UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[X] **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended **June 28, 2003**

or

[ ] **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ____________________ **to** ____________________

Commission File Number: 0-2585

THE DIXIE GROUP

THE DIXIE GROUP, INC.

(Exact name of registrant as specified in its charter)

Tennessee	**62-0183370**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*
345-B Nowlin Lane **Chattanooga, TN**	**37421**
(Address of principal executive offices)	*(Zip code)*

(423) 510-7010
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
[X] Yes [ ] No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
[ ] Yes [X] No

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

Class	Outstanding as of August 7, 2003
Common Stock, $3 Par Value	10,982,648 shares
Class B Common Stock, $3 Par Value	795,970 shares
Class C Common Stock, $3 Par Value	0 shares

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

	(Unaudited) June 28, 2003	December 28, 2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 2,281**	$ 2,440
Accounts receivable (less allowance for doubtful accounts of $2,165 for 2003 and $3,290 for 2002)	**49,340**	40,158
Inventories	**109,494**	95,113
Assets held for sale	**14**	14
Other	**11,403**	8,592
TOTAL CURRENT ASSETS	**172,532**	146,317
PROPERTY, PLANT AND EQUIPMENT	**294,360**	293,006
Less accumulated amortization and depreciation	**(158,840)**	(149,432)
NET PROPERTY, PLANT AND EQUIPMENT	**135,520**	143,574
GOODWILL	**100,758**	100,492
INVESTMENT IN AFFILIATE	**12,348**	13,458
OTHER ASSETS	**17,360**	12,805
TOTAL ASSETS	**$ 438,518**	$ 416,646

See accompanying notes to the consolidated condensed financial statements.

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

	(Unaudited) June 28, 2003	December 28, 2002
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 55,407**	$ 37,458
Accrued expenses	**20,392**	27,993
Current portion of long-term debt	**12,796**	13,294
TOTAL CURRENT LIABILITIES	**88,595**	78,745
LONG-TERM DEBT		
Senior indebtedness	**102,756**	75,408
Senior notes	**37,250**	---
Subordinated notes	**28,571**	30,952
Convertible subordinated debentures	**27,237**	29,737
TOTAL LONG-TERM DEBT	**195,814**	136,097
ACCRUED PURCHASE CONSIDERATION	**---**	50,000
OTHER LIABILITIES	**16,952**	16,529
DEFERRED INCOME TAXES	**24,575**	23,923
STOCKHOLDERS' EQUITY		
Common Stock ($3 par value per share): Authorized 80,000,000 shares, issued - 14,301,900 shares for 2003 and 14,292,234 shares for 2002	**42,906**	42,877
Class B Common Stock ($3 par value per share): Authorized 16,000,000 shares, issued - 795,970 shares for 2003 and 2002	**2,388**	2,388
Common Stock subscribed - 696,899 shares for 2003 and 699,332 shares for 2002	**2,091**	2,098
Additional paid-in capital	**132,742**	132,724
Stock subscriptions receivable	**(5,009)**	(5,029)
Unearned stock compensation	**(68)**	(82)
Accumulated deficit	**(5,842)**	(6,903)
Accumulated other comprehensive loss	**(2,941)**	(3,036)
	166,267	165,037
Less Common Stock in treasury at cost - 3,319,252 shares for 2003 and 2002	**(53,685)**	(53,685)
TOTAL STOCKHOLDERS' EQUITY	**112,582**	111,352
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 438,518**	$ 416,646

See accompanying notes to the consolidated condensed financial statements.

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

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	**June 28, 2003**	June 29, 2002
NET SALES	**$ 132,135**	$ 139,977	**$ 244,098**	$ 263,301
Cost of sales	**102,210**	105,513	**188,322**	200,956
GROSS PROFIT	**29,925**	34,464	**55,776**	62,345
Selling and administrative expenses	**23,551**	24,801	**46,246**	47,985
Other (income) expenses - net	**(688)**	417	**(813)**	(55)
INCOME BEFORE INTEREST AND TAXES	**7,062**	9,246	**10,343**	14,415
Interest Expense	**4,811**	4,302	**8,633**	8,686
INCOME BEFORE TAXES	**2,251**	4,944	**1,710**	5,729
Income tax provision	**854**	1,908	**649**	2,197
NET INCOME	**$ 1,397**	$ 3,036	**$ 1,061**	$ 3,532
BASIC EARNINGS PER SHARE:				
Net income	**$ 0.12**	$ 0.26	**$ 0.09**	$ 0.30
SHARES OUTSTANDING	**11,755**	11,718	**11,752**	11,702
DILUTED EARNINGS PER SHARE:				
Net income	**$ 0.12**	$ 0.25	**$ 0.09**	$ 0.30
SHARES OUTSTANDING	**11,755**	11,941	**11,753**	11,868
DIVIDENDS PER SHARE:				
Common Stock	**---**	---	**---**	---
Class B Common Stock	**---**	---	**---**	---

See accompanying notes to the consolidated condensed financial statements.

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

	Six Months Ended			
		June 28, 2003		June 29, 2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	**$**	**1,061**	$	3,532
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization		**10,807**		11,932
Provision (benefit) for deferred income taxes		**2,343**		(582)
Gain on property, plant and equipment disposals		**(593)**		(3,956)
Changes in operating assets and liabilities:				
Accounts receivable		**(9,182)**		(34,877)
Inventories		**(14,381)**		(4,406)
Accounts payable and accrued expenses		**10,693**		6,035
Other operating assets and liabilities		**(9,172)**		4,265
NET CASH USED IN OPERATING ACTIVITIES		**(8,424)**		(18,057)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net proceeds from sales of property, plant and equipment		**615**		31,516
Purchase of property, plant and equipment		**(2,032)**		(4,324)
Investment in affiliate		**979**		(570)
Additional cash paid in business combination		**(50,266)**		(489)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES		**(50,704)**		26,133
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings on current credit and term loan facility		**27,123**		84,958
Net payments on previous credit and term loan facility		**---**		(84,351)
Senior notes issued		**37,000**		---
Payments on subordinated indebtedness		**(4,881)**		(4,881)
Other		**(273)**		(545)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**58,969**		(4,819)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(159)**		3,257
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**2,440**		1,412
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$**	**2,281**	$	4,669
SUPPLEMENTAL CASH FLOW INFORMATION				
Purchase of equipment with note payable	**$**	**---**	$	1,204
Interest paid		**7,724**		8,113
Income taxes paid, net of tax refunds		**1,846**		116
Treasury stock issued		**---**		348

See accompanying notes to the consolidated condensed financial statements.

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

	Common Stock and Class B Common Stock	Common Stock Subscribed	Additional Paid-In Capital	Other	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Common Stock in Treasury	Total Stockholders' Equity
Balance at December 28, 2002	$ 45,265	$ 2,098	$ 132,724	$ (5,111)	$ (6,903)	$ (3,036)	$ (53,685)	$ 111,352
Stock subscriptions cancelled - 2,433 shares		(7)	(13)	20				---
Common Stock issued under Directors' Stock Plan - 9,666 shares	29		31					60
Amortization of restricted stock grants				14				14
Comprehensive income						95		95
Net income for the year					1,061			1,061
Balance at June 28, 2003	$ 45,294	$ 2,091	$ 132,742	$ (5,077)	$ (5,842)	$ (2,941)	$ (53,685)	$ 112,582

See accompanying notes to the consolidated condensed financial statements.

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

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements which do not include all the information and footnotes required by generally accepted accounting principles in the United States of America for complete annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2002 annual report filed on Form 10-K with the Securities and Exchange Commission, which includes consolidated financial statements for the fiscal year ended December 28, 2002. Operating results for the three and six month periods ended June 28, 2003 are not necessarily indicative of the results that may be expected for the entire 2003 fiscal year.

NOTE B - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS (Statement of Financial Accounting Standards) No. 146, "Accounting for Costs Associated With Exit or Disposal Activities." Effective December 29, 2002, the Company adopted SFAS No. 146 which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. Adoption of SFAS No. 146 did not have a material impact on the Company's financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company does not expect the adoption of SFAS No. 149 to have a material impact on its financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of SFAS No. 150 to have a material impact on its financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN 46 requires that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN 46 is applicable for variable interest entities created after January 31, 2003 and any variable interest entities in which the Company obtains an interest after that date. FIN 46 is effective for the quarter ending September 30, 2003 for variable interest entities in which the Company held a variable interest that it acquired before February 1, 2003. The Company has evaluated the provisions of FIN 46 and does not believe adoption will have a material effect on its financial statements.

NOTE C - STOCK COMPENSATION

During 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternate methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that statement to require prominent disclosure about the effects on the reporting of net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS No. 148 amends APB Opinion No. 28, "Interim Financial Reporting", to require disclosure about these effects in interim financial information.

The following pro forma summary presents the Company's net income and earnings 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 SFAS No. 123, "Accounting for Stock-Based Compensation". The pro forma impact on net income shown below may not be representative of future effects.

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	**June 28, 2003**	June 29, 2002
Net income, as reported	**$ 1,397**	$ 3,036	**$ 1,061**	$ 3,532
Stock compensation expense, net of taxes	**(42)**	(179)	**(83)**	(309)
Adjusted net income	**$ 1,355**	$ 2,857	**$ 978**	$ 3,223
Basic earnings per share, as reported	**$ 0.12**	$ 0.26	**$ 0.09**	$ 0.30
Stock compensation expense, net of taxes	**---**	(0.02)	**(0.01)**	(0.03)
Adjusted basic earnings per share	**$ 0.12**	$ 0.24	**$ 0.08**	$ 0.27
Diluted earnings per share, as reported	**$ 0.12**	$ 0.25	**$ 0.09**	$ 0.30
Stock compensation expense, net of taxes	**---**	(0.02)	**(0.01)**	(0.03)
Adjusted diluted earnings per share	**$ 0.12**	$ 0.23	**$ 0.08**	$ 0.27

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:

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	**June 28, 2003**	June 29, 2002
Expected life	**5 years**	5 years	**5 years**	5 years
Expected volatility	**54.00%**	53.70%	**54.00%**	53.70%
Risk-free interest rate	**2.27%**	4.47%	**2.79%**	4.47%
Dividend yield	**0.00%**	0.00%	**0.00%**	0.00%

NOTE D - INVENTORIES

Inventories are stated at the lower of cost or market. The last in, first out (LIFO) cost method was used to determine cost for substantially all inventories at June 28, 2003 and December 28, 2002.

Inventories are summarized as follows:

	June 28, 2003	December 28, 2002
Raw Materials	**$ 28,564**	$ 25,624
Work-in-process	**19,461**	15,702
Finished goods	**59,970**	52,297
Supplies, repair parts and other	**1,499**	1,490
Total inventories	**$ 109,494**	$ 95,113

NOTE E - PRODUCT WARRANTY RESERVES

The Company warrants its products against manufacturing defects and performance to specified standards. The warranty period and performance standards vary by market and uses of its products. The Company estimates the costs that may be incurred under its warranties and records a liability at the time product sales are recorded. The warranty liability is primarily based on historical claims, nature of claims and the associated cost.

		June 28, 2003
Reserve balance at December 28, 2002	$	**1,222**
Warranty liabilities accrued during 2003		**3,024**
Warranty liabilities settled during 2003		**(3,446)**
Changes for pre-existing warranty liabilities		**13**
Reserve balance at June 28, 2003	$	**813**

NOTE F - LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt consists of the following:

		June 28, 2003		December 28, 2002
Senior indebtedness				
Credit line borrowings	**$**	**71,516**	$	45,823
Term loans		**36,673**		35,243
Senior notes		**37,250**		---
Other		**101**		374
Total senior indebtedness		**145,540**		81,440
Subordinated notes		**33,333**		35,714
Convertible subordinated debentures		**29,737**		32,237
Total long-term debt		**208,610**		149,391
Less current portion		**(12,796)**		(13,294)
Total long-term debt (less current portion)	**$**	**195,814**	$	136,097

On March 14, 2003, the Company issued $37,000 of senior notes and amended its senior credit facility. Interest on the senior notes is payable monthly in cash at LIBOR plus 10%, or, if LIBOR is unavailable, at a base rate plus 8%, in either event not to exceed 14% during the last fifteen months prior to the maturity of the notes, plus a 3% per annum Payment-In-Kind ("PIK") interest component which is settled quarterly by the addition of the accrued PIK interest to the notes' principal balance then outstanding. During the quarter ended June 28, 2003, $250 of PIK interest was added to the principal balance outstanding. The outstanding principal and all accrued and unpaid interest is due at maturity of the notes in May 2007. The notes rank pari passu with indebtedness outstanding under the Company's senior credit facility and are secured by a second priority lien in substantially all of the Company's assets, junior to liens granted to secure borrowings under the Company's senior credit facility. The senior credit facility and the senior notes rank superior to the Company's subordinated debt.

The amendment to the senior credit facility reduced the facility's revolving credit loan commitments to $90,000, increased amounts that can be borrowed under the facility's borrowing base formula by approximately $10,000 and provided for the issuance of the senior notes. It also reissued a term loan for the outstanding balance of the existing term loan and included an additional $4,551 term loan, bringing the balance of the term loan portion of the facility to $38,333. The term loans are payable in quarterly installments of $1,369 beginning May 1, 2003 and are due in May 2007.

Interest rates available under the amended senior facility may be selected from a number of options that effectively allow for borrowing at rates ranging from the lender's prime rate plus .25% to the lender's prime rate plus 1.25% for base rate loans, or at rates ranging from LIBOR plus 2.50% to LIBOR plus 3.75% for LIBOR loans. Commitment fees, ranging from .375% to .50% per annum, are payable on the average daily unused balance of the revolving credit facility. The Company's level of accounts receivable and inventories limits borrowing availability under the revolving credit facility. The senior credit facility is secured by a first priority lien in substantially all of the Company's assets.

The Company's credit agreements contain financial covenants relating to fixed charges, interest and debt coverage and net worth and among other things, limit future acquisitions, capital expenditures, and the payment of dividends. The unused borrowing capacity under the Company's credit facilities on June 28, 2003 was approximately $12,529.

NOTE G - FINANCIAL INSTRUMENTS

The Company has market risk exposure for potential fluctuations in its variable rate long-term debt instruments. The Company uses derivative instruments, currently interest rate swaps, to minimize interest rate volatility. Under the interest rate swap agreement, the Company pays a fixed rate of interest times a notional principal amount, and receives in return an amount equal to a specified variable rate of interest times the same notional principal. The interest rate swap agreement's fair value is reflected on the balance sheet and related gains and losses are deferred in other comprehensive income.

As of June 28, 2003, the Company had an interest rate swap agreement outstanding for $70,000, which will be in effect until March 2005. Under the terms of the swap agreements, the fixed interest rate was 6.75% through March 10, 2003 and is 3.24% thereafter. The fair value of the swap agreement as of June 28, 2003 was $2,248. Changes in the fair value of the swap agreements since December 28, 2002 resulted in an unrealized gain, net of taxes, of $95 and, accordingly, the unrealized gain is recorded in other comprehensive income.

NOTE H - EARNINGS PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	**June 28, 2003**	June 29, 2002
Net income (1)	**$ 1,397**	$ 3,036	**$ 1,061**	$ 3,532
Denominator for calculation of basic earnings per share - weighted average shares (2)	**11,755**	11,718	**11,752**	11,702
Effect of dilutive securities:				
Stock options (3)	**---**	110	**---**	73
Stock subscriptions (3)	**---**	94	**---**	70
Restricted stock grants (3)	**---**	19	**1**	23
Denominator for calculation of diluted earnings per share - weighted average shares adjusted for potential dilution (2) (3)	**11,755**	11,941	**11,753**	11,868
Earnings per share:				
Basic	**$ 0.12**	$ 0.26	**$ 0.09**	$ 0.30
Diluted	**$ 0.12**	$ 0.25	**$ 0.09**	$ 0.30

(1) No adjustments needed in the numerator for diluted calculations.
(2) Includes Common and Class B Common shares in thousands.
(3) Because their effects are anti-dilutive, excludes shares under restricted stock plans and shares issuable under stock option, and stock subscription plans, whose grant price is greater than the average market price of Common Shares outstanding at the end of the relevant period, and excludes shares issuable on conversion of subordinated debentures into shares of Common Stock. Aggregate shares excluded were 3,026 in 2003 and 2,247 shares in 2002.

NOTE I - COMPREHENSIVE INCOME

Comprehensive income is as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	**June 28, 2003**	June 29, 2002
Net income	**$ 1,397**	$ 3,036	**$ 1,061**	$ 3,532
Other comprehensive income:				
Unrealized gain (loss) on interest rate swap agreements, net of taxes	**(79)**	467	**95**	922
Comprehensive income	**$ 1,318**	$ 3,503	**$ 1,156**	$ 4,454

NOTE J - SEGMENT INFORMATION

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

The profit performance measure for the Company's segments is defined as internal EBIT (earnings before interest, taxes, and other non-segment items). Assets measured in each reportable segment include long-lived assets and goodwill, inventories, and accounts receivable. The carrying amount of goodwill included in the carpet manufacturing segment was $100,758 and $100,492 for the periods ended June 28, 2003 and December 28, 2002, respectively. The $266 increase in goodwill was a result of net contingent payments associated with prior business combinations. There is no goodwill included in the floorcovering base materials segment at June 28, 2003 and December 28, 2002.

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.

	Three Months Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	**June 28, 2003**	June 29, 2002
Net sales - external customers				
Carpet manufacturing	**$ 125,620**	$ 129,298	**$ 230,571**	$ 242,045
Floorcovering base materials	**6,515**	10,679	**13,527**	21,256
Segment total	**$ 132,135**	$ 139,977	**$ 244,098**	$ 263,301
Profit performance				
Carpet manufacturing	**$ 5,948**	$ 9,371	**$ 8,702**	$ 13,811
Floorcovering base materials (1)	**1,113**	7,041	**1,626**	7,796
Segment total	**7,061**	16,412	**10,328**	21,607
Interest expense	**4,811**	4,302	**8,633**	8,686
Other non-segment (income) expense (2)	**(1)**	7,166	**(15)**	7,192
Consolidated income before taxes	**$ 2,251**	$ 4,944	**$ 1,710**	$ 5,729

(1) Includes a pre-tax gain of $6,901 and $7,701 for the three and six month periods ended June 29, 2002, respectively from the disposition of certain long-lived assets.
(2) Includes the write-off of computer software costs of $3,614 and deferred financing costs of $2,769 for the three and six month periods ended June 29, 2002.

Intersegment sales from the Company's floorcovering base materials group to the Company's carpet manufacturing group were $42,010 and $81,434 for the three and six months ended June 28, 2003 and $41,622 and $79,211 for the three and six months ended June 29, 2002.

		June 28, 2003		December 28, 2002
Assets used in performance measurement				
Carpet manufacturing	$	**358,604**	$	339,882
Floorcovering base materials		**37,774**		38,421
Assets in performance measurement		**396,378**		378,303
Assets not in performance measurement				
Other operating assets		**42,126**		38,329
Assets held for sale		**14**		14
Total consolidated assets	$	**438,518**	$	416,646

NOTE K - SUBSEQUENT EVENT

During July 2003, the Company reduced the salaried workforce in its North Georgia operations by approximately 16%. The severance and other costs associated with the workforce reduction will be approximately $1,400 and will be recorded in the third quarter ending September 27, 2003.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following is presented to update the discussion of results of operations and financial condition included in our 2002 annual report.

RESULTS OF OPERATIONS

Results for the second quarter and first half of 2003 were negatively affected by increased raw material costs, expenses associated with the start-up of an initiative to develop and market a new collection of residential products, and lower sales volume. To help offset higher raw material costs, we implemented selling price increases during the second quarter, however, the effective dates of the raw material and selling price increases caused a delay in recovering the higher raw material cost. In response to softness in our business with the factory-built housing industry and home center/mass merchant markets, we have taken action to reduce fixed costs, and are continuing our efforts to expand our sales in other markets.

To lower fixed cost, we reduced the salaried workforce in our North Georgia operations by approximately 16% in July 2003. The severance and other cost associated with the workforce reduction is expected to be approximately $1.4 million and will be recorded in our third quarter ending September 27, 2003. The annualized reduction in fixed costs associated with this action is approximately $4.0 million.

During the later part of the year 2002, we began an initiative to develop and market a collection of residential products (The Dixie Home Collection) to selected retailers at price points two to three times the industry average, but below the price points of our residential products at Fabrica and Masland. The reception and product placement this collection achieved at retail has exceeded our expectations. We are seeing steady growth in sales from this initiative and are optimistic that this strategy will make a sound contribution to our sales and margins in the last half of this year.

The following table sets forth certain elements of our operating results as a percentage of net sales for the periods indicated:

	Quarter Ended		Six Months Ended	
	June 28, 2003	June 29, 2002	**June 28, 2003**	June 29, 2002
Net sales	**100.0 %**	100.0%	**100.0 %**	100.0%
Cost of sales	**77.4 %**	75.4%	**77.2 %**	76.3%
Gross profit	**22.6 %**	24.6%	**22.8 %**	23.7%
Selling and administrative expenses	**17.8 %**	17.7%	**18.9 %**	18.2%
Other (income) expense - net	**(0.5)%**	0.3%	**(0.3)%**	---
Operating income	**5.3 %**	6.6%	**4.2 %**	5.5%

Net Sales. Net sales declined $7.8 million, or 5.6%, in the quarter ended June 28, 2003 and $19.2 million, or 7.3%, for the six months ended June 28, 2003, compared with the corresponding periods of the prior year.

Sales in our carpet segment declined $3.7 million, or 2.8%, in the quarter ended June 28, 2003 and $11.5 million, or 4.7%, for the first six months of 2003, compared with the prior year periods. Carpet sales continued to be very soft in our factory-built housing and home center/mass merchant markets. Comparisons of our sales to the factory-built housing industry reflected a decline in 2003 of 14% in the second quarter and 19% for the first six months, due to continued weakness in this industry. In the home center/mass merchant markets sales were down 21% in the second quarter and 19% for the first six months due principally to softness in The Home Depot's carpet business. Sales in our high-end residential and commercial businesses continued to compare positively with the prior year levels.

Sales in our carpet yarn segment were down $4.2 million, or 39% in the quarter ended June 28, 2003 and $7.7 million, or 36% for the first six months of 2003, compared to the corresponding periods of the prior year. The decline in carpet yarn sales was due to the sale of our extrusion yarn facility in May 2002, our de-emphasis of external carpet yarn sales to supply raw materials to our carpet operations, and soft markets for carpet yarn in 2003.

Cost of Sales. As a percentage of sales, cost of sales were 77.4% and 77.2% respectively for the second quarter and six month period ending June 28, 2003, compared with 75.4% and 76.3% respectively for the corresponding periods of the prior year. The percentage increase in cost of sales was principally due to higher raw material costs during the 2003 reporting periods.

Selling and Administrative Expenses. Despite cost associated with the start-up of the Dixie Home collection of residential products, selling and administrative expenses decreased $1.3 million in the quarter ended June 28, 2003 and $1.7 million for the first six months of 2003, compared with the same periods in 2002. These costs as a percentage of sales increased in the 2003 periods as a result of the lower sales.

Other (income) expense - net. Other (income) expense - net reflected an improvement in income during the second quarter and first six months of 2003, compared with the same reporting periods in the prior year, principally as a result of higher net gains from asset sales in 2003.

Interest Expense. Interest expense increased for the quarter ended June 28, 2003 compared with the quarter ended June 29, 2002 due to the higher level of debt required to fund the $50.0 million acquisition obligation paid on March 14, 2003 to the former shareholders of Fabrica.

Income Tax Provision (Benefit). Our effective income tax rate provision was 37.9% and 38.0% respectively for the second quarter and first six months of 2003, compared with 38.6% and 38.3%, respectively for the same periods in 2002. The change in the effective income tax rates is principally attributable to the relationship of non-deductible costs to pre-tax earnings in each of these reporting periods.

Net Income. Results for the quarter ended June 28, 2003 reflected net income of $1.4 million, or $0.12 per diluted share, compared with net income of $3.0 million, or $0.25 per diluted share, for the quarter ended June 29, 2002. Net income was $1.1 million, or $0.09 per diluted share, for the six months ended June 28, 2003, compared with net income of $3.5 million, or $0.30 per diluted share, during the six months ended June 29, 2002.

LIQUIDITY AND CAPITAL RESOURCES

On March 14, 2003, we issued $37.0 million of senior notes, amended our senior credit facility and settled the $50.0 million obligation due on April 1, 2003 to the former shareholders of Fabrica International. The Fabrica obligation was settled through a cash payment of $49.8 million, reflecting an early payment discount. The interest on the senior notes is payable monthly in cash at LIBOR plus 10%, or, if LIBOR is unavailable, at a base rate plus 8%, in either event not to exceed 14% during the last fifteen months prior to the maturity of the notes, plus a 3% per annum Payment-In-Kind ("PIK") interest component which is settled quarterly by the addition of the accrued PIK interest to the notes' principal balance then outstanding. The outstanding principal and all accrued and unpaid interest is due at maturity of the notes in May 2007. The notes rank pari passu with the indebtedness under our senior credit facility and are secured by a second priority lien in substantially all of our assets, junior to liens we granted to secure borrowings under our senior credit facility. The senior credit facility and the senior notes rank senior to our subordinated debt.

The amendment to the senior credit facility reduced the revolving credit loan commitments to $90.0 million, increased amounts that can be borrowed under the credit facility's borrowing base formula by approximately $10.0 million and provided for the issuance of the senior notes. The existing term loan was reissued at its outstanding balance and an additional $4.5 million term loan was issued, bringing the aggregate balance of the term loan portion of the credit facility to $38.3 million. The term loans are payable in quarterly installments of $1.4 million beginning May 1, 2003 and are due in May 2007. Interest rates available under the amended senior credit facility may be selected from a number of options that effectively allow for borrowing at rates ranging from the lender's prime rate plus .25% to the lender's prime rate plus 1.25% for base rate loans, or at rates ranging from LIBOR plus 2.50% to LIBOR plus 3.75% for LIBOR loans. Commitment fees, ranging from .375% to .50% per annum, are payable on the average daily unused balance of the revolving credit facility. The level of our accounts receivable and inventories limits borrowing availability under the revolving credit facility. The senior credit facility is secured by a first priority lien in substantially all of our assets.

Our credit agreements contain financial covenants relating to fixed charges, interest, debt coverage and net worth and among other things, limit future acquisitions, sales of assets, capital expenditures, and the payment of dividends. Meeting these covenants will depend on our levels of debt and operating earnings. We believe the actions we have taken to improve results and control debt will permit us to continue to meet such covenants. There can be no assurance that our results will be adequate to meet such requirements. At June 28, 2003, the unused borrowing capacity under our credit facility was $12.5 million.

During the six-month period ended June 28, 2003, net borrowings under our senior credit facility increased $27.3 million, we issued $37.0 million of senior notes and received a $1.8 million distribution from our Chroma partnership. These funds were used to satisfy the $50.0 million obligation to the former shareholders of Fabrica International, invest $2.0 million in capital assets, pay $4.9 million of maturities on our subordinated indebtedness, pay a $.5 million purchase price adjustment related to the acquisition of our interest in Chroma Systems Partners, and fund $8.4 million of cash used in our operating activities.

Capital expenditures for the six-month period ended June 28, 2003 were $2.0 million, while depreciation and amortization was $10.8 million. We expect capital expenditures to be approximately $8.0 million for the fiscal year 2003 while depreciation and amortization is expected to be approximately $20.5 million.

The Fabrica asset purchase agreement provides for an additional contingent amount of up to $2.5 million to be paid in April 2005 if Fabrica's cumulative earnings before interest and taxes for the five-year period beginning January 2000 exceed certain levels. We expect that any contingent payments that may become due under the cumulative earnings test would be treated as additional costs of the acquisition.

The 1999 acquisition of Multitex Corporation of America, Inc. ("Globaltex") provides for certain contingent obligations related to revenue growth of a specific customer through 2003. Such obligations were $1.2 million, $1.5 million, and $1.6 million for fiscal years ended 2002, 2001 and 2000, respectively.

We believe our operating cash flows and credit availability under its credit facilities are adequate to finance our normal liquidity requirements. However, significant additional cash expenditures beyond such requirements could require supplemental financing or other sources of funding. There can be no assurance that other sources of funding can be obtained or will be obtained on terms favorable to the Company.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated With Exit or Disposal Activities". Effective December 29, 2002, we adopted SFAS No. 146 which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". This Statement requires recognition of cost associated with an exit or disposal activity, measured initially at fair value, only when the liability is incurred. Adoption of this Statement did not have a significant impact on our financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company does not expect the adoption of SFAS No. 149 to have a material impact on its financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of SFAS No. 150 to have a material impact on its financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN 46 requires that companies that control another entity through interest other than voting interests should consolidate the controlled entity. FIN 46 is applicable to variable interest entities created after January 31, 2003 and any variable interest entities in which the Company obtains an interest after that date. FIN 46 is effective for quarters beginning after June 15, 2003 for variable interest entities in which the Company held a variable interest that it acquired before February 1, 2003. We have evaluated the provisions of FIN 46 and do not believe adoption will have a material effect on our financial statements.

CERTAIN FACTORS AFFECTING THE COMPANY'S PERFORMANCE

In addition to the other information provided in this Report, the following risk factors should be considered when evaluating results of our operations, future prospects and an investment in shares of our Common Stock. Any of these factors could cause our actual financial results during any period to differ materially from our historical results, and could give rise to events that might have a material adverse effect on our business, financial condition and results of operations.

The floorcovering industry is cyclical and prolonged declines in residential or commercial construction activity, corporate remodeling and refurbishment, or in the factory-built housing industry, could have a material adverse effect on our business.

The U.S. floorcovering industry is cyclical and is influenced by a number of general economic factors. The floorcovering industry in general is dependent on residential and commercial construction activity, including new construction as well as remodeling. In addition, sales of certain of the our principal products are significantly influenced by sales of factory-built housing, recreational vehicles and yachts. New construction activity, as well as sales in the factory-built housing, recreational vehicle and yachting industries, all are cyclical in nature. To a somewhat lesser degree, this also is true with residential and commercial remodeling. A prolonged decline in construction activity or in any of these industries could have a material adverse effect on our business, financial condition and results of operations. The level of activity in these industries is significantly affected by numerous factors, all of which are beyond the our control, including:

- consumer confidence;
- housing demand;
- financing availability;
- national and local economic conditions;
- interest rates;
- employment levels;
- changes in disposable income;
- commercial rental vacancy rates; and
- federal and state income tax policies.

We believe we are the largest producer of carpeting for the factory-built housing industry. Approximately 20% of our total net sales are made to customers in the factory-built and modular housing industries. Production in the factory-built housing industry has remained at significantly depressed levels since 1999. The U.S. construction, factory-built housing and other industries have experienced significant downturns in the past, which have adversely affected suppliers to these industries, including suppliers of floorcoverings. These industries could experience similar downturns in the future, which could have a negative impact on our business, financial condition and results of operations.

We face intense competition in our industry, which could decrease demand for our products and could have a material adverse effect on our profitability.

The floorcovering industry is highly competitive. We face competition from a number of domestic manufacturers and independent distributors of floorcovering products and, in certain product areas, foreign manufacturers. There has been a significant consolidation within the floorcovering industry during recent years which has caused a number of our existing and potential competitors to be larger and have greater resources and access to capital than we do. Maintaining our competitive position may require us to make substantial investments in our product development efforts, manufacturing facilities, distribution network and sales and marketing activities, which may be limited by restrictions set forth in our credit facilities. Competitive pressures may also result in decreased demand for our products and in the loss of market share. In addition, we face, and will continue to face, pressure on sales prices of our products from competitors. As a result of any of these factors, there could be a material adverse effect on our sales and profitability.

The loss of our business with The Home Depot, Inc. could have a material adverse effect on our sales and profitability.

Sales to The Home Depot, Inc. represented approximately 14% of the total dollar volume of our sales in the quarter ended March 29, 2003. We believe that our relationship with The Home Depot is good, but we cannot assure you that we will be able to maintain this relationship. Our reliance on The Home Depot may significantly influence our negotiations with them. We do not have long-term contracts with The Home Depot, and there can be no assurance that The Home Depot will continue to purchase our products in historical quantities or at all. The loss of, or a significant reduction in, this business could have a material adverse effect on our sales and profitability.

Raw material prices increase.

The cost of raw materials has a significant impact on our profitability. In particular our business requires the purchase of large volumes of nylon fiber, filament, synthetic backing, polyester, polypropylene, wool fibers, latex and dyes. Increases in the cost of these raw materials could materially adversely affect our business, results of operations and financial condition if we are unable to pass these increases through to our customers. Prices of certain raw materials increased in early 2003 and additional raw material increases became effective in the second quarter of 2003. We believe we have been successful in increasing our selling prices to pass along raw material and other cost increases; however, it could take several months to recoup these increases in the marketplace, and there can be no assurance that we will successfully recover all such current or future cost increases.

Unanticipated termination or interruption of our arrangements with third-party suppliers of nylon yarn could have a material adverse effect on us.

Nylon yarn is the principal raw material used in our floorcovering products. The unanticipated termination or interruption of our supply arrangements could have a material adverse effect on us.

We may be responsible for environmental cleanup costs.

Various federal, state and local environmental laws govern the use of our facilities. These laws govern such matters as:

- Discharges to air and water;
- Handling and disposal of solid and hazardous substances and waste; and
- Remediation of contamination from releases of hazardous substances in our facilities and off-site disposal locations.

Our operations also are governed by laws relating to workplace safety and worker health, which, among other things, establish noise standards and regulate the use of hazardous materials and chemicals in the workplace. We have taken and will continue to take steps to comply with these laws. If we fail to comply with present or future environmental or safety regulations, we could be subject to future liabilities. However, we cannot assure you that complying with these environmental or health and safety laws and requirements will not adversely affect our business, results of operations and financial condition. Future laws, ordinances or regulations could give rise to additional compliance or remediation costs, which could have a material adverse affect on our business, results of operations and financial condition.

Acts of Terrorism.

Our business could be materially adversely affected as a result of international conflicts or acts of terrorism. Terrorist acts or acts of war may cause damage or disruption to our facilities, employees, customers, suppliers, and distributors, which could have a material adverse affect on our business, results of operations or financial condition. Such conflicts also may cause damage or disruption to transportation and communication systems and to our ability to manage logistics in such an environment, including receipt of supplies and distribution of products.

FORWARD-LOOKING INFORMATION

This Report contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include the use of terms or phrases that include such terms as "expects," "estimated," "projects," "believes," "anticipates," "intends," and similar terms and phrases. Such terms or phrases relate to, among other matters, our future financial performance, business prospects, growth, strategies or liquidity. The following important factors may affect our future results and could cause those results to differ materially from our historical results. These risks include, in addition to those detailed above under the heading "Certain Factors Affecting the Company's Performance", the cost and availability of capital, raw material and transportation costs related to petroleum price levels, the cost and availability of energy supplies, the loss of a significant customer or group of customers, materially adverse changes in economic conditions generally in carpet, rug and floorcovering markets we serve and other risks detailed from time to time in our filings with the Securities and Exchange Commission.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk (dollars in thousands)

The Company has market risk exposure for potential fluctuations in its variable rate long-term debt instruments. The Company uses derivative instruments, currently interest rate swaps, to minimize the impact of interest rate volatility. At June 28, 2003, the Company is party to an interest rate swap agreement through March 11, 2005, under which the Company pays a fixed rate of interest times the notional principal amount of $70,000 and receives a variable rate of interest times the same notional principal amount. The fixed interest rate per the agreement was 6.75% through March 10, 2003 and 3.24% thereafter. The variable rate as of June 28, 2003 was 1.26%. The cumulative fair value of the agreement as of June 28, 2003 was a liability of approximately $2,248, which was recorded in other long-term liabilities with the offset to accumulated other comprehensive loss of $1,394 (net of taxes).

Based on the Company's $70,000 interest rate swap agreement, a 10% fluctuation in the variable rate would result in an annual after-tax economic impact of approximately $55.

Item 4 - Procedures and Controls

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company that is required to be included in our periodic SEC filings. There have been no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of our evaluation.

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PART II. OTHER INFORMATION

Item 1 - Legal Proceedings

None.

Item 2 - Changes in Securities and Use of Proceeds

None.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

(a) The annual meeting of shareholders was held on May 1, 2003.

(b) The following directors were elected at the meeting: J. Don Brock; Lovic A Brooks, Jr.; Daniel K. Frierson; Paul K. Frierson; John W. Murrey, III; and Peter L. Smith.

(c) The meeting was held to consider and vote upon the following proposals: (1) to elect Directors for the following year and (2) to amend the Company's Charter to broaden the business purposes of the Company to the maximum extent permitted by law and to delete references to certain discontinued lines of business. All Directors were elected and all proposals were approved with the results of the vote summarized as follows:

	FOR	AGAINST	ABSTAIN	TOTAL
Vote for Election of Directors:				
J. Don Brock	26,053,593	14,553	56,284	26,124,430
Lovic A. Brooks, Jr.	26,023,193	44,953	56,284	26,124,430
Daniel K. Frierson	25,319,396	748,750	56,284	26,124,430
Paul K. Frierson	25,298,275	769,871	56,284	26,124,430
John W. Murrey, III	26,030,846	37,300	56,284	26,124,430
Peter L. Smith	25,314,330	753,816	56,284	26,124,430
Amendment to Company's Charter	26,058,986	37,090	28,354	26,124,430

Item 5 - Other Information

None.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

(i) Exhibits Incorporated by Reference

None.

(ii) Exhibits Filed with this Report

4.1 Fifth Amendment, dated as of June 30, 2003, to Loan and Security Agreement dated May 14, 2002

31.1 CEO Form of Sarbanes-Oxley Section 302(a) Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 CFO Form of Sarbarnes-Oxley Section 302(a) Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 CEO Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 CFO Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

(i) A Current Report on Form 8-K dated April 11, 2003 was filed to report the issuance of a press release, dated April 10, 2003, reporting business update for the quarter ended March 29, 2003

(ii) A Current Report on Form 8-K dated May 5, 2003 was filed to report the issuance of a press release, dated April 29, 2003, reporting results for the quarter ended March 29, 2003

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SIGNATURES

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

THE DIXIE GROUP, INC.
(Registrant)

Date: August 12, 2003

By: ***/s/* GARY A. HARMON**
Gary A. Harmon
Vice *President and Chief Financial Officer*

Date: August 12, 2003

By: ***/s/* D. EUGENE LASATER**
D. Eugene Lasater
Corporate Controller

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