate hedge that reduced interest expense in the year-earlier period.

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"Our order entry dropped to levels below our expectations in May, June and July due to extended delivery dates; nevertheless, order entries remained above last year. We have been able to increase inventories so that we are now shipping from inventory at historical rates, and we are seeing improvements that make us optimistic about a strong fall season," Frierson concluded.

Results of discontinued operations reflected a loss of \$95,000, or \$0.01 per diluted share, for the second quarter of 2005, compared with a loss of \$38,000, or less than \$0.01 per diluted share, for the second quarter of 2004. For the first six months of 2005, discontinued operations reflected a gain of \$327,000, or \$0.02 per diluted share, compared with a loss of \$298,000, or \$0.02 per diluted share, in the year-earlier period. Including discontinued operations, the Company reported net income of \$3,489,000, or \$0.27 per diluted share, for the second quarter of 2005, compared with net income of \$3,448,000, or \$0.27 per diluted share, for the second quarter of 2004. For the first six months of 2005, net income was \$5,783,000, or \$0.45 per diluted share, compared with net income of \$5,165,000, or \$0.41 per diluted share, in the 2004 period.

A listen-only Internet simulcast and replay of Dixie's conference call may be accessed with appropriate software at the Company's web site or at "www.earnings.com". The simulcast will begin at approximately 11:00 a.m. Eastern Time on August 1, 2005. A replay will be available approximately two hours later and will continue for approximately 30 days. If Internet access is unavailable, a listen-only telephonic conference will be available by dialing (719) 457-2649 at least ten minutes before the appointed time. A seven-day telephonic replay will be available two hours after the call ends by dialing (719) 457-0820 and entering 2165410 when prompted for the access code.

The Dixie Group "www.thedixiegroup.com" is a leading marketer and manufacturer of carpet and rugs to higher-end residential and commercial customers through the Fabrica International, Masland Carpets and Dixie Home brands.

*Statements in this news release, which relate to the future, are subject to risk factors and uncertainties that could cause actual results to differ materially from those indicated in such forward-looking statements. Such factors include the levels of demand for the products produced by the Company. Other factors that could affect the Company's results include, but are not limited to, raw material and transportation costs related to petroleum prices, the cost and availability of capital, and general economic and competitive conditions related to the Company's business. Issues related to the availability and price of energy may adversely affect the Company's operations. Additional information regarding these and other risk factors and uncertainties may be found in the Company's filings with the Securities and Exchange Commission.*

## THE DIXIE GROUP, INC.

### Consolidated Condensed Statements of Income

(unaudited; in thousands, except earnings per share)

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 25,<br>2005   | June 26,<br>2004 | June 25,<br>2005 | June 26,<br>2004 |
| NET SALES   | \$ 82,073          | \$ 70,818        | \$ 154,107       | \$ 135,221       |
| Cost of sales   | 55,925             | 46,151           | 105,916          | 89,032           |
| GROSS PROFIT  | 26,148             | 24,667           | 48,191           | 46,189           |
| Selling and administrative expenses                       | 19,075             | 18,476           | 36,875           | 36,062           |
| Other operating income                                    | (139)              | (66)             | (224)            | (84)             |
| Other operating expense                                   | 277                | 123              | 313              | 197              |
| Operating income  | 6,935              | 6,134            | 11,227           | 10,014           |
| Interest expense  | 1,403              | 911              | 2,805            | 2,405            |
| Other income  | (141)              | (309)            | (233)            | (1,101)          |
| Other expense   | 27                 | 4                | 46               | 4                |
| Income from continuing operations before income taxes     | 5,646              | 5,528            | 8,609            | 8,706            |
| Income tax provision                                      | 2,062              | 2,042            | 3,153            | 3,243            |
| Income from continuing operations                         | 3,584              | 3,486            | 5,456            | 5,463            |
| Loss from discontinued operations, net of tax             | (95)               | (38)             | (507)            | (377)            |
| Income on disposal of discontinued operations, net of tax | ---                | ---              | 834              | 79               |
| NET INCOME  | \$ 3,489           | \$ 3,448         | \$ 5,783         | \$ 5,165         |
| BASIC EARNINGS (LOSS) PER SHARE:                          |                    |                  |                  |                  |
| Continuing operations                                     | \$ 0.29            | \$ 0.28          | \$ 0.44          | \$ 0.45          |
| Discontinued operations                                   | (0.01)             | ---              | (0.04)           | (0.03)           |
| Disposal of discontinued operations                       | ---                | ---              | 0.07             | 0.01             |
| Net income  | \$ 0.28            | \$ 0.28          | \$ 0.47          | \$ 0.43          |
| DILUTED EARNINGS (LOSS) PER SHARE:                        |                    |                  |                  |                  |
| Continuing operations                                     | \$ 0.28            | \$ 0.27          | \$ 0.43          | \$ 0.43          |
| Discontinued operations                                   | (0.01)             | ---              | (0.04)           | (0.03)           |
| Disposal of discontinued operations                       | ---                | ---              | 0.06             | 0.01             |
| Net income  | \$ 0.27            | \$ 0.27          | \$ 0.45          | \$ 0.41          |
| Weighted-average shares outstanding:                      |                    |                  |                  |                  |
| Basic   | 12,326             | 12,111           | 12,298           | 12,036           |
| Diluted   | 12,805             | 12,583           | 12,829           | 12,502           |

## THE DIXIE GROUP, INC.

### Consolidated Condensed Balance Sheets

(in thousands)

|   | June 25,<br>2005  | December 25,<br>2004 |
|---|-------------------|----------------------|
| ASSETS  | (Unaudited)       |                      |
| Current Assets                                    |                   |                      |
| Accounts receivable, net                          | \$ 35,218         | \$ 33,276            |
| Inventories                                       | 68,164            | 57,992               |
| Other   | 10,975            | 15,286               |
| Total Current Assets                              | 114,357           | 106,554              |
| Net Property, Plant and Equipment                 | 86,137            | 76,337               |
| Goodwill  | 55,604            | 55,604               |
| Other Assets                                      | 10,290            | 9,782                |
| <b>TOTAL ASSETS</b>                               | <b>\$ 266,388</b> | <b>\$ 248,277</b>    |
| LIABILITIES AND STOCKHOLDERS' EQUITY              |                   |                      |
| Current Liabilities                               |                   |                      |
| Accounts payable and accrued expenses             | \$ 43,393         | \$ 38,788            |
| Current portion of long-term debt                 | 9,313             | 9,156                |
| Total Current Liabilities                         | 52,706            | 47,944               |
| Long-Term Debt                                    |                   |                      |
| Senior indebtedness                               | 48,014            | 36,538               |
| Capital lease obligations                         | 4,428             | 5,539                |
| Convertible subordinated debentures               | 22,162            | 24,737               |
| Other Liabilities                                 | 12,949            | 13,087               |
| Deferred Income Taxes                             | 8,281             | 9,595                |
| Stockholders' Equity                              | 117,848           | 110,837              |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ 266,388</b> | <b>\$ 248,277</b>    |