



T H E D I X I E G R O U P

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THE DIXIE GROUP REPORTS SECOND QUARTER, SIX-MONTH RESULTS

CHATTANOOGA, Tenn. (July 31, 2007) -- The Dixie Group, Inc. (NASDAQ:DXYN) today reported financial results for the second quarter and six months ended June 30, 2007. For the second quarter of 2007, income from continuing operations was \$2,556,000, or \$0.20 per diluted share, compared with income from continuing operations of \$1,028,000, or \$0.08 per diluted share, for the second quarter of 2006. Sales for the second quarter of 2007 were \$84,403,000, down 4% from sales of \$88,046,000 in the year-earlier quarter.

For the first six months of fiscal 2007, income from continuing operations was \$2,793,000, or \$0.21 per diluted share, compared with income from continuing operations of \$1,953,000, or \$0.15 per diluted share, for the first half of 2006. Sales for the first six months of 2007 were \$158,893,000, down 5% from sales of \$167,219,000 in the prior-year period.

During the second quarter of 2006, the Company terminated a legacy defined benefit pension plan. Expenses related to the pension plan termination reduced income from continuing operations by \$2,057,000 after-tax, or \$0.16 per diluted share, for the second quarter and first six months of fiscal 2006.

Commenting on the results, Daniel K. Frierson, chairman and chief executive officer, said, "Our second quarter results reflected a 5% decline in sales of carpet products, compared with the year earlier period; however, our sales continued to outperform the carpet industry, where sales were off almost 8%.

"Despite lower revenue and higher raw material costs, our gross margins as a percentage of net sales were 31.1%, the highest we have achieved since the second quarter of 2005. We attribute the gross margin improvement to a better product mix, improved production quality and manufacturing efficiencies. Raw material costs increased in early June of this year, and we raised our selling prices to recoup this higher cost. We expect the effect of higher selling prices will be felt during the third and fourth quarters of this year.

"Sales of our new modular/carpet tile products continue to be well received in the marketplace. Although sales of these products grew over 35% from the first quarter of 2007, this level was below our expectations. Our order entry experience makes us optimistic that growth rates will accelerate as the year progresses. The negative impact of this start-up operation on our second quarter results was approximately \$300,000. We continue to believe this new business will begin to make a positive contribution to our operating results before the end of the year.

"The outlook for our commercial business continues to be favorable. Sales in this business segment increased over 7% in the second quarter versus 2% for the industry and our year-earlier sales. Order entry comparisons in July indicate that this business is strengthening. Despite softness in the industry's residential markets, we have continued to make investments to grow our business and develop new products. The placement with retailers of our new Dixie Home and Office collection of Stainmaster® commercial products has met our expectations, and we began delivering samples of these new items to our customers in May. Masland's and Fabrica's new wool product collections are on schedule to reach the marketplace later this year. We are cautiously optimistic that conditions will improve during the last half of the year in the residential carpet markets we serve."

The loss from discontinued operations was \$118,000, or \$0.01 per diluted share, for the second quarter of 2007, compared with a loss of \$84,000, or \$0.01 per diluted share, for the second quarter of 2006. For the first six months of 2007, the loss from discontinued operations was \$184,000, or \$0.01 per diluted share, compared with a loss of \$174,000, or \$0.01 per diluted share, in the year-earlier period. Including discontinued operations, the Company reported net income of \$2,438,000, or \$0.19 per diluted share, for the second quarter of 2007, compared with net income of \$944,000, or \$0.07 per diluted share, for the second quarter of 2006. For the first six months of 2007, net income was \$2,609,000, or \$0.20 per diluted share, compared with net income of \$1,779,000, or \$0.14 per diluted share, in the 2006 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 July 31, 2007. 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 (913) 981-5533 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 4936406 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 Operations
(unaudited; in thousands, except earnings per share)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| NET SALES | \$ 84,403 | \$ 88,046 | \$ 158,893 | \$ 167,219 |
| Cost of sales | 58,140 | 63,296 | 110,811 | 120,271 |
| GROSS PROFIT | 26,263 | 24,750 | 48,082 | 46,948 |
| Selling and administrative expenses | 20,543 | 18,795 | 40,321 | 38,011 |
| Other operating income | (82) | (228) | (110) | (570) |
| Other operating expense | 144 | 130 | 269 | 286 |
| Defined benefit pension plan termination expenses | --- | 3,249 | --- | 3,249 |
| OPERATING INCOME | 5,658 | 2,804 | 7,602 | 5,972 |
| Interest expense | 1,669 | 1,944 | 3,226 | 3,711 |
| Other income | (22) | (95) | (37) | (108) |
| Other expense | 13 | 50 | 31 | 54 |
| Income from continuing operations before income taxes | 3,998 | 905 | 4,382 | 2,315 |
| Income tax provision (benefit) | 1,442 | (123) | 1,589 | 362 |
| Income from continuing operations | 2,556 | 1,028 | 2,793 | 1,953 |
| Loss from discontinued operations, net of tax | (118) | (84) | (184) | (174) |
| NET INCOME | \$ 2,438 | \$ 944 | \$ 2,609 | \$ 1,779 |
| BASIC EARNINGS (LOSS) PER SHARE: | | | | |
| Continuing operations | \$ 0.20 | \$ 0.08 | \$ 0.22 | \$ 0.15 |
| Discontinued operations | (0.01) | (0.01) | (0.02) | (0.01) |
| Net income | \$ 0.19 | \$ 0.07 | \$ 0.20 | \$ 0.14 |
| DILUTED EARNINGS (LOSS) PER SHARE: | | | | |
| Continuing operations | \$ 0.20 | \$ 0.08 | \$ 0.21 | \$ 0.15 |
| Discontinued operations | (0.01) | (0.01) | (0.01) | (0.01) |
| Net income | \$ 0.19 | \$ 0.07 | \$ 0.20 | \$ 0.14 |
| Weighted-average shares outstanding: | | | | |
| Basic | 12,828 | 12,689 | 12,799 | 12,660 |
| Diluted | 13,010 | 12,943 | 12,993 | 12,939 |

THE DIXIE GROUP, INC.
Consolidated Condensed Balance Sheets
(in thousands)

| | June 30, 2007 | December 30, 2006 |
|---|--------------------|----------------------|
| ASSETS | <i>(Unaudited)</i> | |
| Current Assets | | |
| Cash and cash equivalents | \$ 150 | \$ 538 |
| Accounts receivable, net | 38,686 | 30,922 |
| Inventories | 77,405 | 69,600 |
| Other | 10,739 | 7,652 |
| Total Current Assets | 126,980 | 108,712 |
| Net Property, Plant and Equipment | 99,581 | 98,398 |
| Goodwill | 56,852 | 56,960 |
| Other Assets | 14,787 | 13,604 |
| TOTAL ASSETS | \$ 298,200 | \$ 277,674 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 36,313 | \$ 27,923 |
| Current portion of long-term debt | 8,231 | 7,663 |
| Total Current Liabilities | 44,544 | 35,586 |
| Long-Term Debt | | |
| Senior indebtedness | 67,353 | 57,780 |
| Capital lease obligations | 3,254 | 3,937 |
| Convertible subordinated debentures | 17,162 | 19,662 |
| Deferred Income Taxes | 11,902 | 11,697 |
| Other Liabilities | 14,546 | 13,334 |
| Stockholders' Equity | 139,439 | 135,678 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 298,200 | \$ 277,674 |