

letter to shareholders



*Daniel K. Frierson, Chairman & CEO,
and William N. Fry, IV, President & COO.*

Fellow shareholders and associates:

The year 1999 will be noted in our company history as a new beginning for The Dixie Group. It was our first complete year operating solely as a floorcovering company.

We had a remarkable year. We increased revenues by 17 percent and earnings per share by 38 percent over last year. We grew our business in 10 of the 12 market segments in which we compete. Clayton Homes and Applebee's Restaurants named us as an outstanding supplier. We successfully started a major extrusion plant and achieved the market objectives of our merger with Globaltex.

We want to thank our customers for their confidence and our associates for their commitment. We have a winning strategy,

winning people, and winning products to take us where we want to go. While we continue to improve, we have not come close to reaching our full potential, and we will not rest until we do. Our goal is to win, not just compete.

The excitement throughout Dixie mirrors the spirit of a start-up company, even though we are one of the largest floorcovering companies in the world. This passion stems from a shared vision for what we can accomplish working together as associates of The Dixie Group. We are working diligently at Dixie to develop an environment that enables our associates to freely use their imagination and creativity to make our customers more successful.

Dixie has risen from a company with zero carpet revenues in 1992 to \$579 million to become one of the fastest growing and the fifth largest carpet company in the United States. We have accomplished this by executing a strategy of acquiring businesses that were leaders in their market segments and shared with us a common set of values about people and customers.

During 1999, we completed several acquisitions, invested over \$35 million to expand our manufacturing capacity and optimize our facilities, and we improved our balance sheet. Debt to total capitalization decreased from 62 percent at the beginning of the year to 57 percent by year-end.

We are ready to move to the next level and have begun the new century with an aggressive strategy for growing our business and profits. We are increasing our yarn and extrusion capacity throughout the year. This positions us for growth while improving our cost structure.

This new year will not be without its challenges. The costs of restructuring and expanding Candlewick's yarn plants will impact our earnings for the first half of the year. In addition, we are faced with raw material cost increases and a soft factory-built housing market. We are committed to minimizing the long-term effect these events will have on our business.

Our overall outlook for 2000 is promising. We have excellent positions in growth mar-

kets such as home centers/mass merchants, high-style residential, and specified contract. We recently announced that we have signed a letter of intent to purchase Fabrica International, a manufacturer of high-style residential carpets. This will strengthen our position in a market where we are rapidly becoming a leader. Our new Alliance Mills product line is expected to be a major growth vehicle for us. In addition, we are focusing on driving our product development and marketing efforts to create breakthrough value for our customers.

Dixie is energized by its new beginning and the potential it offers our shareholders, customers, and associates. On behalf of our Board of Directors, we thank you for your continued support.

A handwritten signature in black ink, appearing to read "Daniel K. Frierson".

Daniel K. Frierson

Chairman and Chief Executive Officer

A handwritten signature in black ink, appearing to read "William N. Fry, IV".

William N. Fry, IV

President and Chief Operating Officer

March 28, 2000