FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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DIXIE GROUP INC
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SIC: **2273** Carpets & rugs

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 30, 2002

Commission File Number: 0-2585

THE DIXIE GROUP, INC.
(Exact name of registrant as specified in its charter)

Tennessee	62-0183370
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
345-B Nowlin Lane Chattanooga, Tennessee (Address of principal executive offices)	37421 (Zip Code)

(423) 510-7010

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Outstanding as of May 6, 2002
Common Stock, $3 Par Value	10,926,990 shares
Class B Common Stock, $3 Par Value	795,970 shares
Class C Common Stock, $3 Par Value	0 shares

THE DIXIE GROUP, INC.
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PART I -- ITEM 1
FINANCIAL INFORMATION

THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(dollars in thousands, except per share data)

	(Unaudited)	
	March 30, 2002	December 29, 2001
ASSETS	--------------------	---------------------
CURRENT ASSETS		

Cash and cash equivalents	$ 2,012	$ 1,412
Accounts receivable (less allowance for doubtful		
accounts of $2,486 for 2002 and $2,524 for 2001)	19,268	18,144
Inventories	96,726	92,899
Assets held for sale	2,018	2,271
Other	10,079	9,538
	--------------------	---------------------
TOTAL CURRENT ASSETS	130,103	124,264
PROPERTY, PLANT AND EQUIPMENT	325,468	321,651
Less accumulated amortization and depreciation	(149,870)	(144,397)
	--------------------	---------------------
NET PROPERTY, PLANT AND EQUIPMENT	175,598	177,254
INTANGIBLE ASSETS (less accumulated amortization of		
$9,103 for 2002 and 2001)	50,197	50,197
INVESTMENT IN AFFILIATE	12,667	12,575
OTHER ASSETS	22,819	21,898
	----------------------	----------------------
TOTAL ASSETS	$ 391,384	$ 386,188

	============	============

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(dollars in thousands, except per share data)

	(Unaudited)	
	March 30,	December 29,
	2002	2001
LIABILITIES AND STOCKHOLDERS' EQUITY	----------------------	------------------
CURRENT LIABILITIES		
Accounts payable	$ 52,102	$ 42,547
Accrued expenses	26,320	30,605
Current portion of long-term debt	15,510	14,497
	----------------------	--------------------
TOTAL CURRENT LIABILITIES	93,932	87,649
LONG-TERM DEBT		
Senior indebtedness	86,179	85,798
Subordinated notes	33,333	35,714
Convertible subordinated debentures	32,237	32,237

	-----------------------	---------------------
TOTAL LONG-TERM DEBT	151,749	153,749
OTHER LIABILITIES	12,909	13,926
DEFERRED INCOME TAXES	25,584	24,639
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized		
80,000,000 shares, issued - 14,226,315 shares		
for 2002 and 2001	42,679	42,679
Class B Common Stock ($3 par value per share):		
Authorized 16,000,000 shares, issued - 795,970		
shares for 2002 and 2001	2,388	2,388
Common Stock subscribed - 802,557 shares for		
2002 and 2001	2,408	2,408
Additional paid-in capital	132,928	132,922
Stock subscriptions receivable	(5,429)	(5,429)
Unearned stock compensation	(31)	(44)
Accumulated deficit	(10,972)	(11,468)
Accumulated other comprehensive loss	(3,307)	(3,762)

	160,664	159,694
Less Common Stock in treasury at cost - 3,277,651		
shares for 2002 and 3,281,109 shares for 2001	(53,454)	(53,469)
TOTAL STOCKHOLDERS' EQUITY	107,210	106,225
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 391,384	$ 386,188

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)
(dollars in thousands, except per share data)

	Three Months Ended	
	March 30, 2002	March 31, 2001
NET SALES	$ 123,324	$ 133,097

Cost of sales	95,442	106,831
	----------------------	---------------------
GROSS PROFIT	27,882	26,266
Selling and administrative expenses	23,185	24,629
Other (income) expenses - net	(472)	1,133
	----------------------	---------------------
INCOME BEFORE INTEREST AND TAXES	5,169	504
Interest expense	4,384	4,796
	----------------------	---------------------
INCOME (LOSS) BEFORE TAXES	785	(4,292)
Income tax provision (benefit)	289	(1,591)
	----------------------	---------------------
NET INCOME (LOSS)	$ 496	$ (2,701)
	=============	============
BASIC EARNINGS (LOSS) PER SHARE:		
Net income (loss)	$ 0.04	$ (0.24)
SHARES OUTSTANDING	11,685	11,479
DILUTED EARNINGS (LOSS) PER SHARE:		
Net income (loss)	$ 0.04	$ (0.24)

SHARES OUTSTANDING	11,795	11,479
DIVIDENDS PER SHARE:		
Common Stock	-	-
Class B Common Stock	-	-

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(dollars in thousands)

	Three Months Ended	
	March 30, 2002	March 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 496	$ (2,701)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,106	6,303
Provision (benefit) for deferred income taxes	367	(1,319)

(Gain) loss on property, plant and equipment disposals	(828)	301
Changes in operating assets and liabilities	(1,583)	(909)
	------------------	------------------
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,558	1,675
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sales of property, plant and equipment	1,131	-
Purchase of property, plant and equipment	(3,129)	(4,953)
Investment in affiliate	(157)	(343)
Additional cash paid in business combination	(489)	-
	------------------	------------------
NET CASH USED IN INVESTING ACTIVITIES	(2,644)	(5,296)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in credit line borrowings	8,719	5,476
Payments under term loan facility	(8,181)	(1,636)
Payments on subordinated indebtedness	(2,381)	(2,381)
Other	529	923
	------------------	------------------
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,314)	2,382

	------------------	------------------
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	600	(1,239)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,412	2,591
	------------------	------------------
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,012	$ 1,352
	==========	==========
SUPPLEMENTAL CASH FLOW INFORMATION		
Purchase of equipment with note payable	$ 1,204	$ 1,013
Interest paid	4,746	4,984
Income taxes paid, net of tax refunds (received)	(320)	(904)

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(dollars in thousands)

	Common Stock and Class B Common Stock	Common Stock Subscribed	Additional Paid-In Capital	Other	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total Stockholders' Equity
Balance at December 29, 2001	$ 45,067	$ 2,408	$ 132,922	$ (5,473)	$ (11,468)	$ (3,762)	$ (53,469)	$ 106,225
Common Stock acquired								

for treasury - 72,257								
shares							(327)	(327)
Re-issuance of treasury								
shares - 75,715 shares			6				342	348
Amortization of restricted								
stock grants				13				13
Comprehensive income						455		455
Net income for the year					496			496
	---------------	---------------	---------------	--------------	---------------	--------------------	---------------	---------------
Balance at March 30, 2002	$ 45,067	$ 2,408	$ 132,928	$ (5,460)	$ (10,972)	$ (3,307)	$ (53,454)	$ 107,210
	=========	=========	=========	========	=========	============	=========	=========

See accompanying notes to the consolidated financial statements.

THE DIXIE GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(dollars in thousands, except per share data)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared

in accordance with generally accepted accounting principles for interim financial statements

which do not include all of the information and footnotes required in annual financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 30, 2002 are not necessarily indicative of the results that may be expected for the entire year.

New Accounting Standard: At March 30, 2002, the Company had unamortized goodwill in the amount of $50,197, representing 12.8% of total assets and 46.8% of total equity. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS 142) "Goodwill and Other Intangible Assets". 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.

NOTE B - ACCOUNTS RECEIVABLE SECURITIZATION PROGRAM

The Company's accounts receivable securtization program 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 accounts 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 are excluded from the Company's balance sheet. Amounts sold under this agreement were $29,951 at March 30, 2002 and $25,951 at

December 29, 2001. The accounts receivable securitization program was terminated and all amounts borrowed under the arrangement were re-paid on May 14, 2002 when the Company replaced its senior credit facility.

NOTE C - 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 March 30, 2002 and December 29, 2001.

Inventories are summarized as follows:

	March 30, 2002	December 29, 2001
Raw Materials	$ 23,809	$ 24,018
Work-in-process	16,940	15,855
Finished goods	53,931	50,767
Supplies, repair parts and other	2,046	2,259
Total inventories	$ 96,726	$ 92,899

NOTE D - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	March 30, 2002	December 29, 2001
Senior indebtedness		
Credit line borrowings	$ 70,413	$ 61,694
Term Loan	14,476	22,657
Other	9,538	8,682
Total senior indebtedness	94,427	93,033
Subordinated notes	38,095	40,476
Convertible subordinated debentures	34,737	34,737
Total long-term debt	167,259	168,246
Less current portion	(15,510)	(14,497)
Total long-term debt (less current portion)	$ 151,749	$ 153,749

On May 14, 2002, the Company entered into a revolving credit and term-loan facility with a new group of lenders to replace the Company's 1998 senior credit facility and its accounts receivable securitization program. The credit agreement provides the lender with a security interest in substantially all of the Company's assets, contains financial covenants relating to fixed charges, debt, net worth, and borrowing availability and does not permit the payment of dividends. The new credit facility provides revolving credit of up to $110,000 through a five-year commitment period and a $40,000 term-loan. The level of the Company's accounts receivable and inventory limit borrowing availability under the revolving credit facility. The term loan is payable in quarterly installments of $1,429 beginning August 1, 2002 and due in May 2007. Interest rates available under the facility may be selected from a number of options that effectively allow for borrowing at rates ranging from the lender's prime rate to the lender's prime rate plus 1.0%. Commitment fees, ranging from .375% to .50% per annum are payable on the average daily unused balance of the revolving credit facility. On May 14, 2002, the unused borrowing capacity under the new credit facility was approximately $22,000.

NOTE E - FINANCIAL INSTRUMENTS

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 March 30, 2002, the Company had an interest rate 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 March 30, 2002 was a liability of $3,282. Changes in the fair value since December 29, 2001 resulted in an unrealized gain, net of taxes, of $455 and, accordingly, the unrealized gain is recorded in other comprehensive income.

NOTE F - EARNINGS PER SHARE

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

	March 30, 2002	March 31, 2001
Net income (loss) (1)	$ 496	$ (2,701)
Denominator for calculation of basic earnings per share - weighted average shares (2)	11,685	11,479
Effect of dilutive securities:		
Stock options (3)	36	-
Stock subscriptions (3)	47	-
Restricted stock grants (3)	27	-

Denominator for calculation of diluted earnings per share - weighted average shares adjusted for potential dilution (2) (3)	11,795	11,479
Earnings (loss) per share:		
Basic	$ 0.04	$ (0.24)
Diluted	$ 0.04	$ (0.24)

(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 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 1,958 in 2002 and 3,689 shares in 2001.

NOTE G - COMPREHENSIVE INCOME

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

	March 30, 2002	March 31, 2001
Net income (loss)	$ 496	$ (2,701)
Other comprehensive income (loss):		
Unrealized gain (loss) on interest rate swap agreement, net of taxes of $291 for 2002 and $975 for 2001	455	(1,525)
Comprehensive income (loss)	$ 951	$ (4,226)

NOTE H - 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 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. Expenses incurred for the amortization of goodwill were recognized in segment profit performance for periods prior to fiscal 2002. However, only selected intangible assets are included in the asset performance measurement.

	March 30, 2002	March 31, 2001
Net sales - external customers		
Carpet manufacturing	$ 112,746	$ 117,417
Floorcovering base materials	10,578	15,680
Segment total	$ 123,324	$ 133,097
Intersegmental sales		
Carpet manufacturing	$ -	$ -

Floorcovering base materials	37,589	33,553
	---------------------	---------------------
Total intersegmental sales	$ 37,589	$ 33,553
	============	=============
Profit performance		
Carpet manufacturing	$ 4,338	$ 1,102
Floorcovering base materials	755	(856)
	---------------------	---------------------
Segment total	5,093	246
Interest expense	4,384	4,796
Other non-segment income	(76)	(258)
	---------------------	---------------------
Consolidated income (loss) before taxes	$ 785	$ (4,292)
	===========	============

	March 30, 2002	December 29, 2001
	---------------------	---------------------
Assets used in performance measurement		
Carpet manufacturing	$ 59,967	$ 294,550

Floorcovering base materials	303,477	61,516
	--------------------	--------------------
Assets in performance measurement	363,444	356,066
Assets not in performance measurement		
Other operating assets	25,922	27,851
Assets held for sale	2,018	2,271
	--------------------	--------------------
Total consolidated assets	$ 391,384	$ 386,188
	============	=============

NOTE I - COMMITMENTS

On July 1, 2000, the Company acquired the stock of Fabrica International, Inc. 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 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.

NOTE J - SUBSEQUENT EVENTS

On May 8, 2002, the Company sold its Calhoun, Georgia, extrusion manufacturing facility

for $30,800. The transaction included a three-year supply agreement with the purchaser. The

sale of the facility is expected to result in an after-tax gain exceeding $3,000.

On May 14, 2002, the Company entered into a new five-year secured senior credit facility. See Note D.

PART I - ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following is presented to update the discussion of results of operations and financial condition included in the Company's 2001 annual report (dollar amounts in thousands, except per share data).

RESULTS OF OPERATIONS

Net income for the quarter ended March 30, 2002 was $496, or $0.04 per diluted share, compared with a net loss of $2,701, or $0.24 per diluted share for the first quarter of 2001 Results for the first quarter 2002 and 2001 included the following unusual items. The first quarter 2002 included a pre-tax gain of $800 from the sale of excess equipment, which was principally offset by costs to close a carpet yarn processing facility in California. The first quarter 2001 included $1,453 ($900 after-tax), or $0.08 per diluted share of charges related to workforce reductions and asset write-offs.

The Company's operations are segmented based on product similarities. Accordingly, its two reportable segments are Carpet Manufacturing and Floorcovering Base Materials. The Company's Carpet Manufacturing segment is a leading carpet and rug manufacturer and supplier to higher-end residential and commercial customers through Masland Carpets and Fabrica International, to consumers through major retailers under Bretlin, Globaltex and Alliance brands, and to the factory-built housing and recreational vehicle markets through Carriage Carpets. The Company's Floorcovering Base Materials segment supplies carpet yarns to the Company's Carpet Manufacturing segment, and to a lesser extent, to external customers in specialty carpet yarn markets.

Sales of the Company's Carpet Manufacturing segment were $112,746 in the quarter ended March 30, 2002, down 4%, compared with sales of $117,417 in the comparable 2001 period. Sales in the Company's Floorcovering Base Materials segment were $10,578 in the quarter ended March 30, 2002, down 32% compared with sales of $15,680 in the comparable 2001 period. The decline in carpet sales was principally attributable to softness in home center and commercial markets, which more than offset improved sales to the factory-built housing industry. The lower floorcovering base materials sales reflect the company strategy to de-emphasize its external carpet yarn business.

The profit performance measure of the Company's business segments is internal EBIT (earnings before interest, taxes and non-segment items). 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 H to the Company's consolidated financial statements.

Excluding the unusual items, described above, carpet manufacturing results reflected a gross margin of $27,195, or 24.1% of sales and an internal EBIT of $4,619, or 4.1% of sales in the first quarter 2002, compared with a gross margin of $26,165, or 22.3% of sales and an internal EBIT of $2,605, or 2.2% of sales in the first quarter of 2001.

Floorcovering base materials results reflected a gross margin of $1,352, or 12.8% of sales and an internal EBIT of $619, or 5.9% of sales in the first quarter 2002, compared with a gross margin of $483, or 3.1% of sales and a $635 internal EBIT loss in the first quarter 2001. The improved results are principally attributable to changes the Company made in its cost structure during the past year and a half. During this period, the Company consolidated its North Georgia carpet operations, reduced its workforce by 25% and substantially lowered its manufacturing and administrative costs.

Excluding severance costs associated with the first quarter 2001 workforce reduction, selling and administrative expenses declined $723 in the quarter ended March 30, 2002 compared with the first quarter of 2001. Such cost were 18.8% of sales in 2002 compared with 18.0% in 2001 as a result of the lower sales in the 2002 reporting period.

"Other (income) expense - net" reflected an improvement of $1,605 in the quarter ended March 30, 2002 compared with the comparable 2001 reporting period. The improvement is primarily a result of the $800 gain on the sale of excess assets in 2002 and a $350 asset write-off in 2001.

Interest expense decreased in the first quarter of 2002 compared with the first quarter 2001 due to lower levels of debt.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities, including $4,000 of funding under the Company's accounts receivable securization program, amounted to $4,558 for the first quarter of 2002. These funds financed the Company's operations, capital expenditure programs and a $987 reduction in debt.

During the first quarter of 2002, capital expenditures were $3,129 while depreciation and amortization was $6,106. The Company expects capital expenditures to be approximately $12,500 during the fiscal year 2002, while depreciation and amortization is expected to be approximately $21,000.

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 March 30, 2002, the Company reduced debt, including amounts advanced under its accounts receivable securitization agreement by $68,208. In May 2002, the Company sold its extrusion manufacturing facility for $30,800 and entered into a three-year supply agreement with the purchaser. Net proceeds from the sale were used to further reduce debt. The sale is expected to result in an after-tax gain exceeding $3,000 that will be recorded in the second quarter 2002.

On May 14, 2002, the Company entered into a secured revolving credit and term-loan facility with a new group of lenders to replace the Company's 1998 senior credit facility and its accounts receivable securitization program. The new credit facility provides revolving credit of up to $110,000 through a five-year commitment period and a $40,000 term-loan. The level of the Company's accounts receivables and inventories limit borrowing availability under the revolving credit facility. The term-loan is payable in quarterly installments of $1,429 beginning august 1, 2002 and is due in May 2007. Interest rates available under the new credit facility may be selected by the Company from a number of options that effectively allow for borrowing at rates ranging from the lender's prime rate to the lender's prime rate plus 1.0%. Commitment fees, ranging from .375% to .50% per annum are payable on the average daily unused balance of the revolving credit facility. On May 14, 2002, the unused borrowing capacity of the revolving credit facility was approximately $22,000.

The purchase agreement for the July 2000 acquisition of Fabrica International 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 March 30, 2002, the Company believes this sales level should be achieved and 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 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. A significant portion of the amounts due by the Company as a result of this adjustment is paid monthly. The Company's investment in Fabrica and Chroma secures the Company's obligation to make the contingent payments.

The Company believes its operating cash flows and credit availability under the new senior credit facility are adequate to finance the Company's normal liquidity requirements. However, significant additional cash expenditures beyond such requirements, including the Fabrica purchase contingency, expected to become due in April 2003, could require supplemental financing or other sources of funding. There can be no assurance that other sources of funding can be obtained or will be obtained on terms favorable to the Company.

FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q 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.

PART I - ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has market risk exposure for potential fluctuations in its variable rate long-term debt instruments. The Company uses derivative instruments, currently interest rate swaps, to minimize interest rate volatility. At March 30, 2002, the Company is party to an interest rate swap agreement through March 2003, under which the Company pays a fixed rate of interest times the notional principal amount of $70,000 and receives a variable rate of interest times the same notional principal amount. The fixed interest rate per the agreement is 6.75%. The variable rate as of March 30, 2002 was 1.88%. The cumulative fair value of the agreement as of March 30, 2002 was a liability of approximately $3,282, which was recorded in accrued expenses with the offset to accumulated other comprehensive loss, net of taxes of $1,280.

PART II. OTHER INFORMATION

Item 1 -	Legal Proceedings. None.

Item 2 -	Changes in Securities and Use of Proceeds. None.

Item 3 - Defaults Upon Senior Securities.
None.

Item 4 - Submission of Matters to a Vote of Security Holders.
None.

Item 5 - Other Information.
None.

Item 6 - Exhibits.

(a) Exhibits

No.	Description
4.1	Fifth Amendment, dated March 29, 2002 to Credit Agreement dated March 31, 1998.

(b) Report on Form 8-K

No reports on Form 8-K were filed by the Registrant during the three month period ended March 30, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf of the undersigned thereunto duly authorized.

THE DIXIE GROUP, INC.

(Registrant)

May 14, 2002

Date

/s/ GARY A. HARMON

Gary A. Harmon
Vice President and
Chief Financial Officer

/s/ D. EUGENE LASATER

D. Eugene Lasater
Controller

FIFTH AMENDMENT TO CREDIT AGREEMENT

THIS FIFTH AMENDMENT TO CREDIT AGREEMENT

effective as of March 29, 2002 (this "Amendment"), by and among **THE DIXIE GROUP, INC.**, a Tennessee corporation (the "Borrower"), **SUNTRUST BANK,** formerly known as SunTrust Bank, Atlanta, a Georgia banking corporation ("SunTrust"), the other banks and lending institutions listed on the signature pages hereof, and any assignees of SunTrust or such other banks and lending institutions which become "Lenders" as provided herein (SunTrust, and such other banks, lending institutions, and assignees referred to collectively as "Lenders"), **SUNTRUST BANK**, as administrative agent for the Lenders (in such capacity, the "Administrative Agent") and **BANK OF AMERICA, N.A.**, formerly known as NationsBank, N.A., as documentation agent for the Lenders (in such capacity, the "Documentation Agent").

W I T N E S S E T H :

WHEREAS

, Borrower, the Lenders, the Administrative Agent and the Documentation Agent are parties to that certain Credit Agreement, dated as of March 31, 1998, as amended by that certain First Amendment to Credit Agreement, effective December 26, 1998, as further amended by that certain Second Amendment to Credit Agreement, effective October 5, 2000, as further amended by that Third Amendment to Credit Agreement, effective November 2, 2000, and as further amended by that Fourth Amendment to Credit Agreement, effective November 30, 2001 (as amended or modified, the "Credit Agreement");

WHEREAS, Borrower, the Lenders, the Administrative Agent and the Documentation Agent have agreed to make certain modifications to the Credit Agreement subject to the terms, conditions and requirements set forth in this Amendment.

NOW THEREFORE,

in consideration of the terms and conditions contained herein, the parties hereto, intending to be legally bound, hereby amend the Credit Agreement as follows:

A. AMENDMENTS

1. Section 1.01 of the Credit Agreement is hereby amended by adding the following definition of "Fifth Amendment Effective Date" in the appropriate alphabetical order:

"<u>Fifth Amendment Effective Date</u>" shall mean March 29, 2002.

2. Section 1.01 of the Credit Agreement is hereby further amended by replacing the definitions of "Applicable Commitment Fee Percentage", "Applicable Margin", "Interest Expense", "Maturity Date" and "Net Proceeds" with the following new definitions in the appropriate alphabetical order:

"Applicable Commitment Fee Percentage" shall mean, with respect to any calculation of the Revolving Loan Commitment Fee hereunder (a) one-half percent (0.50%) per annum for the period beginning the Fifth Amendment Effective Date through April 30, 2002 and (b) one percent (1.00%) per annum thereafter.

"Applicable Margin" shall mean, with respect to all Loans, (a) from the Fourth Amendment Effective Date through March 31, 2002, (i) two percent (2.00%) per annum for all Loans that consist of Base Rate Borrowings and (ii) three and one-half percent (3.50%) per annum for all Loans that consist of Eurodollar Borrowings; (b) from April 1, 2002 through April 30, 2002, (i) two and one-half percent (2.50%) per annum for all Loans that consist of Base Rate Borrowings and (ii) four percent (4.00%) per annum for all Loans that consist of Eurodollar Borrowings; (c) from May 1, 2002 through June 30, 2002, three percent (3.00%) per annum for all Loans that consist of Base Rate Borrowings; and (d) from July 1, 2002 and thereafter, three and one-half percent (3.50%) per for all Loans that consist of Base Rate Borrowings.

"Interest Expense" shall mean, for the Borrower and its Subsidiaries for any period determined on a consolidated basis in accordance with GAAP, the sum of (i) total interest expense, including without limitation the interest component of any payments in respect of capital leases capitalized or expensed during such period (whether or not actually paid during such period) *plus* (ii) the net amount payable (or *minus* the net amount receivable) under Currency Contracts during such period (whether or not actually paid or received during such period) *minus* $275,000 which is attributable to a portion of the waiver fee paid by the Borrower on the Fifth Amendment Effective Date; provided, however, that with respect to any Person, or substantially all of the assets of a Person, that became a Subsidiary of, or was merged with or consolidated into, or acquired by, the Borrower or any of its Subsidiaries in accordance with the terms of this Agreement, during such period, "Interest Expense" shall also include the Interest Expense of such Person or the Interest Expense attributable to such assets during such period as if such Person or assets were acquired as of the first day of such period.

"Maturity Date" shall mean the earlier of (i) December 31, 2002, and (ii) the date on which all amounts outstanding under this Agreement have been declared or have automatically become due and payable (whether by acceleration or otherwise).

"Net Proceeds" shall mean, with respect to any Asset Disposition, all cash, including (i) cash receivables (when received) by way of deferred payment pursuant to a promissory note, a receivable or otherwise (other than interest payable thereon), and (ii) with respect to any Asset Disposition resulting from the loss, damage, destruction or taking of property, the proceeds of insurance settlements and condemnation awards (other than the portion of the proceeds of such settlements and such awards that are used to repair, replace, improve or restore the item of property in respect of which such settlement or award was paid provided that the recipient of such proceeds enters into a binding contractual obligation to effect such repair, replacement, improvement or restoration within six (6) months of such loss, damage or destruction and completes such repair, replacement, improvement or restoration within twelve (12) months (or any longer period provided that the Consolidated Company is diligently pursuing the repair, replacement, improvement or restoration at all times during such period) of such loss, damage, destruction or taking) as and when received in cash, in either case, received by any Consolidated Company as a result of or in connection with such transaction, net of (a) reasonable sale expenses, fees and commissions incurred, and sales taxes paid in cash in connection therewith, (b) any payment required to be made with respect to the outstanding principal amount of, premium or penalty, if any, and interest on any Debt (other than the Loans) secured by a Lien (to the extent permitted by Section 8.01) upon the asset sold in such Asset Disposition, and (c) amounts applied to repayment of Debt (other than Obligations) secured by a Lien on the asset or property disposed.

3. Section 2.02 of the Credit Agreement is hereby amended by deleting subsection (b) in its entirety and replacing such subsection (b) with the following:

(b) Each Revolving Loan shall, at the option of the Borrower, be made or continued as, or converted into, part of one or more Borrowings that shall consist entirely of Base Rate Advances or Eurodollar Advances; provided, however, that beginning May 1, 2002 and thereafter, (i) all Borrowings made by the Borrower shall consist entirely of Base Rate

Advances, (ii) all outstanding Eurodollar Advances shall be converted into Base Rate Advances, and (iii) Eurodollar Advances shall no longer be made available to the Borrower. The aggregate principal amount of each Borrowing of Revolving Loans shall be not less than $1,000,000 or a greater integral multiple of $1,000,000, provided that each Borrowing of Revolving Loans comprised of Base Rate Advances shall be not less than $1,000,000 or a greater integral multiple of $1,000,000, except to the extent otherwise provided with respect to Revolving Loans made pursuant to Section 2.03(e). At no time shall the total number of Borrowings outstanding under the Term Loans and the Revolving Loan Commitments exceed eight; provided that, for purposes of determining the number of Borrowings outstanding and the minimum amount for Borrowings resulting from conversions or continuations, all Borrowings of Base Rate Advances under the Term Loans and the Revolving Loan Commitments shall be considered as one Borrowing.

4. Section 3.01 of the Credit Agreement is hereby amended by deleting subsection (b) in its entirety and replacing such subsection (b) with the following:

(b) Each Term Loan shall, at the option of the Borrower, be made or continued as, or converted into, part of one or more Borrowings that shall consist entirely of Base Rate Advances or Eurodollar Advances; provided, however, that beginning May 1, 2002 and thereafter, all Term Loans shall be converted into Base Rate Advances and Eurodollar Advances shall no longer be made available to the Borrower. The aggregate principal amount of each Borrowing of Term Loans consisting of Eurodollar Advances shall be not less than $5,000,000 or a greater integral multiple of $1,000,000 and the aggregate principal amount of each Borrowing of Term Loans consisting of Base Rate Advances shall not be less than $1,000,000 or greater integral multiple of $1,000,000. At no time shall the number of Borrowings outstanding under the Term Loans and the Revolving Loan Commitments exceed eight; provided that, for the purpose of determining the number of Borrowings outstanding and the minimum amount for Borrowings resulting from conversions or continuations, all Borrowings under the Term Loans and the Revolving Loan Commitments comprised of Base Rate Advances shall be considered in each case as one Borrowing.

5. Section 3.03 of the Credit Agreement is hereby amended by deleting subsection (a) in its entirety and replacing such subsection (a) with the following:

(a) Immediately upon receipt by the Borrower of Net Proceeds of any Asset Disposition, the Borrower shall prepay the Loans and deposit cash collateral for the LC Exposure in an amount equal to 100% of such Net Proceeds. Subject to subsection (c) hereof, the Revolving Loan Commitments shall be permanently reduced by the amount of any prepayments applied to Revolving Loans or deposited as Cash Collateral pursuant to this Section 3.03; provided, further, provided, that, regardless of the value of the assets disposed of, no mandatory prepayment shall be required with respect to (i) Asset Dispositions resulting from loss, damage, destruction, or taking where the proceeds thereof are utilized so as to be excluded from the definition of Net Proceeds and (ii) Asset Dispositions in connection with off-balance sheet financings resulting in Deemed Debt hereunder.

6. Section 4.03 of the Credit Agreement is hereby amended by deleting subsection (a) in its entirety and replacing such subsection (a) with the following:

(a) Borrower agrees to pay interest in respect of all unpaid principal amounts of the Revolving Loans and the Term Loans from the respective dates such principal amounts were advanced to maturity (whether by acceleration, notice of prepayment or otherwise) at rates per annum equal to the applicable rates indicated below:

(i) For Base Rate Advances--The Base Rate in effect from time to time plus the Applicable Margin; and

(ii) For Eurodollar Advances--The relevant Adjusted LIBO Rate plus the Applicable Margin;

7. Section 4.05 of the Credit Agreement is hereby amended by deleting Section 4.05 in its entirety and replacing it with the following:

Section 4.05

Fees

(a) The Borrower shall pay to the Administrative Agent, for the ratable benefit of each Lender based upon its respective Pro Rata Share of the Revolving Loan Commitments, a commitment fee (the "Revolving Loan Commitment Fee") for the period commencing on the Closing Date to and including the Revolving Loan Termination Date, payable monthly in arrears on the last day of each calendar month, commencing on the Fifth Amendment Effective Date, and on the Revolving Loan Termination Date, equal to the Applicable Commitment Fee Percentage multiplied by the average daily amount of the unused Revolving Loan Commitments (with the express understanding that the Letter of Credit Obligations and the Masland Bond Exposure shall be deemed to be utilizations of the Revolving Loan Commitments but the Swing Line Loans shall not be deemed to be an utilization of the Revolving Loan Commitments).

(b) The Borrower shall pay to the Administrative Agent, for the account of itself and the Lenders, a letter of credit fee equal to the Applicable Margin for Eurodollar Advances outstanding pursuant to the Revolving Loan Commitments multiplied by the average daily aggregate Letter of Credit Obligations minus the Stated Amount of the Dixie Letter of Credit (the "Letter of Credit Fee"); provided, however, for the period beginning May 1, 2002 and thereafter, the Borrower shall pay to the Administrative Agent, for the account of itself and the Lenders, a Letter of Credit Fee equal to 4.00% multiplied by the average daily aggregate Letter of Credit Obligations minus the Stated Amount of the Dixie Letter of Credit. The Letter of Credit Fee shall be payable by the Borrower monthly, in arrears, commencing on the Fifth Amendment Effective Date and continuing thereafter on the last day of each succeeding calendar month and on the Revolving Loan Termination Date.

(c) With respect to the Dixie Letter of Credit, the Borrower shall pay to the Administrative Agent the fee to be paid to SunTrust pursuant to Section 1(b) of the Dixie Reimbursement Agreement, and from such amount, the Administrative Agent shall pay to the Lenders, a letter of credit fee which is equal to (x) (i) for the period beginning on the Fifth Amendment Effective Date until April 30, 2002, the Applicable Margin for Eurodollar Advances outstanding pursuant to the Revolving Loan Commitments and (ii) for the period beginning May 1, 2002 and thereafter 4.00% multiplied by (y) the Stated Amount of the Dixie Letter of Credit (the "Bond Letter of Credit Fee") and shall retain for its own account the remainder of any fees paid under the Dixie Reimbursement Agreement; provided, however, to the extent that the amount of the fee to be paid to SunTrust pursuant to Section 1(b) of the Dixie Reimbursement Agreement is less than (i) the Applicable Margin for Eurodollar Advances, for the period beginning on the Fifth Amendment Effective Date until April 30, 2002, or (ii) 4.00%, for the period beginning May 1, 2002 and thereafter, the Borrower agrees to pay an additional fee to the Administrative Agent equal to the sum of (x) (i) the Applicable Margin for Eurodollar Advances, for the period beginning on the Fifth Amendment Effective Date until April 30, 2002, or (ii) 4.00%, for the period beginning May 1, 2002 and thereafter, minus (y) the amount of the fee to be paid to SunTrust pursuant to Section 1(b) of the Dixie Reimbursement Agreement, which additional amount shall be retained by the Administrative Agent for its own account. The Bond Letter of Credit Fee shall be payable by the Borrower monthly, in arrears, commencing on Fifth Amendment Effective Date and continuing thereafter on the last day of each succeeding calendar month and on the Revolving Loan Termination Date (or such earlier date on which the Dixie Letter of Credit or the Lenders' participation therein shall be terminated). Nothing set forth in this Agreement shall be deemed to have relieved the Borrower from its obligations pursuant to the Dixie Reimbursement Agreement.

8. Section 8.11 of the Credit Agreement is hereby amended by deleting Section 8.11 in its entirety and replacing it with the following new Section 8.11:

Section 8.11 Financial Covenants

. In the case of the Borrower, permit:

(a) Total Funded Debt to EBITDA. Its ratio of (i) Total Funded Debt as of the last day of any fiscal month of the Borrower to (ii) EBITDA for the twelve month period ending on or immediately prior to such date to be greater than the following levels for the following periods:

Period:	Maximum Ratio:
For each fiscal month from the period beginning with the fiscal month ending January 31, 2002 through June 30, 2002	5.25
From July 1, 2002 through September 30, 2002	5.00
For each fiscal month thereafter	4.50

(b) Senior Funded Debt to EBITDA. Its ratio of (i) Senior Funded Debt as of the last day of any fiscal month of the Borrower to (ii) EBITDA for the twelve month period ending on or immediately prior to such date to be greater than the following levels for the following periods:

Period:	Maximum Ratio:
For each fiscal month from the period beginning with the fiscal month ending January 31, 2002 through June 30, 2002	3.50
From July 1, 2002 through September 30, 2002	3.30
For each fiscal month thereafter	3.10

(c) Interest Coverage Ratio. Its Interest Coverage Ratio to be less than the following levels for the following periods, tested as of the last day of each fiscal month:

Period:	Maximum Ratio:
For each fiscal month from the period beginning with the fiscal month ending January 31, 2002 through June 30, 2002	2.10
From July 1, 2002 through September 30, 2002	2.15
For each fiscal month thereafter	2.25

(d) Debt Service Coverage. Its Debt Service Coverage to be greater than the following levels for the following periods, tested as of the last day of each fiscal month:

Period:	Maximum Ratio:
For each fiscal month from the period beginning with the fiscal month ending January 31, 2002 through September 30, 2002	1.25x
For each fiscal month thereafter	1.30x

9. The Borrower hereby acknowledges and agrees that the outstanding amount under the Term Loans as of the Fifth Amendment Effective Date is $14,475,514.22.

B. WAIVER AND FEES

:

As of March 31, 2001, (i) the Total Funded Debt to EBITDA Ratio was not less than 5.5:1.0 as required by Section 8.11(a) of the Credit Agreement and (ii) the Senior Funded Debt to EBITDA Ratio was not less than 3.5:1.0 as required by Section 8.11(b) of the Credit Agreement (the "March Defaults"). As of June 30, 2001, (i) the Total Funded Debt to EBITDA Ratio was not less than 5.5:1.0 as required by Section 8.11(a) of the Credit Agreement and (ii) the Senior Funded Debt to EBITDA Ratio was not less than 3.5:1.0 as required by Section 8.11(b) of the Credit Agreement (the

"June Defaults"). As of September 30, 2001, (i) the Total Funded Debt to EBITDA Ratio was not less than 5.0:1.0 as required by Section 8.11(a) of the Credit Agreement and (ii) the Senior Funded Debt to EBITDA Ratio was not less than 3.3:1.0 as required by Section 8.11(b) of the Credit Agreement (the "September Defaults"). In addition, for the fiscal months ending on March, April, May, June July, August, September and October, the Interest Coverage Ratio was not greater than 2.5:1.0 as required by Section 8.11(c) of the Credit Agreement (the "Interest Coverage Defaults", and, collectively, with the March Defaults, the June Defaults and the September Defaults referred to as the "Specified Events of Default").

At the request of the Borrower, the Lenders hereby agree to waive the Specified Events of Default. As consideration for the Lenders entering into such waiver, the Borrower hereby agrees to pay to the Lenders a waiver fee equal to $656,853.09 (the "Waiver Fee"). The fee shall be considered earned upon the closing of the waiver. The Borrower shall have no further obligation to pay the "Waiver Fee" (as defined in the Fourth Amendment to the Credit Agreement, dated as of November 30, 2001) to the extent that such fee is due and outstanding.

In addition, Borrower hereby agrees to pay to the Lenders an administration fee equal to $500,000 on the first day of each fiscal month beginning on May 1, 2002 until Maturity (the "Administration Fee"); provided, however, that should the Borrower repay all of the Obligations in full and terminate the commitments prior to the Maturity, all future unpaid installments of the Administration Fee at such time shall be waived.

C. CONDITIONS PRECEDENT

:

This Amendment shall become effective, when and only when the Administrative Agent shall have received the following:

(i) executed originals of this Amendment; and

(ii) the Waiver Fee equal to $656,853.09, to be distributed pro rata to the Lenders, together with all other fees and other amounts due and payable on or prior to the Fifth Amendment Effective Date, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent) required to be reimbursed or paid by the Borrower hereunder, under any other Credit Document and under any agreement with the Administrative Agent.

D. MISCELLANEOUS

1. Except for the amendments, covenants and agreements expressly set forth above, the Credit Agreement shall remain unchanged and in full force and effect. The Borrower acknowledges and expressly agrees that the Lenders reserve the right to, and do in fact, require strict compliance with the terms and provisions of the Credit Agreement, as amended by this Amendment. The parties hereto do expressly ratify and confirm the Credit Agreement as amended herein.

2. The Borrower hereby affirms and restates as of the date hereof all covenants set forth in the Credit Agreement, as amended hereby, and such covenants are incorporated by reference herein as if set forth herein directly.

3. To induce the Lenders to enter into this Amendment (A) the Borrower hereby represents and warrants that the representations and warranties set forth in Article VI of the Credit Agreement as amended hereby are true and correct, (B) the Borrower hereby restates, ratifies and reaffirms each and every term and condition set forth in the Credit Agreement, as amended hereby, and in the Credit Documents, effective as of the date hereof; and (C) the Borrower hereby certifies that no Event of Default, other than the Specified Events of Default, has occurred and is continuing.

4. The Borrower agrees to pay all costs and expenses of the Administrative Agent and the Lenders incurred in connection with the preparation, execution, delivery and enforcement of this Amendment, including the reasonable fees and out-of-pocket expenses of Administrative Agent's and each Lender's counsel.

5. The Borrower hereby agrees that except as explicitly stated herein nothing herein shall constitute a waiver by the Lenders of any Event of Default, whether known or unknown, which may exist under the Credit Agreement, other than the Specified Events of Default. The Borrower hereby further agrees that no action, inaction or agreement by the Lenders, including, without limitation, any indulgence, waiver, consent or agreement altering the provisions of the Credit Agreement which may have occurred with respect to the non-payment of any obligation during the terms of the Credit Agreement or any portion thereof, or any other matter relating to the Credit Agreement, shall require or imply any future indulgence, waiver, or agreement by the Lenders. In addition, the Borrower acknowledges and agrees that it has no knowledge of any defenses, counterclaims, offsets or objections in its favor against the Administrative Agent or any Lender with regard to any of the obligations due under the terms of the Credit Agreement or any other Credit Document as of the date of this Amendment. The Borrower also acknowledges and agrees that the Lenders shall have no obligation to release the Security Interests in any of the Collateral (other than Collateral sold pursuant to Section 3.03 of the Credit Agreement) until such time as all of the Obligations have been paid in full in cash, the outstanding letters of credit have been terminated and the Commitments have been terminated.

6. The Borrower hereby releases, acquits, and forever discharges each of the Lenders, the Administrative Agent and the Issuing Bank, and each and every past and present subsidiary, affiliate, stockholder, officer, director, agent, servant, employee, representative, and attorney of the Lenders, the Administrative Agent and the Issuing Bank, from any and all claims, causes of action, suits, debts, liens, obligations, liabilities, demands, losses, costs and expenses (including attorneys' fees) of any kind, character, or nature whatsoever, known or unknown, fixed or contingent, which Borrower may have or claim to have now or which may hereafter arise out of or be connected with any act of commission or omission of any Lender, the Administrative Agent or the Issuing Bank, existing or occurring prior to the date of this Amendment or any instrument executed prior to the date of this Amendment.

7. This Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective successors, successors-in-titles, and assigns.

8. This Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

9. This Amendment shall be governed by and construed in accordance with the laws of the State of Georgia.

10. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be deemed an original and all of which, taken together, shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile transmission shall be as effective as delivery of a manually executed counterpart hereof.

IN WITNESS the hand and seal of the parties hereto through their duly authorized officers, as of the date first above written.

THE DIXIE GROUP, INC.

By: /s/ Daniel K. Frierson

Daniel K. Frierson
Chairman and CEO

By: /s/ Gary A. Harmon

Gary A. Harmon
Vice President and Chief Financial Officer

Attest: /s/ Starr T. Klein

Starr T. Klein
Secretary

[CORPORATE SEAL]

Address:
The Dixie Group, Inc.
345-B Nowlin Lane
Chattanooga, Tennessee 37421
Attn: Mr. Gary A. Harmon

Telephone: (423) 510-7000
Facsimile: (423) 510-7015

SUNTRUST BANK, formerly known as
SunTrust Bank, Atlanta, individually and as
Administrative Agent

By: /s/ Kristina L. Anderson

Title: Director

Address:
SunTrust Bank
303 Peachtree Street
4th Floor
Atlanta, Georgia 30308
Attn: Ms. Kristina Anderson

Telephone: (404) 581-1477
Facsimile: (404) 230-1800

Payment Office:
25 Park Place, 23rd Floor
Atlanta, Georgia 30303

BANK OF AMERICA, N.A., formerly known as Nationsbank, N.A., individually and as Documentation Agent

By: /s/ John F. Register

Title: Principal

Address:
100 North Tryon Street, 22nd Floor
Mail Code--NC1-007-22-26
Charlotte, NC 28255

Attn: Mr. John F. Register

Telephone: (704) 386-5390

Facsimile: (704) 386-7515

SOUTHTRUST BANK, formerly known as
SOUTHTRUST BANK, NATIONAL ASSOCIATION

By: /s/ Bradford Vieira

Title: A.V.P.

Address:
230 Fourth Avenue, 8th Floor
Nashville, TN 37219
Attn: Mr. Bradford Vieira

Telephone: (615) 880-4115
Facsimile: (615) 880-4004

FIRST UNION NATIONAL BANK

By: /s/ Harvey Horowitz

Title: Director

Address:
301 South College Street, NC-0537
Charlotte, NC 28288

Attn: Mr. Harvey Horowitz

Telephone: (704) 383-0507
Facsimile: (704) 383-6249

JPMORGAN CHASE BANK, formerly known as The Chase Manhattan Bank

By: /s/ James A. Knight____________

Title: Vice President

Address:
1411 Broadway, 5th Floor
New York, NY 10018
Attn: Mr. James A. Knight

Telephone: (212) 391-7679
Facsimile: (212) 391-2102

ACKNOWLEDGMENT OF GUARANTORS

Each Guarantor acknowledges and agrees to the terms of the foregoing Amendment, and further acknowledges and agrees that (i) each Guarantor shall continue to Guarantee all of the Obligations of the Borrower covered by the Subsidiary Guaranty Agreement executed by such Guarantor, and (ii) the Subsidiary Guaranty Agreement is and shall remain in full force and effect on and after the date hereof, and (iii) the foregoing agreement shall in no way release, discharge, or otherwise limit the obligations of the undersigned Guarantors.

This Acknowledgment of Guarantors made and delivered as of March ___, 2002

FABRICA INTERNATIONAL

Address:

2801 Pullman Street Santa Anta, CA 92705	By: /s/ Gary A. Harmon
	Title: Vice President
Attn: Gary A. Harmon	Attest: /s/ Starr T. Klein
	Title: Secretary
	[CORPORATE SEAL]
	CHROMA TECHNOLOGIES, INC.
Address:	
185 S. Industrial Blvd. Calhoun, GA 30703-7010	By: /s/ Gary A. Harmon
	Title: President
Attn: Gary A. Harmon	Attest: /s/ Starr T. Klein
	Title: Secretary
	[CORPORATE SEAL]
	BRETLIN, INC.
Address:	
185 S. Industrial Blvd. Calhoun, GA 30703-7010	By: /s/ Gary A. Harmon

Title: Vice President

Attest: /s/ Starr T. Klein

Attn: Gary A. Harmon

Title: Secretary

[CORPORATE SEAL]

CANDLEWICK YARNS, INC.

Address:

By: /s/ Gary A. Harmon

185 S. Industrial Blvd.
Calhoun, GA 30703-7010

Title: Vice President

Attest: /s/ Starr T. Klein

Attn: Gary A. Harmon

Title: Secretary

[CORPORATE SEAL]

DIXIE GROUP LOGISTICS, INC.

Address:

By: /s/ Gary A. Harmon

185 S. Industrial Blvd.
Calhoun, GA 30703-7010

Title: Vice President

Attn: Gary A. Harmon

Attest: /s/ Starr T. Klein

Title: Secretary

[CORPORATE SEAL]

DIXIE FUNDING, INC.

Address:

345-B Nowlin Lane
Chattanooga, TN 37421

Attn: Gary A. Harmon

By: /s/ Gary A. Harmon

Title: President

Attest: /s/ Starr T. Klein

Title: Secretary

[CORPORATE SEAL]

AMTEX, INC.

Address:

185 S. Industrial Blvd.
Calhoun, GA 30703-7010

Attn: Gary A. Harmon

By: /s/ Gary A. Harmon

Title: President

Attest: /s/ Starr T. Klein

Title: Secretary

[CORPORATE SEAL]