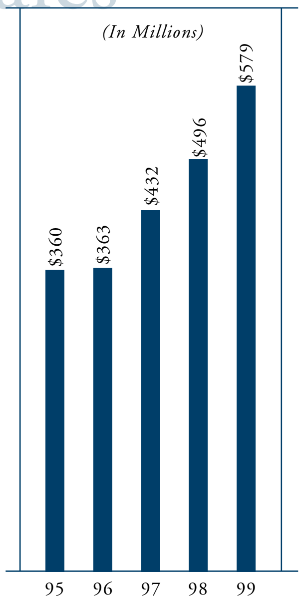
Financial Highlights

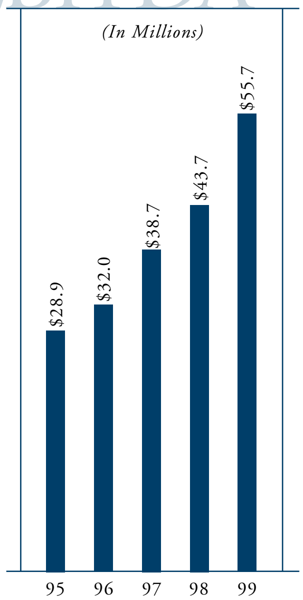
(dollars in thousands, except per share data)

	Years Ended		
	December 25, 1999	December 26, 1998	December 27, 1997
FOR THE YEAR			
Net sales	$ 579,466	$ 496,412	$ 432,086
Income from continuing operations	12,399	9,108	8,812
Income from continuing operations per share:			
Basic	$ 1.09	$ 0.81	$ 0.78
Diluted	1.06	0.77	0.75
Weighted average shares outstanding:			
Basic	11,355,175	11,267,418	11,228,519
Diluted	11,681,650	11,809,281	11,765,323
AT YEAR-END			
Total assets	$ 391,901	$ 374,646	$ 386,614
Long-term debt:			
Senior indebtedness	60,961	64,466	68,528
Subordinated notes	45,238	50,000	50,000
Convertible subordinated debentures	37,237	39,737	42,282
Stockholders' equity	117,910	99,990	121,244
Shares outstanding:			
Common Stock	10,752,448	10,628,729	10,598,319
Class B Common Stock	795,970	735,228	735,228
Total shares outstanding	11,548,418	11,363,957	11,333,547

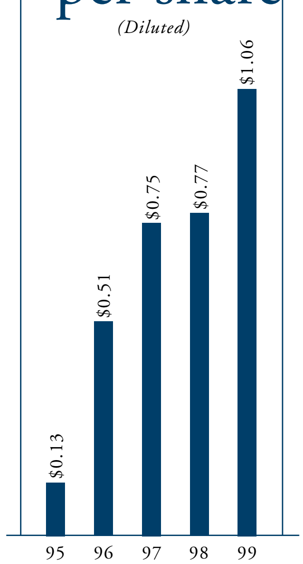
Sales



EBITDA



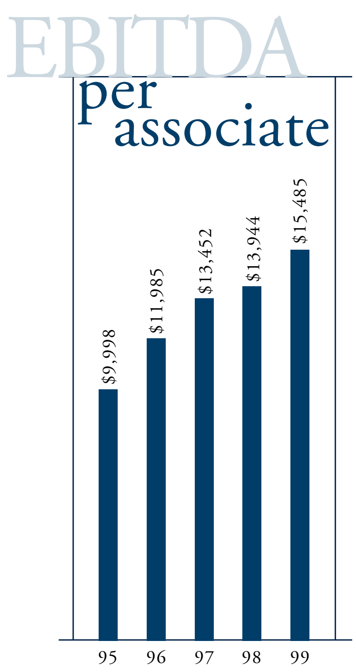
Earnings per share

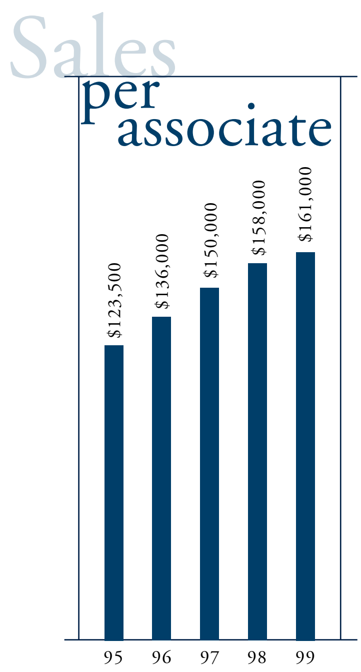


All data from continuing operations.

Financial Review

CONTENTS:





All data from continuing operations.

Management's Discussion and Analysis of
Results of Operations and Financial Condition

RESULTS OF OPERATIONS

During the three years ended December 25, 1999, the Company acquired the operating assets and business of Danube Carpet Mills, Inc., a producer of carpet for the factory-built housing industry, General Felt Industries' Dalton, Georgia needlebond and artificial turf operations, Ideal Fibers filament yarn assets, Multitex Corporation of America, Inc.'s yarn and tufted carpet business (Multitex) and the graphic carpet business of Graphic Tec, Inc. All of these acquisitions were accounted for as purchase business combinations and their results are included in the Company's consolidated financial statements subsequent to their respective acquisitions.

The Company decided to discontinue its textile knit fabric, apparel and specialty yarn business segments in fiscal 1998 and disposed of these operations in late 1998 and 1999. Results of the discontinued textile operations are segregated from the Company's continuing floorcovering operations and accounted for as discontinued operations for all periods presented. Results from the discontinued operations and disposal were income of $4.8 million, or $.41 per diluted share in 1999, a loss of $30.1 million, or $2.55 per diluted share in 1998 and income of $2.8 million, or $.24 per diluted share in 1997.

The Company's floorcovering operations are segmented around product similarities between its carpet manufacturing and floorcovering base materials businesses. Its carpet manufacturing operations supply carpet and rugs to the factory-built housing and recreational vehicle markets through Carriage Carpets, to consumers through major retailers under the Bretlin, Globaltex and Alliance Mills names and to higher-end residential and commercial customers serviced by Masland Carpets. Its floorcovering base material operations supply extruded plied and heat-set filament and spun yarns to the Company's carpet manufacturing segment and, to a lesser extent, to specialty carpet yarn markets through Candlewick Yarns.

The compounded annual growth rates of the Company's floorcovering business were approximately 13% for sales, 24% for EBIT (earnings before interest and taxes) and 24% for income from continuing operations for the five year period ending December 25, 1999. Business combinations accounted for a significant portion of the growth in sales and earnings.

1999 Compared to 1998 – Sales increased 17% to $579.5 million in 1999 compared to 1998. The significant increase in sales is principally attributable to the acquisition of the carpet and yarn processing operations of Multitex in January 1999, expansion into extruded filament yarn in late 1998 and increased sales volume of residential and commercial products at Masland and Bretlin. These improvements more than offset a 5% decline in Carriage's sales. Carriage sales declined due to softness in the factory-built housing market, which is expected to continue through the first half of 2000. Sales to external customers increased 14% for carpet manufacturing and 30% for floorcovering base materials.

In the year 2000 the Company anticipates that a higher portion of Candlewick's yarn production will be utilized by the Company's carpet manufacturing operations. Additionally, a number of the Company's carpet yarn sales programs are being converted from a full package basis to a conversion basis in which the customer supplies fiber for yarn processing. Accordingly, the Company anticipates a significant reduction in sales of base materials to external customers as a result of these changes.

As a percentage of sales, 1999 gross margins increased 1.2 percentage points to 21.2% and selling expenses increased 0.8 percentage points to 15.1% compared with 1998. These increases are principally attributable to the growth in the carpet manufacturing's home center and high-end residential and commercial businesses and the higher cost required to service these markets.

The profit performance measure of the Company's business segments is internal EBIT (earnings before interest, taxes, cost of the Company's A/R sales program and other non-segment income). Internal EBIT for 1999 was $30.0 million, or 6.6% of sales for carpet manufacturing and $3.5 million, or 2.8% of sales for floorcovering base materials. The comparable 1998 internal EBIT was $24.5 million, or 6.1% of sales for carpet manufacturing and $3.1 million, or 3.3% of sales for floorcovering base materials. The improved carpet manufacturing internal EBIT is principally attributable to the sales growth and manufacturing cost reductions. During the last half of 1999, floorcovering base materials began a significant expansion and re-alignment of its facilities to increase yarn processing capacity and lower cost. The costs associated with this expansion and re-alignment negatively impacted margins of this business. Such costs are anticipated to intensify until the project is completed in the first half of 2000. Additionally, a number of the Company's suppliers, whose products are petroleum based, have announced their desire to increase prices. Where possible, the Company intends to pass through raw material price increases to its customers. However, there can be no assurance that such increases can be passed through and significant increases in the cost of raw materials could negatively affect future results.

The decrease in "Other expense – net" is due primarily to interest income related to a note received in connection with the sale of the Company's textile specialty yarn business.

Interest expense increased $2.8 million in 1999 compared with 1998 due to higher average debt resulting from the January 1999 acquisitions and working capital to support sales growth. Interest expense as a percentage of sales was 2.3% in 1999 and 2.0% in 1998.

The effective income tax rate increased to 39.1% in 1999 from 38.0% in 1998 as a result of the phase out of the benefit of lower tax brackets for corporations with pre-tax income in excess of $10.0 million.

1998 Compared to 1997 - Sales increased 15% to $496.4 million in 1998 compared with 1997. Sales improved 18% in the Company's carpet manufacturing segment and 3% for floorcovering base materials. Growth in the carpet manufacturing segment was attributable to increased unit volume that resulted from the acquisition of the needlebond business and artificial turf business of General Felt Industries in late fiscal 1997 and strong growth in higher-end residential and commercial products.

Internal EBIT was $24.5 million, or 6.1% of sales for carpet manufacturing and $3.1 million, or 3.3% of sales for floorcovering base materials. The comparable 1997 internal EBIT was $21.3 million, or 6.2% of sales for carpet manufacturing and $3.3 million, or 3.6% of sales for floorcovering base materials. The increase in carpet manufacturing internal EBIT is principally attributable to sales growth. Cost associated with facilities expansion and selling expenses in support of current and anticipated future growth negatively impacted 1998 earnings.

Interest expense increased $1.3 million in 1998 compared with 1997. The increase resulted from additional borrowing to support the Company's growth. Interest expense, as a percentage of sales, was 2.0% in 1998 and 1997.

LIQUIDITY AND CAPITAL RESOURCES

During the three year period ended December 25, 1999, cash flows generated from operating activities were $120.1 million. These funds were supplemented by $69.7 million from asset sales, including $52.1 million from sale of fixed assets and inventories in 1999, and $57.4 million from borrowings under the Company's credit lines. Funds were used to finance the Company's operations, $109.1 million of capital expenditures, $94.5 million for business acquisitions and $31.8 million to retire long-term debt.

In October 1993, the Company entered into a seven year agreement under which it sold a $45.0 million undivided interest in a revolving pool of its trade accounts receivable. The sale is reflected as a reduction of accounts receivable in the Company's balance sheets. No further interest has been sold under this agreement subsequent to the original sale. The cost of this program was fixed at 6.08% per annum of the undivided interest sold plus administrative fees typical in such transactions. In addition, the Company is generally at risk for credit losses associated with sold receivables and provides for such losses in the Company's financial statements. This agreement expires in October 2000. The Company is currently in the process of replacing this facility with an accounts receivable sales facility where costs will vary with interest rates. The Company anticipates completion of an agreement for the replacement facility by mid year 2000.

At December 25, 1999, the Company's debt consisted of $39.7 million of convertible subordinated debentures, $50.0 million of subordinated notes, $36.3 million of senior term loans and $30.1 million of credit line indebtedness, principally under the Company's senior credit agreement. Annual payments for the convertible subordinated debentures, the subordinated notes and the senior term loan are approximately $13.6 million in 2000 and will average approximately $13.8 million for each of the succeeding four years. The Company's unsecured credit agreement was replaced in March 1998 and provides for a revolving credit of up to $100.0 million through a five-year commitment period and a $60.0 million seven-year term loan. Under the terms of the credit agreement, borrowing capacity is permanently reduced by 50% of the net cash proceeds from certain significant asset sales. Accordingly, the term loan has been reduced by $14.0 million as a result of asset sales in 1999.

Interest rates available under the credit agreement may be selected by the Company from a number of options which effectively allow for borrowing at rates equal to or lower than the greater of the lender's prime rate or federal funds rate plus 0.5%. At year-end, the available unused borrowing capacity under the Company's credit agreements (including amounts available under short-term credit lines) was $74.8 million.

The Company's long-term debt and credit agreements contain financial covenants relating to minimum net worth, the ratio of debt to capitalization, payment of dividends and certain other financial ratios. Currently, payment of dividends is limited to 50% of aggregate consolidated net income subsequent to December 25, 1999.

Capital expenditures for the year 2000 are expected to be approximately $45.0 million and to exceed depreciation and amortization by approximately $20.0 million. The primary capital expenditure focus for 2000 will be to expand and optimize extrusion and yarn capacity, build a distribution center to improve service for the Company's home center business and expand the Company's carpet operations.

Availability under the Company's existing debt arrangements, the anticipated replacement of the accounts receivable sale arrangement and operating cash flows are expected to be adequate to finance the Company's normal liquidity requirements. However, significant additional cash expenditures beyond normal requirements could require the supplementation or replacement of the Company's credit facilities. There can be no assurance that any such additional credit will be available on terms as favorable as the Company's current credit facilities.

The Company's balance sheet contains approximately $52.5 million of unamortized goodwill representing 13.4% of total assets and 44.5% of total equity. All goodwill is the result of acquisitions made in connection with the Company's floorcovering business. The Company's analysis of goodwill did not identify factors related to the estimated future cash flows of the businesses acquired that would appear to limit the life of the goodwill and is therefore being amortized over 40 years in accordance with Accounting Principles Board Opinion No. 17: Intangible Assets.

YEAR 2000 SYSTEMS ISSUES

The Company experienced no significant system related year 2000 conversion issues. The Company believes that it identified all information technology systems that could be impacted by the year 2000 issue. Incremental costs associated with all aspects of year 2000 compliance and remediation were not material.

FORWARD - LOOKING INFORMATION

This Annual Report to Shareholders may contain certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. These forward-looking statements are identified by their use of terms or phrases such as "expects," "estimates," "projects," "believes," "anticipates," "intends," and similar terms and phrases. Such terms or phrases relate to, among other matters, the Company's future financial performance, business prospects, growth, strategies, or liquidity. Forward-looking statements involve a number of risks and uncertainties. The following important factors may affect the future results of The Dixie Group, Inc. and could cause those results to differ materially from its historical results or those expressed in the forward-looking statements. These risks include, among others, market risks relating to interest rates, raw material prices, the loss of a significant customer or group of customers, materially adverse changes in economic conditions generally in carpet, rug and floorcovering markets served by the Company and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Report of Independent Auditors

Board of Directors
The Dixie Group, Inc.

We have audited the accompanying consolidated balance sheets of The Dixie Group, Inc. as of December 25, 1999 and December 26, 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Dixie Group, Inc. at December 25, 1999 and December 26, 1998, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 25, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Chattanooga, Tennessee
February 15, 2000

Consolidated Balance Sheets

(dollars in thousands, except per share data)

	December 25, 1999	December 26, 1998
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 12,541	$ 2,815
Accounts receivable (less allowance for doubtful accounts of $1,831 for 1999 and $1,294 for 1998)	19,454	8,364
Inventories	104,042	72,671
Net assets held for sale	457	67,508
Other	14,471	14,810
TOTAL CURRENT ASSETS	150,965	166,168
PROPERTY, PLANT AND EQUIPMENT		
Land and improvements	5,829	5,329
Buildings and improvements	68,885	56,027
Machinery and equipment	233,052	204,346
	307,766	265,702
Less accumulated amortization and depreciation	(134,180)	(120,517)
NET PROPERTY, PLANT AND EQUIPMENT	173,586	145,185
INTANGIBLE ASSETS (less accumulated amortization of $6,190 for 1999 and $4,687 for 1998)	52,460	52,394
OTHER ASSETS	14,890	10,899
TOTAL ASSETS	$ 391,901	$ 374,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 53,590	$ 39,264
Accrued expenses	26,241	24,028
Accrued liabilities of discontinued operations	3,461	12,649
Current portion of long-term debt	13,460	9,645
TOTAL CURRENT LIABILITIES	96,752	85,586
LONG-TERM DEBT		
Senior indebtedness	60,961	64,466
Subordinated notes	45,238	50,000
Convertible subordinated debentures	37,237	39,737
TOTAL LONG-TERM DEBT	143,436	154,203
OTHER LIABILITIES	10,295	11,869
DEFERRED INCOME TAXES	23,508	22,998
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued – 14,264,277 shares for 1999 and 14,071,629 shares for 1998	42,793	42,215
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued – 795,970 shares for 1999 and 735,228 shares for 1998	2,388	2,206
Common Stock subscribed – 620,516 shares for 1999 and 573,463 shares for 1998	1,861	1,720
Additional paid-in capital	136,144	134,720
Stock subscriptions receivable	(5,456)	(3,719)
Unearned stock compensation	(489)	(716)
Retained earnings (deficit)	(2,659)	(19,850)
Accumulated other comprehensive income	(412)	(799)
	174,170	155,777
Less Common Stock in treasury at cost – 3,511,829 shares for 1999 and 3,442,900 shares for 1998	(56,260)	(55,787)
TOTAL STOCKHOLDERS' EQUITY	117,910	99,990
Commitments - Note L		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 391,901	$ 374,646

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations

(dollars in thousands, except per share data)

	Year Ended		
	December 25, 1999	December 26, 1998	December 27, 1997
NET SALES	$ 579,466	$ 496,412	$ 432,086
Cost of sales	456,360	397,004	345,416
GROSS PROFIT	123,106	99,408	86,670
Selling and administrative expenses	87,604	71,088	61,475
Other expense - net	2,081	3,357	2,283
INCOME BEFORE INTEREST AND TAXES	33,421	24,963	22,912
Interest expense	13,051	10,263	8,886
INCOME BEFORE INCOME TAXES	20,370	14,700	14,026
Income tax provision	7,971	5,592	5,214
INCOME FROM CONTINUING OPERATIONS	12,399	9,108	8,812
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	–	(1,853)	2,807
INCOME (LOSS) ON DISPOSAL OF DISCONTINUED OPERATIONS	4,792	(28,257)	–
NET INCOME (LOSS)	$ 17,191	$ (21,002)	$ 11,619
BASIC EARNINGS (LOSS) PER SHARE:			
Income from continuing operations	$ 1.09	$ 0.81	$ 0.78
Income (loss) from discontinued operations	–	(0.16)	0.25
Income (loss) on disposal of discontinued operations	0.42	(2.51)	–
Net income (loss)	$ 1.51	$ (1.86)	$ 1.03
DILUTED EARNINGS (LOSS) PER SHARE:			
Income from continuing operations	$ 1.06	$ 0.77	$ 0.75
Income (loss) from discontinued operations	–	(0.16)	0.24
Income (loss) on disposal of discontinued operations	0.41	(2.39)	–
Net income (loss)	$ 1.47	$ (1.78)	$ 0.99
DIVIDENDS PER SHARE:			
Common Stock	$ –	$ 0.15	$ –
Class B Common Stock	–	0.15	–

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(dollars in thousands)

	Year Ended December 25, 1999	Year Ended December 26, 1998	Year Ended December 27, 1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from continuing operations	$ 12,399	$ 9,108	$ 8,812
Income (loss) from discontinued operations	4,792	(30,110)	2,807
Net income (loss)	17,191	(21,002)	11,619
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization:			
Continuing operations	22,330	18,701	15,809
Discontinued operations	–	6,272	8,686
Provision (benefit) for deferred income taxes	2,045	(7,900)	3,993
Long - lived asset losses – discontinued operations	–	19,992	–
(Gain) loss on property, plant and equipment disposals	(160)	(56)	(211)
Changes in operating assets and liabilities, net of effects of business combinations:			
Accounts receivable	23,739	(6,017)	(14,821)
Inventories	(12,685)	2,196	26,361
Other current assets	(1,122)	21	(1,370)
Other assets	6,129	(1,518)	(2,600)
Accounts payable and accrued expenses	1,831	6,939	36
Accrued losses of discontinued operations	(9,188)	12,649	–
Other liabilities	(1,114)	4,167	1,444
NET CASH PROVIDED BY OPERATING ACTIVITIES	36,738	34,444	48,946
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sales of property, plant and equipment	52,097	13,078	4,556
Purchase of property, plant and equipment:			
Continuing operations	(35,327)	(33,363)	(19,183)
Discontinued operations	(4,385)	(9,482)	(7,336)
Cash payments in connection with business combinations	(32,714)	–	(61,744)
NET CASH (USED IN) INVESTING ACTIVITIES	(20,329)	(29,767)	(83,707)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in credit line borrowings	16,073	4,176	37,135
Payments under term loan facility	(20,654)	(3,625)	(2,500)
Payments on subordinated debentures	(2,500)	(2,545)	–
Dividends paid	–	(1,701)	–
Other	398	(15)	(14)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(6,683)	(3,710)	34,621
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,726	967	(140)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,815	1,848	1,988
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,541	$ 2,815	$ 1,848

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(dollars in thousands, except per share data)

	Common Stock and Class B Common Stock	Common Stock Subscribed	Additional Paid-In Capital	Other	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Common Stock In Treasury	Total Stockholders' Equity
BALANCE AT DECEMBER 28, 1996	$43,836	$ 1,348	$ 132,475	$ (2,190)	$ (8,766)	$ (2,668)	$ (55,485)	$ 108,550
Common Stock acquired for treasury - 30,127 shares							(268)	(268)
Common Stock sold under stock option and Employees' Stock Purchase Plan - 60,925 shares	183		250					433
Common Stock subscribed - 124,677 shares		374	868	(1,242)				
Stock subscription settled	77	(185)	(192)	300				
Restricted stock grants – 75,000 shares	225		750	(975)				
Amortization of restricted stock grants				81				81
Net income for the year					11,619			11,619
Other comprehensive income								
Change in additional minimum pension liability, net of tax of $530						829		829
Comprehensive income								12,448
BALANCE AT DECEMBER 27, 1997	44,321	1,537	134,151	(4,026)	2,853	(1,839)	(55,753)	121,244
Common Stock acquired for treasury - 2,901 shares							(34)	(34)
Common Stock sold under stock option and restricted stock grant plan - 22,759 shares	68		93					161
Common Stock issued upon conversion of convertible subordinated debentures - 1,552 shares	5		45					50
Common Stock subscribed - 60,986 shares		183	405	(588)				
Restricted stock grants - 9,000 shares	27		26	(53)				
Amortization of restricted stock grants				232				232
Net loss for the year					(21,002)			(21,002)
Other comprehensive income								
Change in additional minimum pension liability, net of tax of $533						1,040		1,040
Comprehensive income (loss)								(19,962)
Dividends – Common Stock and Class B Common Stock $.15 per share					(1,701)			(1,701)
BALANCE AT DECEMBER 26, 1998	44,421	1,720	134,720	(4,435)	(19,850)	(799)	(55,787)	99,990
Common Stock acquired for treasury - 68,929 shares							(473)	(473)
Common Stock sold under stock option and Employees' Stock Purchase Plan – 89,993 shares	270		318					588
Common Stock subscribed - 562,751 shares		1,688	3,184	(4,872)				
Stock subscriptions settled – 515,698 shares	490	(1,547)	(2,078)	3,135				
Amortization of restricted stock grants				227				227
Net income for the year					17,191			17,191
Other comprehensive income								
Change in additional minimum pension liability, net of tax of $247						387		387
Comprehensive income								17,578
BALANCE AT DECEMBER 25, 1999	$45,181	$ 1,861	$ 136,144	$ (5,945)	$ (2,659)	$ (412)	$ (56,260)	$ 117,910

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of The Dixie Group, Inc. and its wholly-owned subsidiaries (the "Company"). Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Discontinued Operations: The financial statements separately report discontinued operations and the results of continuing operations. Disclosures included herein pertain to the Company's continuing operations unless noted otherwise. A portion of interest cost not attributable to any specific operation of the Company is allocated to discontinued operations based on the ratio of net assets discontinued to the sum of consolidated net assets plus consolidated net assets plus consolidated debt (exclusive of debt attributable to specific operations).

Cash and Cash Equivalents: Cash and highly liquid investments with original maturities of three months or less when purchased are reported as cash equivalents. See Note D.

Credit and Market Risk: The Company sells floorcovering products and, prior to July 1999, sold textile/apparel products to a wide variety of manufacturers and retailers located primarily throughout the United States. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. An allowance for doubtful accounts is maintained at a level which management believes is sufficient to cover potential credit losses including potential losses on receivables sold (see Note D). The Company invests its excess cash in short-term investments and has not experienced any losses on those investments.

Inventories: Inventories are stated at the lower of cost or market. The last-in, first-out (LIFO) cost method was used for substantially all inventories at December 26, 1998. Inventories resulting from a business combination in 1999 comprised 21% of total inventories at December 25, 1999, and such investments are valued using the first-in, first-out (FIFO) cost method.

Inventories are summarized as follows:

	1999	1998
At FIFO cost:		
Raw materials	$ 31,664	$ 21,424
Work-in-process	18,389	11,636
Finished goods	49,121	34,796
Supplies, repair parts and other	1,835	1,631
	101,009	69,487
LIFO value over FIFO value	3,033	3,184
Total inventories	$ 104,042	$ 72,671

Property, Plant and Equipment: Property, plant and equipment is stated at the lower of cost or impaired value. Provision for depreciation and amortization of property, plant and equipment has been computed for financial reporting purposes using the straight-line method over the estimated useful lives of the related assets, ranging from 10 to 40 years for buildings and improvements, and 3 to 10 years for machinery and equipment. Applicable statutory recovery methods are used for tax purposes. Depreciation and amortization of property, plant and equipment for financial reporting purposes totaled $20,482 in 1999, $16,888 in 1998, and $14,407 in 1997.

Intangible Assets: Intangible assets represent the excess of the purchase price over the fair market value of identifiable net assets acquired in business combinations and are being amortized using the straight-line method over 40 years. The carrying value of goodwill will be reviewed if facts and circumstances suggest that it may be impaired. Impairment will be measured, and goodwill reduced, for any deficiency of estimated undiscounted cash flows during the amortization period related to the business acquired.

Impairment of Assets: Impairment losses are recognized when expected future cash flows are less than the assets' carrying value. In such circumstances, property, plant, and equipment and related intangibles are adjusted to their fair value based on the operating performance and estimated future discounted cash flows of the underlying business.

Stock Based Compensation: As permitted under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the Company continues to account for stock based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Earnings per Share: In 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share." Statement No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share is computed using the weighted average common shares outstanding including the assumed conversion of Class B Common Stock. Diluted earnings per share considers the effects of all potentially dilutive securities. Earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the provisions of Statement No. 128.

Revenue Recognition: The Company recognizes revenue for goods sold at the time title passes to the customer, which is normally at the time of shipment.

Comprehensive Income: During 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The statement requires that all items required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement displayed with the same prominence as other financial statements. To conform to the statement, the Company has classified the change in the minimum pension liability adjustment as other comprehensive income in its consolidated statements of stockholders' equity and its consolidated balance sheets. Adoption of the statement had no effect on the consolidated results of operations or total stockholders' equity of the Company. Reclassification of the financial statements for all periods presented has been made to conform with the provisions of Statement No. 130.

Segment Disclosures: During 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." This Statement requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments, as defined by the statement, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The statement requires financial information to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments. Adoption of the statement had no effect on the consolidated results of operations or financial position of the Company. The Company has identified its floorcovering base materials manufacturing business and its carpet manufacturing business as its reportable segments under Statement No. 131. Comparative information for all years presented has been restated to conform with the provisions of Statement No. 131.

Pensions and Other Postretirement Benefits: During 1998, the Company adopted Statement of Financial Accounting Standards No. 132, "Disclosures about Pensions and Other Postretirement Benefits." This Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, and requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis. Adoption of the statement had no effect on the consolidated results of operations or financial position of the Company. Disclosures for earlier periods provided for comparative purposes have been restated by the Company to conform with the provisions of Statement No. 132.

(dollars in thousands, except per share data)

NOTE B - BUSINESS COMBINATIONS

In early fiscal 1997, the Company acquired for $20,854 cash, the business and operating assets of Danube Carpet Mills, Inc. ("Danube"), a manufacturer of carpet for the factory built housing, recreational vehicle, and van conversion industries. The Danube manufacturing and distribution facilities were closed and their operations merged into existing facilities of the Company's Carriage Carpet and Candlewick Yarns operations. On October 2, 1997, the Company acquired the needlebond and artificial turf assets and business of General Felt Industries based in Dalton, Georgia ("GFI Dalton") for $40,890 cash. The acquired assets and business were merged with the Company's Bretlin operation.

In early 1999, the Company acquired the assets and assumed certain liabilities of Multitex Corporation of America, Inc. ("Multitex"), a Dalton, Georgia carpet and carpet yarn producer, for approximately $30,964 cash, plus future payments keyed to revenue growth.

The acquisitions were accounted for as purchase business combinations, and accordingly, the results of operations of Danube subsequent to December 31, 1996, GFI Dalton subsequent to October 2, 1997 and Multitex subsequent to January 8, 1999, are included in the Company's consolidated financial statements. The purchase price of each acquisition was allocated to the net assets acquired based on their estimated fair market values. The excess amounts of the purchase prices over the estimated fair market value of the net identifiable assets were recorded as intangible assets and are being amortized using the straight-line method over forty years.

A summary of net assets acquired is as follows:

	Multitex	Danube	GFI Dalton
Current assets	$ 18,462	$ 8,363	$ 9,015
Property, plant, and equipment	21,459	4,359	13,550
Other non-current assets	430	–	–
Current liabilities	(9,387)	(4,703)	(2,356)
Deferred taxes	–	141	–
Intangible asset	–	12,694	20,681
Net assets acquired	$ 30,964	$ 20,854	$ 40,890

The following unaudited pro forma summary presents the consolidated results of operations as if the acquisitions of Danube, GFI Dalton and Multitex had occurred at the beginning of the periods presented after giving effect to certain adjustments, including the closure of Danube facilities and consolidation into existing operations, amortization of cost in excess of net tangible assets acquired, interest expense on debt to finance the acquisitions, elimination of sales between the Company and Multitex and related profit, depreciation expense on adjusted fixed asset values and related income taxes. The pro forma results are presented for comparative purposes only and do not purport to be indicative of future results or of the results that would have occurred had the acquisitions taken place at the beginning of the periods presented.

	1998	1997
Net sales	$ 581,408	$ 547,770
Net income (loss)	(20,659)	12,149
Net income (loss) per share:		
Basic	(1.83)	1.08
Diluted	(1.75)	1.03

In the fourth quarter of 1998, the Company acquired the assets of Ideal Fibers, a fiber extrusion business, for approximately $4,061 cash. In the first quarter of 1999, the Company acquired Graphic Tec, Inc., a carpet producer, for approximately $1,750 cash. These acquisitions were accounted for as purchases, and accordingly, the results of operations of the acquired companies subsequent to the dates of acquisitions are included in the Company's consolidated financial statements. Pro forma information is not presented, as the effects of the pro forma adjustments are not material.

(dollars in thousands, except per share data)

NOTE C — DISCONTINUED OPERATIONS

In 1998, the Company decided to discontinue its textile products operations and completed the sale of the related assets in June 1999. Cash proceeds from disposal of the Company's textile products operations were approximately $11,025 in 1998 and $47,396 in 1999, excluding accounts receivable, accounts payable and accrued expenses retained by the Company. Additionally, the Company received an $8,000 face value note as part of the consideration from one of the purchasers in 1999. The note matures in 2003, has a stated interest rate of 10.5% with interest payable monthly and is subordinated to the maker's senior indebtedness. The value of the note included in the proceeds was estimated to be $5,049 with an effective discount rate of 25%.

Following is summary financial information for the Company's discontinued textile products operations:

	1999	1998	1997
Net sales	$ 11,832	$ 184,122	$ 229,757
Income (loss) from discontinued operations:			
Before income taxes	–	(2,697)	4,776
Income tax provision (benefit)	–	(844)	1,969
Net	$ –	$ (1,853)	$ 2,807
Estimated income (loss) on disposal:			
Before income taxes	$ 7,855	$ (39,325)	$ –
Income tax provision (benefit)	3,063	(11,068)	–
Net	$ 4,792	$ (28,257)	$ –

The gain on disposal in 1999 resulted from favorable adjustments to amounts accrued as of the end of the preceding year for exit costs and estimated future operating results. The textile products operations had operating income of $1,622 (net of tax) from the beginning of 1999 through the disposal date, versus a previously accrued estimated loss for such period of $1,586 (net of tax).

The loss on disposal in 1998 includes the write-off of intangible assets of $8,877 and estimated operating losses subsequent to the decision to discontinue the textile products operations to the anticipated disposal date of $944 (net of tax). The effect of liquidating inventories carried at lower costs prevailing in prior years under the LIFO method was to reduce the loss on disposal by approximately $5,461 in 1998. Interest cost charged to discontinued operations was $3,325 for 1998 and $3,697 for 1997. Interest cost for periods subsequent to the decision to discontinue the textile product operations included in the loss on disposal was $1,996.

At December 26, 1998 assets of the textile products operations to be sold consisted of accounts receivable, inventories, and property, plant and equipment amounting to approximately $77,212 after deducting an allowance for the estimated losses on disposal and liabilities were $22,354 including estimated operating losses to the anticipated disposal date. At December 25, 1999, the remaining liabilities of the textile products operations consisted of accrued exit costs of $3,461 and no significant assets were remaining.

(dollars in thousands, except per share data)

NOTE D – SALE OF ACCOUNTS RECEIVABLE

On October 15, 1993, the Company entered into a seven-year agreement under which it sold a $45,000 undivided interest in a revolving pool of its trade accounts receivable. No further interest has been sold under this agreement subsequent to the original sale. As part of the agreement, the Company's accounts receivable are transferred to a trust in which the Company retains an ownership interest generally equal to the value of the assets transferred to the trust in excess of the $45,000 interest sold. During the term of the agreement, the Company is to maintain a revolving pool of eligible accounts receivable and/or other assets (as defined in the agreement) in the trust at levels which vary daily based on ratios defined in the agreement. At December 25, 1999, the Company had $14,112 of liquid, highly rated securities classified as cash equivalents included in the pool.

At December 25, 1999 and December 26, 1998, the $45,000 interest sold is reflected as a reduction of accounts receivable in the Company's consolidated balance sheets. Costs of this program were fixed at 6.08% per annum on the amount of the interest sold plus administrative fees typical in such transactions. These costs, which were approximately $2,900 for 1999, $2,935 for 1998, and $2,985 for 1997, are included in other expense - net. In addition, the Company is generally at risk for credit losses associated with sold receivables and provides for such losses in the Company's financial statements.

NOTE E – ACCRUED EXPENSES

Accrued expenses include the following:

	1999	1998
Compensation and benefits	$ 13,934	$ 8,910

NOTE F – LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	1999	1998
Senior indebtedness:		
Credit line borrowings	$ 30,073	$ 14,000
Term loan	36,346	57,000
Other	740	611
Total senior indebtedness	67,159	71,611
Subordinated notes	50,000	50,000
Convertible subordinated debentures	39,737	42,237
Total long-term debt	156,896	163,848
Less current portion	(13,460)	(9,645)
Total long-term debt (less current portion)	$ 143,436	$ 154,203

On March 31, 1998, the Company entered into an unsecured revolving credit and term-loan facility with its principal senior lenders. The credit facility provides for revolving credit of up to $100,000 through a five year commitment period and a $60,000, seven year term-loan. Interest rates available under the facility may be selected by the Company from a number of options which effectively allow for borrowing at rates not exceeding the greater of the lender's prime rate or the federal funds rate plus .5% per annum. The effective annual interest rate on borrowing under the revolving credit and term-loan agreement was 6.31% for 1999, 6.28% for 1998 and 6.79% for 1997. The average interest rate on debt outstanding under this agreement was 5.92% at December 25, 1999 and 5.97% at December 26, 1998. Commitment fees, ranging from .25% to .375% per annum on the revolving credit line are payable on the average daily unused balance of the revolving credit facility.

On April 2, 1998, the Company completed an agreement with the Development Authority of Lafayette, Georgia (the Authority) to borrow $7,000 from the Authority under a development bond issuance. Amounts received by the Company are secured by a letter of credit issued by the Company's lead lender in favor of the Authority. The value of the letter of credit reduces the Company's availability under its revolving credit and term-loan facility. The proceeds were used to finance the real property and machinery and equipment needs of the Company's synthetic materials recycling center in Lafayette, Georgia.

The Company's subordinated notes are unsecured, bear interest ranging from 9.96% to 10.61% payable semiannually, and are due in semiannual installments of $2,381 beginning February 1, 2000.

The Company's convertible subordinated debentures bear interest at 7% payable semiannually, are due in 2012, and are convertible by the holder into shares of Common Stock of the Company at an effective conversion price of $32.20 per share, subject to adjustment under certain circumstances. Mandatory sinking fund payments, which commenced May 15, 1998, will retire $2,500 principal amount of the debentures annually and approximately 70% of the debentures prior to maturity. The convertible debentures are subordinated in right of payment to all other indebtedness of the Company.

The Company's long-term debt and credit arrangements contain financial covenants relating to minimum net worth, the ratio of debt to capitalization, payment of dividends and certain other financial ratios. The payment of future dividends is currently limited to 50% of aggregate consolidated net income subsequent to December 25, 1999.

As of December 25, 1999, unused borrowing capacity under the Company's revolving credit and term-loan agreement was approximately $74,801 (including amounts available under short-term credit lines).

Approximate maturities of long-term debt for each of the five years succeeding December 25, 1999 are $13,625 in 2000, $13,834 in 2001, $13,836 in 2002, $36,910 in 2003, and $13,840 in 2004.

Interest payments for continuing and discontinued operations were $14,095 in 1999, $12,918 in 1998, and $12,424 in 1997.

(dollars in thousands, except per share data)

NOTE G – FAIR VALUE OF FINANCIAL INSTRUMENTS

All of the Company's financial instruments are held or issued for purposes other than trading. The carrying amounts and estimated fair values of the Company's financial instruments are summarized as follows:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 12,541	$ 12,541	$ 2,815	$ 2,815
Notes receivable (including current portion)	6,865	6,865	1,151	1,151
Escrow funds	640	640	1,030	1,030
Financial liabilities				
Long-term debt (including current portion)	$ 156,896	$ 145,324	$ 163,848	$ 155,616

The fair values of the Company's financial assets approximate their carrying amounts due to their short-term nature and for notes receivable, adjustable interest rate provisions. The fair values of the Company's long-term debt were estimated using discounted cash flow analyses based on incremental borrowing rates for similar types of borrowing arrangements and quoted market rates for the Company's convertible debentures.

(dollars in thousands, except per share data)

NOTE H – PENSION PLANS

Information about the benefit obligation, assets and funded status of the Company's defined benefit pension plans is as follows:

	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 18,225	$ 14,533
Service cost	100	51
Interest cost	945	941
Actuarial (gain) loss	(1,804)	4,215
Benefits paid	(10,588)	(1,515)
Change in plan provisions	121	–
Benefit obligation at end of year	6,999	18,225
Change in plan assets:		
Fair value of plan assets at beginning of year	12,550	12,966
Actual return on plan assets	11	964
Employer contribution	2,097	135
Benefits paid	(10,588)	(1,515)
Fair value of plan assets at end of year	4,070	12,550
Funded status	(2,928)	(5,675)
Unrecognized actuarial loss	674	1,400
Net amount recognized	$ (2,254)	$ (4,275)
Amounts recognized in the statement of financial position consist of:		
Accrued liability	$ (2,928)	$ (5,675)
Accumulated other comprehensive income	674	1,400
Net amount recognized	$ (2,254)	$ (4,275)
Weighted–average assumptions as of year-end:		
Discount rate	6.27%	5.11%
Expected return on plan assets	8.50%	8.50%

The actuarial loss increasing the benefit obligation in 1998 resulted primarily from reduction of the assumed discount rate to the estimated rate applicable to settlement of the benefit obligation relative to associates of discontinued operations. The amount of such benefit obligation subject to settlement approximated $14,377 and a loss resulting from the settlement of approximately $5,769 ($3,519 after income tax) is included in loss on disposal of discontinued operations in 1998.

At December 25, 1999, there were no shares of the Company's Common Stock included in plan assets. At December 26, 1998, plan assets included 130,226 shares of the Company's Common Stock with a fair value of $1,058 ($8.12 per share). Dividends received on shares of the Company's Common Stock held during 1998 totaled $20.

(dollars in thousands, except per share data)

Costs charged to continuing operations for all pension plans are summarized as follows:

	1999	1998	1997
Components of net periodic pension cost:			
Defined benefit plans			
Service cost	$ 100	$ 51	$ 47
Interest cost	222	331	430
Expected return on plan assets	(244)	(375)	(411)
Recognized net actuarial loss	110	25	129
Settlement loss	64	59	108
	252	91	303
Defined contribution plans	3,889	3,811	3,067
Net pension cost	$ 4,141	$ 3,902	$ 3,370

Portions of the cost of the defined contribution plans are based on the Company's operating results and the level of associates' contributions to their accounts.

NOTE I – INCOME TAXES

The provision (benefit) for income taxes on income (loss) from continuing operations consists of the following:

	1999		1998		1997	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal	$ 5,366	$ 1,940	$ 1,748	$ 3,525	$ (1,188)	$ 5,330
State	747	(82)	97	222	799	273
Total	$ 6,113	$ 1,858	$ 1,845	$ 3,747	$ (389)	$ 5,603

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of those assets and liabilities. Significant components of the Company's deferred tax liabilities and assets are as follows:

	1999	1998
Deferred Tax Liabilities:		
Property, plant and equipment	$ 23,035	$ 24,035
Inventories	267	2,046
Intangible assets	2,176	1,682
Other	3,702	3,899
Total deferred tax liabilities	29,180	31,662
Deferred Tax Assets:		
Post-retirement benefits	4,350	5,014
Other employee benefits	2,695	3,481
Losses from discontinued operations	529	2,398
Alternative minimum tax	–	1,277
Allowances for bad debts, claims and discounts	2,332	2,414
Other	1,236	1,085
Total deferred tax assets	11,142	15,669
Net deferred tax liabilities	$ 18,038	$ 15,993

(dollars in thousands, except per share data)

Differences between the provision for income taxes and the amount computed by applying the statutory Federal income tax rate to income from continuing operations are reconciled as follows:

	1999	1998	1997
Statutory rate applied to income from continuing operations	$ 7,132	$ 4,998	$ 4,769
Plus state income taxes net of Federal tax effect	432	210	707
Total statutory provision	7,564	5,208	5,476
Increase(decrease) attributable to:			
Nondeductible amortization of and impairment adjustments to intangible assets	242	201	200
Nondeductible portion of travel and entertainment	246	251	228
Net operating loss carryback benefit	–	–	(781)
Other items	(81)	(68)	91
Total tax provision	$ 7,971	$ 5,592	$ 5,214

Income tax payments, net of income tax refunds received, for continuing and discontinued operations were $10,545 in 1999, $2,156 in 1998 and $3,162 in 1997.

NOTE J– COMMON STOCK AND EARNINGS PER SHARE

Holders of Class B Common Stock have the right to twenty votes per share on matters that are submitted to Shareholders for approval and to dividends in an amount not greater than dividends declared and paid on Common Stock. Class B Common Stock is restricted as to transferability and may be converted into Common Stock on a one share for one share basis. The Company's Charter authorized 200,000,000 of Class C Common Stock, $3 par value per share, and 16,000,000 shares of Preferred Stock. No shares of Class C Common Stock or Preferred Stock have been issued.

In August 1996, the Company's Board of Directors adopted a stock ownership plan applicable to the senior management of the Company for the purpose of encouraging each participant to make a significant investment in the Company's Common Stock. Pursuant to the plan, at December 25, 1999, 620,516 shares were subscribed at a weighted average price of $8.79 per share, at December 26, 1998, 573,463 shares were subscribed at a weighted average price of $6.49 per share, and at December 27, 1997, 512,477 shares were subscribed at a weighted average price of $6.11 per share.

Notes to Consolidated Financial Statements (cont.)

(dollars in thousands, except per share data)

The following table sets forth the computation of basic and diluted earnings per share from continuing operations:

	1999	1998	1997
Income from continuing operations [1]	$ 12,399	$ 9,108	$ 8,812
Denominator for calculation of basic earnings per share - weighted average shares [2]	11,355	11,267	11,229
Effect of dilutive securities:			
Stock options [2]	206	348	332
Stock subscriptions [2]	121	194	204
Denominator for calculation of diluted earnings per share - weighted average shares adjusted for potential dilution [2] [3]	11,682	11,809	11,765
Earnings per share:			
Basic	$ 1.09	$ 0.81	$ 0.78
Diluted	1.06	0.77	0.75

(1) No adjustments needed in the numerator for diluted calculations.
(2) Includes Common and Class B Common shares in thousands.
(3) Because their effects are anti-dilutive, excludes shares issuable under stock option, stock subscription, and restricted stock plans whose grant price was greater than the average market price of common shares outstanding and the assumed conversion of subordinated debentures into shares of Common Stock as follows: 2,835 shares in 1999, 2,065 shares in 1998, and 1,737 shares in 1997.

NOTE K – STOCK PLANS

The Company's 1990 Incentive Stock Plan reserves 2,270,000 shares of Common Stock for sale or award to key associates or to the outside directors of the Company under stock options, stock appreciation rights, restricted stock performance grants, or other awards. Outstanding options are generally exercisable at a cumulative rate of 25% per year after the second year from the date the options are granted and generally expire after ten years from the date of grant. Options outstanding were granted at prices at or above market price on the date of grant.

In 1993, the Company issued options for the purchase of 83,044 shares of Common Stock, which were immediately exercisable at prices ranging from $3.19 - $5.27 per share, in connection with the acquisition of Carriage Industries, Inc. As of December 25, 1999, options for 18,851 of these shares remain outstanding.

(dollars in thousands, except per share data)

A summary of the 1997, 1998 and 1999 option activity is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Fair Value of Options Granted During the Year
Outstanding at December 28, 1996	1,259,842	$ 6.71	
Granted at market price	499,500	9.74	$ 4.45
Granted above market price	12,000	14.30	5.54
Exercised	(22,825)	6.46	
Forfeited	(80,250)	7.28	
Outstanding at December 27, 1997	1,668,267	7.65	
Granted at market price	287,250	8.53	3.95
Granted above market price	20,000	9.35	3.69
Exercised	(12,250)	5.73	
Forfeited	(35,750)	6.21	
Expired	(1,019)	3.43	
Outstanding at December 26, 1998	1,926,498	7.84	
Granted at market price	128,500	8.11	3.95
Exercised	(103,147)	7.58	
Forfeited	(237,250)	6.93	
Outstanding at December 25, 1999	1,714,601	7.92	
Options exercisable at			
December 27, 1997	240,392	$ 6.85	
December 26, 1998	497,561	6.90	
December 25, 1999	603,914	7.76	

The following table summarizes information about stock options at December 25, 1999:

Options Outstanding			
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$4.00 - $ 5.27	115,601	5.8 years	$ 4.82
5.75 - 8.81	1,319,750	6.6	7.30
9.25 - 14.30	279,250	7.3	12.14
$4.00 - $14.30	1,714,601	6.7	$ 7.92

Options Exercisable		
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price
$4.00 - $ 5.27	45,601	$ 4.83
5.75 - 8.81	496,500	7.42
9.25 - 14.30	61,813	12.66
$4.00 - $14.30	603,914	$ 7.76

(dollars in thousands, except per share data)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1999 Grants	1998 Grants	1997 Grants
Expected life	5 years	5 years	5 years
Expected volatility	50.1%	44.2%	41.6%
Risk-free interest rate	5.60%	5.56%	6.25%
Dividend yield	0%	0%	0%

The following pro forma summary presents the Company's net income (loss) and earnings (loss) per share which would have been reported had the Company determined stock compensation cost using the alternative fair value method of accounting set forth under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." The pro forma impact on net income (loss) shown below may not be representative of future pro forma effects.

	1999	1998	1997
Pro forma			
Net income (loss)	$ 16,271	$ (21,788)	$ 11,073
Earnings (loss) per share:			
Basic	1.43	(1.93)	0.99
Diluted	1.39	(1.84)	0.94

The Company also has a stock purchase plan which authorizes 108,000 shares of Common Stock for purchase by supervisory associates at the market price prevailing at the time of purchase. At December 25, 1999, 26,340 shares remained available for issue. Shares sold under this plan are held in escrow until paid for and are subject to repurchase agreements which give the Company the right of first refusal at the prevailing market price at the time of sale. Numbers of shares sold under the plan were 9,100 in 1999, 0 in 1998, and 38,500 in 1997.

NOTE L – COMMITMENTS

The Company had commitments for purchases of machinery and equipment, building construction, and information systems of approximately $18,173 at December 25, 1999.

The Company leases buildings, machinery and equipment under operating leases. Commitments for minimum rentals under noncancellable leases at the end of 1999 for the next five years are as follows:

2000	$ 1,543
2001	1,511
2002	1,346
2003	1,026
2004	443
Thereafter	–
Total	$ 5,869

Subsequent to December 25, 1999, the Company entered into additional operating leases for certain transportation equipment. The Company's practice, prior to this leasing arrangement, was to purchase all transportation equipment. The total future commitments related to the transportation equipment leases are $7,649 over the next seven years.

Rental expense in 1999 amounted to approximately $2,855 and for prior periods was not material.

(dollars in thousands, except per share data)

NOTE M – SEGMENT INFORMATION

The Company has two reportable segments in its continuing operations: Carpet Manufacturing and Floorcovering Base Materials. Each reportable segment is organized around product similarities. The Carpet Manufacturing segment contains three operating businesses that manufacture and sell finished carpet and rugs. The Floorcovering Base Materials segment manufactures and sells yarn to external customers and transfers a significant portion of its unit volumes to the Company's Carpet Manufacturing segment.

The profit performance measure for the Company's segments is defined as Internal EBIT (earnings before interest and taxes). The aggregate of Internal EBIT for the reportable segments differs from the Company's consolidated earnings before interest and taxes by costs associated with the sale of accounts receivable under the Company's accounts receivables sales agreement and sundry amounts that are deemed to be non-operating in nature. Assets measured in each reportable segment include long-lived assets and goodwill, inventories at current cost, and accounts receivables (without reductions for receivables sold under the Company's accounts receivable sales agreement).

Allocations of corporate general and administrative expenses are used in the determination of segment profit performance; however, assets of the corporate departments are not used in the segment asset performance measurement. All expenses incurred for the amortization of goodwill are recognized in segment profit performance measurement; however, only selected intangible assets are included in the asset performance measurement.

	Net Sales – External Customers			Profit Performance		
	1999	1998	1997	1999	1998	1997
Reportable Segments:						
Carpet Manufacturing	$456,835	$ 401,826	$340,271	$ 30,056	$ 24,454	$ 21,337
Floorcovering Base Materials	122,631	94,586	91,815	3,466	3,108	3,349
Intersegment eliminations				–	7	–
Segment total	$579,466	$ 496,412	$432,086	33,522	27,569	24,686
Interest expense				13,051	10,263	8,886
Cost of A/R sales program				2,900	2,900	2,898
Other non-segment (income)				(2,799)	(294)	(1,124)
Consolidated income before taxes from continuing operations				$ 20,370	$ 14,700	$ 14,026

(dollars in thousands, except per share data)

	Capital Expenditures 1999	1998	1997	Depreciation and Amortization 1999	1998	1997
Reportable Segments:						
Carpet						
Manufacturing	$ 21,161	$ 23,099	$ 15,803	$ 15,398	$ 14,542	$ 12,883
Floorcovering						
Base Materials	13,671	10,219	3,158	6,328	3,359	2,298
Corporate and						
Shared Services	495	45	222	604	800	628
Total Continuing						
Operations	$ 35,327	$ 33,363	$ 19,183	$ 22,330	$ 18,701	$ 15,809

	Assets Used in Performance Measurement 1999	1998	1997
Reportable Segments:			
Carpet			
Manufacturing	$ 292,889	$ 229,937	$ 222,056
Floorcovering			
Base Materials	76,051	54,463	51,680
Assets in Performance Measurement	368,940	284,400	273,736
Assets Not in Segment Measurements:			
Other operating assets	22,504	22,738	112,878
Assets of discontinued operations	457	67,508	–
Total Consolidated Assets	$ 391,901	$ 374,646	$ 386,614

During 1999, sales to The Home Depot amounted to approximately $61.0 million or 10.5% of consolidated net sales. No single customer's net sales exceeded 10% of the Company's consolidated net sales in 1998 or 1997. The loss of The Home Depot business could have a material adverse effect on the Company's operations. Substantially all of the Company's sales were to domestic customers and all assets were domestically based for the periods presented. A substantial majority of the unit production volume of the Company's Floorcovering Base Materials segment is directed into the Carpet Manufacturing segment. A significant portion of the units are processed by the Base Materials group on a conversion basis only (costs to manufacture) and are recorded in intersegment sales at the conversion value. The remaining transfers are recorded on a full-package basis (raw materials plus conversion costs) with either cost or an arms length price as the transfer value, depending on the product. Intersegment sales from the Company's Floorcovering Base Materials group to the Company's Carpet Manufacturing group were $103,669 in 1999, $62,545 in 1998, and $49,798 in 1997.

Historical Summary

(dollars in thousands, except per share data)

Fiscal Years	1999 [1]	1998	1997 [2]	1996	1995
OPERATIONS					
Net sales	$ 579,466	$ 496,412	$ 432,086	$ 363,113	$ 357,145
Income from continuing operations	20,370	14,700	14,026	9,737	7,612
Income tax provision	7,971	5,592	5,214	4,036	3,247
Income from continuing operations [3]	12,399	9,108	8,812	5,701	4,365
Depreciation and amortization [4]	$ 22,330	$ 18,701	$ 15,809	$ 14,731	$ 14,536
Dividends	--	1,701	--	--	--
Capital expenditures [4]	35,327	33,363	19,183	12,095	20,044
FINANCIAL POSITION					
Assets	$ 391,901	$ 374,646	$ 386,614	$ 328,135	$ 396,997
Working capital	54,213	80,582	68,051	72,260	110,784
Long-term debt:					
Senior indebtedness	60,961	64,466	68,528	34,036	97,383
Subordinated notes	45,238	50,000	50,000	50,000	50,000
Convertible subordinated debentures	37,237	39,737	42,282	44,782	44,782
Stockholders' equity	117,910	99,990	121,244	108,550	118,290
PERCENT					
Income from continuing operations to sales	2.1%	1.8%	2.0%	1.6%	1.2%
Income from continuing operations to average equity	11.0%	8.1%	7.7%	4.9%	2.7%
PER SHARE					
Income from continuing operations: [3]					
Basic	$ 1.09	$ .81	$ .78	$ .51	$ .37
Diluted	1.06	.77	.75	.51	.37
Dividends:					
Common Stock	–	.15	–	–	–
Class B Common Stock	–	.15	–	–	–
Book value	10.21	8.80	10.70	9.69	10.57
GENERAL					
Weighted average common shares outstanding:					
Basic	11,355,175	11,267,418	11,228,519	11,200,403	11,744,327
Diluted	11,681,650	11,809,281	11,765,323	11,200,403	11,744,327
Number of shareholders [5]	3,500	3,900	4,100	4,500	4,500
Number of associates [4]	3,600	3,100	2,900	2,700	2,900

1 Includes the results of operations of Graphic Tec and Multitex subsequent to their acquisitions on January 21, 1999, and January 8, 1999, respectively.

2 Includes the results of operations of Danube and GFI Dalton subsequent to their acquisitions on December 31, 1996, and October 2, 1997, respectively.

3 1996 includes asset valuation losses of $739 ($.07 per share). 1995 includes asset valuation losses of $2,612 ($.22 per share), and casualty insurance gains of $2,672 ($.23 per share).

4 Excludes discontinued operations.

5 The approximate number of record holders of the Company's Common Stock for 1995 through 1999 includes Management's estimate of shareholders who held the Company's Common Stock in nominee names as follows: 1995 - 3,500 shareholders; 1996 - 3,600 shareholders; 1997 - 3,100 shareholders; 1998 - 3,000 shareholders; 1999 - 2,500 shareholders.

Quarterly Financial Data, Dividends &
Price Range of Common Stock (unaudited)

(dollars in thousands, except per share data)

1999 Quarter	1st	2nd	3rd	4th
Net sales	$ 141,224	$ 152,113	$ 142,589	$ 143,540
Gross profit	29,210	33,019	30,876	30,001
Income from continuing operations	2,580	4,060	3,069	2,690
Net income	2,580	8,479	3,069	3,063
Basic earnings per share:				
Income from continuing operations	.23	.36	.27	.23
Net income	.23	.75	.27	.26
Diluted earnings per share:				
Income from continuing operations	.22	.35	.26	.23
Net income	.22	.72	.26	.26
Dividends:				
Common stock	–	–	–	–
Class B Common Stock	–	–	–	–
Common Stock Prices:				
High	9.19	9.38	9.38	8.13
Low	6.97	7.00	7.13	5.28

1998 Quarter	1st	2nd	3rd	4th
Net sales	$ 118,601	$ 130,489	$ 120,387	$ 126,935
Gross profit	23,960	27,544	22,827	25,077
Net income from continuing operations	2,247	3,343	1,650	1,868
Net income (loss)	2,472	(12,008)	206	(11,672)
Basic earnings (loss) per share:				
Income from continuing operations	.20	.30	.15	.17
Net income (loss)	.22	(1.07)	.02	(1.03)
Diluted earnings per share:				
Income from continuing operations	.19	.28	.14	.16
Net income (loss)	.21	(.99)	.02	(1.02)
Dividends:				
Common stock	.05	.05	.05	–
Class B Common Stock	.05	.05	.05	–
Common Stock Prices:				
High	13.00	14.00	10.00	8.13
Low	9.75	9.75	6.75	4.38

The total of quarterly earnings per share may not equal the annual earnings per share due primarily to Common Stock purchased and issued during the respective periods. Discontinued operations consist of textile products operations. In the second quarter of 1999, results included income of $7,244 ($4,419 or $.37 per diluted share after taxes), resulting from favorable adjustments to amounts accrued at the end of the preceding year for estimated future operating results, including related exit costs, of the discontinued segment through the disposal date. In the fourth quarter of 1999, results included income of $611 ($373 or $.03 per diluted share after taxes), resulting from additional favorable adjustments to amounts accrued at the end of the preceding year for estimated future operating results, including related exit costs, of the discontinued segment through the disposal date. In the second quarter of 1998, results included charges of $21,745 ($14,717 or $1.22 per diluted share after taxes), for the loss on the disposition of the knit fabric and apparel business. In the fourth quarter of 1998, results included charges of $17,580 ($13,540 or $1.18 per diluted share after taxes) for the loss on the disposition of the specialty yarns business.

The discussion of restrictions on payment of dividends is included in Note F to the Consolidated Financial Statements included herein.

Directors and Officers

DIRECTORS

Daniel K. Frierson [1, 3]
Chairman of the Board

J. Don Brock, Ph.D. [4]
Chairman of the Board and CEO,
Astec Industries, Inc.

Paul K. Brock [1, 2]
Retired Chairman,
Brach & Brock Confections, Inc.

Lovic A. Brooks, Jr. [2, 3]
Member, Constangy,
Brooks & Smith, LLC

Paul K. Frierson [3]
Vice President and President,
Candlewick Yarns

William N. Fry, IV
President and Chief Operating Officer

John W. Murrey, III [4]
Senior Member, Witt,
Gaither & Whitaker, P.C.

Peter L. Smith [4]
Managing Director,
Lazard Frères & Co., LLC

Robert J. Sudderth, Jr., [1, 2, 3]
Chairman of the Board,
SunTrust Bank, Chattanooga, N.A.

[1] Member of Executive Committee
[2] Member of Compensation Committee
[3] Member of Retirement Plans Committee
[4] Member of Audit Committee

OFFICERS

Daniel K. Frierson
Chairman of the Board and Chief Executive Officer

William N. Fry, IV
President and Chief Operating Officer

Gary A. Harmon
Vice President and Chief Financial Officer

Philip H. Barlow
Vice President and President, Carriage Industries, Inc.

Kenneth L. Dempsey
Vice President and President, Masland Carpets

Paul K. Frierson
Vice President and President, Candlewick Yarns

Jeffrey L. Gregg
Vice President and President, Bretlin, Inc.

W. Derek Davis
Vice President, Human Resources

D. Eugene Lasater
Controller

Starr T. Klein
Secretary

Corporate Information

Independent Auditors
Ernst & Young LLP
Suite 300, Krystal Building
One Union Square
Chattanooga, Tennessee 37402

Legal Counsel
Witt, Gaither & Whitaker, P.C.
1100 SunTrust Bank Building
736 Market Street
Chattanooga, Tennessee 37402

Stock Listing
The Dixie Group's Common Stock is listed on the National Market System under the Nasdaq Symbol DXYN. The 7% Convertible Subordinated Debentures are listed under the Nasdaq Symbol DXYNG.

Annual Meeting
The Annual Meeting of Shareholders of The Dixie Group, Inc. will be held at 10:00 A.M., EDT, on Thursday, May 4, 2000, at The Dixie Group, Inc., 1100 South Watkins Street, Chattanooga, Tennessee 37404.

Corporate Headquarters
1100 South Watkins Street
Chattanooga, Tennessee 37404
www.thedixiegroup.com

Investor Contact
Gary A. Harmon
Vice President and Chief Financial Officer
The Dixie Group, Inc.
Post Office Box 12542
Calhoun, Georgia 30703-7010
(706) 625-7990

Form 10-K and Other Information
Copies of Form 10-K filed with the Securities and Exchange Commission are available upon request to the Company at Post Office Box 751, Chattanooga, Tennessee 37401, or contact Starr Klein, Secretary, at (423) 493-7439.

Stock Transfer Agent
SunTrust Bank, Atlanta
Corporate Trust Department
Post Office Box 4625
Atlanta, Georgia 30302