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REGISTRATION INFORMATION
TRADEMARKS ONLY

U.S. DEPARTMENT OF COMMERCE
U.S. Patent and Trademark Office

Form **PTO-1594**
(Rev. 03/01)
OMB No. 0851-0027 (exp. 5/31/2002)

Tab settings

To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):

Salem Carpet Mills, Inc.
(North Carolina Corporation)

- Individual(s)
- General Partnership
- Corporation-State
- Other
- Association
- Limited Partnership

Additional name(s) of conveying party(ies) attached? Yes No

3. Nature of conveyance:

- Assignment
- Security Agreement
- Other
- Merger
- Change of Name

Execution Date: 05/29/92

2. Name and address of receiving party(ies)

Name: Shaw Industries, Inc.

Internal Address: P.O. Drawer 2128

Street Address: 616 East Walnut Avenue

City: Dalton State: GA Zip: 30722-2128

- Individual(s) citizenship
- Association
- General Partnership
- Limited Partnership
- Corporation-State Georgia
- Other

If assignee is not domiciled in the United States, a domestic representative designation is attached: Yes No
(Designations must be a separate document from assignment)
Additional name(s) & address(es) attached? Yes No

4. Application number(s) or registration number(s):

A. Trademark Application No.(s) _____

B. Trademark Registration No.(s) 872,653

Additional number(s) attached Yes No

5. Name and address of party to whom correspondence concerning document should be mailed:

Name: Susan Somers Neal

Internal Address: Neal & McDevitt

Street Address: 1603 Orrington Avenue

Suite 2000

City: Evanston State: IL Zip: 60201

6. Total number of applications and registrations involved: á á á á á á á á á á

7. Total fee (37 CFR 3.41) á á á á á á á \$ 40.00

- Enclosed
- Authorized to be charged to deposit account

8. Deposit account number: *Change 40*

50-0640

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9. Signature.

SUSAN SOMERS NEAL *Susan Somers Neal*
Name of Person Signing Signature

5-1-02
Date

Total number of pages including cover sheet, attachments, and document:

Mail documents to be recorded with required cover sheet information to:
Commissioner of Patent & Trademarks, Box Assignments
Washington, D.C. 20231

JANUARY 7, 1992

U.S. PATENT AND TRADEMARK OFFICE

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Appendix B to Part 1



TRADEMARKS ONLY
To the Honorable Commissioner of Patents and Trademarks:
Please record the attached original document or copy thereof.

1. Name of Party(ies) conveying an interest:
Salem Carpet Mills, Inc.

Entity:
 Individual(s) Association
 General Partnership Limited Partnership
 Corporation-State **North Carolina**
 Other

2. Name and Address of Party(ies) receiving an interest:
Name: **Shaw Industries, Inc.**
Internal Address: **P.O. Drawer 2128**
Street Address: **616 E. Walnut Avenue**
City: **Dalton**
State: **Georgia** Zip: **30722-2128**

Entity:
 Individual Association
 General Partnership Limited Partnership
 Corporation-State **Georgia**
 Other
 Citizenship

3. Interest Conveyed:
 Assignment Change of Name
 Security Agreement Merger
 Other

If not domiciled in the United States, a domestic representative designation is attached:
 Yes
 No
(The attached document must not be an assignment)

4. Application number(s) or registration number(s). Additional sheet attached? Yes No
 A. Trademark Application No.(s)
74/126,525
74/231,201

B. Trademark Registration No.(s)
1,652,761
1,597,619
1,452,300
1,695,415
1,700,658

5. Name and address of party to whom correspondence concerning document should be mailed:
Name: **Susan Somers Neal**
Internal Address: **William Brinks Olds**
Hofer Gilson & Lions
Street Address: **455 N. Cityfront Plaza**
Suite 3600 Dr
City: **Chicago**
State: **IL** Zip: **60611-5599**

6. Number of applications and registrations involved:
7

7. Amount of fee enclosed or authorized to be charged:
\$140.00

8. Deposit account number (Attach duplicate copy of this form if paying by deposit account):
23-1925

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9. Date of execution of attached document **May 29, 1992**

10. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on: **8-26-92**
Date

Signature: *Susan Somers Neal* **Susan Somers Neal**
Name of Person Signing
Attorney for Shaw Industries, Inc.
William Brinks Olds Hofer Gilson & Li
P.O. Box 10395
Chicago, IL 60610

FEE VALUE	
DEPOSIT ACCOUNT NO.	
231925	
FEE CODE	AMOUNT
482	50.00

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 SC13174 09/03/92 74126525 23-1925 130 482 100.00CH

STATE OF NORTH CAROLINA



Department of The
Secretary of State

To all whom these presents shall come, Greetings:

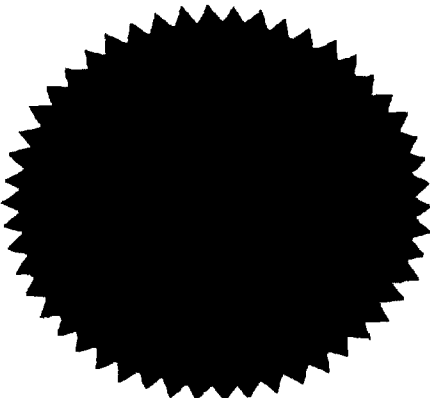
I, Rufus L. Edmisten, Secretary of State of the State of North Carolina, do hereby certify the following and hereto attached to be a true copy of

**ARTICLES OF MERGER
OF
SALEM CARPET MILLS, INC.
INTO
SEAW INDUSTRIES, INC.**

TRADEMARK

REEL 0893 FRAME 763

the original of which is now on file and a matter of record in this office.



IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this 15th day of July, 1992.

Secretary of State

AGREEMENT AND PLAN OF MERGER

Between

SHAW INDUSTRIES, INC.

and

SALEM CARPET MILLS, INC.

**Dated as of February 10, 1992,
as Amended and Restated as of March 4, 1992**

TRADEMARK

REEL 0893 FRAME 764

TABLE OF CONTENTS

ARTICLE I - THE MERGER -2-

 Section 1.1 The Merger -2-

 Section 1.2 Effective Time of the Merger -2-

 Section 1.3 Effects of the Merger -2-

ARTICLE II - THE SURVIVING CORPORATION -2-

 Section 2.1 Articles of Incorporation -2-

 Section 2.2 By-Laws -2-

 Section 2.3 Directors and Officers -2-

ARTICLE III - CONVERSION OF SHARES AT EFFECTIVE TIME -2-

 Section 3.1 Conversion of Shares of Company
Common Stock; Cash Election -2-

 Section 3.2 Status of Securities After Effective
Time -9-

 Section 3.3 Dissenting Shares -7-

 Section 3.4 Dividends -8-

 Section 3.5 Closing -8-

ARTICLE IV - REPRESENTATIONS AND WARRANTIES OF SHAW -9-

 Section 4.1 Corporate Organization and Good Standing -9-

 Section 4.2 Authorization; Binding Agreement -9-

 Section 4.3 Financing -9-

 Section 4.4 Governmental Approvals -9-

 Section 4.5 Registration Statement; Proxy Statement;
Other Filings -10-

 Section 4.6 Shaw Common Stock -11-

 Section 4.7 Financial Statements and SEC Reports -11-

 Section 4.8 Capitalization of Shaw -11-

 Section 4.9 Absence of Certain Changes -12-

 Section 4.10 Litigation -12-

ARTICLE V - REPRESENTATIONS AND WARRANTIES OF THE COMPANY -12-

 Section 5.1 Corporate Organization and Good Standing -12-

 Section 5.2 Authorization -13-

 Section 5.3 Capitalization of the Company -13-

 Section 5.4 Subsidiaries -14-

 Section 5.5 Financial Statements and SEC Reports -14-

 Section 5.6 Absence of Certain Changes -15-

 Section 5.7 Certain Fees -15-

 Section 5.8 Consents and Approvals; No Violations -15-

 Section 5.9 Litigation -17-

REEL 0893 FRAME 765
TRADEMARK

Section 5.10	Employee Benefit Plans and Arrangements	-17-
Section 5.11	Registration Statement; Proxy Statement; Other Filings	-17-
Section 5.12	Opinion of Financial Advisor	-18-
Section 5.13	Statutory Provisions	-18-
Section 5.14	Vote	-18-
ARTICLE VI - CONDUCT OF BUSINESS PENDING THE MERGER		-18-
Section 6.1	Conduct of Business by the Company Pending the Merger	-18-
Section 6.2	Conduct of Business by Shaw Pending the Merger	-21-
ARTICLE VII - ADDITIONAL AGREEMENTS		-21-
Section 7.1	Access to Information	-21-
Section 7.2	Proxy Statement; Registration Statement; Other Filings	-25-
Section 7.3	Shareholders' Approval	-26-
Section 7.4	Exchange Listing	-26-
Section 7.5	Expenses	-26-
Section 7.6	Agreement to Cooperate	-26-
Section 7.7	Public Statements	-27-
Section 7.8	Employee Benefits	-28-
Section 7.9	Directors' and Officers' Indemnification	-28-
Section 7.10	Accountants' Letters	-29-
Section 7.11	Stock Options and Stock Appreciation Rights	-29-
ARTICLE VIII - CONDITIONS		-30-
Section 8.1	Conditions to Each Party's Obligation to Effect the Merger	-30-
Section 8.2	Conditions to Obligation of the Company to Effect the Merger	-31-
Section 8.3	Conditions to Obligation of Shaw to Effect the Merger	-31-
ARTICLE IX - TERMINATION, AMENDMENT AND WAIVER		-32-
Section 9.1	Termination	-32-
Section 9.2	Effect of Termination	-34-
Section 9.3	Amendment	-34-
Section 9.4	Waiver	-34-

REEL 0893 FRAME 766

ARTICLE X - GENERAL PROVISIONS -34-

Section 10.1	Non-Survival of Representations, Warranties and Agreements	-34-
Section 10.2	Notices	-34-
Section 10.3	Interpretation	-35-
Section 10.4	Miscellaneous	-35-
Section 10.5	Counterparts	-36-
Section 10.6	Parties in Interest	-36-

- Exhibit A - Form of Opinion of Powell, Goldstein, Frazer & Murphy
- Exhibit B - Form of Opinion of Petree Stockton & Robinson
- Exhibit C - Form of Articles of Merger

REEL 0893 FRAME 767
 TRADEMARK

AGREEMENT AND PLAN OF MERGER

The Agreement and Plan of Merger (the "Agreement"), dated as of February 10, 1992, as amended and restated as of March 4, 1992, by and between Shaw Industries, Inc., a Georgia corporation ("Shaw"), and Salem Carpet Mills, Inc., a North Carolina corporation (the "Company").

WHEREAS, the parties hereto entered into, and are parties to, an Agreement and Plan of Merger, dated as of February 10, 1992 (the "Original Agreement"), providing for the merger of the Company with and into Shaw (the "Merger") pursuant to the terms and conditions set forth therein; and

WHEREAS, the parties mutually desire to amend and restate such Agreement in its entirety; and

WHEREAS, for federal income tax purposes, it is intended that Shaw and the Company and their respective shareholders will recognize no gain or loss for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder as a result of the consummation of the Merger except with the respect to dissenters' rights, fractional shares and those shareholders who elect to receive cash for some or all of their shares of the Company Common Stock (as defined in Section 3.1(a) hereof);

NOW, THEREFORE, in consideration of the promises and the representations, warranties, covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree that the Agreement and Plan of Merger, dated as of February 10, 1992, shall be amended and restated in its entirety as follows:

TRADEMARK

REEL 0993 FRAME 768

ARTICLE I

THE MERGER

Section 1.1 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Section 1.2 hereof) in accordance with the North Carolina Business Corporation Act (the "NCBCA") and the Georgia Business Corporation Code ("GBCC") the Company shall be merged with and into Shaw in accordance with this Agreement and articles of merger substantially in the form attached hereto as Exhibit C (the "Articles of Merger") and the separate existence of the Company shall thereupon cease. Shaw shall be the surviving corporation in the Merger (hereinafter sometimes referred to as the "Surviving Corporation").

Section 1.2 Effective Time of the Merger. The Merger shall become effective at such time (the "Effective Time") as a copy of the duly completed Articles of Merger is delivered to the Secretary of State of the State of North Carolina and the Secretary of State of the State of Georgia for filing and is filed by the Secretary of State of the State of North Carolina and the Secretary of State of the State of Georgia or at such later time as the parties may agree to specify in the Articles of Merger.

Section 1.3 Effects of the Merger. The Merger shall have the effects set forth in Section 55-11-06 of the NCBCA and Section 14-2-1106 of the GBCC.

ARTICLE II

THE SURVIVING CORPORATION

Section 2.1 Articles of Incorporation. The Articles of Incorporation of Shaw as in effect immediately prior to the Effective Time shall be the Articles of Incorporation of the Surviving Corporation after the Effective Time.

Section 2.2 By-Laws. The By-laws of Shaw shall be the by-laws of the Surviving Corporation after the Effective Time.

Section 2.3 Directors and Officers. At the Effective Time, the Board of Directors and officers of Shaw shall be the Board of Directors and officers of the Surviving Corporation to serve thereafter until their successors are elected and qualified.

ARTICLE III

CONVERSION OF SHARES AT EFFECTIVE TIME

Section 3.1 Conversion of Shares of Company Common Stock; Cash Election.

(a) Each share of the Company's Common Stock, par value \$1.00 per share (the "Company Common Stock"), issued and outstanding at the Effective Time (other than shares referred to in the last sentence of this subparagraph (a), subparagraph (b) or Dissenting Shares (as defined in Section 3.3)) shall, as of the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive a fraction of a share of Shaw Common Stock, no par value (the "Shaw Common Stock"), as shall be determined by dividing \$7.98 by the Base Period Stock Price (as defined in Section 3.1(g) hereof) of Shaw Common Stock (rounded to the nearest 1/1000th of a share) ("Common Stock Conversion Ratio"); provided that the Base Period Stock Price used for purposes of this calculation shall not be less than \$36.00 nor more than \$44.00 (automatically adjusted to be not less than \$18.00 nor more than \$22.00 upon the Shaw Stock Split, as defined in Section 3.4 hereof) (the "Conversion Ratio Limitation"), which shall act as a limitation on the calculation of the Common Stock Conversion Ratio. No fraction of a share of Shaw Common Stock shall be issued. Each holder of a certificate or certificates representing shares of Company Common Stock issued and outstanding immediately prior to the Effective Time who would otherwise be entitled to receive a fractional share of Shaw Common Stock (after taking into account all shares of Company Common Stock then held by such holder) shall receive, in lieu thereof, cash in an amount equal to such fractional part of a share multiplied by the Base Period Stock Price. Each share of Company Common Stock, if any, held by Shaw or any of its subsidiaries immediately prior to the Effective Time shall be canceled, and no shares of Shaw Common Stock shall be issued in respect thereof.

(b) Subject to the Cash Limitation, as defined below, each holder of Company Common Stock will be entitled to elect (the "Cash Election") to receive \$7.98 per share in cash ("Cash") from Shaw for all, or less than all, of the shares of Company Common Stock held by such shareholder to be converted upon the Effective Time of the Merger. The number of shares of Company Common Stock that shall be so converted into and exchanged for Cash shall in no event, however, be greater than 50% of the number of shares of Company Common Stock outstanding at the Effective Time reduced by (i) the aggregate number of shares of Company Common Stock as to which a notice of dissent has been timely filed pursuant to Section 55-13-21 of the NCBCA and (ii) the aggregate number of shares of Company Common Stock as to which cash is to be paid in lieu of fractional shares, rounded up to the nearest whole share (the "Cash Limitation"). A holder may condition his Cash Election (a "Conditional Cash Election") upon a specified minimum number of shares relating to such Cash Election being converted into the right to receive Cash pursuant to the Merger (the "Cash Minimum Shares"), or may submit a Cash Election without such a condition (an "Unconditional Cash Election").

(c) Shaw shall determine the shares of Company Common Stock to be converted into the right to receive Cash pursuant to the Merger as follows:

(i) In the event Cash Elections are submitted with respect to an aggregate number of shares which does not exceed the Cash Limitation, all shares of Company Common Stock with respect to which such Cash Elections are in effect will be converted into rights to receive Cash pursuant to the Merger.

(ii) In the event the aggregate number of shares determined in subparagraph (i) for which Cash Elections are submitted does exceed the Cash Limitation, a prorata portion of such shares (rounded down to the nearest whole share) shall be converted into the right to receive Cash, which proration as to each shareholder shall be based upon the ratio of the Cash Limitation to the aggregate number of shares with respect to which Cash Elections are in effect, as determined above (the "Initial Proration Calculation"). Notwithstanding the foregoing, if the prorated number of shares of Company Common Stock for which a holder thereof shall be entitled to receive Cash is less than the Cash Minimum Shares which may be specified by any such holder, then all shares of Company Common Stock for which such Conditional Cash Election is submitted shall be disregarded for purposes of this subparagraph (ii) and, except as provided in subparagraph (iii) below, shall be treated as though no Cash Election, conditional or unconditional, has been made with respect to such disregarded shares and if the aggregate number of shares of Company Common Stock for which a Cash Election is submitted (excluding the disregarded shares) which were not converted into the right to receive Cash upon the Initial Proration Calculation (the "Remaining Shares") can be converted into the right to receive Cash without exceeding the Cash Limitation (after giving effect to the Initial Proration Calculation), then all such Remaining Shares shall be so converted; otherwise a prorata portion of the Remaining Shares shall be converted into the right to receive Cash, which proration shall be based upon the ratio of the Cash Limitation (less the number of whole shares converted pursuant to the Initial Proration Calculation) to the aggregate number of Remaining Shares; and

(iii) If, after giving effect to subparagraph (ii), the Cash Limitation has not been exceeded, shares with respect to which a Conditional Cash Election is submitted which were previously disregarded in subparagraph (ii) shall be selected by random lot and converted into the right to receive Cash (using for such purposes the number

TRADEMARK

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of Cash Minimum Shares specified pursuant to each Conditional Cash Election), so long as the Cash Limitation is not exceeded thereby.

(d) The form for making Cash Elections (the "Cash Election Form") shall be mailed to holders of record of Company Common Stock on the record date for the Company shareholders' meeting to be called to approve the Merger (the "Shareholders' Meeting"), together with the related Proxy Statement (as hereinafter defined). To be effective, the Cash Election Form must be properly completed, signed and submitted by the Election Deadline (as defined in Section 3.1(e)) and accompanied by the certificates representing the shares of Company Common Stock as to which the Cash Election is being made (or an appropriate guarantee of delivery by a commercial bank or trust company in the United States or a member of a registered national securities exchange or the National Association of Securities Dealers, Inc.). Shaw will have the discretion, which it may delegate in whole or in part to the exchange agent named in the Cash Election Form (the "Exchange Agent"), to determine whether Cash Election Forms have been properly completed, signed and timely submitted and to disregard defects in Cash Election Forms. The decisions of Shaw (or of the Exchange Agent) shall be conclusive and binding. Neither Shaw nor the Exchange Agent will be under any obligation to notify any person of any defect in a Cash Election Form submitted to the Exchange Agent. The Exchange Agent and Shaw shall also make all computations contemplated by Section 3.1(c) hereof, and all such computations shall be conclusive and binding on the holders of Company Common Stock.

Any holder of shares of Company Common Stock who may be considered, by reason of the ownership attribution rules contained in the Code, to own constructively shares of Company Common Stock in addition to those actually owned by such holder may submit a Cash Election Form jointly with one or more of such persons whose shares of Company Common Stock such holder may be considered to own constructively, but only if all such persons elect to make Conditional Cash Elections. All holders of shares of Company Common Stock who so join in submitting Cash Election Forms shall be for purposes of selecting shares by lot pursuant to Section 3.1(c)(iii) considered to be a single holder of shares of Company Common Stock and if so selected shall be entitled to Cash as provided therein.

(e) Shaw and the Company shall make available on request Cash Election Forms to all persons who become holders of Company Common Stock during the period between the record date for the Shareholders' Meeting and 10:00 a.m. Atlanta Time on the day of the Shareholders' Meeting (the "Election Deadline"). If the date of the Shareholders' Meeting is postponed or such meeting is adjourned without approval of the Merger, the Election Deadline shall be postponed until 10:00 a.m. Atlanta Time on the day on which the

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772
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Merger is actually considered by the shareholders of the Company. A Cash Election Form must be received by the Exchange Agent by the Election Deadline in order to be effective. Any Cash Election may be revoked and the certificates representing the shares of Company Common Stock submitted with such Cash Election may be withdrawn by the holder thereof by written notice received by the Exchange Agent at any time (i) prior to the Election Deadline, or (ii) after the expiration of a period of 60 days following the date of the Proxy Statement (as defined in Section 7.2 hereof) if the Effective Time shall not have occurred prior thereto.

(f) No later than the Effective Time, Shaw shall make available to the Exchange Agent sufficient funds to make the maximum cash payments pursuant to Section 3.1 hereof to holders (other than Shaw or any subsidiary of Shaw) of shares of Company Common Stock that are issued and outstanding immediately prior to the Effective Time (such amounts being hereinafter referred to as the "Exchange Fund"), and to make the appropriate cash payments, if any, to holders of Dissenting Shares (as defined in Section 3.3). The Exchange Agent shall, pursuant to irrevocable instructions, make the payments provided for in the preceding sentence out of the Exchange Fund. The Exchange Agent shall invest portions of the Exchange Fund as Shaw directs. All risk of loss with respect to the Exchange Fund shall be borne by Shaw. Any portion of the Exchange Fund (including the proceeds of any investments thereof) that remains unclaimed by the shareholders of the Company for six months after the Effective Time shall be repaid to Shaw. Any shareholders of the Company who have not theretofore complied with Section 3.1 hereof shall thereafter look only to Shaw for payment of their claim for the Merger Consideration (as defined below) per share of Company Common Stock, without any interest thereon.

(g) The "Base Period Stock Price" shall be the average of the mean high and low sales prices of Shaw Common Stock on the New York Stock Exchange -- Composite Transactions Tape, as reported by *The Wall Street Journal*, for each of the 15 consecutive trading days preceding the fifth trading day prior to the date of the Shareholders' Meeting. The Shaw Common Stock and the Cash to be received upon the conversion of the Company Common Stock pursuant to the Merger and as provided in Section 3.1 hereof shall be collectively referred to herein as the "Merger Consideration."

Section 3.2 Status of Securities After Effective Time.

(a) From and after the Effective Time, and until surrendered and exchanged, each outstanding certificate formerly representing shares of Company Common Stock shall be deemed for all purposes (other than the payment of dividends or other distributions, if any, to shareholders of Shaw) to represent the right conferred upon such shares in accordance with Section 3.1 above to receive (i) the number of whole shares of Shaw Common

Stock together with cash in lieu of fractional shares or (ii) Cash into and for which the shares of Company Common Stock formerly represented thereby shall have been converted and exchanged as herein provided. Upon surrender and exchange of each outstanding certificate theretofore representing shares of Company Common Stock there shall be paid to the record holders of the certificate or certificates of Shaw Common Stock issued in exchange therefor the amount, without interest thereon, of dividends and other distributions declared and paid to shareholders of record subsequent to the Effective Time with respect to the number of whole shares of Shaw Common Stock represented thereby, together with the cash (without interest or dividends) payable in lieu of any fractional shares.

(b) As promptly as practicable after the Effective Time, Shaw shall send or cause to be sent to each former shareholder of record of the Company transmittal materials for use in exchanging their certificates formerly representing shares of Company Common Stock for Shaw Common Stock to the extent such certificates have not already been submitted to the Exchange Agent with Cash Election Forms. The letter of transmittal will contain instructions with respect to the surrender of certificates formerly representing shares of Company Common Stock and the distribution of certificates representing Shaw Common Stock.

(c) If any certificate evidencing shares of Shaw Common Stock is to be registered in any name other than that in which the certificate surrendered in exchange therefor is registered, it shall be a condition of such registration that the certificate so surrendered shall be properly endorsed and otherwise in proper form for transfer, as determined by the Exchange Agent or Shaw, that any applicable securities laws are complied with, and that the person requesting such exchange either pay to the Exchange Agent or to Shaw, as the case may be, any transfer or other taxes required by reason of the issuance of a certificate for shares of Shaw Common Stock in any name other than that of the registered holder of the certificate surrendered or otherwise required or establish to the satisfaction of such Exchange Agent or of Shaw, as the case may be, that such tax has been paid or is not payable.

(d) From and after the Effective Time, the stock transfer books of the Company shall be closed and no transfer of shares of Company Common Stock shall be made.

Section 3.3 Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, shares of Company Common Stock which are issued and outstanding immediately prior to the Effective Time and which are held by shareholders who did not vote in favor of the Merger and who comply with all of the relevant provisions of Article 13 of the NBCA (the "Dissenting Shares") shall not be converted into the right to receive the Merger Consideration unless and until such holders shall have failed to perfect or shall have

effectively withdrawn or lost their rights to appraisal under Article 13 of the NCBCA. From and after the Effective Time, any holder of Dissenting Shares shall no longer be entitled to any rights of a shareholder of the Company, including but not limited to, the right to receive notice of meetings, to vote at any meetings, or to receive dividends, and shall only be entitled to such rights of appraisal as provided by the NCBCA. If any such holder shall have failed to perfect or shall have effectively withdrawn or lost such right, such holders of shares of Company Common Stock shall thereupon be deemed to have been converted into the right to receive Shaw Common Stock as provided in Section 3.1(a).

Section 3.4 Dividends. If Shaw shall, at any time before the Effective Time, (i) issue a dividend in shares of Shaw Common Stock, (ii) combine the outstanding Shaw Common Stock into a smaller number of shares, (iii) subdivide the outstanding Shaw Common Stock, or (iv) reclassify the Shaw Common Stock, then, in such event, the Merger Consideration to be delivered to holders of Company Common Stock who are entitled to receive Merger Consideration in exchange for Company Common Stock, the Conversion Ratio Limitation and the Termination Price (as defined in Section 9.1 hereof) shall be adjusted, so that each shareholder shall be entitled to receive such Merger Consideration as such shareholder would have been entitled to receive if the Effective Time had occurred prior to the happening of such event (or, if applicable, the record date in respect thereof), and appropriate and proportionate adjustment shall be made to the calculation of the Merger Consideration, the Conversion Ratio Limitation and the Termination Price. Without limitation of the foregoing, this provision shall apply to the 2 for 1 stock split of the Shaw Common Stock in the form of a 100% stock dividend declared by Shaw on January 22, 1992 and payable on March 9, 1992 to shareholders of record on February 25, 1992 (the "Shaw Stock Split"), and has been reflected in the parenthetical notations contained in Sections 3.1 and 9.1(d) hereof relating to the Conversion Ratio Limitation and the Termination Price.

Section 3.5 Closing. The closing (the "Closing") of the transactions contemplated by this Agreement shall take place at the offices of Powell, Goldstein, Frazer & Murphy, 191 Peachtree Street, N.E., Atlanta, Georgia, at 10:00 a.m., Atlanta Time, on the third business day immediately following the date on which the last of the conditions set forth in Article VIII hereof is fulfilled or waived, or at such other time and place as Shaw and the Company shall agree.

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TRADEMARK

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SHAW

Shaw represents and warrants to the Company as follows:

Section 4.1 Corporate Organization and Good Standing. Shaw is a corporation duly organized, validly existing and in good standing under the laws of the state of Georgia.

Section 4.2 Authorization; Binding Agreement. Shaw has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by Shaw, and the consummation by Shaw of the transactions contemplated hereby, have been duly authorized by Shaw's Board of Directors, and no other corporate action or proceeding on the part of Shaw or Shaw's security holders is necessary for the execution, delivery and performance of this Agreement by Shaw and the consummation of the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Shaw and is a legal, valid and binding obligation of Shaw, enforceable against it in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

Section 4.3 Financing. Shaw has the funds, or has binding written commitments from responsible financial institutions to provide Shaw with the funds necessary to consummate the payment of the Cash to the Company's shareholders on the terms set forth in Article III hereof.

Section 4.4 Governmental Approvals. Except for applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Securities Act of 1933, as amended (the "Securities Act") (including, without limitation, with respect to the Registration Statement (as defined in Section 7.2 hereof)), applicable stock exchanges, state securities laws, the filings by Shaw and the Company required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the filing of the Articles of Merger pursuant to the NCBCA and the GBCC, no filing or registration with, no notice to and no permit, authorization, consent or approval of any public or governmental body or authority is necessary for the consummation by Shaw of the transactions contemplated by this Agreement, except where the failure to make such filing or to obtain such permit, authorization, consent or approval will not have a Shaw Material Adverse Effect (as defined below). "Shaw Material Adverse Effect" shall mean any materially adverse change in or effect on the business, operations, properties, assets, liabilities, financial condition,

results of operations or prospects of Shaw and its subsidiaries taken as a whole; provided, however, for the purposes of this Agreement, the term Shaw Material Adverse Effect shall not be deemed to mean any losses, adverse developments or other conditions suffered by Shaw arising from normal operations, market or economic conditions affecting the industry as a whole.

Neither the execution and delivery of this Agreement by Shaw and the performance by Shaw of its obligations hereunder nor the consummation by Shaw of the transactions contemplated hereby will (i) conflict with or result in any breach of any provision of the Articles of Incorporation or By-laws of Shaw, (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or the happening or occurrence of any other event) a default by Shaw, or permit the termination of, or require the consent of any other party to, or result in the acceleration of, or entitle any party to accelerate (or give rise to the creation of any lien, charge, security interest or encumbrance upon any properties or assets of Shaw) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement or other instrument or obligation to which Shaw is a party or by which it or its properties or assets may be bound or (iii) violate any order, writ, injunction, decree, statute, rule or regulation of any court or governmental authority applicable to Shaw or any of its properties or assets, excluding from the foregoing clauses (ii) and (iii) violations, breaches or defaults which in the aggregate would not have a Shaw Material Adverse Effect or that could not prevent, materially delay or materially burden the transactions contemplated by this Agreement.

Section 4.5 Registration Statement; Proxy Statement; Other Filings. None of the information supplied or to be supplied by Shaw for inclusion in (i) the Registration Statement (as defined in Section 7.2 hereof), (ii) the Proxy Statement (as defined in Section 7.2 hereof), or (iii) any other documents to be filed with the Securities and Exchange Commission (the "Commission") or any regulatory agency in connection with the transactions contemplated hereby, will, at the respective times such documents are filed, and, in the case of the Registration Statement, when it becomes effective and at all times necessary for the issuance of the shares of Shaw Common Stock in the Merger fail to comply with the Securities Act, or, with respect to the Proxy Statement, when mailed and at all times through the date of the Shareholders Meeting, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. All documents which Shaw is responsible for filing with the Commission in connection with the Merger will comply as to form in all material respects with the applicable provisions of Securities Act, the Exchange Act and state securities laws.

Section 4.6 Shaw Common Stock. The Shaw Common Stock which will be issued in accordance with this Agreement has been duly authorized and, when issued as contemplated hereby, will be validly issued, fully paid and nonassessable.

Section 4.7 Financial Statements and SEC Reports. Shaw has timely filed all required forms, reports, statements and documents with the Commission since July 1, 1989, all of which have complied in all material respects with all applicable requirements of the Securities Act or the Exchange Act. Shaw heretofore has delivered to the Company true and complete copies of (i) its Annual Reports on Form 10-K for the fiscal years ended July 1, 1989, June 30, 1990 and June 29, 1991, (ii) its Quarterly Reports on Form 10-Q for the fiscal quarters ended September 28, 1991, and December 28, 1991, (iii) its proxy statements relating to all meetings of its shareholders (whether annual or special) held since July 1, 1989, and (iv) all other reports, statements and registration statements filed or required to be filed by it with the Commission since July 1, 1989 (the documents referred to in clauses (i), (ii), (iii) and (iv) being hereinafter referred to as "Shaw SEC Reports"). As of their respective dates, the Shaw SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements (including any related notes) of Shaw included in the Shaw SEC Reports were prepared in conformity with generally accepted accounting principles applied on a consistent basis (except as otherwise stated in such financial statements or, in the case of audited statements, the related report of Arthur Andersen & Co., independent certified public accountants of Shaw), and present fairly the consolidated financial position, results of operations and cash flows of Shaw and its consolidated subsidiaries as of the dates and for the periods indicated, subject, in the case of unaudited interim consolidated financial statements to condensation, the absence of certain notes thereto and normal year-end audit adjustments.

Section 4.8 Capitalization of Shaw. As of the date hereof, the authorized capital stock of Shaw consists of 100,000,000 shares of Shaw Common Stock and 250,000 shares of Preferred Stock ("Shaw Preferred Stock"). As of December 28, 1991, there were issued and outstanding 30,987,300 shares of Shaw Common Stock and no shares of Shaw Preferred Stock. All of the outstanding shares of Shaw Common Stock have been duly authorized and validly issued, were not issued in violation of any person's preemptive rights and are fully paid and nonassessable. As of December 31, 1991, there were 2,176,000 shares of Shaw Common Stock reserved for issuance under Shaw's several stock option plans. Except as set forth above and pursuant to the Shaw Shareholder Rights Plan adopted in March 1989, as of the date hereof, there are no outstanding options, warrants, subscriptions, conversion rights or other rights, agreements or

commitments obligating Shaw or any of its material subsidiaries to issue any additional shares of the capital stock of Shaw or any other securities convertible into, exchangeable for or evidencing the right to subscribe for or acquire from Shaw or any of its subsidiaries any shares of the capital stock of Shaw. Since December 28, 1991, Shaw has not issued any shares of its capital stock (except shares of Shaw Common Stock issued upon exercise of stock options granted prior to the date of this Agreement) or authorized or issued any option, warrant, subscription or other right, agreement or commitment obligating it to issue any shares of its capital stock or any other securities convertible into, exchangeable for or evidencing the right to subscribe for or acquire from Shaw or any of its subsidiaries any shares of its capital stock.

Section 4.9 Absence of Certain Changes. Since June 29, 1991, except as set forth in Shaw's Quarterly Reports on Form 10-Q for the fiscal quarter ended September 28, 1991 or December 28, 1991, neither Shaw nor any of its subsidiaries has suffered a Shaw Material Adverse Effect, or taken, failed to take or suffered to exist any action that if taken, not taken or suffered to exist after the date of this Agreement would constitute a breach of any of the covenants set forth herein.

Section 4.10 Litigation. Except as disclosed in Shaw's Annual Report on Form 10-K for the fiscal year ended June 29, 1991, there is no action, suit, set of related actions or suits concerning a common issue, complaint, arbitration, inquiry, proceeding or investigation pending or, to the knowledge of Shaw, threatened against or involving Shaw or any of its subsidiaries, or any properties or rights of Shaw or any of its subsidiaries, before any court, arbitrator or administrative or governmental body and there is no judgment, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or arbitrator outstanding against Shaw or any of its subsidiaries which would individually or in the aggregate, if adversely determined, have a Shaw Material Adverse Effect. As of the date hereof, there are no actions, suits or proceedings pending or, to the knowledge of Shaw, threatened against Shaw arising out of or in any way related to this Agreement, the Merger or any of the transactions contemplated hereby or thereby.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Shaw as follows:

Section 5.1 Corporate Organization and Good Standing. Each of the Company and its material subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, with all requisite corporate

power and authority to own, operate and lease its properties and to carry on its business as it is now being conducted, and is qualified or licensed to do business and is in good standing in each jurisdiction in which the ownership or leasing of property by it or the conduct of its business requires such licensing or qualification, except for such failures to be so qualified or licensed which would not have a Company Material Adverse Effect (as defined below). The Company has delivered to Shaw true and correct copies of its Articles of Incorporation and By-laws as in effect on the date hereof. "Company Material Adverse Effect" shall mean any materially adverse change in or effect on the business, operations, properties, assets, liabilities, financial condition, results of operations or prospects of the Company and its subsidiaries taken as a whole; provided, however, for the purposes of this Agreement, the term Company Material Adverse Effect shall not be deemed to mean any losses, adverse developments or other conditions suffered by the Company arising from normal operations, market or economic conditions effecting the industry as a whole, or the announcement of the transactions contemplated by this Agreement, including, without limitation, the net operating losses for fiscal 1991 and fiscal 1992.

Section 5.2 Authorization. The Company has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution, delivery and performance of this Agreement by the Company, and the consummation by the Company of the transactions contemplated hereby, have been duly authorized by the Company's Board of Directors and no other corporate action or proceeding on the part of the Company is necessary for the execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby, except for obtaining the requisite approval of the Company's shareholders. This Agreement has been duly and validly executed and delivered by the Company and is a legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

Section 5.3 Capitalization of the Company. As of the date hereof, the authorized capital stock of the Company consists of 15,000,000 shares of Company Common Stock, par value \$1.00 per share. As of December 28, 1991, there were issued and outstanding 8,143,701 shares of Company Common Stock. All of the outstanding shares of Company Common Stock have been duly authorized and validly issued, were not issued in violation of any person's preemptive rights and are fully paid and nonassessable. As of December 28, 1991, there were 393,501 shares of Company Common

Stock reserved for issuance under the Company's various stock option plans, under which options for not more than 120,501 shares of Company Common Stock and 52,749 related stock appreciation rights are outstanding. Except as set forth above or in Disclosure Schedule 5.3 as of the date hereof, there are no outstanding options, warrants, subscriptions, conversion rights or other rights, agreements or commitments obligating the Company or any of its material subsidiaries to issue any additional shares of the capital stock of the Company or any other securities convertible into, exchangeable for or evidencing the right to subscribe for or acquire from the Company or any of its subsidiaries any shares of the capital stock of the Company. Since December 28, 1991, the Company has not issued any shares of its capital stock (except shares of Company Common Stock issued upon exercise of stock options granted prior to December 28, 1991) or, authorized or issued any option, warrant, subscription or other right, agreement or commitment obligating it to issue any shares of its capital stock or any other securities convertible into, exchangeable for or evidencing the right to subscribe for or acquire from the Company or any of its subsidiaries any shares of its capital stock.

Section 5.4 Subsidiaries. All of the shares of capital stock of each material subsidiary of the Company are owned directly or indirectly by the Company and such shares are duly authorized, validly issued, were not issued in violation of any person's preemptive rights, are fully paid and nonassessable. There are no outstanding options, warrants, subscriptions, conversion rights or other rights, agreements or commitments obligating the Company or any of its subsidiaries to issue any additional shares of the capital stock of any of the Company's subsidiaries or any other securities convertible into, exchangeable for or evidencing the right to subscribe for or acquire from the Company or any of its subsidiaries any shares of capital stock of any of the Company's subsidiaries. Other than investments required in normal operations, the Company does not own, directly or indirectly, any capital stock or other equity securities of any corporation other than the subsidiaries set forth in Disclosure Schedule 5.4 or have any direct or indirect equity or ownership interest in any other business. Neither the Company nor any of its subsidiaries has any obligation or has made any commitment to invest any funds in any business or entity other than the subsidiaries set forth in Disclosure Schedule 5.4.

Section 5.5 Financial Statements and SEC Reports. The Company has timely filed all required forms, reports, statements and documents with the Commission since January 1, 1989, all of which have complied in all material respects with all applicable requirements of the Securities Act or the Exchange Act. The Company heretofore has delivered to Shaw true and complete copies of (i) its Annual Reports on Form 10-K for the fiscal years ended December 31, 1988, December 30, 1989, and December 29, 1990, (ii) its Quarterly Reports on Form 10-Q for the fiscal quarters ended

March 30, 1991, June 29, 1991, and September 28, 1991, (iii) its proxy statements relating to all meetings of its shareholders (whether annual or special) held since January 1, 1989, and (iv) all other reports, statements and registration statements filed or required to be filed by it with the Commission since January 1, 1989 (the documents referred to in clauses (i), (ii), (iii) and (iv) being hereinafter referred to as the "SEC Reports"). As of their respective dates, the SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements (including any related notes) of the Company included in the SEC Reports were prepared in conformity with generally accepted accounting principles applied on a consistent basis (except as otherwise stated in such financial statements or, in the case of audited statements, the related report of Price Waterhouse, independent certified public accountants for the Company), and present fairly the consolidated financial position, results of operations and cash flows of the Company and its consolidated subsidiaries as of the dates and for the periods indicated, subject, in the case of unaudited interim consolidated financial statements, to condensation, the absence of certain notes thereto and normal year-end audit adjustments.

Section 5.6 Absence of Certain Changes. Since December 29, 1990, except as set forth in (i) Disclosure Schedule 5.6 or (ii) the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1990, and the Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 30, 1991, June 29, 1991, or September 28, 1991, neither the Company nor any of its subsidiaries has suffered any Company Material Adverse Effect or taken, failed to take or suffered to exist any action that if taken, not taken or suffered to exist after the date of this Agreement would constitute a breach of any of the covenants set forth herein.

Section 5.7 Certain Fees. With the exception of the fees and expenses payable to Goldman, Sachs & Co. pursuant to the letter agreement dated February 5, 1992 between Goldman, Sachs & Co. and the Company (the "Goldman Sachs Agreement"), a copy of which has been delivered to Shaw, neither the Company, any subsidiary of the Company nor any of their officers or directors has employed any broker or finder or incurred any liability for any financial advisory, brokerage or finder's fee or commissions in connection with the transactions contemplated herein.

Section 5.8 Consents and Approvals; No Violations.

(a) Except as disclosed in Disclosure Schedule 5.8, to the knowledge of the Company, neither the Company nor any of its subsidiaries is in violation of any applicable law, statute, ordinance, order, rule or regulation promulgated or judgment, decree, order, concession, grant, permit, license or other

governmental authorization or approval, issued or entered by, any federal, state or local, United States or foreign, court or governmental authority relating to or affecting the operation, conduct or ownership of the property or business of the Company or any of its subsidiaries, which violation or violations could, individually or in the aggregate, have a Company Material Adverse Effect.

(b) Except for applicable requirements of the Exchange Act, the Securities Act, the filings by Shaw and the Company required by the HSR Act, state securities laws, and the filing of Articles of Merger pursuant to the NCBCA and the GBCC, no filing or registration with, no notice to and no permit, authorization, consent or approval of any public or governmental body or authority is necessary for the consummation by the Company of the transactions contemplated by this Agreement or to enable the Company and its subsidiaries to continue to conduct their business after the Effective Time in a manner which is consistent with that in which they are presently conducted, except where the failure to make such filing or to obtain such permit, authorization, consent or approval will not have a Company Material Adverse Effect. Neither the execution and delivery of this Agreement by the Company, the performance by the Company of its obligations hereunder nor the consummation by the Company of the transactions contemplated hereby will (i) conflict with or result in any breach of any provision of the Articles of Incorporation or By-laws of the Company or the certificates of incorporation or by-laws of any of its material subsidiaries (or comparable documents), (ii) except as set forth in Disclosure Schedule 5.8(b), result in a violation or breach of, or constitute (with or without due notice or lapse of time or the happening or occurrence of any other event) a default by the Company or any of its subsidiaries, or permit the termination of, or require the consent of any other party to, or result in the acceleration of, or entitle any party to accelerate (whether as a result of a change in control of the Company or otherwise) (or give rise to the creation of any lien, charge, security interest or encumbrance upon any properties or assets of the Company or any of its subsidiaries) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which any of them or any of their properties or assets may be bound or (iii) violate any order, writ, injunction, decree, statute, rule or regulation of any court or governmental authority applicable to the Company, any of its subsidiaries or any of their properties or assets, excluding from the foregoing clauses (ii) and (iii) violations, breaches or defaults which in the aggregate would not have a Company Material Adverse Effect or that could not prevent, materially delay or materially burden the transactions contemplated by this Agreement.

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TRADEMARK

Section 5.9 Litigation. Except as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1990 or the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 1991, June 29, 1991, or September 28, 1991, and except as set forth on Disclosure Schedule 5.9, there is no action, suit, set of related actions or suits concerning a common issue, complaint, arbitration, inquiry, proceeding or investigation pending or, to the knowledge of the Company, threatened against or involving the Company or any of its subsidiaries, or any properties or rights of the Company or any of its subsidiaries, before any court, arbitrator or administrative or governmental body and there is no judgment, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or arbitrator outstanding against the Company or any of its subsidiaries which would individually or in the aggregate, if adversely determined, have a Company Material Adverse Effect. There are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against the Company arising out of or in any way related to this Agreement, the Merger or any of the transactions contemplated hereby or thereby.

Section 5.10 Employee Benefit Plans and Arrangements. Except as disclosed in Disclosure Schedule 5.10, the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1990 and the Proxy Statement for the 1991 Annual Meeting of Shareholders of the Company accurately describe all material employee benefit plans, employment or consulting contracts or other arrangements for the provision of benefits or compensation for employees or former employees of the Company and its subsidiaries, and neither the Company nor its subsidiaries have any commitment to create any additional such plans, contracts or arrangements or to amend any such plans, contracts or arrangements so as to increase benefits thereunder. The Company has fulfilled its obligations under the minimum funding standards of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and of the Code with respect to each "employee benefit plan" within the meaning of Section 3(3) of ERISA, if any, and are in compliance in all material respects with the presently applicable provisions of ERISA in the Code, and have not incurred any liability to the Pension Benefit Guaranty Corporation or any plan or multi-employer plan (other than to make contributions in the ordinary course of business). Neither the Company nor any of its subsidiaries has any collective bargaining agreements with any union with respect to any of their employees.

Section 5.11 Registration Statement; Proxy Statement; Other Filings. None of the information supplied or to be supplied by the Company for inclusion in (i) the Registration Statement (as defined in Section 7.2) to be filed by Shaw with the Commission in connection with the Shaw Common Stock to be issued in the Merger, (ii) the Proxy Statement (as defined in Section 7.2) to be mailed to the Company's shareholders in connection with the Shareholders' Meeting

to be called to consider the Merger, or (iii) any other documents to be filed with the Commission or any regulatory agency in connection with the transactions contemplated hereby, will, at the respective times such documents are filed, and, in the case of the Registration Statement, when it becomes effective and at all times necessary for the issuance of the shares of Shaw Common Stock in the Merger fail to comply with the Securities Act, or, with respect to the Proxy Statement, when mailed and at all times through the date of the Shareholders Meeting, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. All documents that the Company is responsible for filing with the Commission and any regulatory agency in connection with the Merger will comply in all material respects with the applicable provisions of the Securities Act, the Exchange Act and state securities laws.

Section 5.12 Opinion of Financial Advisor. The Board of Directors of the Company on or prior to the date hereof has been advised by Goldman, Sachs & Co. ("Goldman Sachs") to the effect that the consideration to be paid to the Company's shareholders in the Merger pursuant to this Agreement and the Articles of Merger is fair to the Company's shareholders. It is understood and agreed that nothing in this representation, express or implied, creates, on the part of Goldman Sachs, any relationship with, or duty to, Shaw or any of its affiliates or shareholders.

Section 5.13 Statutory Provisions. The provisions of Article 9 and 9A of the NCBCA do not apply to this Agreement, the Articles of Merger, the Merger or to the transactions contemplated hereby.

Section 5.14 Vote. The affirmative vote of a majority of the votes that holders of the outstanding shares of Company Common Stock are entitled to cast is the only vote of the holders of Company's capital stock necessary to approve this Agreement and the Articles of Merger and the transactions contemplated hereby.

**ARTICLE VI
CONDUCT OF BUSINESS PENDING THE MERGER**

Section 6.1 Conduct of Business by the Company Pending the Merger. Except as otherwise contemplated hereby, after the date hereof and prior to the Effective Time or earlier termination of this Agreement, unless Shaw shall otherwise agree in writing or as otherwise expressly contemplated by this Agreement (it being agreed, however, that the Company shall be solely responsible for its operations and those of its subsidiaries in accordance with the provisions of this Agreement), the Company shall, and shall cause each of its subsidiaries, to:

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(a) conduct their respective businesses in the ordinary and usual course of business and consistent with past practice;

(b) not (i) amend or propose to amend their respective charters or by-laws; or (ii) split, combine or reclassify their outstanding capital stock or declare, set aside or pay any dividend or distribution payable in cash, stock, property or otherwise, except for regular quarterly cash dividends on Company Common Stock of no more than \$0.02 per share;

(c) not (i) authorize the issuance of, or issue, sell, pledge or dispose of, or agree to issue, sell, pledge or dispose of, any additional shares of, or any options, warrants or rights of any kind to acquire any shares of, their capital stock of any class or any debt or equity securities convertible into or exchangeable for such capital stock, except issuances of shares of Common Stock pursuant to the exercise of stock options outstanding on the date hereof; sell (including, without limitation, by sale-leaseback), pledge, dispose of or encumber any material assets or interests therein, other than in the ordinary course of business and consistent with past practice and other than the sale of the Chatsworth facility of Howard Carpet Mills, Inc., and the retirement of the related indebtedness; (iii) redeem, purchase, acquire or offer to purchase or acquire any shares of its capital stock; (iv) enter into any contract, agreement, commitment or arrangement with respect to any of the foregoing;

(d) use their best efforts to preserve intact their respective business organizations and goodwill, keep available the services of their respective present officers and key employees, and preserve the goodwill and business relationships with suppliers, distributors, customers, and others having business relationships with them;

(e) confer on a regular and frequent basis with one or more representatives of Shaw to discuss operational matters of materiality and the general status of ongoing operations;

(f) promptly notify Shaw of any significant changes in the business, properties, assets, condition (financial or other), results of operations or prospects of the Company or its subsidiaries;

(g) not acquire, or publicly propose to acquire, all or any substantial part of the business and properties or capital stock of any person not a party to this Agreement, whether by merger, purchase of assets, tender offer or otherwise;

(h) not initiate, solicit, or encourage, and will direct and use its best efforts to cause any officer, director or employee, investment banker, attorney, accountant or other agent employed or retained by the Company or any of its subsidiaries not to initiate, solicit or encourage, any proposal or offer to acquire all or any substantial part of the business and properties or capital stock of the Company or any of its subsidiaries, whether by merger, purchase of assets, tender offer or otherwise; provided, however, that the Company and its subsidiaries may furnish information concerning its business, properties or assets to a corporation, partnership, person or other entity or group (a "Third Party") which has expressed an intention to make a bona fide offer or proposal to the Company to acquire the Company and, following receipt of such expression of intention, may negotiate and take any of the actions otherwise prohibited by this Section 6.1(h), including without limitation, the entering into appropriate agreements with such Third Party if the Board of Directors believes in good faith, after consultation with its financial advisor, that such actions may result in a superior financial transaction for shareholders or if outside counsel to the Company advises the Board of Directors of the Company in writing that the failure to furnish such information, negotiate, or enter into appropriate agreements with such Third Party might subject the Company's directors to liability for breach of their fiduciary duties or for failure to conform to the requirements of the securities laws; in the event the Company shall receive an expression of intention or offer of the type referred to in this subsection (h) it shall promptly inform Shaw as to any such inquiry, offer or proposal;

(i) not enter into or amend any employment, severance, bonus, special pay arrangement with respect to termination of employment or other similar arrangements or agreements with any directors, officers or key employees, except as set forth in Disclosure Schedule 6.1(i);

(j) not adopt, enter into or amend any bonus, profit sharing, compensation, stock option, pension, retirement, deferred compensation, health care, employment or other employee benefit plan, agreement, trust, fund or arrangement for the benefit or welfare of any employee or retiree, except (i) as required to comply with changes in applicable law occurring after the date hereof, (ii) with respect to all plans other than in the ordinary course of business and consistent with past practice, and (iii) to increase the aggregate level of base compensation of the officers of the Company and its subsidiaries by not more than 6% in the calendar year 1992;

(k) maintain its current practice with respect to the timing of payment of the Company's regular quarterly cash dividend on Company Common Stock; and

(l) not agree in writing, or otherwise, to take any of the foregoing actions or any other action which would make any representation or warranty contained in Article V untrue or incorrect in any material respect as of the time of the Closing.

Section 6.2 Conduct of Business by Shaw Pending the Merger.
Except as set forth in Disclosure Schedule 6.2 or as otherwise contemplated hereby, after the date hereof and prior to the Effective Time or earlier termination of this Agreement, unless the Company shall otherwise agree in writing or as otherwise expressly contemplated by this Agreement (it being agreed, however, that Shaw shall be solely responsible for its operations and those of its subsidiaries in accordance with the provisions of this Agreement), Shaw shall, and shall cause each of its subsidiaries, to:

(a) conduct their respective businesses in the ordinary and usual course of business and consistent with past practice;

(b) other than the Shaw Stock Split, not (i) amend or propose to amend their respective charters or by-laws; or (ii) split, combine or reclassify their outstanding capital stock or declare, set aside or pay any dividend or distribution payable in stock;

(c) promptly notify the Company of any significant changes in the business, properties, assets, condition (financial or other), results of operations or prospects of Shaw or its subsidiaries; and

(d) not agree in writing, or otherwise, to take any of the foregoing actions or any other action which would make any representation or warranty contained in Article IV untrue or incorrect in any material respect as of the Closing Time.

ARTICLE VII
ADDITIONAL AGREEMENTS

Section 7.1 Access to Information. (a) The Company and its subsidiaries shall afford to Shaw and its accountants, counsel, and other representatives reasonable access during normal business hours and upon reasonable notice throughout the period prior to the Effective Time to all of their respective properties, books, contracts, commitments and records (including, but not limited to, tax returns) and, during such period, shall furnish promptly to Shaw (i) a copy of each report, schedule and other

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TRADEMARK

document filed or received by any of them pursuant to the requirements of federal or state securities laws or the HSR Act or filed or received by any of them with the SEC, Federal Trade Commission ("FTC"), Department of Justice ("DOJ") and (ii) all other information concerning their respective businesses, properties and personnel as Shaw may reasonably request; provided that no investigation pursuant to this Section 7.1(a) shall affect any representations or warranties made herein or the conditions to the obligations of the respective parties to consummate the Merger. The Company and its subsidiaries shall promptly advise Shaw in writing of any change or occurrence of any event after the date of this Agreement having, or which, insofar as can reasonably be foreseen, in the future may have, a Company Material Adverse Effect.

(b) Shaw and its subsidiaries shall afford to the Company and its accountants, counsel and other representatives reasonable access during normal business hours and upon reasonable notice throughout the period prior to the Effective Time to all of their respective properties, books, contracts, commitments and records (including, but not limited to, tax returns) and, during such period, shall furnish promptly to the Company (i) a copy of each report, schedule and other document filed or received by any of them pursuant to the requirements of federal or state securities laws or the HSR Act or filed or received by any of them with the SEC, FTC, DOJ, and (ii) all other information concerning their respective businesses, properties and personnel as the Company may reasonably request; provided that no investigation pursuant to this Section 7.1(b) shall affect any representations or warranties made herein or in the Merger Agreement or the conditions to the obligations of the respective parties to consummate the Merger. Shaw and its subsidiaries shall promptly advise the Company in writing of any change or occurrence of any event after the date of this Agreement having, or which, insofar as can reasonably be foreseen, in the future may have, a Shaw Material Adverse Effect.

(c) As a condition to each party hereto furnishing to the other party hereto and their directors, officers, employees, agents and advisors (collectively, "Representatives") financial and other information that has not heretofore been made generally available on a nonconfidential basis, each party hereto agrees to treat such information furnished to it (both orally and in writing) before or after the date hereof by or on behalf of the other party or its Representatives and all notes, analyses, compilations, studies, interpretations and other material prepared by it or its Representatives containing or based in whole or in part on any such information furnished by or on behalf of the other party or any of its Representatives (collectively, the "Evaluation Material") as follows:

(1) Each party hereto recognizes and acknowledges the competitive value and confidential nature of the Evaluation Material and the damage that could result to the other party if information contained therein is disclosed to any third party.

(2) Each party hereto agrees that the Evaluation Material will be used solely for the purpose of evaluating the transaction contemplated hereby. Each party hereto agrees that it will not disclose any of the Evaluation Material to any third party without the prior written consent of the other party hereto; provided, however, that any such information may be disclosed to its Representatives who need to know such information for the purpose of evaluating the transaction contemplated herein and who agree to keep such information confidential and to be bound by the provisions of this Section 7.1(c) to the same extent as if they were parties hereto.

(3) In the event that a party hereto or its Representatives are requested in any proceeding to disclose any Evaluation Material, it will give the other party hereto prompt notice of such request so that the other party hereto may seek an appropriate protective order. If, in the absence of a protective order, the party or its Representatives are nonetheless compelled by law to disclose such Evaluation Material, it or its Representatives, as the case may be, may disclose such information in such proceeding without liability hereunder; provided, however, that it gives the other party hereto written notice of the information to be disclosed as far in advance of its disclosure as is practicable and, upon the request of the other party hereto and at its expense, use its best efforts to obtain assurances that confidential treatment will be accorded to such information.

(4) Except for the transactions contemplated by this Agreement, for a period of one year from the date hereof, Shaw and its affiliates, as defined in Rule 12b-2 under the Exchange Act, will not (and Shaw and its affiliates will not assist or encourage others to), directly or indirectly, unless specifically requested to do so in writing in advance by the Company's Board of Directors:

- (a) acquire or agree, offer, seek or propose to acquire, or cause to be acquired, ownership (including, but not limited to, beneficial ownership as defined in Rule 13d-3 under the Exchange Act) of more than in the aggregate 1% of the outstanding voting securities issued by the Company, or any rights or options to acquire such ownership (including from a third party), or
- (b) engage in "solicitation" of "proxies" (as such terms are used in the proxy rules of the Commission) or consents from holders of any voting securities of the Company, or

REEL 0893 FRAME 790

TRADEMARK

- (c) seek or propose to influence or control the Company's management or policies, or
- (d) offer employment to or retain as an employee or consultant any of the existing officers of the Company, or
- (e) take any action which would force the Company to make a public announcement regarding any of the types of matters set forth in (a) above, or
- (f) enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the foregoing; provided, however, in the event that the Company terminates this Agreement pursuant to Section 9.1(d)(ii) and Shaw has not materially breached its obligations hereunder, the foregoing provisions of this Section 7.1(c)(4) shall not apply.

Shaw also agrees during such period not to request the Company (or its directors, officers, employees or agents), directly or indirectly, to amend or waive any provision of this subparagraph (4) (including this sentence). If at any time during such period Shaw or its Representatives are approached by any third party concerning Shaw's participation in a transaction involving securities issued by the Company, Shaw will promptly inform the Company of the nature of such transaction and the parties thereto.

(5) In the event that the transaction contemplated by this Agreement is not consummated each party will promptly redeliver to the other party all copies of all Evaluation Material furnished to it or its Representatives and will destroy all analyses, compilations, studies and other material based in whole or in part on such material prepared by or on behalf of such party.

(6) Each party and its Representatives shall have no obligation hereunder with respect to any information in the Evaluation Material furnished by the other party or its Representatives to the extent that such information (a) has been made public other than by the acts of the recipient party or acts of its Representatives in violation of this Agreement or (b) becomes available to the recipient party on a nonconfidential basis from a source that is entitled to disclose it on a nonconfidential basis.

(7) Each party hereto agrees that money damages would not be a sufficient remedy for any breach of the agreements set forth in this Section 7.1(c) by it or its Representatives, and that, in addition to all other remedies, the other party hereto shall be entitled to specific performance and injunctive or other equitable relief as a remedy for any such breach, and each party hereto further agrees to waive, and to use its best efforts to cause its

REEL 0893 FRAME 791

TRADEMARK

Representatives to waive, any requirement for the securing or posting of any bond in connection with such remedy. Each party hereto agrees to be responsible for any breach of this agreement set forth in this Section 7.1(c) by any of its Representatives.

Section 7.2 Proxy Statement; Registration Statement; Other Filings. (a) The Company and Shaw shall prepare, shall file with the Commission as promptly as practicable and shall use all reasonable efforts to have cleared by the Commission, a proxy statement/prospectus with respect to the Shareholders' Meeting referred to in Section 7.3 and the distribution of Merger Consideration described in Article III. The term "Proxy Statement" shall mean such proxy statement/prospectus at the time it initially is mailed to the Company's shareholders and all amendments or supplements thereto duly filed and similarly mailed. Each of Shaw and the Company agrees to correct promptly (but in no event later than the date of the Shareholders' Meeting referred to in Section 7.3) any information provided by it for use in the Proxy Statement which contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Proxy Statement shall be the prospectus of Shaw to be included in the Registration Statement described in (b) below. Shaw and the Company shall cooperate with each other in the preparation of such Proxy Statement and Registration Statement.

(b) Shaw shall prepare and shall file with the Commission as promptly as practicable a Registration Statement on Form S-4 (the "Registration Statement") under the Securities Act and shall use all reasonable efforts to have the Registration Statement declared effective by the Commission as promptly as practicable. Shaw shall also take such action as is reasonably required to be taken under state blue sky or securities laws. The term "Registration Statement" shall mean such Registration Statement at the time it becomes effective and all amendments or supplements thereto duly filed. Shaw and the Company each agree to correct promptly (but in no event later than the date of the Shareholders' Meeting referred to in Section 7.3) any information provided by it for use in the Registration Statement which contains any untrue statements of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(c) As soon as practicable after the date hereof, the Company and Shaw shall promptly prepare and file any other filings required under the Exchange Act, the Securities Act or any other federal or state securities laws relating to the Merger and the transactions contemplated herein ("Other Filings").

REEL 002461 FRAME 0098

Section 7.3 Shareholders' Approval. The Company, in accordance with applicable law, shall promptly submit this Agreement and the transactions contemplated hereby for the approval of its shareholders at a Shareholders' Meeting to be held as soon as practicable after the Registration Statement is declared effective by the SEC and, subject to the fiduciary duties of the Board of Directors of the Company under applicable law, shall use its best efforts to obtain shareholder approval of this Agreement and the transactions contemplated hereby.

Section 7.4 Exchange Listing. Shaw shall use its best efforts to effect, at or before the Effective Time, authorization for listing on applicable stock exchanges, upon official notice of issuance, of the additional shares of Shaw Common Stock to be issued pursuant to the Merger.

Section 7.5 Expenses. Whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses; provided, however, if this Agreement is terminated by the Company pursuant to Section 9.1(d)(ii) and Shaw has not materially breached its obligations hereunder, the Company shall pay Shaw's reasonable out-of-pocket fees and expenses in connection with this Agreement and the transactions contemplated herein in an amount not to exceed \$1,000,000, including, but not limited to, fees and expenses of counsel and printing expenses. Such payment of expenses constitutes liquidated damages and not a penalty.

Section 7.6 Agreement to Cooperate.

(a) Subject to the terms and conditions herein provided, each of the parties hereto shall use all best efforts to take, or cause to be taken, all action to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including using its best efforts to obtain all necessary or appropriate waivers, consents and approvals, to effect all necessary registrations and filings (including, but not limited to, filings under the HSR Act), entering into negotiations providing information or proposing settlements reasonably calculated to avoid or eliminate any impediment under any antitrust law that may be asserted by any governmental authority and to prevent the commencement of proceedings to enjoin or delay consummation of the Merger by such governmental authority or, if such proceedings are commenced, to thereafter prevent the entry of any injunction or other order delaying or preventing the Merger, and to lift any injunction or other legal bar to the Merger (and, in such case, to proceed with the Merger as expeditiously as possible), subject, however, to the

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TRADEMARK

requisite vote of the shareholders of the Company. Each party hereto agrees to allow the other to review each regulatory filing made by such party prior to the filing thereof during the term of this Agreement.

(b) Without limiting the generality of Shaw's undertakings pursuant to Section 7.6(a), Shaw shall:

(i) take promptly any or all of the following actions to the extent necessary to eliminate any concerns on the part of any federal, state or local governmental authority with jurisdiction over the enforcement of any applicable antitrust laws ("Government Antitrust Authority") regarding the legality under any antitrust law of the Merger: entering into negotiations, providing information, making proposals, entering into and performing agreements or submitting to judicial or administrative orders, or selling or otherwise disposing of, or holding separate (through the establishment of a trust or otherwise), particular assets or categories of assets, or businesses, of the Company or Shaw or any of their respective subsidiaries or affiliates;

(ii) use its best efforts to prevent the entry in a judicial or administrative proceeding brought under any antitrust law by any government antitrust authority or any other party of any permanent or preliminary injunction or other order that would make consummation of the Merger in accordance with the terms of this Agreement unlawful or that would prevent or delay such consummation, including, without limitation, taking the steps contemplated by Section 7.6(b)(i);

(iii) take promptly, in the event that such an injunction or order has been issued in such a proceeding, any and all steps, including, without limitation, the appeal thereof, the posting of a bond or the steps contemplated by Section 7.6(b)(i), necessary to vacate, modify or suspend such injunction or order so as to permit such consummation on a schedule as close as possible to that contemplated by this Agreement; and

(iv) take promptly all other actions and do all other things necessary and proper to avoid or eliminate each and every impediment under any antitrust law that may be asserted by any government antitrust authority or any other party to the consummation of the Merger in accordance with the terms of this Agreement.

Section 7.7 Public Statements. The parties shall consult with each other prior to issuing any public announcement or

statement with respect to this Agreement or the transactions contemplated hereby and shall not issue any such public announcement or statement prior to such consultation, except as may be required by law or any listing agreement with a national securities exchange.

Section 7.8 Employee Benefits. Shaw shall following the Effective Time afford or cause to be afforded health, life, disability and severance pay benefits and participation in bonus, savings, incentive and retirement plans of Shaw to the active and former employees of the Company and its subsidiaries which, in the aggregate, are no less favorable to such employees than the benefits applicable to Shaw's similarly situated employees. Shaw shall grant employees after the Effective Time credit for all service with the Company and its subsidiaries prior to the Effective Time for all purposes for which such service was credited to employees by Shaw and its subsidiaries with respect to all benefit arrangements maintained by such entities. Shaw shall continue to employ substantially all current employees at substantially the same or reasonably comparable salaries and wages (including commissions and sales incentive programs) and on substantially the same terms and conditions as in effect immediately prior to the Effective Time. Shaw shall continue to honor the terms of all agreements (including, but not limited to, employment and consulting and severance agreements) between the Company and any employee or employees which relate to employment or compensation or benefits; provided, however, nothing contained in this Section 7.8 shall be construed to require the continued employment of any specific employee.

Section 7.9 Directors' and Officers' Indemnification. (a) To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, Shaw shall, to the fullest extent permitted under applicable law, indemnify, defend and hold harmless the present and former officers and directors of the Company and its subsidiaries (the "Indemnified Parties") against all losses, expenses (including reasonable attorney's fees), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement arising out of actions or omissions occurring at or prior to the Effective Time that are in whole or in part based on, or arising out of the fact that such person is or was a director or officer of the Company or a subsidiary of the Company or arising out of or pertaining to the transactions contemplated by this Agreement. In the event of any such loss, expense, claim, damage or liability (whether arising before or after the Effective Time), (i) Shaw shall pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to Shaw, promptly after statements therefor are received, and (ii) Shaw will cooperate in the defense of any such matter; provided, however, that Shaw shall not be

liable for any settlement effected without its written consent (which consent shall not be unreasonably withheld). The Indemnified Parties as a group may retain only one law firm with respect to each related matter except to the extent there is, in the sole opinion of counsel to an Indemnified Party, under applicable standards of professional conduct, a conflict on any significant issue between positions of any two or more Indemnified Parties.

(b) For six years after the Effective Time, Shaw shall cause to be maintained in effect the current policies of directors' and officers' liability insurance maintained by the Company (provided that Shaw may substitute therefor policies of at least the same coverage containing terms that are no less advantageous) with respect to matters occurring prior to the Effective Time.

(c) In the event Shaw or any of its successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfers all or substantially all of its properties and assets to any person, then and in each such case, proper provisions shall be made so that the successors and assigns of Shaw shall assume the obligations set forth in Sections 7.8 and 7.9.

Section 7.10 Accountants' Letters. Each of Shaw and the Company agrees to use its best efforts to cause to be delivered to the other letters of Arthur Andersen & Co., independent auditors for Shaw, and Price Waterhouse, independent auditors for the Company, dated the date of the Joint Proxy Statement/Prospectus, the effective date of the Registration Statement and the Effective Time (or such other dates reasonably acceptable to the parties) with respect to certain financial statements and other financial information included in the Registration Statement, which letters shall be in form and substance reasonably satisfactory to the addressee.

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Section 7.11 Stock Options and Stock Appreciation Rights. Pursuant to this Agreement each holder of an outstanding option to purchase shares of Company Common Stock (an "Option") and related stock appreciation rights ("SAR"), if any, granted under any employee stock option plan of the Company, whether or not exercisable or vested, shall be entitled to receive from the Company, on the day prior to the Effective Time, (a) for each share of Company Common Stock subject to such Option an amount in cash in cancellation of such Option equal to the excess, if any, of the Cash over the per share exercise price of such Option and (b) for each SAR, an amount in cash in cancellation of such SAR equal to the excess, if any, of the Cash over the per share exercise price of such SAR. If the exercise price of any Option or SAR exceeds the Cash amount, such Option or SAR shall not be entitled to

receive any consideration therefor. Except as provided herein, the employee stock option plans of the Company shall terminate as of the Effective Time.

ARTICLE VIII
CONDITIONS

Section 8.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following conditions:

(a) This Agreement and the transactions contemplated hereby shall have been approved and adopted by the requisite vote of the shareholders of the Company under applicable law and applicable listing requirements;

(b) The shares of Shaw Common Stock issuable in the Merger shall have been authorized for listing on any applicable stock exchange upon official notice of issuance;

(c) The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated;

(d) The Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no stop order suspending such effectiveness shall have been issued and remains in effect;

(e) No preliminary or permanent injunction or other order or decree by any federal or state court which prevents the consummation of the Merger shall have been issued and remains in effect (each party agreeing to use all best efforts to have any such injunction, order or decree lifted); and

(f) All governmental consents and approvals legally required for the consummation of the Merger and the transactions contemplated hereby shall have been obtained and be in effect at the Effective Time on terms and conditions that would not have a material adverse effect on the prospects of the Surviving Corporation; and

TRADEMARK

REEL 0893 FRAME 797

(g) The Company shall have received an opinion of Petree Stockton & Robinson (and a copy thereof shall have been delivered to Shaw) in form and substance satisfactory to the Company, dated the date on which the Effective Time shall occur, or a ruling from the IRS, in form and substance satisfactory to the Company, to the effect that the Company's shareholders (except to the extent any shareholders have perfected dissenters' rights under NCBCA or Company shareholders have received cash in lieu of fractional shares or have elected to receive cash consideration pursuant to Article III hereof) will recognize no gain or loss for federal income tax purposes as a result of consummation of the Merger.

Section 8.2 Conditions to Obligation of the Company to Effect the Merger. The obligation of the Company to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following additional conditions:

(a) Shaw shall have performed in all material respects its agreements contained in this Agreement required to be performed at or prior to the Effective Time and the representations and warranties of Shaw contained in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and at and as of the Effective Time as if made on and as of such date or time, except as contemplated or permitted by this Agreement, and the Company shall have received a certificate of any Senior Vice-President of Shaw to that effect;

(b) The Company shall have received opinions addressed to the Company from Powell, Goldstein, Frazer & Murphy, dated the date on which the Effective Time shall occur, substantially in the forms set forth in Exhibit A hereto;

(c) The Company shall have received the letters of Price Waterhouse and Arthur Andersen & Co. contemplated by Section 7.10 hereof;

(d) Since the date hereof, no Shaw Material Adverse Effect shall have occurred;

(e) The Company shall have received sufficient representations from its shareholders who own five percent or more of the Company Common Stock or who are employees, officers, or directors of the Company or their relatives so that in the reasonable judgment of the Company the Merger will not violate the continuity of shareholder interest requirement set forth in Treasury Regulation § 1.368-1.

Section 8.3 Conditions to Obligation of Shaw to Effect the Merger. The obligation of Shaw to effect the Merger shall be

REEL 0893 FRAME 798

subject to the fulfillment at or prior to the Effective Time of the additional following conditions:

(a) The Company shall have performed in all material respects its agreements contained in this Agreement required to be performed at or prior to the Effective Time and the representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects on and as of the date of this Agreement and at and as of the Effective Time as if made on and as of such date or time, except as contemplated or permitted by this Agreement, and Shaw shall have received a Certificate of the Chairman of the Board, President and Chief Executive Officer, or Executive Vice President and Chief Financial Officer of the Company to that effect;

(b) Shaw shall have received an opinion from Petree Stockton & Robinson, counsel to the Company, dated as of the date on which the Effective Time shall occur, substantially in the form set forth in Exhibit B hereto;

(c) The Company shall have received an unqualified opinion of Price Waterhouse, certified public accountants for the Company, in form and substance satisfactory to Shaw with respect to the Company's financial statements for fiscal year ended December 28, 1991;

(d) Shaw shall have received the letters of Price Waterhouse and Arthur Andersen & Co. contemplated by Section 7.10 hereof; and

(e) Since the date hereof, no Company Material Adverse Effect shall have occurred.

ARTICLE IX
TERMINATION, AMENDMENT AND WAIVER

Section 9.1 Termination. This Agreement may be terminated and the Merger contemplated hereby may be abandoned at any time prior to the Effective Time, whether before or after approval by the shareholders of the Company:

(a) by mutual consent of Shaw and the Company; or

(b) by either Shaw or the Company if (i) the Merger shall not have been consummated on or before December 31, 1992 (the "Termination Date"), (ii) the requisite vote of the shareholders of the Company to approve this Agreement and the transactions contemplated hereby shall not be obtained at the Shareholders'

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Meeting, or any adjournment thereof, called therefor, or (iii) any court of competent jurisdiction in the United States or any State shall have issued an order, judgment or decree (other than a temporary restraining order) restraining, enjoining or otherwise prohibiting the Merger and such order, judgment or decree shall have become final and nonappealable; provided that the right to terminate this Agreement under this Section 9.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before such date; or

(c) by Shaw (i) if the Board of Directors of the Company shall have withdrawn or modified in a manner adverse to Shaw its approval or recommendation of the Merger, this Agreement or the transactions contemplated hereby, or shall have resolved to do any of the foregoing, or (ii) there has been (x) a material breach of any covenant or agreement herein on the part of the Company which has not been cured or adequate assurance of cure given, in either case within 15 business days following receipt of notice of such breach, or (y) a material breach of a representation or warranty of the Company herein which by its nature cannot be cured prior to the Termination Date; or

(d) by the Company if (i) there has been (x) a material breach of any covenant or agreement herein on the part of Shaw which has not been cured or adequate assurance of cure given, in either case within 15 business days following receipt of notice of such breach or (y) a material breach of a representation or warranty of Shaw herein which by its nature cannot be cured prior to the Termination Date, (ii) the Board of Directors of the Company, pursuant to the actions permitted by the proviso of Section 6.1(h), shall have authorized the Company, immediately following such termination, to enter into an agreement with any third party with respect to the merger of the Company or the sale of all or substantially all of the assets of the Company, (iii) the Base Period Stock Price is less than \$32.00 per share (automatically adjusted to be \$16.00 per share upon the Shaw Stock Split, as defined in Section 3.4 hereof) (the "Termination Price"), provided, however, that by 5:00 p.m. Atlanta Time on the business day immediately preceding the date of the Shareholders' Meeting, Shaw does not give the Company written notice of its agreement to increase the number of shares of Shaw Common Stock to be received in the Merger for each share of Company Common Stock exchanged therefor to the number obtained by dividing \$7.09 by the actual Base Period Stock Price (without reference to the Conversion Ratio Limitation but with any adjustment required pursuant to Section 3.4 hereof); or (iv) the closing price per share of Shaw Common Stock on the New York Stock Exchange on the day prior to the Shareholders' Meeting is less than the Base Period Stock Price (without reference to the Conversion Ratio Limitation) unless Shaw shall give the Company written notice by 6:00 p.m. Atlanta Time on

such date of its written agreement to increase the number of shares of Shaw Common Stock to be received in the Merger for each share of Company Common Stock exchanged therefor to the number obtained by dividing \$7.09 by such per share closing price.

Section 9.2 Effect of Termination. In the event of termination of this Agreement by either Shaw or the Company, as provided in Section 9.1, this Agreement shall forthwith become void and there shall be no liability on the part of either the Company or Shaw or their respective officers or directors (except as set forth in this Section 9.2 and in Sections 7.1 and 7.5 which shall survive the termination). Nothing in this Section 9.2 shall relieve any party from liability for any breach of this Agreement.

Section 9.3 Amendment. This Agreement may be amended by the parties hereto, at any time before or after approval hereof by the shareholders of the Company, but, after any such approval, no amendment shall be made which reduces the merger consideration for the Company Common Stock or the form thereof without the further approval of such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 9.4 Waiver. At any time prior to the Effective Time, the parties hereto may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein; provided, however, that waiver of compliance with any agreements or conditions herein shall not limit the parties' obligations to comply with all other agreements or conditions herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid if set forth in an instrument in writing signed on behalf of such party.

ARTICLE X
GENERAL PROVISIONS

Section 10.1 Non-Survival of Representations, Warranties and Agreements. All representations, warranties and agreements in this Agreement shall not survive the Merger, except for the agreements contained in this Section 10.1 and in Sections 7.8 and 7.9.

Section 10.2 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or mailed by registered or certified mail (return receipt requested) to the parties at the following

addresses (or at such other address for a party as shall be specified by like notice):

- (a) If to Shaw to:
Shaw Industries, Inc.
P.O. Drawer 2128
Dalton, Georgia 30722

Attention: Robert E. Shaw

with copies to:

Powell, Goldstein, Frazer & Murphy
Sixteenth Floor
191 Peachtree Street, N.E.
Atlanta, Georgia 30303

Attention: Robert R. Harlin, Esq.

- (b) If to the Company, to:

Salem Carpet Mills, Inc.
NCNB Plaza, Suite 1100
Winston-Salem, NC 27101

Attention: W. Douglas Foster

with a copy to:

Petree Stockton & Robinson
1001 West Fourth Street
Winston-Salem, NC 27101

Attention: James S. Dockery, Jr.

Section 10.3 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Disclosure of any fact or item in any Disclosure Schedule hereto referenced by a particular section in this Agreement shall, should the existence of the fact or item or its contents be relevant to any other section, be deemed to be disclosed with respect to that other section whether or not an explicit cross reference appears.

Section 10.4 Miscellaneous. This Agreement (including the documents and instruments referred to herein) (a) constitutes the entire agreement and supersedes all other prior agreements and

understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof; (b) is not intended to confer upon any other person any rights or remedies hereunder, except for rights of Indemnified Parties under Section 7.9 and the rights of the Company's employees under Section 7.8; (c) shall not be assigned by operation of law or otherwise; and (d) shall be governed in all respects; including validity, interpretation and effect, by the laws of the State of North Carolina (without giving effect to the provisions thereof relating to conflicts of law). Each party hereto consents to personal jurisdiction in and by North Carolina and voluntarily submits to the jurisdiction of the courts of such state in any action or proceeding with respect to this Agreement, including federal district courts located in such state. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

Section 10.5 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement.

Section 10.6 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under this Agreement. Notwithstanding the foregoing and any other provision of this Agreement, any of the Indemnified Parties (as defined in Section 7.9 hereof) and the Company's employees pursuant to Section 7.8 shall be entitled during the six year period after the Effective Time to enforce the provisions of Sections 7.9 or 7.8 hereof the parties hereto acknowledge and agree that the covenants and obligations contained in such Section 7.9 and 7.8 relate to special, unique and extraordinary matters and that a violation of any of the terms thereof will cause the persons to which such Sections and agreements relate irreparable injury for which adequate remedy at law is not available. Therefore, the parties agree that the Indemnified Parties and the Company's employees shall be entitled to an injunction, restraining the breaching party from committing any violation of the covenants and obligations set forth therein. Such rights and remedies under the preceding sentence are cumulative and are in addition to any other rights and remedies a party may have at law or in equity. Shaw shall pay, at the time they are incurred, all reasonable costs, fees and expenses of one firm of counsel of such directors incurred in connection with the assertion of any rights on behalf of the persons set forth above pursuant to this Section 10.6.

REEL 0893 FRAME 03
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IN WITNESS WHEREOF, Shaw and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

SHAW:

SHAW INDUSTRIES, INC.

By: [Signature]
Title: Senior Vice President

COMPANY:

SALEM CARPET MILLS, INC.

By: [Signature]
Title: Executive Vice President C.F.O.

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EXHIBIT A**Form of Opinion of Powell, Goldstein, Frazer & Murphy**

The opinion may be subject to such customary and reasonable qualifications, assumptions and limitations as are reasonably acceptable to the Company and its counsel. The opinion may rely upon the opinion of Bennie M. Laughter, General Counsel of Shaw.

1. Shaw is a corporation duly organized, validly existing and in good standing under the laws of the state of Georgia.

2. Shaw has all requisite corporate power and authority to execute and deliver the Agreement and the Articles of Merger and to perform its obligations thereunder and to consummate the transactions contemplated thereby. The execution, delivery and performance of the Agreement and the Articles of Merger by Shaw, and the consummation by Shaw of the transactions contemplated thereby, have been duly authorized by Shaw's Board of Directors, and no other corporate action or proceeding on the part of Shaw or Shaw's security holders is necessary for the execution, delivery and performance of the Agreement by Shaw and the consummation of the transactions contemplated by the Agreement. The Agreement and the Articles of Merger have been duly and validly executed, and delivered by Shaw and the Agreement constitutes the legal, valid and binding obligation of Shaw, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

3. Neither the execution and delivery of the Agreement or the Articles of Merger by Shaw, the performance by Shaw of its obligations thereunder nor the consummation by Shaw of the transactions contemplated thereby will (i) conflict with or result in any breach of any provision of the Articles of Incorporation or By-laws of Shaw, (ii) to the best of our knowledge, after due inquiry, result in a violation or breach of, or constitute (with or without due notice or lapse of time or in the happening or occurrence of any other event) a default by Shaw, or permit the termination of, or require the consent of any other party to, or result in the acceleration of, or entitle any party to accelerate (or give rise to the creation of any lien, charge, security interest or encumbrance upon any properties or assets of Shaw) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement or other instrument or obligation to which Shaw is a party or by which it or its properties or assets may be bound or (iii) to the best of our knowledge, after due inquiry, violate any order, writ, injunction,

decree, statute, rule or regulation of any court or governmental authority applicable to Shaw or any of its properties or assets, excluding from the foregoing clauses (ii) and (iii) violations, breaches or defaults which in the aggregate would not have a Shaw Material Adverse Effect or that could not prevent, materially delay or materially burden the transactions contemplated by this Agreement.

4. No filing or registration with, no notice to and no permit, authorization, consent or approval of any public or governmental body or authority is necessary for the execution and delivery of the Agreement or the Articles of Merger by Shaw or the consummation by Shaw of the transactions contemplated thereby (other than those which have been obtained or made prior to the date hereof).

5. The Shaw Common Stock that will be issued in accordance with the Agreement has been duly authorized and, when issued as contemplated hereby, will be validly issued, fully paid and nonassessable and subject to no preemptive rights.

6. To the best of our knowledge, after due inquiry, except as disclosed in the Shaw's Annual Report on Form 10-K for the fiscal year ended June 29, 1991 and in Exhibit A hereto, there is no action, suit, set of related actions or suits concerning a common issue, complaint, arbitration, inquiry, proceeding or investigation pending or overtly threatened in writing against or involving Shaw or any of its subsidiaries, or any properties or rights of Shaw or any of its subsidiaries, before any court, arbitrator or administrative or governmental body and there is no judgment, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or arbitrator outstanding against Shaw or any of its subsidiaries which would individually or in the aggregate, if adversely determined, have a Shaw Material Adverse Effect. To the best of our knowledge after due inquiry, as of the date hereof there are no actions, suits or proceedings pending or threatened against Shaw arising out of or in any way related to the Agreement, the Merger or any of the transactions contemplated thereby.

7. The Articles of Merger comply with the GBCC and, upon filing with the Secretary of State of Georgia and assuming effectiveness thereof under the NCBCA, will effect the Merger as contemplated by the Agreement.

TRADEMARK

REEL 0893 FRAME 806

EXHIBIT B**Form of Opinion of Patree Stockton & Robinson**

The opinion may be subject to such customary and reasonable qualifications, assumptions and limitations as are reasonably acceptable to Shaw and its Counsel.

1. Each of the Company and its material subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, with all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as it is now being conducted, and is qualified or licensed to do business and is in good standing in each jurisdiction in which the ownership or leasing of property by it or the conduct of its business requires such licensing or qualification, except for such failures to be so qualified or licensed which would not have a Company Material Adverse Effect.

2. The authorized capital stock of the Company consists of 15,000,000 shares of Company Common Stock, par value \$1.00 per share. All of the outstanding shares of Company Common Stock have been duly authorized and validly issued, were not issued in violation of any person's preemptive rights and are fully paid and nonassessable.

3. The Company has all requisite corporate power and authority to execute and deliver the Agreement and the Articles of Merger and to perform its obligations thereunder and to consummate the transactions contemplated thereby. The execution, delivery and performance of the Agreement and the Articles of Merger by the Company, and the consummation by the Company of the transactions contemplated thereby, have been duly authorized by the Company's Board of Directors and by the Company's shareholders and no other corporate action or proceeding on the part of the Company is necessary for the execution, delivery and performance of the Agreement by the Company and the consummation of the transactions contemplated by the Agreement. The Agreement and the Articles of Merger have been duly and validly executed and delivered by the Company, and the Agreement constitutes the legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

4. Neither the execution and delivery of the Agreement or the Articles of Merger by the Company, the performance by the

Company of its obligations thereunder nor the consummation by the Company of the transactions contemplated thereby will (i) conflict with or result in any breach of any provision of the Articles of Incorporation or By-laws of the Company or the certificates of incorporation or by-laws (or comparable documents) of any of its material subsidiaries, (ii) to the best of our knowledge, after due inquiry, except as set forth in Disclosure Schedule 5.8(b) of the Agreement and Exhibit A hereto, result in a violation or breach of, or constitute (with or without due notice or lapse of time or the happening or occurrence of any other event) a default by the Company or any of its subsidiaries, or permit the termination of, or require the consent of any other party to, or result in the acceleration of, or entitle any party to accelerate (whether as a result of a change in control of the Company or otherwise) (or give rise to the creation of any lien, charge, security interest or encumbrance upon any properties or assets of the Company or any of its subsidiaries) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which any of them or any of their properties or assets may be bound or (iii) to the best of our knowledge, after due inquiry, violate any order, writ, injunction, decree, statute, rule or regulation of any court or governmental authority applicable to the Company, any of its subsidiaries or any of their properties or assets, excluding from the foregoing classes (ii) and (iii) violations, breaches or defaults which in the aggregate would not have a Company Material Adverse Effect or that could not prevent, materially delay or materially burden the transactions contemplated by this Agreement.

5. No filing or registration with, no notice to and no permit, authorization, consent or approval of any public or governmental body or authority is necessary for the execution and delivery of the Agreement or the Articles of Merger by the Company or the consummation by the Company of the transactions contemplated thereby (other than those which have been obtained or made prior to the date hereof).

6. To the best of our knowledge, after due inquiry, except as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1990, the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 1991, June 29, 1991, or September 28, 1991, and Exhibit B hereto, there is no action, suit, set of related actions or suits concerning a common issue, complaint, arbitration, inquiry, proceeding or investigation pending or overtly threatened in writing against or involving the Company or any of its subsidiaries, or any properties or rights of the Company or any of its subsidiaries, before any court, arbitrator or administrative or governmental body and there is no judgment, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or arbitrator outstanding against the Company or any of its subsidi-

aries which would individually or in the aggregate, if adversely determined, have a Company Material Adverse Effect. To the best of our knowledge after due inquiry, as of the date hereof there are no actions, suits or proceedings pending or threatened against the Company arising out of or in any way related to this Agreement, the Merger or any of the transactions contemplated thereby.

7. The provisions of Articles 9 and 9A North Carolina Business Corporation Act do not apply to the Agreement, the Articles of Merger, the Merger or to the transactions contemplated thereby.

8. The affirmative vote of a majority of the votes that holders of the outstanding shares of Company Common Stock are entitled to cast is the only vote of the holders the Company's capital stock necessary to approve the Agreement and the Articles of Merger and the transactions contemplated thereby.

9. The Articles of Merger comply with the NCBCA and, upon filing with the Secretary of State of North Carolina and assuming effectiveness thereof under the GBCC, will effect the Merger as contemplated by the Agreement.

01100952

REEL 0893 FRAME 809
TRADEMARK

EXHIBIT C

ARTICLES OF MERGER OF
SALEM CARPET MILLS, INC.
WITH AND INTO
SHAW INDUSTRIES, INC.

Pursuant to Section 55-11-05 of the General Statutes of North Carolina and Section 14-2-11-5 of the Georgia Business Corporation Code, the undersigned corporation, as the surviving corporation in a merger, hereby submits the following Articles of Merger.

I.

Salem Carpet Mills, Inc., a North Carolina corporation ("Salem"), shall merge with and into Shaw Industries, Inc., a Georgia corporation ("Shaw"), with Shaw to be the surviving corporation of the merger (the "Merger"). The Merger shall be consummated in accordance with the Plan of Merger attached hereto as Exhibit A.

II.

The Merger was duly approved by the board of directors of Shaw on _____, 1992. Approval of the Merger by the shareholders of Shaw is not required pursuant to Section 14-2-1103(h) of the Georgia Business Corporation Code.

III.

The Merger was duly approved by the board of directors of Salem on _____, 1992 and by the shareholders of Salem on _____, 1992, as required by the North Carolina Business Corporation Act.

IV.

The Merger shall be effective in Georgia and North Carolina, respectively, upon the filing of these Articles of Merger with the Secretary of State of Georgia and the Secretary of State of North Carolina, respectively.

TRADEMARK

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IN WITNESS WHEREOF, Shaw has caused these Articles of Merger to be executed by its duly authorized officer this ____ day of _____, 1992.

SHAW INDUSTRIES, INC.

By: _____
Name: _____
Title: _____

Attest:

By: _____
Bennie M. Laughter, Secretary

01100952

TRADEMARK

REEL 093 FRAME 11

DISCLOSURE SCHEDULE 5.3

- | | | |
|----|---|-------------------------|
| 1. | <u>Salem Carpet Mills, Inc. 1981 Incentive Stock Option Plan</u> | |
| | <u>Outstanding Options</u> | <u>Outstanding SARs</u> |
| | 69,250 | 34,625 |
| 2. | <u>Salem Carpet Mills, Inc. 1984 Nonqualified Stock Option Plan</u> | |
| | <u>Outstanding Options</u> | <u>Outstanding SARs</u> |
| | 5,000 | 2,500 |
| 3. | <u>Salem Carpet Mills, Inc. 1991 Incentive Stock Option Plan</u> | |
| | <u>Outstanding Options</u> | <u>Outstanding SARs</u> |
| | 15,000 | None* |

*(SARs not available under this Plan)

TRADEMARK

REEL 893 FRAME 812

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

TRADEMARK
REEL: 002461 FRAME: 0118

DISCLOSURE SCHEDULE 5.4

1. Subsidiaries:

Winston Carpet Corporation
Salem Carpet Transportation, Inc.
Howard Carpet Mills, Inc.

Subsidiaries of Howard Carpet Mills, Inc.
Design Carpet Mills, Inc.
Architectural Carpet Mills, Inc.
Howard Carpet Mills of Georgia, Inc.
Howard Carpet Mills International, Inc.

TRADEMARK

REEL 893 FRAME 13

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

DISCLOSURE SCHEDULE 5.6

- 1. On December 18, 1991, the Company and The Prudential Insurance Company of America ("Prudential") entered into amendments (the "Amendment") of the Note Purchase Agreement between the Company and Prudential dated as of June 30, 1987 (the "1987 Note Agreement") and the Note Purchase Agreement between the Company and Prudential dated as of December 1, 1989 (the "1989 Note Agreement"). Pursuant to the Amendment, the Company granted a first priority security interest to Prudential in the property, plant, and equipment constituting the Company's South Pittsburg, Tennessee, and Lafayette, Georgia facilities.
- 2. As of fiscal 1991 year end, the Company is in violation of Sections 8.29, 9.07, 9.20 (a), and 9.20 (b) of the Amended and Restated Loan and Security Agreement between the Company and Dominion Bank dated August 2, 1989 ("Dominion Agreement"), Sections 6A(ii), 6C(1)(ix) and 6C(2)(iv) of the 1987 Note Agreement, as amended, and the 1989 Note Agreement. It is anticipated that as of the end of the first fiscal quarter of 1992, the Company will be in violation of Sections 8.28 and 9.16 of the Dominion Agreement and Sections 6A(ii), 6A(iii), 6B, 6C(1)(ix) and 6C(2)(iv) of the 1987 Note Agreement and 1989 Note Agreement.
- 3. On February 25, 1992, the Company sold the Chatsworth facility of Howard Carpet Mills, Inc., for \$1,075,000.
- 4. In December, 1991, the Company was approached by Delta Woodside ("Delta") concerning a substantial investment by Delta in the Common Stock of the Company. No commitments on the part of any parties have been made.
- 5. On February 25, 1991, the Board of Directors of the Company approved the Salem Carpet Mills, Inc. 1991 Incentive Stock Option Plan (the "1991 Plan"), effective April 26, 1991. The 1991 Plan was approved by the Company's shareholders on April 26, 1991, at the Company's 1991 Annual Meeting. Pursuant to the 1991 Plan, 250,000 shares of Company Common Stock have been reserved for the issuance of shares upon the exercise of stock options granted under the 1991 Plan.
- 6. The Company made grants of the following stock options under its various stock option plans since December 31, 1990:
 - 1991 Incentive Stock Option Plan
15,000 shares @ \$3.75/share
 - 1981 Incentive Stock Option Plan
10,000 shares @ 3.50/share (5,000 related SAR's)
5,000 shares @ \$3.938/share (2,500 related SAR's)

REEL 0893 FRAME 14
TRADEMARK

Copies of all the foregoing have been delivered to show and are incorporated by reference herein.

DISCLOSURE SCHEDULE 5.6 (con't.)

7. The Company has entered into a letter agreement with Goldman, Sachs & Co. dated February 5, 1992 for financial advisory services.

TRADEMARK

REEL 893 FRAME 15

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

DISCLOSURE SCHEDULE 5.8

1. The Company may have certain violations of the environmental laws and regulations described in the following documents delivered to Parent:
 - (a) Phase I Environmental Site Assessment - Salem Carpet Mills Yarn Plant, Lafayette, Georgia - Prepared by Law Associates, Inc., dated September 20, 1991.
 - (b) Phase I Environmental Site Assessment - Salem Carpet Mills Yarn Plant, South Pittsburg, Tennessee - Prepared by Law Associates, Inc., dated September 20, 1991.
 - (c) Survey for Asbestos - Containing Materials - Salem Carpet Mills, Lafayette, Georgia - Prepared by Law Associates, Inc., dated September 20, 1991.
 - (d) Survey for Asbestos - Containing Materials - Salem Carpet Mills, South Pittsburgh, Tennessee - Prepared by Law Associates, Inc., dated September 30, 1991.
 - (e) Proposal for Phase II Assessment, Lafayette, Georgia and South Pittsburg, Tennessee - Prepared by ENSCI Corporation, dated December 2, 1991.
 - (f) Preliminary Environmental Liability Assessment, Howard Carpet Mills, Eton, Georgia - Prepared by Law Environmental, Inc., dated April 19, 1989.
2. Preliminary Determination of Dumping of Certain Machine Tufted Carpet - Statement of Reasons (Ottawa, Canada), December 19, 1991.

TRADEMARK

REEL 0893 FRAME 16

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

DISCLOSURE SCHEDULE 5.8(b)

- 1. Shareholder Agreement dated March 20, 1986, between the Company, A.G. Foster, A.O. Foster, W. Douglas Foster, and W.N. Hailey, pursuant to which the Company is granted the right of first refusal to purchase any shares any of those individuals propose to sell otherwise than in open market transactions or in conjunction with a public offering of the Company's Common Stock. The Board of Directors has authorized the termination of the agreement effective the date of the closing of the merger.
- 2. Amended and Restated Loan and Security Agreement between the Company and Dominion Bank dated August 2, 1989.

Section 9.06 under Negative Covenants provides that the company:

[S]hall not merge or consolidate with any other Person or sell, lease or transfer or otherwise dispose of all or a substantial part of its assets to any Person

- 3. Note Purchase Agreement between the Company and The Prudential Insurance Company of America ("Prudential") dated as of June 30, 1987 and Note Purchase Agreement between the Company and Prudential dated December 1, 1989, both as amended by the First Amendment to Note Agreement and Note Purchase Agreement between the Company and Prudential dated December 18, 1991.

Section 6C(5) under Negative Covenants provides that the company will not:

Merge or consolidate with any other corporation or sell, lease or transfer or otherwise dispose of all or a substantial part of its assets, or the assets which shall have contributed a substantial part of Consolidated Net Earnings for any of the three fiscal years then most recently ended, to any person.....

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- 4. Lease Agreement dated June 1, 1973 between Edgefield County and Consolidated Yarn Corp.

Article VIII, Section 8.3 under Special Covenants provides:

The Lessee agrees that during the Lease Term it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

Disclosure Schedule 5.8(b) (con't.)

consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided that the Lessee may, without violating the agreement contained in this section, consolidate with or merge into another corporation, or permit one or more other corporations, to consolidate with or merge into it, or sell or otherwise transfer to another corporation, all or substantially all of its assets as an entirety and thereafter dissolve, provided the surviving, resulting or transferee corporation, as the case may be, assumes in writing all of the obligations of the Lessee under this Agreement; in which event the county shall release in writing, concurrently with and contingent upon such assumption, the Lessee from all liability hereunder, and provided that prior to such sale, transfer, consolidation or merger the trustee shall be furnished the written approval of the insurer and a certificate from a firm of independent certified public accountants stating that the covenants contained in Section 8.9 hereof will not be violated as a result of such sale, transfer, consolidation or merger.

TRADEMARK

REEL 893 FRAME 18

Section 8.9 relates to covenants of Lessee with respect to capital expenditures. The balance of this obligation as of December 28, 1991 is \$195,000. The obligation is scheduled for complete payoff in 1993.

5. Various Agreements dated July 21, 1989 related to the acquisition of all outstanding common stock of Howard Carpet Mills, Inc.

(a) Stock Purchase Agreement between the Company and the Howard S. Stein Trust, the Irene A. Stein Trust, Allen Stein, Martin Weissman, Howard Stein and Irene Stein - Section B entitled Purchase Price relating to the "earnout" provisions on page 5 the agreement states:

Nothing contained herein shall be construed to limit Purchaser's authority to change Howard's fiscal year, to allocate overhead, to consolidate the Howard operations with another division or a subsid-

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

Disclosure Schedule 5.8(b) (con't.)

lary of the Purchaser solely for accounting purposes (provided that no such change, allocation or consolidation shall render it impossible to calculate Gross Margin Dollars hereunder) or to change accounting methods or principles for purposes other than the calculation of the Earnout Amount; provided, however, that in the event that Purchaser consolidates the operations of Howard with those of another division or a subsidiary of Purchaser, changes Howard's fiscal year, allocates overhead or changes the accounting methods or principles of Howard, Purchaser shall maintain a separate set of books and records for the business of Howard from which Gross Margin Dollars hereunder can be calculated.

- (b) Employment Agreements between the Company and Howard Stein, Allen Stein and Martin Weissman - The employment agreement with Howard Stein provides on pages 1 and 2 that:

Salem and Howard shall not, without the consent of Stein, liquidate or consolidate Howard or add to or otherwise change the business of Howard in any manner that would cause the business to be conducted after such liquidation or consolidation by Howard or the division to be materially different (in scope or character) from the business conducted by Howard on the date hereof.

The employment contracts with Allen Stein and Martin Weissman do not have similar provisions. The employment agreements for Allen Stein and Martin Weissman include on page two in both agreements the following:

In the event that Howard is liquidated or consolidated with any division or a subsidiary of Salem, Stein [or Weissman] shall perform

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

TRADEMARK

REEL 0893 FRAME 819

Disclosure Schedule 5.8(b) (con't.)

such duties and have such office in the division of Salem conducting those operations that include those performed by Howard prior to such liquidation or consolidation.

The employment agreement with Howard Stein terminates July 31, 1994. The employment agreements with Allen Stein and Martin Weissman both terminate July 21, 1993.

- 6. Security Deed Note of the Company to Interstate Life & Accident Insurance Company dated September 14, 1973.

Paragraph 10(iii) of the Deed to Secure Debt provides in part that an event of default includes:

....or should Grantor, it a corporation, be liquidated or dissolved or its charter expire or be revoked, provided, regarding liquidation, dissolution and charter expiration, that the foregoing provisions are not applicable to any reorganization pursuant to which a successor corporation shall become liable for or assume the obligations of the Grantor set forth in this Deed to Secura Debt or the Note.....

- 7. Lease Agreements between the Company and A.G. Foster and Matorois W. Foster dated July 1, 1983.

Represents two capitalized leases for the finishing building and the sample building. Both current leases were effective August 1, 1983 and continue through July 31, 1998. There are no change in control provisions.

- 8. Variable Rate Mortgage Note of the Company to Integon Life Insurance Company dated March 26, 1985.

Pages 5-6 of the Security Deed provides that the following event is considered an unpermitted transfer and therefore an event of default:

[A]ny sale, conveyance, assignment, or other transfer of, or the grant of a security interest in, any share of stock of Salem.....

- 9. Master Lease of Personal Property Sale and Lease Back between the Company and Security Pacific Equipment Leasing, Inc., dated June 25, 1990.

Paragraph 11 of the Master Lease of Personal Property provides the following:

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

TRADEMARK

ILLUSTRATION

Disclosure Schedule 5.8(b) (con't.)

Lessee shall not sell, transfer, assign, sublease, convey, encumber or pledge its interest in and to this Master Lease, any Lease Schedule of the Equipment, and any such sale, transfer, assignment, sublease, conveyance, encumbrance or pledge whether by operation of law or otherwise, without the prior written consent of Lessor, shall be void.

10. Heller Factoring Agreement dated June 26, 1991.

Section 4.6 under Representations and Warranties states:

You shall not sell, lease, transfer or otherwise dispose of all or substantially all of your property or assets, or consolidate with or merge into or with any corporation or entity without our prior written consent.

11. Barclays Factoring Agreement dated March 24, 1980.

Subsection (12) on page 9 of the agreement states in relevant part:

Barclays may terminate this Agreement without notice and all obligations shall, unless and to the extent that Barclays otherwise elects, become immediately due and payable without notice or demand in the event that:
Said company shall be dissolved or be a party to any merger or consolidation without Barclays written consent.

12. Project Financing Agreement by and among Development Authority of Murray County, Howard Carpet Mills, Inc, and Bank of the South, N.A. dated December 23, 1982.

The Project Financing Agreement provides in Article II Representations and Covenants, Section 2.1, Subsection (e) under the subheading Representations and Covenants by Borrower, the following:

The Borrower agrees that it will maintain its corporate existence and that, without first obtaining the written consent of the Bondholder, it will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another person or permit one or more persons (other than a subsidiary corporation) to consolidate with or merge into it.

Copies of all the foregoing have been delivered to show and are incorporated by reference herein.

TRADEMARK

REEL 0893 FRAME 021

TRADEMARK

REEL: 002461 FRAME: 0127

Disclosure Schedule 5.8(b) (con't.)

In Article I Definitions the "Bondholder" refers to the Bank of the South. The balance outstanding at December 28, 1991 is \$92,000. The entire amount is scheduled to be paid off in 1992.

13. Commercial Real Estate Lease with Paul M. Stephenson, Inc. dated July 29, 1990 related to the carpet outlet in Dalton, GA.

Section VII on page 4 provides that "Lessee shall not assign this Lease or sublet the Premises to any party without the prior written approval of Lessor."

14. Sublease Agreement with Whirlpool Corporation dated April 27, 1989 related to the Los Angeles distribution center in Anaheim, CA.

Subsection 13 of the Agreement on page 5 provides that:

Sublessee shall not sublet the subpremises or assign this Sublease, or permit anyone other than Sublessee to occupy the subpremises, or any part thereof.

15. Lease Agreement with Hota Investments, N.V. (now BDF Associates) dated May 31, 1983 related to the corporate headquarters in Winston-Salem, NC.

Paragraph 7 on page 2 provides that:

Lessee shall not sell, assign, pledge or hypothecate this Lease or sublet the Premises or any part thereof without the prior written consent of Lessor.

16. Ryder Truck Rental, Inc. Truck Lease and Service Agreement dated March 25, 1988.

Paragraph 12 entitled "Assignment of Lease" provides:

This Agreement will be binding on the parties hereto, their successors, legal representatives and assigns. Customer agrees to promptly notify Ryder in writing prior to all substantial changes in ownership or any material disposition of the assets of Customer's business. Customer does not have the right to sublease any of the vehicles, nor to assign this Agreement or any interest therein without Ryder's prior written consent,

Copies of all the foregoing have been delivered to show and are incorporated by reference herein.

TRADEMARK

REEL 0893 FRAME 22

Disclosure Schedule 5.8(b) (con't.)

which consent will not be unreasonably withheld, and any attempt to do so will be void.

17. Vehicle Lease Service Agreement with Hertz Penske Truck Leasing, Inc. dated April 11, 1988.

Paragraph 19 entitled "Assignment and Subletting" provides:

Without the prior written consent of Hertz Penske, which consent will not be unreasonably withheld, Customer shall not voluntarily or involuntarily assign or pledge this Lease or the vehicles, or sublet, rent or license the use of the vehicles, or cause or permit the vehicles to be used by anyone other than Customer or its agents, servants or employees.

18. Master Equipment Lease Agreement with Pitney Bowes Credit Corporation dated March 27, 1985.

Possible reference to change in control in paragraph 23 entitled "Events of Default" providing in part:

Lessee shall be in default under this Lease upon the happening of any of the following events or conditions: . . . (e) dissolution, termination of existence, discontinuance of its business, insolvency, business failure, or appointment of a receiver of any part of the property of, or assignment for the benefit of creditors by Lessee or the commencement of any proceedings under any bankruptcy, reorganization or arrangement laws by or against Lessee.

TRADEMARK

REEL 0893 FRAME 23

Paragraph 20 entitled "Assignment by Lessee" provides:

Without Lessor's prior written consent, Lessee may not, by operation of law or otherwise (a) assign, transfer, pledge, hypothecate or otherwise dispose of this Lease or any interest therein or (b) sublet or lend the equipment or permit same to be used by anyone other than Lessee or Lessee's employees.

19. Master Lease Agreement with Hitachi Data Systems Corporation dated March 21, 1990 for lease of various computer equipment.

Paragraph 22 entitled Sublease and Relocation of Equipment; Assignment by Lessee provides the following:

Copies of all the foregoing have been delivered to show and are incorporated by reference herein.

Disclosure Schedule 5.8(b) (con't.)

Upon Lessor's written consent, which shall not be unreasonably withheld, Lessee may sublet the Equipment or relocate it from the Equipment Location. No sublease or relocation shall relieve Lessee of its obligations under the Lease. In no event shall Lessee remove the Equipment from the United States. Lessee shall not assign, transfer or otherwise dispose of the Lease or Equipment, or any interest therein, or create or suffer any levy, lien or encumbrance thereon except those created by Lessor.

20. Aircraft Lease with General Electric Credit Corporation dated June 11, 1979.

Section 17(f) under Events of Default provides that the meaning of the term event of default shall include:

Except as expressly permitted by the provisions of this Lease, the Lessee does or shall attempt to remove, sell, transfer, encumber, part with possession of (other than in the course of routine maintenance), assign or sublet any Item of Leased Equipment.

Section 14 provides in part that "the Lessee will not, without the prior written consent of the Lessor, sublet or otherwise relinquish possession of any Item of Leased Equipment or assign any of its rights hereunder."

21. Equipment Lease with The Savers Leasing Corporation (now Atlantic Leasing & Financial, Inc.) dated January 14, 1986.

Paragraph 12 entitled Default provides in part that "...or if Lessee or any such guarantor (if other than an individual) change or terminate its existence (except by merger or consolidation or reorganization to which Lessor consented)..."

22. Equipment Lease with First Union Commercial Corporation dated June 23, 1987.

Paragraph 12.1 on page 11 provides the following:

Lessee agrees not to sell, assign, lease, sublease, pledge or otherwise encumber or suffer a lien or encumbrance upon or against any interest in this lease or the Equipment or to remove the Equipment from its place of installation or to permit the Equipment to be used by anyone other than Lessee without Lessor's prior written consent, which consent

Copies of all the foregoing have been delivered to show and are incorporated by reference herein.

REEL 0893 FRAME 24
TRADEMARK

Disclosure Schedule 5.8(b) (con't.)

will not be unreasonably withheld. Lessee's interest herein may not be assigned or transferred by operation of law....

Exhibit A to the Lease entitled "Insurance Requirement" states in Paragraph 15 that:

This commitment and the benefits and obligations hereunder shall not be assignable by Lessee.

23. The Company has commercial leases for warehouse space in the following locations:

<u>Location</u>	<u>Monthly Rent</u>
Wood Dale, Illinois**	\$13,000
Dallas, Texas**	\$ 5,900
St. Louis, Mo.**	\$ 4,800
Orlando, Fl.	\$14,000
Hilliard, Ohio**	\$ 4,500
Colonie, NY**	\$ 4,600
Houston, Texas**	\$ 4,200
Union City, CA.**	\$ 6,200
Ballmore, NY**	\$ 1,000
Kernersville, NC**	\$ 4,800
Walker County, GA.*	\$19,800
Mechanicsburg, PA.*	\$ 4,700

TRADEMARK

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The Company has not reviewed all these leases to determine whether they contain provisions which would apply to the Merger. The leases marked above by a double asterisk have been reviewed, and do contain a provision prohibiting or possibly prohibiting the Merger; the leases marked above by a single asterisk have been reviewed and do not contain such a provision.

24. Motor Vehicle Lease dated May 18, 1988 with NCNB Leasing Corporation. See Paragraph 21.
25. Vehicle Lease (Car & Truck) dated August 5, 1981 with McCullagh Leasing, Inc. See Paragraphs 15 and 17.9.

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

DISCLOSURE SCHEDULE 5.9

1. See the attached Litigation Status Report as of January 1992.
2. Preliminary Determination of Dumping of Certain Machine Tufted Carpet - Statement of Reasons (Ottawa, Canada), December 19, 1991.
3. Correspondence dated February 10, 1992 from counsel representing Roland and Glenda Goodwin threatening litigation against the Company for alleged violations of federal and state antitrust laws.
4. Complaint dated February 13, 1992 by Betty and Robert G. Ziegler in the State of New York Supreme Court, County of Monroe, regarding a claim for damages resulting from an automobile accident.

TRADEMARK

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Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

DISCLOSURE SCHEDULE 5.10

1. Earn Out Provisions of Stock Purchase Agreement among Company, the Howard S. Stein Trust, the Irene A. Stein Trust, Allan Stein, Martin Weissman, and the Howard Carpet Mills Employee Stock Ownership Plan Trust, dated as of July 21, 1989.
2. The following employment/consulting contracts:
 - Howard S. Stein, dated July 21, 1989
 - Allan Stein, dated July 21, 1989
 - Martin Weissman, dated July 21, 1989
 - Arc-N.R.G., dated June 13, 1991
 - Larry Keown, dated November 12, 1991
 - W. Douglas Foster, dated February 9, 1992
 - Thomas F. Lanier, dated February 9, 1992
 - Jack G. Haselwander, dated February 9, 1992
 - Kim R. Holm, dated February 9, 1992
 - Frank Wilson, with International Management (Retainer Agreement) dated December 2, 1991.
 - Unique Consultants (Consulting Contract), dated October 16, 1991
3. Salem Carpet Mills, Inc., 1991 Short-Term Incentive Plan
4. Salem Carpet Mills, Inc., Long-Term Incentive Bonus Plan.
5. Salem Carpet Mills, Inc., Deferred Income Retirement Plan.
6. Salem Carpet Mills, Inc., 1991 Incentive Stock Option Plan.
7. Salem Carpet Mills, Inc., 1981 Incentive Stock Option Plan.
8. Salem Carpet Mills, Inc., 1984 Nonqualified Stock Option Plan.
9. Salem Carpet Mills, Inc. Health Care Benefit Plan.
10. Salem Carpet Mills, Inc. Group Term Life Benefit Plan.
11. Salem Carpet Mills, Inc. Group Long Term Disability Insurance Plan.

TRADEMARK

REEL 0893 FRAME 827

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

DISCLOSURE SCHEDULE 6.1(i)

1. The following employment/consulting contracts:

Howard S. Stein, dated July 21, 1989
 Allan Stein, dated July 21, 1989
 Martin Weissman, dated July 21, 1989
 Larry Keown, dated November 12, 1991
 W. Douglas Foster, dated February 9, 1992
 Thomas F. Lanier, dated February 9, 1992
 Jack G. Haselwander, dated February 9, 1992
 Kim R. Holm, dated February 9, 1992
 Arc - N.R.G. (Consulting Contracts), dated June 13, 1991
 Frank Wilson, with International Management (Retainer Agreement)
 Unique Consultants (Consulting Contract), dated October 16, 1991

2. Grant of the following bonuses to indicate individuals, payable upon the Effective Time of the Merger:

<u>Individual</u>	<u>Amount</u>
W. Douglas Foster	100% of current base salary
Thomas F. Lanier	75% of current base salary
Jack G. Haselwander	75% of current base salary
Kim R. Holm	25% of current base salary

3. The Long-Term Incentive Bonus Plan was terminated February 9, 1992 and assets were distributed to participants on February 22, 1992.

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TRADEMARK

REEL 893 FRAME 28

Copies of all the foregoing have been delivered to Shaw and are incorporated by reference herein.

~~010130306~~
FILED
9:00 AM

MAY 29 1992

**ARTICLES OF MERGER OF
SALEM CARPET MILLS, INC.
WITH AND INTO
SHAW INDUSTRIES, INC.**

**RUFUS L EDMISTEN
SECRETARY OF STATE
NORTH CAROLINA**

Pursuant to Section 55-11-05 of the General Statutes of North Carolina and Section 14-2-11-5 of the Georgia Business Corporation Code, the undersigned corporation, as the surviving corporation in a merger, hereby submits the following Articles of Merger.

I.

Salem Carpet Mills, Inc., a North Carolina corporation ("Salem"), shall merge with and into Shaw Industries, Inc., a Georgia corporation ("Shaw"), with Shaw to be the surviving corporation of the merger (the "Merger"). The Merger shall be consummated in accordance with the Plan of Merger attached hereto as Exhibit A.

II.

The Merger was duly approved by the board of directors of Shaw on February 7, 1992. Approval of the Merger by the shareholders of Shaw is not required pursuant to Section 14-2-1103(h) of the Georgia Business Corporation Code.

III.

The Merger was duly approved by the board of directors of Salem on February 9, 1992 and by the shareholders of Salem on May 29, 1992, as required by the North Carolina Business Corporation Act.

IV.

The Merger shall be effective in Georgia and North Carolina, respectively, upon the filing of these Articles of Merger with the Secretary of State of Georgia and the Secretary of State of North Carolina, respectively.

TRADEMARK

REEL 0893 FRAME 029

IN WITNESS WHEREOF, Shaw has caused these Articles of Merger to be executed by its duly authorized officer this the 29th day of May, 1992.

SHAW INDUSTRIES, INC.

By: [Signature]
Name: GARY P. ROLLINS
Title: VICE PRESIDENT

Attest:

By: [Signature]
Bennie M. Laughter
Secretary

REEL 0893 FRAME 830
TRADEMARK

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RECORDED
PATENT AND TRADEMARK
OFFICE

AUG 25 1992

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