FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

DIXIE GROUP INC

CIK:**29332**| IRS No.: **620183370** | State of Incorp.:**TN** | Fiscal Year End: **1227**
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SIC: **2273** Carpets & rugs

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 26, 1998.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _______ to _______.

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.)
1100 South Watkins Street Chattanooga, Tennessee	37404
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (423) 698-2501

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, $3.00 Par Value
(Title of Class)

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, and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

-Continued-

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K
(Continued)

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of March 5, 1999: Common Stock - $69,699,050; Class B Common Stock - No market exists for the shares of Class B Common Stock, which is neither registered under Section 12 of the Act nor subject to section 15(d) of the Act.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

Class	Outstanding as of March 5, 1999
Common Stock, $3.00 Par Value	10,630,779 shares
Class B Common Stock, $3.00 Par Value	735,228 shares
Class C Common Stock, $3.00 Par Value	0 shares

Documents Incorporated By Reference

Specified portions of the following document are incorporated by reference:

Proxy Statement of the registrant for annual meeting of shareholders to be held April 29, 1999 (Part III).

PART I

ITEM 1. BUSINESS

GENERAL

Prior to 1993, the Company's business consisted of manufacturing yarn, thread, and fabrics sold to industrial manufacturers. All products required further processing by the Company's customers before reaching the final consumers. The principal markets served were home furnishings, textile related industrial markets, transportation, and apparel. A component of the Company's yarn business was Candlewick Yarns, a supplier of yarn to carpet and rug manufacturers serving various markets in the floorcovering industry. The Company's total sales in 1992 were $470 million.

In 1993, the Company embarked on a strategic plan to divest itself of those textile assets considered to have limited shareholder return potential while investing, through acquisitions, in the floorcovering industry. The Company sought carpet companies with existing positions in growth market that were considered complementary to the Company's strengths in yarn product offerings and product development in its Candlewick yarn business.

From 1993 through 1998, the Company sold or closed the majority of its textile related operations. During 1998, the Company made the decision to exit and hold for sale its remaining textile operations. In February 1999, the Company signed letters of intent with two separate Companies for the sale of those operations. Definitive sales agreements are being negotiated with the prospective buyers and completion of the sales are expected to be completed in the second quarter of 1999.

During the same period of textile related asset divestitures, the Company acquired Carriage Carpets, Bretlin Carpets and Masland Carpets in 1993, Patrick Carpet Mills in 1994, Danube Carpet Mills and certain carpet assets of General Felt Industries in 1997, and Ideal Fibers in late 1998. In January 1999, the Company acquired the assets and business of Multitex Corporation of America, Inc., a manufacturer who sells carpet under the name Globaltex.

Sales in 1998 were $496.4 million for the Company's floorcovering businesses. Results for the textile related businesses have been reclassified to discontinued operations in the Company's financial statements for the periods presented. Entering 1999, the strategic repositioning as a floorcovering company is expected to provide greater return potential to the Company's shareholders.

THE INDUSTRY INFORMATION - The carpet and rug industry has two primary markets, residential and commercial, with the residential market making up the largest portion of the industry's sales. A substantial portion of industry shipments is made in response to replacement demand. Residential products consist of broadloom carpets, rugs, and bathmats in a broad range of styles, colors, and textures. Commercial products consist primarily of broadloom carpets for a variety of institutional applications such as office buildings, restaurant chains, schools, hotels, and other commercial establishments. The carpet industry also manufactures carpet for the automotive, recreational vehicle, and small boat industries.

Based on various data complied from published information by the U.S. Department of Commerce and industry trade association assessments, the Company believes the domestic carpet and rug industry to be composed of approximately 100 manufacturers of which the top 3 account for approximately 75 of the industry's production. The carpet industry has undergone substantial consolidation at the manufacturing level in recent years. The Company believes the consolidations provide opportunities for profitable growth in selected markets where styling, product differentiation, and focused service add value to customers and differentiate the Company from its competitors.

THE COMPANY'S BUSINESSES - The Company's businesses are segmented between Carpet Manufacturing and Floorcovering Base Materials (See Note N in the Company's 1998 Consolidated Financial Statements for quantitative segment information). The products of each segment serve carpet and rug markets in the floorcovering industry.

The Company's Carpet Manufacturing segment is viewed as a manufacturing, selling, marketing, and distribution resource pool with a wide range of capabilities to serve selected markets with a variety of products. The products are sold in roll or piece goods in a wide breadth of textures, colors and designs. Products in the Carpet Manufacturing segment, although marketed for diverse applications under different marketing names, are manufactured by similar techniques. Businesses in the Company's Carpet Manufacturing segment are described below.

Masland Carpets is a manufacturer of specialty carpets and rugs for the high-end residential and commercial marketplaces. Masland's products are marketed to the architectural and interior design community and select specialty floorcovering showrooms. Masland competes in each of these markets through quality, service, and innovation in styling and product design. Masland's business includes a product line designed to cater to value oriented commercial customers where style, design, and quality are required. Masland's product lines are marketed by its own sales force.

Carriage Carpets is a carpet manufacturer supplying tufted broadloom carpet for customers of the factory built housing, recreational vehicle, van conversion, and exposition trade show industries. Carriage creates specialty products geared to customer specifications that maximizes processing efficiency and minimizes waste with just-in-time delivery through the Company's trucking fleet. The acquisition of Danube Carpet Mills increased Carriage's sales in the manufactured housing and recreational vehicle industries and provided the opportunity to be more competitive by expanding its core business. Carriage's operations, which include tufting, dyeing, finishing and distribution, provides carpet production and related services to its sister companies to serve their markets. Carriage's product lines are marketed by a staff of salaried sales personnel.

Bretlin is a manufacturer of indoor/outdoor needlebond carpet and runners, floormats, decorative accent rugs, commercial/industrial polypropylene needlebond carpet, and synthetic fiber cushion. Its products are marketed to home centers, mass merchants, floorcovering groups or co-ops, distributors, and independent floorcovering retailers. The needlebond and artificial turf assets and business acquired from General Felt Industries in October 1997 are complementary to Bretlin's existing manufacturing capabilities and product lines. The acquisition of Globaltex product line in January 1999 expanded the Company's position in certain residential markets and is expected to particularly strengthen and expand Bretlin's position in the home center markets. High service standards in terms of speed and accuracy in filling orders for its customers are key competitive factors for Bretlin. Products of Bretlin are marketed primarily through its own sales force, and to a lesser extent, commission sales representatives.

The Company's Floorcovering Base Materials segment includes Candlewick Yarns and the filament yarn extrusion assets of Ideal Fibers which were acquired in a start-up phase in the fourth quarter of 1998. Ideal will operate as a component of Candlewick. The Base Materials group produces yarns for the carpet industry and are sold for applications in residential and commercial carpet, bath and decorative accent rugs, and automotive floorcovering. A substantial majority of the production volume in this segment is utilized in the Company's Carpet Manufacturing group. As a vertically integrated supplier, the Company's Base Materials group focuses on the development and production of low costs yarn through extrusion, spinning, and finishing. Their mission is to satisfy the internal needs of the Carpet Manufacturing group at a competitive cost and to supply external customers with innovative products, the production of which has the effect of lowering the Company's total unit costs of production.

The Company's sales order backlog position in its floorcovering businesses, excluding Carriage and Bretlin, was approximately $38,100,000 at December 26, 1998 and $27,300,000 at December 27, 1997. Approximately 90% of orders received by Carriage and Bretlin are shipped within the same week. All of the order backlog can reasonably be expected to be filled within the 1999 fiscal year.

The Company's floorcovering businesses own a variety of trademarks under which their products are marketed. While such trademarks are important to the Company's businesses, there is no one trademark, other than the name

"Masland", which is of material importance to the floorcovering business.

CUSTOMER AND PRODUCT CONCENTRATION

There was no single class of products exceeding 10 percent of the Company's consolidated sales volume for 1998, 1997, or 1996. Sales to Fleetwood Enterprises, Inc. were 11% of the Company's consolidated sales in 1996.

SEASONALITY

Within the varied markets serviced by the Company, there are a number of seasonal production cycles, but the Company's business as a whole is not considered to be significantly affected by seasonal factors. Consequently, there are no material impacts on working capital relating to seasonality.

ENVIRONMENTAL

While compliance with current federal, state and local provisions regulating the discharge of material into the environment may require additional expenditures by the Company, these expenditures are not expected to have a material effect on capital expenditures, earnings or the competitive position of the Company.

RAW MATERIALS

The Company obtains natural and synthetic raw materials from a number of domestic suppliers. Man-made fibers are purchased from major chemical suppliers. Although the Company's procurement of raw materials is subject to variations in price and availability due to market conditions and the price of petroleum used to produce man-made fibers, the Company believes that its sources of raw materials are adequate and that it is not materially dependent on any single supplier.

UTILITIES

The Company uses electricity as its principal energy source, with oil or natural gas used in some facilities for finishing operations as well as heating. During the past five years the Company has not experienced any material problems in obtaining electricity, natural gas or oil at anticipated prices. Nevertheless, energy shortages of extended duration could have an adverse effect on the Company's operations.

EMPLOYMENT LEVEL

The Company had approximately 3,100 associates in its continuing operations as of the end of fiscal 1998.

ITEM 2. PROPERTIES

The following table lists the Company's facilities according to location, type of operation and approximate total floor space as of March 5, 1999.

Location	Type of Operation	Approximate Square Feet
	FLOORCOVERING	
Administrative:		
Dalton, GA	Administrative	13,000
Calhoun, GA	Administrative	22,000
Mobile, AL	Administrative	20,000
	Total Administrative	55,000
Warehousing:		
Ringgold, GA	Warehousing	119,000
Manufacturing:		
Lemoore, CA	Tufted Yarn Spinning	322,000
Ringgold, GA	Tufted Yarn Spinning	290,000
(1) Roanoke, AL	Tufted Yarn Spinning	190,000
Ulmer, SC	Tufted Yarn Spinning	138,000
(2) Calhoun, GA	Carpet Manufacturing, Distribution	1,284,000
	Needlebond Manufacturing, Distribution	347,000
(3) Dalton, GA	Carpet Manufacturing, Distribution	511,000

Atmore, AL	Carpet Manufacturing, Distribution	342,000
Mobile, AL	Rug Manufacturing, Distribution	400,000
(4) LaFayette, GA	Carpet Padding Manufacturing	73,000
	Total Manufacturing	3,897,000
	TEXTILE	
Manufacturing:		
(5) Chattanooga, TN	Yarn Spinning	440,000
(5) Mebane, NC	Yarn Spinning	99,000
(5) Ranlo, NC	Yarn Spinning	319,000
(5)Chattanooga, TN	Package Yarn Dyeing, Bleaching and Mercerizing	276,000
	Total Manufacturing	1,134,000
	CORPORATE	
Administrative:		
Chattanooga, TN	Administrative	41,000
	Total	5,246,000

ITEM 2. PROPERTIES - CONTINUED

(1) This property is currently leased. Under the provisions of the Roanoke, AL lease, the Company is acquiring title to the property over the term of the lease, which is expected to terminate in 2004.

(2) The Company is currently leasing 126,000 square feet for Tufted Yarn Twisting.

(3) The Company is currently leasing 165,000 square feet for carpet manufacturing and 10,000 square feet for administrative uses.

(4) The Company is in the process of converting this operation to a carpet padding manufacturing operation. No production is being performed in this location as of March 5, 1999.

(5) Currently operating; "held for sale".

In addition to the facilities listed above, the Company owns or leases various administrative, storage, warehouse and office spaces.

In the opinion of the Company, its manufacturing facilities are well maintained and the machinery is efficient and competitive. Operations at each plant generally vary between 120 hours and 168 hours per week. There are no material encumbrances on any of the Company's operations.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company or its subsidiaries are a party or of which any of its property is the subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted during the fourth quarter of 1998 to a vote of the shareholders.

Pursuant to instruction G of Form 10-K the following is included as an unnumbered item to Part I.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, positions and offices held by the executive officers of the registrant as of March 5, 1999, are listed below along with their business experience during the past five years.

Name, Age and Position	Business Experience During Past Five Years
Daniel K. Frierson, 57 Chairman of the Board and Chief Executive Officer, Director, Member of Executive Committee	Director since 1973, Chairman of the Board since 1987 and Chief Executive Officer since 1980. Director of SunTrust Bank, Chattanooga, N.A. Brother of Paul K. Frierson.

William N. Fry, IV, 40 President and Chief Operating Officer	President and Chief Operating Officer since February 1999. Executive Vice President and Chief Operating Officer, Floorcovering Business from January 1997 to February 1999. Executive Vice President and Chief Operating Officer, Candlewick, Carriage and Bretlin from January 1996 to January 1997. President, Bretlin from January 1995 to January 1996. Executive Vice President, Bretlin from November 1993 to January 1995. Business Analyst, Carriage from July 1993 to November 1993. General Manager, Dyed Yarns from May 1992 to July 1993. Assistant Plant Manager, Chattanooga Finishing from July 1991 to May 1992.
Glenn A. Berry, 51 Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer since January 1997. Vice President, Lighting Products Group, MagneTek, Inc., from March 1995 to December 1996. Vice President, Allied Signal Laminate Systems, 1986 to 1994.

EXECUTIVE OFFICERS OF THE REGISTRANT - CONTINUED

Name, Age and Position	Business Experience During Past Five Years
George B. Smith, 58 Executive Vice President and Chief Operating Officer, Textile Business	Executive Vice President and Chief Operating Officer, Textile Business since September 1996. Executive Vice President and President, Natural/Dyed Yarns and Knits since March 1994. President, Natural and Dyed Yarn Group from August 1993 to March 1994. President Natural Yarn Group from October 1992 to August 1993. Self-employed (Consulting and Commission Sales) from June 1990 to November 1992.
Philip H. Barlow, 49 Vice President and President, Carriage Industries, Inc.	Vice President and President of Carriage Industries, Inc. since 1993. Vice President of Sales and Marketing, Carriage, 1988 to 1993. Director of Sales and Marketing, Carriage, 1986 to 1988.
Kenneth L. Dempsey, 40 Vice President and President, Masland Carpets, Inc.	Vice President and President, Masland Carpets, Inc. since January 1997. Vice President of Marketing, Masland, 1991 to 1996. Director of Marketing, The Harbinger Company, Inc., subsidiary of Horizon Industries, Inc., 1982 to 1991.
Paul K. Frierson, 61 Vice President and President, Candlewick Yarns, Director	Director since 1988. Vice President and President, Candlewick Yarns since 1989. Director of NationsBank/Chattanooga. Brother of Daniel K. Frierson.

Jeffrey L. Gregg, 35 Vice President and President, Bretlin, Inc.	Vice President and President of Bretlin, Inc. since January 1998. Vice President of Operations, Carriage Industries, Inc. from May 1996 to January 1998. Chief Operating Officer and Chief Financial Officer, The Geiger Group, Inc. from July 1991 to April 1996.
W. Derek Davis, 48 Vice President, Human Resources	Vice President of Human Resources since January 1991. Corporate Employee Relations Director, 1990 to 1991.

EXECUTIVE OFFICERS OF THE REGISTRANT - CONTINUED

Name, Age and Position	Business Experience During Past Five Years
Gary A. Harmon, 53 Treasurer	Treasurer since 1993. Director of Tax and Financial Planning, 1985 to 1993.
D. Eugene Lasater, 48 Controller	Controller since 1988.
Starr T. Klein, 56 Secretary	Secretary since November 1992. Assistant Secretary, 1987 to 1992.

The executive officers of the registrant are elected annually by the Board of Directors at its first meeting held after each annual meeting of the Company's shareholders.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

The Company's Common Stock trades on the over-the-counter National Market System with the NASDAQ symbol DXYN. No market exists for the Company's Class B Common Stock.

As of March 5, 1999, the total number of record holders of the Company's Common Stock was approximately 3,900 and the total number of holders of the

Company's Class B Common Stock was 16. Management of the Company estimates that there are approximately 3,000 shareholders who hold the Company's Common Stock in nominee names. Dividends and Price Range of Common Stock for the four quarterly periods in the years ended December 26, 1998 and December 27, 1997 are as follows:

<TABLE>

THE DIXIE GROUP, INC.
QUARTERLY FINANCIAL DATA, DIVIDENDS
AND PRICE RANGE OF COMMON STOCK
(Unaudited)
(dollars in thousands, except per share data)

<CAPTION>

	1998			
Quarter	1st	2nd	3rd	4th
<S>	<C>	<C>	<C>	<C>
Net sales	$118,601	$130,489	$120,387	$126,935
Gross profit	23,960	27,544	22,827	25,077
Income from continuing operations	2,247	3,343	1,650	1,868
Net income (loss)	2,472	(12,008)	206	(11,672)
Basic earnings (loss) per share:				
Income from continuing operations	.20	.30	.15	.17
Net income (loss)	.22	(1.07)	.02	(1.03)
Diluted earnings (loss) per share:				
Income from continuing operations	.19	.28	.14	.16
Net income (loss)	.21	(1.00)	.02	(1.02)
Dividends:				
Common Stock	.05	.05	.05	---
Class B Common Stock	.05	.05	.05	---
Common Stock prices:				
High	$ 13.00	$ 14.00	$ 10.00	$ 8.13
Low	9.75	9.75	6.75	4.38

<CAPTION>

	1997			
Quarter	1st	2nd	3rd	4th
<S>	<C>	<C>	<C>	<C>
Net sales	$101,860	$108,845	$106,932	$114,449
Gross profit	21,115	23,832	20,665	21,058
Income from continuing operations	2,051	2,717	2,299	1,745
Net income	2,981	3,300	3,012	2,326
Basic earnings per share:				
Income from continuing operations	.18	.24	.21	.16
Net income	.27	.29	.27	.21
Diluted earnings per share:				
Income from continuing operations	.18	.24	.19	.14
Net income	.26	.29	.25	.19
Dividends:				
Common Stock	---	---	---	---
Class B Common Stock	---	---	---	---
Common Stock prices:				
High	$ 8.13	$ 9.88	$ 15.88	$ 14.75
Low	6.38	6.00	9.63	9.13

<FN>

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 the knit fabric and apparel business as well as the specialty yarns business. In the second quarter of 1998, results included charges of $21,745 ($14,717 or $1.22 per diluted share after taxes), for the expected loss on the disposition of the knit fabric and apparel business. In the fourth quarter of 1998, results included charges of $17,580 ($13,540 or $1.18 per diluted share after taxes) for the expected loss on the disposition of the specialty yarns business.

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

ITEM 6. SELECTED FINANCIAL DATA
(dollars in thousands, except per share data)

The following selected financial data should be read in conjunction with the related consolidated financial statements and notes thereto included under Items 8, 14(a) (1) and (2) and 14 (d) of the report on Form 10-K.

<CAPTION>

			Year Ended		
	December 26, 1998	December 27, 1997 (1)	December 28, 1996	December 30, 1995	December 31, 1994
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$496,412	$432,086	$363,113	$357,145	$350,377
Income from continuing operations(2)	9,108	8,812	5,701	4,365	24,397
Total assets	374,646	386,614	328,135	396,997	488,320
Long-term debt:					
Senior indebtedness	64,466	68,528	34,036	97,383	87,025
Subordinated notes	50,000	50,000	50,000	50,000	50,000
Convertible subordinated debentures	39,737	42,282	44,782	44,782	44,782
Common Stock, subject to put option	---	---	---	---	18,178
Per Share:					
Income from continuing operations: (2)					
Basic	.81	.78	.51	.37	1.99
Diluted	.77	.75	.51	.37	1.99
Cash dividends declared:					
Common Stock	.15	---	---	---	.20
Class B Common Stock	.15	---	---	---	.20

<FN>
(1) Includes the results of operations of Danube and GFI Dalton subsequent to their acquisitions on December 31, 1996 and October 2, 1997, respectively.

(2) Income from continuing operations includes asset valuation losses of $739, or $.07 per share, for the year ended December 28, 1996, asset valuation losses of $2,612, or $.22 per share, and casualty insurance gains of $2,672, or $.23 per share, for the year ended December 30, 1995, casualty insurance gains of $2,641, or $.22 per share, and a nontaxable life insurance gain of $12,835, or $1.05 per share, for the year ended December 31, 1994. See Note B and Note J to the Consolidated Financial Statements.
</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

During 1998, the Company successfully completed the sale of its Tarboro textile yarn spinning facility, the closure and wind-down of its C-Knit apparel operation, and the sale of its Caro-Knit textile fabric operation. In February 1999, the Company signed letters of intent with two separate companies for the sale of the remainder of its textile operations. Definitive sale agreements are being negotiated with the prospective buyers and completion of the sales are expected to be finalized in the second quarter of 1999.

As a result of these actions, the Company's results reflected losses of $30.1 million in 1998 associated with asset devaluations, costs of disposal, expected operating losses through the estimated holding period, as well as operating losses up to the measurement dates for the discontinued businesses. The losses were classified as discontinued operations and accordingly were segregated from results of the Company's ongoing Floorcovering businesses, including restatement for periods previously presented.

Subsequent to the end of fiscal 1998, in early January 1999, the Company acquired the assets of Multitex Corporation of America, Inc., a Dalton, Georgia carpet and carpet yarn producer. Multitex sells carpet under the Globaltex name through home centers and other retail channels. During 1998, the Company expanded its manufacturing capacity at Masland Carpets' Atmore, Alabama facility and, in late 1998, acquired the filament yarn extrusion assets of Ideal Fibers. Ideal Fibers, which was in a start-up phase, will provide the Company with an internally produced source of filament yarn.

Ideal will operate in the Company's Base Materials group as part of Candlewick Yarns. Following this acquisition, the Company funded additional equipment acquisitions and plans further productive capacity expansion in the extrusion operation. The Company expects Ideal's filament yarn extrusion capacity to provide the Company's Carpet manufacturing group with a source of raw material at a competitive cost, as well as product development capabilities to meet market demands for product differentiation.

Results for the Company's continuing operations, its floorcovering businesses, reflected sales of $496.4 million in 1998 compared with sales of $432.1 million in 1997 and $363.1 million in 1996. The year-over-year growth in 1998 and 1997 versus the previous periods resulted from the acquisitions of Danube Carpet Mills in early fiscal 1997, the needlebond assets of General Felt Industries in late 1997, and strong growth in selected commercial and residential markets served by the Company. Income from continuing operations was $9.1 million in 1998, or $.77 per diluted share, $8.8 million in 1997, or $.75 per diluted share, and $5.7 million in 1996, or $.51 per diluted share.

Effective for fiscal 1998, the Company adopted Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information". Statement 131 establishes standards for reporting information about operating segments in annual and interim financial statements. Prior to 1998 and the adoption of Statement 131, the Company reported its business segments according to the industries served. The Company identified its reportable segments under the new guidelines as Carpet Manufacturing and Floorcovering Base Materials (see note N). The adoption of Statement 131 did not affect results of operations or financial position. Discussions below pertaining to the year-to-year operating results exclude the Company's discontinued textile and apparel operations.

1998 Compared to 1997- The Company's sales increased to $496.4 million or 15% over 1997 sales of $432.1 million. The sales growth was attributable to volume increases in its Carpet Manufacturing segment. The growth resulted from the acquisition of the needlebond business of General Felt Industries in late fiscal 1997 and strong growth in higher-end residential and commercial products. The Company's 1998 earnings before interest and taxes (EBIT) increased 9% over 1997. The increase in EBIT was a result of the higher sales volume. Costs associated with facilities expansion and selling expenses in support of current and anticipated future growth impacted the 1998 earnings.

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

In March 1998, the Accounting Standards Executive Committee issued Statement of Position (SOP) 98-1, "Accounting For the Costs of Computer Software Developed For or Obtained For Internal Use". Adoption of the SOP is required at the beginning of fiscal 1999. Provisions of the Statement require the capitalization of certain costs incurred after the date of adoption in connection with developing or obtaining software for internal use. Early adoption of the SOP is permitted, and accordingly, the Company adopted the statement effective with the first quarter of 1998. The Company historically expensed internal software development costs as incurred but after adoption of the Statement capitalizes and amortizes such costs over the expected useful life of the associated software. The Company's results were not materially affected as a result of the adoption.

1997 Compared to 1996 - Net sales for 1997 increased $69.0 million, or 19%, compared with 1996. Sales in each of the Company's operating segments increased in 1997 over 1996. A substantial portion of the sales growth was a result of the acquisition of Danube Carpet Mills in early fiscal 1997. Danube products are sold primarily into the factory-built housing markets in the Company's Carpet Manufacturing segment. Earnings before interest and taxes reflected an increase of 32% in 1997 compared with 1996. The increase resulted primarily from incremental sales volume increases associated with the Danube acquisition and growth in higher-end residential and commercial products.

The Company's interest expense increased by $1.3 million in 1997 compared with 1996. Interest expense was 2% of sales in both periods.

The Company's effective income tax rate was 37.2% for 1997 and 41.5% for 1996. The higher effective rate in 1996 was due primarily to the effect of non-deductible goodwill related to the lower level of pre-tax earnings.

LIQUIDITY AND CAPITAL RESOURCES

During the three year period ended December 26, 1998, cash flows generated from operating activities were $138.4 million. These funds were supplemented by $41.7 million from the sale of assets and were used to finance the Company's operations, fund capital expenditures, invest in business acquisitions, pay dividends, and reduce debt.

Investments in property, plant and equipment of $64.6 million and cash of $61.7 million for business acquisitions were directed toward the carpet and carpet yarn operations during the three year period ended December 26, 1998. The expenditures were made to support sales growth, manufacturing capacities expansions, and equipment modernization.

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

At December 26, 1998, the Company's debt consisted of $42.2 million of convertible subordinated debentures, $50.0 million of subordinated notes and $71.6 million of senior indebtedness, principally under the Company's revolving credit and term-loan agreement. Beginning in 1998, the convertible subordinated debentures require annual mandatory sinking fund payments of $2.5 million. Principal payments under the Company's subordinated notes are due in semi-annual installments of $2.4 million beginning in the year 2000. In March, 1998 the Company entered into a new unsecured revolving credit and term-loan agreement. The agreement provides for revolving credit of up to $100.0 million through a five year commitment period and a $60.0 million, seven year term-loan.

Interest rates available under the revolving credit and term-loan facility may be selected by the Company from a number of options which effectively allow for borrowing at rates equal to or lower than the greater of the lender's prime rate or federal funds rate plus .5%.

The Company's long-term debt and credit agreements contain financial covenants relating to minimum net worth, the ratio of debt to capitalization, payment of dividends and certain other financial ratios. Restrictions set forth in the Company's subordinated note agreement have limited the Company's ability to pay dividends due to losses associated with the disposal of the Company's textile and apparel operations. Absent a waiver from the lender or an amendment, future dividends can only be paid to the extent of 50% of the excess of aggregate consolidated net income subsequent to the end of the fiscal quarter when the Company first meets the required ratios of interest coverage and debt to earnings before interest, taxes, depreciation and amortization as defined by the subordinated note agreement.

As of December 26, 1998, the most restrictive covenants under the revolving credit and term-loan agreement limit available borrowing capacity to $43.7 million.

The Company expects to generate net cash of approximately $55 million related to the sale of the textile business subsequent to year-end 1998, primarily in the first half of 1999.

Availability under the Company's existing debt arrangements and expected operating cash flows are deemed adequate to finance the Company's future liquidity requirements, which are anticipated to consist primarily of capital expenditures and seasonal working capital needs.

YEAR 2000 SYSTEMS ISSUES

The Company believes it has identified all information technology systems that were not year 2000 compliant. Incidental to year 2000 issues, the Company developed a plan for the conversion of its hardware platform and the acquisition or development of business process software to be utilized and centrally maintained across each of its operating businesses. Each of these new systems are designed to be year 2000 compliant. Certain modules are due for implementation in the second and third quarters of 1999. Those non-compliant applications which will not be implemented before year 2000 are in the process of modification for year 2000 compliance. The majority of the modifications have been completed and the remainder are expected to be completed by mid-1999.

Each operating business identified those non-information systems that contain embedded technology that could be impacted by the year 2000 issue. The Company is substantially complete in its state of readiness related to those systems.

The Company identified those third parties through written or direct communications with whom it has a material relationship or whose relationship is substantially dependant on information technology. The Company has no known unresolved issues that could have a material impact on its on-going business.

Incremental costs associated with all aspects of year 2000 assessment and remediation was less than $0.2 million in 1998 and is estimated to be less than $0.2 million in 1999. The Company has not deferred any information technology projects as a result of personnel or financial resource allocation toward year 2000 compliance issues.

Based on the overall state of readiness, the Company feels it is reasonably unlikely that any material impact will result from non-compliant information technology systems issues that are within the Company's control. Non-compliance resulting in service interruptions by electrical power service providers would result in the worse case for the Company due to its dependancy on electrical sourcing for productive output.

The Company has not developed a formal contingency plan due to its state of readiness. Progress will continue to be monitored by management and plans altered if deemed appropriate.

FORWARD-LOOKING INFORMATION

This Annual Report to shareholders may contain certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. These forward-looking statements are identified by their use of terms or phrases such as "expects", "estimates", "projects", "believes", "anticipates", "intends", and similar terms and phrases. Such terms or phrases relate to, among other matters, the Company's future financial performance, business prospects, growth, strategies, or liquidity. Forward-looking statements involve a number of risks and uncertainties. The following important factors may affect the future results of The Dixie Group, Inc. and could cause those results to differ materially from those expressed in the forward-looking statements. These risks include raw material prices, materially adverse changes in economic conditions generally in carpet, rug and floorcovering markets served by the Company, completion of the sale of the Company's remaining textile business, risks associated with interruptions in the Company's operations related to inadequate corrective action for the Year 2000 computer problem in any systems of the Company or one of its major suppliers or customers and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The supplementary financial information as required by Item 302 of Regulation S-K is included in PART II, ITEM 5 of this report and the remaining response is included in a separate section of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section entitled "Information about Nominees for Directors" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held April 29, 1999 is incorporated herein by reference. Information regarding the executive officers of the registrant is presented in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The section entitled "Executive Compensation Information" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held April 29, 1999 is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Principal Shareholders", as well as the beneficial ownership table (and accompanying notes) in the Proxy Statement of the registrant for the annual meeting of shareholders to be held April 29, 1999 is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The section entitled "Certain Transactions Between the Company and Directors and Officers" in the Proxy Statement of the registrant for the annual meeting of shareholders to be held April 29, 1999 is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) and (2)-- The response to this portion of Item 14 is submitted as a separate section of this report.

(3) Listing of Exhibits:

(i) Exhibits Incorporated by Reference:

(3a) Restated Charter of The Dixie Group, Inc.

(3b) Amended and Restated By-Laws of Dixie Yarns, Inc.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K - CONTINUED

(4a) Second Amended and Restated Revolving Credit and Term Loan Agreement dated January 31, 1992 by and among Dixie Yarns, Inc., and Trust Company Bank, NationsBank of North Carolina, N.A. and Chemical Bank.

(4b) Loan Agreement dated February 6, 1990, between Dixie Yarns, Inc. and New York Life Insurance Company and New York Life Insurance and Annuity Corporation.

(4c) Form of Indenture, Dated May 15, 1987 between Dixie Yarns, Inc. and Morgan Guaranty Trust Company of New York as trustee.

(4d) Revolving Credit Loan Agreement dated as of September 16, 1991 by and among Ti-Caro, Inc. and Trust Company Bank, individually and as Agent, NCNB National Bank and Chemical Bank.

(4e) First Amendment to Revolving Credit Loan Agreement dated as of August 19, 1992 by and among Ti-Caro, Inc., T-C Threads, Inc. and Trust Company Bank, individually and as agent, NCNB National Bank, and Chemical Bank.

(4f) First Amendment, dated August 25, 1993 to Second Amended and Restated Revolving Credit and Term Loan Agreement dated January 31, 1992, by and among Dixie Yarns, Inc. and Trust Company Bank, NationsBank of North Carolina, N.A. and Chemical Bank.

(4g) Third Amended and Restated Credit Agreement dated March 31, 1995.

(4h) Waiver and First Amendment to Credit Agreement dated February 27, 1996.

(4i) Waiver and Modification Agreement dated November 1, 1996.

(4j) Waiver Letter dated December 13, 1996.

(4k) Second Amendment dated September 7, 1997 to the Third Amended and Restated Credit Agreement dated March 31, 1995.

(4l) Amendment to 9.96% Senior Subordinated notes due February 1, 2010.

(4m) Letter agreement dated February 17, 1998 re: Amendment to 9.96% Senior Subordinated Notes due February 1, 2010.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K - CONTINUED

(4n) Credit Agreement dated as of March 31, 1998 by and among The Dixie Group, Inc., SunTrust Bank, Atlanta, and NationsBank, N.A. and Form of Revolving Credit Note, Form of Term Note and Form of Swing Line Note.

(4o) Waiver letter dated August 17, 1998 from New York Life Insurance and Annuity Corporation.

(4p) Waiver letter dated August 17, 1998 from New York Life Insurance Company.

(10a) Dixie Yarns, Inc. Nonqualified Defined Contribution Plan.

(10b) Dixie Yarns, Inc. Nonqualified Employee Savings Plan.

(10c) Dixie Yarns, Inc. Incentive Compensation Plan.

(10d) Pooling and Servicing Agreement dated as of October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and NationsBank of Virginia, N.A. (as Trustee).

(10e) Annex X - Definitions, to Pooling and Servicing Agreement dated as of October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and NationsBank of Virginia, N.A. (as Trustee).

(10f) Series 1993-1 Supplement, dated as of October 15, 1993, to Pooling and Servicing Agreement dated as of October 15, 1993, among Dixie Yarns, Inc., Dixie Funding Inc. and NationsBank of Virginia, N.A. (as Trustee).

(10g) Certificate Purchase Agreement dated October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and New York Life Insurance and Annuity Corporation.

(10h) Certificate Purchase Agreement dated October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and John Alden Life Insurance Company.

(10i) Certificate Purchase Agreement dated October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and John Alden Life Insurance Company of New York.

(10j) Certificate Purchase Agreement dated October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and Keyport Life Insurance Company.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K - CONTINUED

(10k) Asset Purchase Agreement dated May 23, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.

(10l) Amendment, dated May 31, 1996, to Asset Purchase

Agreement dated May 23, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.

(10m) Second Amendment, dated June 3, 1996, to Asset Purchase Agreement dated May 23, 1996, by and among T-C Threads, Inc., d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.

(10n) Yarn and Finished Goods Agreement dated as of June 3, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.

(10o) Accounts Receivable Agreement dated as of June 3, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.

(10p) Noncompetition Agreement dated as of June 3, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.

(10q) Asset Purchase Agreement dated as of August 29, 1997 among The Dixie Group, Inc., Bretlin, Inc., Foamex L.P. and General Felt Industries, Inc.

(10r) Dixie Yarns, Inc. Incentive Stock Plan as amended.

(10s) Form of Nonqualified Stock Option Agreement Under the Dixie Yarns, Inc. Incentive Stock Plan.

(10t) Form of Amendment to Nonqualified Stock Option Agreement Under the Dixie Yarns, Inc. Incentive Stock Plan.

(10u) Form of Stock Option Agreement Under the Dixie Yarns, Inc. Incentive Stock Plan as amended.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K - CONTINUED

(10v) Form of Stock Rights and Restrictions Agreement for Restricted Stock Award Under Incentive Stock Plan as Amended.

(10w) The Dixie Group, Inc. Stock Ownership Plan as amended.

(10x) Form of Stock Subscription Agreement Under Stock Ownership Plan of The Dixie Group, Inc.

(10y) The Dixie Group, Inc. Directors Stock Plan.

(21) Subsidiaries of the Registrant.

(ii) Exhibits filed with this report:

(4q) Second Amendment to 9.96% Senior Subordinated Notes due February 1, 2010.

(4r) First Amendment to Credit Agreement dated December 26, 1998.

(23) Consent of Ernst & Young LLP.

(b) Reports on Form 8-K--No reports on Form 8-K have been filed by the registrant during the last quarter of the period covered by this report.

(c) Exhibits--The response to this portion of Item 14 is submitted as a separate section of this report. See Item 14 (a) (3) (ii) above.

(d) Financial Statement Schedules--The response to this portion of Item 14 is submitted as a separate section of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE DIXIE GROUP, INC.

March 25, 1999

BY: /s/DANIEL K. FRIERSON
Daniel K. Frierson,
Chairman of the Board
and Chief Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/DANIEL K. FRIERSON Daniel K. Frierson	Chairman of the Board, Director and Chief Executive Officer	March 25, 1999
/s/WILLIAM N. FRY, IV William N. Fry, IV	President, Chief Operating Officer and Director	March 25, 1999
/s/PAUL K. FRIERSON Paul K. Frierson	Vice President, President of Candlewick Yarns and Director	March 25, 1999
/s/GLENN A. BERRY Glenn A. Berry	Executive Vice President and Chief Financial Officer	March 25, 1999
/s/D. EUGENE LASATER D. Eugene Lasater	Controller	March 25, 1999

SIGNATURES -- CONTINUED

/s/J. DON BROCK J. Don Brock	Director	March 25, 1999
/s/PAUL K. BROCK Paul K. Brock	Director	March 25, 1999
/s/ LOVIC A. BROOKS, JR. Lovic A. Brooks, Jr.	Director	March 25, 1999
/s/JOHN W. MURREY, III	Director	March 25, 1999

John W. Murrey, III

/s/PETER L. SMITH Peter L. Smith	Director	March 25, 1999
/s/ROBERT J. SUDDERTH, JR. Robert J. Sudderth, Jr.	Director	March 25, 1999

ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEM 14 (a)(1) AND (2) AND ITEM 14(d)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULES

YEAR ENDED DECEMBER 26, 1998

THE DIXIE GROUP, INC.

CHATTANOOGA, TENNESSEE

FORM 10-K--ITEM 14(a)(1) and (2)

THE DIXIE GROUP, INC. AND SUBSIDIARIES

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements of The Dixie Group, Inc. and subsidiaries are included in Item 8:

Report of Independent Auditors

Consolidated balance sheets--December 26, 1998 and December 27, 1997

Consolidated statements of operations--Years ended December 26, 1998, December 27, 1997, and December 28, 1996

Consolidated statements of cash flows--Years ended December 26, 1998, December 27, 1997, and December 28, 1996

Consolidated statements of stockholders' equity--Years ended December 26, 1998, December 27, 1997, and December 28, 1996

The following consolidated financial statement schedule of The Dixie Group, Inc. and subsidiaries is included in Item 14(d):

Schedule II--Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, or the information is otherwise shown in the financial statements or notes thereto, and therefore have been omitted.

Report of Independent Auditors

Board of Directors
The Dixie Group, Inc.

We have audited the accompanying consolidated balance sheets of The Dixie Group, Inc. and subsidiaries as of December 26, 1998 and December 27, 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 26, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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. and subsidiaries at December 26, 1998 and December 27, 1997, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 26, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Chattanooga, Tennessee
February 17, 1999

<TABLE>

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

<CAPTION>

	December 26, 1998	December 27, 1997
ASSETS		
CURRENT ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	$ 2,815	$ 1,848
Accounts receivable (less allowance for doubtful accounts of $1,294 in 1998 and $3,207 in 1997)	8,364	29,450
Inventories	72,671	82,661
Net assets held for sale	67,508	10,000
Other	14,810	11,977
TOTAL CURRENT ASSETS	166,168	135,936
PROPERTY, PLANT AND EQUIPMENT		
Land and improvements	5,329	9,421
Buildings and improvements	56,027	72,683
Machinery and equipment	204,346	291,345
	265,702	373,449
Less accumulated amortization and depreciation	(120,517)	(199,027)
NET PROPERTY, PLANT AND EQUIPMENT	145,185	174,422
INTANGIBLE ASSETS (less accumulated amortization of $4,687 in 1998 and $8,359 in 1997)	52,394	63,555
OTHER ASSETS	10,899	12,701
TOTAL ASSETS	$374,646	$386,614

<FN>
See notes to consolidated financial statements.
</FN>

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

<CAPTION>

<S>	<C> December 26, 1998	<C> December 27, 1997
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 39,264	$ 35,768
Accrued expenses	24,028	26,974
Accrued losses of discontinued operations	12,649	---
Current portion of long-term debt	9,645	5,143
TOTAL CURRENT LIABILITIES	85,586	67,885
LONG-TERM DEBT		
Senior indebtedness	64,466	68,528
Subordinated notes	50,000	50,000
Convertible subordinated debentures	39,737	42,282
TOTAL LONG-TERM DEBT	154,203	160,810
OTHER LIABILITIES	11,869	9,560
DEFERRED INCOME TAXES	22,998	27,115
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued - 14,071,629 shares in 1998 and 14,038,318 shares in 1997	42,215	42,115
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued - 735,228 shares	2,206	2,206
Common Stock subscribed - 573,463 shares in 1998 and 512,477 shares in 1997	1,720	1,537
Additional paid-in capital	134,720	134,151
Stock subscriptions receivable	(3,719)	(3,132)
Unearned stock compensation	(716)	(894)
Retained earnings (deficit)	(19,850)	2,853
Accumulated other comprehensive income	(799)	(1,839)
	155,777	176,997
Less Common Stock in treasury at cost - 3,442,900 shares in 1998 and 3,439,999 shares in 1997	(55,787)	(55,753)
TOTAL STOCKHOLDERS' EQUITY	99,990	121,244
Commitments - Note M		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$374,646	$386,614

<FN>

See notes to consolidated financial statements.
</FN>

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

<CAPTION>

<S>	December 26, 1998 <C>	Years Ended December 27, 1997 <C>	December 28, 1996 <C>
NET SALES	$496,412	$432,086	$363,113
Cost of sales	397,004	345,416	286,742
GROSS PROFIT	99,408	86,670	76,371
Selling and administrative expenses	71,088	61,475	54,263
Other expense - net	3,357	2,283	4,775
INCOME BEFORE INTEREST AND TAXES	24,963	22,912	17,333
Interest expense	10,263	8,886	7,596
INCOME BEFORE INCOME TAXES	14,700	14,026	9,737
Income tax provision	5,592	5,214	4,036
INCOME FROM CONTINUING OPERATIONS	9,108	8,812	5,701
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(1,853)	2,807	(16,914)
LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS	(28,257)	---	---
NET INCOME (LOSS)	$(21,002)	$ 11,619	$(11,213)

<FN>

See notes to consolidated financial statements.
</FN>

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

<CAPTION>

	December 26, 1998	Years Ended December 27, 1997	December 28, 1996
Basic earnings (loss) per share:			
<S>	<C>	<C>	<C>
Income from continuing operations	$ .81	$ .78	$ .51
Income (loss) from discontinued operations	(.16)	.25	(1.51)
Loss on disposal of discontinued			

operations	(2.51)	---	---
Net earnings (loss)	$ (1.86)	$ 1.03	$ (1.00)

Diluted earnings (loss) per share:

Income from continuing operations	$ .77	$ .75	$ .51
Income (loss) from discontinued operations	(.16)	.24	(1.51)
Loss on disposal of discontinued operations	(2.39)	---	---
Net earnings (loss)	$ (1.78)	$ .99	$ (1.00)

Dividends per share:

Common Stock	$ .15	$ ---	$ ---
Class B Common Stock	.15	---	---

<FN>
See notes to consolidated financial statements.
</FN>

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

<CAPTION>

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
CASH FLOWS FROM OPERATING ACTIVITIES			
<S>	<C>	<C>	<C>
Income from continuing operations	$ 9,108	$ 8,812	$ 5,701
Income (loss) from discontinued operations	(30,110)	2,807	(16,914)
Net income (loss)	(21,002)	11,619	$(11,213)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization:			
Continuing operations	18,701	15,809	14,731
Discontinued operations	6,272	8,686	13,464
Provision (benefit) for deferred income taxes	(7,900)	3,993	(5,395)
Long-lived asset losses-discontinued operations	19,992	---	17,860
(Gain) loss on property, plant and equipment disposals and asset valuation adjustments	(56)	(211)	846
Changes in operating assets and liabilities, net of effects of business combinations:			
Accounts receivable	(6,017)	(14,821)	2,740
Inventories	2,196	26,361	10,028
Other current assets	21	(1,370)	(721)
Other assets	(1,518)	(2,600)	(3)
Accounts payable and accrued expenses	6,939	36	12,222
Accrued losses from discontinued operations	12,649	---	---
Other liabilities	4,167	1,444	443
NET CASH PROVIDED BY OPERATING ACTIVITIES	34,444	48,946	55,002

CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sales of property, plant and equipment	13,078	4,556	24,057
Purchase of property, plant and equipment:			
Continuing operations	(33,363)	(19,183)	(12,095)
Discontinued operations	(9,482)	(7,336)	(5,539)
Cash payments in connection with business combinations	---	(61,744)	---
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(29,767)	(83,707)	6,423
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in credit line borrowings	4,176	37,135	(60,080)
Payments under term loan facility	(3,625)	(2,500)	(2,500)
Payments on subordinated debentures	(2,545)	---	---
Dividends paid	(1,701)	---	---
Other	(15)	(14)	(270)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(3,710)	34,621	(62,850)

<CAPTION>

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

	Years Ended		
	December 26, 1998	December 27, 1997	December 28, 1996
INCREASE (DECREASE) IN CASH AND CASH			
<S>	<C>	<C>	<C>
EQUIVALENTS	967	(140)	(1,425)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,848	1,988	3,413
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,815	$ 1,848	$ 1,988

<FN>
See notes to consolidated financial statements.
</FN>
<CAPTION>

THE DIXIE GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share data)

<S>	Common Stock and Class B Stock <C>	Common Stock Subscribed <C>	Additional Paid-In Capital <C>	Other <C>	Retained Earnings (Deficit) <C>	Accumulated Other Comprehensive Income <C>	Common Stock In Treasury <C>	Total Stockholders' Equity <C>
BALANCE AT DECEMBER 30, 1995	$43,794	$ ---	$131,618	$ ---	$ 2,447	$ (4,116)	$(55,453)	$118,290
Common Stock acquired for treasury - 5,749 shares							(32)	(32)
Common Stock sold under stock option and Employees' Stock Purchase Plan - 14,027 shares	42		15					57
Common Stock subscribed - 449,300 shares		1,348	842	(2,190)				
Net loss for the year					(11,213)			(11,213)
Other comprehensive income Change in additional minimum pension liability, net of tax of $926						1,448		1,448
Comprehensive income (loss)								(9,765)
BALANCE AT DECEMBER 28, 1996	43,836	1,348	132,475	(2,190)	(8,766)	(2,668)	(55,485)	108,550
Common Stock acquired for treasury - 30,127 shares							(268)	(268)
Common Stock sold under stock option and Employees' Stock Purchase Plan - 60,925 shares	183		250					433
Common Stock subscribed - 124,677 shares		374	868	(1,242)				
Stock subscriptions settled	77	(185)	(192)	300				
Restricted stock grants - 75,000 shares	225		750	(975)				
Amortization of restricted stock grants				81				81
Net income for the year					11,619			11,619
Other comprehensive income Change in additional minimum pension liability, net of tax of $530						829		829
Comprehensive income								12,448
BALANCE AT DECEMBER 27, 1997	$44,321	$ 1,537	$134,151	$(4,026)	$ 2,853	$ (1,839)	$(55,753)	$121,244

<CAPTION>

THE DIXIE GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share data)

<S>	Common Stock and Class B Stock <C>	Common Stock Subscribed <C>	Additional Paid-In Capital <C>	Other <C>	Retained Earnings (Deficit) <C>	Accumulated Other Comprehensive Income <C>	Common Stock In Treasury <C>	Total Stockholders' Equity <C>
BALANCE AT DECEMBER 27, 1997	$44,321	$1,537	$134,151	$(4,026)	$ 2,853	$ (1,839)	$(55,753)	$121,244
Common Stock acquired for treasury - 2,901 shares							(34)	(34)
Common Stock sold under stock option and restricted stock grant plan - 22,759 shares	68		93					161
Common Stock issued upon conversion of convertible subordinated debentures - 1,552 shares	5		45					50
Common Stock subscribed -								

60,986 shares		183	405	(588)				
Restricted stock grants - 9,000 shares	27		26	(53)				
Amortization of restricted stock grants				232				232
Net loss for the year					(21,002)			(21,002)
Other comprehensive income								
Change in additional minimum pension liability, net of tax of $533						1,040		1,040
Comprehensive income (loss)								(19,962)
Dividends - Common Stock and Class B Common Stock $.15 per share					(1,701)			(1,701)
BALANCE AT DECEMBER 26, 1998	$44,421	$1,720	$134,720	$(4,435)	$(19,850)	$ (799)	$(55,787)	$99,990

<FN>
See notes to consolidated financial statements.
</TABLE>

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

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Discontinued Operations: Financial statements for years prior to 1998 have been restated to separately report results of discontinued operations from results of continuing operations. Disclosures included herein pertain to the Company's continuing operations unless noted otherwise. A portion of interest cost not attributable to any specific operation of the Company is allocated to discontinued operations based on the ratio of net assets discontinued to the sum of consolidated net assets plus consolidated debt (exclusive of debt attributable to specific operations).

Cash Equivalents: Highly liquid investments with original maturities of three months or less when purchased are reported as cash equivalents.

Credit and Market Risk: For the years presented, the Company sold floorcovering and 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: Substantially all inventories are stated at the lower of cost, determined by the last-in, first-out (LIFO) method, or market. The reduction of certain inventory quantities in 1996, carried at lower costs prevailing in prior years, had the effect of increasing income from continuing operations for 1996 by $1,714($.15 per share).

Inventories are summarized as follows:

	1998	1997
At current cost:		
Raw materials	$21,424	$19,080
Work-in-process	11,636	20,954
Finished goods	34,796	47,819
Supplies, repair parts and other	1,631	3,183
	69,487	91,036
LIFO value over (under) current cost	3,184	(8,375)
Total inventories	$72,671	$82,661

Property, Plant and Equipment: Property, plant and equipment is stated at the lower of cost or impaired value. Provision for depreciation and amortization of property, plant and equipment has been computed for financial reporting purposes using the straight-line method over the estimated useful lives of the related assets, ranging from 10 to 40 years for buildings and improvements, and 3 to 10 years for machinery and equipment. Applicable statutory recovery methods are used for tax purposes. Depreciation and amortization of property, plant and equipment for financial reporting purposes totaled $16,888 in 1998, $14,407 in 1997, and $13,812 in 1996.

Intangible Assets: The excess of the purchase price over the fair market value of identifiable net assets acquired in business combinations is recorded as goodwill and is amortized using the straight-line method over 40 years.

Impairment of Long-lived Assets: In 1995, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The Statement establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets. There was no material effect on the financial statements from the adoption because the Company's prior impairment recognition practice was consistent with the major provisions of the Statement. Under provisions of the Statement, impairment losses are recognized when expected future cash flows are less than the assets' carrying value. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of property, plant, and equipment and intangibles in relation to the operating performance and estimated future undiscounted cash flows of the underlying business. The Company adjusts the net book value of the underlying assets if the sum of expected future cash flows is less than book value.

Stock Based Compensation: During 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". As permitted under Statement No. 123, the Company continues to account for stock based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

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

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

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

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

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

Computer Software Costs: During 1998, the Company early adapted Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP is required to be implemented for 1999 and earlier application was encouraged. The SOP provides guidance on accounting for the costs of internal use software and requires capitalization of certain types of costs which were expensed by the Company under its previous accounting method. Restatement of amounts reported in prior years is not allowed by the SOP. Adoption of the SOP in 1998 had no material effect on reported operating results.

NOTE B - BUSINESS COMBINATIONS

In early fiscal 1997, the Company acquired for $20,854, the business and operating assets of Danube Carpet Mills, Inc. ("Danube"), a manufacturer of carpet for the manufactured housing, recreational vehicle, and van conversion industries. The Danube manufacturing and distribution facilities were closed and their operations merged into existing facilities of the Company's Carriage Carpet and Candlewick Yarns operations. On October 2, 1997, the Company acquired the needlebond and artificial turf assets and business of General Felt Industries based in Dalton, Georgia ("GFI Dalton") for $40,890. The acquired assets and business were merged with the Company's Bretlin operation. The acquisitions were accounted for as purchase business combinations, and accordingly, the results of operations of Danube subsequent to December 31, 1996 and GFI Dalton subsequent to October 2, 1997 are included in the Company's consolidated financial statements. The purchase price of each acquisition was allocated to the net tangible assets acquired based on their estimated fair market values. The excess amounts of the purchase price over the estimated fair market value of the net tangible assets were recorded as intangible assets and are being amortized using the straight-line method over forty years.

A summary of net assets acquired is as follows:

	Danube	GFI Dalton
Current assets	$ 8,363	$ 9,015
Property, plant, and equipment	4,359	13,550
Current liabilities	(4,703)	(2,356)
Deferred taxes	141	---
Intangible asset	12,694	20,681
Net assets acquired	$20,854	$40,890

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

	1997	1996
Net sales	$464,442	$440,636
Net income (loss)	12,397	(9,923)
Net income (loss) per share:		
Basic	1.10	(.89)
Diluted	1.05	(.89)

NOTE C-DISCONTINUED OPERATIONS

During 1998, the Company decided to discontinue its textile products operations. At that time, this consisted of the knit fabric and apparel and the specialty yarns businesses.

Apparel manufacturing was terminated and the knit fabric operations were offered for sale effective June 27, 1998 (the knit fabric and apparel measurement date). In January 1999, the Company finalized the sale of the knit fabric operations.

The specialty yarns business was offered for sale beginning September 26, 1998 (the specialty yarns measurement date). The sale of one yarn facility was finalized in December 1998, and in February 1999, the Company and two different buyers agreed to basic terms and conditions under which the remainder of the specialty yarns operations would be sold. The pending transactions are scheduled to close in the second quarter of 1999. The yarn facility sold in December 1998, was held for sale apart from the remainder of the specialty yarns business beginning December 28, 1996.

Proceeds to the Company from disposal of its textile products operations discussed above are expected to total $84,792 including liquidation of certain accounts receivable and inventories retained by the Company. Proceeds received though December 26, 1998, were approximately $11,025.

The Company's textile products operations formerly included its thread business which was sold June 3, 1996. Proceeds from the sale of the thread business and liquidation of its accounts receivable and inventories retained by the Company, totaled approximately $55,533.

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

	1998	1997	1996
Net sales	$184,122	$229,757	$251,968
Income (loss) from discontinued operations:			
Before income taxes	(2,697)	4,776	(25,280)
Income tax provision (benefit)	(844)	1,969	(8,366)
Net	$(1,853)	$2,807	$(16,914)
Estimated loss on disposal:			
Before income taxes	(39,325)		
Income tax benefit	(11,068)		
Net	$(28,257)		

Interest cost charged to discontinued operations was $3,325 for 1998, $3,697 for 1997 and $5,404 for 1996. Interest cost for periods subsequent to the measurement dates included in the estimated loss on disposal is $1,996.

The 1996 loss from discontinued operations includes charges of $5,154 (before income taxes) for costs to exit the thread business; and asset valuation losses of $17,860 (before income taxes) related to assets held for sale.

The estimated net loss on disposal includes the write-off of intangible assets of $8,877 and estimated operating losses from the measurement dates to the anticipated disposal dates of $944 (net of applicable income taxes of $604). The effect of liquidating inventories carried at lower costs prevailing in prior years under the LIFO method was to reduce the estimated net loss on disposal by approximately $5,461.

At December 26, 1998, assets of the textile products operations to be sold consisted of accounts receivable, inventories, and property, plant and equipment amounting to approximately $77,212 after deducting an allowance for the estimated loss on disposal; and liabilities were $22,354 including estimated operating losses to the anticipated disposal date.

NOTE D--SALE OF ACCOUNTS RECEIVABLE

On October 15, 1993, the Company entered into a seven year agreement under which it sold a $45,000 undivided interest in a revolving pool of its trade accounts receivable. No further interest has been sold under this agreement subsequent to the original sale. At December 26, 1998 and December 27, 1997, the $45,000 interest sold is reflected as a reduction of accounts receivable in the Company's consolidated balance sheets. Costs of this program were fixed at 6.08% per annum on the amount of the interest sold plus administrative fees typical in such transactions. These costs, which were approximately $2,935 for 1998, $2,985 for 1997, and $2,948 for 1996, are included in other expense - net. In addition, the Company is generally at risk for credit losses associated with sold receivables and provides for such in the Company's financial statements.

NOTE E--ACCRUED EXPENSES

Accrued expenses include the following:

	1998	1997
Compensation and benefits	$ 8,910	$ 12,172

NOTE F--LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

	1998	1997
Senior indebtedness:		
Credit line borrowings	$ 14,000	$ 65,449
Term loan	57,000	5,000
Other	611	722
Total senior indebtedness	71,611	71,171
Subordinated notes	50,000	50,000
Convertible subordinated debentures	42,237	44,782
Total long-term debt	163,848	165,953
Less current portion	(9,645)	(5,143)
Total long-term debt (less current portion)	$154,203	$160,810

On March 31, 1998, the Company entered into a new unsecured revolving credit and term-loan facility with its principal senior lenders. The new credit facility provides for revolving credit of up to $100,000 through a five year commitment period and a $60,000, seven year term-loan. Interest rates available under the facility may be selected by the Company from a number of options which effectively allow for borrowing at rates equal to or lower than the greater of the lender's prime rate or the federal funds rate plus .5% per annum. The effective annual interest rate on the revolving credit and term-loan agreement was 6.28% for 1998, 6.79% for 1997 and 6.85% for 1996. The average interest rate on debt outstanding under this agreement was 5.97% at December 26, 1998. Commitment fees, ranging from .25% to .375% per annum on the revolving credit line are payable on the average daily unused balance of the revolving credit facility.

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

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

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

The Company's long-term debt and credit arrangements contain financial covenants relating to minimum net worth, the ratio of debt to capitalization, payment of dividends and certain other financial ratios. Restrictions set forth in the Company's subordinated note agreement have limited the Company's ability to pay dividends due to losses associated with the disposal of the Company's textile and apparel operations. Absent a waiver from the lender or an amendment, future dividends can only be paid to the extent of 50% of the excess of aggregate consolidated net income subsequent to the end of the fiscal quarter when the Company first meets the required ratios of interest coverage and debt to earnings before interest, taxes, depreciation and amortization as defined by the subordinated note agreement.

As of December 26, 1998, the most restrictive covenants under the revolving credit and term-loan agreement limit available borrowing capacity to $43,699.

Approximate maturities of long-term debt for each of the five years succeeding December 26, 1998 are $14,030 in 1999, $15,783 in 2000, $16,285 in 2001, $16,287 in 2002, and $23,289 in 2003.

Interest payments were $12,918 in 1998, $12,424 in 1997, and $13,550 in 1996.

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:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 2,815	$ 2,815	$ 1,848	$ 1,848
Notes receivable (including current portion)	1,151	1,151	2,178	2,178
Escrow funds	1,030	1,030	1,270	1,270
Financial liabilities				
Long-term debt (including current portion)	$163,848	$155,616	$165,953	$163,758

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

NOTE H--PENSION PLANS

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

	1998	1997
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 14,533	$ 14,754
Service cost	51	47
Interest cost	941	1,026
Actuarial loss	4,020	107
Benefits paid	(1,515)	(1,685)
Settlement loss	195	284
Benefit obligation at end of year	18,225	14,533
Change in plan assets:		
Fair value of plan assets at beginning of year	12,966	10,941
Actual return on plan assets	964	2,164
Employer contribution	135	1,546
Benefits paid	(1,515)	(1,685)
Fair value of plan assets at end of year	12,550	12,966
Funded status	(5,675)	(1,567)
Unrecognized actuarial loss	1,400	2,973
Net amount recognized	$ (4,275)	$ 1,406
Amounts recognized in the statement of financial position consist of:		
Accrued benefit liability	$ (5,675)	$ (1,567)
Accumulated other comprehensive income	1,400	2,973
Net amount recognized	$ (4,275)	$ 1,406
Weighted-average assumptions as of year-end:		
Discount rate	5.11%	7.00%
Expected return on plan assets	8.50%	8.50%

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

At December 26, 1998, plan assets included 130,226 shares of the Company's Common Stock with a fair value of $1,058 ($8.12 per share). Dividends received on shares of the Company's Common Stock held during 1998 totaled $20.

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

	1998	1997	1996
Components of net periodic pension cost:			
Defined benefit plans			
Service cost	$ 51	$ 47	$ 42
Interest cost	331	430	450
Expected return on plan assets	(375)	(411)	(416)
Recognized net acturial loss	25	129	157
Settlement loss	59	108	215
	91	303	448
Defined contribution plans	3,811	3,067	1,354
Net pension cost	$3,902	$3,370	$1,802

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:

	1998		1997		1996	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal	$1,748	$3,525	$(1,188)	$5,330	$1,930	$1,750
State	97	222	799	273	91	265
Total	$1,845	$3,747	$ (389)	$5,603	$2,021	$2,015

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

Deferred Tax Liabilities:	1998	1997
Property, plant and equipment	$24,035	$28,749
Inventories	2,046	1,097
Intangible assets	1,682	1,185
Other	3,899	3,241
Total deferred tax liabilities	31,662	34,272
Deferred Tax Assets:		
Post-retirement benefits	5,014	3,007
Other employee benefits	3,481	2,046
Losses from discontinued operations	2,398	---
Alternative minimum tax	1,277	2,674
Allowances for bad debts, claims and discounts	2,414	1,891
Other	1,085	1,700
Valuation reserve	---	---
Total deferred tax assets	15,669	11,318
Net deferred tax liabilities	$15,993	$22,954

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:

	1998	1997	1996
Statutory rate applied to income from continuing operations	$ 4,998	$ 4,769	$ 3,311
Plus state income taxes net of Federal tax effect	210	707	235
Total statutory provision	5,208	5,476	3,546
Increase(decrease) attributable to:			
Nondeductible amortization of and impairment adjustments to intangible assets	201	200	184
Nondeductible portion of travel and entertainment	251	228	193
Net operating loss carryback benefit	---	(781)	---
Other items	(68)	91	113

Total tax provision	$ 5,592	$ 5,214	$ 4,036

Income tax payments, net of income tax refunds received, were $2,156 in 1998, $3,162 in 1997 and $1,677 in 1996.

NOTE J--RESTRUCTURING AND EXIT COSTS

At December 28, 1996, the financial statements included $954 of accrued costs associated with the exit of two product lines and facility consolidations.

Included in the accrual were $424 associated with involuntary termination benefits related to 28 sales, administrative or distribution associates. These costs were classified in "Selling and administrative expenses" in the Company's financial statements. At December 26, 1998, no cost remains accrued related to involuntary termination benefits for these associates.

Additional costs that were incremental and directly attributable to the exit and consolidations totaling $530 were recorded in 1996. These costs primarily relate to inventory devaluations and impairment of current assets associated with discontinued product lines. Of these costs, $200 were classified in "Cost of sales" and $330 were classified in "Other expense - net" in the Company's financial statements. At December 26, 1998, no cost remains accrued related to impairment of current assets associated with discontinued product lines and facility clean up costs.

The actual amounts incurred for exit costs and termination benefits approximated the amounts accrued. In connection with the exit of the product lines, the Company recorded a write-off of intangible assets of $1,068 in the Carpet Manufacturing segment.

NOTE K--COMMON STOCK AND EARNINGS PER SHARE

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

In August 1996, the Company's Board of Directors adopted a stock ownership plan applicable to the senior management of the Company for the purpose of encouraging each participant to make a significant investment in the Company's Common Stock. Pursuant to the plan, at December 26, 1998, 573,463 shares were subscribed at an average price of $6.49 per share, at December 27, 1997, 512,477 shares were subscribed at an average price of $6.11 per share, and at December 28, 1996, 449,300 shares were subscribed at a price of $4.875 per share.

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

	1998	1997	1996
Income from continuing operations (1)	$ 9,108	$ 8,812	$ 5,701
Denominator for calculation of basic earnings per share - weighted average shares (2)	11,267	11,229	11,200
Effect of dilutive securities:			
Stock options	348	332	---
Stock subscriptions	194	204	---
Denominator for calculation of diluted earnings per share - weighted average shares adjusted for potential dilution (3)	11,809	11,765	11,200
Earnings per share:			
Basic	$ .81	$ .78	$ .51
Diluted	.77	.75	.51

(1) No adjustments needed in the numerator for diluted calculations.
(2) Includes Common and Class B Common shares in thousands.
(3) Because their effects are anti-dilutive, excludes shares issuable under

stock option, stock subscription, and restricted stock plans whose grant price was greater than the average market price of common shares outstanding and the assumed conversion of subordinated debentures into shares of Common Stock as follows: 2,065 shares in 1998, 1,737 shares in 1997, and 3,100 shares in 1996.

NOTE L--STOCK PLANS

The Company's 1990 Incentive Stock Plan reserves 2,270,000 shares of Common Stock for sale or award to key associates or to the outside directors of the Company under stock options, stock appreciation rights, restricted stock performance grants, or other awards. Outstanding options are generally exercisable at a cumulative rate of 25% per year after the second year from the date the options are granted and generally expire after ten years from the date of grant. Options outstanding were granted at prices at or above market price on the date of grant and include grants under the 1983 Incentive Stock Plan, under which no further options may be granted. At December 28, 1996, no options remain outstanding under the 1983 plan.

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

A summary of the 1996, 1997 and 1998 option activity is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Fair Value of Options Granted During the Year
Outstanding at December 30, 1995	769,759	$ 7.74	
Granted at market price	532,500	5.49	$2.61
Granted above market price	85,000	6.33	2.57
Exercised	(12,227)	3.96	
Forfeited	(111,190)	7.55	
Expired	(4,000)	19.50	
Outstanding at December 28, 1996	1,259,842	6.71	
Granted at market price	499,500	9.74	4.45
Granted above market price	12,000	14.30	5.54
Exercised	(22,825)	6.46	
Forfeited	(80,250)	7.28	
Outstanding at December 27, 1997	1,668,267	$ 7.65	
Granted at market price	287,250	$ 8.53	3.95
Granted above market price	20,000	9.35	3.69
Exercised	(12,250)	5.73	
Forfeited	(35,750)	6.21	
Expired	(1,019)	3.43	
Outstanding at December 26, 1998	1,926,498	7.84	
Options exercisable at			
December 28, 1996	45,342	$ 4.85	
December 27, 1997	240,392	6.85	
December 26, 1998	497,561	6.90	

The following table summarizes information about stock options at December 26, 1998:

Range of Exercise Prices	Options Outstanding Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$3.43 - $ 5.27	166,498	6.4 years	$ 4.83
5.75 - 8.50	1,421,000	7.4	7.18
9.25 - 14.30	339,000	8.4	12.09
$3.43 - $14.30	1,926,498	7.5	$ 7.84

Range of Exercise Prices	Options Exercisable Number of Shares	Weighted-Average Exercise Price
$3.43 - $ 5.27	71,811	$4.86
5.75 - 8.50	422,750	7.20
9.25 - 14.30	3,000	14.30

$3.43 - $14.30	497,561	$6.90

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:

	1998 Grants	1997 Grants	1996 Grants
Expected life	5 years	5 years	5 years
Expected volatility	44.2%	41.6%	44.3%
Risk-free interest rate	5.56%	6.25%	6.38%
Dividend yield	0%	0%	0%

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

	1998	1997	1996
Pro forma			
Net income (loss)	$(21,788)	11,073	$(11,495)
Earnings (loss) per share:			
Basic	(1.93)	.99	(1.03)
Diluted	(1.84)	.94	(1.03)

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 26, 1998, 32,540 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. Numbers of shares sold under the plan were 0 in 1998, 38,500 in 1997, and 1,800 in 1996.

NOTE M--COMMITMENTS

The Company had commitments for purchases of machinery and equipment, building construction, and information systems of approximately $20,287 at December 26, 1998.

NOTE N--SEGMENT INFORMATION

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

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

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

	Net Sales - External Customers			Profit Performance		
	1998	1997	1996	1998	1997	1996
Reportable Segments:						
Carpet Manufacturing	$401,826	$340,271	$280,735	$24,454	$21,337	$15,877

Floorcovering Base Materials	94,586	91,815	82,378	3,108	3,349	4,162
Intersegment eliminations				7	-	17
Segment total	$496,412	$432,086	$363,113	27,569	24,686	20,056
Interest expense				10,263	8,886	7,596
Cost of A/R sales program				2,900	2,898	2,900
Other non-segment (income)				(294)	(1,124)	(177)
Consolidated income before taxes from continuing operations				$14,700	$14,026	$ 9,737

	Capital Expenditures 1998	1997	1996	Depreciation and Amortization 1998	1997	1996
Reportable Segments:						
Carpet Manufacturing	$23,099	$15,803	$ 9,892	$14,542	$12,883	$ 9,987
Floorcovering Base Materials	10,219	3,158	1,124	3,359	2,298	3,718
Corporate and Shared Services	45	222	1,079	800	628	1,026
Total Continuing operations	$33,363	$19,183	$12,095	$18,701	$15,809	$14,731

	Assets Used in Performance Measurement 1998	1997	1996
Reportable Segments:			
Carpet Manufacturing	$229,937	$222,056	$155,016
Floorcovering Base Materials	54,463	51,680	49,300
Assets in Performance Measurement	284,400	273,736	204,316
Assets Not in Segment Measurements:			
Other operating assets	22,738	112,878	123,819
Assets of discontinued operations	67,508		
Total Consolidated Assets	$374,646	$386,614	$328,135

No single customer's net sales exceeded 10% of the Company's consolidated net sales in 1998 or 1997. Net sales to one customer in the Company's Carpet Manufacturing segment exceeded 10% of the Company's consolidated net sales in 1996. Substantially all of the Company's sales were to domestic customers and all assets domestically based for the periods presented. A substantial majority of the unit production volume of the Company's Floorcovering Base Materials segment is directed into the Carpet Manufacturing segment. A significant portion of the units are processed by the Base Materials group on a conversion basis only (costs to manufacture) and are recorded in intersegment sales at the conversion value. The remaining transfers are recorded on a full-package basis (raw materials plus conversion costs) with either cost or an arms length price as the transfer value, depending on the product. Intersegment sales from the Company's Floorcovering Base Materials group to the Company's Carpet Manufacturing group were $62,545 in 1998, $49,798 in 1997, and $46,432 in 1996.

NOTE O--SUBSEQUENT EVENT

In early 1999, the Company acquired the assets and business of Multitex Corporation of America, Inc., a Dalton, Georgia, carpet and carpet yarn producer for approximately $30,444 cash, plus future payments keyed to revenue growth.

<TABLE>

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
THE DIXIE GROUP, INC. AND SUBSIDIARIES
(dollars in thousands)

<CAPTION>

COL. A	COL. B	COL. C ADDITIONS (1)	(2)	COL. D	COL. E
DESCRIPTION	Balance at Beginning of	Charged to Costs and	Charged to Other Accounts	Deductions- Describe	Balance at End of Period

	Period	Expenses	-Describe		
Year ended December 26, 1998:					
Reserves deducted from asset accounts:					
Allowance for doubtful					
<S>	<C>	<C>	<C>	<C>	<C>
accounts	$ 3,207	$ 888	$ -0-	$ 323 (2)	$ 3,772 (5)
Provision to reduce inventories to net realizable value	7,664	-0-	-0-	2,692 (3)	4,972 (5)
Provision to reduce assets held for sale to estimated fair market value	16,200	11,635	-0-	13,351 (4)	14,484
Year ended December 27, 1997:					
Reserves deducted from asset accounts:					
Allowance for doubtful accounts	$ 3,614	$ 386	$ -0-	$ 793 (2)	$ 3,207
Provision to reduce inventories to net realizable value	7,346	-0-	2,447 (1)	2,129 (3)	7,664
Provision to reduce assets held for sale to estimated fair market value	18,564	-0-	-0-	2,364 (4)	16,200

<CAPTION>

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
THE DIXIE GROUP, INC. AND SUBSIDIARIES
(dollars in thousands)

COL. A	COL. B	COL. C ADDITIONS		COL. D	COL. E
		(1)	(2)		
DESCRIPTION	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts -Describe	Deductions-Describe	Balance at End of Period
Year ended December 28, 1996:					
Reserves deducted from asset accounts:					
Allowance for doubtful					
<S>	<C>	<C>	<C>	<C>	<C>
accounts	$ 3,156	$ 1,538	$-0-	$ 1,080 (2)	$ 3,614
Provision to reduce inventories to net realizable value	9,668	-0-	-0-	2,322 (3)	7,346
Provision to reduce assets held for sale to estimated fair market value	23,005	13,425	-0-	17,866 (4)	18,564

<FN>

(1) Increase in reserves in connection with business combinations.
(2) Uncollectible accounts written off, net of recoveries.
(3) Provision for current items net of reductions for previous items.
(4) Reserve reductions for assets sold.
(5) Includes amounts related to discontinued businesses.
</TABLE>

ANNUAL REPORT ON FORM 10-K

ITEM 14 (c)

EXHIBITS

YEAR ENDED DECEMBER 26, 1998

THE DIXIE GROUP, INC.

CHATTANOOGA, TENNESSEE

Exhibit Index

EXHIBIT NO.	EXHIBIT DESCRIPTION	INCORPORATION BY REFERENCE
(3a)	Restated Charter of The Dixie Group, Inc.	Incorporated by reference to Exhibit (3) to Dixie's Quarterly Report on Form 10-Q for the quarter ended March 29, 1997.*
(3b)	Amended and Restated By-Laws of Dixie Yarns, Inc.	Incorporated by reference to Exhibits (3b) and (3c) to Dixie's Annual Report on Form 10-K for the year ended December 29, 1990.*
(4a)	Second Amended and Restated Revolving Credit and Term Loan Agreement, dated January 31, 1992, by and among Dixie Yarns, Inc. and Trust Company Bank, NationsBank of North Carolina, N.A. and Chemical Bank.	Incorporated by reference to Exhibit (4a) to Dixie's Annual Report on Form 10-K for the year ended December 28, 1991.*
(4b)	Loan Agreement, dated February 6, 1990 between Dixie Yarns, Inc. and New York Life Insurance Company and New York Life Annuity Corporation.	Incorporated by reference to Exhibit (4d) to Dixie's Annual Report on Form 10-K for the year ended December 30, 1989.*
(4c)	Form of Indenture, dated May 15, 1987 between Dixie Yarns, Inc. and Morgan Guaranty Trust Company of New York as Trustee.	Incorporated by reference to Exhibit 4.2 to Amendment No. 1 of Dixie's Registration Statement No. 33-140 78 on Form S-3, dated May 19, 1987.

* Commission File No. 0-2585

Exhibit Index - Continued

EXHIBIT NO.	EXHIBIT DESCRIPTION	INCORPORATION BY REFERENCE
(4d)	Revolving Credit Loan Agreement dated as of September 16, 1991 by and among Ti-Caro, Inc. and Trust Company Bank, individually and as agent, NCNB National Bank, and Chemical Bank.	Incorporated by reference to Exhibit (4d) to Dixie's Annual Report on Form 10-K for the year ended December 28, 1991.*
(4e)	First Amendment to Revolving Credit Loan Agreement dated as of August 19, 1992 by and among Ti-Caro, Inc., T-C Threads, Inc. and Trust Company Bank, individually and as agent, NCNB National Bank, and Chemical Bank.	Incorporated by reference to Exhibit (4e) to Dixie's Annual Report on Form 10-K for the year ended December 26, 1992.*
(4f)	First Amendment, dated August 25, 1993 to Second Amended and Restated Revolving Credit and Term Loan Agreement dated January 31, 1992, by and among Dixie Yarns, Inc. and Trust Company Bank, NationsBank of North Carolina, N.A. and Chemical Bank.	Incorporated by reference to Exhibit (4f) to Dixie's Annual Report on Form 10-K for the year ended December 25, 1993.*

(4g)	Third Amended and Restated Credit Agreement dated March 31, 1995.	Incorporated by reference to Exhibit (4) to Dixie's Quarterly Report on Form 10-Q for the quarter ended April 1, 1995.*
(4h)	Waiver and First Amendment to Credit Agreement dated February 27, 1996.	Incorporated by reference to Exhibit (4h) to Dixie's Annual Report on Form 10-K for the year ended December 30, 1995.*
(4i)	Waiver and Modification Agreement dated November 1, 1996.	Incorporated by reference to Exhibit (4i) to Dixie's Annual Report on Form 10-K for the year ended December 28, 1996.*
(4j)	Waiver Letter dated December 13, 1996.	Incorporated by reference to Exhibit (4j) to Dixie's Annual Report on Form 10-K for the year ended December 28, 1996.*

* Commission File No. 0-2585

Exhibit Index - Continued

EXHIBIT NO.	EXHIBIT DESCRIPTION	INCORPORATION BY REFERENCE
(4k)	Second Amendment dated September 7, 1997 to the Third Amended and Restated Credit Agreement dated March 31, 1995.	Incorporated by reference to Exhibit (4) to Dixie's Quarterly Report on Form 10-Q for the quarter ended September 27, 1997.*
(4l)	Amendment to 9.96% Senior Subordinated Notes due February 1, 2010.	Incorporated by reference to Exhibit (4l) to Dixie's Annual Report on Form 10-K for the year ended December 27, 1997.*
(4m)	Letter agreement dated February 17, 1998 re: Amendment to 9.96% Senior Subordinated Notes due February 1, 2010.	Incorporated by reference to Exhibit (4m) to Dixie's Annual Report on Form 10-K for the year ended December 27, 1997.*
(4n)	Credit agreement dated as of March 31, 1998 by and among The Dixie Group, Inc., SunTrust Bank, Atlanta, and NationsBank, N.A. and Form of Revolving Credit Note, Form of Term Note And Form of Swing Line Note.	Incorporated by reference to Exhibit (4) to Dixie's Quarterly Report on Form 10-Q for the quarter ended March 28, 1998.*
(4o)	Waiver letter dated August 17, 1998 from New York Life Insurance And Annuity Corporation.	Incorporated by reference to Exhibit (4a) to Dixie's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998.*
(4p)	Waiver letter dated August 17, 1998 from New York Life Insurance Company.	Incorporated by reference to Exhibit (4b) to Dixie's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998.*
(4q)	Second Amendment to 9.96% Senior Subordinated Notes due February 1, 2010.	Filed herewith.
(4r)	First Amendment to Credit Agreement dated December 26, 1998.	Filed herewith.
(10a)	Dixie Yarns, Inc. Nonqualified Defined Contribution Plan.	Incorporated by reference to Exhibit (10c) to Dixie's Annual Report on Form 10-K for the year ended December 26, 1992.*

* Commission File No. 0-2585

Exhibit Index - Continued

EXHIBIT NO.	EXHIBIT DESCRIPTION	INCORPORATION BY REFERENCE
(10b)	Dixie Yarns, Inc. Nonqualified Employee Savings Plan.	Incorporated by reference to Exhibit (10d) to Dixie's Annual Report on Form 10-K for the year ended December 26, 1992.*
(10c)	Dixie Yarns, Inc. Incentive Compensation Plan.	Incorporated by reference to Exhibit (10e) to Dixie's Annual Report on Form 10-K for the year ended December 26, 1992.*
(10d)	Pooling and Servicing Agreement dated as of October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and NationsBank of Virginia, N.A. (as Trustee).	Incorporated by reference to Exhibit (2a) to Dixie's Current Report on Form 8-K dated October 15, 1993.*
(10e)	Annex X - Definitions, to Pooling and Servicing Agreement dated as of October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and NationsBank of Virginia, N.A. (as Trustee).	Incorporated by reference to Exhibit (2b) to Dixie's Current Report on Form 8-K dated October 15, 1993.*
(10f)	Series 1993-1 Supplement, dated as of October 15, 1993, to Pooling and Servicing Agreement dated as of October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and NationsBank of Virginia, N.A. (as Trustee).	Incorporated by reference to Exhibit (2c) to Dixie's Current Report on Form 8-K dated October 15, 1993.*
(10g)	Certificate Purchase Agreement dated October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and New York Life Insurance and Annuity Corporation.	Incorporated by reference to Exhibit (2d) to Dixie's Current Report on Form 8-K dated October 15, 1993.*
(10h)	Certificate Purchase Agreement dated October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and John Alden Life Insurance Company.	Incorporated by reference to Exhibit (2e) to Dixie's Current Report on Form 8-K dated October 15, 1993.*

* Commission File No. 0-2585

Exhibit Index - Continued

EXHIBIT NO.	EXHIBIT DESCRIPTION	INCORPORATION BY REFERENCE
(10i)	Certificate Purchase Agreement dated October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and John Alden Life Insurance Company of New York.	Incorporated by reference to Exhibit (2f) to Dixie's Current Report on Form 8-K dated October 15, 1993.*
(10j)	Certificate Purchase Agreement dated October 15, 1993, among Dixie Yarns, Inc., Dixie Funding, Inc. and Keyport Life Insurance Company.	Incorporated by reference to Exhibit (2g) to Dixie's Current Report on Form 8-K dated October 15, 1993.*
(10k)	Asset Purchase Agreement dated May 23, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc.,	Incorporated by reference to Exhibit (2a) to Dixie's Current Report on Form 8-K dated June 3, 1996.*

	Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.	
(10l)	Amendment, dated May 31, 1996, to Asset Purchase Agreement dated May 23, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.	Incorporated by reference to Exhibit (2b) to Dixie's Current Report on Form 8-K dated June 3, 1996.*
(10m)	Second Amendment, dated June 3, 1996, to Asset Purchase Agreement dated May 23, 1996, by and among T-C Threads, Inc., d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.	Incorporated by reference to Exhibit (2c) to Dixie's Current Report on Form 8-K dated June 3, 1996.*

* Commission File No. 0-2585

Exhibit Index - Continued

EXHIBIT NO.	EXHIBIT DESCRIPTION	INCORPORATION BY REFERENCE
(10n)	Yarn and Finished Goods Agreement dated as of June 3, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.	Incorporated by reference to Exhibit (2d) to Dixie's Current Report on Form 8-K dated June 3, 1996.*
(10o)	Accounts Receivable Agreement dated as of June 3, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.	Incorporated by reference to Exhibit (2e) to Dixie's Current Report on Form 8-K dated June 3, 1996.*
(10p)	Noncompetition Agreement dated as of June 3, 1996, by and among T-C Threads, Inc. d/b/a Threads USA, Threads of Puerto Rico, Inc., Productos para la Industria de la Maquila, S. A., PRIMA, Hilos y Accessorios, S. A. de C. V., and Dixie Yarns, Inc. and American & Efird, Inc.	Incorporated by reference to Exhibit (2f) to Dixie's Current Report on Form 8-K dated June 3, 1996.*
(10q)	Asset Purchase Agreement dated as of August 29, 1997 among The Dixie Group, Inc., Bretlin, Inc., Foamex L.P. and General Felt Industries, Inc.	Incorporated by reference to Exhibit (2) to Dixie's Current Report on Form 8-K dated August 29, 1997.
(10r)	Dixie Yarns, Inc. Incentive Stock Plan as amended.	Incorporated by reference to ANNEX A to Dixie's Proxy Statement

		dated March 27, 1998 for its 1998 Annual Meeting of Shareholders.
(10s)	Form of Nonqualified Stock Option Agreement Under the Dixie Yarns, Inc. Incentive Stock Plan.	Incorporated by reference to Exhibit (10a) to Dixie's Quarterly Report on Form 10-Q for the quarter ended July 1, 1995.*

*Commission File No. 0-2585

Exhibit Index - Continued

EXHIBIT NO.	EXHIBIT DESCRIPTION	INCORPORATION BY REFERENCE
(10t)	Form of Amendment to Nonqualified Stock Option Agreement Under the Dixie Yarns, Inc. Incentive Stock Plan.	Incorporated by reference to Exhibit (10b) to Dixie's Quarterly Report on Form 10-Q for the quarter ended July 1, 1995.*
(10u)	Form of Stock Option Agreement Under the Dixie Yarns, Inc. Incentive Stock Plan as amended.	Incorporated by reference to Exhibit (10b) to Dixie's Annual Report on Form 10-K for the year ended December 28, 1996.*
(10v)	Form of Stock Rights and Restrictions Agreement for Restricted Stock Award Under Incentive Stock Plan as Amended.	Incorporated by reference to Exhibit (10v) to Dixie's Annual Report on Form 10-K for the year ended December 27, 1997.*
(10w)	The Dixie Group, Inc. Stock Ownership Plan as amended.	Incorporated by reference to Exhibit (10w) to Dixie's Annual Report on Form 10-K for the year ended December 27, 1997.*
(10x)	Form of Stock Subscription Agreement Under Stock Ownership Plan of The Dixie Group, Inc.	Incorporated by reference to Exhibit (10x) to Dixie's Annual Report on Form 10-K for the year ended December 27, 1997.*
(10y)	The Dixie Group, Inc. Directors Stock Plan	Incorporated by reference to Exhibit (10y) to Dixie's Annual Report on Form 10-K for the year ended December 27, 1997.*
(21)	Subsidiaries of the Registrant.	Incorporated by reference to Exhibit (21) to Dixie's Annual Report on Form 10-K for the Year ended December 27, 1997.*
(23)	Consent of Ernst & Young LLP.	Filed herewith.

*Commission File No. 0-2585

EXHIBIT (4q)

SECOND AMENDMENT TO 9.96% SENIOR SUBORDINATED

NOTES DUE FEBRUARY 1, 2010

This Amendment, effective as of December 26, 1998, shall constitute the Second Amendment to the 9.96% Senior Subordinated Notes due February 1, 2010, by and between New York Life Insurance Company, or registered assigns, and Dixie Yarns, Inc. dated February 6, 1990, in the aggregate principal amount of $50,000,000 and the related Loan Agreement dated February 6, 1990, by and between the same parties, which is incorporated therein by reference (together the "NYL NOTES"). All defined terms herein shall have the same meaning as in the NYL Notes unless a different meaning is clearly set forth herein.

WHEREAS, Dixie Yarns, Inc. (the "COMPANY"), whose name has been changed to The Dixie Group, Inc., and New York Life Insurance Company or registered assigns (the "HOLDERS") have agreed to certain amendments to the terms of the NYL Notes as set forth herein; and

WHEREAS, the parties hereto desire to amend the NYL Notes to reflect the amendments agreed upon by them.

NOW, THEREFORE, for and in consideration of the mutual promises contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be bound hereby, agree as follows:

1. Section 9, paragraph (A) of the NYL Notes is hereby deleted in its entirety and the following is substituted therefor:

(A) FUNDED INDEBTEDNESS OF THE COMPANY. The Company will not borrow or incur additional Funded Indebtedness if, immediately after giving effect thereto, the aggregate principal amount of Funded Indebtedness would exceed the percentage ratio set forth in the table below of the Capitalization of the Company; except that nothing in this paragraph (A) shall prohibit the renewal or refinancing of any Funded Indebtedness heretofore or hereafter incurred or assumed in compliance with this paragraph (A), provided such renewal or refinancing shall not result in an increase in the outstanding principal amount of such Funded Indebtedness.

PERIOD	RATIO
Fiscal year 1999	70.0%
Fiscal year 2000 and thereafter	67.5%

For the purpose of this paragraph only, Funded Indebtedness shall mean as of any date of determination the sum of all indebtedness, whether senior or subordinated indebtedness, (including the 7% Convertible Subordinated Debentures due 2012), which would in accordance with generally accepted accounting principles constitute long term or short term debt, any amount of off-balance sheet financing that is not shown on the balance sheet as debt, (including the 6.08% Trade Receivable-Backed Certificates, Series 1993-1), all reimbursement obligations under any letters of credit or acceptances (excluding letters of credit incurred in the ordinay course by another person other than with respect to Indebtedness of such person for money borrowed, including, without limitation, letters of credit issued for workers compensation and other insurance liabilities and trade letters of credit), all guarantees of obligations of another person, whether direct or indirect, contingent or otherwise, including but not limited to an obligation of such other person to purchase or otherwise acquire, or otherwise insure any creditor against loss in respect of, Indebtedness of any other person for borrowed money, and any amount representing mandatory dividend rights on capital stock or other equity of the Company. Capitalization shall mean as of any date of determination Funded Indebtedness plus Stockholders Equity (Net Worth) as reflected on the consolidated balance sheet of the Company plus an amount of $31,400,000 incurred with respect to the write-down of assets of T-C Threads, Inc. and its Subsidiaries.

2. Section 9, paragraph (F) of the NYL Notes is hereby deleted in its entirety and the following is substituted therefor:

(F) DIVIDENDS. The Company will not declare or pay, or set apart any funds for the payment of, any dividends (other than dividends paid or payable in capital stock of the Company) on any shares of capital stock of the Company, by reduction of the Company's capital surplus or otherwise, or make any other distribution in respect of any shares of capital stock of the Company (hereinafter defined as "DIVIDEND ACTION OR PAY DIVIDENDS"), until (i) the Company's Interest Coverage Ratio for the Applicable Period immediately preceding such Dividend Action is less than 1.50 to 1; and (ii) the ratio of Total Debt to EBITDA is less than 3-to-1. From and after the first date the ratio of Total Debt to EBITDA is less than 3-to-1, the Company may Pay Dividends not to exceed in the aggregate an amount equal to fifty percent (50%) of aggregate Consolidated net income accrued subsequent to the end of the fiscal quarter when the Company first obtains a ratio of Total Debt to EBITDA Less than 3-to-1. If at any time after the first date in which the Company becomes eligible to Pay Dividends, the ratio of Total Debt to EBITDA exceed 4-to-1, then the Company shall no longer be allowed to Pay Dividends until and unless the ratio of Total Debt to EBITDA is again less than 4-to-1. Thereafter the Company may Pay Dividends in an aggregate amount not to exceed fifty percent (50%) of aggregate Consolidated net income accrued subsequent to the end of the fiscal quarter when the Company first obtained a ratio of Total Debt to EBITDA less than 3-to-1. The determination of the Interest Coverage Ratio and the ratio of Total Debt to EBITDA as referenced herein shall be made from the financial statements provided by the Company pursuant to the requirements of the NYL Notes at the end of each fiscal quarter calculating the Interest Coverage Ratio and the ratio of Total Debt to EBITDA for the period consisting of the immediately preceding four fiscal quarters (the "Applicable Period").

For the purpose of determining the Company's compliance with these obligations, Interest Coverage Ratio shall mean (I) Consolidated net income as defined in the NYL Notes plus, to the extent deducted in determining such Consolidated net income, interest expense of the Company and its subsidiaries for the Applicable Period and any provision for taxes for such period (whether paid or deferred), exclusive of any non-cash gains or losses from the disposals of segments recorded in the fiscal year ended December 26, 1998 ("EBIT"), to (ii) interest expense, of the Company and its subsidiaries, for the Applicable Period and, the ratio of Total Debt to EBITDA shall mean, with respect to the Applicable Period, the ratio of (I) Consolidated Total Debt as defined in the NYL Notes divided by (ii) EBITDA. EBITDA shall mean the Company's EBIT plus depreciation and amortization for such Applicable Period. The calculation of EBIT and EBITDA for any Applicable Period will include, in addition to the Company's EBIT and EBITDA, the pre-acquisition EBIT and EBITDA of any business, substantially all of the assets of which are acquired by the Company during such Applicable Period, calculated on a trailing basis using audited information where available.

3. Section 9, paragraph (G) of the NYL Notes is hereby deleted in its entirety and the following is substituted therefor:

(G) MINIMUM NET WORTH. The Company will not permit its consolidated Net Worth, measured at the end of each fiscal quarter, at any time to be less than 90% of the amount of consolidated Net Worth measured at the end of the Company's fiscal year ended December 26, 1998 (such amount to be furnished by the Company in writing to the Holders as soon as practicable after the Company determines such amount but, in any event, not later than March 31, 1999), plus fifty percent (50%) of the aggregate cumulative Consolidated net income (excluding losses), for any fiscal quarter from and after December 26, 1998; provided however, that net losses for any fiscal quarter during a fiscal year may be offset to the extent of the net income during another fiscal quarter in the same fiscal year, but net losses for any fiscal year shall not be offset against net income for any other fiscal year and any such net losses shall not reduce the amount of the minimum net worth requirements at the beginning of such fiscal year.

4. ADDITIONAL INTEREST. As consideration for the amendments of the NYL Notes as herein provided for, the Company agrees to pay to the holders as additional interest on the principal amount outstanding under the NYL Notes, an amount determined by increasing the 9.96% per annum rate of

interest by the applicable amount determined from the chart set forth below, which is based on the Company's ratio of Total Debt to EBITDA. The applicable increase in the interest rate, if any, shall be effective the first day of the calendar month following the end of the fiscal quarter for which the ratio has been determined. The initial interest adjustment will take place on the effective date of the Second Amendment and remain in effect at least through the Company's first fiscal quarter 1999.

Ratio of Total Debt to EBITDA	Amount of Interest Rate Increase
>4.5	.65%
>4.0; <4.5	.50%
>3.5; <4.0	.35%
>3.0; <3.5	.20%
<3.0	0%

The ratio of Total Debt to EBITDA shall be determined using the same method used in Section 9, Paragraph (F).

5. As consideration for the amendments of the NYL Notes as herein provided for, the Company agrees to pay to the holders, to be divided ratably between them, an additional fee in the amount of $250,000.

6. Notwithstanding the provisions of Section 9(B) and (D) of the NYL Notes, all wholly owned subsidiaries of the Company that have assets of $1,000,000 or more, except for Dixie Funding, Inc., shall guarantee the NYL Notes and shall be permitted to guarantee the Senior Indebtedness of the Company. All such guarantees of such Subsidiaries of the Company of the NYL Notes shall be subordinated to the obligations of the subsidiaries under the guarantee of the Senior Indebtedness in the same manner and to the same extent as are the NYL Notes are subordinated to the Senior Indebtedness, and such subordination provisions shall be expressly set forth in any such guarantees of the NYL Notes.

7. The Company shall provide calculations of and a certificate of compliance with the Dividends, Minimum Net Worth and Funded Indebtedness requirements set forth herein and the Additional Interest payment required herein as soon as reasonably possible, and in any event within 60 days after the close of each of the first three fiscal quarters of the Company in each fiscal year and within 90 days after the close of each fiscal year of the Company.

This Second Amendment shall replace and supercede the previous Amendment to the NYL Notes. In all other respects except as specifically amended herein, the NYL Notes shall remain in effect as on the date hereof unchanged. This amendment has been approved in accordance with the provisons of Section 10 of NYL Notes and has been approved by 66-2/3% of the NYL Note holders as evidenced by their signatures hereto.

The Dixie Group, Inc., formerly
Dixie Yarns, Inc.

By: Gary A. Harmon

Its: Treasurer

New York Life Insurance
Company

By: Steven M. Benevento

Its: Director

New York Life Insurance
and Annuity Corporation

By: Steven M. Benevento

Its: Director

EXHIBIT (r)

FIRST AMENDMENT TO CREDIT AGREEEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT effective as of December 26, 1998 (this "Amendment"), by and among The Dixie Group, Inc., a Tennessee corporation (the "Borrower"), 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, ATLANTA, as administrative agent for the Lenders (in such capacity, the "Administrative Agent") and NATIONSBANK, N.A., as documentation agent for the Lenders (in such capacity, the "Documentation Agent").

WITNESSETH:

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 or modified, the "Agreement");

Whereas, Borrower, the Lenders, the Administrative Agent and the Documentation Agent have agreed to make certain modifications to the 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 Agreement as follows:

A. DEFINITIONS

Capitalized terms used but not otherwise defined herein shall have the meanings given to such terms in the Agreement, as amended by this Amendment.

B. AMENDMENTS TO THE AGREEMENT

1. Section 1.01, of the Agreement is hereby amended by replacing the definitions of "Interest Expense" and "Net Income" in their entirety with the following definitions:

> "Interest Expense" shall mean, for any period, interest expense as determined according to GAAP, calculated on a consolidated basis for the Consolidated Companies, and shall include, without duplication, all Interest Expense of any Person accrued prior to the date such Person becomes a Subsidiary of Borrower or is merged into or consolidated with Borrower or any of its Subsidiaries, or such

Person's assets are acquired by any Consolidated Company.

"Net Income" shall have the meaning afforded such term by GAAP, calculated on a consolidated basis for the Consolidated Companies, and shall include, without duplication, all Net Income of any Person accrued prior to the date such Person becomes a Subsidiary of Borrower or is merged into or consolidated with Borrower or any of its Subsidiaries, or such Person's assets are acquired by any Consolidated Company.

2. Section 8.11 of the Agreement is hereby amended as follows:

(a) Subsection (b) is hereby amended by replacing such subsection in its entirety with the following:

(b) LEVERAGE RATIO. Its Leverage Ratio (i) to be greater than 0.675 to 1.00 as of the last day of Borrower's fiscal quarters ending on December 26, 1998 and March 27, 1999; and (ii) to be greater than 0.65 to 1.00 as of the last day of each fiscal quarter of the Borrower thereafter.

(b) Subsection (d) is hereby amended by replacing such subsection in its entirety with the following:

(d) CONSOLIDATED NET WORTH. Fail to maintain as of the last day of each fiscal quarter of Borrower, Consolidated Net Worth equal to or greater than the Minimum Compliance Level plus, for each of the first three fiscal quarters of each fiscal year of Borrower, 50% of the Consolidated Net Income of the Borrower earned during the current fiscal year, calculated on a cumulative basis for such fiscal year; provided, however, in the event that the Consolidated Companies suffer a net loss for any year-to-date fiscal period, Consolidated Net Income shall be deemed to be $0. The "Minimum Compliance Level" shall as of any date of determination, be equal to the sum of (x) the greater of 90% of (i) Consolidated Net Worth as of December 26, 1998 (such amount to be furnished by the Borrower to the Administrative Agent as soon as practicable after Borrower determines such amount) or (ii) $90,000,000 plus (y) an additional amount calculated as of the last day of each fiscal year of Borrower, commencing with fiscal year 1999 and added to the Minimum Compliance Level then in effect as of the last day of such fiscal year, equal to 50% of the Consolidated Net Income for such fiscal year of Borrower then ending; provided, however, in the event that the Consolidated Companies suffer a net loss for any fiscal year, Consolidated Net Income shall be deemed to be $0, and further provided that amounts calculated pursuant to clause (y) above shall be permanent increases in the Minimum Compliance Level so that in no event shall the Minimum Compliance Level at any date of determination be less than the amount required at any preceding date of determination.

3. The Agreement is hereby amended by replacing all references to "Consolidated Net Income" with the term "Net Income".

C. CONSENT

The Lenders hereby consent to the Borrower's execution and delivery of the Second Amendment to 9.96% Senior Subordinated Note Due February 1, 2010, by and between the Borrower and New York Life Insurance Company effective as of December 26, 1998, substantially in the form of Exhibit A attached hereto.

D. MISCELLANEOUS

1. Representations and Warranties. The Borrower hereby represents and warrants to the Lenders and the Administrative Agent that:

(a) the execution, delivery and performance of this Amendment (1) is within its corporate power; (2) has been duly authorized by all necessary corporate action and shareholder action; (3) does not conflict with, or result in the breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of its properties or assets or the properties and assets of any of its Subsidiaries pursuant to, the charter or articles of organization or similar document, or By-Laws or operating agreement or similar document of the Borrower, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Borrower is subject and (4) does not require the consent, permission, authorization, order or license of any governmental authority or Person;

(b) this Amendment has been duly executed and delivered for the benefit of or on behalf of the Borrower and constitutes a legal, valid and binding obligation of Borrower, enforceable against the Borrower in accordance with its terms except as the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights and remedies in general; and

(c) after giving effect to this Amendment, all representations and warranties set forth in Article VI of the Agreement are true and correct in all material respects and no Default or Event of Default has occurred and is continuing as of the date hereof.

2. Survival. Except as expressly provided herein, the Agreement shall continue in full force and effect, and the unamended terms and conditions of the Agreement as expressly incorporated herein and ratified and confirmed in all respects. This Amendment is not intended to be or to create, nor shall it be construed as, a novation or an accord and satisfaction.

3. Effect of Amendment. From and after the date hereof, references

to the Agreement shall be references to the Agreement as amended hereby.

4. Entire Understanding. This Amendment constitutes the entire agreement between the parties hereto with respect to the subject matter hereof. Neither this amendment nor any provision hereof may be changed, waived, discharged, modified or terminated orally, but only by an instrument in writing signed by the parties required to be a party thereto pursuant to the Agreement.

5. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED IN ALL RESPECTS BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF GEORGIA(WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF) AND ALL APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same document, and shall be effective as of the date first above written.

7. Severability. In the event that any part of this Amendment shall be found to be illegal or in violation of public policy, or for any reason unenforceable at law, such finding shall not invalidate any other part thereof.

8. Reimbursement of Administrative Agent. Borrower shall reimburse the Administrative Agent for the reasonable fees and expenses of counsel for the Administrative Agent in connection with this Amendment.

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: Glenn A. Berry
Vice President and Chief Financial Officer

By: Gary A. Harmon
Treasurer

Attest: Starr T. Klein
Secretary

Address:
The Dixie Group, Inc.
1100 Watkins Street
Chattanooga, Tennessee 37404
Attn: Mr. Gary A. Harmon

Telephone: (423) 493-7241
Facsimile: (423) 493-7353

[CORPORATE SEAL]

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT]

SUNTRUST BANK, ATLANTA, individually and as Administrative Agent

By: Laura Kahn
Title: Senior Vice President

By: Kelley E. Brunson
Title: Banking Officer

Address:
SunTrust Bank, Atlanta
25 Park Place, 23rd Floor
Atlanta, Georgia 30303
Attn: Mr. Bradley J. Staples

Telephone: (404) 230-5099
Facsimile: (404) 575-2594

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

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT]

NATIONSBANK, N.A., individually and
as Documentation Agent

By: David H. Dinkins

Title: Vice President

Address:
100 North Tryon Street, 8th Floor
Charlotte, NC 28255
Attn: Mr. David Dinkins

Telephone: (704) 386-2951
Facsimile: (704) 386-1270

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT]

SOUTHTRUST BANK, NATIONAL ASSOCIATION

By: Michael D. Ross
Title: Group Vice President

Address:
420 North 20th Street, 11th Floor
Birmingham, AL 35203
Attn: Mr. Alex Morton

Telephone: (205) 254-4990
Facsimile: (205) 254-8270

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT]

FIRST UNION NATIONAL BANK

By: David Silander
Title: Vice President

Address:
302 South College Street, 5th Floor
Charlotte, NC 28288-0737
Attn: Mr. David Silander

Telephone: (704) 383-5124
Facsimile: (704) 374-4973

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT]

THE CHASE MANHATTAN BANK

By: James A. Knight
Title: Vice President

Address:
111 West 40th Street, 10th Floor
New York, NY 10018
Attn: Mr. James A. Knight

Telephone: (212) 403-5102
Facsimile: (212) 403-5112

[SIGNATURE PAGE TO FIRST AMENDMENT TO CREDIT AGREEMENT]

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-30473) pertaining to the Employee Stock Purchase Plan of The Dixie Group, Inc., the Registration Statement (Form S-8 No. 33-59564) pertaining to options to acquire Common Stock of The Dixie Group, Inc. issued in connection with the acquisition of Carriage Industries, Inc., the Registration Statement (Form S-8 No. 33-42615) pertaining to the Incentive Stock Option Plan of The Dixie Group, Inc., and Post-Effective Amendment Number 2 to the Registration Statements (Form S-8 No. 2-20604 and No. 2-56744) pertaining to the Employee Stock Purchase Plan and Employee Stock Option Plan of The Dixie Group, Inc. of our report dated February 17, 1999, with respect to the consolidated financial statements and schedule of The Dixie Group, Inc. included in the Annual Report (Form 10-K) for the year ended December 26, 1998.

ERNST & YOUNG LLP

Chattanooga, Tennessee
March 25, 1999

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