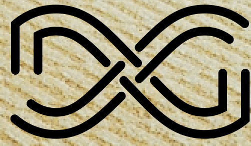
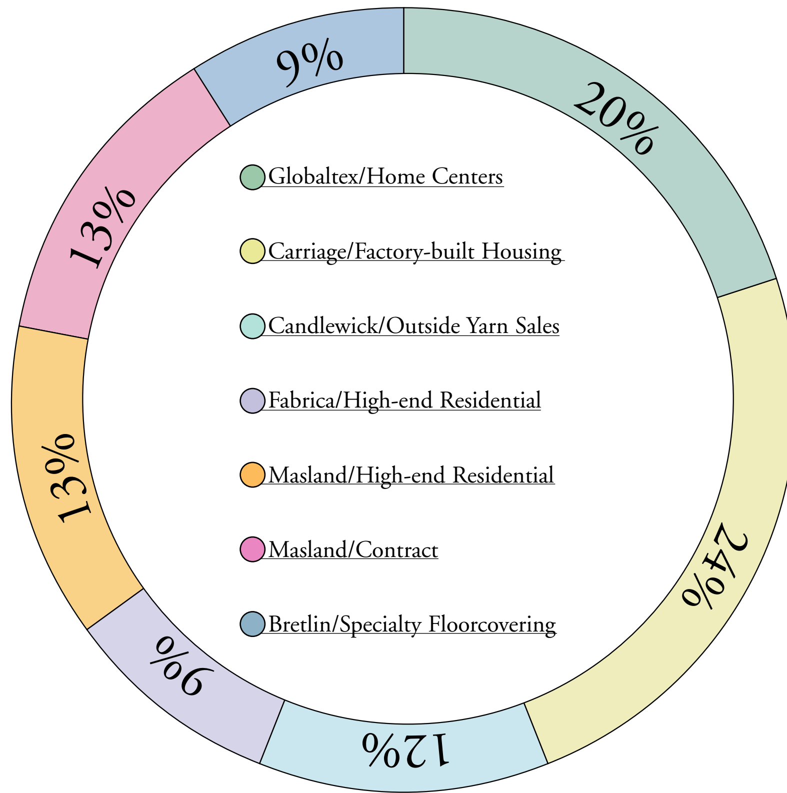


THE DIXIE GROUP

2000

ANNUAL REPORT

Sales by Markets



MASLAND CARPETS/MASLAND CONTRACT

Making fine carpets since 1866, Masland continues to enhance its reputation as a preeminent manufacturer of design-driven specialty carpets and rugs for the residential and commercial marketplace. Its high-style products are marketed through interior designers, specifiers and specialty floorcovering showrooms.

FABRICA INTERNATIONAL

Fabrica International focuses on providing its customers the most luxurious residential carpets and custom rugs available. Much of Fabrica's sales are made through high-end retailers with its remaining sales made through specialty segments such as interior designers, luxury yachts, furniture stores and the upscale home building market.

BRETLIN

Bretlin produces residential indoor/outdoor floorcoverings, industrial fabrics marketed as CROSSPOINT Fabrics, and carpet pads. Its Alliance Mills brand targets floorcovering specialty retailers with a value-added carpet program delivered by selected distributors.

GLOBALTEX CARPETS

Globaltex "Simply…The Best" offers an array of high fashion, trendsetting, broadloom residential products and indoor/outdoor flooring items sold through the top home center/mass merchant retailers. Globaltex focuses on providing its customers with product differentiation and industry leading service.

CARRIAGE CARPETS

Carriage manufactures tufted broadloom carpets with innovative styling for customers in the factory-built housing, recreational vehicle, and exposition trade show industries. Carriage is known for its ability to provide its customers with floorcovering solutions and outstanding service.

CANDLEWICK YARNS

Candlewick is one of the nation's largest manufacturers of high-end quality yarns for residential and commercial carpet, bath and decorative accent rugs, and automotive floorcovering. The company produces a complex variety of extruded filament and spun yarns. Much of its production goes into the making of Dixie Group products.

Financial Highlights

(dollars in thousands, except per share data)

	Year Ended		
	December 30, 2000	December 25, 1999	December 26, 1998
For the Year			
Net sales	**$ 568,081**	$ 597,869	$ 510,962
Income (loss) from continuing operations	**(10,150)**	12,399	9,108
Income (loss) from continuing operations per share:			
Basic	**$ (0.88)**	$ 1.09	$ 0.81
Diluted	**(0.88)**	1.06	0.77
Weighted average shares outstanding:			
Basic	**11,473,210**	11,355,175	11,267,418
Diluted	**11,473,210**	11,681,650	11,809,281
At Year-End			
Total assets	**$ 423,206**	$ 391,901	$ 374,646
Long-term debt:			
Senior indebtedness	**112,286**	60,961	64,466
Subordinated notes	**40,476**	45,238	50,000
Convertible subordinated debentures	**34,737**	37,237	39,737
Stockholders' equity	**$ 108,291**	$ 117,910	$ 99,990
Shares outstanding:			
Common Stock	**10,706,537**	10,752,448	10,628,729
Class B Common Stock	**795,970**	795,970	735,228
Total shares outstanding	**11,502,507**	11,548,418	11,363,957

Letter to Shareholders

Fellow Shareholders and Associates:

The year 2000 was one of intensive restructuring and consolidation. Accomplishing these tasks was critical to becoming more cost effective and maintaining our strong market positions. We began the year with a comprehensive plan to restructure and expand our Candlewick extrusion and yarn facilities. Later in the year, we consolidated our North Georgia operations to service the growing home center business more efficiently and to better utilize the capacity being created by the slowdown in the factory-built housing market.

Consolidating the North Georgia operations included:

- Eliminating several less efficient distribution points and constructing a fully integrated distribution complex near our manufacturing facilities;
- Integrating operations into a common, more advanced computer system;
- Restructuring Candlewick's extrusion and yarn operations, shifting products and machinery among plants in several states; and
- Training and realigning manufacturing personnel to create better efficiencies and bring more value and focus to each of our markets.

This restructuring and consolidation was a monumental task that affected nearly 65 percent of the Company. Concurrently, the slowing economy had an adverse impact on our operations. Remarkably, throughout all of these challenges, our associates maintained service levels to our customers. These issues are now substantially behind us. Although we are faced with an uncertain economy, we expect to return to profitability in the second quarter.

Letter to Shareholders

We continue to bring our costs in line with anticipated revenues. In addition to consolidating the North Georgia tufted manufacturing operations, we are aggressively reducing non-essential costs. We closed an inefficient dyeing operation, sold certain non-critical assets, and are evaluating options for other non-strategic assets. Since July 2000, we have eliminated 455 positions, including 120 salaried personnel in the North Georgia operations.

The Dixie Group has been reshaped to reduce costs substantially, lower debt, enhance its competitive position, and improve value to our shareholders.

Our focus for 2001 will be to continue to grow the high-end business, generate increased cash flow, and improve the Company's balance sheet. We are requiring that all associates actively pursue a renewed discipline toward keeping costs under control. This ongoing cost reduction plan includes:

- Better utilization of assets through the North Georgia restructuring and consolidation;
- Reduced capital expenditures;
- Aggressively identifying and cutting non-essential costs;
- Selling non-critical assets and evaluating options for other non-strategic assets; and
- Operationally, focusing on improving costs and quality while reducing and more efficiently managing inventories.

In 2001, we will keep capital expenditures to less than $15 million, focusing on our high-end business at Masland and Fabrica, which continues to grow in sales and

profitability. Our acquisition of Fabrica in July 2000 should boost high-end sales in 2001 to about 35 percent of our business.

The depressed factory-built housing industry continues to have a negative impact on our business at Carriage, which is turning to new markets that may benefit from its strengths. The home center business served by Globaltex continues to be affected by the slowdown in the economy, but we are maintaining a strong position in that market. Economic conditions are also having an adverse impact on the retail specialty flooring operations under Bretlin, but it remains a strong supplier in its markets.

We begin 2001 renewed. Many of the barriers to profitability have been removed. We continue to maintain market share by making our customers more successful.

Pat Brock is retiring from The Dixie Group's Board of Directors. Since 1983, he has helped guide us and develop our strategies for the future. We are appreciative of Pat's input, counsel, and support and will greatly miss his wisdom and insight.

The measures we have taken this past year and the principles that will continue to guide us in the future should restore us to profitability. We thank our shareholders for their continued confidence and our associates for their hard work and dedication.

Daniel K. Frierson
Chairman and Chief Executive Officer
March 27, 2001

Financial Review

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

RESULTS OF OPERATIONS

During the three-year period ended December 30, 2000, the Company completed the acquisition of the stock of Fabrica International, together with a 50% interest in Chroma Systems Partners, the acquisition of the assets of Multitex Corporation of America, Inc., Ideal Fibers, Inc., and Graphic Tec, Inc. The Company discontinued its textile products operations in 1998 and completed the sale of all significant textile-related assets in 1999. The Company's business now consists of manufacturing, selling, and distributing finished carpets and rugs and carpet yarns.

The Company's floorcovering businesses are segmented between carpet manufacturing and floorcovering base materials. Its carpet manufacturing operations supply carpet and rugs to higher-end residential and commercial customers serviced by Masland Carpets and Fabrica International. Its North Georgia carpet manufacturing operations supply tufted and needlebond floorcovering products to the factory-built housing, recreational vehicle and exposition tradeshow markets through Carriage Carpets and to consumers through major retailers under the Bretlin, Globaltex, and Alliance Mills names. 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.

2000 Compared to 1999 – During the fourth quarter of 2000, the Company amended its accounting policy in accordance with a recent accounting pronouncement to classify freight expenses previously deducted from sales and costs related to finished product handling previously included in selling and administrative expenses in cost of sales. Such costs have been reclassified for all periods presented in the Company's financial statements.

Sales decreased 5% to $568.1 million in 2000, compared to 1999. Sales improved $19.3 million or 4.1% in the Company's carpet manufacturing segment and declined $48.9 million or 40% in the Company's floorcovering base material operations. The improved carpet manufacturing sales reflect the acquisition of Fabrica International on July 1, 2000, which added $26.0 million in revenue, as well as growth in both the Company's high-end and home center markets. These additional sales more than offset the effect of significant weakness in the factory-built housing market, which began in 1999 and continued throughout the year 2000.

During 2000 and 1999, sales to The Home Depot amounted to approximately $89.0 million and $59.0 million, 16% and 10% of consolidated net sales. No single customer's net sales exceeded 10% of the Company's consolidated net sales in 1998. The loss of The Home Depot business could have a material adverse effect on the Company's operations.

The decrease in floorcovering base material sales to external customers in 2000 resulted from a greater utilization of the Company's yarn production by its carpet manufacturing operations and changes in a number of the Company's carpet yarn sales programs to a conversion basis in which the customer supplies fiber for yarn processing. During 2000, approximately 70% of Candlewick Yarns' production was utilized by the Company's carpet manufacturing operations.

The year 2000 was a year of intensive restructuring and consolidation designed to improve the cost effectiveness of the Company's operations. Except for Masland and Fabrica, nearly all of the Company's operations were affected by the restructuring and consolidation. Early in the year, the Company's yarn operations were re-aligned and its yarn and extrusion capacity expanded. In the third quarter, the Company began consolidating its North Georgia carpet operations to support its growing home center business and utilize excess capacity created by the slowdown in the factory-built housing industry. The costs of the restructurings and consolidations, high distribution costs and asset write-downs had a negative impact on year 2000 results. Additionally, the Company experienced higher raw

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

- continued -

material and energy costs in 2000. Significant weakness in the factory-built housing market and softness in the Company's other markets during the latter part of the fourth quarter 2000 caused sales to decline well below the Company's expectations. Production in the fourth quarter was lower than anticipated due to the declining sales and the Company's efforts to reduce inventory levels. These issues caused gross margins to be 2% below the prior year despite the improved margin effect of the Masland and Fabrica businesses. In response to these issues, the Company acted to bring costs in line with the softness in revenues. In addition to consolidating the Company's North Georgia tufted manufacturing operations, which is now substantially complete, the Company is aggressively reducing non-essential costs and in January 2001 reduced salaried personnel in the North Georgia operations and corporate office by approximately 15%. Severance costs relating to the personnel reduction will be recorded in the first quarter 2001.

The profit performance measure of the Company's business segments is internal EBIT (earnings before interest, taxes, cost of the Company's accounts receivable securitization program and other non-segment items). Internal EBIT for 2000 was $.7 million, or .1% of sales for carpet manufacturing and a $1.9 million loss for floorcovering base materials. The comparable 1999 internal EBIT was $30.0 million, or 6.3% of sales for carpet manufacturing and $3.5 million, or 2.8% of sales for floorcovering base materials.

For the year 2000, selling and administrative expenses, as a percentage of sales, increased 3.7 percentage points over the 1999 levels. The increase in these expenses is principally attributable to the acquisition of Fabrica International, which added $7.4 million to selling and administrative expenses in 2000, the cost of new product introductions in the Company's distributor and home center businesses, and higher selling and administrative costs associated with growth in our high-end and home center businesses.

Other (income) expense – net improved to $.2 million of income in 2000 from a $2.1 million expense in 1999 principally as a result of gains from the sale of non-strategic assets and the equity earnings from an investment in an affiliate.

Interest expense increased in 2000 due to the higher level of borrowings and higher interest rates.

The Company's effective income tax rate was 36.1% for 2000 and 39.1 % for 1999. The decrease in the effective tax rate for the 2000 tax benefit is principally the result of state net operating losses that cannot be carried back to prior years.

Although the Company has operations in areas of the country that have experienced energy shortages, such shortages did not have a material effect on operations during 2000.

1999 Compared to 1998 - Sales increased 17% to $597.9 million in 1999 compared to 1998. The significant increase in sales is principally attributable to the January 1999 acquisition of the assets of Multitex Corporation of America, Inc., 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. Sales to external customers increased 13% for carpet manufacturing and 29% for floorcovering base materials.

As a percentage of sales, 1999 gross margins increased 0.7 percentage points to 19.2% and selling expenses increased 0.3 percentage points to 13.3% compared with 1998. These increases were principally attributable to growth in the Company's home center and high-end residential businesses and the higher costs required to service these markets.

Internal EBIT for 1999 was $30.0 million, or 6.3% 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 5.9% of sales for carpet manufacturing and $3.1 million, or 3.3% of sales for floorcovering

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

- continued -

base materials. The improved carpet manufacturing internal EBIT is principally attributable to 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. Costs associated with floorcovering base materials expansion and re-alignment of facilities negatively impacted margins of this business.

The decrease in "Other expenses - net" in 1999 was 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.

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.

LIQUIDITY AND CAPITAL RESOURCES

During the three-year period ended December 30, 2000, cash flows generated from operating activities were $71.0 million. These funds were supplemented by $85.2 million from asset sales and $79.4 million from borrowings under the Company's senior credit facilities. Funds were used to finance the Company's operations, $133.2 million of capital expenditures, $55.5 million of business acquisitions and retire $44.4 million of debt.

The Company may be required to pay an additional $50.0 million of contingent consideration in 2003 with respect to the acquisition of Fabrica International if Fabrica's cumulative gross sales for the thirty-nine month period beginning April 1, 2000 exceed certain levels. The agreement also provides for an additional contingent amount of up to $2.5 million to be paid in April 2005 based upon Fabrica's cumulative earnings before interest and taxes for the five-year period beginning January 1, 2000. Goodwill that may result from payment of contingent consideration will be amortized over future periods on a straight-line basis. The acquisition of the Company's interest in Chroma Systems Partners in 2000 is subject to adjustment generally equal to the Company's share of Chroma's income or loss for the three years ending June 30, 2003, less $1.8 million. The Company's investment in Fabrica and Chroma secures the seller's right to contingent consideration.

At December 30, 2000, the Company's debt consisted of $37.2 million of convertible subordinated debentures, $45.2 million of subordinated notes, $119.0 million of senior indebtedness, principally under the Company's senior credit agreement. Annual payments for the convertible subordinated debentures, the subordinated notes and the senior term loan will be approximately $14.0 million in 2001 and 2002, $105.0 million in 2003, and will average approximately $7.3 million for each succeeding two years.

The Company's senior credit arrangement was amended on November 2, 2000 to adjust financial covenants to reflect the Company's expected future results and financial structure. The credit agreement provides revolving credit of up to $100.0 million through March 2003, a $28.5 million term loan, and $5.0 million of short-term credit. The term loan is payable in quarterly installments of $1.6 million through December 31, 2002 with a final installment of $15.4 million in March 2003. Interest rates available under the credit agreement may be selected by the Company from a number of options, which effectively allows for borrowing at rates equal to LIBOR plus 1.75% to 2.50%. Commitment fees, ranging from .25% to .50% per annum are payable on the average unused balance of the revolving credit facility. At December 30, 2000, available unused borrowing capacity under the Company's credit agreements (including amounts available under short-term credit lines) was $15.7 million.

The Company's long-term debt and credit agreements contain financial covenants relating to minimum net worth, the ratio of debt to capitalization, senior and total debt to earnings before interest, taxes, depre-

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

- continued -

ciation and amortization, payment of dividends and certain other financial ratios. The financial covenants under the Company's debt arrangements currently do not permit the payment of dividends.

In June 2000, the Company replaced its $45.0 million accounts receivable securitization program with a new one-year program that provides for up to $60.0 million of funding. At December 30, 2000, amounts funded under the arrangement were $40.4 million. The new program is designed to be extended annually and the Company anticipates such an extension in June 2001.

On August 15, 2000, the Company sold machinery and equipment used in its operations for approximately $15.0 million. The assets were leased back from the purchaser under an operating lease for a period of four years at an annual lease cost of approximately $2.9 million.

Capital expenditures for the year 2001 are expected to be approximately $15.0 million, including $6.0 million of commitments at December 30, 2000 for the purchase of machinery and equipment and real property. Depreciation and amortization for the year 2001 is expected to be approximately $25.5 million. Certain capital expenditures are expected to be financed by machinery manufacturers and the Company's operating cash flows. Capital expenditures in 2001 will be focused primarily on expanding the Company's high-end residential and commercial business.

Availability under the Company's existing debt arrangements, the anticipated extension of the accounts receivable securitization program 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 $50.9 million of unamortized goodwill representing 12.0% of total assets and 47.0% 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 which is being amortized over 40 years in accordance with Accounting Principles Board Opinion No. 17: Intangible Assets.

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 and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are identified by their use of terms or phrases such as "expects," "estimated," "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 Company and could cause those results to differ materially from its historical results or those expressed in or implied by the forward-looking statements. These risks include, among others, the cost and availability of capital, raw material and transportation costs related to petroleum price levels, the cost and availability of energy supplies, 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 30, 2000 and December 25, 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2000. 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 30, 2000 and December 25, 1999, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note N to the consolidated financial statements, the Company changed its method of inventory valuation for certain inventories in 2000.

Ernst & Young LLP

Chattanooga, Tennessee
February 14, 2001

Consolidated Balance Sheets

(dollars in thousands, except per share data)

	December 30, 2000	December 25, 1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,591	$ 12,541
Accounts receivable (less allowance for doubtful accounts of $2,164 for 2000 and $1,831 for 1999)	11,998	19,454
Inventories	114,944	104,042
Assets held for sale	68	457
Other	20,348	14,471
TOTAL CURRENT ASSETS	149,949	150,965
PROPERTY, PLANT AND EQUIPMENT		
Land and improvements	6,675	5,829
Buildings and improvements	81,405	68,885
Machinery and equipment	251,695	233,052
	339,775	307,766
Less accumulated amortization and depreciation	(147,583)	(134,180)
NET PROPERTY, PLANT AND EQUIPMENT	192,192	173,586
INTANGIBLE ASSETS (less accumulated amortization of $7,659 for 2000 and $6,190 for 1999)	50,895	52,460
INVESTMENT IN AFFILIATE	11,678	–
OTHER ASSETS	18,492	14,890
TOTAL ASSETS	$ 423,206	$ 391,901
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 49,361	$ 53,590
Accrued expenses	23,645	26,241
Accrued liabilities of discontinued operations	1,630	3,461
Current portion of long-term debt	14,018	13,460
TOTAL CURRENT LIABILITIES	88,654	96,752
LONG-TERM DEBT		
Senior indebtedness	112,286	60,961
Subordinated notes	40,476	45,238
Convertible subordinated debentures	34,737	37,237
TOTAL LONG-TERM DEBT	187,499	143,436
OTHER LIABILITIES	11,208	10,295
DEFERRED INCOME TAXES	27,554	23,508
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued – 14,226,315 shares for 2000 14,264,277 shares for 1999	42,679	42,793
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued – 795,970 shares for 2000 and 1999	2,388	2,388
Common Stock subscribed – 791,786 shares for 2000 and 620,516 shares for 1999	2,375	1,861
Additional paid-in capital	135,116	136,144
Stock subscriptions receivable	(5,341)	(5,456)
Unearned stock compensation	(93)	(489)
Accumulated deficit	(11,985)	(2,659)
Accumulated other comprehensive income	(545)	(412)
	164,594	174,170
Less Common Stock in treasury at cost – 3,519,778 shares for 2000 and 3,511,829 share for 1999	(56,303)	(56,260)
TOTAL STOCKHOLDERS' EQUITY	108,291	117,910
Commitments – Note L		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 423,206	$ 391,901

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations

(dollars in thousands, except per share data)

	Year Ended		
	December 30, 2000	December 25, 1999	December 26, 1998
NET SALES	$ **568,081**	$ 597,869	$ 510,962
Cost of sales	**470,437**	483,098	416,441
GROSS PROFIT	**97,644**	114,771	94,521
Selling and administrative expenses	**96,471**	79,269	66,201
Other (income) expenses – net	**(161)**	2,081	3,357
INCOME BEFORE INTEREST AND TAXES	**1,334**	33,421	24,963
Interest expense	**17,211**	13,051	10,263
INCOME (LOSS) BEFORE INCOME TAXES	**(15,877)**	20,370	14,700
Income tax provision (benefit)	**(5,727)**	7,971	5,592
INCOME (LOSS) FROM CONTINUING OPERATIONS	**(10,150)**	12,399	9,108
LOSS FROM DISCONTINUED OPERATIONS	–	–	(1,853)
INCOME (LOSS) ON DISPOSAL OF DISCONTINUED OPERATIONS	**824**	4,792	(28,257)
NET INCOME (LOSS)	$ **(9,326)**	$ 17,191	$ (21,002)
BASIC EARNINGS (LOSS) PER SHARE:			
Income (loss) from continuing operations	$ **(0.88)**	$ 1.09	$ 0.81
Loss from discontinued operations	–	–	(0.16)
Income (loss) on disposal of discontinued operations	**0.07**	0.42	(2.51)
Net income (loss)	$ **(0.81)**	$ 1.51	$ (1.86)
DILUTED EARNINGS (LOSS) PER SHARE:			
Income (loss) from continuing operations	$ **(0.88)**	$ 1.06	$ 0.77
Loss from discontinued operations	–	–	(0.16)
Income (loss) on disposal of discontinued operations	**0.07**	0.41	(2.39)
Net income (loss)	$ **(0.81)**	$ 1.47	$ (1.78)
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 30, 2000	December 25, 1999	December 26, 1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations	$ **(10,150)**	$ 12,399	$ 9,108
Income (loss) from discontinued operations	**824**	4,792	(30,110)
Net income (loss)	**(9,326)**	17,191	(21,002)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization:			
Continuing operations	**23,440**	22,330	18,701
Discontinued operations	–	–	6,272
Provision (benefit) for deferred income taxes	**3,647**	2,045	(7,900)
Long-lived asset losses – discontinued operations	–	–	19,992
Gain on property, plant and equipment disposals	**(2,661)**	(160)	(56)
Changes in operating assets and liabilities, net of effects of business combinations:			
Accounts receivable	**12,653**	23,739	(6,017)
Inventories	**(5,122)**	(12,685)	2,196
Other current assets	**(2,286)**	(1,122)	21
Other assets	**(3,564)**	(6,129)	(1,518)
Accounts payable and accrued expenses	**(14,962)**	1,831	6,939
Accrued losses of discontinued operations	**(1,831)**	(9,188)	12,649
Other liabilities	**(150)**	(1,114)	4,167
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(162)**	36,738	34,444
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sales of property, plant and equipment	**20,008**	52,097	13,078
Purchase of property, plant and equipment:			
Continuing operations	**(50,664)**	(35,327)	(33,363)
Discontinued operations	–	(4,385)	(9,482)
Cash payments in connection with business combinations	**(10,923)**	(32,714)	–
Investment in affiliate	**(11,894)**	–	–
NET CASH (USED IN) INVESTING ACTIVITIES	**(53,473)**	(20,329)	(29,767)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in credit line borrowings	**59,104**	16,073	4,176
Payments under term loan facility	**(7,814)**	(20,654)	(3,625)
Payments on subordinated indebtedness	**(7,262)**	(2,500)	(2,545)
Dividends paid	–	–	(1,701)
Other	**(343)**	398	(15)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**43,685**	(6,683)	(3,710)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(9,950)**	9,726	967
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**12,541**	2,815	1,848
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ **2,591**	$ 12,541	$ 2,815

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 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
Common Stock acquired for treasury – 7,949 shares							(43)	(43)
Common Stock sold under stock option Plan – 2,038 shares	6		2					8
Common Stock subscribed – 355,389 shares		1,066	474	(1,540)				–
Stock subscriptions cancelled – 184,119 shares		(552)	(1,104)	1,656				–
Amortization of restricted stock grants				190				190
Restricted stock grants cancelled – 40,000 shares	(120)		(400)	205				(315)
Net loss for the year					(9,326)			(9,326)
Other comprehensive income (loss) change in additional minimum pension liability, net of tax of $85						(133)		(133)
Comprehensive income (loss)								(9,459)
BALANCE AT DECEMBER 30, 2000	$45,067	$ 2,375	$ 135,116	$ (5,434)	$(11,985)	$ (545)	$ (56,303)	$ 108,291

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 subsidiaries (the "Company"), except for the Company's special purpose accounts receivable financing subsidiary (see Note D). Significant intercompany accounts and transactions have been eliminated in consolidation. The Company's 50% interest in Chroma Systems Partners is accounted for on the equity method.

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 is allocated to discontinued operations based on the ratio of net assets discontinued to the sum of 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.

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 to determine cost for substantially all inventories at December 30, 2000. Inventories resulting from a business combination in 1999 comprised 21% of total inventories at December 25, 1999. Such inventories are valued using the first-in first-out (FIFO) method in 1999 and using the LIFO method in 2000 (see Note N).

Inventories are summarized as follows:

	2000	1999
Raw materials	$ **33,541**	$ 32,320
Work-in-process	**16,559**	18,852
Finished goods	**62,908**	50,995
Supplies, repair parts and other	**1,936**	1,875
Total inventories	$ **114,944**	$ 104,042

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

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
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income tax purposes. Depreciation and amortization of property, plant and equipment for financial reporting purposes totaled $21,223 in 2000, $20,482 in 1999 and $16,888 in 1998.

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 values 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 accounts for stock based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

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.

Shipping and Handling Costs: Shipping and handling costs are charged to cost of sales in the Company's financial statements.

Reclassifications: Certain amounts for 1999 and 1998 have been reclassified to conform with 2000 presentation.

Transfers of Financial Assets: The Company will be required to adopt Statement of Financial Accounting Standards No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" in 2001. The Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. Adoption of the statement is not expected to have a material effect on the consolidated results of operations or financial position of the Company.

Derivatives and Hedging Activities: In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities", which was amended by Statement of Financial Accounting Standards Nos. 137 and 138 and is now required to be adopted by the Company effective January 1, 2001. Because of the Company's minimal use of derivatives, Management does not anticipate that the adoption of the new statement will have a significant impact on the Company's earnings or financial position.

NOTE B – BUSINESS COMBINATIONS AND INVESTMENT IN AFFILIATE

On July 1, 2000, the Company acquired 90% of the capital stock of Fabrica International ("Fabrica"), a privately held California corporation. On September 8, 2000, the Company acquired the remaining 10% of the capital stock of Fabrica. Fabrica produces and sells higher-end carpet and rugs to carpet retailers, interior designers, luxury yacht manufacturers, furniture stores and other markets.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
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The Company acquired the stock of Fabrica for $9,000 in cash. The agreement provides for the payment of contingent consideration of $50,000 in 2003 if Fabrica's cumulative gross sales for the period of April 1, 2000 through June 30, 2003 exceed certain levels. The agreement also provides for an additional contingent amount of up to $2,500 to be paid in April 2005 if Fabrica's cumulative earnings before interest and taxes for the five-year period beginning January 1, 2000 exceed specified levels. The Company's investment in Fabrica secures the seller's right to any contingent consideration that becomes due. Any contingent amounts that may become payable under the agreement will be treated as an additional cost of the acquisition.

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 of Fabrica and Multitex were accounted for under the purchase method of accounting for business combinations and accordingly, the results of operations of Multitex subsequent to January 8, 1999, and Fabrica subsequent to June 30, 2000, 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.

A summary of net assets acquired is as follows:

	FABRICA	MULTITEX
Current assets	$ 11,947	$ 18,462
Property, plant, and equipment	6,406	21,459
Other non-current assets	291	430
Current liabilities	(7,957)	(9,387)
Deferred taxes	(708)	–
Long-term debt	(733)	–
Net assets acquired	$ 9,246	$ 30,964

The following unaudited pro forma summary presents the consolidated results of operations as if the acquisition of Fabrica had occurred at the beginning of the periods presented after giving effect to certain adjustments, including interest expense on debt to finance the acquisition, 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 the results that would have occurred had the acquisition taken place at the beginning of the periods presented.

	2000	1999
Net sales	**$ 593,890**	$ 642,040
Net income (loss)	**(7,525)**	20,608
Net income (loss) per share:		
Basic	**(0.66)**	1.81
Diluted	**(0.66)**	1.76

In the first quarter of 1999, the Company acquired Graphic Tec, Inc., a carpet producer, for approximately $1,750 cash. In the fourth quarter of 1998, the Company acquired the assets of Ideal Fibers, a fiber extrusion business, for approximately $4,061 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.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
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On July 1, 2000, the Company acquired a one-third interest in Chroma Systems Partners ("Chroma"). Chroma performs dyeing and finishing processes on a contract basis for Fabrica and other carpet businesses. The initial investment in Chroma was $11,000 paid in cash on July 3, 2000. The agreement provides for an adjustment to the amount paid, which will increase or decrease the Company's investment when due, by an amount generally equal to the Company's share of Chroma's income or loss for the three years ending June 30, 2003 less $1,800. Such adjustment paid in 2000 was $786. The Company's investment in Chroma secures the seller's right to any contingent consideration that becomes due. Upon withdrawal of another partner from Chroma on September 30, 2000, the Company's interest in Chroma increased to 50%, without further investment. At December 30, 2000, the carrying value of the Chroma investment is approximately $9,591 greater than the Company's 50% interest in Chroma's reported net assets. Such difference is being amortized on a straight-line basis over the estimated average economic life of the underlying assets (approximately 19 years) as a reduction to income from the investment. In 2000, the Company's equity in the earnings and distributions received from Chroma were $617 and $1,086, respectively.

Fabrica's purchases from Chroma were $2,611 in 2000.

NOTE C – DISCONTINUED OPERATIONS

In 1998, the Company discontinued 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% 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:

	2000	1999	1998
Net sales	$ –	$ 11,832	$ 184,122
Loss from discontinued operations:			
Before income taxes	–	–	(2,697)
Income tax provision (benefit)	–	–	(844)
Net loss	$ –	$ –	$ (1,853)
Estimated income (loss) on disposal:			
Before income taxes	$ **1,289**	$ 7,855	(39,325)
Income tax provision (benefit)	**465**	3,063	(11,068)
Net income (loss)	$ **824**	$ 4,792	$ (28,257)

The gains on disposal in 2000 and 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

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
- continued -

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. Interest cost for periods subsequent to the decision to discontinue the textile products operations included in the loss on disposal was $1,996.

At December 30, 2000 and December 25, 1999, the remaining liabilities of the textile products operations consisted of accrued exit costs of $1,630 and $3,461 respectively, and no significant assets were remaining.

NOTE D – SALE OF ACCOUNTS RECEIVABLE

In June 2000, the Company replaced its existing $45,000 accounts receivable securitization program with a new one-year program which provides for up to $60,000 of funding. Under the agreement, a significant portion of the Company's accounts receivable is sold, on a revolving basis, to a special purpose wholly-owned subsidiary, which assigns such receivables to an independent issuer of receivables-backed commercial paper as security for amounts borrowed by the special purpose subsidiary.

The transaction is accounted for as a sale of accounts receivable. Accordingly, the undivided interest in receivables sold under the agreement is excluded from the Company's balance sheet. Amounts sold under this arrangement and the previous program were $40,400 at December 30, 2000 and $45,000 at December 25, 1999. The Company's retained interest in the accounts receivable is stated at the estimated amount to be received upon the collection of the receivables and is included in the balance sheet as accounts receivable, a portion of which is classified as other assets.

Proceeds from the sale of accounts receivable are less than the face amount of the accounts receivable sold by an amount which approximates the variable financing cost of receivables-backed commercial paper plus administrative fees typical in such transactions. Costs of the previous program were fixed at 6.08% per annum on the amount of the interest sold plus administrative fees typical in such transactions. The Company continues to service the receivables and maintains an allowance for doubtful accounts based upon the expected collectibility of all of the accounts receivable generated by the Company.

These costs which were approximately $3,479 for 2000, $2,900 for 1999 and $2,935 for 1998, are included in other expense – net.

At December 30, 2000, $5,165 of the Company's accounts receivable were factored without recourse to financial institutions.

NOTE E – ACCRUED EXPENSES

Accrued expenses include the following:

	2000	1999	1998
Compensation and benefits	$ **10,866**	$ 13,934	$ 8,910

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
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NOTE F – LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2000	1999
Senior indebtedness:		
Credit line borrowings	$ 82,177	$ 23,073
Term loan	28,532	36,346
Other	8,333	7,740
Total senior indebtedness	119,042	67,159
Subordinated notes	45,238	50,000
Convertible subordinated debentures	37,237	39,737
Total long-term debt	201,517	156,896
Less current portion	(14,018)	(13,460)
Total long-term debt (less current portion)	$ 187,499	$ 143,436

The Company's senior credit arrangement was amended on November 2, 2000 to provide the lender with a security interest in substantially all of the Company's assets not otherwise pledged (see Note B), and to adjust covenants to reflect expected future results and the Company's current financial structure. The credit agreement provides revolving credit of up to $100,000 through March 2003, a $28,500 term loan, and $5,000 of short-term credit. The term loan is payable in quarterly installments of approximately $1,600 through December 31, 2002 with a final installment of $15,400 in March, 2003. Interest rates under the credit agreement effectively allow for borrowing at rates equal to LIBOR plus 1.75% to 2.75%. Commitment fees, ranging from .25% to .50% per annum on the revolving credit line are payable on the average daily unused balance of the revolving credit facility. The effective annual interest rate on borrowings under the revolving credit and term loan agreement was 7.67% for 2000 and 6.31% for 1999. The average interest rate on debt outstanding under this agreement was 9.14% at December 30, 2000 and 5.92% at December 25, 1999.

The Company's subordinated notes are unsecured, bear interest at 9.96% to 10.61% payable semi-annually, and are due in semi-annual installments of $2,381 which commenced February 1, 2000.

The Company's convertible subordinated debentures bear interest at 7% payable semi-annually, 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.

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.

Approximate maturities of long-term debt for each of the five years succeeding December 30, 2000 are $14,018 in 2001, $14,013 in 2002, $105,021 in 2003, $7,294 in 2004, and $7,299 in 2005.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
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Interest payments for continuing and discontinued operations were $17,447 in 2000, $14,095 in 1999, and $12,918 in 1998.

At December 30, 2000, the Company is party to an interest rate swap agreement, with a notional amount of $70,000, to reduce the impact of changes in interest rates on its floating rate long-term debt. Under the agreement, the Company pays a fixed rate of 6.75% and receives a variable rate, which was 6.58% at December 30, 2000. Any interest rate differential realized is recognized as an adjustment to interest expense over the life of the swap agreement.

The Company's long-term debt and credit agreements contain financial covenants relating to minimum net worth, the ratio of debt to capitalization and senior and total debt to earnings before interest, taxes, depreciation and amortization, payment of dividends and certain other financial ratios. The financial covenants under the Company's debt arrangements currently do not permit the payment of dividends.

As of December 30, 2000, the Company's borrowing capacity under its credit arrangements was $15,697 (including amounts available under short-term credit lines).

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:

	2000		1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets				
Cash and cash equivalents	**$ 2,591**	**$ 2,591**	$ 12,541	$ 12,541
Notes receivable (including current portion)	**6,860**	**6,860**	6,865	6,865
Escrow funds	**253**	**253**	640	640
Financial liabilities				
Long-term debt (including current portion)	**201,517**	**190,102**	156,896	145,324
Off balance sheet				
Interest rate swap	**–**	**(1,485)**	–	1,383

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

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
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NOTE H – PENSION PLANS

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

	2000	1999
Change in benefit obligation:		
Benefit obligation at beginning of year	$ **6,999**	$ 18,225
Service cost	**92**	100
Interest cost	**437**	945
Actuarial (gain) loss	**230**	(1,804)
Benefits paid	**(1,152)**	(10,588)
Change in plan provisions	**-**	120
Benefit obligation at end of year	**6,606**	6,998
Change in plan assets:		
Fair value of plan assets at beginning of year	**4,070**	12,550
Actual return on plan assets	**(259)**	11
Employer contribution	**324**	2,097
Benefits paid	**(1,151)**	(10,588)
Fair value of plan assets at end of year	**2,984**	4,070
Funded status	**(3,622)**	(2,928)
Unrecognized actuarial loss	**893**	674
Net amount recognized	$ **(2,729)**	$ (2,254)
Amounts recognized in the statement of financial position consist of:		
Accrued liability	$ **(3,622)**	$ (2,928)
Accumulated other comprehensive income	**893**	674
Net amount recognized	$ **(2,729)**	$ (2,254)
Weighted-average assumptions as of year-end:		
Discount rate	**6.06%**	6.27%
Expected return on plan assets	**8.50%**	8.50%

There were no shares of the Company's Common Stock included in plan assets at December 30, 2000 or December 25, 1999.

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

	2000	1999	1998
Components of net periodic pension costs:			
Defined benefit plans			
Service cost	$ **92**	$ 100	$ 51
Interest cost	**436**	222	331
Expected return on plan assets	**(357)**	(244)	(375)
Recognized net actuarial loss	**10**	110	25
Settlement loss	**75**	64	59
	256	252	91
Defined contribution plans	**3,006**	3,889	3,811
Net pension cost	$ **3,262**	$ 4,141	$ 3,902

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
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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:

	2000		1999		1998	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal	**$(10,575)**	**$ 5,589**	$ 5,366	$ 1,940	$ 1,748	$ 3,525
State	**(788)**	**47**	747	(82)	97	222
Total	**$(11,363)**	**$ 5,636**	$ 6,113	$ 1,858	$ 1,845	$ 3,747

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:

Deferred Tax Liabilities:	2000	1999
Property, plant and equipment	**$ 31,799**	$ 23,035
Inventories	**–**	267
Intangible assets	**522**	2,176
Other	**4,085**	3,702
Total deferred tax liabilities	**$ 36,406**	$ 29,180
Deferred Tax Assets:		
Inventories	**525**	–
Post-retirement benefits	**4,996**	4,350
Other employee benefits	**1,721**	2,695
Losses from discontinued operations	**214**	529
Alternative minimum tax	**3,240**	–
Allowances for bad debts, claims and discounts	**2,281**	2,332
Other	**761**	1,236
Total deferred tax assets	**13,738**	11,142
Net deferred tax liabilities	**$ 22,668**	$ 18,038

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:

	2000	1999	1998
Statutory rate applied to income from continuing operations	**$ (5,557)**	$ 7,132	$ 4,998
Plus state income taxes net of federal tax effect	**(482)**	432	210
Total statutory provision (benefit)	**$ (6,039)**	$ 7,564	$ 5,208
Increase (decrease) attributable to:			
Nondeductible amortization of and impairment adjustments to intangible assets	**193**	242	201
Nondeductible portion of travel and entertainment	**246**	246	251
Net operating loss carryback benefit	**–**	–	–
Other items	**(127)**	(81)	(68)
Total tax provision (benefit)	**$ (5,727)**	$ 7,971	$ 5,592

Notes to Consolidated Financial Statements

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Income tax refunds received, net of income tax payments, for continuing and discontinued operations were $5,348 in 2000. Income tax payments, net of income tax refunds received, for continuing and discontinued operations were $10,545 and $2,156 in 1999 and 1998, respectively.

At December 30, 2000, the Company had income tax refunds receivable of $9,642 included in other current assets.

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 also authorizes 200,000,000 shares 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.

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

	2000	1999	1998
Income (loss) from continuing operations [1]	**($10,150)**	$ 12,399	$ 9,108
Denominator for calculation of basic earnings per share – weighted average shares [2]	**11,473**	11,355	11,267
Effect of dilutive securities:			
Stock options [2]	–	206	348
Stock subscriptions [2]	–	121	194
Denominator for calculation of diluted earnings per share – weighted average shares adjusted for potential dilution [2] [3]	**11,473**	11,682	11,809
Earnings per share:			
Basic	**($0.88)**	$ 1.09	$ 0.81
Diluted	**($0.88)**	$ 1.06	$ 0.77

[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: 3,687 shares in 2000, 2,835 shares in 1999, and 2,065 shares in 1998.

NOTE K – STOCK PLANS

The Company's 2000 Incentive Stock Plan reserved 436,500 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.

Notes to Consolidated Financial Statements

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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 30, 2000, options for 13,756 of these shares remain outstanding.

A summary of the option activity for the three years ended December 30, 2000:

	Number of Shares	Weighted – Average Exercise Price	Weighted – Average Fair Value of Options Granted During the Year
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	
Granted at market price	290,500	4.13	2.10
Exercised	(1,019)	4.29	
Forfeited	(297,019)	7.59	
Expired	(3,057)	4.29	
Outstanding at December 30, 2000	1,704,006	7.38	
Options exercisable at:			
December 26, 1998	497,561	6.90	
December 25, 1999	603,914	7.76	
December 30, 2000	1,180,007	8.34	

The following table summarizes information about stock options at December 30, 2000:

Options Outstanding			
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted – Average Exercise Price
$3.875 - $ 5.27	349,006	8.4 years	$ 4.17
5.75 - 8.81	1,110,000	5.5 years	7.32
9.25 - 14.30	245,000	6.2 years	12.21
$3.875 - $14.30	1,704,006	6.2 years	$ 7.38

Options Exercisable		
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price
$3.875 - $ 5.27	64,381	$ 4.95
5.75 - 8.81	837,876	7.23
9.25 - 14.30	277,750	12.48
$3.875 - $ 14.30	1,180,007	$ 8.34

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
- continued -

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:

	2000 GRANTS	1999 GRANTS	1998 GRANTS
Expected life	5 years	5 years	5 years
Expected volatility	49.5%	50.1%	44.2%
Risk-free interest rate	6.37%	5.60%	5.56%
Dividend yield	0.0%	0.0%	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 effects.

	2000	1999	1998
Pro forma:			
Net income (loss)	$ **(10,213)**	$ 16,271	$ (21,788)
Earnings (loss) per share:			
Basic	**(0.89)**	1.43	(1.93)
Diluted	**(0.89)**	1.39	(1.84)

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 30, 2000, 791,786 shares were subscribed at a weighted average price of $6.74 per share, at December 25, 1999, 620,516 shares were subscribed at a weighted average price of $8.79 per share, and at December 26, 1998, 573,463 shares were subscribed at a weighted average price of $6.49 per share

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 30, 2000, 27,480 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. The numbers of shares sold under the plan were 9,100 in 1999. No shares were sold in the other periods presented.

NOTE L – COMMITMENTS

The Company had commitments for purchases of machinery and equipment, building construction and information systems of approximately $5,970 at December 30, 2000.

The Company leases buildings, machinery and equipment under operating leases. Commitments for minimum rentals under non-cancelable leases are as follows:

2001	$ 7,870
2002	7,493
2003	6,806
2004	4,659
2005	1,760
Thereafter	909
Total	$ 29,497

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
- continued -

During 2000, the Company participated in related party non-cancelable operating leases for certain manufacturing facilities. Rent paid to related parties during 2000 was approximately $736.

Rental expense in 2000 and 1999 amounted to approximately $7,127 and $2,855, respectively, and for 1998 was not material.

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, taxes, cost of the Company's accounts receivable securitization program and other non-segment items). 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 Company's accounts receivable under the Company's accounts receivable securitization program 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 securitization program).

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		
	2000	1999	1998	2000	1999	1998
Reportable Segments:						
Carpet Manufacturing	**$493,709**	$474,552	$415,619	**$ 725**	$ 30,056	$24,454
Floorcovering Base Materials	**74,372**	123,317	95,343	**(1,934)**	3,466	3,108
Intersegment eliminations				–	–	7
Segment total	**$568,081**	$597,869	$510,962	**$ (1,209)**	$ 33,522	$27,569
Interest expense				**17,211**	13,051	10,263
Cost of accounts receivable securitization program				**3,479**	2,900	2,900
Other non-segment (income)				**(6,022)**	(2,799)	(294)
Consolidated income (loss) from continuing operations before income taxes				**$(15,877)**	$ 20,370	$14,700

	CAPITAL EXPENDITURES			DEPRECIATION AND AMORTIZATION		
	2000	1999	1998	2000	1999	1998
Reportable Segments:						
Carpet Manufacturing	$ 25,433	$ 21,161	$ 23,099	$ 14,225	$ 15,398	$14,542
Floorcovering Base Materials	18,478	13,671	10,219	6,788	6,328	3,359
Corporate and Shared Services	6,753	495	45	2,427	604	800
Total continuing operations	$ 50,664	$ 35,327	$ 33,363	$ 23,440	$ 22,330	$18,701

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)
- continued -

	ASSETS USED IN PERFORMANCE MEASUREMENT		
	2000	1999	1998
Reportable Segments:			
Carpet Manufacturing	**$ 325,486**	$ 292,889	$ 229,937
Floorcovering Base Materials	**73,621**	76,051	54,463
Assets in Performance Measurement	**399,107**	368,940	284,400
Assets Not in Segment Measurements:			
Other operating assets	**24,031**	22,504	22,738
Assets of discontinued operations	**68**	457	67,508
Total consolidated assets	**$ 423,206**	$ 391,901	$ 374,646

During 2000 and 1999, sales to The Home Depot amounted to approximately $89,000 and $59,000, 16% and 10% of consolidated net sales. No single customer's net sales exceeded 10% of the Company's consolidated net sales in 1998. 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 substantial 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 $137,328 in 2000, $103,669 in 1999 and $62,545 in 1998.

NOTE N – CHANGE IN ACCOUNTING METHOD FOR CERTAIN INVENTORIES

In connection with combining the manufacturing processes of its Globaltex and Carriage operations, the Company changed the valuation method used for Globaltex inventories from the first-in, first-out (FIFO) method to the last in, last-out (LIFO) method effective January 1, 2000. Management believes the new method more appropriately matches current costs with current revenues, and the change results in substantially all of the Company's inventories being accounted for on the LIFO method. The effect of the change in 2000 was to increase the net loss by approximately $192 ($0.02 per share). The change had no material effect on prior periods.

NOTE O – OTHER (INCOME) EXPENSE

Gains on the sale of certain fixed assets of $3,700 and write-downs of certain fixed assets of $1,000 are included in other (income) expense for 2000.

Historical Summary

(dollars in thousands, except per share data)

FISCAL YEARS	2000 [1]	1999 [2]	1998	1997 [3]	1996
OPERATIONS					
Net sales	**$ 568,081**	$ 597,869	$ 510,962	$ 444,520	$ 373,222
Income (loss) from continuing operations before income taxes	**(15,877)**	20,370	14,700	14,026	9,737
Income tax provision (benefit)	**(5,727)**	7,971	5,592	5,214	4,036
Income (loss) from continuing operations	**(10,150)**	12,399	9,108	8,812	5,701
Depreciation and amortization [4]	**23,440**	22,330	18,701	15,809	14,731
Dividends	**–**	–	1,701	–	–
Capital expenditures [4]	**50,664**	35,327	33,363	19,183	12,095
FINANCIAL POSITION					
Assets	**$ 423,206**	$ 391,901	$ 374,646	$ 386,614	$ 328,135
Working capital	**61,295**	54,213	80,582	68,051	72,260
Long-term debt:					
Senior indebtedness	**112,286**	60,961	64,466	68,528	34,036
Subordinated notes	**40,476**	45,238	50,000	50,000	50,000
Convertible subordinated debentures	**34,737**	37,237	39,737	42,282	44,782
Stockholders' equity	**108,291**	117,910	99,990	121,244	108,550
PERCENT					
Income (loss) from continuing operations to sales	**(1.8%)**	2.1%	1.8%	2.0%	1.5%
Income (loss) from continuing operations to average equity	**(9.0%)**	11.0%	8.1%	7.7%	4.9%
PER SHARE					
Income (loss)from continuing operations:					
Basic	**$ (0.88)**	$ 1.09	$ 0.81	$ 0.78	$ 0.51
Diluted	**(0.88)**	1.06	0.77	0.75	0.51
Dividends:					
Common Stock	**–**	–	0.15	–	–
Class B Common Stock	**–**	–	0.15	–	–
Book value	**9.41**	10.21	8.80	10.70	9.69
GENERAL					
Weighted average common shares outstanding:					
Basic	**11,473,210**	11,355,175	11,267,418	11,228,519	11,200,403
Diluted	**11,473,210**	11,681,650	11,809,281	11,765,323	11,200,403
Number of shareholders [5]	**3,500**	3,500	3,900	4,100	4,500
Number of associates	**3,800**	3,600	3,100	2,900	2,700

(1) Includes the results of operations of Fabrica subsequent to its acquisition on July 1, 2000.
(2) Includes the results of operations of Graphic Tec and Multitex subsequent to their acquisitions on January 21, 1999, and January 8, 1999, respectively.
(3) Includes the results of operations of Danube and GFI Dalton subsequent to their acquisitions on December 31, 1996, and October 2, 1997, respectively.
(4) Excludes discontinued operations.
(5) The approximate number of record holders of the Company's Common Stock for 1996 through 2000 includes Management's estimate of shareholders who held the Company's Common Stock in nominee names as follows: 1996 – 3,600 shareholders; 1997 – 3,100 shareholders; 1998 – 3,000 shareholders; 1999 – 2,500 shareholders; 2000 – 2,500 shareholders.

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

(dollars in thousands, except per share data)

2000 QUARTER	1ST	2ND	3RD	4TH
Net sales	$ 136,366	$ 146,078	$ 148,720	$ 136,917
Gross profit	22,697	26,667	23,010	25,269
Income (loss) from continuing operations	(1,184)	1,254	(3,676)	(6,544)
Net income (loss)	(1,184)	1,254	(3,676)	(5,720)
Basic earnings per share:				
Income (loss) from continuing operations	(0.10)	0.11	(0.32)	(0.57)
Net income	(0.10)	0.11	(0.32)	(0.50)
Diluted earnings per share:				
Income (loss) from continuing operations	(0.10)	0.11	(0.32)	(0.57)
Net income	(0.10)	0.11	(0.32)	(0.50)
Dividends:				
Common Stock	–	–	–	–
Class B Common Stock	–	–	–	–
Common Stock Prices:				
High	7.44	5.56	5.72	3.75
Low	4.19	3.50	3.50	2.38

1999 QUARTER	1ST	2ND	3RD	4TH
Net sales	$ 145,547	$ 156,873	$ 147,033	$ 148,416
Gross profit	27,311	31,077	28,513	27,870
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	0.23	0.36	0.27	0.23
Net income	0.23	0.75	0.27	0.26
Diluted earnings per share:				
Income from continuing operations	0.22	0.35	0.26	0.23
Net income	0.22	0.72	0.26	0.26
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

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. The Company recorded after-tax gains resulting from favorable adjustments to amounts accrued for discontinued operations at the end of 1998 of $824, or $.07 per diluted share in the fourth quarter 2000, $4,419 or $.37 per diluted share in the second quarter of 1999 and $373, or $.03 per diluted share in the fourth quarter of 1999.

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 Chief Executive Officer, 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

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

Peter L. Smith [4]
Managing Director, Lazard Fréres & 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

Philip H. Barlow
Vice President and President, North Georgia Operations

Kenneth L. Dempsey
Vice President and President, Masland Carpets

Paul K. Frierson
Vice President and President, Candlewick Yarns

W. Derek Davis
Vice President, Human Resources

Gary A. Harmon
Vice President and Chief Financial Officer

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.

Annual Meeting
The Annual Meeting of Shareholders of The Dixie Group, Inc. will be held at 10:00 A.M., EDT, on May 3, 2001, at Dixie Group Logistics; 365 S. Industrial Blvd. SW, Calhoun, Georgia 30701.

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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 25107, Chattanooga, Tennessee 37422, or contact Starr Klein, Secretary, at (423) 510-7005.

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Atlanta, Georgia 30302

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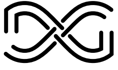

THE DIXIE GROUP

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