THE DIXIE GROUP

2001 ANNUAL REPORT

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 provides its select network of customers with the most luxurious residential carpets and handcrafted rugs available in the marketplace. Fabrica's marketing approach is directed toward the interior design community and specialty high-end retailers. Additional niche markets include luxury yacht manufacturers, home furnishings retailers, and the upscale home building industry.

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

Globaltex Carpets
Globaltex "Simply…The Best" offers an array of high fashion, trend setting, 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 filament and spun yarns. It continues to develop its filament yarn extrusion capabilities. Much of its production goes into the making of Dixie Group products.

Financial Highlights

(dollars in thousands, except per share data)

	Year Ended December 29, 2001	Year Ended December 30, 2000	Year Ended December 25, 1999
FOR THE YEAR			
Net sales	**$ 534,598**	$ 568,081	$ 597,869
Income (loss) from continuing operations	**517**	(10,150)	12,399
Income (loss) from continuing operations per share:			
Basic	**$ 0.04**	$ (0.88)	$ 1.09
Diluted	**0.04**	(0.88)	1.06
Weighted average shares outstanding:			
Basic	**11,669,144**	11,473,210	11,355,175
Diluted	**11,747,740**	11,473,210	11,681,650
AT YEAR-END			
Total assets	**$ 386,188**	$ 423,206	$ 391,901
Total debt:	**168,246**	201,517	156,896
Current portion	**14,497**	14,018	13,460
Long-term	**153,749**	187,499	143,436
Stockholders' equity	**106,225**	108,291	117,910
Shares outstanding:			
Common Stock	**10,945,206**	10,706,537	10,752,448
Class B Common Stock	**795,970**	795,970	795,970
Total shares outstanding	**11,741,176**	11,502,507	11,548,418

Letter to Shareholders

Fellow Shareholders and Associates:

In 2001, The Dixie Group was profitable, despite a difficult economy. We implemented an aggressive strategy to strengthen our balance sheet, consolidate operations and eliminate barriers to profitable growth. The strategy we began in mid-2000 is continuing and, by the end of the year 2001, included the following results:

- Reduced our workforce by 25 percent;
- Reduced inventories by 26 percent; and
- Reduced debt by 27 percent.

During 2001, we focused on eliminating the problems we identified in the previous year. We continued consolidating our North Georgia operations, merging three tufting operations into one, three dyeing operations into one, and multiple distribution centers into one. In addition, we combined three information systems. In early 2002, we closed a small carpet yarn plant in California and moved Candlewick's headquarters to Calhoun, locating it with our North Georgia operations. The yarn manufactured in the California facility can be more efficiently produced in the Company's larger plants in the Southeast.

Fabrica, which we acquired in mid-2000, continues to increase its sales in the high-end residential market with newly introduced products and handcrafted rugs. Masland, which serves the high-end residential and commercial markets, is increasing its offerings of distinctively designed products to enhance its market position and growth. The home center market continues to be an important part of our business where we can give customers exclusivity with our differentiated products. We are also encouraged by the opportunities we see in the retail specialty market. The relationships we have developed with "selective" retailers, together with the introduction of innovative products and programs, should result in this becoming an important market for us.

The factory-built housing market is recovering after a long slump and we expect the recovery to have a positive impact on Carriage, the largest carpet

Letter to Shareholders

supplier to that market. Dixie associates were among those this year to receive a Circle Of Excellence award from Fleetwood Homes. To receive the annual award, a supplier must have scored above 98 percent on Fleetwood's customer satisfaction index that includes timely deliveries, superior quality, and product problem resolution.

We are moving forward to refinance our senior credit facility and have executed a commitment letter for replacement financing with a new lender with the goal of having a new credit facility in place in the second quarter of 2002. Our debt, including amounts advanced under the Company's accounts receivable securitization program, was reduced over $47.0 million during 2001. The majority of the debt reduction was accomplished by tight control of working capital and capital spending.

Over the past year, we have built a stronger company and have made progress in nearly all areas of measurement. With the market positions we enjoy in our primary businesses, we believe we are now on course to take advantage of opportunities that will occur as the economy improves and the floor-covering industry continues to consolidate. We look forward to addressing an improving economy with our more efficient operations and improved cost position. We are determined to continuously improve our company for our shareholders, customers and associates.

While business started out soft in the first quarter of 2002, the momentum we are seeing in most of our markets makes us optimistic that sales and profitability will be stronger this year. We are excited about our new business relationships, new products and the changes that are taking place in our markets.

We thank our shareholders for their continued support and confidence and our associates for their hard work and dedication.

Daniel K. Frierson
Chairman and Chief Executive Officer
March 19, 2002

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

(dollars in thousands)

RESULTS OF OPERATIONS

During the three-year period ended December 29, 2001, the Company acquired Fabrica International (together with a 50% interest in Chroma Systems Partners), Multitex Corporation of America, Inc. ("Globaltex"), and Graphic Technologies, Inc. The Company's textile knit fabric and apparel and specialty yarn businesses were sold in 1999. The Company's business now consists entirely of manufacturing, selling and distributing finished carpet, rugs and carpet yarns.

The Company's floorcovering businesses are segmented between carpet manufacturing, including rugs, and floorcovering base materials (carpet yarns). 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 materials 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.

In 1999 and early in 2000, the Company's yarn operations were realigned and its yarn and extrusion capacity expanded. Also, during the early part of 2000, the Company identified a number of problems in its North Georgia operations and developed a strategy to address these problems and to substantially reduce debt and operating cost. Implementation, which began in mid-2000, resulted in the consolidation of three tufting operations into one facility, three dyeing operations into one facility, and multiple distribution centers into one. The Company also sold its two smaller dyeing facilities and combined three information systems. The strategy is continuing and, by the end of the year 2001, included the following results: reductions of 25% in workforce, 26% in inventories and 27% in debt (including amounts advanced under the Company's accounts receivable securitization program). In early 2002, the Company closed a small carpet yarn plant in California and moved its carpet yarn administrative offices to Calhoun to be located with the Company's other North Georgia operations. The yarn produced in the California facility can be more efficiently produced in the Company's larger plants in the Southeast.

2001 Compared to 2000 – The Company's 2001 fiscal year included 50 operating weeks versus 51 operating weeks in 2000. Sales decreased 6% to $534,598 in 2001 compared to 2000. The acquisition of Fabrica in July 2000 increased carpet sales by $26,401 in 2001 compared with 2000. Excluding Fabrica's sales and adjusting for the difference in the number of operating weeks in 2001 versus 2000, carpet sales declined 5.9% and floorcovering base materials sales to external customers declined 31%. The most significant decline in 2001 carpet sales was in the factory-built housing market, where sales declined over 20%. The Company believes the factory-built housing industry is recovering from a two-year slump in which this industry's production declined approximately 40%. The Company's sales to the factory-built housing industry increased in the fourth quarter of 2001 compared with the prior year.

The decline in the Company's floorcovering base materials sales was principally the result of softness in demand for carpet yarns throughout the carpet industry. Approximately 70% of the Company's carpet yarn production was utilized by the Company's carpet manufacturing operations in 2001.

The dollar volumes and percentages of the Company's net sales to The Home Depot were approximately $82,000, or 15%, in 2001, $85,000, or 15%, in 2000, and $56,000, or 9%, in 1999. The loss of The Home Depot business could have a material adverse effect on the Company's operations.

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

(dollars in thousands)
- continued -

The profit performance measure of the Company's business segments. is internal EBIT (earnings before interest, taxes and non-segment items). For purposes of the internal EBIT comparisons, the costs of the Company's accounts receivable securitization program are treated as expenses of the Company's business segments. For a reconciliation of internal EBIT to consolidated income (loss) from continuing operations before income taxes, see Note M to the Company's financial statements.

Internal EBIT for 2001 was $15,605 for the carpet manufacturing segment and a loss of $1,098 for the floorcovering base materials segment. The comparable 2000 internal EBIT was a $1,244 loss for the carpet manufacturing segment and a $2,490 loss for the floorcovering base materials segment.

The years 2001 and 2000 included unusual losses associated with facility consolidations, plant shutdowns, asset sales, severance and asset write-downs. Excluding the unusual items, internal EBIT for 2001 was $16,960, or 3.5% of sales, for carpet manufacturing and a $552 loss for floorcovering base materials. The comparable 2000 internal EBIT was $11,641, or 2.4% of sales, for carpet manufacturing and $292, or .4% of sales, for floorcovering base materials. The improved profitability for carpet manufacturing in 2001 is primarily attributable to implementation of the Company's consolidation and cost reduction strategy and the acquisition of Fabrica in July 2000. This improvement occurred despite the 4% decline in sales. This decrease in profitability for floorcovering base materials in 2001 was primarily the result of the 31% decline in sales volume.

Selling and administrative expenses decreased $155 in 2001, despite the effect of the mid-year 2000 acquisition of Fabrica, which increased these costs compared to the prior year. Excluding the effect of the Fabrica acquisition, these expenses decreased approximately $8,000 in 2001 compared with 2000. Selling, general and administrative expenses increased by 1.0% of sales, principally as the result of lower sales volume and higher selling and administrative costs associated with Fabrica's high-end operations.

Other (income) expense – net included gains of $4,330 in 2001 and $2,661 in 2000 from the sale of non-critical assets.

The Company's effective tax rate was 51.9% in 2001 and 36.1% for 2000. The effective tax rates differ from the approximate 39% statutory tax rates principally due to the effect of non-deductible goodwill amortization and other expenses in 2001, and due to net operating losses that could not be carried back to prior years for state income tax purposes in 2000.

2000 Compared to 1999 – Sales decreased 5% to $568,081 in 2000, compared to 1999. Sales improved $19,157, or 4.1%, in the Company's carpet manufacturing segment and declined $48,948, or 39.7%, in the Company's floorcovering base materials operations. The improved carpet manufacturing sales reflect the acquisition of Fabrica International on July 1, 2000, which added $26,038 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.

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 the Company's carpet yarn production was utilized by the Company's carpet manufacturing operations.

Internal EBIT for 2000 was a $1,244 loss for carpet manufacturing and a $2,490 loss for floorcovering base materials. Excluding costs in 2000 related to facilities consolidations and asset write-downs,

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

(dollars in thousands)
- continued -

internal EBIT was $11,641, or 2.4% of sales, for carpet manufacturing and $292, or .4% of sales, in the floorcovering base materials segment. Comparable 1999 internal EBIT was $27,584, or 5.8% of sales, for carpet manufacturing and $3,038, or 2.5% of sales, for floorcovering base materials.

The year 2000 was a year of intensive restructuring and consolidation designed to improve the cost effectiveness of the Company's operations. 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 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.

Selling and administrative expenses increased by 3.7% of sales compared to 1999 levels. The increase in these expenses is principally attributable to the acquisition of Fabrica International, which added $7,450 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 the Company's high-end and home center businesses.

Other (income) expense – net improved to $161 of income in 2000 from a $2,081 expense in 1999, principally as a result of gains from the sale of non-critical assets and the Company's equity in the earnings of an affiliate.

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 net operating losses that cannot be carried back to prior years for state income tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

During the three-year period ended December 29, 2001, cash flows generated from operating activities were $77,991. These funds were supplemented by $78,669 from asset sales and $54,694 from borrowings under the Company's senior credit facilities. Funds were used to finance the Company's operations, to invest $102,509 in capital assets, to invest $58,841 in business acquisitions, and to retire $51,367 of debt.

A major focus of the Company's strategy has been debt reduction. Since the high point of the Company's debt on August 11, 2000, through December 29, 2001, the Company reduced debt and amounts advanced under the accounts receivable securitization program by $71,221. The reduction is principally the result of proceeds from asset sales and better management of working capital. The Company does expect seasonal working capital to increase debt during the first half of 2002.

The purchase agreement for the July 2000 acquisition of Fabrica provides for contingent consideration of $50,000 if Fabrica's cumulative gross sales exceed certain levels for the thirty-nine month period beginning April 1, 2000. Based on Fabrica's sales through the end of 2001, the Company believes this sales level should be reached, in which case the contingent consideration will become payable in April 2003. 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 certain levels. The Company expects that any contingent payments under the agreement would be treated as additional costs of the acquisition. The acquisition of the Company's interest in Chroma Systems Partners in 2000 is subject to an adjustment generally equal to the Company's share of Chroma's income or loss for the three years ending June 30, 2003, less $1,800. The

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

(dollars in thousands)
- continued -

amounts due by the Company as a result of this calculation are paid monthly. The Company's investment in Fabrica and Chroma secures the Company's obligation to make the contingent payments.

At December 29, 2001, the Company's debt consisted of $34,737 of convertible subordinated debentures, $40,476 of subordinated notes, $93,033 of senior indebtedness, principally under the Company's senior credit agreement. Annual sinking fund principal payments for the convertible subordinated debentures are $2,500 for the years of 2002 through 2011. The subordinated notes require semi-annual principal payments of approximately $2,381 each February and August with the final payment in February 2010.

The Company's senior credit arrangement provides revolving credit of up to $95,000 through March 2003 and a $22,657 term loan. During 2001, the Company failed to comply with certain covenants under the agreement. The Company's lenders amended the agreement and waived compliance until December 31, 2002, at which time the Company will be required to replace the existing agreement or obtain additional waivers. The Company has executed a commitment letter for replacement financing with a new lender, and expects to have the new financing in place during the first half of 2002. Financial covenants under the Company's debt arrangements currently do not permit the payment of dividends.

The Company's accounts receivable securitization program was extended in June 2001 for an additional year. The agreement provides up to $60,000 of funding. Under the agreement, a significant portion of the Company's accounts receivable are 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 Company retains the credit risks for the collectibility of receivables sold under the agreement. The accounts of the special purpose subsidiary are not consolidated in the Company's financial statements. Amounts sold under this agreement were $25,951 at December 29, 2001, and $40,400 at December 30, 2000. The Company anticipates that this agreement will be terminated and receivables sold will become part of the collateral for borrowings under any new senior credit agreement.

Proceeds from the sale of assets were $6,564 in 2001, $20,008 in 2000 and $52,097 in 1999. The asset sales consisted primarily from the sale of the Company's textile knit fabrics and apparel and specialty yarn businesses in 1999 and the sale of machinery and equipment, dyeing facilities and real estate in 2000 and 2001. The assets sold in 2000 included $14,982 for machinery and equipment that were leased back under an operating lease for a period of four years at an annual lease cost of $2,900. The Company has an option to extend the lease for an additional year.

Capital expenditures, including $6,829 of amounts committed at December 29, 2001, are expected to be below $13,000 in 2002. Capital expenditures in 2002 will be focused primarily on new technology to support the Company's high-end residential and commercial business. Depreciation and amortization in the year 2002 is expected to be approximately $22,700.

The Company expects to replace its senior credit agreement with a new credit facility in the first half of 2002 and believes that operating cash flows and the anticipated credit availability under any new credit arrangement would be adequate to finance the Company's normal liquidity requirements. However, significant additional cash expenditures beyond such requirements, including the expected purchase contingency that is expected to become due in April 2003, would require supplemental financing or other sources of funding. Meeting the Company's liquidity requirements is dependent on the Company's ability to replace its senior credit facility and secure other funding sources. There can

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

(dollars in thousands)
- continued -

be no assurance that replacement financing or other sources of funding can be obtained or will be obtained on terms favorable to the Company.

The Company is a party to two non-cancelable operating leases assumed by the Company as part of acquisitions made in 1999 and 2000. Principals of the businesses acquired are employed by the Company and are lessors in the respective leases.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In January 2001, the Company adopted the provisions of Statement of Financial Accounting Standards No. 133 (SFAS 133) "Accounting for Derivative Instruments and Hedging Activities". The Company is party to an interest rate swap agreement through March 2003. The swap agreement qualifies as a cash flow hedge subject to provisions of SFAS 133. The agreement has a notional amount of $70,000. Under the agreement, the Company pays a fixed interest rate and receives a variable interest rate calculated with respect to the notional amount. Based on the market value of the swap instrument and provisions of SFAS 133, the Company recorded an after-tax charge of $906 to "accumulated other comprehensive loss" in the equity section of the Company's balance sheet upon adoption. An additional after-tax charge of $1,551 was recorded in 2001, representing the change in fair value from the date of adoption to December 29, 2001. Any interest rate differential realized is recognized as an adjustment to interest expense over the life of the swap agreement. Based on the Company's $70,000 interest rate swap agreement, a 10% fluctuation in the variable rate would result in an annual after-tax economic impact of approximately $83.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

Inventory represents a significant asset of the Company. Substantially all of the Company's inventories are valued at the lower of cost or market under the LIFO method. The Company inspects inventories at the completion of its production process to determine their quality and maintains statistical data relating to the age, size and quality of its inventories. The Company uses business judgement along with historical sales data and market conditions to value inventory, which is aged, less than standard size or off-quality, at estimated market value. Changes in market conditions within the floorcovering industry, the cost of raw materials, or other conditions, none of which the Company controls, could affect the value ultimately received for the Company's inventories. There can be no assurance that inventories will ultimately be sold at prices equal to or in excess of the value of the inventories recorded in the Company's financial statements.

The Company establishes reserves for potential bad debts related to the collectibility of accounts receivable based on numerous factors, including but not limited to, the customer's financial strength, payment patterns, and specific knowledge of the customers as obtained by direct communication. Additionally, the Company maintains reserves for allowances and customer claims based primarily on historical claims experience for specific markets, customers, or products. The Company believes that such reserves for bad debts, allowances and claims are reasonable.

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

(dollars in thousands)
- continued -

RECENT ACCOUNTING PRONOUNCEMENTS

At December 29, 2001, the Company had unamortized goodwill in the amount of $50,197, representing 13.0% of total assets and 47.3% 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." Amortization expense related to goodwill was $1,633, $1,544, and $1,503 for the years ended December 29, 2001, December 30, 2000, and December 25, 1999, respectively.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141) "Business Combinations" and Statement of Financial Accounting Standards No. 142 (SFAS 142) "Goodwill and Other Intangible Assets". SFAS 141 requires use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating use of the pooling of interests method of accounting. SFAS 142 provides that goodwill and certain other intangible assets no longer will be amortized but will be tested for impairment at least annually. SFAS 142 will apply to existing goodwill and intangible assets, beginning with fiscal years starting after December 15, 2001. The Company currently is evaluating the effect of the application of SFAS 142 on the carrying value of its goodwill.

In addition, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-lived Assets". This statement supersedes Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of". The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Adoption of the statement is not expected to have a significant impact on the Company's results of operations or financial position.

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 29, 2001 and December 30, 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2001. 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 29, 2001 and December 30, 2000 and the consolidated results of their operations and cash flows for each of the three years in the period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note A to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001, and as further 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 12, 2002

Consolidated Balance Sheets

(dollars in thousands, except per share data)

	December 29, 2001	December 30, 2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,412	$ 2,591
Accounts receivable (less allowance for doubtful accounts of $2,524 for 2001 and $2,164 for 2000)	18,144	11,998
Inventories	92,899	114,944
Assets held for sale	2,271	68
Other	9,538	20,348
TOTAL CURRENT ASSETS	124,264	149,949
PROPERTY, PLANT AND EQUIPMENT		
Land and improvements	6,028	6,675
Buildings and improvements	75,350	81,405
Machinery and equipment	240,273	251,695
	321,651	339,775
Less accumulated amortization and depreciation	(144,397)	(147,583)
NET PROPERTY, PLANT AND EQUIPMENT	177,254	192,192
INTANGIBLE ASSETS (less accumulated amortization of $9,103 for 2001 and $7,659 for 2000)	50,197	50,895
INVESTMENT IN AFFILIATE	12,575	11,678
OTHER ASSETS	21,898	18,492
TOTAL ASSETS	$ 386,188	$ 423,206
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 42,547	$ 49,361
Accrued expenses	30,605	25,275
Current portion of long-term debt	14,497	14,018
TOTAL CURRENT LIABILITIES	87,649	88,654
LONG-TERM DEBT		
Senior indebtedness	85,798	112,286
Subordinated notes	35,714	40,476
Convertible subordinated debentures	32,237	34,737
TOTAL LONG-TERM DEBT	153,749	187,499
OTHER LIABILITIES	13,926	11,208
DEFERRED INCOME TAXES	24,639	27,554
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued – 14,226,315 shares for 2001 and 2000	42,679	42,679
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued – 795,970 shares for 2001 and 2000	2,388	2,388
Common Stock subscribed – 802,557 shares for 2001 791,786 shares for 2000	2,408	2,375
Additional paid-in capital	132,922	135,116
Stock subscriptions receivable	(5,429)	(5,341)
Unearned stock compensation	(44)	(93)
Accumulated deficit	(11,468)	(11,985)
Accumulated other comprehensive income	(3,762)	(545)
	159,694	164,594
Less Common Stock in treasury at cost –3,281,109 shares for 2001 and 3,519,778 shares for 2000	(53,469)	(56,303)
TOTAL STOCKHOLDERS' EQUITY	106,225	108,291
Commitments – Note L		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 386,188	$ 423,206

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Operations

(dollars in thousands, except per share data)

	Year Ended		
	December 29, 2001	December 30, 2000	December 25, 1999
NET SALES	$ **534,598**	$ 568,081	$ 597,869
Cost of sales	**420,622**	470,437	483,098
GROSS PROFIT	**113,976**	97,644	114,771
Selling and administrative expenses	**96,316**	96,471	79,269
Other (income) expense – net	**(947)**	(161)	2,081
INCOME BEFORE INTEREST AND TAXES	**18,607**	1,334	33,421
Interest expense	**17,533**	17,211	13,051
INCOME (LOSS) BEFORE INCOME TAXES	**1,074**	(15,877)	20,370
Income tax provision (benefit)	**557**	(5,727)	7,971
INCOME (LOSS) FROM CONTINUING OPERATIONS	**517**	(10,150)	12,399
INCOME ON DISPOSAL OF DISCONTINUED OPERATIONS	**–**	824	4,792
NET INCOME (LOSS)	$ **517**	$ (9,326)	$ 17,191
BASIC EARNINGS (LOSS) PER SHARE:			
Income (loss) from continuing operations	$ **0.04**	$ (0.88)	$ 1.09
Income on disposal of discontinued operations	**–**	0.07	.42
Net income (loss)	$ **0.04**	$ (0.81)	$ 1.51
DILUTED EARNINGS (LOSS) PER SHARE:			
Income (loss) from continuing operations	$ **0.04**	$ (0.88)	$ 1.06
Income on disposal of discontinued operations	**–**	0.07	.41
Net income (loss)	$ **0.04**	$ (0.81)	$ 1.47
DIVIDENDS PER SHARE:			
Common Stock	**–**	–	–
Class B Common Stock	**–**	–	–

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(dollars in thousands)

	Year Ended December 29, 2001	Year Ended December 30, 2000	Year Ended December 25, 1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations	$ **517**	$ (10,150)	$ 12,399
Income on disposal of discontinued operations	–	824	4,792
Net income (loss)	**517**	(9,326)	17,191
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization – Continuing Operations	**24,007**	23,440	22,330
Provision (benefit) for deferred income taxes	**(1,271)**	3,647	2,045
Gain on property, plant and equipment disposals	**(4,330)**	(2,661)	(160)
Changes in operating assets and liabilities, net of effects of business combinations:			
Accounts receivable	**(6,367)**	12,653	23,739
Inventories	**22,045**	(5,122)	(12,685)
Other current assets	**10,591**	(2,286)	(1,122)
Other assets	**(1,419)**	(3,564)	(6,129)
Accounts payable and accrued expenses	**108**	(16,793)	(7,357)
Other liabilities	**(2,466)**	(150)	(1,114)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**41,415**	(162)	36,738
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sales of property, plant and equipment	**6,564**	20,008	52,097
Purchase of property, plant and equipment:			
Continuing operations	**(12,133)**	(50,664)	(35,327)
Discontinued operations	–	–	(4,385)
Cash payments in connection with business combinations	**(1,987)**	(10,923)	(32,714)
Investment in affiliate	**(1,323)**	(11,894)	–
NET CASH USED IN INVESTING ACTIVITIES	**(8,879)**	(53,473)	(20,329)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (decrease) increase in credit line borrowings	**(20,483)**	59,104	16,073
Payments under term loan facility	**(5,875)**	(7,814)	(20,654)
Payments on subordinated indebtedness	**(7,262)**	(7,262)	(2,500)
Other	**(95)**	(343)	398
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(33,715)**	43,685	(6,683)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,179)**	(9,950)	9,726
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,591**	12,541	2,815
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ **1,412**	$ 2,591	$ 12,541

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 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
Other comprehensive income:								
Change in additional minimum pension liability, net of tax of $247						387		387
Net income for the year					17,191			17,191
Total 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)
Other comprehensive income:								
Change in additional minimum pension liability, net of tax of $85						(133)		(133)
Net loss for the year					(9,326)			(9,326)
Total comprehensive loss								(9,459)
BALANCE AT DECEMBER 30, 2000	45,067	2,375	135,116	(5,434)	(11,985)	(545)	(56,303)	108,291
Common Stock acquired for treasury – 191,668 shares							(784)	(784)
Re-issuance of Treasury Shares – 430,337 shares			(2,250)				3,618	1,368
Common Stock subscribed – 14,015 shares		43	73	(116)				–
Stock subscriptions cancelled – 3,244 shares		(10)	(17)	27				–
Amortization of restricted stock grants				50				50
Other comprehensive income (loss):								
Change in additional minimum pension liability, net of tax of $486						(760)		(760)
Effect of adoption of SFAS 133 (net of tax of $579)						(906)		(906)
Change in fair value of interest rate swap (net of tax of $992)						(1,551)		(1,551)
Net income for the year					517			517
Total comprehensive loss								(2,700)
BALANCE AT DECEMBER 29, 2001	$45,067	$ 2,408	$ 132,922	$ (5,473)	$(11,468)	$ (3,762)	$ (53,469)	$ 106,225

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

Business: The Company's business consists of manufacturing, selling and distributing finished carpet, rugs and carpet yarns.

Principles of Consolidation: The consolidated financial statements include the accounts of The Dixie Group, Inc. and its wholly-owned 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 (see Note C). Disclosures included herein pertain to the Company's continuing operations unless noted otherwise.

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 29, 2001 and 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 and 2001 (see Note N).

Inventories are summarized as follows:

	2001	2000
Raw materials	**$ 24,018**	$ 33,541
Work-in-process	**15,855**	16,559
Finished goods	**50,767**	62,908
Supplies, repair parts and other	**2,259**	1,936
Total inventories	**$ 92,899**	$ 114,944

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

Notes to Consolidated Financial Statements

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

to 10 years for machinery and equipment. Applicable statutory recovery methods are used for income tax purposes. Depreciation and amortization of property, plant and equipment for financial reporting purposes totaled $21,340 in 2001, $21,223 in 2000 and $20,482 in 1999.

Intangible Assets: Intangible assets represent the excess of the purchase price over the fair market value of identifiable net assets acquired in business combinations. 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 of the operations to which the goodwill applies compared to the net book value of those operations, including goodwill.

Impairment of Assets: The Company reviews assets for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. The Company evaluates recoverability of its long-lived assets by comparing estimated future undiscounted cash flows with the carrying value of the related assets to determine if impairment exists. Impairment, if any, is then measured by comparing carrying value to market value or estimated future discounted cash flows of the underlying business.

Stock Based Compensation: As permitted under Statement of Financial Accounting Standards No. 123 (SFAS 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", and accordingly, recognizes no compensation expense for the stock option grants as long as the exercise price is equal to or more than the fair value of the shares at the date of grant. See Note K for pro forma information related to net income and earnings per share calculations in accordance with SFAS 123.

Revenue Recognition: The Company recognizes revenue for goods sold at the time title passes to the customer.

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

Reclassifications: Certain amounts for 2000 and 1999 have been reclassified to conform with 2001 presentation.

Business Combinations, Goodwill and Other Intangible Assets: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141) "Business Combinations" and Statement of Financial Accounting Standards No. 142 (SFAS 142) "Goodwill and Other Intangible Assets". SFAS 141 requires use of the purchase method of accounting for all business combinations initiated after June 30, 2001, thereby eliminating use of the pooling of interests method. SFAS 142 provides that goodwill and certain other intangible assets no longer will be amortized but will be tested for impairment at least annually. Additionally, SFAS 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized and continue to be assessed for impairment under APB Opinion No. 18. SFAS 142 will apply to existing goodwill and intangible assets, beginning with fiscal years starting after December 15, 2001. The Company is currently evaluating the effect of the application of SFAS 142 on the carrying value of its goodwill.

At December 29, 2001, the Company had unamortized goodwill in the amount of $50,197. Amortization expense related to goodwill was $1,633, $1,544, and $1,503 for the years ended December 29, 2001, December 30, 2000 and December 25, 1999, respectively.

Notes to Consolidated Financial Statements

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

Impairment or Disposal of Long-lived Assets: In addition, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-lived Assets". This statement supersedes Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of". The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. Adoption of the statement is not expected to have a significant impact on the Company's results of operations or financial position.

Transfers of Financial Assets: The Company adopted 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 did not 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" (SFAS No. 133), which was amended by Statement of Financial Accounting Standards Nos. 137 and 138. In January 2001, the Company adopted the provisions of SFAS No. 133. As required by SFAS No. 133, the 2000 and 1999 consolidated financial statements were not restated but were prepared in accordance with applicable accounting guidance for derivatives and hedging instruments in effect at that time.

The Company does not engage in speculative transactions, nor does it hold or issue financial instruments for trading purposes. The Company uses derivative instruments, currently interest rate swaps, to minimize interest rate volatility.

All derivatives that are designated as cash flow hedges are linked to specific liabilities on the balance sheet. The Company assesses, both at inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction are highly effective in offsetting changes in cash flows of the hedged items. When it is determined that a derivative is not highly effective, the derivative expires, or is sold, terminated, or exercised, the Company discontinues hedge accounting for that specific hedge instrument.

The Company is party to an interest rate swap agreement to adjust a proportion of total debt that is subject to variable interest rates. Under the interest rate swap agreement, the Company pays a fixed rate of interest times a notional principal amount, and receives in return an amount equal to a specified variable rate of interest times the same notional principal. The interest rate swap agreement's fair value is reflected on the balance sheet and related gains and losses are deferred in other comprehensive income. As of December 29, 2001, the Company had an interest swap agreement outstanding for $70,000, which will be in effect until March 2003. Under the terms of the swap agreement, the Company pays a fixed interest rate of 6.75%. The fair value of the swap agreement as of December 29, 2001 resulted in an unrealized loss, net of taxes, of $2,457 and, accordingly, the unrealized loss is recorded in other comprehensive income.

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)
- continued -

The Company acquired the stock of Fabrica for $9,246 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 Company believes this sales level should be reached, in which case the contingent consideration will become payable in April 2003. 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. ("Globaltex"), a Dalton, Georgia carpet and carpet yarn producer, for approximately $30,964 cash, plus future payments keyed to revenue growth through fiscal 2003. Such payments have been $1,491, $1,561, and $252 for fiscal years ended 2001, 2000, and 1999, respectively and are accounted for as additional cost of the acquisition.

The acquisitions of Fabrica and Globaltex were accounted for under the purchase method of accounting for business combinations and accordingly, the results of operations of Globaltex 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 (without adjustment for subsequent contingent payments) is as follows:

	FABRICA	GLOBALTEX
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 Technologies, Inc., a carpet producer, for approximately $1,750 cash. This acquisition was accounted for as a purchase, and accordingly,

Notes to Consolidated Financial Statements

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

the results of operations of the acquired company subsequent to the date of acquisition is included in the Company's consolidated financial statements.

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 acquisition of the Company's interest in Chroma Systems Partners in 2000 is subject to an adjustment 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 amounted to $544 in 2001 and $786 in 2000. The Company's investment in Chroma secures the seller's right to any contingent consideration that becomes due. Upon withdrawal of a 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 was 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 2001, the Company's equity in the earnings and distributions received from Chroma were $556 and $1,141, respectively compared with $617 and $1,086, respectively in 2000.

Purchases by the Company from Chroma were $5,400 in 2001 and $2,611 in 2000.

NOTE C – DISCONTINUED OPERATIONS

In June 1999, the Company completed the sale of its discontinued textile knit fabric, apparel and specialty yarns (textile products) operations. Cash proceeds from disposal of the Company's textile products operations were $47,396 in 1999, excluding accounts receivable, accounts payable and accrued expenses retained by the Company. Additionally, the Company received an $8,000 note as part of the consideration from one of the purchasers in 1999. The face value of the note, as of December 29, 2001, is $8,910 as a result of unpaid interest which, under the agreement, converts to principal. The note matures in 2003, has a stated interest rate of 10.5% and is subordinated to the maker's senior indebtedness. The note is recorded in the Company's financial statements at its estimated fair value of $6,193 and is classified in other, non-current assets at December 29, 2001. The Company assesses the financial condition of the issuer periodically to determine the note's estimated fair value.

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

	2001	2000	1999
Net sales	$ –	$ –	$ 11,832
Estimated income on disposal:			
Before income taxes	–	$ 1,289	$ 7,855
Income tax provision	–	465	3,063
Net income	$ –	$ 824	$ 4,792

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 compared with an estimated loss for such period of $1,586 (net of tax). At December 29, 2001 and December 30, 2000, the remaining liabilities of the textile products operations consisted of accrued exit costs of $1,311 and $1,630 respectively and are included in accrued expenses in the Company's financial statements. No significant assets were remaining.

Notes to Consolidated Financial Statements

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

NOTE D – SALE OF ACCOUNTS RECEIVABLE

The Company has an accounts receivable securitization 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 were $25,951 at December 29, 2001 and $40,400 at December 30, 2000. 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.

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. These costs, which were approximately $2,310 for 2001, $3,479 for 2000 and $2,900 for 1999, are included in other (income) expense – net. 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.

At December 29, 2001 and December 30, 2000, $4,532 and $5,165, respectively, of the Company's accounts receivable were factored without recourse to financial institutions.

NOTE E – ACCRUED EXPENSES

Accrued expenses exceeding 5% of current liabilities include the following:

	2001	2000	1999
Compensation and benefits	$ **11,752**	$ 10,866	$ 13,934

NOTE F – LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	2001	2000
Senior indebtedness:		
Credit line borrowings	$ **61,694**	$ 82,177
Term loan	**22,657**	28,532
Other	**8,682**	8,333
Total senior indebtedness	**93,033**	119,042
Subordinated notes	**40,476**	45,238
Convertible subordinated debentures	**34,737**	37,237
Total long-term debt	**168,246**	201,517
Less current portion	**(14,497)**	(14,018)
Total long-term debt (less current portion)	$ **153,749**	$ 187,499

The Company's senior credit arrangement provides the lender with a security interest in substantially all of the Company's assets not otherwise pledged (see Note B). The credit agreement provides

Notes to Consolidated Financial Statements

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

revolving credit of up to $95,000 through March 2003, and a $22,657 term loan. The term loan was reduced by $4,197 in 2002 with the proceeds from the sale of non-critical assets in December 2001. The term loan is payable in quarterly installments of $1,635, with a final installment of $10,285 in March 2003. Interest rates under the credit agreement effectively allow for borrowing at rates equal to LIBOR plus 2.75% to 3.50%. A commitment fee, of .50% per annum on the revolving credit line is 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 8.49% for 2001 and 7.67% for 2000. The average interest rate on debt outstanding under this agreement was 5.32% at December 29, 2001 and 9.14% at December 30, 2000.

During 2001, the Company failed to comply with certain covenants under the agreement. The Company's lenders amended the agreement and waived compliance until December 31, 2002, at which time the Company will be required to replace the existing agreement or obtain additional waivers.

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 under the Company's senior credit agreement 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 purchase of real property and machinery and equipment at the Company's facility in Lafayette, Georgia.

Approximate maturities of long-term debt for each of the five years succeeding December 29, 2001 are $14,497 in 2002, $104,985 in 2003, $7,321 in 2004, $7,297 in 2005, $7,294 in 2006 and $26,852 thereafter.

Interest payments for continuing and discontinued operations were $16,596 in 2001, $17,447 in 2000 and $14,095 in 1999.

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 29, 2001, the Company's unused borrowing capacity under its credit arrangements was $21,983.

Notes to Consolidated Financial Statements

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

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:

	2001		2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets				
Cash and cash equivalents	**$ 1,412**	**$ 1,412**	$ 2,591	$ 2,591
Notes receivable (including current portion)	**9,841**	**9,841**	6,860	6,860
Escrow funds	**251**	**251**	253	253
Financial liabilities				
Long-term debt (including current portion)	**168,246**	**161,051**	201,517	190,102
Interest rate swap	**(4,028)**	**(4,028)**	–	(1,485)

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.

NOTE H – PENSION PLANS

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

	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 6,606**	$ 6,999
Service cost	**103**	92
Interest cost	**407**	437
Actuarial loss	**239**	230
Benefits paid	**(549)**	(1,152)
Benefit obligation at end of year	**6,806**	6,606
Change in plan assets:		
Fair value of plan assets at beginning of year	**2,984**	4,070
Actual return on plan assets	**(457)**	(259)
Employer contribution	**386**	324
Benefits paid	**(549)**	(1,151)
Fair value of plan assets at end of year	**2,364**	2,984
Funded status	**(4,442)**	(3,622)
Unrecognized actuarial loss	**2,139**	893
Net amount recognized	**$ (2,303)**	$ (2,729)
Amounts recognized in the statement of financial position consist of:		
Accrued liability	**$ (4,442)**	$ (3,622)
Accumulated other comprehensive income	**2,139**	893
Net amount recognized	**$ (2,303)**	$ (2,729)
Weighted-average assumptions as of year-end:		
Discount rate	**6.08%**	6.06%
Expected return on plan assets	**7.50%**	8.50%

Notes to Consolidated Financial Statements

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

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

	2001	2000	1999
Components of net periodic pension costs:			
Defined benefit plans			
Service cost	$ **103**	$ 92	$ 100
Interest cost	**232**	436	222
Expected return on plan assets	**(79)**	(357)	(244)
Recognized net actuarial loss	**40**	10	110
Settlement loss	**42**	75	64
	338	256	252
Defined contribution plans	**1,676**	3,006	3,889
Net pension cost	$ **2,014**	$ 3,262	$ 4,141

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:

	2001		2000		1999	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal	**$ (1,437)**	**$ 2,330**	$ (9,125)	$ 3,600	$ 5,366	$ 1,940
State	**(113)**	**(223)**	(249)	47	747	(82)
Total	**$ (1,550)**	**$ 2,107**	$ (9,374)	$ 3,647	$ 6,113	$ 1,858

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:

	2001	2000
Deferred Tax Liabilities:		
Property, plant and equipment	$ **33,728**	$ 31,799
Intangible assets	**1,219**	522
Other	**2,848**	4,085
Total deferred tax liabilities	**37,795**	36,406
Deferred Tax Assets:		
Inventories	**22**	525
Post-retirement benefits	**5,532**	4,996
Other employee benefits	**1,613**	1,721
Losses from discontinued operations	**37**	214
Alternative minimum tax	**3,687**	3,240
Net operating loss carry forward	**2,857**	–
Allowances for bad debts, claims and discounts	**2,699**	2,281
Other	**2,397**	761
Total deferred tax assets	**18,844**	13,738
Net deferred tax liabilities	$ **18,951**	$ 22,668

Notes to Consolidated Financial Statements

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

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:

	2001	2000	1999
Statutory rate applied to income from continuing operations	$ **376**	$ (5,557)	$ 7,132
Plus state income taxes net of federal tax effect	**(219)**	(482)	432
Total statutory provision (benefit)	**157**	(6,039)	7,564
Increase (decrease) attributable to:			
Nondeductible amortization of intangible assets	**206**	193	242
Nondeductible portion of travel and entertainment	**220**	246	246
Net operating loss carryback benefit	–	–	–
Other items	**(26)**	(127)	(81)
Total tax provision (benefit)	$ **557**	$ (5,727)	$ 7,971

Income tax refunds received, net of income tax payments, for continuing and discontinued operations were $6,447 in 2001 and $5,348 in 2000. Income tax payments, net of income tax refunds received, for continuing and discontinued operations were $10,545 in 1999.

At December 29, 2001, the Company had income tax refunds receivable of $592 included in other current assets.

At December 29, 2001, the Company had federal net operating loss carry forwards of $7,300 which will expire in the year 2021. The Company also had alternative minimum tax credit carry forwards of $3,700 which have no expiration date.

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.

Notes to Consolidated Financial Statements

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

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

	2001	2000	1999
Income (loss) from continuing operations [1]	**$ 517**	$ (10,150)	$ 12,399
Denominator for calculation of basic earnings per share – weighted average shares [2]	**11,669**	11,473	11,355
Effect of dilutive securities:			
Stock options [3]	**25**	–	206
Stock subscriptions [3]	**33**	–	121
Restricted stock grants [3]	**21**	–	–
Denominator for calculation of diluted earnings per share – weighted average shares adjusted for potential dilution [2] [3]	**11,748**	11,473	11,682
Earnings (loss) per share:			
Basic	**$ 0.04**	$ (0.88)	$ 1.09
Diluted	**$ 0.04**	$ (0.88)	$ 1.06

[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 under restricted stock plans and shares issuable under stock option, and stock subscription plans, whose grant price is greater than the average market price of Common Shares outstanding at the end of the relevant period, and excludes shares issuable on conversion of subordinated debentures into shares of Common Stock. Aggregate shares excluded were 1,927 shares in 2001, 3,687 shares in 2000 and 2,835 shares in 1999.*

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.

In October 2001, the Company canceled outstanding options previously issued under its 1990 Incentive Stock Plan which had exercise prices ranging from $6.00 to $14.30 per share. The Company advised affected option holders that it intended to issue a reduced number of options to each holder based on a specific exchange scale and at an exercise price equal to the market price of the Company's Common Stock on the date such options are issued which would be at least six months, plus one day, subsequent to the cancellation date. Issuance of the replacement options will require a waiver of the provision in the Company's 2000 Stock Incentive Plan which limits the maximum number of shares that may be subject to awards to any one individual during a single year, and will require an amendment of such plan to increase the maximum number of shares of the Company's Common Stock which may be issued pursuant to awards thereunder. These actions with respect to the 2000 Stock Incentive Plan are being submitted for approval by the Company's shareholders at the 2002 Annual Meeting.

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

Notes to Consolidated Financial Statements

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

acquisition of Carriage Industries, Inc. As of December 29, 2001, options for 13,756 of these shares remain outstanding.

A summary of the option activity for the three years ended December 29, 2001:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Fair Value of Options Granted During the Year
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	
Cancelled	(1,059,750)	8.79	
Exercised	–	–	
Forfeited	(72,500)	6.32	
Outstanding at December 29, 2001	571,756	$ 4.85	
Options exercisable at:			
December 25, 1999	603,914	$ 7.76	
December 30, 2000	1,180,007	8.34	
December 29, 2001	159,167	5.53	

The following table summarizes information about stock options at December 29, 2001:

Options Outstanding			
Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$ 3.875 - $ 5.27	339,006	7.4 years	$ 4.18
5.750 - 8.81	232,750	5.2 years	5.82
$ 3.875 - $ 8.81	571,756	6.5 years	$ 4.85

Options Exercisable		
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price
$ 3.875 - $ 5.27	52,985	$ 4.96
5.750 - 8.81	106,182	5.82
$ 3.875 - $ 8.81	159,167	$ 5.53

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:

	2001 GRANTS [1]	2000 GRANTS	1999 GRANTS
Expected life	–	5 years	5 years
Expected volatility	–	49.50%	50.10%
Risk-free interest rate	–	6.37%	5.60%
Dividend yield	–	0.00%	0.00%

[1] *There were no options granted during 2001.*

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.

	2001	2000	1999
Pro forma:			
Net income (loss)	$ **(144)**	$ (10,213)	$ 16,271
Earnings (loss) per share:			
Basic	**(0.01)**	(0.89)	1.43
Diluted	**(0.01)**	(0.89)	1.39

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 29, 2001, 802,557 shares were subscribed at a weighted-average price of $6.76 per share, at December 30, 2000, 791,786 shares were subscribed at a weighted-average price of $6.74 per share, and at December 25, 1999, 620,516 shares were subscribed at a weighted-average price of $8.79 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 29, 2001, 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 number of shares sold under the plan was 9,100 in 1999.

NOTE L – COMMITMENTS

The Company had commitments for purchases of machinery and equipment, building construction and information systems of approximately $6,829 at December 29, 2001.

Notes to Consolidated Financial Statements

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

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

2002	$ 7,686
2003	7,000
2004	4,874
2005	1,837
2006	909
Total	$ 22,306

The Company is party to two non-cancelable operating leases assumed by the Company as part of acquisitions made in 1999 and 2000. Rent paid to related parties during 2001 and 2000 was approximately $997 and $736, respectively.

Rental expense in 2001, 2000 and 1999 amounted to approximately $9,590, $7,127 and $2,855, respectively.

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, and other non-segment items). Assets measured in each reportable segment include long-lived assets and goodwill, inventories at current cost, and accounts receivable (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		
	2001	2000	1999	2001	2000	1999
Reportable Segments:						
Carpet manufacturing	**$484,054**	$493,709	$474,552	**$ 15,605**	$ (1,244)	$27,584
Floorcovering base materials	**50,544**	74,372	123,317	**(1,098)**	(2,490)	3,038
Segment total	**$534,598**	$568,081	$597,869	**14,507**	(3,734)	30,622
Interest expense				**17,533**	17,211	13,051
Other non-segment income				**(4,100)**	(5,068)	(2,799)
Consolidated income (loss) from continuing operations before income taxes				**$ 1,074**	$(15,877)	$20,370

Notes to Consolidated Financial Statements

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

	CAPITAL EXPENDITURES 2001	2000	1999	DEPRECIATION AND AMORTIZATION 2001	2000	1999
Reportable Segments:						
Carpet manufacturing	**$ 9,607**	$ 25,433	$ 21,161	**$ 14,135**	$ 14,225	$15,398
Floorcovering base materials	**769**	18,478	13,671	**6,686**	6,788	6,328
Corporate	**1,757**	6,753	495	**3,186**	2,427	604
Total continuing operations	**$ 12,133**	$ 50,664	$ 35,327	**$ 24,007**	$ 23,440	$22,330

	ASSETS USED IN PERFORMANCE MEASUREMENT 2001	2000	1999
Reportable Segments:			
Carpet manufacturing	**$ 294,550**	$ 325,486	$ 292,889
Floorcovering base materials	**61,516**	73,621	76,051
Assets in Performance Measurement	**356,066**	399,107	368,940
Assets Not in Segment Measurements:			
Other operating assets	**27,851**	24,031	22,504
Assets held for sale	**2,271**	68	457
Total consolidated assets	**$ 386,188**	$ 423,206	$ 391,901

The dollar volumes and percentages of the Company's net sales to The Home Depot were approximately $82,000, or 15%, in 2001, $85,000, or 15%, in 2000 and $56,000, or 9%, in 1999. 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. Approximately 70% of the unit production volume of the Company's floorcovering base materials segment is sold to the Company's carpet manufacturing segment at cost. Intersegment sales from the Company's floorcovering base materials group to the Company's carpet manufacturing group were $140,583 in 2001, $137,328 in 2000 and $103,669 in 1999.

NOTE N – CHANGE IN ACCOUNTING METHOD FOR CERTAIN INVENTORIES

In connection with combining the manufacturing processes of the Company's 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, first-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 – ASSETS HELD FOR SALE

In the fourth quarter of 2001, the Company announced the closing of its Lemoore, California carpet yarn processing facility. Production was discontinued in January 2002 and substantially all of its manufacturing equipment was either sold or relocated to the Company's other yarn processing operations. As of December 29, 2001, the $2,271 carrying value of the remaining assets is classified in the Company's balance sheet as assets held for sale.

Historical Summary

(dollars in thousands, except per share data)

FISCAL YEARS	2001	2000 [1]	1999 [2]	1998	1997 [3]
OPERATIONS					
Net sales	**$ 534,598**	$ 568,081	$ 597,869	$ 510,962	$ 444,520
Income (loss) from continuing operations before income taxes	**1,074**	(15,877)	20,370	14,700	14,026
Income tax provision (benefit)	**557**	(5,727)	7,971	5,592	5,214
Income (loss) from continuing operations	**517**	(10,150)	12,399	9,108	8,812
Depreciation and amortization [4]	**24,007**	23,440	22,330	18,701	15,809
Dividends	**–**	–	–	1,701	–
Capital expenditures [4]	**12,133**	50,664	35,327	33,363	19,183
FINANCIAL POSITION					
Assets	**$ 386,188**	$ 423,206	$ 391,901	$ 374,646	$ 386,614
Total debt:	**168,246**	201,517	156,896	163,848	165,953
Current portion	**14,497**	14,018	13,460	9,645	5,143
Long-term	**153,749**	187,499	143,436	154,203	160,810
Stockholders' equity	**106,225**	108,291	117,910	99,990	121,244
PERCENT					
Income (loss) from continuing operation to sales	**0.1%**	(1.8%)	2.1%	1.8%	2.0%
Income (loss) from continuing operation to average equity	**0.5%**	(9.0%)	11.0%	8.1%	7.7%
PER SHARE					
Income (loss) from continuing operations:					
Basic	**$ 0.04**	$ (0.88)	$ 1.09	$ 0.81	$ 0.78
Diluted	**0.04**	(0.88)	1.06	0.77	0.75
Dividends:					
Common Stock	**–**	–	–	0.15	–
Class B Common Stock	**–**	–	–	0.15	–
Book value	**9.05**	9.41	10.21	8.80	10.70
GENERAL					
Weighted average common shares outstanding:					
Basic	**11,669,144**	11,473,210	11,355,175	11,267,418	11,228,519
Diluted	**11,747,740**	11,473,210	11,681,650	11,809,281	11,765,323
Number of shareholders [5]	**3,000**	3,500	3,500	3,900	4,100
Number of associates	**3,100**	3,800	3,600	3,100	2,900

(1) Includes the results of operations of Fabrica subsequent to its acquisition on July 1, 2000.
(2) Includes the results of operations of Graphic Technologies and Globaltex 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 1997 through 2001 includes Management's estimate of shareholders who held the Company's Common Stock in nominee names as follows: 1997 – 3,100 shareholders; 1998 – 3,000 shareholders; 1999 – 2,500 shareholders; 2000 – 2,500 shareholders; 2001 – 2,100 shareholders.

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

(dollars in thousands, except per share data)

2001 QUARTER	1ST	2ND	3RD	4TH
Net sales	$ 133,097	$ 145,493	$ 132,289	$ 123,719
Gross profit	26,266	30,844	29,366	27,500
Income (loss) from continuing operations	(2,701)	188	223	2,807
Net income (loss)	(2,701)	188	223	2,807
Basic earnings per share:				
Income (loss) from continuing operations	(0.24)	0.02	0.02	0.24
Net income (loss)	(0.24)	0.02	0.02	0.24
Diluted earnings per share:				
Income (loss) from continuing operations	(0.24)	0.02	0.02	0.24
Net income (loss)	(0.24)	0.02	0.02	0.24
Dividends:				
Common Stock	–	–	–	–
Class B Common Stock	–	–	–	–
Common Stock Prices:				
High	3.75	5.35	5.05	5.03
Low	2.34	3.06	3.80	4.14

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

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.

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.

Lovic A. Brooks, Jr. (2), (3), (4)
Of Counsel, Constangy, Brooks & Smith, LLC

Paul K. Frierson (3)
Vice President and President, Candlewick Yarns

John W. Murrey, III (1), (2)
Of Counsel, 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

Royce R. Renfroe
Vice President and President, Fabrica International

W. Derek Davis
Vice President, Human Resources

Jon A. Faulkner
Vice President, Planning and Development

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 2, 2002, at Dixie Group Logistics; 365 S. Industrial Blvd. SW, Calhoun, Georgia 30701.

Corporate Headquarters
345-B Nowlin Lane
Chattanooga, Tennessee 37421
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 25107, Chattanooga, Tennessee 37422, or contact Starr Klein, Secretary, at (423) 510-7005.

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

THE DIXIE GROUP

345-B Nowlin Lane
Chattanooga, Tennessee 37421