How's Business?

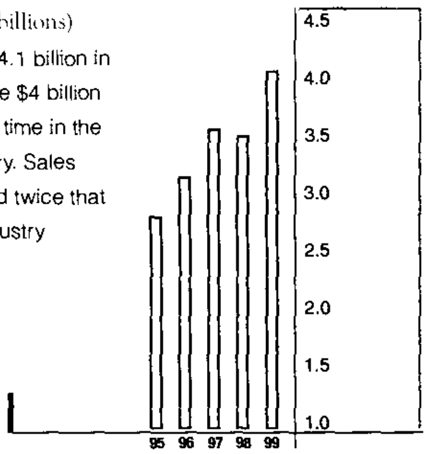
Shaw

Shaw Industries Inc. Annual Report 1999

Our Business Was Great, Too.

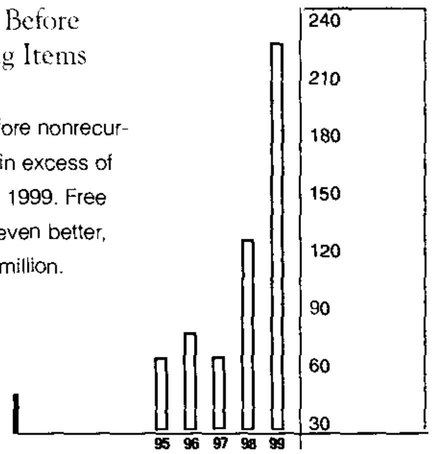
Net Sales (in billions)

Sales reached $4.1 billion in 1999, topping the $4 billion mark for the first time in the company's history. Sales growth exceeded twice that of the carpet industry estimates.



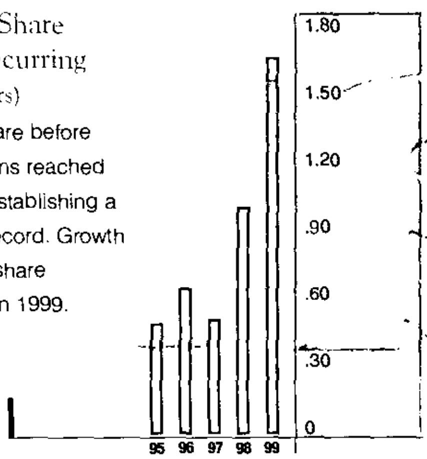
Net Income Before Nonrecurring Items (in millions)

Net income before nonrecurring items was in excess of $231 million for 1999. Free cash flow was even better, reaching $251 million.



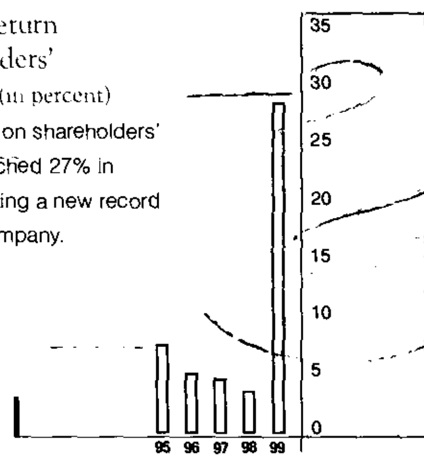
Earnings Per Share Before Nonrecurring Items (in dollars)

Earnings per share before nonrecurring items reached $1.65 in 1999, establishing a new company record. Growth in earnings per share exceeded 70% in 1999.



After Tax Return on Shareholders' Investment (in percent)

After tax return on shareholders' investment reached 27% in 1999, establishing a new record level for the company.



And Thanks To Our Customers,

Financial Highlights

(000s omitted except share data)

	1999	1998	1997
Net Sales	**$4,107,736**	$3,542,202	$3,575,774
Net Income	**227,951**	20,632	28,959
Earnings Per Share:			
Basic	**1.64**	0.16	0.22
Diluted	**1.62**	0.16	0.22
Return on Average Shareholders' Investment	**27.4%**	2.9%	4.4%
Current Ratio	**2.2**	2.4	3.3
Shareholders' Investment:			
At Year-End	**868,585**	797,368	637,534
Per Share	**6.55**	5.66	4.86
Cash Dividends Per Share	**0.10**	0.075	0.30
Depreciation and Amortization	**91,636**	80,598	94,954
Property Additions, Net (including acquisitions)	**$ 116,441**	$ 103,623	$ 106,728

“ Trinity Carpet had a tremendous

profits, opened two new stores,

another. Without question, a

success is the support we receive

year. We had record sales and

and are currently expanding

primary force in our overall

from Shaw Industries."

John Chism
Trinity Carpet Brokers, Medford, Oregon

To Our Shareholders, Customers, and Employees

For nearly 30 years, Shaw Industries has built its reputation by following one central principle: exhibit a customer-driven mindset while maintaining a solid financial foundation, and our customers, employees, and shareholders will thrive.

A Customer-Driven Mindset The creation of outstanding products displayed in new, consumer-appealing ways and backed by responsive service is the core of our business. Taking industry-leading initiative to do business with our customers in new ways challenges us to continually rethink our offering of products and services. We are expanding from our core products by providing our customers with a broad line of floor coverings now including ceramic, laminate, and, in 2000, hardwood. All of these offerings come with the same great delivery and service as our core products as we leverage our distribution and customer service infrastructure. By positioning ourselves to take advantage of all opportunities for growth in floor covering, we can impact our customers' profitability as well as our own.

This year's introduction of *Shaw OnLine* represents another milestone in providing our customers the means to improve their efficiency and profitability. *Shaw OnLine* gives customers an internet-based interface to place orders, check order and delivery status, and view products and prices. *Shaw OnLine* will enable them to work faster and smarter and enable us to increase our service and delivery responsiveness.

Our customer-driven mindset also led to the merger with Queen Carpet Corporation in October 1998. Queen's expertise in styling, product development, and customer relationships contributed as significantly to our success in 1999 as the financial synergies, which yielded in excess of $100 million. As we move forward, we expect to continue to benefit from the unique qualities that each company contributed in the merger.

Our customers continue to respond to our initiative. Sales grew 16 percent as sales dollars surpassed $4 billion for the first time. During the year, we gained significant market share. We believe we are well positioned to achieve strong sales growth again in 2000.

A Solid Financial Foundation The strength of the merged Shaw and Queen companies and 1999's significant sales growth offered an opportunity to renew our emphasis on maintaining a strong financial foundation. Using the personal-ownership mentality fostered by the EVA® financial model, we improved working capital efficiency and drove profitability to record levels. Key performance statistics, such as 11 percent operating margins which led the industry, net income of $228 million, and positive EVA of $90.6 million, not only substantiate the success of our efforts, but also create the foundation for the company's future financial flexibility and ability to return value to shareholders.

As a result of our performance in 1999, we generated record-setting cash flow of $393.8 million which we directed toward capital investment for future productivity, share repurchases totaling 9.3 million shares, debt reduction, and cash dividends. The resulting return on shareholders' investment exceeded 27 percent in 1999. Although the stock market did not respond favorably to our performance, we made the financial decisions and achieved the financial results in 1999 that will eventually drive value for our shareholders. We will continue to do the same in 2000.

Significant share repurchases are another means we have traditionally used to return value to our shareholders. In fact, our share repurchase program originally began in 1983. In 1999, we repurchased 9.3 million shares, bringing our total shares repurchased to 80 million shares and a total cash outlay of approximately $700 million. In March 2000, we continued this program as we commenced a "Dutch Auction" tender offer to acquire up to 12 million shares, or 9 percent of the outstanding shares. Going forward, we will continue to evaluate conditions in the marketplace and compare repurchase decisions to alternative investments while effectively managing our balance sheet for future success.

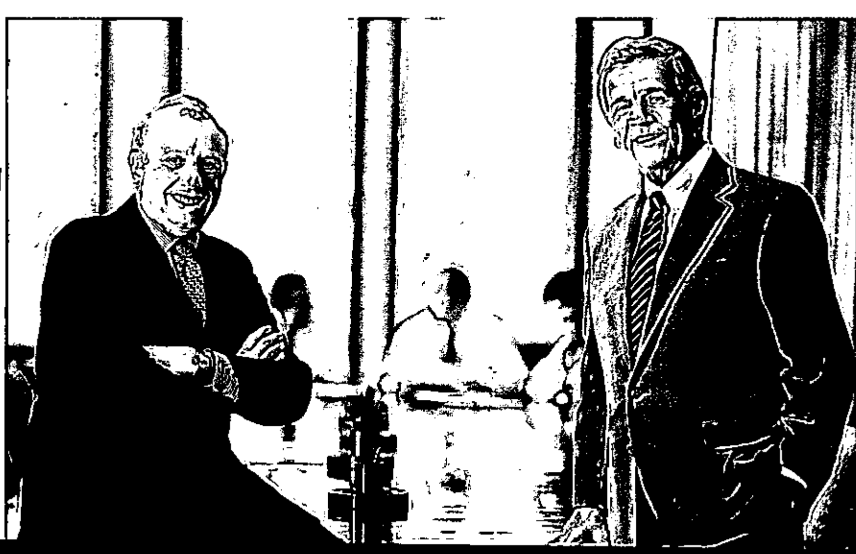
How's Business? All of this, of course, comes back to our customers. We must diligently pursue our partnership with them by providing the products, services, and support they need to grow their businesses. In doing so, our company, our employees, and our shareholders will succeed. On the pages that follow, you will find some of our customers' answers to the question that we posed to them, "How's Business?" We are proud of the answers we received and are committed to making 2000 another great year.

Sincerely,

Robert E. Shaw
Chairman and Chief Executive Officer

Julian D. Saul
President

Julian D. Saul



Robert E. Shaw

We Succeed Because We Other

"Business at Wisconsin Flooring Center has increased 72% since we aligned with Shaw less than two years ago. Basically, we've become a partner, devoting 95% of our store to Shaw products. Carpet, rugs, hard surfaces, builder programs -- whatever we need, we get it from Shaw.

Too many companies respond with an 'I can't' to anything out of the ordinary. Shaw doesn't do that. Because we want to be accommodating to all the consumers and builders who come to us, it's important to know we're working with people who believe in doing business the same way.

And Shaw's distribution service? It's second to none.

Shaw is the right choice for our store. They want to do business with us. They want to help us grow."

Bob & Laurie Tobe
Wisconsin Flooring Center, Madison, Wisconsin

How's Business?

Award-Winning Shaw was awarded the Sears Partner in Progress Award -- the first time in 10 years Sears has recognized a carpet supplier.

Growing Shaw hosted approximately 2,500 customers from more than 800 aligned dealerships for the largest dealer convention in the industry's history.

Available Shaw opened regional warehouses in Salt Lake City and Houston in 1999 and expanded others, helping deliver Shaw product to many of our customers more quickly than ever before.

Rewarding Shaw Industries was voted "Favorite Place To Work" by readers of Dalton's *Daily Citizen News.*

Help 20,000 Businesses Succeed

At Shaw, we recognize that a measure of our own success is the success of our customers. So in this year's annual report, we're not only *answering* the question, "How's Business?," we're *asking* it. We want to know if we're providing the products, the service, and the support necessary for our customers to grow their businesses. We want to know we're doing all we can to help them succeed.

Shaw: Supplier Of Choice. Independent surveys overwhelmingly show Shaw to be the supplier of choice within the industry. According to cumulative rankings from 1999, 81.5% of residential dealers and 77% of contract dealers name Shaw their most preferred supplier.

Growth, Full Service, Queen. In 1999, Shaw Industries experienced record sales and earnings and grew by more than two times the industry average. We fulfilled our commitment to be a full-service flooring supplier with the launch of the hard surface division, and we expanded the role of the Internet to provide retailers convenient access to their accounts. We developed other new products, technologies, and techniques. And, during everything else, we successfully integrated Queen, the industry's fourth largest company, into our fold.

It was a remarkable year - rewarding for our customers, and thanks to their loyalty, rewarding for us as well.

Excellent In 1999, Shaw returned to Surfaces, the floor covering industry's premier trade show, after a four-year absence and received an Award of Excellence as the "Best Overall Carpet Manufacturer." Attending retailers were asked to consider in their voting the best service, value, design, performance, quality, and responsiveness.

Shaw Residential:

"Metzger's Flooring Center had a great year. It was very much a growth year for us. We started doing a lot more business with Shaw, and that's helped a lot.

Shaw's fast turnaround when we place an order allows us to complete installations quickly. We base our decision to do business with Shaw, though, mostly on the styles they offer. From base-grade products to high end, strong styling across the board is a major selling point for us. I especially love the upscale products of *Couture by Sutton* and *Tuftex*.

Our store's slogan is 'Quality Flooring With A Woman's Touch.' Being able to offer such stylish designs falls right in line with that image."

Pat Metzger
Metzger's Flooring Center, Springfield, Illinois

How's Business?

Busy **Shaw customer service handled approximately 9 million phone calls in 1999. The average speed of answer was less than 12 seconds.**

Strong **ShawMark's *Anything Goes!*® carpets withstood the punishing crowds of Disney's EPCOT Center in a "torture test," proving once again that *Anything Goes!* is the best performing residential cut pile carpet in the industry.**

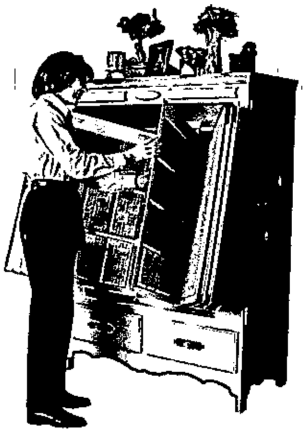
A Glowing Report

For the second year in a row, in a nationwide survey of residential dealers by *Floor Focus* magazine, Shaw was named #1 carpet manufacturer in all three categories: quality, service, and styling.

At Home With Shaw. Helping fuel popularity for our company is our complete mix of products. From base-grade to high-end carpets, we truly provide anything a floor covering business could want. New products such as *Reggie Glow*™, a carpet that actually glows in the dark, not only received attention from both retailers and the press for being unique, but also demonstrated Shaw's outstanding R & D capabilities.

Our products continue to lead the industry, and they're doing it with style. *Tuftex*®, *Couture by Sutton*™, and *Aspects of Design*™ are just a few of the names exhibiting the latest colors and fashion. The success of 1997 innovation *SoftBac*®, a revolutionary flexible carpet backing, also continues; to date, 32 million square yards of *SoftBac* have been installed without a single restretch claim, a remarkable statistic.

Success A Result Of Dealers' Success. Good things happen when you earn the confidence of your customers. Shaw's Aligned Dealer Network experienced record growth in 1999, both in terms of dollars and number of new accounts. We continue to receive unprecedented support from major customer groups in the industry. By choosing to make customers' needs our #1 priority, customers are making us their #1 choice. And you can be sure of this: we'll work toward remaining their #1 choice in 2000 and beyond.



Innovative **More than 100,000 samples of Shaw's glow-in-the-dark carpet were mailed to homes with at least one child under the age of 15 in a highly-targeted marketing campaign that was as unique as *Reggie Glow* carpet itself.**

Informative **Shaw keeps the industry's largest sales force informed with up-to-date marketing and company information using *SalesInfoNow*, a web site designed exclusively for the Shaw sales force.**

Shaw Contract.

Number One.

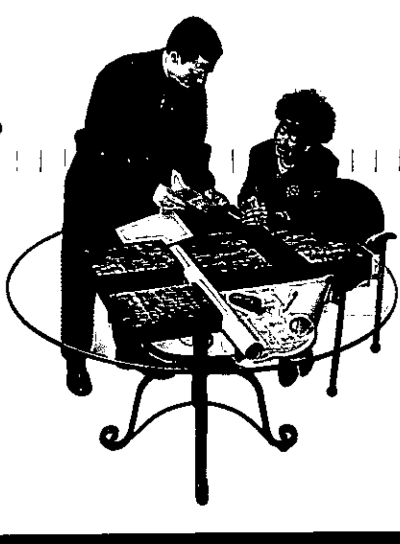
Facility managers at Fortune 500 companies were asked by *Floor Focus* magazine to name the industry's best manufacturers. The results? For the second year in a row, Shaw was a resounding #1 in all five categories: quality, service, styling, value, and performance.

Shaw Contract: One Powerful Brand. In addition to being a successful year for Shaw Contract, 1999 was also a year of change. In response to the evolving contract market, Shaw combined *shaw/commercial*, *shaw/stratton*, *shaw/networx*, and *shaw/hospitality* under one powerful brand: *Shaw Contract.* With a single brand and sales force, Shaw Contract is now able to meet its customers' needs better than ever. This brand is supported by *Shaw Contract Flooring* to deliver a comprehensive offering and a true "single source solution."

From Book Ends To Backing. In today's commercial marketplace, customized products are in much demand. Shaw Contract responded in 1999 with a revolutionary new selling system called *Book Ends™*, the first carpet product system that enables specifiers to create unique carpets and color variations without incurring the expense of a custom product. Shaw Contract also unveiled a new backing selection system, which provides specifiers even more flexibility in their flooring selections.

These and other innovations in 1999 were the result of listening to our customers and to leaders in our market. We listened, we responded, and the market spoke: Shaw #1, again.

How's Business?



Booked **Shaw Contract's new Book Ends™ program has been a phenomenal success, introducing mass customization to the industry for the first time.**

Resourceful **With its Customer First National Account Program, Shaw Contract provides flooring and business solutions to 50 Fortune 200 corporations.**

Again.

"For the third time in five years, Shaw Contract is providing the flooring for a Bank of America corporate facility. In each case, the experience has exceeded our expectations and the results have been gorgeous. They have bent over backwards to make each project successful.

Our vendor decisions are based on an optimum mix of product, quality, service, pricing, environmental concerns, and commitment to minority participation. When we started our new Gateway Village, which covers five city blocks and is being called an architectural marvel, Shaw Contract won the bid hands down.

And when I wanted to learn more about carpet, Shaw let me take a three-day training course designed for employees. I learned about everything from backing and fibers to yarns and dye methods. It showed they were interested in more than making a sale to a large firm. They were interested in helping me make a more informed decision."

Laneece Caldwell
Vice President, Office Interior Vendor Relationships & Corporate Standards Programs Manager
Bank of America, Charlotte, North Carolina

Winning **In the last three years, Shaw Contract has won ten major industry awards, including "Most Innovative Product" for *EcoWorx®* backing at NEOCON, the country's most important commercial trade show.**

Focused **Shaw Contract has developed a true focus on individual market segments: corporate, modular, institution, and hospitality/retail stores.**

Forward-Looking **Shaw Contract's Step Forward program illustrates a mindset of continuous improvement in contract design and leadership.**

Well-Designed **In 1999, Shaw Contract won the "Best Exhibit" award at both the IFMA World Workplace show in Los Angeles and the Hospitality and Designs show in Las Vegas.**

Rugs. Ceramics. Laminate Flooring. Hardwoods.

Whatever stores need - whether it's carpet, rugs, ceramics, laminate or hardwood flooring - they can now get it from Shaw. Best of all, each is delivered with the same high level of quality and service retailers have come to appreciate from us.

Rugs: Growing And Growing. Shaw Rugs continues to transform the industry with the latest in design, styling, and color, typified by last year's launch of *The Antiquities Collection*™, the division's most successful launch ever. As a result, Shaw Rugs grew in excess of 22% last year. The rug division continues to expand with exclusive license agreements for rug collections, including agreements with the Winterthur Museum, Garden & Library, the Museum of International Folk Art, and with supermodel-turned-supermom-turned-home-fashion-success Kathy Ireland.

Hard Surfaces: A Solid Start. It was a highly successful first year for Shaw's ceramic tile and laminate flooring programs. Integrated into the Shaw system, the programs allowed retailers to use the same sales representatives, same customer service, same procedures, same everything, as they received their products via Shaw trucks.

Building on this success, Shaw began the year 2000 with yet another hard surface introduction - *Shaw Hardwoods*™, a comprehensive collection of pre-finished hardwood flooring styles. Shaw has committed to becoming a full-service flooring supplier. Adding hardwood flooring to our existing mix of carpet, rugs, ceramic tile, and laminate flooring makes that commitment a reality.

How's Business?

Captivating *Decades™ Laminate Flooring by Shaw* allows consumers to capture not only the *look* of earth's natural elements, but the *feel* as well. The *Natural Rustics* and *Natural Textures* collections bring rich, dimensional texture to hardwood and ceramic-style designs.

We Also Do Carpet.

"At Carpet Systems of Huntsville, our rug business quadrupled in 1999. Shaw rugs, particularly the *Antiquities* and *PGA* lines, walk out of the door. We literally can't keep them in stock. We've never devoted as much space to rugs, and we're tremendously pleased with the results.

We were also one of the first to sell Shaw's ceramic tile and laminate flooring. Both programs are increasing sales and meeting all our expectations.

We've done business with Shaw from the beginning. They meet our needs. Whether reaching our local rep or having access to top management, they help at every level and make it easy to do business with them. Shaw seems to be more of a partner than a supplier."

Carter Haley

Carpet Systems of Huntsville, Huntsville, Alabama

Golden **The *Jambalya Basin Street 5* collection won the 1999 Design Journal Gold Award for Design Excellence. Over 1,500 different rugs were entered, and the Gold Award placed Shaw in the top 10.**

Timeless **Shaw won the top prize in the Rugs Dealers' Choice Award at Surfaces for its *Antiquities*™ Collection.**

Automated **Shaw finished automating its Ringgold, Georgia distribution center devoted exclusively to hard surface products and rugs.**

Prize-Winning ***Polonaise* from Shaw's *Golden Age* collection was named a first prize winner in the Atlanta Rug Mart's prestigious design awards in 1999.**

EVA®: Better

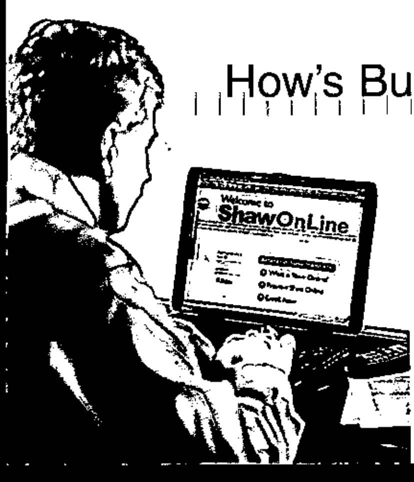
The incorporation of EVA® as our key financial measure really took hold at Shaw Industries in 1999. EVA, or Economic Value Added, promotes the idea that economic value is added by a company only when its returns exceed the cost of capital used in the business. As we developed the implementation plan for EVA, which is a registered trademark of Stern Stewart, we were mindful of what we consider the four cornerstones of EVA success: creating the proper measurement, managing with the knowledge that capital has a cost, motivating our people, and finally, establishing an EVA mindset in our corporate culture.

Improved Performance. In 1999, Shaw's EVA reached a record level of over $90 million and represented an improvement over the prior year of $61 million. This improvement was principally driven by enhanced profitability as well as improvements in working capital managing practices.

Basing Decisions on EVA. The decision to launch Shaw's Hard Surface Division illustrates EVA in action, because we reviewed the effect such an investment would have on EVA. By utilizing Shaw's existing infrastructure, sales force, and distribution system to form the division, the decision positively impacted Shaw's EVA even in its first year.

From a motivational standpoint, annual improvement in EVA is the only financial measure utilized in our incentive compensation system. Finally, empowering our employees to think and act like owners of the business is the mindset we want to achieve.

At Shaw, we view EVA as a journey - and we're happy to report that we are off to a good start.



How's Business?

e-normous **Shaw launched Shaw OnLine, giving retailers 24-hour access to Shaw service.**

Fulfilling **Shaw has realized $102 million in savings by merging with Queen Carpet Corporation.**

Decisions, Better Returns

"It's been a breakthrough year for Hernandez Carpet - a record setting year for us. And Shaw plays a major role. We get Shaw goods first thing every day. We can count on it.

Our store sells a lot of Shaw carpet - partly because of the wide selection, the local stock, and the fact the company educates us on the products. We know Shaw products, so it's easy to sell them.

Our family has run this store for over 30 years. We stock everything - all styles, colors, and price levels. We've built our business by offering value to our customers, and Shaw has always offered value to us.

The products are great, the quality is there, and the service is excellent. To us, that equals value."

Carlos Hernandez & Steven Hernandez, *Hernandez Carpet Brokers,* Commerce, California

Advanced We successfully completed the first phase of a massive, three-year migration to a sophisticated, technologically advanced IBM mainframe computer system.

Prepared With annual fiber extrusion capacity of more than 500 million pounds, Shaw extrudes over 40% of its own fiber needs.

Informed Approximately 2,500 Shaw employees have completed an internal training course on the financial principles of EVA.

We're Heavy Into

"Shaw Contract certainly makes my job easier. They've always provided what we need, when we need it, whether for ALLTEL's corporate campuses or for facilities throughout the country.

When planning for our latest and most prominent building, we went straight to Shaw, as we've done on our construction projects for over five years now. Then we learned about the option to buy 100%-recyclable carpet that they would remove for us at the end of its life. What a bonus. That was like icing on the cake.

Sometimes you get a little hesitant about selecting a new product, but with my confidence in Shaw, I felt very comfortable. What I like best is not having to sacrifice quality in order to buy something that's environmentally-friendly. And from a styling perspective, it was an easy sell.

It's good to know there are companies like Shaw looking at environmental issues and working hard to address them."

Charles Letzig, A.I.A., *Staff Manager - Design/Construction*, ALLTEL Corporation, Little Rock, Arkansas

How's Business?

Groundbreaking Shaw Industries is the first carpet manufacturer to offer a carpet with a 100% sustainable face and backing.

Goal-Oriented Shaw Industries continues to recycle almost 75% of its post-industrial waste with the ultimate goal of zero waste to the landfill.

Educational Shaw Contract has become an education leader in the A&D community with an informative and comprehensive program called CARPET Diem.

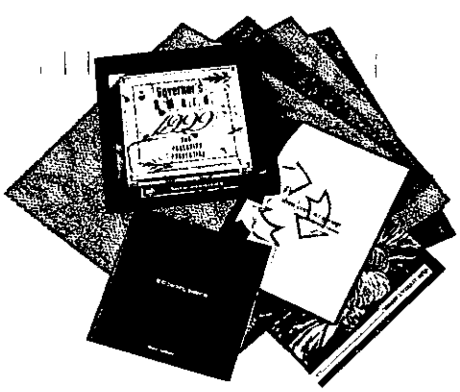
Recycling.
About 160 Million Pounds.

Shaw has long been committed to environmental responsibility, recycling close to 75% - almost 160 million pounds - of the company's post-industrial waste in 1999.

A Challenge Met and A Governor's Recognition. Shaw Contract's most recent environmentally-friendly innovation, the *EcoWorx®* backing system, has been especially impressive and resulted in Shaw receiving Georgia's prestigious Governor's Pollution Prevention Award. *EcoWorx* is produced using 40% fewer raw materials than traditional backing and is 100% recyclable into the production of more carpet. *Sustainable* recycling - carpet back into carpet - has been a challenge in our industry that *EcoWorx* is the first to meet.

Other Environmental Innovations. Our environmental commitment takes many other forms. *EcoSolution* Q® is a Shaw fiber that contains up to 25% recycled content and is 100% recyclable at the end of its useful life. Our *Endurance II* carpet cushion, a cushion suitable for every residential and commercial setting, is made from 100% recycled materials, using approximately 25 million pounds of waste in its production each year. Shaw continues utilizing more than one billion plastic containers annually in the production of PET fiber carpet. And Shaw Contract recycles any carpet - ours or a competitors - when being replaced by a Shaw Contract product.

At Shaw Industries, we are proud of our accomplishments in protecting the environment, but our goal remains the same: zero waste to the landfill. And you can be sure, we won't stop until we get there.

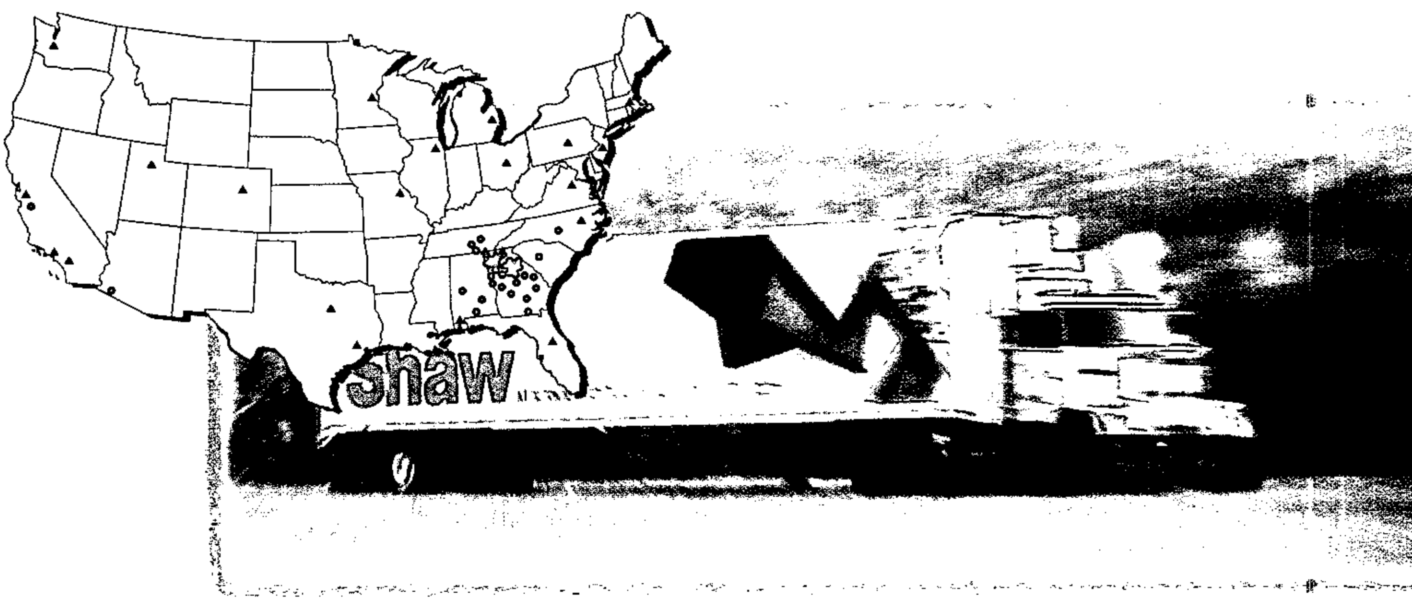


Committed In 1999, Shaw received Georgia's Governor's Award for Pollution Prevention in the large industry category for the *EcoWorx* backing system.

Employees At Over 100 Locations Help Put Shaw Customers On The Map.

Shaw Industries' employees perform jobs that range from the development of new products to the placement of orders, from the extrusion of fiber to the final delivery of carpet. Though spread among more than 100 manufacturing plants and distribution centers, they work toward a single goal: meeting the needs of customers.

Our employees' proven commitment to excellence assures that the *business* of Shaw Industries - and therefore support for our customers - is in good hands.



★ Corporate Headquarters
Dalton, GA

○ Manufacturing
Bainbridge, GA (2 locations)
Blue Ridge, GA
Calhoun, GA (2)
Cartersville, GA (7)
Chatsworth, GA (6)
Chickamauga, GA
Dallas, GA
Dalton, GA (25)
Ellijay, GA
Fitzgerald, GA
Fort Mountain, GA
Kensington, GA
Lafayette, GA
Milledgeville, GA
Newnan, GA
Ringgold,GA (3)
Rome, GA
Thomson, GA
Tifton, GA (3)
Trenton, GA
Valdosta, GA
Andalusia, AL
Stevenson, AL
Valley Head, AL
Yuma, AZ
Santa Fe Springs, CA
Charlotte, NC
Allendale, SC
Decatur, TN
South Pittsburgh, TN
Winchester, TN

△ Distribution Centers
Dalton, GA (9)
Ringgold, GA (4)
Mobile, AL
La Mirada, CA
Los Angeles, CA
San Francisco, CA
Denver, CO
Orlando, FL
Chicago, IL
Boston, MA
Detroit, MI
Minneapolis, MN
St. Louis, MO
Kernersville, NC
Cranbury, NJ
Columbus, OH
Mechanicsburg, PA
Dallas, TX
Houston, TX
Salt Lake City, UT
Fredericksburg, VA
Seattle, WA

How's Business?

Moving **More than 1,500 trucks and trailers travel the nation's roads delivering our carpet. Twenty additional local runs were established out of Dalton to better service our customers.**

Growing **Shaw increased yards shipped through our regional operations facilities in 1999 over 1998 totals by more than 25%.**

Taking Off **The Shaw Housing Group, which supplies flooring to manufactured and modular housing, has grown by almost 100% in the past two years.**

Record-Setting **A record number of sample placements not only demonstrates interest in our new product lines, but suggests positive sales growth for the year 2000.**

Mission

We will exceed our customers' expectations in quality, service, and value; continually increase shareholder value; and provide growth opportunities for our people.

Vision

To be a world-class company, as defined by the customers we serve.

Values

Honesty, integrity, and hard work.

The Company

Shaw Industries, Inc. (www.shawinc.com) is the world's largest manufacturer of tufted broadloom carpet. Headquartered in Dalton, Georgia, Shaw sells carpeting and rugs for residential and commercial applications throughout the United States and exports to most markets worldwide. Shaw markets its residential products under such brand names and trademarks as *Cabin Crafts, Couture by Sutton, Cumberland, Expressive Designs, Home Foundations, Philadelphia, Queen, ShawMark, Sutton, TrustMark, Tuftex*, and *Shaw Rugs*. Shaw markets its commercial products under the names *Shaw Contract, Designweave, Patcraft*, and *Queen Commercial*. Through its network of commercial dealers known as *Shaw Contract Flooring*, Shaw also sells commercial flooring products directly and provides installation and project management services. Shaw also offers laminate flooring through the *Decades* brand, ceramic tile through *Shaw Ceramics*, and hardwood flooring through *Shaw Hardwoods*.

Financial Review

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

General

The company manufactures, markets and distributes a broad range of soft floor covering products primarily consisting of broadloom tufted carpet. The company also distributes hard surface floor covering products through its highly developed sales and distribution channels. The company operates in a business environment comprised of numerous small customers and several large retailers and buying groups. The company's customers in turn market floor covering and other products to retail and other wholesale residential and commercial end-users. The company experiences demand for its products primarily as a result of single and multi-family residential and commercial floor covering replacement; new commercial and multi-family residential construction; and, to a lesser extent, new single family residential construction. This demand is driven by such end-user factors as consumer spending on durable goods and general consumer confidence. The company's profitability is dependent upon its ability to efficiently manage its integrated manufacturing process to produce products meeting the style, color and quality demanded by its customers and to deliver those products in a timely manner. During 1999, demand for the company's domestic products improved substantially, sales prices increased and margins improved over that of 1998. The company's Australian sales volume also improved in 1999, although margins decreased slightly compared to 1998 on higher material costs.

In December 1999, the company closed a yarn processing facility and recorded a nonrecurring charge of $1.8 million ($1.1 million, net of tax benefit).

On October 6, 1998, the company completed its merger with Queen Carpet Corporation ("Queen") for $579.1 million, including 19.4 million shares of the company's common stock, 3.15 million shares of stock of The Maxim Group, Inc. ("Maxim"), now Flooring America, Inc., acquired in the sale of the company's residential retail operations, approximately $36 million of cash and approximately $216 million of assumed debt. Based on the fair values of assets and liabilities acquired, goodwill of $334.0 million has been recorded and is being amortized over 40 years. In connection with the disposition of 3.15 million shares of Maxim stock, the company realized a loss on the sale of equity securities of approximately $22.2 million ($13.4 million, net of tax benefit) as a result of a decrease in market value of the stock since its acquisition.

In August 1998, the company sold substantially all of its residential retail operations to Maxim and closed stores not sold. The company recorded nonrecurring charges for the loss on the sale of its residential retail operations, store closing costs, and the write-down of certain assets of $132.3 million ($92.7 million, net of tax benefit) resulting from exiting its residential retail business. In December 1999, the company recorded an additional charge for exiting the residential retail business of $4.1 million ($2.4 million, net of tax benefit).

In the first quarter of 1998, the company completed the disposal of its wholly-owned U.K. subsidiary, Carpets International, Plc. A related charge to reduce the carrying value of certain U.K. assets of $48.0 million ($20.3 million, net of tax benefit) was recorded in December 1997.

The company has experienced no material impact from Year 2000 compliance issues. The company incurred approximately $3.0 million to perform compliance remediation. These costs were expensed as incurred.

Liquidity and Capital Resources

At January 1, 2000, the company had working capital of $582.0 million, a decrease of $45.6 million from working capital of $627.6 million at January 2, 1999. Cash and cash equivalents increased $21.4 million to $34.0 million at January 1, 2000 from $12.6 million at January 2, 1999. The company's operations generated cash flow of $393.8 million in 1999, principally from net income of $228.0 million adjusted for depreciation and amortization of $91.6 million, a decrease in accounts receivable of $35.0 million and an increase in accounts payable and accrued liabilities of $29.0 million. In 1998, cash generated from operating activities was $378.0 million primarily from net income of $20.6 million adjusted for depreciation and amortization of $80.6 million, a charge to record the loss on the sale of its residential retail operations, store closing costs and write-down of certain assets of $132.3 million, a decrease in accounts receivable of $154.9 million and a decrease in other assets of $30.7 million offset, in part, by an increase in inventories of $56.4 million.

In 1999, the company's investing activities primarily included additions to property, plant and equipment, net of retirements, of $116.4 million compared principally to additions to property, plant and equipment, net of retirements, of $67.3 million and acquisitions of business assets of $36.0 million in 1998. Cash used in financing activities in 1999 of $257.1 million included net payments on long-term borrowings of $99.3 million, the purchase and retirement of common stock of $158.5 million and cash dividends of $13.6 million, offset, in part, by proceeds from the exercise of stock options of $14.4 million. Cash used in financing activities in 1998 of $306.3 million principally included net payments on long-term borrowings of $155.5 million, the purchase of common stock of $176.6 million and the payment of cash dividends of $9.8 million, offset in part by proceeds from the exercise of stock options of $35.5 million.

During 1998, the company implemented EVA®("EVA" is a registered trademark of Stern, Stewart & Company), a financial measurement concept which emphasizes profitability, proper asset allocation, the cost of capital and the creation of shareholder wealth. Effective use of capital and the company's ability to generate cash flow from operations has enabled it to invest in technologies which reduce production costs, generate operating margins that exceed industry averages and pursue its strategy for increasing shareholder value. During 1999, the company produced a positive EVA of approximately $90.6 million which represents essentially the company's net operating income, net of tax, in excess of a charge for the cost of capital utilized in the company's business. Capital expenditures for property, plant and equipment, net of retirements, necessary to maintain the company's facilities in a modern state-of-the-art condition, expand production capacity and increase efficiency were $116.4 million for 1999. Management anticipates total capital expenditures and capitalized lease obligations of approximately $120 to $140 million for 2000 to expand and upgrade its manufacturing and distribution equipment to meet anticipated increases in sales volume and to improve efficiency.

The company's primary source of financing is an unsecured revolving credit facility with a banking syndicate. The facility provides for borrowings of up to $1.0 billion and expires in March 2003. The interest rate on borrowings under this facility is currently based on LIBOR and was approximately 6.2 percent, including applicable margins, at January 1, 2000. Borrowings outstanding under this credit facility at January 1, 2000 were $763 million. To provide further financing capacity, in November 1999, the company entered into a 364-day $200 million senior unsecured revolving credit facility which remained unutilized and available at January 1, 2000. In addition, the company maintains a revolving credit facility in Australia of $59.0 million with $24.8 million outstanding and $34.2 million available at January 1, 2000.

The company maintains a receivables securitization program established on September 3, 1998 and expanded in the second quarter of 1999 under which the company sells a percentage ownership interest in a defined pool of its trade receivables to a securitization conduit. The company used the proceeds from the receivables securitization to reduce outstanding borrowings under its domestic revolving credit facility. The receivables securitization program expires August 30, 2000, but may be extended for additional one-year terms. As of January 1, 2000, the company had approximately $239.6 million of accounts receivable sold and outstanding under this program.

The company believes that available borrowings under its existing credit agreements, available cash and internally generated funds will be sufficient to support its working capital, capital expenditures, stock repurchases and debt service requirements for the foreseeable future. In addition, the company believes it could further expand its revolving credit and long-term bank facilities, if necessary.

On March 13, 2000, the company commenced a "Dutch Auction" tender offer to acquire up to 12,000,000 shares of its common stock, representing approximately 9.1 percent of its currently outstanding shares. Under the terms of the offer, the company's shareholders may tender their shares at a price within the range of $11.50 to $13.50 per share for a period of 20 business days. In March 1998, the company completed a "Dutch Auction" tender offer under which the company purchased approximately 10,622,000 shares of its common stock at a price of $12.50 per share or approximately $133.9 million. The shares purchased represented approximately 8.1 percent of the shares outstanding at the time of the tender offer. Funds to purchase the tendered shares were provided primarily from capacity under the company's $1.0 billion revolving credit facility. The company discontinued cash dividends after paying $9.8 million in February 1998. The company reestablished its quarterly dividend policy in the third quarter of 1999 and paid $13.6 million in 1999.

Market Risk Exposure and Derivative Financial Instruments

The company is exposed to market risk primarily in the form of changes in interest rates and, to a lesser extent, changes in currency exchange rates and commodity prices. To manage the volatility relating to these exposures, the company enters into various derivative financial instruments and purchase contracts in keeping with company policies governing financial risk management. The company does not enter into derivative financial instruments for trading purposes.

Interest rate swap agreements are employed to hedge interest rate increases on the company's credit facilities. Under current accounting literature, the interest rate differential on the company's existing swaps is recorded as an adjustment to interest expense. At January 1, 2000, the company has interest rate swap agreements with notional amounts totaling $550.7 million under which the company has agreed to pay interest at a weighted average fixed rate of 6.07 percent. The swap agreements expire at various dates through March 2003.

The company may employ foreign currency contracts to effectively manage exposure to fluctuations in currency exchange rates in its Australian and Mexican operations and capital expenditures. Foreign currency contracts outstanding at January 1, 2000 totaled approximately $13.4 million.

The company's manufacturing costs and operating expenses are affected by price changes. The costs of fiber and other raw materials decreased approximately 2 percent, 4 percent and 3 percent in 1999, 1998 and 1997, respectively. The company has historically mitigated inflationary effects by passing price changes along to its customers and by continually developing and implementing more cost-effective manufacturing and other operational processes. The company's ongoing ability to mitigate the effect of price changes will depend on market factors.

Based on the company's overall interest rate, currency exchange and commodity price exposures, near-term changes in each of these exposures would have immaterial effects on the company's consolidated results of operations, cash flow, derivative and underlying instrument fair value, and financial position.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Statement establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company formally assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, as amended by SFAS No. 137, is effective for the company's fiscal year 2001. The company has not yet quantified the impacts of adopting SFAS No. 133 on its financial statements and has not determined the method of adoption of SFAS No. 133. However, the Statement could increase volatility in earnings and other comprehensive income.

Results of Operations

The company's business consists of its wholesale manufacturing operations which sell carpet and related products manufactured primarily in the company's manufacturing facilities, located principally in the southeastern U.S., to wholesalers and retailers located primarily in the U.S., Canada, Australia and Mexico. Beginning in 1996 and continuing through mid-1998, the company built and acquired existing companies which were engaged in residential retail operations which sold floor covering and related products acquired from the company's wholesale manufacturing operations and other floor covering manufacturers directly to residential consumers. The company evaluates the performance of its operations on the basis of sales, gross margin and "net divisional contribution" which consists of gross margin less selling expense.

The following table summarizes key management information for the company's operations for the years 1999, 1998 and 1997 (000s omitted):

	Wholesale Manufacturing Operations	Residential Retail Operations	Intercompany Eliminations	Consolidated Operations
Net Sales				
1999	$4,107,736	$ —	$ —	$4,107,736
1998	3,419,538	341,769	(219,105)	3,542,202
1997	3,170,158	638,662	(233,046)	3,575,774
Gross Margin				
1999	$1,079,488	$ —	$ —	$1,079,488
1998	772,097	128,273	(621)	899,749
1997	655,290	243,385	(3,373)	895,302
Selling Expense				
1999	$ 442,216	$ —	$ —	$ 422,216
1998	321,208	135,720	—	456,928
1997	280,174	263,902	(1,014)	543,062

1999 Compared to 1998

Wholesale manufacturing sales increased $688.2 million in 1999 compared to the same period last year. The sales increase was primarily the result of the acquisition of Queen described above and increased demand as the company regained market share following its exit from the residential retail business, offset in part by decreased sales as a result of the disposal of the U.K. operations. Wholesale manufacturing margins on outside sales increased to 26.3 percent from 24.1 percent on lower material costs and improved manufacturing efficiencies resulting from higher demand and the ongoing integration of the Queen operations. Wholesale manufacturing selling expense increased to 10.8 percent in 1999 from 9.4 percent in 1998 due to increased advertising and other selling expenses and higher sample costs after the company's exit from the residential retail business. As indicated above, substantially all residential retail operations were sold or closed during 1998.

As a result of the above, consolidated net sales increased $565.5 million, or 16.0 percent, to approximately $4.1 billion in 1999. Gross margin as a percentage of net sales increased 0.9 percent to 26.3 percent in 1999 compared to 1998, primarily due to improved performance in wholesale manufacturing operations as previously described, offset, in part, by the reduction in higher margin residential retail sales.

Selling, general and administrative expenses for 1999 were $627.1 million, or 15.3 percent of net sales, compared to $620.9 million, or 17.5 percent of net sales in 1998. The decrease of 2.2 percent of net sales was primarily due to the company exiting the residential retail business. Interest expense was $62.8 million for 1999 compared to $62.6 million for 1998 as higher interest rates offset lower borrowings.

Results for 1999 included an additional nonrecurring charge for exiting the residential retail business of $4.1 million ($2.4 million, net of tax benefit, or $0.02 per share) and a charge to record plant closing costs of $1.8 million ($1.1 million, net of tax benefit, or $0.01 per share) both as discussed in Note 8 of the Notes to Consolidated Financial Statements. Net income before nonrecurring charges was $231.5 million, or $1.67 and $1.65 per share on a basic and diluted basis, respectively. After nonrecurring charges, net income was $228.0 million, or $1.64 and $1.62 on a basic and diluted basis, respectively. Net income before nonrecurring charges for 1998 was $126.7 million, or $0.97 per share. After nonrecurring charges, 1998 net income was $20.6 million, or $0.16 per share on basic and diluted bases.

The effective income tax rate for 1999 and 1998 was 41.1 percent before the tax benefit from nonrecurring charges.

1998 Compared to 1997

Wholesale manufacturing sales increased $249.4 million during 1998 as a result of improved general demand as well as the acquisition of Queen described above, which added sales of $207.3 million offset in part by decreased sales as a result of the previously discussed disposal of the U.K. operations. Wholesale manufacturing margins on outside sales improved from 22.2 percent in 1997 to 24.1 percent in 1998 primarily due to lower raw material costs, improved manufacturing efficiencies and improved product mix. Wholesale manufacturing operations selling expense increased to 9.4 percent in 1998 from 8.8 percent in 1997 due to increased advertising and higher sample costs after the company's exit from the residential retail business.

As indicated above, substantially all residential retail operations were sold or closed during 1998 and late 1997 resulting in reduced sales, gross margin and selling expense in 1998 compared to 1997.

As a result of the above, consolidated net sales decreased $33.6 million, or 0.9 percent to approximately $3.5 billion in 1998. Consolidated gross margin as a percentage of net sales increased 0.4 percent to 25.4 percent in 1998 compared to 1997, due to lower raw material costs in wholesale manufacturing operations, offset by the reduction in higher margin residential retail sales.

Selling, general and administrative expenses for 1998 were $620.9 million, or 17.5 percent of net sales, compared to $722.6 million, or 20.2 percent of net sales, in 1997. The decrease of $101.7 million, or 2.7 percent of net sales, was principally due to the company's exiting the residential retail business. Interest expense increased $1.8 million to $62.6 million in 1998 due to higher average borrowings resulting from funding stock repurchases and the acquisition of Queen.

Results for 1998 included nonrecurring charges of $132.3 million ($92.7 million, net of tax benefit, or $0.71 per share) and a loss on the sale of equity securities of $22.2 million ($13.4 million, net of tax benefit, or $0.10 per share) both as discussed in Note 8 of the Notes to Consolidated Financial Statements. Net income before nonrecurring charges was $126.7 million, or $0.97 per share. After nonrecurring charges, net income was $20.6 million, or $0.16 per share on basic and diluted bases. Net income before nonrecurring charges for 1997 was $72.3 million, or $0.54 per share, including a gain on the sale of fixed assets of $3.4 million, net of tax, or $0.03 per share. Results for 1997 include a charge to record residential retail store closing costs of $36.8 million ($23.0 million, net of tax benefit, or $0.17 per share) and a reduction in the carrying value of the assets of Carpets International, Plc (U.K.) of $48.0 million ($20.3 million, net of tax benefit, or $0.15 per share). Net income in 1997 was $29.0 million, or $0.22 per share on basic and diluted bases.

The effective income tax rate for 1998 before the nonrecurring charges decreased to 41.1 percent compared to 41.7 percent for 1997 due to more profitable foreign operations in 1998 which are taxed at a lower effective income tax rate.

Forward-Looking Information

Certain statements in this report, including those regarding anticipated total capital expenditures and capitalized lease obligations, availability of funding for working capital, capital expenditures, stock repurchases and debt service requirements, and the effects of litigation on the company's future results of operations, are "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 1933, as amended, and are subject to the safe harbor provisions of those Acts. When used in this report, the words "believes," "expects," "anticipates," "estimates" or "intends," and similar expressions, are intended to identify forward-looking statements. The forward-looking statements herein involve a number of risks and uncertainties that could cause actual results to differ materially from those expressed or reflected in such statements. The important factors which may affect the company's future results and could cause those results to differ materially from the results expressed or reflected in the forward-looking statements include, but are not limited to, the following: changes in economic conditions generally; changes in consumer spending for durable goods, interest rates and new single and multifamily construction; competition from other carpet, rug and floor covering manufacturers; changes in raw material prices; and other factors identified from time to time in the company's reports and other filings with the Securities and Exchange Commission.

Consolidated Balance Sheets

January 1, 2000 and January 2, 1999

	1999	1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 34,021,000	$ 12,555,000
Accounts receivable, less allowance for doubtful accounts and discounts of $18,931,000 in 1999 and $21,512,000 in 1998	234,267,000	276,002,000
Inventories–		
Raw materials	255,083,000	293,868,000
Work-in-process	92,605,000	75,060,000
Finished goods	319,046,000	290,152,000
	666,734,000	659,080,000
Other current assets	140,902,000	134,733,000
Total current assets	1,075,924,000	1,082,370,000
Property, Plant and Equipment, at cost:		
Land and land improvements	31,974,000	31,425,000
Buildings and leasehold improvements	331,010,000	320,991,000
Machinery and equipment	1,064,074,000	1,105,505,000
Construction in progress	148,380,000	41,827,000
	1,575,438,000	1,499,748,000
Less – Accumulated depreciation and amortization	821,633,000	783,320,000
	753,805,000	716,428,000
Goodwill, net of amortization	418,923,000	416,028,000
Other Assets	43,067,000	46,621,000
Total Assets	$2,291,719,000	$2,261,447,000

	1999	1998
Liabilities and Shareholders' Investment		
Current Liabilities:		
Current maturities of long-term debt	$ 4,294,000	$ 8,000
Accounts payable	217,332,000	194,352,000
Accrued liabilities	272,341,000	260,450,000
Total current liabilities	493,967,000	454,810,000
Long-Term Debt, less current maturities	823,821,000	927,434,000
Deferred Income Taxes	77,994,000	65,768,000
Other Liabilities	27,352,000	16,067,000
Commitments and Contingencies		
Shareholders' Investment:		
Preferred stock, 250,000 shares authorized, no shares issued	—	—
Common stock, no par, $1.11 stated value, authorized 500,000,000 shares; issued and outstanding: 132,663,599 shares at January 1, 2000 and 140,906,175 shares at January 2, 1999	147,258,000	156,407,000
Paid-in capital	60,612,000	195,452,000
Cumulative translation adjustment	(2,252,000)	(3,156,000)
Retained earnings	662,967,000	448,665,000
Total Shareholders' Investment	868,585,000	797,368,000
Total Liabilities and Shareholders' Investment	$2,291,719,000	$2,261,447,000

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

For Years Ended January 1, 2000, January 2, 1999 and January 3, 1998

	1999	1998	1997
Net Sales	$4,107,736,000	$3,542,202,000	$3,575,774,000
Costs and Expenses:			
Cost of sales	3,028,248,000	2,642,453,000	2,680,472,000
Selling, general and administrative	627,075,000	620,878,000	722,590,000
Charge to record loss on sale of residential retail operations, store closing costs and write-down of certain assets	4,061,000	132,303,000	—
Charge to record plant closing costs	1,834,000	—	—
Pre-opening expenses	—	—	3,953,000
Charge to record store closing costs	—	—	36,787,000
Write-down of U.K. assets	—	—	47,952,000
Interest, net	62,812,000	62,553,000	60,769,000
Loss on sale of equity securities	—	22,247,000	—
Other expense (income), net	1,319,000	4,676,000	(7,032,000)
Income Before Income Taxes	382,387,000	57,092,000	30,283,000
Provision for Income Taxes	157,361,000	38,407,000	5,586,000
Income Before Equity in Income of Joint Ventures	225,026,000	18,685,000	24,697,000
Equity in Income of Joint Ventures	2,925,000	1,947,000	4,262,000
Net Income	$ 227,951,000	$ 20,632,000	$ 28,959,000
Earnings Per Common Share:			
Basic	$ 1.64	$ 0.16	$ 0.22
Diluted	$ 1.62	$ 0.16	$ 0.22
Weighted Average Shares Outstanding:			
Basic	138,591,266	128,031,290	133,523,380
Diluted	140,680,923	129,915,178	133,714,496

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Investment

For Years Ended January 1, 2000, January 2, 1999 and January 3, 1998

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Income – Cumulative Translation Adjustment	Retained Earnings
Balance, December 28, 1996	132,772,548	$147,379,000	$ 72,335,000	$ 3,058,000	$448,939,000
Comprehensive Income:					
Net income	—	—	—	—	28,959,000
Cumulative translation adjustment	—	—	—	(3,678,000)	—
Issuance of stock in acquisitions	2,112,517	2,344,000	23,336,000	—	—
Issuance of stock to directors	7,000	8,000	83,000	—	—
Purchase and retirement of common stock	(3,820,000)	(4,240,000)	(41,822,000)	—	—
Exercise of stock options	46,000	51,000	504,000	—	—
Tax benefit on disposition of stock options	—	—	309,000	—	—
Cash dividends paid ($0.30 per share)	—	—	—	—	(40,031,000)
Balance, January 3, 1998	131,118,065	145,542,000	54,745,000	(620,000)	437,867,000
Comprehensive Income:					
Net income	—	—	—	—	20,632,000
Cumulative translation adjustment	—	—	—	(2,536,000)	—
Issuance of stock in acquisitions	20,343,246	22,581,000	269,950,000	—	—
Issuance of stock to directors	5,800	6,000	86,000	—	—
Purchase of common stock	(13,102,661)	(14,544,000)	(162,032,000)	—	—
Exercise of stock options	2,541,725	2,822,000	29,260,000	—	—
Tax benefit on disposition of stock options	—	—	3,443,000	—	—
Cash dividends paid ($0.075 per share)	—	—	—	—	(9,834,000)
Balance, January 2, 1999	140,906,175	156,407,000	195,452,000	(3,156,000)	448,665,000
Comprehensive Income:					
Net income	—	—	—	—	227,951,000
Cumulative translation adjustment	—	—	—	904,000	—
Issuance of stock to directors	5,400	6,000	102,000	—	—
Purchase and retirement of common stock	(9,331,300)	(10,358,000)	(148,167,000)	—	—
Exercise of stock options	1,083,324	1,203,000	11,642,000	—	—
Tax benefit on disposition of stock options	—	—	1,583,000	—	—
Cash dividends paid ($0.10 per share)	—	—	—	—	(13,649,000)
Balance, January 1, 2000	132,663,599	$147,258,000	$ 60,612,000	$(2,252,000)	$662,967,000

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flow

For Years Ended January 1, 2000, January 2, 1999 and January 3, 1998

	1999	1998	1997
Operating Activities:			
Net Income	$ 227,951,000	$ 20,632,000	$ 28,959,000
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	91,636,000	80,598,000	94,954,000
Provision for doubtful accounts	6,746,000	5,817,000	9,318,000
Deferred income taxes	12,226,000	(4,190,000)	(1,841,000)
Charge to record loss on sale of residential retail operations, store closing costs and write-down of certain assets	4,061,000	132,303,000	—
Charge to record plant closing costs	1,834,000	—	—
Charge to record store closing costs	—	—	36,787,000
Write-down of U.K. assets	—	—	47,952,000
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Accounts receivable	34,989,000	154,911,000	35,166,000
Inventories	(8,523,000)	(56,444,000)	39,111,000
Other current assets	(6,169,000)	30,720,000	(30,740,000)
Accounts payable	23,026,000	(1,349,000)	(60,360,000)
Accrued liabilities	5,996,000	8,810,000	(35,371,000)
Other, net	39,000	6,223,000	(24,657,000)
Total Adjustments	165,861,000	357,399,000	110,319,000
Net Cash Provided by Operating Activities	393,812,000	378,031,000	139,278,000
Investing Activities:			
Additions to property, plant and equipment	(117,949,000)	(76,033,000)	(109,883,000)
Retirements of property, plant and equipment, net	1,508,000	8,745,000	31,882,000
Acquisitions of business assets	—	(35,981,000)	(28,727,000)
Disposal of U.K. assets	—	(16,566,000)	—
Sale of residential retail operations	—	16,212,000	—
Other	1,168,000	917,000	—
Net Cash Used in Investing Activities	(115,273,000)	(102,706,000)	(106,728,000)
Financing Activities:			
Borrowings under revolving credit agreements	813,000,000	1,066,930,000	330,000,000
Repayment of revolving credit agreements	(916,021,000)	(1,225,835,000)	(220,702,000)
Borrowings on other long-term debt	3,694,000	3,449,000	—
Repayment of other long-term debt	—	—	(22,937,000)
Net payments of short-term debt	—	—	(39,383,000)
Purchase and retirement of common stock	(158,525,000)	(176,576,000)	(46,062,000)
Payment of cash dividends	(13,649,000)	(9,834,000)	(40,031,000)
Proceeds from exercise of stock options	14,428,000	35,525,000	555,000
Net Cash Used in Financing Activities	(257,073,000)	(306,341,000)	(38,560,000)
Cash and Cash Equivalents:			
Net change	21,466,000	(31,016,000)	(6,010,000)
Beginning of period	12,555,000	43,571,000	49,581,000
End of period	$ 34,021,000	$ 12,555,000	$ 43,571,000
Supplemental Disclosures of Cash Flow Information:			
Cash paid (received) during the year for–			
Interest	$ 63,058,000	$ 64,750,000	$ 66,223,000
Income taxes	$ 131,344,000	$ (42,046,000)	$ 51,619,000
Acquisition of business assets by assuming liabilities	$ —	$ 344,111,000	$ 40,328,000

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Shaw Industries, Inc. and subsidiaries (the "company"). All significant intercompany balances and transactions are eliminated in consolidation.

Nature of Business

The company manufactures and distributes carpet in a broad range of prices, patterns, colors and textures for residential and commercial use. The company markets its products primarily through wholesale distribution channels to floor covering retailers, distributors and contractors throughout the U.S., Canada, Australia, and Mexico and through commercial contract distribution channels to various residential and commercial retailers in the United States. The company also provides installation and project management services through its commercial contract distribution channels and offers laminate flooring, ceramic tile and hardwood flooring products.

Fiscal Period

The company's fiscal year-end is the Saturday closest to December 31. Fiscal 1999 and fiscal 1998 consisted of 52 weeks, and fiscal 1997 consisted of 53 weeks.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenues are recognized when goods are shipped for wholesale sales and generally as installed for commercial contract sales.

Cash and Cash Equivalents

The company considers all investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

In September 1998, the company entered into agreements pursuant to which it sold a percentage ownership interest in a defined pool of the company's trade receivables to a securitization conduit. As collections reduce accounts receivable included in the pool, the company sells participating interests in new receivables to the conduit to bring the amount in the pool up to the maximum permitted by the agreements. The receivables are sold to the conduit at a discount which reflects, among other things, the conduit's financing costs of issuing its own commercial paper backed by these accounts receivable and accounts receivable sold by other participating entities. The agreements expire August 30, 2000, but may be extended for additional one-year terms. On September 4, 1998, the company received $198,971,000 of proceeds from the initial sale of such receivables. During the second quarter of 1999, the company amended the agreements to increase the maximum amount of receivables able to be sold. As a result, the company received an additional $99,488,000 of initial sale proceeds. All proceeds were used to reduce outstanding borrowings under the domestic revolving credit facility and were reflected as a reduction of receivables in the consolidated balance sheets and as an operating activity in the consolidated statements of cash flow. As of January 1, 2000, the company had approximately $239,634,000 of accounts receivable sold and outstanding under this program.

Inventory

Inventories are stated at the lower of cost or market. Cost includes materials, direct and indirect labor and factory overhead. Market with respect to raw materials is replacement cost and for work-in-process and finished goods is net realizable value. The company uses the last-in, first-out (LIFO) method of valuing certain of its domestic inventories to more properly match current costs against current revenues, thereby reducing the effects of price changes on earnings. If LIFO inventories were valued at current costs, the inventory amounts would have been $46,915,000 and $23,556,000 lower than those reported at January 1, 2000 and January 2, 1999, respectively. Although current replacement cost for inventories was less than LIFO carrying value at January 1, 2000, the company's management believes that the carrying value will be recovered through profit margins on future sales. The company's foreign and certain of its finished goods inventories, representing approximately 12 percent and 10 percent of total inventories, are valued at January 1, 2000 and January 2, 1999, respectively, at the lower of first-in, first-out (FIFO) cost or market.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost or fair value at date of acquisition. Renewals and betterments are capitalized; maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property retired or otherwise disposed of are removed from the accounts, and any gains or losses thereon are included in income. For financial reporting purposes, depreciation is computed using the straight-line method over the estimated useful lives of the assets, 15 to 39 years for buildings and 5 to 14 years for machinery and equipment. Leasehold improvements are amortized over the terms of the related leases.

Goodwill

Costs in excess of the fair value of net assets of businesses acquired are recorded as goodwill and are amortized using the straight-line method over a period not to exceed 40 years for acquisitions of domestic and foreign manufacturing operations and 20 years for acquisitions of commercial contract operations. The recoverability of goodwill is periodically reviewed by management based on current and anticipated conditions. The amount of goodwill considered realizable could be reduced in the near term if changes occur in anticipated conditions. Accumulated amortization was $35,335,000, $23,271,000 and $17,858,000 at January 1, 2000, January 2, 1999 and January 3, 1998, respectively.

Accrued Liabilities

Accrued liabilities include $34,124,000 and $32,877,000 for workers' compensation claims and $28,253,000 and $31,652,000 for returns and allowances at January 1, 2000 and January 2, 1999, respectively.

Employee Benefits

The company's Retirement Savings Plan provides, among other things, for voluntary contributions by domestic employees not to exceed 15 percent of their gross wages. The company provides matching contributions of 25 to 50 percent based on the employee's contribution percentage. At January 1, 2000, $17,897,000, or 4.0 percent, of the plan's assets consisted of shares of the company's common stock as elected by plan participants. During 1999, 1998 and 1997, the company contributed $15,542,000, $12,831,000 and $11,987,000, respectively, under the plan.

The company has a Deferred Compensation Plan for key personnel. The plan provides, among other things, for certain deferred compensation to become payable on the employee's death, retirement or total disability as set forth in the plan. During 1999, 1998 and 1997, the company provided $2,108,000, $1,899,000 and $1,546,000, respectively, under the plan. The actuarial present value of obligations of the plan have been recorded as other liabilities in the accompanying consolidated balance sheets.

Earnings Per Share

The company adopted Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share*, effective January 3, 1998. Earnings per share have been computed based upon the weighted average shares and dilutive potential common shares outstanding during the year.

Derivative Financial Instruments

The company uses interest rate swap agreements to fix interest rates on current and anticipated borrowings to reduce exposure to interest rate fluctuations. Under existing accounting literature, these interest rate swaps are accounted for as hedging activities. The net cash paid or received on interest rate hedges is included in interest expense. The company may also employ foreign currency forward exchange contracts when they are determined to effectively manage and reduce foreign currency exchange fluctuation risk. The company does not enter into financial derivatives for trading purposes. In June 1998, the FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133, as amended by SFAS No. 137, is effective, and the company expects to adopt this new standard, in the first quarter of the company's fiscal 2001. The company's management has not determined the impact this statement will have on the financial statements.

Segment and Enterprise-Wide Information

Effective in 1998, the company adopted SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 supersedes SFAS No. 14, *Financial Reporting for Segments of a Business Enterprise*, replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas, and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position but did affect the disclosure of segment information (see Note 9).

Comprehensive Income

The company had other comprehensive income in the form of cumulative translation adjustments which resulted in total comprehensive income of $228,855,000, $18,096,000 and $25,281,000 for 1999, 1998 and 1997, respectively.

Note 2 Long-Term Debt

Long-term debt presented in the accompanying consolidated balance sheets at January 1, 2000 and January 2, 1999 consisted of the following (000s omitted):

	1999	1998
Revolving credit facility, United States, at LIBOR-based rate, due in fiscal 2003	$763,000	$844,000
Revolving loan facility, Australia, at LIBOR-based rate, due in fiscal 2001	24,806	47,057
Term loans and other	39,872	35,277
Capitalized leases	437	1,108
	828,115	927,442
Less: current maturities	(4,294)	(8)
	$823,821	$927,434

The company's domestic revolving credit facility provides for borrowings of up to $1.0 billion. Borrowings bear interest at variable rates equal to the London Interbank Offered Rate (LIBOR) plus margins ranging from 0.320 percent to 0.850 percent, depending on the company's consolidated funded debt to earnings ratio, as defined. The LIBOR-based rate at January 1, 2000 was 6.22 percent. Fees associated with the domestic revolving credit agreement include a facility fee on the committed amount ranging from 0.125 percent to 0.275 percent. The LIBOR-based variable interest rate on a total of $550,668,000 of amounts outstanding under the company's revolving credit facilities has been fixed through various dates through March 2003 at a weighted average rate of 6.07 percent using interest rate swap agreements. The counterparty to certain of these interest rate swap agreements has the right, but not the obligation, to terminate the related agreements on various dates beginning February 2000. To provide further financing capacity, in November 1999, the company entered into a 364-day $200 million senior unsecured revolving credit facility.

The domestic revolving credit facilities contain covenants which, among other provisions, (i) limit the company's ability to incur indebtedness or assume liens, (ii) limit the amount of restricted payments, as defined, (iii) limit new indebtedness and lease obligations, and (iv) require the company to satisfy certain ratios related to debt-to-cash flow and interest coverage. The foreign revolving loan facilities have covenants that are no more restrictive than those of the domestic revolving credit agreement. At January 1, 2000, the company was in compliance with the terms of these agreements.

The aggregate annual maturities of long-term debt, including capitalized lease obligations, as of January 1, 2000 are as follows: 2000 - $4,294,000; 2001 - $28,946,000; 2002 - $4,089,000; 2003 - $767,044,000; 2004 - $4,047,000; thereafter - $19,695,000. The company has guaranteed the $22,200,000 outstanding under the revolving credit facility held by its Mexican joint venture, which facility expires February 2001 but may be extended for additional periods to 2003.

The following is presented with respect to the company's revolving credit facilities for 1999 and 1998 (000s omitted):

Revolving Credit:	1999	1998
Available at year-end	$1,259,040	$1,207,465
Unused at year-end	467,111	311,028

Note 3 Shareholders' Investment

Under the company's 1992 Incentive Stock Option Plan, 6 million shares of common stock are reserved for issuance at a price not less than the market value on the date granted. These options are exercisable over 5 to 10 years and are qualified incentive stock options under the regulations of the Federal Internal Revenue Code ("IRC").

Under the company's 1997 Stock Incentive Plan, 5 million shares of common stock are reserved for issuance at a price not less than market value on the date granted. Options granted under the 1997 Stock Incentive Plan are exercisable over 3 to 10 years or over such accelerated periods as the Board of Directors shall determine. The 1997 Stock Incentive Plan provides for the granting of qualified incentive stock options and non-qualified stock options under IRC regulations. The 1997 Stock Incentive Plan also provides for stock appreciation rights and other stock-related incentives, although none have been granted as of January 1, 2000.

The following is a summary of stock option information for the 1992 and 1997 Stock Option Plans:

	1999	1998
Options outstanding, beginning of year	7,801,584	8,053,500
Options granted	1,661,200	2,816,859
Options exercised	(1,083,324)	(2,541,725)
Options canceled	(129,900)	(527,050)
Options outstanding, end of year	8,249,560	7,801,584
Option price range per share	$10.625 - $18.71	$10.625 - $17.02
Options exercisable, end of year	4,129,930	3,245,615
Options available for grant	1,687,591	3,218,891

The company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, under which no compensation expense was recognized in 1999, 1998 and 1997 for stock option plans. The company applies SFAS No. 123, *Accounting for Stock-Based Compensation*, as required for disclosure purposes. For SFAS No. 123 purposes, the fair value of each stock option grant for 1999, 1998 and 1997 has been estimated as of the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions for 1999, 1998 and 1997, respectively: risk-free interest rates of 5.20 percent, 5.61 percent and 6.04 percent; dividend yields of 0.50 percent, 0.60 percent and 2.70 percent; expected volatilities of 40 percent, 35 percent and 34 percent; and expected life of 5 years for all years. Using these assumptions, the fair value of the stock option grants for 1999, 1998 and 1997 was $12.6 million, or $7.61 per option granted, $15.0 million, or $5.36 per option granted, and $9.3 million, or $3.63 per option granted, respectively. Had compensation cost been determined under SFAS No. 123 utilizing the assumptions detailed above, the company's net income and net income per common share would have been reduced to the following pro forma amounts:

	1999	1998	1997
Net income (000s omitted):			
As reported	$227,951	$ 20,632	$28,959
Pro forma	219,833	14,769	23,382
Net income per common share:			
As reported	$ 1.64	$ 0.16	$ 0.22
Pro forma	1.59	0.12	0.18

During March 1989, the company adopted a Shareholder Rights Plan and pursuant thereto declared a dividend of one Right for each outstanding share of common stock. The Shareholder Rights Plan was amended and restated on April 10, 1999. As amended and restated, one Full Right will be associated with each share of common stock and each Right will represent the right to purchase one one-hundredth of a share of Series A participating preferred stock at an exercise price of $100.00 (the "Purchase Price"). If a person or group acquires or makes a tender or exchange offer to acquire 15 percent or more of the company's common stock without the consent of the company (an

"Acquiring Shareholder"), the Rights will become exercisable and each Right entitles the holder, other than the Acquiring Shareholder, to receive, upon payment of the Purchase Price, in lieu of preferred stock, a number of shares of common stock of the company having a market value equal to twice the Purchase Price. The Rights may be redeemed by the company under certain circumstances at a price of $0.01 per Right. The Rights have no voting power and, until exercised, no dilutive effect on earnings per common share. At the option of the company, Rights may be exchanged for shares of common stock under certain circumstances. The amended and restated Shareholder Rights Plan extends the expiration date of the Rights to April 10, 2009. The company has designated 200,000 shares, of the 250,000 shares of preferred stock authorized, as Series A participating preferred stock for issuance upon exercise of the Rights.

The company's board of directors has approved a stock repurchase plan whereby the company's management is authorized to repurchase shares of the company's common stock. During the year ended January 1, 2000, a total of 9,331,300 shares of the company's common stock was purchased at a cost of $158,525,000. Purchases of approximately 13,103,000 shares at a cost of $176,576,000 in 1998 include approximately 10,622,000 shares purchased at a purchase price of $12.50 per share from tendering shareholders in March 1998 under a "Dutch Auction" tender offer. In September 1998, the Board of Directors approved an additional 15,000,000 shares to be repurchased. At January 1, 2000, the company had authority to purchase up to approximately 4,482,000 shares of the company's common stock under the stock repurchase plan. In January 2000, the Board of Directors approved an additional 10,518,000 shares to be repurchased which increased the existing authority to 15,000,000 shares.

In February 1998, the company paid a quarterly dividend of $9,834,000 after which cash dividends were discontinued until the third quarter of 1999. Dividends in 1999 totaled $13,649,000 and were paid in the third and fourth quarters.

Note 4 Income Taxes

The provision for income taxes consisted of the following (000s omitted):

	1999	1998	1997
Current:			
Federal	$ 116,686	$ 36,345	$ (8,568)
State	17,052	3,709	(1,918)
	133,738	40,054	(10,486)
Foreign operating loss carryforwards	—	(53)	17,860
Deferred	23,623	(1,594)	(1,788)
	$ 157,361	$ 38,407	$ 5,586

The differences between the Federal statutory income tax rate and the company's effective income tax rate were as follows:

	1999	1998	1997
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	4.9	4.6	4.9
Nondeductible goodwill	1.2	25.9	7.2
Abandonment of stock of U.K. subsidiary	—	—	(28.1)
Difference in foreign tax rates versus U.S. statutory rates	0.1	1.5	1.0
Other, net	(0.1)	0.3	(1.6)
	41.1%	67.3%	18.4%

Components of the net deferred income tax liability at January 1, 2000 and January 2, 1999 are shown below (000s omitted):

	1999	1998
Deferred income tax assets:		
Accrued advertising expenses not currently deductible	$ 3,684	$ 1,710
Reserve for cash discounts and bad debts	8,948	9,602
Employee benefit accruals not currently deductible	31,909	25,447
Reserve for returns and allowances	14,522	12,150
Foreign net operating loss carryforwards	—	1,751
Reorganization provision	3,089	8,193
Other	5,743	2,736
	67,895	61,589
Deferred income tax liabilities:		
Book basis of inventory over tax basis	(25,686)	(12,382)
Book basis of property, plant and equipment over tax basis	(86,613)	(72,086)
Other	(2,439)	(341)
	(114,738)	(84,809)
	$ (46,843)	$(23,220)

Note 5 Commitments and Contingencies

The company is a party to several lawsuits incidental to its various activities and incurred in the ordinary course of business. The company believes that it has meritorious claims and defenses in each case. After consultation with counsel, it is the opinion of management that, although there can be no assurance given, none of the associated claims, when resolved, will have a material adverse effect upon the company.

The company is a defendant in certain litigation alleging personal injury resulting from personal exposure to volatile organic compounds found in carpet produced by the company. The complaints seek injunctive relief and unspecified money damages on all claims. The company has denied any liability. The company believes that it has meritorious defenses and that the litigation will not have a material adverse effect on the company's financial condition or results of operations.

In December 1995, the company learned that it was one of six carpet companies named as additional defendants in a pending antitrust suit filed in the United States District Court of Rome, Georgia. The amended complaint alleges price-fixing regarding certain types of carpet products in violation of Section 1 of the Sherman Act. The amount of damages sought is not specified. If any damages were to be awarded, they may be trebled under the applicable statute. The company has filed an answer to the complaint that denies plaintiffs' allegations and sets forth several defenses. In September 1997, the Court issued an order certifying a nationwide plaintiff class of persons and entities who purchased "mass production" polypropylene carpet directly from any of the defendants from June 1, 1991 through June 30, 1995, excluding, among others, any persons or entities whose only purchases were from any of the company's retail establishments. Discovery began in November 1997 and recently concluded. The company believes that it has meritorious defenses to plaintiffs' claims in the lawsuits described in this paragraph and intends to vigorously defend these actions. After consultation with counsel, it is the opinion of management that, although there can be no assurance given, none of the claims described in this paragraph, when resolved, will have a material adverse effect upon the company.

On October 3, 1998, the company learned that it was one of five defendants in a pending antitrust suit filed in the United States District Court in Rome, Georgia. The complaint alleges price fixing regarding certain types of carpet products in violation of Section 1 of the Sherman Act. The amount of damages sought is not specified. If any damages were to be awarded, they may be trebled under the applicable statute. The company has filed an answer to the complaint that denies plaintiffs' allegations and sets forth several defenses. Discovery has recently begun and is ongoing. The company believes it has meritorious defenses to plaintiffs' claims in the lawsuit described in this paragraph and intends to vigorously defend these actions. After consultation with counsel, it is the opinion of management that, although there can be no assurance given, none of the claims described in this paragraph, when resolved, will have a material adverse effect on the company.

The company is also a party to four consolidated lawsuits pending in the Superior Court of the State of California, City and County of San Francisco, all of which were brought on behalf of a purported class of indirect purchasers of carpet in the State of California and which seek damages for alleged violations of California antitrust and fair competition laws. The company believes that it has meritorious defenses to plaintiffs' claims in the lawsuits described in this paragraph and intends to vigorously defend these actions. After consultation with counsel, it is the opinion of management that, although there can be no assurance given, none of the claims described in this paragraph, when resolved, will have a material adverse effect upon the company.

The company is subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous materials used in its manufacturing processes. Failure by the company to comply with present and future regulations could subject it to future liabilities. In addition, such regulations could require the company to acquire costly equipment or to incur other significant expenses to comply with environmental regulations. The company is not involved in any material environmental proceedings.

The company has entered into several capitalized leases for machinery and equipment, including computer equipment, at a cost of $30,077,000 at January 1, 2000 and $39,080,000 at January 2, 1999. These assets are amortized on a straight-line basis over the lease terms and amortization is included in depreciation expense. Accumulated amortization of capital lease cost was $29,271,000 and $37,770,000 at January 1, 2000 and January 2, 1999, respectively. The related obligations are included in long-term debt (Note 2). The company also leases warehouses and showroom space, customer service centers and certain equipment under operating leases.

At January 1, 2000, future minimum lease payments for all capital and operating leases exceeding one year were as follows (000s omitted):

	Capital Leases	Operating Leases	Total Future Payments
2000	$289	$ 37,835	$ 38,124
2001	101	32,400	32,501
2002	47	19,081	19,128
2003	—	4,369	4,369
2004	—	9,884	9,884
2005 and thereafter	—	19,674	19,674
Total payments	$437	$123,243	$123,680

Rental payments under noncancelable operating leases were $43,783,000, $36,351,000 and $74,718,000 in 1999, 1998 and 1997, respectively.

At January 1, 2000, the company had commitments to purchase certain capital assets of approximately $21,500,000.

Note 6 Earnings Per Share

Net income amounts presented in the accompanying consolidated statements of income represent amounts available or related to shareholders. The following table reconciles the denominator of the basic and diluted earnings per share computations:

	1999	1998	1997
Weighted average common shares	138,591,266	128,031,290	133,523,380
Dilutive incremental shares from assumed conversions of options under stock option plans	2,089,657	1,883,888	191,116
Weighted average common shares and dilutive potential common shares	140,680,923	129,915,178	133,714,496

Note 7 Derivative Financial Instruments and Fair Value of Financial Instruments

The company has entered into interest rate swap agreements with a total notional amount of $550,668,000 to fix the interest rate paid on portions of amounts outstanding under its revolving credit facilities. The weighted average fixed interest rate paid under the interest rate swap agreements was 6.07 percent in 1999 while the floating rate received averaged 6.25 percent.

The carrying amount and fair value of the company's financial instruments are as follows (000s omitted):

	January 1, 2000		January 2, 1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Assets)/Liabilities:				
Revolving credit agreements	$787,806	$787,806	$891,057	$ 891,057
Other obligations	40,309	40,309	36,385	36,385
Interest rate swap agreements	2,292	(3,027)	1,972	8,611
Foreign currency exchange contracts	(178)	7,899	—	—

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Revolving Credit Facilities

The carrying values of the revolving credit facilities approximate their fair values due to the floating market interest rates charged on those facilities.

Other Obligations

The carrying values of other obligations approximate their fair values due to the interest rates charged on those agreements: either floating market rates or fixed rates which approximated market rates available at January 1, 2000 and January 2, 1999.

Interest Rate Swap Agreements

The fair values of the interest rate swap agreements were estimated by obtaining quotes from brokers.

Foreign Currency Exchange Contracts

The fair values of foreign currency exchange contracts were estimated by obtaining quotes from brokers.

Note 8 Acquisition, Sale and Disposal, and Nonrecurring Charges

Acquisition of Queen Carpet Corporation

On October 6, 1998, the company completed its merger with Queen Carpet Corporation ("Queen") for approximately $579,135,000 consisting of approximately 19,444,000 shares of common stock of the company, 3,150,000 shares of Maxim stock, cash of $35,981,000 and assumed debt of approximately $216,000,000. As a result of the sale of the 3,150,000 shares of Maxim stock, during the fourth quarter ended January 2, 1999 the company recorded a loss on the sale of equity securities of $22,247,000 ($13,370,000, net of tax benefit).

The acquisition has been accounted for as a purchase transaction, and, accordingly, the results of operations of Queen have been included in the accompanying consolidated financial statements since October 7, 1998. The purchase price has been allocated to assets and liabilities based on their fair values at the date of acquisition. The excess of the consideration paid over the fair value at the date of acquisition of approximately $334,000,000 has been recorded as goodwill and is being amortized on the straight-line basis over 40 years. The following table summarizes on an unaudited pro forma basis, the consolidated results of operations as though Queen had been acquired on December 29, 1996 (000s omitted except per share data):

	Year Ended January 2, 1999 (Unaudited)	Year Ended January 3, 1998 (Unaudited)
Net Sales	$4,163,433	$4,291,140
Net Income	47,822	46,333
Earnings per common share –		
Basic and Diluted	0.33	0.30

Plant Closing Costs

In December 1999, the company closed a yarn processing facility and recorded a nonrecurring charge of $1,834,000 ($1,102,000, net of tax benefit, or $0.01 per share).

Charge to Record Sale of Residential Retail Operations, Store Closing Costs and Write-down of Certain Assets

On August 9, 1998, the company sold substantially all of its remaining residential retail operations to Maxim in exchange for 3,150,000 shares of Maxim stock, $25,000,000 cash and a one-year note in the original principal amount of $18,000,000, subject to adjustment. Stores not sold were closed. The company incurred a charge to record the loss on the sale of the residential retail operations, store closing costs and write-down of certain assets of $132,303,000 ($92,660,000, net of tax benefit, or $0.71 per share). Included in the charge were reserves for exit costs, primarily lease termination fees, and employee termination benefits of approximately $15,334,000 and $4,706,000, respectively. As of January 1, 2000, exit cost reserves were $6,433,000. In December 1999, the company recorded an additional charge for exiting the residential retail business of $4,061,000 ($2,441,000, net of tax benefit, or $0.02 per share).

Disposal of Carpets International, Plc

On April 3, 1998, the company completed the disposition of Carpets International, Plc, the company's wholly-owned U.K. subsidiary, which resulted in a removal of certain assets, net of liabilities, of $16.6 million. The disposal resulted in a charge to earnings of $47,952,000 ($20,300,000, net of tax benefit, or $0.15 per share) which was recorded in the fourth quarter of the year ended January 3, 1998.

Charge to Record Store Closing Costs

In December 1997, the company announced a plan to close approximately 100 residential retail stores which resulted in a charge to operations of $36,349,000 ($22,817,000, net of tax benefit, or $0.17 per share) consisting primarily of reductions in the carrying value of long-lived assets of approximately $13,430,000 and reserves for exit costs and employee termination benefits of approximately $17,440,000 and $5,479,000, respectively. Prior to this charge, the company recorded store closing costs of $438,000 ($263,000, net of tax benefit).

Note 9 Segment and Enterprise-Wide Information

Effective in 1998, the company adopted SFAS No. 131. The prior years' segment information has been restated to present the company's two reportable segments: wholesale manufacturing and residential retail.

The accounting policies of the segments are the same as those described in Note 1. Segment data include inter-segment revenues as well as revenues generated among marketing units.

The company's business consists of its wholesale manufacturing operations which sell carpet and related products manufactured primarily in the company's manufacturing facilities, located principally in the southeastern U.S., to wholesalers and retailers located primarily in the U.S., Canada, Australia and Mexico. Beginning in 1996 and continuing through mid-1998, the company built and acquired existing companies which were engaged in residential retail operations which sold floor covering and related products acquired from the company's wholesale manufacturing operations and other floor covering manufacturers directly to residential consumers. These residential retail operations were disposed of in 1998. The company evaluates the performance of its operations on the basis of sales, gross margin and "net divisional contribution" which consists of gross margin less selling expense.

While allocations of various manufacturing costs such as depreciation are made to the marketing units, long-lived assets and administrative costs are not allocated. The table below presents information about reported segments for 1999, 1998 and 1997 (000s omitted):

	Wholesale Manufacturing Operations	Residential Retail Operations	Intercompany Eliminations	Consolidated Operations
Net Sales				
1999	$4,107,736	$ —	$ —	$4,107,736
1998	3,419,538	341,769	(219,105)	3,542,202
1997	3,170,158	638,662	(233,046)	3,575,774
Gross Margin				
1999	$1,079,488	$ —	$ —	$1,079,488
1998	772,097	128,273	(621)	899,749
1997	655,290	243,385	(3,373)	895,302
Selling Expense				
1999	$ 442,216	$ —	$ —	$ 442,216
1998	321,208	135,720	—	456,928
1997	280,174	263,902	(1,014)	543,062

The following are sales and long-lived asset information by geographic area as of and for 1999, 1998 and 1997 (000s omitted):

	Sales		Long-Lived Assets	
Year ended:	U.S.	Foreign	U.S.	Foreign
1999	$3,980,874	$126,862	$1,169,043	$46,752
1998	3,371,757	170,445	1,131,188	47,889
1997	3,248,014	327,760	832,087	69,114

Foreign sales are based on the country in which the legal subsidiary is domiciled. Revenue from no single foreign country was material to the consolidated sales of the company.

Note 10 Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1999, 1998 and 1997 is as follows (000s omitted except per share amounts):

1999 Quarters	First	Second	Third	Fourth[1]
Net Sales	$955,803	$1,065,126	$1,082,923	$1,003,884
Gross Margin	239,174	287,573	292,650	260,091
Net Income	40,366	68,057	71,683	47,845
Earnings Per Share–				
Basic	0.29	0.48	0.52	0.35
Diluted	0.28	0.48	0.51	0.35

1998 Quarters	First	Second[2]	Third	Fourth[3]
Net Sales	$ 864,985	$ 873,149	$ 851,634	$ 952,434
Gross Margin	218,871	238,682	209,192	233,004
Net Income (Loss)	19,505	(65,221)	39,617	26,731
Earnings (Loss) Per Share–				
Basic and Diluted[4]	0.15	(0.54)	0.32	0.19

1997 Quarters	First	Second	Third	Fourth[5]
Net Sales	$808,653	$ 915,232	$ 922,997	$ 928,892
Gross Margin	200,090	236,992	236,235	221,985
Net Income (Loss)	10,478	25,231	25,335	(32,355)
Earnings (Loss) Per Share–				
Basic and Diluted	0.08	0.19	0.19	(0.24)

(1) Fourth quarter net income and per share amounts for 1999 include a nonrecurring charge related to the closing of one of the company's yarn processing plants of $1,102,000, or $0.01 per share, net of tax benefit and an additional nonrecurring charge for exiting the residential retail business of $2,441,000, or $0.02 per share, net of tax benefit.

(2) Second quarter net income and per share amounts for 1998 include a charge to record the sale of residential retail operations, store closing costs, and write-down of certain assets of $92,660,000, or $0.71 per share, net of tax benefit. The charge was previously reported as $98,203,000; however, in the fourth quarter, a reclassification of $5,543,000 was recorded reducing the charge and increasing operating expenses.

(3) The fourth quarter net income and per share amounts for 1998 include a loss on the sale of equity securities of $13,370,000, or $0.09 per share, net of tax benefit.

(4) The sum of the 1998 quarterly earnings per share amounts is different from the annual earnings per share amounts because of differences in the weighted average numbers of shares outstanding used in the quarterly and annual computations.

(5) The fourth quarter net income and per share amounts for 1997 include store closing costs of $22,817,000, or $0.17 per share, net of tax benefit, and a write-down of certain U.K. assets of $20,300,000, or $0.15 per share, net of tax benefit.

Note 11 Subsequent Event

On March 13, 2000, the company commenced a "Dutch Auction" tender offer to acquire up to 12,000,000 shares of its common stock, representing approximately 9.1 percent of its currently outstanding shares. Under the terms of the offer, the company's shareholders may tender their shares at a price within the range of $11.50 to $13.50 per share for a period of 20 business days.

Management's Report

The management of Shaw Industries, Inc. has prepared and is responsible for the consolidated financial statements and related financial data contained in this report. The consolidated financial statements were prepared in accordance with generally accepted accounting principles and necessarily include certain amounts based upon management's best estimates and judgments.

In meeting its responsibility for the reliability of the financial statements, the company depends on its system of internal accounting controls. This system is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the financial statements to be prepared in accordance with generally accepted accounting principles.

The company believes that its accounting controls provide adequate assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors, through its Audit Committee, composed exclusively of outside directors, is responsible for reviewing and monitoring the financial statements and accounting practices. The Audit Committee meets periodically with management, the internal auditors and the independent public accountants to ensure that each is properly discharging its duties. The independent public accountants and internal auditors have full and free access to, and meet with, the Audit Committee, with or without the presence of management.

Kenneth G. Jackson

Executive Vice President and Chief Financial Officer

Report of Independent Public Accountants

To the Shareholders of Shaw Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Shaw Industries, Inc. (a Georgia corporation) and subsidiaries as of January 1, 2000 and January 2, 1999 and the related consolidated statements of income, shareholders' investment, and cash flow for each of the three years in the period ended January 1, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shaw Industries, Inc. and subsidiaries as of January 1, 2000 and January 2, 1999 and the results of their operations and their cash flow for each of the three years in the period ended January 1, 2000 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Atlanta, Georgia

February 11, 2000

Five-Year Financial Review

(000s omitted except share data)

	1999	1998	1997	1996	1995
Net Sales	$4,107,736	$3,542,202	$3,575,774	$3,201,554	$2,869,828
Cost of Sales	3,028,248	2,642,453	2,680,472	2,485,068	2,319,894
Selling, General and Administrative Expenses	627,075	620,878	722,590	541,338	393,868
Charge to Record Loss on Sale of Residential Retail Operations, Store Closing Costs and Write-down of Certain Assets	4,061	132,303	—	—	—
Charge to Record Plant Closing Costs	1,834	—	—	—	—
Pre-opening Expenses, Retail Operations	—	—	3,953	13,595	—
Charge to Record Store Closing Costs	—	—	36,787	—	—
Write-down of U.K. Assets	—	—	47,952	—	—
Nonrecurring Charges	—	—	—	49,102	6,967
Interest, Net	62,812	62,553	60,769	42,442	41,901
Loss on Sale of Equity Securities	—	22,247	—	—	—
Other Expense (Income), Net	1,319	4,676	(7,032)	(3,609)	443
Income Before Income Taxes, Equity in Income of Joint Ventures and Accounting Change	382,387	57,092	30,283	73,618	106,755
As a Percentage of Net Sales	9.3%	1.6%	0.8%	2.3%	3.7%
Effective Income Tax Rate	41.1%	67.3%	18.4%	59.0%	40.8%
Income Before Equity in Income of Joint Ventures and Accounting Change	225,026	18,685	24,697	30,155	63,152
Equity in Income of Joint Ventures	2,925	1,947	4,262	3,868	1,229
Accounting Change	—	—	—	—	(12,077)
Net Income	227,951	20,632	28,959	34,023	52,304
As a Percentage of Net Sales	5.5%	0.6%	0.8%	1.1%	1.8%
As a Percentage of Average Total Assets	9.9%	1.0%	1.5%	1.9%	3.1%
As a Percentage of Average Invested Capital	13.3%	1.3%	1.9%	2.4%	3.9%
As a Percentage of Average Shareholders' Investment	27.4%	2.9%	4.4%	4.9%	7.4%
Earnings Per Share:					
Basic	1.64	0.16	0.22	0.25	0.38
Diluted	1.62	0.16	0.22	0.25	0.38
Cash Dividends Per Share	0.10	0.075	0.30	0.30	0.30
Property Additions, Net (including acquisitions)	116,441	103,623	106,728	177,062	93,805
Depreciation and Amortization	91,636	80,598	94,954	90,906	91,083
Weighted Average Shares Outstanding:					
Basic	138,591,266	128,031,290	133,523,380	135,731,360	135,872,432
Diluted	140,680,923	129,915,178	133,714,496	135,915,308	136,378,159
At Year-End:					
Working Capital	581,957	627,560	740,959	670,344	641,445
Current Ratio	2.2	2.4	3.3	2.6	3.5
Property, Plant and Equipment, Net	753,805	716,428	624,379	655,141	631,990
Total Assets	2,291,719	2,261,447	1,967,614	1,984,398	1,662,783
Total Long-Term Debt	823,821	927,434	930,424	825,280	627,130
Shareholders' Investment	868,585	797,368	637,534	671,711	710,189
Total Invested Capital [1]	1,692,406	1,724,802	1,567,958	1,496,991	1,337,319
Shareholders' Investment Per Share	$ 6.55	$ 5.66	$ 4.86	$ 5.06	$ 5.22

(1) The sum of shareholders' investment and long-term debt.

Number of Shareholders
As of March 6, 2000, there were 3,176 holders of record of the company's Common Stock.

Stock Exchanges (SHX)
The New York Stock Exchange
The Pacific Stock Exchange

Transfer Agent and Registrar
Boston EquiServe, Limited Partnership
150 Royal Street
Canton, MA 02021

Dividend Policy
Dividends on Shaw Industries, Inc.'s common stock are paid as declared by the Board of Directors. Dividends for 1999 were paid in August 1999 and November 1999.

Dividend Reinvestment Plan
Shaw Industries, Inc. offers a dividend reinvestment plan whereby common shareholders may invest cash dividends and optional cash payments in additional shares of the company's common stock. All costs associated with administering the dividend reinvestment plan are paid by the company.

Dividend Direct Deposit Plan
Shaw Industries, Inc. offers a direct deposit plan whereby common shareholders may have dividends paid directly to their designated checking or savings account. Direct deposit is available at no charge. To enroll, please call EquiServe Trust Company, N.A., at 1-800-633-4236.

Annual Meeting
Shaw Industries, Inc.'s Annual Meeting of Shareholders for fiscal 1999 will be held at 11:00 a.m. on April 27, 2000 at the headquarters administrative office building, 616 East Walnut Avenue, Dalton, GA.

Form 10-K Report
Shaw Industries, Inc.'s 1999 Annual Report, as filed with the Securities and Exchange Commission on Form 10-K, is available on request at no charge. Please send requests to Shaw Industries, Inc., Mail Drop 061-21, P.O. Drawer 2128, Dalton, GA 30722-2128.

Internet Address
http://www.shawinc.com

Common Stock Performance
Shaw Industries' Comparison to Standard & Poor's (S&P) 500

Annual Closing Stock Prices				Dec. 1971–Dec. 1999
Year	S&P 500	S&P Index	Shaw Industries	Shaw Industries Index
	$	%	$	%
1971	101.95	108.4	0.4853	117.4
1972	118.05	125.5	0.7560	182.9
1973	97.55	103.7	0.2760	66.8
1974	68.56	72.9	0.1410	34.1
1975	90.19	95.9	0.2950	71.4
1976	107.46	114.2	0.4050	98.0
1977	95.10	101.1	0.3690	89.3
1978	96.11	102.1	0.2400	58.1
1979	107.94	114.7	0.2050	49.6
1980	135.76	144.3	0.2230	54.0
1981	122.55	130.2	0.2700	65.3
1982	140.64	149.5	0.6040	146.1
1983	164.93	175.3	1.3440	325.2
1984	167.24	177.7	1.1640	281.6
1985	211.28	224.6	1.6480	398.7
1986	242.17	257.4	2.5630	620.1
1987	247.08	262.6	2.0310	491.4
1988	277.72	295.2	2.9380	710.8
1989	353.40	375.6	7.7500	1875.0
1990	330.22	351.0	5.0630	1224.9
1991	417.09	443.3	8.7500	2116.9
1992	435.71	463.1	16.5000	3991.9
1993	466.45	495.7	25.5000	6169.4
1994	459.27	488.1	14.8750	3598.8
1995	615.93	654.6	14.7500	3568.5
1996	756.78	805.1	11.7500	2841.6
1997	970.43	1031.8	11.6875	2827.4
1998	1229.23	1307.0	24.2500	5866.5
1999	1469.25	1561.5	15.5000	3750.0

Stock Information
High and low stock prices and cash dividends paid by fiscal quarter

	1999		1998		1997		Dividends Paid		
	High	**Low**	High	Low	High	Low	1999	1998	1997
1st Quarter	$24\frac{1}{4}$	$18\frac{7}{16}$	$15\frac{3}{4}$	$10\frac{15}{16}$	$14\frac{1}{8}$	$11\frac{7}{8}$	—	7.50¢	7.50¢
2nd Quarter	$20\frac{3}{8}$	$16\frac{7}{8}$	$18\frac{3}{16}$	$14\frac{7}{16}$	13	$10\frac{1}{2}$	—	—	7.50¢
3rd Quarter	$21\frac{11}{16}$	$15\frac{7}{8}$	$19\frac{15}{16}$	$15\frac{1}{8}$	$12\frac{7}{8}$	$10\frac{1}{2}$	5.00¢	—	7.50¢
4th Quarter	$17\frac{15}{16}$	$13\frac{1}{2}$	$24\frac{1}{4}$	$12\frac{1}{16}$	$13\frac{7}{16}$	$10\frac{7}{8}$	5.00¢	—	7.50¢
						Total	10.00¢	7.50¢	30.00¢

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Shaw Industries, Inc. Directors and Officers

Board of Directors

J.C. Shaw*
Chairman Emeritus

Robert E. Shaw*
Chairman, Chief Executive Officer and Chairman of the Executive Committee of the Company

W. Norris Little*
Vice Chairman of the Company

Julian D. Saul
President of the Company

William C. Lusk, Jr.
Retired, former Senior Vice President and Treasurer of the Company

Thomas G. Cousins^◊
Chairman of the Compensation and Stock Option Committees and President, Cousins Properties Incorporated

S. Tucker Grigg^◊
Manufacturer of Advertising and Marketing Displays, Furniture and Bedding

Robert R. Harlin*~
Partner, Powell, Goldstein, Frazer & Murphy

Robert J. Lunn~◊
Managing Director of Lunn Partners, LLC.

J. Hicks Lanier*~
Chairman of the Audit Committee and Chairman and Chief Executive Officer of Oxford Industries, Inc.

R. Julian McCamy^
Real Estate Developer

Roberto Garza Delgado
Chief Executive Officer and President of Gard Corporacion

* Denotes member of Executive Committee
~ Denotes member of Audit Committee
^ Denotes member of Compensation Committee
◊ Denotes member of Stock Option Committee

Officers

Robert E. Shaw
Chairman and Chief Executive Officer

W. Norris Little
Vice Chairman

Julian D. Saul
President

Vance D. Bell
Executive Vice President, Operations

Kenneth G. Jackson
Executive Vice President and Chief Financial Officer

Julius C. Shaw, Jr.
Executive Vice President, Investor Relations

Bennie M. Laughter
Vice President, Secretary and General Counsel

Carl P. Rollins
Vice President

Douglas H. Hoskins
Controller

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