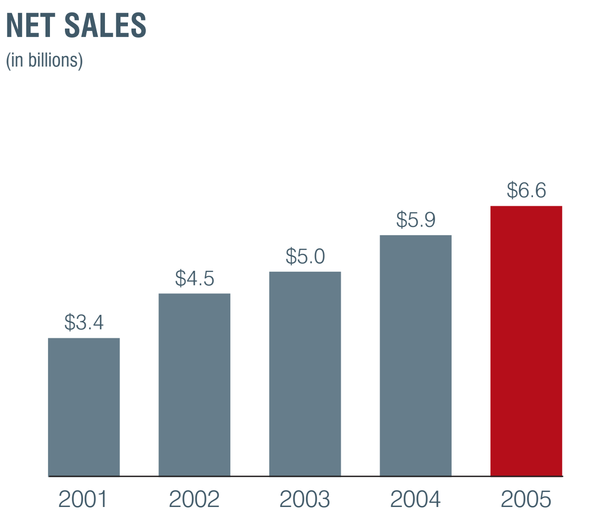
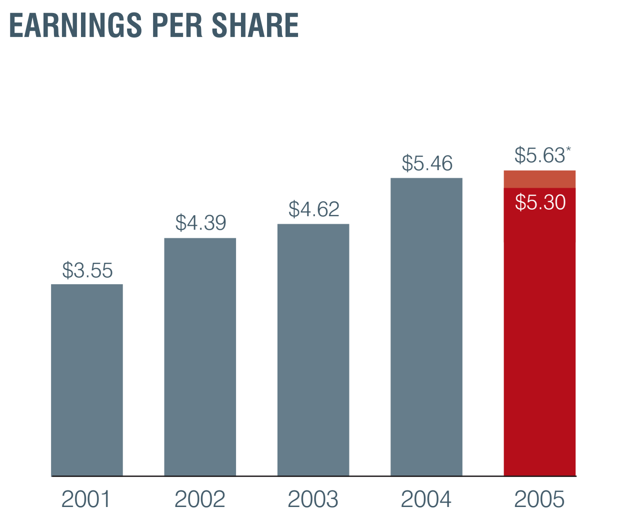
The Right Choice.

MOHAWK INDUSTRIES | 2005AR

ANNUAL REPORT

FINANCIAL HIGHLIGHTS





*Excludes a non-recurring $34.3 million (net of tax of $22.3 million) inventory fair value adjustment related to the Unilin Acquisition. This results in an $0.33 per share increase in diluted earnings per share, based on weighted outstanding shares of 67,644.

Highlights

(in thousands, except per share data)

Years Ended December 31	**2005**	2004	2003	2002	2001
Net Sales	**$6,620,099**	$5,880,372	$4,999,381	$4,516,957	$3,441,267
Gross Profit	**$1,723,134**	$1,620,841	$1,393,802	$1,269,092	$ 857,598
Operating Income	**$ 627,272**	$ 635,590	$ 542,029	$ 522,065	$ 327,157
Net Earnings	**$ 358,195**	$ 368,622	$ 310,149	$ 284,489	$ 188,592
Diluted Earnings Per Share	**$ 5.30**	$ 5.46	$ 4.62	$ 4.39	$ 3.55

Whether you are a consumer selecting a floor covering, or, in our case, a company acquiring another business, it is important to make sure your choice is based on the right reasons.

From its beginning as a carpet and rug manufacturer, Mohawk Industries has evolved into one of the world's leading flooring companies. Its product line encompasses tufted and woven carpet, rugs, ceramic tile, laminate, stone, wood, vinyl, carpet cushion and niche home products, such as throws and bedspreads. Mohawk is headquartered in Calhoun, Georgia. Its shares trade on the New York Stock Exchange under the ticker symbol "MHK."

Business Profile

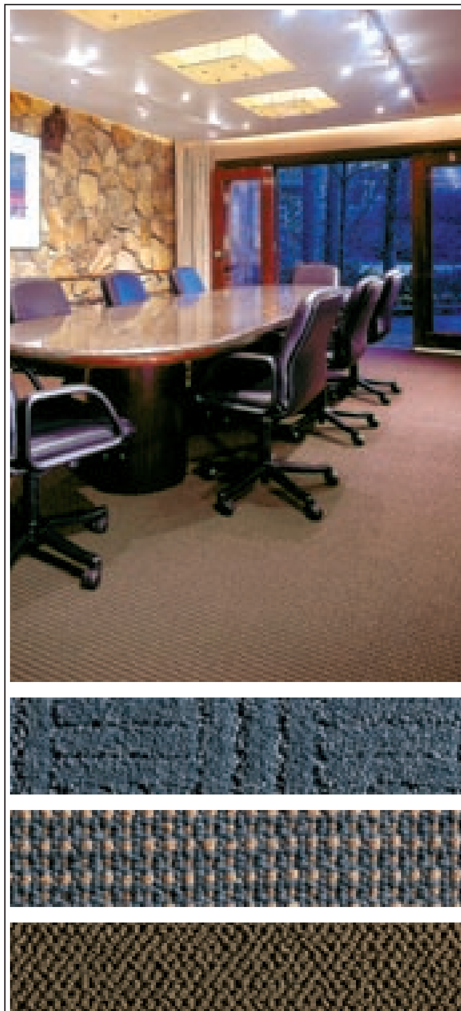

Puts Us Closer to Becoming
a Total Flooring Company

Residential

Three lines – Aladdin®, Horizon® and WundaWeve® – provide one of the industry's largest product selections, offering consumers a wide range of values, colors, fashions and styles.

Fashion Brands

For those seeking a fashion-forward look and exceptional quality, the Karastan®, CustomWeave®, Ralph Lauren™ and Helios® brands are among the best names in carpeting.



Commercial

Bigelow®, Mohawk Commercial®, Durkan®, Karastan Contract® and Lees® cover millions of square feet in corporate offices, hotels, schools, airports and retail stores throughout the country.

Carpet is unmatched in its ability to bring warmth to a room and softness to a floor. Our portfolio of carpet brands ensures that customers can choose from a wide variety of styles, colors, textures and price points.

Mohawk Cushion

Carpet cushion is a critical component to carpet performance. It extends the life of carpet by acting as a shock absorber, providing additional softness, improving acoustical and insulating properties and hiding the unevenness of a subfloor. Mohawk is a leading manufacturer and distributor of carpet cushion, offering a variety of thicknesses and densities.

A MORE DIVERSIFIED PRODUCT LINE

Mohawk's strategic goal to become a total flooring company is driven by one simple fact: there are more flooring options for residential and commercial space than ever before and fewer flooring "rules" than ever before. Remember when vinyl was the obvious choice for a kitchen floor and wall-to-wall carpet was a given in every living room? No more. Flooring has become yet another way to express personal taste and creativity in décor.

This wide variety of flooring options is the primary reason the flooring industry has, and continues to enjoy, healthy growth rates, averaging five percent annually in recent years. In fact, every flooring category, with the exception of vinyl, has grown over the past decade. Accompanying this overall growth has been a shift in category growth. Though carpet remains the top choice for floor covering, hard surfaces, such as ceramic, stone, laminate and wood are becoming more popular choices. These hard surfaces also are the fastest growing categories in the industry, averaging ten percent per year, versus three percent for broadloom carpet.

Mohawk has positioned its business very well to capitalize on these industry trends. A focused and aggressive acquisition program has expanded the Company's presence in hard surface categories in recent years. So much so that Mohawk's presence in hard surface categories is now above the industry average. Broadloom carpet and rugs still represent the majority of sales; however, the Company's sales mix has changed dramatically since 2001, with hard surfaces increasing from approximately 5 percent to approximately 35 percent of total sales in 2005.

Equally impressive are the dominant market positions that Mohawk has established in hard surface categories. The Company is the largest supplier in the ceramic and stone product categories and one of the largest laminate suppliers. Mohawk has achieved these market positions while continuing to maintain a top two position in broadloom carpet and a number one position in rugs and mats.

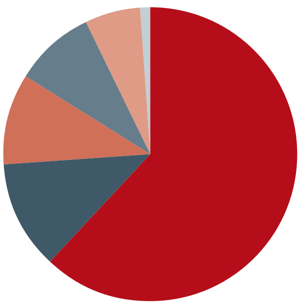
Mohawk balances its acquisition strategy with a commitment to its core broadloom carpet business. The Company's 125-plus years of innovation in manufacturing, design and marketing have established Mohawk as a leader in the broadloom product category. Ongoing investment in the development of new products for residential and commercial applications, as well as manufacturing improvements and national television and print advertising campaigns ensure continued strong market positions for Mohawk's carpet brands.

The breadth and depth of Mohawk's product portfolio reflects its highly diversified customer base. The Company has over 30,000 customers with no individual customer accounting for more than five percent of sales. This customer base also is well-proportioned among three primary end-use markets – new residential construction, commercial and, by far the largest, residential replacement.

Favorable Industry Growth Trends

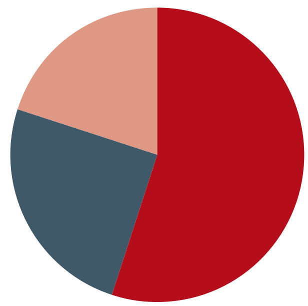
Demographic and population trends support continued growth for the flooring industry. Housing demand is driven by household formation, which is expected to remain strong through this decade as a result of aging Baby-Boomers, their children and new immigrants.

2004 INDUSTRY PRODUCT CATEGORY MIX



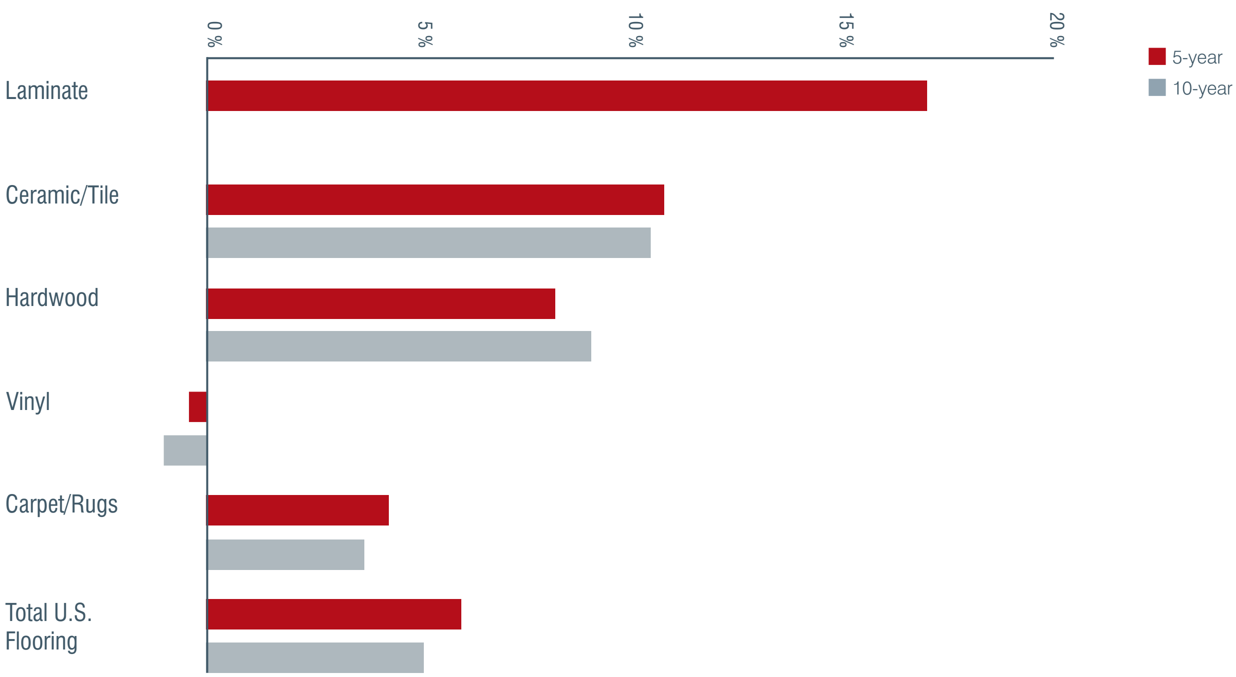
Source: *Floor Covering Weekly*

INDUSTRY END-USE MARKETS



Source: *Floor Covering Weekly*

FLOORING CATEGORY 5 & 10 YEAR SALES CATEGORY GROWTH



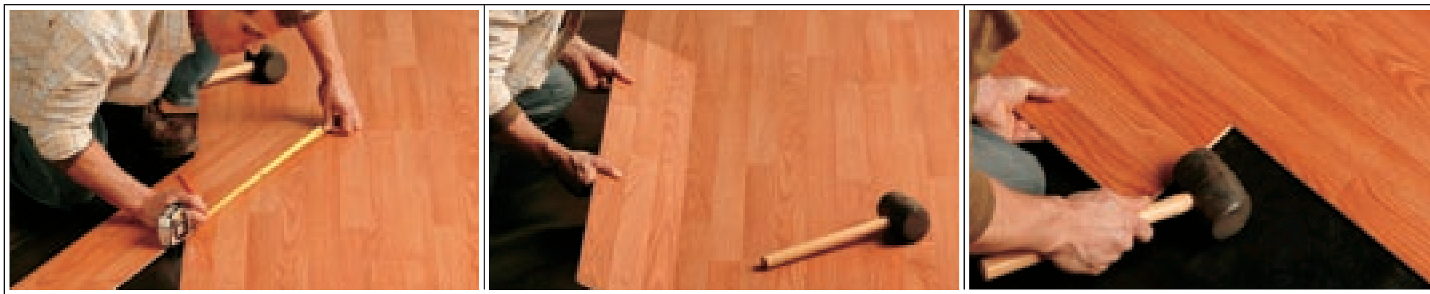
The Top Player: Mohawk is the largest supplier of flooring in the United States and holds top market positions within every major flooring category. Over the past decade, acquisitions and internal growth have nearly doubled Mohawk's overall share to 23 percent of the market.

Record Remodeling Levels

Remodeling is big business these days. According to the Joint Center for Housing Studies of Harvard University and the U.S. Department of Commerce, remodeling expenditures by home-owners and rental property owners totaled $233 billion in 2003, up 53 percent since 1995. This represents 40 percent of all residential construction and improvement spending, which is more than two percent of the U.S. economy.


Wins Us Best in Class

Laminate flooring offers consumers many versatile looks. Widths range from traditional- to wide-width planks and finishes offer the look of numerous hardwood species, as well as ceramic and natural stone. Different types of grooves and floor pattern layouts also add unique visual interest.



One of the virtues of laminate flooring is its ease of installation, particularly with the Unilin Uniclic® system. Thanks to the simplicity of this system, it is an ideal method for do-it-yourself homeowners, which makes laminate flooring an even more affordable choice.

Fast installation that requires no glue, sanding or other "messy" processes means that a new laminate floor can make a room in no time. "Just installed" laminate can be walked on immediately after installation and furniture moved quickly back into place.

Laminate has been the fastest growing flooring category over the past five years. It provides the look of other surfaces, such as hardwood or stone, with a variety of design possibilities. Stylish versatility, scratch resistance and simple installation make laminate a winning choice.

Unilin in Europe

Unilin is the laminate flooring market leader in Europe, where it enjoys a 19 percent share of the UK market, a 14 percent share in France and a 25 percent share in the Benelux countries. The majority of its distribution in Europe is through specialty stores. Unilin possesses backward integration in Europe, just as Mohawk does in its North America operations.

MARKET-LEADING ACQUISITIONS

Acquisitions have been a part of Mohawk's diversification strategy. In the past 14 years, the Company has completed 19 acquisitions, representing over $3.5 billion in sales. In each case, the acquisition has enabled the Company either to extend its category reach, expand manufacturing capabilities, enhance its price point coverage within a category or grow into new distribution channels.

The acquisition of Karastan Bigelow in 1993, for instance, provided an entrée to the luxury segment of broadloom carpet and rugs through the highly respected Karastan® brand. In 2003, the acquisition of Lees Carpet gave Mohawk a major position in the commercial modular flooring market. Mohawk's two largest acquisitions to date, however, are unique in that the transactions not only extended the Company's product range, but also catapulted it immediately to the top of two major product categories. Indeed, the acquisitions of Dal-Tile and Unilin have been transforming moments in Mohawk's evolution into a total flooring company.

In 2002, Mohawk became the leading provider of ceramic tile in the United States through its purchase of Dal-Tile. It was a unique opportunity for Mohawk. With annual sales in 2005 of $1.7 billion, Dal-Tile was and remains the largest player in the ceramic marketplace by a wide margin. Dal-Tile owns two of the most widely recognized brands in ceramic tile, Dal-Tile® and American Olean®, and offers the most comprehensive product line in the industry. Its products enjoy broad distribution through company-operated sales service centers, independent distributors and home center retailers. It also possesses the largest ceramic tile manufacturing capacity of any U.S.-based manufacturer. With strong management and a record of solid financial performance, Dal-Tile came to Mohawk as an easy "bolt-on" acquisition to the existing organization.

Last year, Mohawk found another rare opportunity in Unilin, one of the world's leading producers of laminate products. Like Dal-Tile, Unilin possesses strong management and financial performance, as well as a unique set of operating attributes. The Belgium-based company was a pioneer in the fast growing European laminate market during the 1990s. It is well positioned to participate in the U.S. market which is expected to grow at 15 percent annually. In the United States, Unilin is the only vertically integrated laminate producer and is among the top laminate brands. They are also the market leader in the premium laminate segment.

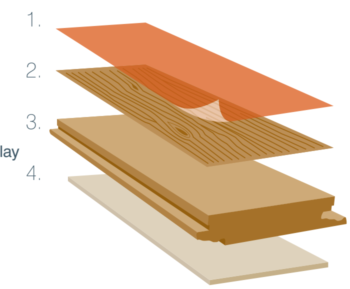
In addition to these impressive credentials, Unilin is known for product innovation and its strong patent portfolio. In 1989, Unilin introduced direct pressure laminate, the product that is the basis of today's industry. In 1996, its patented Uniclic® system represented a technological breakthrough in laminate installation. More recently, Unilin introduced a new design that simulates hardwood floors, complete with beveled edges. Last year, another design innovation that duplicates the look of premium, hand-scraped hardwoods began hitting the market. Like Dal-Tile, Unilin brings Mohawk everything necessary to be a major player in another fast-growing, high-return product category.

The Stone Market Leader

Natural stone, such as granite, marble and limestone, is a popular choice, not only for flooring, but also for countertops and backsplashes. Several acquisitions in recent years have made Mohawk's Dal-Tile division the market leader in the stone product categories.

LAMINATE FLOORING COMPONENTS

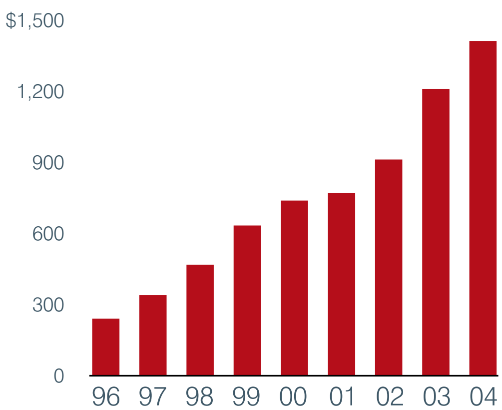
A photograph or picture is placed on top of high-density fiberboard and then sealed with melamine resin.



1. Transparent, Wear-Resistant Overlay
2. Decor Layer
3. HDF Quick-Step® (Master) Core
4. Melamine Underlayer

U.S. LAMINATE FLOORING SALES GROWTH

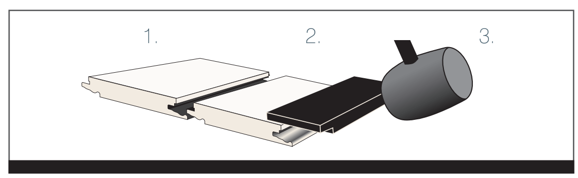
(Annual Sales in Millions)



Source: *Floor Covering Weekly*

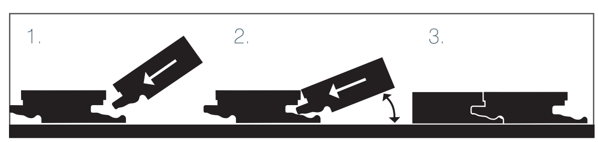
UNICLIC® SLIDING METHOD

Ease of installation makes laminate a popular choice for the do-it-yourself market.



UNICLIC® ANGLING METHOD

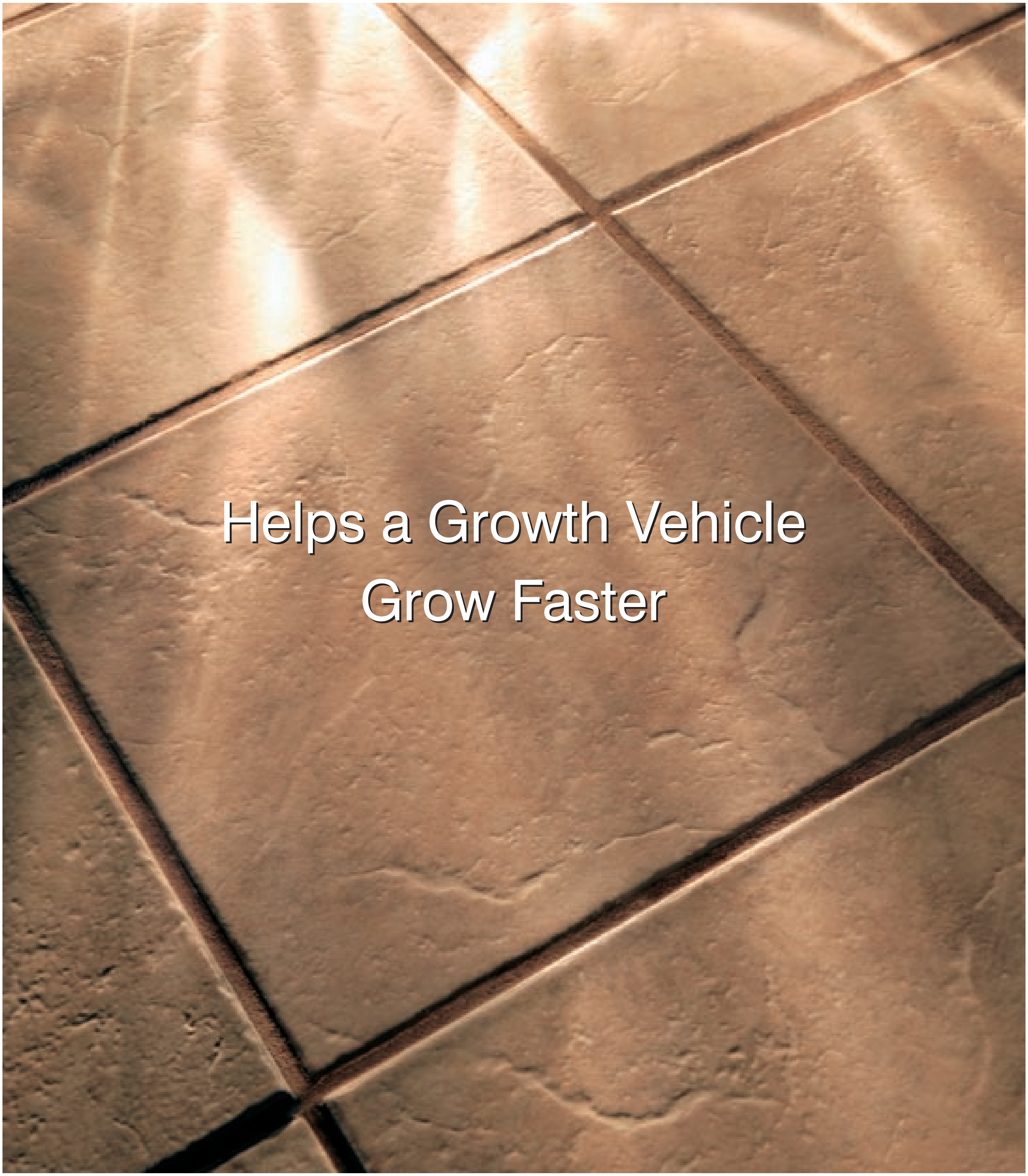
This patented installation process was the first glue-less locking system when introduced in 1996.



Unilin's patented Uniclic® installation method has helped establish leading laminate market positions in France, the United Kingdom, the Benelux countries and the United States.

Unilin Roofing

Roofing systems and other wood-based panels complement Unilin's laminate flooring business. These systems reduce the time and labor of roof installation through a process that involves only four, rather than seven, steps. Other wood-based panels offer a wide range of high value decorative products, as well as humidity-resistant and fire-resistant performance characteristics.


Helps a Growth Vehicle
Grow Faster

Ceramic tile offers a unique way to express individual style in any room of the house, from the kitchen to the living room to the sunroom.

Natural stone countertops and backsplashes such as granite, marble or travertine, have become *de rigueur* in today's upscale kitchens.

One of the most versatile decorative materials, tile can cover floor and wall surfaces in virtually any color, shape or pattern, as well as a wide range of finishes.

Like its ceramic counterpart, natural stone can be cut in a variety of shapes and sizes to create a variety of looks.

Old world rustic, sleek contemporary, high fashion design, traditional classics – these are just a few of the moods that ceramic tile can bring to an environment.

Marble, travertine, onyx, granite, slate and tumbled natural stone are among the most popular choices for stone flooring today and can be found in virtually every type of living space.

Whether on floors, walls or countertops, ceramic and stone provide an infinite number of ways to create highly customized looks for any type of space. Glazed or unglazed, fine porcelain or natural stone, large pavers or intricate mosaics, ceramic and stone surfaces present a unique opportunity to add style and beauty to an environment.

Consumers face many considerations when making a flooring purchase. This means a knowledgeable retail sales force is critical to the process. To help customers grow sales, Mohawk offers the industry's premier training program, Mohawk University, where experts provide classes in selling skills, hard and soft surface product information and business management. In 2006, Mohawk University will offer 252 classes in 79 cities in the United States and Canada.

Mohawk University

GROWTH ACCELERATION STRATEGIES

Mohawk buys companies with the intent to build upon their strengths. A Mohawk acquisition immediately becomes part of the largest flooring company in North America – one that has the capital and resources needed to maximize growth potential. Whether it is realizing revenue synergies or finding new scales of economy for cost efficiency, Mohawk's goal is to maximize its return and create new value for shareholders.

The acquisition of Dal-Tile is an excellent example of this process. Since Dal-Tile joined Mohawk in 2002, it has increased its manufacturing capacity by 14 percent through the construction of new facilities in Oklahoma and Mexico. Product selection has expanded, particularly in the residential segment. Over half of Dal-Tile's sales service centers have been remodeled and sales personnel increased. Because tile offers so many different design options, Dal-Tile has established gallery selection centers that showcase the entire product portfolio in six major U.S. markets.

Dal-Tile investments are demonstrating clear results. The division has averaged sales growth of approximately 15 percent annually since 2002, approximately four percent higher than before the acquisition. Dal-Tile has increased its share in the residential market as it tries to match its historical share strength in the commercial market. The division's sales mix has changed with an emphasis on higher-margin products. Through Dal-Tile's marketing team, Mohawk has been able to find new opportunities to place its imported ceramic tile product line, significantly contributing to the sales growth of Mohawk Hard Surfaces. Finally, as part of Mohawk, Dal-Tile has built a leading presence in stone surfaces through a series of acquisitions and strong internal growth.

Mohawk expects a similar success story with Unilin, which brings many of the same strengths in the laminate market that Dal-Tile brought in ceramics. Unilin, which is the only vertically integrated laminate producer in North America, has recently increased capacity at its North Carolina manufacturing facility by 100 million square feet per year. Additionally, Unilin's strong management team remains with the Company and Frans De Cock, Unilin's president, now sits on Mohawk's board.

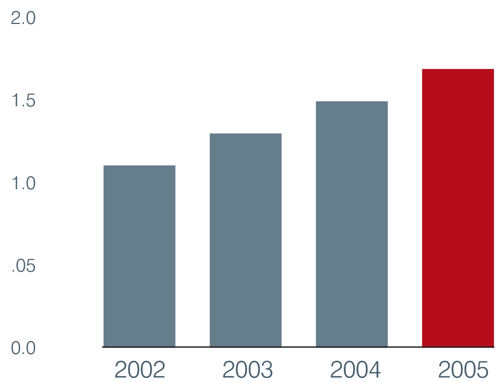
Increasing market share will be a major growth driver for Unilin. In Europe, laminate flooring has grown rapidly over the past decade and now accounts for 10 percent of flooring sales. In the United States, a less mature market, laminate accounts for just six percent of sales, but has grown 17 percent annually, taking share primarily from vinyl and wood flooring.

Accelerating market penetration is a top priority for Unilin in North America. As part of Mohawk, Unilin will continue to grow its brand through independent distributors and dealers. Given the relative ease of installation, home improvement retailers are a major source of laminate sales, and Unilin intends to expand its share of this market as well. Mohawk's relationship with an extensive network of independent dealers also represents an opportunity to introduce new products under the Mohawk label. Finally, Unilin's record of innovation and technological breakthroughs offers the promise of new product introductions in the years ahead.

Sustainability

Mohawk believes sustainability makes good business sense and constantly seeks ways to reduce, recycle, reuse and renew. From 1995 to 2003, for instance, the Company reduced water use by 50 percent, and, within a two-year period, achieved a 70 percent reduction in phosphorous emissions in one of its Georgia operations. In short, Mohawk recognizes that how it does business today impacts the quality of life for people tomorrow.

DAL-TILE SALES 2002-2005
(dollars in billions)



Dal-Tile sales have averaged approximately 15 percent in annual growth since becoming a part of Mohawk.

UNILIN GROWTH OPPORTUNITIES

- Laminate market share growth as a substitute flooring for other categories, such as vinyl and wood.
- Expanded penetration of independent dealer and home improvement retail distribution channels.
- Introduction of new products under the Mohawk brand for specialty retail distribution.
- New product development and technological innovation.

DAL-TILE DESIGN CENTER

Vertically integrated manufacturing, market leading brands, experienced management and solid financial performance are some of the similarities found in Unilin and Dal-Tile, Mohawk's two largest acquisitions to date.

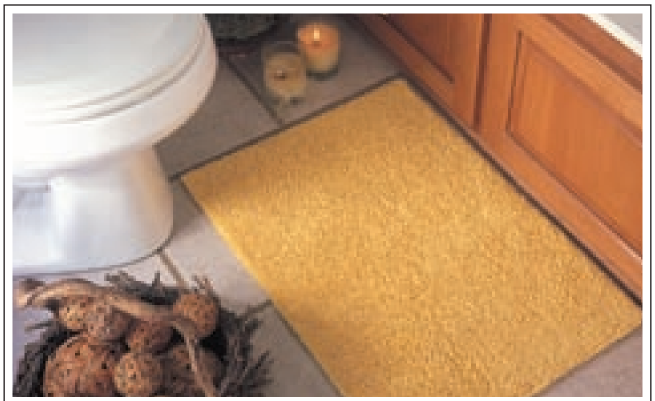
Tile and stone offer endless design options and there is no better place to view the possibilities than Dal-Tile's Design Centers. Now open in six major markets, these showrooms display the division's full line of products under one roof. Design consultants are on hand to offer ideas to buyers who are contemplating an installation.

Dal-Tile Design Centers


Stretches Our Distribution
Even Farther

Solid handcrafted hardwood floors have been a standard of quality for centuries. Mohawk distributes a full range of hardwood flooring in a variety of species and finishes.

Mohawk is a national distributor of Congoleum™ vinyl products, which offer versatility, durability and an exceptionally wide selection of colors and styles.



Mohawk's line of bath fashions complements both contemporary and traditional décors. The fashionable and practical line of bath rugs accents the beauty of ceramic tile floors and stone countertops, further illustrating Mohawk's position as a total flooring provider.

Mohawk's fashionable doormats accentuate the exterior of a home. The Matrix mat features a recycled rubber molding technology that adds dimensional quality to the design of doormats. Matrix mats are enhanced with TuffTone™, a new patent pending surface application that adds color, function and durability.

Mohawk flooring selections include a full line of hardwood and vinyl options. Mohawk also makes the room in more ways than covering floors, countertops and walls. Mohawk Home features a wide variety of bath rugs, mats, bedspreads and decorative throws that span a range of styles and price points.

Recycling

Recycling is not only an environmental responsibility at Mohawk, but also a core part of its manufacturing. A few examples: Each year, the Company transforms three billion bottles (25 percent of all plastic drink bottles collected in North America) into 160 million pounds of recycled polyester fiber for carpets. It also annually recycles 720,000 tires into durable doormats and uses 15 million pounds of foam rubber scraps per month at each of its carpet padding facilities.

INFRASTRUCTURE LEVERAGE

As North America's largest flooring company, Mohawk possesses a sales and distribution infrastructure unmatched in the industry. This infrastructure not only provides competitive advantages, but also provides the opportunity to realize economies of scale as the product portfolio expands. This is most evident in Mohawk's distribution chain.

As the leader in flooring sales in the U.S., Mohawk has relationships with the vast majority of independent flooring retailers, retail marketing groups and "big box retailers" as well as with many contractors and other distributors of flooring. Included in this distribution chain is Mohawk's extensive network of more than 2,500 aligned flooring retailers, which represents nearly 10 percent of all independent retail dealers in the United States. Three major merchandising programs support these retailers:

- Mohawk Floorscapes™ – The 500 storefronts that participate in the program co-brand their stores with Mohawk and realize the majority of their sales from Mohawk products. Mohawk supports them with the latest Mohawk retail merchandising systems, training programs, customer finance programs and advertising and marketing support.
- Mohawk ColorCenter™ – These 2,000 storefronts generate a substantial amount of their sales from Mohawk products through "a-store-within-a-store." Mohawk supports them with specialized training, merchandising and warranty information.
- Mohawk Floorz™ – This program is aimed at larger retailers, currently about 80 stores, and provides a variety of special programs and products to support their in-stock positions.

When Mohawk enters a new flooring category, it can offer a selection of new products to this base of retailers, often through re-branding programs, thereby creating a new distribution channel with a wealth of promotional resources and support.

In addition to its strong retail distribution network, Mohawk operates a vast logistics organization. The Company's transportation fleet combined with warehousing operations coast-to-coast ensures that it can supply product to any retailer in the country within days. This operation is a highly flexible transportation system, able to deliver carpet, tile, laminate or any other type of flooring. The system has an excellent record of product accuracy and on-time delivery, thanks to Mohawk's Real-Time Visibility software, which provides another level of reliability to Mohawk's retail partners.

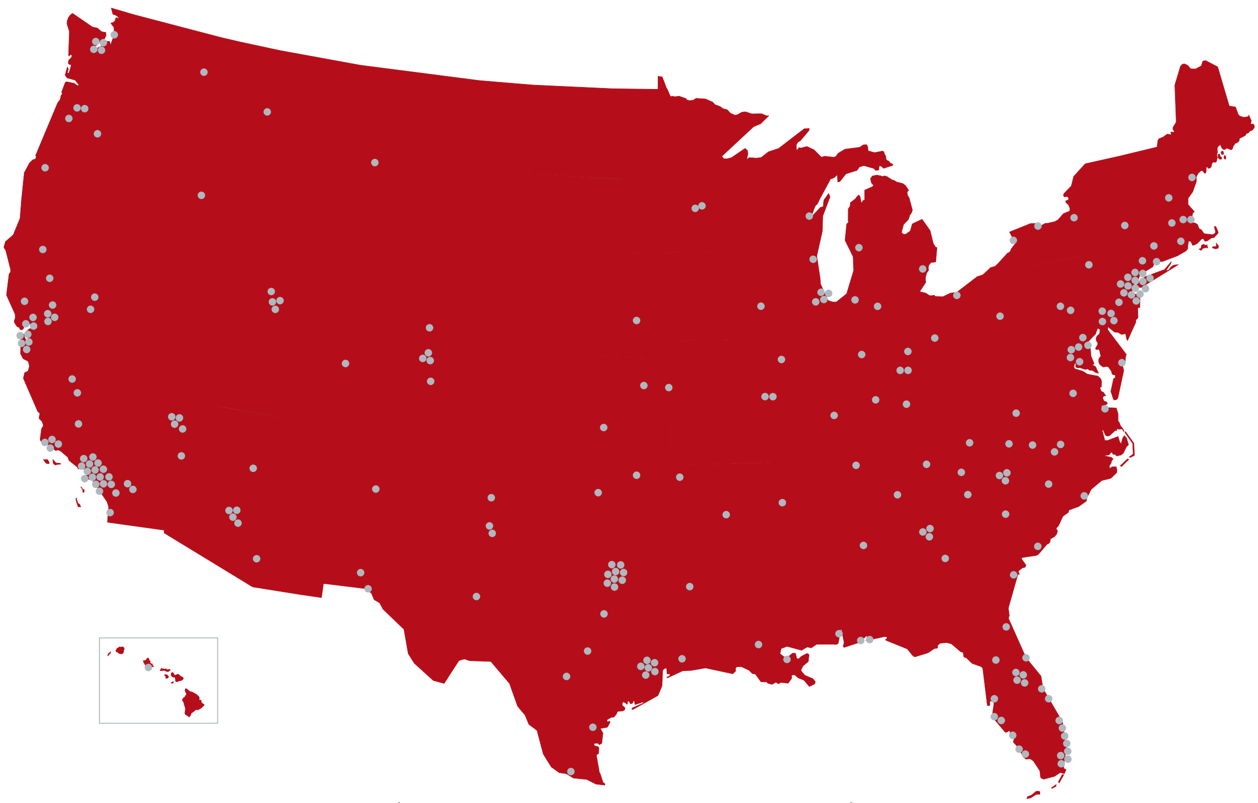
Mohawk's substantial logistics and distribution systems provide strong competitive advantages in the marketplace. With a highly diverse base of over 30,000 customers and several different distribution channels, Mohawk is able to leverage its infrastructure to its advantage in the marketplace. Additionally, the Company has some of the best known brands in the industry, allowing for differentiation of products to minimize channel conflict.

Backward Integration

Mohawk's supply chain runs both ways. In addition to the forward integration that its national distribution infrastructure affords, the Company also controls manufacturing for its broadloom product line, carpet pad and carpet backing, and provides fiber extrusion for over 60 percent of its capacity requirements. Unilin and Dal-Tile also feature backward integration as part of their business model, though Dal-Tile sources a portion of its ceramic tile internationally.

NATIONAL DISTRIBUTION NETWORK

From the factory floor to the warehouse floor to the retail floor, Mohawk is able to deliver any product to any location quickly and accurately.



1,000 TRUCKS	19 REGIONAL WAREHOUSES	43 SATELLITE WAREHOUSES
2,000 TRAILERS	21 FACTORY WAREHOUSES	255 DAL-TILE SALES CENTERS

Mohawk's national distribution network is comparable to a small national freight company. Unparalleled distribution assets, vast logistics experience and state-of-the-art software systems enable this operation to service over 30,000 customers nationwide.

Value-Added Marketing

Floor covering retailers who align with Mohawk not only get leading brands and product lines but also an impressive suite of value-added services. The Company supports its retail partners through consumer advertising campaigns, incentive programs, customized training, direct mail and point-of-purchase materials, Web site design and purchasing discounts.

"Our strategy is to ensure that no matter which flooring consumers choose – hard or soft surface – there is a Mohawk product to meet their needs."

Jeffrey S. Lorberbaum, Chairman, President and Chief Executive Officer

A Letter to Our Shareholders

Managing a business successfully comes down to making the right choices – the long-term strategic decisions, as well as the daily nuts and bolts issues. Mohawk produced solid results in 2005 and continued the Company's transformation into a total flooring provider.

Certainly, the acquisition of Unilin was the most significant strategic decision of the year and one of the most important in Mohawk's history. Hard surface flooring continues to grow in popularity and consumers have more options from which to choose than ever before. While we continue to invest in our core carpet manufacturing business, our strategy is to ensure that no matter which flooring consumers choose – hard or soft surface – there is a Mohawk product to meet their needs. With strong positions already established in residential and commercial carpet, ceramic tile and stone, Unilin now provides Mohawk with the laminate component of what is very close to being a complete flooring portfolio of market leading products.

It is important to note the "market leading" aspect of this portfolio. There are many ways to enter a flooring category, but few ways to become a market leader in a short period of time. Just as our 2002 acquisition of Dal-Tile made Mohawk the largest supplier of ceramic tile, the purchase of Unilin immediately places us among the top laminate suppliers in the United States and Europe.

With Unilin, we have acquired world-class assets and strengths – among them, leading market shares in Europe, excellent growth prospects in North American distribution channels, a distinctive brand, superior technology and an experienced management team. Again, as with Dal-Tile, we already are hard at work to capitalize on the opportunities presented by the Mohawk and Unilin combination.

Mohawk Segment Manages External Challenges

While we will remember Unilin as the single most important strategic decision in 2005, we also will remember the year as one in which we were faced with countless operating decisions to manage the challenges created by hurricanes Katrina and Rita. The disruptions to the petrochemical industry in the Gulf region were felt across our entire supply chain. From raw material shortages to freight transportation issues, nearly every aspect of our manufacturing and distribution operation was put to the test. Fortunately, we were able to minimize the effects of most temporary disruptions. As expected, the storms pushed already high raw material costs even higher, in some cases as much as 50 percent. For the second consecutive year, the industry absorbed these increases in a rational manner by passing through additional price increases.

Lower consumer confidence influenced by rising heating and gasoline costs as well as higher interest rates resulted in a softening of the residential replacement market for broadloom carpet, which accounts for over 50 percent of industry sales. Sustained demand in the new residential construc-

"There are many ways to enter a flooring category, but few ways to become a market leader in a short period of time."

tion and commercial industry segments, along with several price increases, helped the Mohawk segment increase revenues 8 percent to $4.717 billion in 2005.

The commercial market is a bright spot in the business. Two years after our acquisition of Lees, a leader in the commercial market, we continue to be pleased with the position it has provided us in commercial carpet tiles. This product carries a higher average price point than broadloom carpet and is serving us well as a growth vehicle.

Another promising development in our Mohawk segment was the debut of SmartStrand™, a proprietary technical development created through an exclusive partnership with DuPont that utilizes its Sorona® polymers. This innovative fiber technology combines the durability of high-performance fibers with stain resistance that is engineered into the fiber to provide new levels of protections. The November retail rollout has been well received by Mohawk's customer base and is being supported through educational material directed to retail customers' sales staff so that they can better articulate the Sorona® advantages to consumers.

We are particularly excited that DuPont™ Sorona® will transition to a new bio-based manufacturing process during 2006. This process utilizes fermentation based on corn sugar, a renewable resource, rather than a petrochemical process. This represents a major step forward in efforts to move our industry toward "greener" production of materials and to combat potentially higher petrochemical prices in the future. Our partnership with DuPont demonstrates how our strong industry position can provide significant competitive advantages.

Mohawk Home, which offers consumers a wide variety of bath and area rugs, bedspreads, throws and doormats, has continued to develop an impressive distribution, ranging from big box retailers to boutique shops. Mohawk Home has chosen to exit some import categories, which had lower margins, impacting sales in 2005. The Home Division continues as the industry leader in area and bath rugs.

Dal-Tile Enjoys Double-Digit Growth

Dal-Tile had another solid performance in 2005. This market leader in ceramic tile experienced strong growth in the residential builder sector, where investments in a broader product line and marketing are paying off. Robust demand in new construction, as well as a rebound in the commercial end of the market, helped push division sales up 15 percent from last year. The addition of stone products in recent years, now sold through all tile service centers and 17 stone slab locations, also is driving top-line growth for Dal-Tile.

Like Unilin and Mohawk, Dal-Tile is a vertically integrated operation, which presents additional opportunities for profitable growth. By the end of 2006, Dal-Tile will realize approximately 20 percent more manufacturing capacity through the expansion of its plants in Mexico and Oklahoma.

"SmartStrand™ with DuPont™ Sorona® polymer is one of the most innovative technologies in many years."

This increase in capacity will lead to greater manufacturing flexibility, higher inventory turns and increased margins. We intend to continue upgrading the ceramic product mix and will be manufacturing more value-added ceramic lines that sell at higher price points.

Past Performance and Future Prospects Are Solid

Though there was no shortage of external challenges in 2005, the Company's consolidated performance remained solid. Net sales for the year grew 13 percent to $6.620 billion primarily as a result of the Unilin acquisition, internal growth and price increases. Diluted earnings per share were $5.30 in 2005, or $5.63 after adjusting to exclude a non-recurring fair value inventory adjustment of $34.3 million (before taxes) related to the Unilin acquisition. The adjusted earnings per share represent a three percent increase over earnings per share in 2004. In addition, our earnings were negatively impacted by LIFO inventory charges of approximately $45.0 million during 2005.

Our expectation is that raw material costs should stabilize in 2006. We will continue to manage these with our retail partners. The expansion of our fiber extrusion and yarn conversion capabilities will provide increased capacity and flexibility to satisfy requirements for both nylon and polyester fiber.

Technology investments, such as our new Real Time Visibility (RTV) software program for residential carpet and hardwood retailers, will provide our customers with improved delivery information and inventory management. This year, Mohawk rolled out a new Corporate Environmental Policy, which refines standards for continuous improvement in all areas of environmental stewardship, including the responsible use of raw materials and natural resources, as well as processes at our facilities that can reduce the environmental impact of our activities in communities where we operate.

Our biggest priority in the coming year, however, will be on the top line, where we intend to capitalize on the substantial opportunities before us. We remain optimistic about the market for commercial carpet, and we are positioned to deliver value and service as we capture an even larger percentage of this category. Through print and electronic advertising, consumer awareness of our residential carpet line has increased. We also are helping our customers' sales associates offer better advice to consumers through training programs offered by Mohawk University. Look for more growth from all of our hard surface products, led by the expansion of Unilin's business in North America. Dal-Tile will build upon the momentum in its business to add more sales service centers, introduce new products and grow its natural stone business.

Mohawk Continues to Be the Right Choice

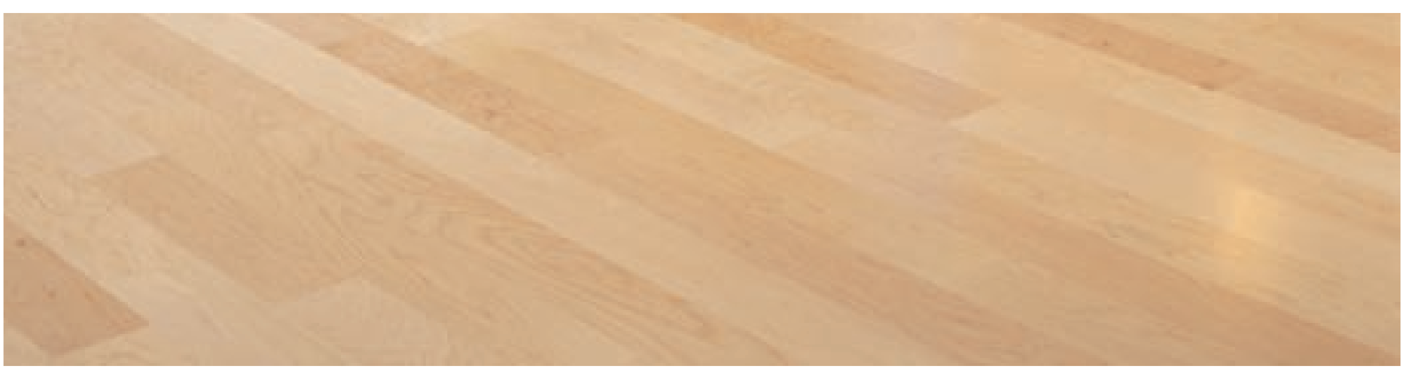
We believe Mohawk remains the right choice for investors seeking a market leader in an industry with attractive prospects, namely recurring demand, a diversified customer base, consolidated manufacturing and limited foreign competition, relative to many other industries. Always an essential part of any space, flooring's great range of materials today – carpet, ceramic, laminate, wood – have made it a popular decorating vehicle in an age when interest in remodeling is at a high level. Remodeling expenditures constitute a significant part of all construction spending and represent more than 2 percent of the total U.S. economy.

Within this industry, Mohawk presents a compelling case. Our broadloom carpet business provides a strong market foundation. The success of our Dal-Tile acquisition has made us the leader in ceramic tile and stone and the recent Unilin purchase positions us perfectly to claim a leading share in the growing laminate category. We have relationships with over 30,000 customers. Our manufacturing and distribution infrastructure is second to none. And, growing sales provide increasing leverage to these fixed assets. For all these reasons and more, we are confident that we will continue to reward you for making Mohawk the right choice as an investment.

"Our industry enjoys recurring demand, a diversified customer base, consolidated manufacturing and limited foreign competition."

Jeffrey S. Lorberbaum
Chairman, President and Chief Executive Officer
March 30, 2006

We've made what we consider to be the best laminate company in the world a part of Mohawk.



THE RIGHT CHOICE

A Conversation About Our Most Recent Acquisition

(Pictured above from left to right)
Jeffrey S. Lorberbaum and Frans De Cock

1. Why was Unilin the right acquisition for Mohawk at this time?

Mr. Lorberbaum: This was a one-of-a-kind opportunity. We consider Unilin to be the best laminate company in the world. Unilin is the market leader in Europe and the only vertically integrated laminate player in the United States. Unilin possesses patented technologies and excellent brands.

2. Conversely, why did Unilin choose to become a part of Mohawk?

Mr. De Cock: Our next strategic priority was to grow the North American business. We determined that the best way to do so was in partnership with another company. It made sense to go with the industry leader. No other flooring company can match the breadth and depth of Mohawk's distribution channels. This strength was very attractive to us.

3. Does Mohawk intend to bring Unilin roofing products to the United States?

Mr. Lorberbaum: Unilin's niche strategy in insulated roofing and other wood panel products makes for profitable and growing businesses in Europe. We are happy to have them in our portfolio. For the foreseeable future, however, our priority is to pursue growth in the North American flooring market.

4. What are the first priorities for integration of the two companies?

Mr. De Cock: We already have identified opportunities in the logistics area for both ocean freight and domestic freight transportation. We also have just completed an expansion of our manufacturing facilities in North Carolina, which allows us to meet the growing demand for laminate in North America through U.S.-based manufacturing. We will use Mohawk's excellent distribution capabilities and unparalleled client relationships to introduce new products.

Mr. Lorberbaum: We are drawing upon Unilin's expertise to develop new laminate products under the Mohawk brand, which we expect to introduce throughout the year. We also are focused on expanding market share in all of Unilin's existing distribution channels, including home improvement retailers and independent distributors and dealers.

5. Unilin has pioneered many industry innovations in the laminate category. Are there any new product developments that we can expect in the near term?

Mr. De Cock: We have always been at the forefront of innovation in our industry, and we are continuing to invest in capabilities and technologies that will enable us to stay ahead of the curve. We are working on a multitude of innovative projects, and as these technologies are ready they will be added to our product lines.

6. Now that a European-based business is a part of Mohawk, will you begin to explore other international opportunities?

Mr. Lorberbaum: Our interest in Unilin was driven by its potential in the North American flooring market, not by any objective to expand internationally right away. As it happened, the best way to fulfill our North American objectives was through a European company. In the future, if it makes sense to enter the European market in other product categories, then we can capitalize on Unilin as an entrée into the region.

7. With solid market positions in carpet, tile, stone and now laminate, what are your next category expansion priorities?

Mr. Lorberbaum: We have a presence in every major flooring category and have truly transformed Mohawk into a total flooring company. Today, over 40 percent of our revenues come from products other than carpet, and currently we are fully integrated in carpet, rugs, ceramic tile and laminate. Opportunities exist to backward integrate in wood and vinyl products that are currently sold as sourced products. We expect to remain opportunistic in the marketplace.

DIRECTORS

Jeffrey S. Lorberbaum
Chairman of the Board, President
and Chief Executive Officer

Leo Benatar [b][c]
Principal of Benatar and Associates and Former Chairman of Engraph, Inc., a subsidiary of Sonoco Products Company (an international manufacturer of industrial and consumer packaging products)

Phyllis O. Bonanno [a]
President and
Chief Executive Officer of
International Trade Solutions, Inc.

Bruce C. Bruckmann [a][c]
Managing Director
Bruckmann, Rosser, Sherrill & Co., Inc.
(a venture capital firm)

Frans De Cock
President
Unilin

John F. Fiedler [b][c]
Former Chairman and
Chief Executive Officer
Borg-Warner Automotive Inc.
(a manufacturer of automotive parts)

David L. Kolb
Former Chairman and
Chief Executive Officer
Mohawk Industries, Inc.

Larry W. McCurdy [a][b]
Former Chairman,
President and Chief Executive Officer of Echlin, Inc. (a worldwide manufacturer of motor vehicle parts)

Robert N. Pokelwaldt [a][b]
Former Chairman and Chief Executive Officer of York International Corporation (a manufacturer of air conditioning and cooling systems)

S.H. "Jack" Sharpe
Executive Vice President
Mohawk Residential Business

W. Christopher Wellborn
Chief Operating Officer

[a] Audit Committee
[b] Compensation Committee
[c] Nominating and Corporate Governance Committee

OFFICERS

Jeffrey S. Lorberbaum
Chairman, President and
Chief Executive Officer

W. Christopher Wellborn
Chief Operating Officer

Frank H. Boykin
Vice President – Finance and
Chief Financial Officer

Frans De Cock
President
Unilin

William B. Kilbride
President
Mohawk Home

Jerry L. Melton
Vice President
Human Resources

Donald R. Riley
Chief Information Officer

H. Monte Thornton
President
Mohawk Flooring

Harold G. Turk
President
Dal-Tile

Joe W. Yarbrough
Vice President
Operations

Board of Directors *(shown above from left to right):* David L. Kolb, Larry W. McCurdy, W. Christopher Wellborn, John F. Fiedler, Frans De Cock, S.H. "Jack" Sharpe, Phyllis O. Bonanno, Leo Benatar, Robert N. Pokelwaldt, Jeffrey S. Lorberbaum, and Bruce C. Bruckmann.

Officers *(shown above from left to right):* William B. Kilbride, Joe W. Yarbrough, Harold G. Turk, Frank H. Boykin, Jeffrey S. Lorberbaum, Frans De Cock, H. Monte Thornton, W. Christopher Wellborn, Donald R. Riley, and Jerry L. Melton.

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At or For the Years Ended December 31, *(In thousands, except per share data)*	**2005**	2004	2003
Statement of earnings data:			
Net sales	**$6,620,099**	5,880,372	4,999,381
Cost of sales[(a)]	**4,896,965**	4,259,531	3,605,579
Gross profit	**1,723,134**	1,620,841	1,393,802
Selling, general and administrative expenses	**1,095,862**	985,251	851,773
Restructuring costs[(b)]	–	–	–
Carrying value reduction of property, plant and equipment and other assets[(c)]	–	–	–
Class action legal settlement[(d)]	–	–	–
Compensation expense for stock option exercises[(e)]	–	–	–
Operating income	**627,272**	635,590	542,029
Interest expense[(f)]	**66,791**	53,392	55,575
Acquisition costs – World merger[(g)]	–	–	–
Other expense (income), net	**3,460**	4,809	(1,980)
	70,251	58,201	53,595
Earnings before income taxes	**557,021**	577,389	488,434
Income taxes	**198,826**	208,767	178,285
Net earnings	**$ 358,195**	368,622	310,149
Basic earnings per share[(h)]	**$ 5.35**	5.53	4.68
Weighted-average common shares outstanding[(h)]	**66,932**	66,682	66,251
Diluted earnings per share[(h)]	**$ 5.30**	5.46	4.62
Weighted-average common and dilutive potential common shares outstanding[(h)]	**67,644**	67,557	67,121
Balance sheet data:			
Working capital	**$1,228,573**	968,923	592,310
Total assets	**7,991,523**	4,403,118	4,163,575
Short-term notes payable	–	–	–
Long-term debt (including current portion)	**3,308,370**	891,341	1,012,413
Stockholders' equity	**3,027,120**	2,666,337	2,297,801

(a) In 2005, the Company recorded a non-recurring $34,300 (net of tax of $22,300) fair value adjustment to Unilin's acquired inventory.

(b) During 1996, the Company recorded pre-tax restructuring costs of $0.7 million related to certain mill closings whose operations have been consolidated into other Mohawk facilities.

(c) During 1996, the Company recorded a charge of $3.1 million arising from the write-down of property, plant and equipment to be disposed of related to the closing of a manufacturing facility in 1996 and revision in the estimate of fair value of certain property, plant and equipment based on current market conditions related to mill closings in 1995. During 1997, the Company recorded a charge of $5.5 million arising from a revision in the estimated fair value of certain property, plant and equipment held for sale based on current appraisals and other market information related to a mill closing in 1995. During 1998, the Company recorded a change of $2.9 million for the write-down of assets to be disposed of relating to the acquisition of World.

(d) The Company recorded a non-recurring charge of $7.0 million in 2000, reflecting the settlement of two class-action lawsuits.

(e) A charge of $2.6 million was recorded in 1997 for income tax reimbursements to be made to certain executives related to the exercise of stock options granted in 1988 and 1989 in connection with the Company's 1988 leveraged buyout.

2002[i]	2001	2000	1999	1998	1997	1996
4,516,957	3,441,267	3,400,905	3,208,813	2,846,646	2,519,340	2,322,682
3,247,865	2,583,669	2,556,772	2,414,312	2,156,195	1,953,110	1,804,107
1,269,092	857,598	844,133	794,501	690,451	566,230	518,575
747,027	530,441	527,018	499,704	441,355	389,889	373,120
–	–	–	–	–	–	700
–	–	–	–	2,900	5,500	3,060
–	–	7,000	–	–	–	–
–	–	–	–	–	2,600	–
522,065	327,157	310,115	294,797	246,196	168,241	141,695
68,972	29,787	38,044	32,632	31,023	36,474	39,772
–	–	–	–	17,700	–	–
9,464	5,954	4,442	2,266	2,667	338	4,586
78,436	35,741	42,486	34,898	51,390	36,812	44,358
443,629	291,416	267,629	259,899	194,806	131,429	97,337
159,140	102,824	105,030	102,660	79,552	51,866	40,395
284,489	188,592	162,599	157,239	115,254	79,563	56,942
4.46	3.60	3.02	2.63	1.91	1.33	0.96
63,723	52,418	53,769	59,730	60,393	59,962	59,310
4.39	3.55	3.00	2.61	1.89	1.32	0.95
64,861	53,141	54,255	60,349	61,134	60,453	59,899
640,846	449,361	427,192	560,057	438,474	389,378	390,889
3,596,743	1,768,485	1,795,378	1,682,873	1,405,486	1,233,361	1,226,959
–	–	–	–	–	–	21,200
820,427	308,433	589,828	596,065	377,089	402,854	486,952
1,982,879	948,551	754,360	692,546	611,059	493,841	409,616

(f) In December 2002, the Company discontinued hedge accounting for its interest rate swap. The impact of discontinuing the hedge was to increase interest expense by approximately $10.7 million.

(g) The Company recorded a charge of $17.7 million in 1998 for transaction expenses related to the World merger.

(h) The Board of Directors declared a 3-for-2 stock split on October 23, 1997, which was paid on December 4, 1997, to holders of record on November 4, 1997. Earnings per share and weighted-average common share data have been restated to reflect the split.

(i) In 2002, the Company adopted the provisions of Financial Accounting Standards Board SFAS No. 142 "Goodwill and Other Intangible Assets" which required the Company to cease amortizing goodwill and evaluate such goodwill and indefinite intangibles for impairment.

Overview

The Company is a leading producer of floor covering products for residential and commercial applications in the United States and Europe with net sales in 2005 in excess of $6.6 billion. The Company is the second largest carpet and rug manufacturer, and a leading manufacturer, marketer and distributor of ceramic tile and natural stone in the United States and a leading producer of laminate flooring in the United States and Europe.

The Company has three reporting segments, the Mohawk segment, the Dal-Tile segment and the Unilin segment. The Mohawk segment distributes its product lines, which include carpet, rug, pad, ceramic tile, hardwood, resilient and laminate through its network of approximately 52 regional distribution centers and satellite warehouses using its fleet of company-operated trucks, common carrier or rail transportation. The segment product lines are purchased by independent floor covering retailers, home centers, mass merchandisers, department stores, independent distributors, commercial dealers and commercial end users. The Dal-Tile segment product lines include ceramic tile, porcelain tile and stone products distributed through approximately 250 company-operated sales service centers and regional distribution centers using primarily common carriers and rail transportation. The segment product lines are purchased by tile specialty dealers, tile contractors, floor covering retailers, commercial end users, independent distributors and home centers. The Unilin segment manufactures and markets laminate flooring products which are distributed through separate distribution channels consisting of retailers, contractors, commercial users, independent distributors and home centers. The business is organized to address the specific customer needs of each distribution channel.

The primary categories of the United States floor covering industry include carpet and rug (62%), ceramic tile (12%), hardwood (10%), resilient and rubber (9%) and laminate (6%). Compound average growth rates for all categories, except the resilient and rubber category, for the period from 1999 through 2004 have met or exceeded the growth rates (measured in sales dollars) for the gross domestic product of the United States over the same period. Ceramic tile, laminate and hardwood continued to exceed the growth rate for housing starts over the same period. During this period, the compound average growth rate was 3.0% for carpet and rug, 7.0% for ceramic tile, 0.6% for resilient and rubber, 17.4% for laminate and 9.4% for hardwood.

On October 31, 2005, the Company acquired all the outstanding shares of Unilin Holding NV (the "Unilin Acquisition"). The total purchase price of the Unilin Acquisition, net of cash of $167.5 million, was approximately €2.2 billion (approximately $2.6 billion). The results of operations for the Unilin segment have been included in the Company's consolidated financial statements since that date. The primary reason for the acquisition was to expand the Company's presence in the laminate flooring market.

On November 10, 2003, the Company acquired the assets and assumed certain liabilities of the commercial carpet division of Burlington Industries, Inc., known as Lees Carpet, from W.L. Ross & Company for approximately $350 million in cash. The results of operations for Lees Carpet have been included with the Mohawk segment results and in the Company's consolidated financial statements since that date. The primary reason for the acquisition was to expand the Company's presence in the commercial carpet market.

The Company reported net earnings of $358.2 million or diluted earnings per share ("EPS") of $5.30, compared to net earnings of $368.6 million and $5.46 EPS for 2004. The decrease in EPS resulted from a non-recurring $34.3 million (net of tax of $22.3 million) fair value adjustment applied to Unilin's acquired inventory, continuing raw material and energy cost increases, offset by sales growth and better leveraging of selling, general and administrative costs when compared to the year ended December 31, 2004.

Results of Operations

Following are the results of operations for the last three years:

	For the Years Ended December 31,					
	2005		2004		2003	
(In thousands)						
Statement of earnings data:						
Net sales	**$ 6,620,099**	**100.0%**	5,880,372	100.0%	4,999,381	100.0%
Cost of sales	**4,896,965**	**74.0%**	4,259,531	72.4%	3,605,579	72.1%
Gross profit	**1,723,134**	**26.0%**	1,620,841	27.6%	1,393,802	27.9%
Selling, general and administrative expenses	**1,095,862**	**16.6%**	985,251	16.8%	851,773	17.0%
Operating income	**627,272**	**9.5%**	635,590	10.8%	542,029	10.9%
Interest expense	**66,791**	**1.0%**	53,392	0.9%	55,575	1.1%
Other (income) expense, net	**3,460**	**0.1%**	4,809	0.1%	(1,980)	0.0%
	70,251	**1.1%**	58,201	1.0%	53,595	1.1%
Earnings before income taxes	**557,021**	**8.4%**	577,389	9.8%	488,434	9.8%
Income taxes	**198,826**	**3.0%**	208,767	3.6%	178,285	3.6%
Net earnings	**$ 358,195**	**5.4%**	368,622	6.3%	310,149	6.2%

Year Ended December 31, 2005, as Compared with Year Ended December 31, 2004

Net sales for the year ended December 31, 2005, were $6,620.1 million, reflecting an increase of $739.7 million, or approximately 12.6%, over the $5,880.4 million reported for the year ended December 31, 2004. The increased net sales are primarily attributable to price increases and internal sales growth and the Unilin Acquisition. The Mohawk segment recorded net sales of $4,716.7 million in 2005 compared to $4,368.8 million in 2004, representing an increase of $347.9 million or approximately 8.0%. The increase was attributable to price increases and internal growth within the nylon filament and polyester carpets, commercial carpet tile, and hard surface flooring offset by declines in nylon staple and polypropylene carpets and home products. The Dal-Tile segment recorded net sales of $1,734.8 million in 2005, reflecting an increase of $223.3 million or 14.8%, over the $1,511.5 million reported in the year ended December 31, 2004. The increase was mostly attributable to strong internal growth in all product categories with stone and floor tile reflecting the strongest growth.

Quarterly net sales and the percentage changes in net sales by quarter for 2005 versus 2004 were as follows (dollars in thousands)

	2005	2004	Change
First quarter	**$1,493,222**	1,389,725	7.4%
Second quarter	**1,624,692**	1,485,897	9.3
Third quarter	**1,697,634**	1,529,651	11.0
Fourth quarter	**1,804,551**	1,475,099	22.3
Total year	**$6,620,099**	5,880,372	12.6%

Gross profit was $1,723.1 million (26.0% of net sales) for 2005 and $1,620.8 million (27.6% of net sales) for 2004. The reduction in percentage was primarily attributable to increased raw material costs, energy costs, transportation costs, an increase in the LIFO reserve requirement, a non-recurring fair value adjustment applied to Unilin's acquired inventory, and higher import costs.

Selling, general and administrative expenses for 2005 were $1,095.9 million (16.6% of net sales) compared to $985.3 million (16.8% of net sales) for 2004. The reduction in percentage was attributable to better leveraging of selling, general and administrative expenses.

Operating income for 2005 was $627.3 million (9.5% of net sales) compared to $635.6 million (10.8% of net sales) in 2004. Operating income attributable to the Mohawk segment was $381.7 million (8.1% of segment net sales) in 2005 compared to $424.3 million (9.7% of segment net sales) in 2004. The percentage decrease in operating income was attributable to the higher raw material costs, energy costs and transportation costs. Operating income attributable to the Dal-Tile segment was $260.2 million (15.0% of segment net sales) in 2005, compared to $219.8 million (14.5% of segment net sales) in 2004. The increase in operating income as a percentage of net sales is primarily attributable to product mix shift and implementing increased pricing to help offset increased raw material, energy, transportation, and higher import costs.

Interest expense for 2005 was $66.8 million compared to $53.4 million in 2004. The increase in interest expense was attributable to the debt raised to fund the Unilin Acquisition.

Income tax expense was $198.8 million, or 35.7% of earnings before income taxes for 2005 compared to $208.8 million, or 36.2% of earnings before income taxes for 2004. The improved rate was primarily attributable to the utilization of tax credits and the one-time effect of state tax law changes.

Year Ended December 31, 2004, as Compared with Year Ended December 31, 2003

Net sales for the year ended December 31, 2004, were $5,880.4 million, reflecting an increase of $881.0 million, or approximately 17.6%, over the $4,999.4 million reported for the year ended December 31, 2003. The increased net sales are primarily attributable to strong internal sales growth from both the Mohawk and Dal-Tile segments. The Mohawk segment recorded net sales of $4,368.8 million in 2004 compared to $3,730.8 million in 2003, representing an increase of $638.0 million or approximately 17.1%. The increase was attributable to strong internal growth in all product categories and the Lees Carpet acquisition. The Dal-Tile segment recorded net sales of $1,511.5 million in 2004, reflecting an increase of $243.0 million or 19.2%, over the $1,268.5 million reported in the year ended December 31, 2003. The increase was mostly attributable to strong internal growth in all product categories with stone and floor tile reflecting the strongest growth.

Quarterly net sales and the percentage changes in net sales by quarter for 2004 versus 2003 were as follows (dollars in thousands):

	2004	2003	Change
First quarter	$1,389,725	1,083,422	28.3%
Second quarter	1,485,897	1,245,870	19.3
Third quarter	1,529,651	1,301,547	17.5
Fourth quarter	1,475,099	1,368,542	7.8
Total year	$5,880,372	4,999,381	17.6%

Sales in the first and fourth quarters of 2004 were impacted by a shift of four days from the fourth to the first quarter when compared to 2003.

Gross profit was $1,620.8 million (27.6% of net sales) for 2004 and $1,393.8 million (27.9% of net sales) for 2003. The reduction in percentage was primarily attributable to increased raw material costs, energy costs, transportation costs and higher import costs.

Selling, general and administrative expenses for 2004 were $985.3 million (16.8% of net sales) compared to $851.8 million (17.0% of net sales) for 2003. The reduction in percentage was attributable to better leveraging of selling, general and administrative expenses.

Operating income for 2004 was $635.6 million (10.8% of net sales) compared to $542.0 million (10.9% of net sales) in 2003. Operating income attributable to the Mohawk segment was $424.3 million (9.7% of segment net sales) in 2004 compared to $364.0 million (9.8% of segment net sales) in 2003. The percentage decrease in operating income was attributable to higher raw material costs, energy costs and transportation costs. Operating income attributable to the Dal-Tile segment was $219.8 million (14.5% of segment net sales) in 2004, compared to $187.2 million (14.8% of segment net sales) in 2003. The decrease in operating income as a percentage of net sales is primarily attributable to higher energy costs, import costs and transportation costs.

Interest expense for 2004 was $53.4 million compared to $55.6 million in 2003. The decrease in interest expense was attributable to a larger benefit from a fair value adjustment related to an interest rate swap during 2004 when compared to 2003.

Income tax expense was $208.8 million, or 36.2% of earnings before income taxes for 2004 compared to $178.3 million, or 36.5% of earnings before income taxes for 2003. The improved rate was a result of the utilization of tax credits.

Liquidity and Capital Resources

The Company's primary capital requirements are for working capital, capital expenditures and acquisitions. The Company's capital needs are met primarily through a combination of internally generated funds, bank credit lines, term and senior notes, the sale of receivables and credit terms from suppliers.

Cash flows generated by operations for 2005 were $561.5 million compared to $242.8 million for 2004. The increase was primarily attributable to an increase in accounts payable and accrued expenses, which increased from $623.1 million at the beginning of 2005 to $998.1 million at December 31, 2005. In addition, inventory turnover increased during 2005. The increases were primarily attributable to sales growth within both the Mohawk and Dal-Tile segments and the Unilin Acquisition.

Net cash used in investing activities in 2005 was $2.9 billion compared to $121.6 million for 2004. The increase was primarily attributable to the Unilin Acquisition and higher capital expenditures. Capital expenditures were incurred primarily to modernize, add and expand manufacturing and distribution facilities and equipment. Capital expenditures, including $3.0 billion for acquisitions, have totaled $3.5 billion over the past three years. Capital spending during 2006 for the Mohawk, Dal-Tile and Unilin segments combined, excluding acquisitions, is expected to range from $290 million to $310 million, and will be used primarily to purchase equipment and to add manufacturing and distribution capacity.

Net cash provided by financing activities for 2005 was $2,440.7 million compared to cash provided in 2004 of $121.2 million. The primary reason for the change was an increase in debt levels as a result of the Unilin Acquisition in 2005 when compared to 2004.

On October 28, 2005, the Company entered into a $1.5 billion 364-day senior, unsecured, bridge term loan facility, which is referred to as the bridge credit facility, and a $1.5 billion five-year, senior, unsecured, revolving credit and term loan facility, which is referred to as the new senior unsecured credit facilities. The new senior unsecured credit facilities replaced a then-existing credit facility and various uncommitted credit lines. The Company entered into both the bridge credit facility and the new senior unsecured credit facilities to finance the Unilin Acquisition and to provide for working capital requirements.

The senior multi-currency unsecured credit facility consists of (i) a $750 million revolving credit facility, (ii) a $389.2 million term loan facility and (iii) a €300 million term loan facility, all of which mature on October 28, 2010. Availability under the revolving credit facility is reduced by the amount of letters of credit issued under this facility. At December 31, 2005, the amount of these letters of credit was $78.3 million. At the Company's election, both the credit facility and the new senior credit facilities bear interest at (i) the greater of (x) prime rate or (y) the overnight federal funds rate plus 0.50%, or (ii) LIBOR plus an indexed amount based on the Company's senior, unsecured, long-term debt rating.

On November 8, 2005, one of the Company's subsidiaries entered into a €130 million, or approximately $156 million (based on the then prevailing exchange rate), five-year unsecured, revolving credit facility, maturing on November 8, 2010, which is referred to as the Euro revolving credit facility. This revolving credit facility bears interest at EURIBOR plus an indexed amount based on the Company's senior, unsecured, long-term debt rating. The Company guaranteed the obligations of that subsidiary under this revolving credit facility and of any of the Company's other subsidiaries that become borrowers under this credit facility. As of December 31, 2005, the Company had no borrowings outstanding under this facility.

The Company's new senior unsecured credit facilities and the Euro revolving credit facility both contain debt to capital ratio requirements and other customary covenants. The Company was in compliance with these covenants at December 31, 2005. Under both of these credit facilities, the Company must pay an annual facility fee ranging from 0.06% to 0.25%, depending upon the Company's senior unsecured long-term debt rating as determined by certain credit rating agencies.

At December 31, 2005, a total of approximately $507.9 million was available under the new senior unsecured credit facilities, and the Euro revolving credit facility, compared to $234.1 million available under both the then-existing credit facility and uncommitted credit lines at December 31, 2004. The amount used under the new senior unsecured credit facilities at December 31, 2005, was $1.1 billion. The amount used under the unsecured credit facilities is composed of $1.1 billion in borrowings, $55.6 million in letters of credit guaranteeing the Company's industrial revenue bonds and $22.7 million in standby letters of credit related to various insurance contracts and foreign vendor commitments.

On January 17, 2006, the Company issued $500 million aggregate principal amount of 5.750% notes due 2011 and $900 million aggregate principal amount of 6.125% notes due 2016. The net proceeds from the issuance of these notes were used to pay off the outstanding balance of the bridge credit facility and accordingly the Company reclassified the bridge credit facility as long-term debt. Interest payable on each series of notes will be increased in the event of a downgrade in the Company's debt rating determined by certain rating agencies. The maximum increase in the event of a downgrade is 2%. If the Company's debt rating subsequently improves, then the interest rates would be reduced accordingly.

The Company has an on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). The Securitization Facility allows the Company to borrow up to $350 million based on available accounts receivable. At December 31, 2005, the Company had $40 million outstanding compared to $90 million at December 31, 2004. The Securitization Facility is secured with trade receivables. During the third quarter of 2005, the Company extended the term of its Securitization Facility until August 2006.

The Company's Board of Directors has authorized the repurchase of up to 15 million shares of the Company's outstanding common stock. For the year ended December 31, 2005, a total of approximately 186,000 shares of the Company's common stock were purchased at an aggregate cost of approximately $14.5 million. Since the inception of the program in 1999, a total of approximately 11.4 million shares have been repurchased at an aggregate cost of approximately $326.1 million. All of these repurchases have been financed through the Company's operations and banking arrangements.

The outstanding checks in excess of cash represent trade payables checks that have not yet cleared the bank. When the checks clear the bank, they are funded by the revolving credit facility. This policy does not impact any liquid assets on the consolidated balance sheets.

The following is a summary of the Company's future minimum payments under contractual obligations as of December 31, 2005 (in thousands):

	Payments due by period						
	2006	2007	2008	2009	2010	Thereafter	Total
Long-term debt	$113,809	314,277	11,259	4,275	1,063,178	1,801,572	3,308,370
Estimated interest payments(1)	174,731	160,205	154,393	153,885	146,479	316,354	1,106,047
Operating leases	93,553	75,247	61,973	51,558	37,064	103,116	422,511
Purchase commitments(2)	168,235	163,995	161,545	72,497	–	–	566,272
	$550,328	713,724	389,170	282,215	1,246,721	2,221,042	5,403,200

(1) For fixed rate debt, the Company calculated interest based on the applicable rates and payment dates. For variable rate debt, the Company estimated average outstanding balances for the respective periods and applied interest rates in effect at December 31, 2005 to these balances.

(2) Includes commitments for natural gas, foreign currency, and raw material purchases.

Critical Accounting Policies

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, the Company must make decisions which impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such decisions include the selection of appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, the Company applies judgment based on its understanding and analysis of the relevant circumstances and historical experience. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared.

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included elsewhere in this report. Some of those significant accounting policies require the Company to make subjective or complex judgments or estimates. Critical accounting policies are defined as those that are both most important to the portrayal of a company's financial condition and results and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company believes the following accounting policies require it to use judgments and estimates in preparing its consolidated financial statements and represent critical accounting policies.

- Accounts receivable and revenue recognition. Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable, and collectibility can be reasonably assured. The Company provides allowances for expected cash discounts, returns, claims and doubtful accounts based upon historical bad debt and claims experience and periodic evaluation of specific customer accounts and the aging of accounts receivable. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the last-in, first-out method (LIFO) for approximately 86% (69% of total consolidated inventory) of the inventory within the Mohawk segment, which matches current costs with current revenues, and the first-in, first-out method (FIFO), which is used to value inventory within both the Dal-Tile and Unilin segments and inventory not valued under the LIFO method in the Mohawk segment. Inventories on hand are compared against anticipated future usage, which is a function of historical usage, and anticipated future selling price, expected sales below cost, excessive quantities, and an evaluation for obsolescence. Actual results could differ from assumptions used to value obsolete, excessive inventory or inventory expected to be sold below cost and additional reserves may be required.

- Goodwill and indefinite life intangible assets are subject to annual impairment testing. The impairment tests are based on determining the fair value of the specified reporting units and indefinite life intangible assets based on management judgments and assumptions using estimated future cash flows. These judgments and assumptions could materially change the value of the specified reporting units and indefinite life intangible assets and, therefore, could materially impact the Company's consolidated financial statements. Intangible assets with definite lives are amortized over their useful lives. The useful life of a definite-lived intangible asset is based on assumptions and judgments made by management at the time of acquisition. Changes in these judgments and assumptions that could include a loss of customers, a change in the assessment of future operations or a prolonged economic downturn could materially change the value of the definite-lived intangible assets and, therefore, could materially impact the Company's financial statements.

- Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in earnings in the period that includes the enactment date. Additionally, taxing jurisdictions could retroactively disagree with the Company's tax treatment of certain items, and some historical transactions have income tax effects going forward. Accounting rules require these future effects to be evaluated using current laws, rules and regulations, each of which can change at any time and in an unpredictable manner.

- Environmental and legal accruals are estimates based on judgments made by the Company relating to ongoing environmental and legal proceedings, as disclosed in the Company's consolidated financial statements. In determining whether a liability is probable and reasonably estimable, the Company consults with its internal experts. The Company believes that the amounts recorded in the accompanying financial statements are based on the best estimates and judgments available to it.

Recent Accounting Pronouncements

In December 2004, the FASB issued FASB Staff Position 109–1, Application of FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS 109") to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" ("FSP 109-1"). The American Jobs Creation Act of 2004 (the "Jobs Act"), enacted October 22, 2004, provides a tax deduction for income from qualified domestic production activities. FSP 109–1 provides the treatment for the deduction as a special deduction as described in SFAS 109. FSP 109–1 is effective prospectively as of January 1, 2005. The adoption of FSP 109-1 did not have a significant impact on the Company's consolidated financial statements.

In December 2004, the FASB issued FASB Staff Position 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), which provides guidance under SFAS 109 with respect to recording the potential impact of the repatriation provisions of the Jobs Act on enterprises' income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. The adoption of FSP 109-2 did not have a significant impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs-An Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company will adopt SFAS 151 effective January 1, 2006 and does not expect its adoption will have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Transition may be accomplished using either the prospective or retrospective method. The Company currently measures compensation costs related to share-based payments under APB Opinion No. 25. In April 2005, the Securities and Exchange Commission announced that the effective date of SFAS 123R should be no later than the beginning of the first fiscal year beginning after June 15, 2005. The Company will adopt SFAS 123R in the first quarter of 2006 after completing its evaluation.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" ("FIN 47"), which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Effective December 31, 2005, the Company adopted FIN 47 which did not have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of this standard, if any, will depend upon accounting changes or errors that may occur in future periods. The Company adopted SFAS 154 effective December 31, 2005.

Impact of Inflation

Inflation affects the Company's manufacturing costs, distribution costs and operating expenses. The carpet, tile and laminate industry have experienced significant inflation in the prices of raw materials and fuel-related costs beginning in the first quarter of 2004. For the period from 1999 through 2005 the carpet and tile industry experienced moderate inflation in the prices of raw materials and fuel-related costs. In the past, the Company has generally been able to pass along these price increases to its customers and has been able to enhance productivity to help offset increases in costs resulting from inflation in its operations.

Seasonality

The Company is a calendar year-end company. With respect to its Mohawk and Dal-Tile segments its results of operations for the first quarter tend to be the weakest. The second, third and fourth quarters typically produce higher net sales and operating income. These results are primarily due to consumer residential spending patterns for floor covering, which historically have decreased during the first two months of each year following the holiday season. The Unilin segment second and fourth quarters typically produce higher net sales and earnings followed by a moderate first quarter and a weaker third quarter. The third quarter is traditionally the weakest due to the European holiday in late summer.

Certain Factors Affecting the Company's Performance

In addition to the other information provided in this Annual Report, the following risk factors should be considered when evaluating an investment in shares of Common Stock.

If any of the events described in these risks were to occur, it could have a material adverse effect on the Company's business, financial condition and results of operations.

The floor covering industry is sensitive to changes in general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels and demand for housing. A prolonged decline in spending for replacement floor covering products or new construction activity could have a material adverse effect on the Company's business.

The floor covering industry in which the Company participates is highly dependent on general economic conditions, such as consumer confidence and income, corporate and government spending and interest rate levels. The Company derives a majority of the Company's sales from the replacement segment of the market. Therefore, economic changes that result in a prolonged decline in spending for remodeling and replacement activities could have a material adverse effect on the Company's business and results of operations.

The floor covering industry is highly dependent on construction activity, including new construction, which is cyclical in nature. Although the impact of a decline in new construction activity is typically accompanied by an increase in remodeling and replacement activity, a prolonged decline in residential or commercial construction activity could have a material adverse effect on the Company's business and results of operations.

The construction industry has experienced significant downturns in the past, which have adversely affected suppliers to the industry. The industry could experience similar downturns in the future, which could have a negative impact on the Company's business.

The Company may be unable to pass increases in the costs of raw materials and fuel-related costs on to its customers, which could have a material adverse effect on the Company's profitability.

The prices of raw materials and fuel-related costs vary with market conditions. As a result of recent hurricanes and other general economic factors, the Company's costs of carpet raw materials and fuel-related costs are currently higher than historical averages and may remain so indefinitely. Although the Company generally attempts to pass on increases in the costs of raw materials and fuel-related costs to its customers, the Company's ability to do so is dependent upon the rate and magnitude of any increase, competitive pressures and market conditions for the Company's products. There have been in the past, and may be in the future, periods of time during which increases in these costs cannot be recovered. During such periods of time, the Company's profitability may be materially adversely affected.

The Company faces intense competition in the industry, which could decrease demand for the Company's products or force it to lower prices, which could have a material adverse effect on the Company's profitability.

The floor covering industry is highly competitive. The Company faces competition from a number of manufacturers and independent distributors. Some of the Company's competitors are larger and have greater resources and access to capital than the Company does. Maintaining the Company's competitive position may require substantial investments in the Company's product development efforts, manufacturing facilities, distribution network and sales and marketing activities. Competitive pressures may also result in decreased demand for the Company's products or force the Company to lower prices. Any of these factors could have a material adverse effect on the Company's business.

The Company may not be able to integrate successfully Unilin or other acquisitions that the Company may make in the future.

The process of combining the businesses of Unilin with the Company's existing businesses involves risks. The Company will face challenges in consolidating functions, integrating the

Company's organizations, procedures, operations and product lines in a timely and efficient manner and retaining key personnel. These challenges will result principally because the two companies currently

- maintain executive offices in different locations;
- manufacture and sell different types of products through different distribution channels;
- conduct business from various locations;
- maintain different operating systems and software on different computer hardware; and
- have different employment and compensation arrangements for their employees.

In addition, the majority of Unilin's operating facilities are located in Europe, where the Company has not previously operated a manufacturing facility. As a result, the integration will be complex and will require additional attention from members of management. The diversion of management attention and any difficulties encountered in the transition and integration process could have a material adverse effect on the Company's revenues, level of expenses and operating results. The Company may face similar challenges in combining the Company's businesses with any other businesses that the Company acquires in the future.

Failure successfully to manage and integrate Unilin with the Company's existing operations could lead to the potential loss of customers of the acquired business, the potential loss of employees who may be vital to the new operations, the potential loss of business opportunities or other adverse consequences that could affect the Company's financial condition and results of operations. Even if integration occurs successfully, failure of the Unilin Acquisition or any future acquisition to achieve levels of anticipated sales growth, profitability or productivity or otherwise not perform as expected, may adversely impact the Company's financial condition and results of operations. The Company has incurred, and will continue to incur, certain liabilities and expenses in connection with the Unilin Acquisition or any future acquisitions.

The Company has not yet completed the testing of the adequacy of Unilin's internal control over financial reporting, and it is possible that the Company's testing or that of the Company's independent auditors in connection with the audit of the Company's financial results for the year ended December 31, 2006, will reveal material weaknesses in Unilin's internal control over financial reporting.

As part of the integration of Unilin, the Company is in the process of documenting and testing of Unilin's internal control over financial reporting to allow management and the Company's independent registered public accounting firm to report in 2006 on the effectiveness of the internal control over financial reporting as it pertains to Unilin's operations. The adequacy of Unilin's internal control over financial reporting has not previously been attested to by any independent accounting firm, as no such attestation was required by virtue of Unilin's status as a foreign, privately-held company. The Company anticipates completing the testing of Unilin's internal control over financial reporting by the end of 2006. The Company's testing, or the subsequent testing by the Company's independent registered public accounting firm, may reveal deficiencies in the Company's internal control over financial reporting. In that event, the Company's management may not be able to report that the Company's internal control over financial reporting is effective, and the Company's auditors will not be able to express an opinion on the Company's internal control over financial reporting, which could have a material adverse effect on the Company's business.

A failure to identify suitable acquisition candidates and to complete acquisitions could have a material adverse effect on the Company's business.

As part of the Company's business strategy, the Company intends to continue to pursue acquisitions of complementary businesses. Although the Company regularly evaluates acquisition opportunities, the Company may not be able successfully to identify suitable acquisition candidates; to obtain sufficient financing on acceptable terms to fund acquisitions; to complete acquisitions; or to manage acquired businesses profitably.

The Company may be unable to obtain raw materials on a timely basis, which could have a material adverse effect on the Company's business.

The principal raw materials used in the Company's manufacturing operations include nylon, polyester and polypropylene resins and fibers and carpet backings, which are used primarily in the Company's carpet and rugs business; talc, clay, nepheline syenite and various glazes, including frit (ground glass), zircon and stains, which are used exclusively in the Company's ceramic tile business; wood, paper, and resins which are used primarily in the Company's laminate flooring business; and other materials. An extended interruption in the supply of these or other raw materials used in the Company's business or in the supply of suitable substitute materials would disrupt the Company's operations, which could have a material adverse effect on the Company's business.

The Company has been, and in the future may be, subject to claims and liabilities under environmental, health and safety laws and regulations, which could be significant.

The Company's operations are subject to various environmental, health and safety laws and regulations, including those governing air emissions, wastewater discharges, and the use, storage, treatment and disposal of hazardous materials. The applicable requirements under these laws are subject to amendment, to the imposition of new or additional requirements and to changing interpretations of agencies or courts. The Company could incur material expenditures to comply with new or existing regulations, including fines and penalties.

The nature of the Company's operations, including the potential discovery of presently unknown environmental conditions, exposes it to the risk of claims under environmental, health and safety laws and regulations. The Company could incur material costs or liabilities in connection with such claims.

Changes in international trade laws and in the business, political and regulatory environment in Mexico and Europe could have a material adverse effect on the Company's business.
The Company's Monterrey, Mexico, manufacturing facility and the Company's manufacturing facilities in Europe represent a significant portion of the Company's total manufacturing capacity for ceramic tile and laminate flooring, respectively. In addition, as a result of the Unilin Acquisition, the Company now has more significant general operations abroad, particularly in Europe. Accordingly, an event that has a material adverse impact on the Company's Mexican operations could have a material adverse effect on the Company's tile operations as a whole. Similarly, an event that has a material adverse impact on the Company's European operations could have a material adverse effect on the Company's laminate flooring operations as a whole. The business, regulatory and political environments in Mexico and in Europe differ from those in the United States, and the Company's Mexican and European operations are exposed to legal, currency, tax, political, and economic risks specific to the countries in which they occur, particularly with respect to labor regulations, which tend to be more stringent in Europe and, to a lesser extent, Mexico. The Company cannot assure investors that the Company will succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where the Company does business and therefore that the foregoing factors will not have a material adverse effect on the Company's operations or upon the Company's financial condition and results of operations.

The Company could face increased competition as a result of the General Agreement on Tariffs and Trade ("GATT") and the North American Free Trade Agreement ("NAFTA").
The Company is uncertain what effect reduced import duties under GATT may have on the Company's operations, although these reduced rates may stimulate additional competition from manufacturers that export ceramic tile to the United States.

Although NAFTA lowers the tariffs imposed on the Company's ceramic tile manufactured in Mexico and sold in the United States and will eliminate such tariffs entirely on January 1, 2008, it may also stimulate competition in the United States and Canada from manufacturers located in Mexico.

Fluctuations in currency exchange rates may impact the Company's financial condition and results of operations and may affect the comparability of results between the Company's financial periods.
The results of the Company's foreign subsidiaries reported in the local currency are translated into U.S. dollars for balance sheet accounts using exchange rates in effect at the balance sheet date and for the statement of earnings accounts using the Company's weighted average rates during the period. The exchange rates between some of these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. Although the Company has not yet experienced material losses due to foreign currency fluctuation, the Company may not be able to manage effectively the Company's currency translation risks, and volatility in currency exchange rates may have a material adverse effect on the carrying value of the Company's debt and results of operations and affect comparability of the Company's results between financial periods.

If the Company is unable to protect the Company's intellectual property rights, particularly with respect to the Company's patented laminate flooring technology and the Company's registered trademarks, the Company's business and prospects could be harmed.
The future success and competitive position of certain of the Company's businesses, particularly the Company's laminate flooring business, depend in part upon the Company's ability to obtain and maintain proprietary technology used in the Company's principal product families. The Company relies, in part, on the patent, trade secret and trademark laws of the United States and countries in Europe, as well as confidentiality agreements with some of the Company's employees, to protect that technology.

The Company has obtained a number of patents relating to the Company's products and associated methods and has filed applications for additional patents, including the UNICLIC® family of patents, which protects Unilin's interlocking laminate flooring panel technology. The Company cannot assure investors that any patents owned by or issued to it will provide the Company with competitive advantages, that third parties will not challenge these patents, or that the Company's pending patent applications will be approved. In addition, patent filings by third parties, whether made before or after the date of the Company's filings, could render the Company's intellectual property less valuable.

Furthermore, despite the Company's efforts, the Company may be unable to prevent competitors and/or third parties from using the Company's technology without the Company's authorization, independently developing technology that is similar to that of the Company or designing around the Company's patents. The use of the Company's technology or similar technology by others could reduce or eliminate any competitive advantage the Company has developed, cause us to lose sales or otherwise harm the Company's business. In addition, if the Company does not obtain sufficient protection for the Company's intellectual property, the Company's competitiveness in the markets it serves could be significantly impaired, which would limit the Company's growth and future revenue.

The Company has obtained and applied for numerous U.S. and foreign service marks and trademark registrations and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. The Company cannot guarantee that any of the Company's pending or future applications will be approved by the applicable governmental authorities. Moreover, even if such applications are approved, third parties may seek to oppose or otherwise challenge the registrations. A failure to obtain trademark registrations in the United States and in other countries could limit the Company's ability to protect the Company's trademarks and impede the Company's marketing efforts in those jurisdictions.

The Company requires third parties with access to the Company's trade secrets to agree to keep such information confidential. While such measures are intended to protect the Company's trade secrets, there can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach or that the Company's confidential and proprietary information and technology will not be independently developed by or become otherwise known to third parties. In any of these circumstances, the Company's competitiveness could be significantly impaired, which would limit the Company's growth and future revenue.

Companies may claim that the Company infringed their intellectual property or proprietary rights, which could cause it to incur significant expenses or prevent it from selling the Company's products.

The Company has in the past had companies claim that certain technologies incorporated in the Company's products infringe their patent rights. There can be no assurance that the Company will not receive notices in the future from parties asserting that the Company's products infringe, or may infringe, those parties' intellectual property rights. The Company cannot be certain that the Company's products do not and will not infringe issued patents or other intellectual property rights of others. Historically, patent applications in the United States and some foreign countries have not been publicly disclosed until the patent is issued (or, in some recent cases, until 18 months following submission), and the Company may not be aware of currently filed patent applications that relate to the Company's products or processes. If patents are later issued on these applications, the Company may be liable for infringement.

Furthermore, the Company may initiate claims or litigation against parties for infringement of the Company's proprietary rights or to establish the invalidity, noninfringement, or unenforceability of the proprietary rights of others. Likewise, the Company may have similar claims brought against it by competitors. Litigation, either as plaintiff or defendant, could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel from operations, whether or not such litigation is resolved in the Company's favor. In the event of an adverse ruling in any such litigation, the Company might be required to pay substantial damages (including punitive damages and attorneys fees), discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. There can be no assurance that licenses to disputed technology or intellectual property rights would be available on reasonable commercial terms, if at all. In the event of a successful claim against the Company along with failure to develop or license a substitute technology, the Company's business, financial condition and results of operations would be materially and adversely affected.

Forward-Looking Information

Certain of the statements in this Annual Report, particularly those anticipating future performance, business prospects, growth and operating strategies, proposed acquisitions, and similar matters, and those that include the words "believes," "anticipates," "forecast," "estimates" or similar expressions constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. For those statements, Mohawk claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following important factors could cause future results to differ: changes in industry conditions; competition; raw material prices; energy costs; timing and level of capital expenditures; integration of acquisitions; introduction of new products; rationalization of operations; litigation; and other risks identified in Mohawk's SEC reports and public announcements.

Quantitative and Qualitative Disclosures About Market Risk

Financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the exchange rate and natural gas markets may have on its operating results. The Company does not regularly engage in speculative transactions, nor does it regularly hold or issue financial instruments for trading purposes.

Natural Gas Risk Management

The Company uses a combination of natural gas futures contracts and long-term supply agreements to manage unanticipated changes in natural gas prices. The contracts are based on forecasted usage of natural gas measured in Million British Thermal Units ("MMBTU").

The Company has designated the natural gas futures contracts as cash flow hedges. The outstanding contracts are valued at market with the offset applied to other comprehensive income, net of applicable income taxes and any hedge ineffectiveness.

Any gain or loss is reclassified from other comprehensive income and recognized in cost of goods sold in the same period or periods during which the hedged transaction affects earnings. At December 31, 2005, the Company had natural gas contracts that mature from January 2006 to October 2006 with an aggregate notional amount of approximately 660,000 MMBTU's. The fair value of these contracts was an asset of $1.9 million. At December 31, 2004, the Company had natural gas contracts that matured from January 2005 to March 2005 with an aggregate notional amount of approximately 1 million MMBTU's. The fair value of these contracts was a liability of $1.3 million. The offset to these assets is recorded in other comprehensive income, net of applicable income taxes. The ineffective portion of the derivative is recognized directly in the cost of goods sold within the consolidated statements of earnings and was not significant for the periods reported. The amount that the Company anticipates will be reclassified out of accumulated other comprehensive income in the next twelve months is a gain of approximately $1.9 million.

The Company's natural gas long-term supply agreements are accounted for under the normal purchases provision within SFAS No. 133 and its amendments. At December 31, 2005, the Company had normal purchase commitments of approximately 1.8 million MMBTU's for periods maturing from January 2006 through October 2006. The contracted value of these commitments was approximately $17.2 million and the fair value of these commitments was approximately $20.5 million, at December 31, 2005. At December 31, 2004, the Company had normal purchase commitments of approximately 1.9 million MMBTU's for periods maturing from January 2005 through March 2006. The contracted value of these commitments was approximately $9.9 million and the fair value of these commitments was approximately $11.9 million, at December 31, 2004.

Foreign Currency Rate Management

The Company enters into foreign exchange forward contracts to hedge foreign denominated costs associated with its operations in Mexico. The objective of these transactions is to reduce volatility of exchange rates where these operations are located by fixing a portion of their costs in U.S. currency. Accordingly, these contracts have been designated as cash flow hedges. Gains and losses are reclassified from other comprehensive income and recognized in cost of goods sold in the same period or periods during which the hedged transaction affects earnings. The Company had forward contracts to purchase approximately 8 million Mexican pesos at December 31, 2005. The aggregate U.S. dollar value of these contracts at December 31, 2005, was approximately $0.7 million. The contracts are marked to market in other current liabilities with the offset to other comprehensive income, net of applicable income taxes. Unrealized losses for the year ended December 31, 2005 were not significant. The Company had no forward contracts outstanding at December 31, 2004.

The Company also had forward exchange contracts to sell the British Pound and Canadian Dollar for a notional amount of $5.6 million at December 31, 2005. The contracts do not qualify for hedge accounting and are marked to market in other expenses at the end of each reporting period. The change in fair value is recorded in other expense and the contracts do not qualify for hedge accounting. The impact of the change in fair value on the statements of operations was not significant for the period ended December 31, 2005.

CONSOLIDATED STATEMENTS OF EARNINGS

Mohawk Industries, Inc. and Subsidiaries

(In thousands, except per share data)	Years Ended December 31, 2005, 2004 and 2003		
	2005	2004	2003
Net sales	**$6,620,099**	5,880,372	4,999,381
Cost of sales	**4,896,965**	4,259,531	3,605,579
Gross profit	**1,723,134**	1,620,841	1,393,802
Selling, general and administrative expenses	**1,095,862**	985,251	851,773
Operating income	**627,272**	635,590	542,029
Other expense (income):			
Interest expense	**66,791**	53,392	55,575
Other expense	**11,714**	9,731	6,252
Other income	**(8,254)**	(4,922)	(8,232)
	70,251	58,201	53,595
Earnings before income taxes	**557,021**	577,389	488,434
Income taxes	**198,826**	208,767	178,285
Net earnings	**$ 358,195**	368,622	310,149
Basic earnings per share	**$ 5.35**	5.53	4.68
Weighted-average common shares outstanding	**66,932**	66,682	66,251
Diluted earnings per share	**$ 5.30**	5.46	4.62
Weighted-average common and dilutive potential common shares outstanding	**67,644**	67,557	67,121

See accompanying notes to consolidated financial statements.

(In thousands, except per share data)	**2005**	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 134,585	–
Receivables	848,666	660,650
Inventories	1,166,913	1,017,983
Prepaid expenses and other assets	140,789	49,381
Deferred income taxes	49,534	55,311
Total current assets	2,340,487	1,783,325
Property, plant and equipment, net	1,810,728	905,332
Goodwill	2,621,963	1,377,349
Tradenames	622,094	272,280
Other intangible assets	552,003	50,366
Other assets	44,248	14,466
	$7,991,523	4,403,118
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 113,809	191,341
Accounts payable and accrued expenses	998,105	623,061
Total current liabilities	1,111,914	814,402
Deferred income taxes	625,887	191,761
Long-term debt, less current portion	3,194,561	700,000
Other long-term liabilities	32,041	30,618
Total liabilities	4,964,403	1,736,781
Stockholders' equity:		
Preferred stock, $.01 par value; 60 shares authorized; no shares issued	–	–
Common stock, $.01 par value; 150,000 shares authorized; 78,478 and 77,514 shares issued in 2005 and 2004, respectively	785	775
Additional paid-in capital	1,123,991	1,058,537
Retained earnings	2,268,578	1,910,383
Accumulated other comprehensive loss	(47,433)	(2,441)
	3,345,921	2,967,254
Less treasury stock at cost; 10,981 and 10,755 shares in 2005 and 2004, respectively	318,801	300,917
Total stockholders' equity	3,027,120	2,666,337
	$7,991,523	4,403,118

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME Mohawk Industries, Inc. and Subsidiaries

Years Ended December 31, 2005, 2004 and 2003

(In thousands)	Common stock Shares	Common stock Amount	Additional paid–in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock Shares	Treasury stock Amount	Total stockholders' equity
Balances at December 31, 2002	76,371	$763	$1,006,550	$1,231,612	$ 1,126	(10,006)	$(257,172)	$1,982,879
Stock options exercised	679	7	18,283	–	–	–	–	18,290
Purchase of treasury stock	–	–	–	–	–	(593)	(27,839)	(27,839)
Grant to employee profit sharing plan	–	–	2,080	–	–	72	1,929	4,009
Grant to executive incentive plan	–	–	63	–	–	12	306	369
Tax benefit from exercise of stock options	–	–	8,757	–	–	–	–	8,757
Comprehensive Income:								
Currency translation adjustment	–	–	–	–	47	–	–	47
Unrealized gain on hedge instruments net of taxes	–	–	–	–	1,140	–	–	1,140
Net earnings	–	–	–	310,149	–	–	–	310,149
Total Comprehensive Income								311,336
Balances at December 31, 2003	77,050	770	1,035,733	1,541,761	2,313	(10,515)	(282,776)	2,297,801
Stock options exercised	464	5	14,952	–	–	–	–	14,957
Purchase of treasury stock	–	–	–	–	–	(250)	(18,413)	(18,413)
Grant to executive incentive plan and other	–	–	307	–	–	10	272	579
Tax benefit from exercise of stock options	–	–	7,545	–	–	–	–	7,545
Comprehensive Income:								
Currency translation adjustment	–	–	–	–	(1,675)	–	–	(1,675)
Unrealized loss on hedge instruments net of taxes	–	–	–	–	(3,079)	–	–	(3,079)
Net earnings	–	–	–	368,622	–	–	–	368,622
Total Comprehensive Income								363,868
Balances at December 31, 2004	77,514	775	1,058,537	1,910,383	(2,441)	(10,755)	(300,917)	2,666,337
Stock options exercised	378	4	10,070	–	–	–	–	10,074
Stock issuance	586	6	47,429	–	–	–	–	47,435
Purchase of treasury stock	–	–	–	–	–	(186)	(14,521)	(14,521)
Grant to executive incentive plan and other	–	–	2,717	–	–	(40)	(3,363)	(646)
Tax benefit from exercise of stock options	–	–	5,238	–	–	–	–	5,238
Comprehensive Income:								
Currency translation adjustment	–	–	–	–	(47,074)	–	–	(47,074)
Unrealized gain on hedge instruments net of taxes	–	–	–	–	2,082	–	–	2,082
Net earnings	–	–	–	358,195	–	–	–	358,195
Total Comprehensive Income								313,203
Balances at December 31, 2005	**78,478**	**$785**	**$1,123,991**	**$2,268,578**	**$(47,433)**	**(10,981)**	**$(318,801)**	**$3,027,120**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mohawk Industries, Inc. and Subsidiaries

(In thousands)	2005	2004	2003
	Years Ended December 31, 2005, 2004 and 2003		
Cash flows from operating activities:			
Net earnings	$ 358,195	368,622	310,149
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	149,329	123,088	106,615
Deferred income taxes	(6,866)	38,700	34,775
Tax benefit on stock options exercised	5,238	7,545	8,757
Loss on sale of property, plant and equipment	4,676	3,037	3,267
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	3,574	(85,417)	(47,443)
Inventories	11,542	(179,765)	(104,964)
Accounts payable and accrued expenses	91,960	(25,241)	(2,769)
Other assets and prepaid expenses	(60,877)	(6,598)	(5,592)
Other liabilities	4,773	(1,134)	6,595
Net cash provided by operating activities	561,544	242,837	309,390
Cash flows from investing activities:			
Additions to property, plant and equipment	(247,306)	(106,601)	(114,631)
Acquisitions, net of cash	(2,613,529)	(14,998)	(384,121)
Net cash used in investing activities	(2,860,835)	(121,599)	(498,752)
Cash flows from financing activities:			
Net change in short term credit	(37,721)	(3,981)	37,299
Payments on revolving line of credit	(539,294)	–	–
Proceeds from revolving line of credit	856,940	–	–
Proceeds from bridge credit facility	1,400,000	–	–
Net change in asset securitization borrowings	(50,000)	(92,000)	182,000
Payments on term loans	(15,055)	(25,034)	(26,492)
Proceeds on term loans	750,000	–	–
Payments of other debt	(30,861)	(57)	(821)
Change in outstanding checks in excess of cash	63,670	3,290	6,925
Acquisition of treasury stock	(14,521)	(18,413)	(27,839)
Common stock transactions	57,509	14,957	18,290
Net cash provided by (used in) financing activities	2,440,667	(121,238)	189,362
Effect of exchange rate changes on cash and cash equivalents	(6,791)	–	–
Net change in cash	134,585	–	–
Cash and cash equivalents, beginning of year	–	–	–
Cash and cash equivalents, end of year	$ 134,585	–	–

See accompanying notes to consolidated financial statements.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Mohawk Industries, Inc. and its subsidiaries (the "Company" or "Mohawk"). All significant intercompany balances and transactions have been eliminated in consolidation.

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

(B) CASH AND CASH EQUIVALENTS

The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents.

(C) ACCOUNTS RECEIVABLE AND REVENUE RECOGNITION

The Company is principally a carpet, rugs, ceramic tile and laminate manufacturer and sells carpet, rugs, ceramic tile, natural stone, hardwood, resilient and laminate flooring products in the United States. In addition, the Company manufactures laminate and sells carpet, rugs and laminate flooring products in Europe principally for residential and commercial use. The Company grants credit to customers, most of whom are retail-flooring dealers and commercial end users, under credit terms that the Company believes are customary in the industry.

The Company warrants certain qualitative attributes of its flooring products. The Company has recorded a provision for estimated warranty and related costs, based on historical experience and periodically adjusts these provisions to reflect actual experience.

Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable, and collectibility can be reasonably assured. The Company provides allowances for expected cash discounts, returns, claims and doubtful accounts based upon historical bad debt and claims experience and periodic evaluations of specific customer accounts. Royalty revenues received from third parties for patents are recognized based on contractual agreements. The amount of patent revenue for the year ended December 31, 2005 was $10,461 and is recorded in net sales.

(D) INVENTORIES

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the last-in, first-out method (LIFO) for approximately 86% (69% of total inventory) of the inventory within the Mohawk segment, which matches current costs with current revenues, and the first-in, first-out method (FIFO), which is used to value inventory within the Dal-Tile and Unilin segments and inventory not valued under the LIFO method in the Mohawk segment. Inventories on hand are compared against anticipated future usage, which is a function of historical usage, anticipated future selling price, expected sales below cost, excessive quantities and an evaluation for obsolescence. Actual results could differ from assumptions used to value obsolete inventory, excessive inventory or inventory expected to be sold below cost and additional reserves may be required.

(E) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, including capitalized interest. Depreciation is calculated on a straight-line basis over the estimated remaining useful lives, which are 25–35 years for buildings and improvements, 5–15 years for machinery and equipment, the shorter of the estimated useful life or lease term for leasehold improvements and 3–7 years for furniture and fixtures.

(F) GOODWILL AND OTHER INTANGIBLE ASSETS

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" the Company tests goodwill and other intangible assets with indefinite lives for impairment on an annual basis (or on an interim basis if an event occurs that might reduce the fair value of the reporting unit below its carrying value). The Company conducts testing for impairment during the fourth quarter of its fiscal year. Intangible assets that do not have indefinite lives are amortized based on average lives, which range from 7-16 years.

(G) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(H) FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of receivables, accounts payable, accrued expenses and long-term debt. The carrying amount of receivables, accounts payable and accrued expenses approximates its fair value because of the short-term maturity of such instruments. The carrying amount of the Company's floating rate debt approximates its fair value. Interest rates that are currently available to the Company for issuance of long-term debt with similar terms and remaining maturities are used to estimate the fair value of the Company's long-term debt. The estimated fair value of the Company's long-term debt at December 31, 2005 and 2004 was $3,282,715 and $961,120, compared to a carrying amount of $3,308,370 and $891,341, respectively.

(I) DERIVATIVE INSTRUMENTS

Accounting for Derivative Instruments and Hedging Activities requires the Company to recognize all derivatives on the consolidated balance sheet at fair value. Derivatives that are not qualifying hedges must be adjusted to fair value through earnings. If the derivative is a qualifying hedge, depending on the nature of the hedge, changes in its fair value are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company engages in activities that expose it to market risks, including the effects of changes in interest rates, exchange rates and natural gas commodity prices. Financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the interest rate, exchange rate and natural gas commodity markets may have on operating results. The Company does not engage in speculative transactions, nor does it hold or issue financial instruments for trading purposes.

The Company formally documents hedging instruments and hedging items, as well as its risk management objective and strategy for undertaking hedged items. This process includes linking all derivatives that are designated as fair value and cash flow hedges to specific assets, liabilities or firm commitments on the consolidated balance sheet or to forecasted transactions. The Company also formally assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective, the derivative expires, or is sold, terminated, or exercised, or the derivative is discontinued because it is unlikely that a forecasted transaction will occur, the Company discontinues hedge accounting prospectively for that specific hedge instrument.

(J) ADVERTISING COSTS AND VENDOR CONSIDERATION

Advertising and promotion expenses are charged to earnings during the period in which they are incurred. Advertising and promotion expenses included in selling, administrative, and general expenses were $41,339 in 2005, $31,474 in 2004 and $26,990 in 2003.

Vendor consideration, generally cash, is classified as a reduction of net sales, unless specific criteria are met regarding goods or services that the vendor may receive in return for this consideration. The Company makes various payments to customers, including slotting fees, advertising allowances, buy-downs and co-op advertising. All of these payments reduce gross sales with the exception of co-op advertising. Co-op advertising is classified as a selling, general and administrative expense in accordance with EITF 01-09. Co-op advertising expenses, a component of advertising and promotion expenses, were $14,408 in 2005, $10,389 in 2004 and $9,355 in 2003.

(K) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets and intangibles subject to amortization are reviewed for impairment when changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying amount of the asset exceeds the expected undiscounted cash flows of the asset, an impairment charge is recognized equal to the amount by which the carrying amount exceeds the expected undiscounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated costs of disposal and are no longer depreciated.

(L) FOREIGN CURRENCY TRANSLATION

The Company's subsidiaries that operate outside the United States use their local currency as the functional currency, with the exception of operations carried out in Canada and Mexico, in which case the functional currency is the U.S. dollar. Other than Canada and Mexico, the functional currency is translated into U.S. dollars for balance sheet accounts using the month end rates in effect as of the balance sheet date and average exchange rate for revenue and expense accounts for each respective period. The translation adjustments are deferred as a separate component of shareholders' equity, within other comprehensive income, net of tax where applicable. Gains or losses resulting from transactions denominated in foreign currencies are included in other income or expense, within the consolidated statements of earnings. The assets and liabilities of the Company's Canada and Mexico operations are re-measured using a month end rate, except for non-monetary assets and liabilities, which are re-measured using the historical exchange rate. Income and expense accounts are re-measured using an average monthly rate for the period, except for expenses related to those balance sheet accounts that are re-measured using historical exchange rates. The resulting re-measurement adjustment is reported in the consolidated statements of operations when incurred.

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

(M) EARNINGS PER SHARE ("EPS")

Basic net earnings per share ("EPS") is calculated using net earnings available to common shareholders divided by the weighted-average number of shares of common stock outstanding during the year. Diluted EPS is similar to basic EPS except that the weighted-average number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Dilutive common stock options are included in the diluted EPS calculation using the treasury stock method. Common stock options that were not included in the diluted EPS computation because the options' exercise price was greater than the average market price of the common shares for the periods presented were 351, 21 and 605 for 2005, 2004 and 2003, respectively.

Computations of basic and diluted earnings per share are presented in the following table:

	Years Ended December 31,		
	2005	2004	2003
Net earnings	**$358,195**	368,622	310,149
Weighted-average common and dilutive potential common shares outstanding:			
Weighted-average common shares outstanding	**66,932**	66,682	66,251
Add weighted-average dilutive potential common shares – options to purchase common shares, net	**712**	875	870
Weighted-average common and dilutive potential common shares outstanding	**67,644**	67,557	67,121
Basic earnings per share	**$ 5.35**	5.53	4.68
Diluted earnings per share	**$ 5.30**	5.46	4.62

(N) STOCK-BASED COMPENSATION

Effective January 1, 2003, the Company adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and requires prominent disclosure in both the annual and interim financial statements of the method of accounting used and the financial impact of stock-based compensation. As permitted by SFAS 123, the Company accounts for stock options granted as prescribed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," which recognizes compensation cost based upon the intrinsic value of the award.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS 123, and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Transition may be accomplished using either the modified prospective or modified retrospective method. The Company currently measures compensation costs related to share-based payments under APB Opinion No. 25. In April 2005, the Securities and Exchange Commission announced that the effective date of SFAS 123R should be no later than the beginning of the first fiscal year beginning after June 15, 2005. The Company will adopt SFAS 123R in the first quarter of 2006 after completing its evaluation.

If the Company had elected to recognize compensation expense under SFAS 123 based upon the fair value at the grant dates for awards under its plans, the Company's net earnings per share would have been reduced as follows:

	2005	2004	2003
Net earnings as reported	**$358,195**	368,622	310,149
Deduct: Stock-based employee compensation expense determined under fair value based method for all options, net of related tax effects	**(8,628)**	(7,519)	(6,284)
Pro forma net earnings	**$349,567**	361,103	303,865
Net earnings per common share (basic)			
As reported	**$ 5.35**	5.53	4.68
Pro forma	**$ 5.22**	5.42	4.59
Net earnings per common share (diluted)			
As reported	**$ 5.30**	5.46	4.62
Pro forma	**$ 5.18**	5.36	4.54

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

The average fair value of options granted during 2005, 2004 and 2003 was $37.29, $34.39 and $24.73, respectively. This fair value was estimated using the Black-Scholes option pricing model based on a weighted-average market price at grant date of $87.19 in 2005, $74.62 in 2004 and $53.93 in 2003 and the following weighted-average assumptions:

	2005	2004	2003
Dividend yield	**–**	–	–
Risk-free interest rate	**4.0%**	2.9%	2.3%
Volatility	**37.7%**	43.1%	44.9%
Expected life (years)	**6**	6	6

(O) COMPREHENSIVE INCOME

Comprehensive income includes foreign currency translation of assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature and transactions and derivative financial instruments designated as cash flow hedges. The Company does not provide income taxes on currency translation adjustments, as earnings from foreign subsidiaries are considered to be indefinitely reinvested.

Amounts recorded in Accumulated other comprehensive income on the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003 are as follows:

	Translation Adjustment	Hedge Instruments	Tax expense (benefit)	Total
2003	$47	3,569	(1,302)	2,314
2004	(1,628)	(1,280)	467	(2,441)
2005	(48,702)	1,998	(729)	(47,433)

(P) EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued FASB Staff Position 109–1, "Application of FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS No. 109") to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" ("FSP 109-1"). The American Jobs Creation Act of 2004 (the "Jobs Act"), enacted October 22, 2004, provides a tax deduction for income from qualified domestic production activities. FSP 109-1 provides the treatment for the deduction as a special deduction as described in SFAS No. 109. FSP 109-1 is effective prospectively as of January 1, 2005. The adoption of FSP 109-1 did not have a significant impact on the Company's consolidated financial statements.

In December 2004, the FASB issued FASB Staff Position 109-2,"Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Jobs Act on enterprises' income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. The Company did not elect to repatriate any foreign earnings during 2005 and accordingly, the adoption of FSP 109-2 did not have a significant impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs – An Amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company will adopt SFAS 151 effective January 1, 2006 and does not expect its adoption will have a material impact on the Company's consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" ("FIN 47"), which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. Effective December 31, 2005, the Company adopted FIN 47 which did not have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of this standard, if any, will depend upon accounting changes or errors that may occur in future periods. The Company adopted SFAS 154 effective December 31, 2005.

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

(Q) FISCAL YEAR

The Company ends its fiscal year on December 31. Each of the first three quarters in the fiscal year ends on the Saturday nearest the calendar quarter end.

(R) RECLASSIFICATIONS

The Company reclassified certain prior period financial statement balances to conform to current presentations.

2 ACQUISITIONS

On November 10, 2003, the Company acquired the assets and assumed certain liabilities of the carpet division of Burlington Industries, Inc. ("Lees Carpet") from W.L. Ross & Company for approximately $352,009 in cash. The results of Lees Carpet have been included with the Mohawk segment results in the Company's consolidated financial statements since that date. The primary reason for the acquisition was to expand the Company's presence in the commercial carpet market.

The following table summarizes the fair values of the assets acquired and the liabilities assumed at the date of acquisition for Lees Carpet:

Current assets	$ 62,939
Property, plant and equipment	53,424
Goodwill	78,083
Intangible assets	178,340
Other assets	52
Total assets acquired	372,838
Current liabilities	12,829
Other liabilities	8,000
Total liabilities assumed	20,829
Net assets acquired	$352,009

Of the approximately $178,340 of acquired intangible assets, approximately $125,580 was assigned to trade names and not subject to amortization. The remaining $52,760 was assigned to customer relationships with a weighted-average useful life of approximately 15 years. Goodwill of approximately $78,083 was assigned to the Mohawk segment. The goodwill is deductible for income tax purposes.

On October 31, 2005 the Company acquired all the outstanding shares of Unilin Holdings NV by acquiring Unilin Flooring BVBA, which then purchased Unilin Holdings NV. The Company simultaneously acquired all the outstanding shares of Unilin Holding Inc., and its subsidiaries (together with Unilin Flooring BVBA, "Unilin"). Unilin, together with its subsidiaries is a leading manufacturer, distributor and marketer of laminate flooring in Europe and the United States. The total preliminary purchase price of acquiring Unilin, net of cash of $165,709, was €2,110,176 or $2,546,349 based on the prevailing exchange rate at the closing. The acquisition was accounted for by the purchase method and, accordingly, the results of operations of Unilin have been included in the Company's consolidated financial statements from October 31, 2005. The purchase price was allocated to the assets acquired and liabilities assumed based upon the estimated fair values at the date of acquisition. Intangibles and property, plant and equipment values were established with the assistance of an independent third party. The excess of the purchase price over the fair value of the net identifiable assets acquired of approximately $1,249,720 was recorded as goodwill. The primary reason for the acquisition was to expand the Company's presence in the laminate flooring market.

The Company considered whether identifiable intangible assets existed during the purchase price negotiations and during the subsequent purchase allocation period. Accordingly the Company recognized goodwill, tradenames, patents, customer lists, contingent assets and backlogs.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill recorded in the Unilin Acquisition will not be amortized. Additionally, the Company determined that the tradename intangible assets have indefinite useful lives because they are expected to generate cash flows indefinitely. Goodwill and the tradename intangible assets are subject to annual impairment testing.

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition, excluding cash of $165,709. The Company is in the process of finalizing the valuation and accordingly, the allocation of the purchase price has not been finalized:

Current assets	$ 387,695
Property, plant and equipment	774,677
Goodwill	1,249,720
Intangible assets	882,886
Other assets	890
Total assets acquired	3,295,868
Current liabilities	275,214
Long-term debt	32,027
Other liabilities	442,278
Total liabilities assumed	749,519
Net assets acquired	$2,546,349

Of the $882,886 of acquired intangibles, $356,521 was assigned to registered tradenames that are not subject to amortization. The remaining acquired intangibles were assigned to customer relationships for $270,709 (7 year weighted average useful life) and patents for $255,656 (12 year weighted average useful life). The $1,249,720 of goodwill is not deductible for tax purposes.

The following unaudited pro forma financial information presents the combined results of operations of the Company and Unilin as if the acquisition had occurred at the beginning of 2004, after giving effect to certain adjustments, including increased interest expense on debt related to the acquisition, and the amortization of intangible assets. The pro forma information does not necessarily reflect the results of operations that would have occurred had the Company and Unilin constituted a single entity during such periods. The following table discloses the results for the fiscal years ended December 31:

	2005 [(a)]	2004
Net sales	$7,553,506	6,873,858
Net earnings[(a)]	400,408	374,755
Basic earnings per share	5.98	5.62
Diluted earnings per share	5.92	5.55

(a) Excludes a non-recurring $34,300 (net of tax of $22,300) fair value adjustment applied to Unilin's acquired inventory and $6,000 (net of tax of $3,900) adjustment related to non-recurring transaction costs.

During 2005, the Company acquired certain assets of a carpet backing manufacturer and all outstanding shares of a distributor of natural stone slabs for approximately $67,642. Goodwill related to the acquisitions was approximately $10,955.

3 RECEIVABLES

Receivables are as follows:

	2005	2004
Customers, trade	$925,714	746,233
Other	25,662	9,720
	951,376	755,953
Less allowance for discounts, returns, claims and doubtful accounts	102,710	95,303
Net receivables	$848,666	660,650

The following table reflects the activity of allowances for discounts, returns, claims and doubtful accounts for the years ended December 31:

	Balance at beginning of year	Additions[(1)] charged to costs and expenses	Deductions[(2)]	Balance at end of year
2003	$84,673	279,583	269,839	94,417
2004	94,417	310,368	309,482	95,303
2005	95,303	324,024	316,617	102,710

(1) Includes $2,035 for 2005 related to the Unilin Acquisition which was not charged to costs and expenses.
(2) Represents charge-offs, net of recoveries.

4 INVENTORIES

The components of inventories are as follows:

	2005	2004
Finished goods	$ 754,663	665,565
Work in process	89,179	86,883
Raw materials	323,070	265,535
Total inventories	$1,166,913	1,017,983

There were no LIFO liquidations in either 2005 or 2004. Inventories, included above, in the amount of $764,140 and $710,016 at December 31, 2005 and 2004, respectively, were valued at the lower of LIFO cost or market. If the LIFO method had not been used inventories would have been $48,560 and $3,402 higher than reported at December 31, 2005 and 2004, respectively, which approximates the difference between replacement and carrying value.

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

5

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company evaluates its goodwill and indefinite life intangibles on an annual basis for impairment. The Company has three reporting segments, the Mohawk segment, the Dal-Tile segment, and the Unilin segment. Accordingly, the Company has assigned the acquired goodwill and indefinite life intangibles to the respective reporting segments. During the fourth quarter of 2005, the Company evaluated the goodwill and indefinite life intangibles using the discounted cash flow approach and determined that there was no impairment.

The following table summarizes the components of intangible assets:

	2005	2004
Carrying amount of amortized intangible assets:		
Customer relationships	**$ 326,039**	54,160
Patents	**256,256**	600
Effect of translation	**(9,902)**	–
	$ 572,393	54,760
Accumulated amortization of amortized intangible assets:		
Customer relationships	**$ 13,467**	4,324
Patents	**7,006**	70
Effect of translation	**(83)**	–
	$ 20,390	4,394
Indefinite life intangible assets:		
Trade names	**$ 628,801**	272,280
Effect of translation	**(6,707)**	–
	$ 622,094	272,280
Total other intangible assets	**$1,174,097**	322,646
Aggregate amortization expense for the year ended December 31	**$ 15,996**	3,843

Estimated amortization expense for years ended December 31, are as follows:

2006	$77,103
2007	83,733
2008	65,410
2009	64,282
2010	62,640

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 are as follows:

	Mohawk	Dal-Tile	Unilin	Total
Balances as of January 1, 2004	$195,083	1,173,617	–	1,368,700
Goodwill acquired during the year	1,549	7,100	–	8,649
Balances as of December 31, 2004	196,632	1,180,717	–	1,377,349
Goodwill acquired during the year	1,500	10,955	1,249,720	1,262,175
Effect of translation	–	–	(17,561)	(17,561)
Balances as of December 31, 2005	$198,132	1,191,672	1,232,159	2,621,963

The increase in goodwill during 2005 was attributable to the acquisitions made within the Mohawk and Dal-Tile reporting segments and the Unilin Acquisition.

6

PROPERTY, PLANT AND EQUIPMENT

Following is a summary of property, plant and equipment:

	2005	2004
Land	**$ 155,670**	59,638
Buildings and improvements	**559,723**	378,389
Machinery and equipment	**1,802,370**	1,233,140
Furniture and fixtures	**44,765**	44,371
Leasehold improvements	**28,784**	24,120
Construction in progress	**233,525**	78,165
	2,824,837	1,817,823
Less accumulated depreciation and amortization	**1,014,109**	912,491
Net property, plant and equipment	**$1,810,728**	905,332

Property, plant and equipment includes capitalized interest of $6,000, $3,197 and $5,634 in 2005, 2004 and 2003, respectively. Depreciation expense was $133,333, $117,768 and $104,450 for 2005, 2004 and 2003, respectively. Included in the property, plant and equipment are capital leases with a cost of $135,210 and accumulated depreciation of $118 at December 31, 2005.

7
LONG-TERM DEBT

On October 28, 2005, the Company entered into a $1,500,000 364-day senior, unsecured, bridge term loan facility, which is referred to herein as the bridge credit facility, and a $1,500,000 five-year, senior, unsecured, revolving credit and term loan facility, which is referred to herein as the senior unsecured credit facilities. The senior unsecured credit facilities replaced a then-existing credit facility and various uncommitted credit lines. The Company entered into both the bridge credit facility and the senior unsecured credit facilities to finance the Unilin Acquisition and to provide for working capital requirements.

The new senior multi-currency unsecured credit facilities consist of (i) a multi-currency $750,000 revolving credit facility, (ii) a $389,200 term loan facility and (iii) a €300,000 (based on the then prevailing exchange rate) term loan facility, all of which mature on October 28, 2010. Availability under the revolving credit facility is reduced by the amount of letters of credit issued under this facility. At December 31, 2005, the amount of these letters of credit was $78,338. At the Company's election, both the bridge credit facility and the new senior credit facilities bear interest at (i) the greater of (x) prime rate or (y) the overnight federal funds rate plus 0.50%, or (ii) LIBOR plus an indexed amount based on the Company's senior, unsecured, long-term debt rating.

On November 8, 2005, one of the Company's subsidiaries entered into a €130,000, or approximately $156,000 (based on the then prevailing exchange rate), five-year unsecured, revolving credit facility, maturing on November 8, 2010, which is referred to as the Euro revolving credit facility. This agreement bears interest at EURIBOR plus an indexed amount based on the Company's senior, unsecured, long-term debt rating. The Company guaranteed the obligations of that subsidiary under this revolving credit facility and of any of the Company's other subsidiaries that become borrowers under this credit facility. As of December 31, 2005, the Company had no borrowings outstanding under this facility.

The Company's new senior unsecured credit facilities and the Euro revolving credit facility both contain debt to capital ratio requirements and other customary covenants. The Company was in compliance with these covenants at December 31, 2005. Under both of these credit facilities, the Company must pay an annual facility fee ranging from 0.060% to 0.25% depending upon the Company's senior unsecured long-term debt rating as determined by certain rating agencies.

At December 31, 2005, a total of approximately $507,918 was available under the new senior unsecured credit facilities, and the Euro 130,000 credit agreement, compared to $234,130 available under both the then-existing credit facility and uncommitted credit lines at December 31, 2004. The amount used under the senior unsecured credit facilities at December 31, 2005, was $1,140,379. The amount used under the unsecured credit facilities is composed of $1,062,041 borrowings, $55,599 standby letters of credit guaranteeing the Company's industrial revenue bonds and $22,739 standby letters of credit related to various insurance contracts and foreign vendor commitments.

On January 17, 2006, the Company issued $500,000 aggregate principal amount of 5.750% notes due 2011 and $900,000 aggregate principal amount of 6.125% notes due 2016. The net proceeds from the issuance of these notes were used to pay off the bridge credit facility, and accordingly the Company reclassified the bridge credit facility as long-term debt. Interest payable on each series of notes will be increased in the event of a downgrade in the Company's debt rating determined by certain rating agencies. The maximum increase in the event of a downgrade is 2%. If the Company's debt rating subsequently improves, then the interest rates would be reduced accordingly.

The Company has an on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). The Securitization Facility allows the Company to borrow up to $350,000 based on available accounts receivable. At December 31, 2005, the Company had $40,000 outstanding compared to $90,000 at December 31, 2004. The Securitization Facility is secured by trade receivables. During the third quarter of 2005, the Company extended the term of its Securitization Facility until August 2006.

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

Long-term debt consists of the following:

	2005	2004
Short term uncommitted credit lines	$ –	37,721
Five year unsecured credit facility, due October 28, 2010	1,062,041	–
Securitization Facility, due August 1, 2006	40,000	90,000
6.50% senior notes, payable April 15, 2007 interest payable semiannually	300,000	300,000
7.20% senior notes, payable April 15, 2012 interest payable semiannually	400,000	400,000
364-day senior, unsecured bridge term credit facility, due October 27, 2006	1,400,000	–
7.14%–7.23% senior notes, payable in annual principal installments beginning in 1997, due September 1, 2005, interest payable semiannually	–	9,447
Industrial revenue bonds, capital leases and other	106,329	54,173
Total long-term debt	3,308,370	891,341
Less current portion	113,809	191,341
Long-term debt, excluding current portion	$3,194,561	700,000

The aggregate maturities of long-term debt as of December 31, 2005 are as follows:

2006	$ 113,809
2007	314,277
2008	11,259
2009	4,275
2010	1,063,178
Thereafter	1,801,572
	$3,308,370

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ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are as follows:

	2005	2004
Outstanding checks in excess of cash	$ 97,389	33,719
Accounts payable, trade	401,543	277,851
Accrued expenses	240,827	180,978
Income taxes payable	121,533	16,143
Accrued compensation	136,813	114,370
Total accounts payable and accrued expenses	$998,105	623,061

9

DERIVATIVE FINANCIAL INSTRUMENTS

NATURAL GAS RISK MANAGEMENT

The Company uses a combination of natural gas futures contracts and long-term supply agreements to manage unanticipated changes in natural gas prices. The contracts are based on forecasted usage of natural gas measured in Million British Thermal Units ("MMBTU").

The Company has designated the natural gas futures contracts as cash flow hedges. The outstanding contracts are valued at market with the offset applied to other comprehensive income, net of applicable income taxes and any hedge ineffectiveness.

Any gain or loss is reclassified from other comprehensive income and recognized in cost of goods sold in the same period or periods during which the hedged transaction affects earnings. At December 31, 2005, the Company had natural gas contracts that mature from January 2006 to October 2006 with an aggregate notional amount of approximately 660 MMBTU's. The fair value of these contracts was an asset of $1,941. At December 31, 2004, the Company had natural gas contracts that mature from January 2005 to March 2005 with an aggregate notional amount of approximately 1,010 MMBTU's. The fair value of these contracts was a liability of $1,280. The offset to these assets is recorded in other comprehensive income, net of applicable income taxes. The ineffective portion of the derivative is recognized in the cost of goods sold within the consolidated statements of earnings and was not significant for the periods reported. The amount that the Company anticipates that will be reclassified out of accumulated other comprehensive income in the next twelve months is a gain of approximately $1,941.

The Company's natural gas long-term supply agreements are accounted for under the normal purchases provision within SFAS No. 133 and its amendments. At December 31, 2005, the Company had normal purchase commitments of approximately 1,867 MMBTU's for periods maturing from January 2006 through October 2006. The contracted value of these commitments was approximately $17,219 and the fair value of these commitments was approximately $20,488, at December 31, 2005. At December 31, 2004, the Company had normal purchase commitments of approximately 1,892 MMBTU's for periods maturing from January 2005 through March 2006. The contracted value of these commitments was approximately $9,879 and the fair value of these commitments was approximately $11,941, at December 31, 2004.

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FOREIGN CURRENCY RATE MANAGEMENT

The Company enters into foreign exchange forward contracts to hedge foreign denominated costs associated with its operations in Mexico. The objective of these transactions is to reduce volatility of exchange rates where these operations are located by fixing a portion of their costs in U.S. currency. Accordingly, these contracts have been designated as cash flow hedges. Gains and losses are reclassified from other comprehensive income and recognized in cost of goods sold in the same period or periods during which the hedged transaction affects earnings. The Company had forward contracts to purchase approximately 8,000 Mexican pesos at December 31, 2005. The aggregate U.S. dollar value of these contracts at December 31, 2005 was approximately $697. The contracts are marked to market in other current liabilities with the offset to other comprehensive income, net of applicable income taxes. Unrealized losses for the year ended December 31, 2005 were not significant. The Company had no forward contracts outstanding at December 31, 2004.

The Company also had forward exchange contracts to sell the British Pound and Canadian Dollar for a notional amount of $5,555 at December 31, 2005. The contracts do not qualify for hedge accounting and are marked to market in other expenses at the end of each reporting period. The change in fair value is recorded in other expense and the contracts do not qualify for hedge accounting. The impact of the change in fair value on the statements of operations was not significant for the period ended December 31, 2005.

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PRODUCT WARRANTIES

The Company warrants certain qualitative attributes of its products for up to 20 years. The Company records a provision for estimated warranty and related costs, based on historical experience and periodically adjusts these provisions to reflect actual experience.

Product warranties are as follows:

	2005	2004	2003
Balance at beginning of year	$23,473	24,063	28,919
Warranty claims	(46,850)	(45,553)	(50,040)
Warranty expense	49,365	44,963	45,184
Balance at end of year	$25,988	23,473	24,063

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STOCK OPTIONS, STOCK COMPENSATION AND TREASURY STOCK

Under the 2002 Long-Term Incentive Plan, options may be granted to directors and key employees through 2012 to purchase a maximum of 3,200 shares of common stock. Under the 2002 plan, options that were not issued from the 1992, 1993 and 1997 plans were cancelled. During 2005, 2004 and 2003, options to purchase 460, 411 and 565 shares, respectively, were granted under the 2002 plan. Options granted under each of these plans expire 10 years from the date of grant and become exercisable at such dates and at prices as determined by the Compensation Committee of the Company's Board of Directors.

During 1996, the Company adopted the 1997 Non-Employee Director Stock Compensation Plan. The plan provides for awards of common stock of the Company for non-employee directors to receive in lieu of cash for their annual retainers. During 2005, 2004 and 2003, a total of 1, 1 and 1 shares, respectively, were awarded to the non-employee directors under the plan.

Additional information relating to the Company's stock option plans follows:

	2005	2004	2003
Options outstanding at beginning of year	2,281	2,413	2,624
Options granted	460	411	565
Options exercised	(378)	(464)	(679)
Options canceled	(87)	(79)	(97)
Options outstanding at end of year	2,276	2,281	2,413
Options exercisable at end of year	857	791	765
Option prices per share:			
Options granted during the year	$76.73–89.46	61.33–90.97	48.50–74.93
Options exercised during the year	$9.33–82.50	9.33–65.02	6.67–63.14
Options canceled during the year	$30.53–90.97	11.17–82.50	9.33–63.90
Options outstanding at end of year	$11.33–90.97	9.33–90.97	9.33–74.93
Options exercisable at end of year	$11.33–90.97	9.33–74.93	9.33–65.02

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Summarized information about stock options outstanding and exercisable at December 31, 2005, is as follows:

	Outstanding			Exercisable	
Exercise price range	Number of Shares	Average Life(1)	Average Price(2)	Number of Shares	Average Price(2)
Under $30.53	392	4.15	$24.79	303	$23.15
$30.69–48.50	437	6.34	44.93	169	39.87
$49.09–63.14	408	6.40	60.79	216	60.48
$63.90–73.45	519	7.61	70.31	156	68.11
$73.54–88.33	510	9.20	86.51	12	83.21
$89.46–90.97	10	9.17	90.42	1	90.97
Total	2,276	6.91	59.60	857	44.96

(1) Weighted-average contractual life remaining in years.

(2) Weighted-average exercise price.

The Company's Board of Directors has authorized the repurchase of up to 15,000 shares of its outstanding common stock. For the year ended December 31, 2005, a total of approximately 186 shares of the Company's common stock were purchased at an aggregate cost of approximately $14,521. Since the inception of the program, a total of approximately 11,393 shares have been repurchased at an aggregate cost of approximately $326,063. All of these repurchases have been financed through the Company's operations and banking arrangements. On October 31, 2005, the Company entered into an agreement to issue approximately 585 shares to certain Unilin officers at $81.00 per share for an aggregate purchase price of $47,429. These shares were issued in November 2005. The securities were issued in reliance on the exemption from registration provided under Section 4(2) of the Securities Act of 1933, as amended.

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EMPLOYEE BENEFIT PLANS

The Company has a 401(k) retirement savings plan (the "Mohawk Plan") open to substantially all of its employees within the Mohawk and Dal-Tile segments who have completed 90 days of eligible service. For the Mohawk segment, the Company contributes $0.50 for every $1.00 of employee contributions up to a maximum of 4% of the employee's salary and an additional $0.25 for every $1.00 of employee contributions in excess of 4% of the employee's salary up to a maximum of 6%. For the Dal-Tile segment, the Company contributes $.50 for every $1.00 of employee contributions up to a maximum of 6% of the employee's salary. Employee and employer contributions to the Mohawk Plan were $38,322 and $15,118 in 2005, $35,440 and $13,896 in 2004, and $28,807 and $10,995 in 2003, respectively. The Company also made a discretionary contribution to the Mohawk Plan of approximately $5,710, $5,214 and $4,595 in 2005, 2004 and 2003, respectively. The Unilin segment also has a defined contribution plan that covers certain employees in the United States of America. Eligible employees may elect to contribute a portion of their annual salary subject to a certain maximum each year. The Company's matching of employee contributions is discretionary and is set each year by the Company. The Company's match was approximately $40 for the two-month period ended December 31, 2005.

Unilin has various pension plans covering most of its employees in Belgium, France and The Netherlands. Benefits under those plans typically depend on compensation and years of service. Unilin does not provide other postretirement benefits. The pension plans are funded in accordance with local regulations. In The Netherlands, some plans participate in multi-employer pension plans which have been treated as defined contribution plans. The Company uses a December 31 measurement date for its plans.

The plan assets for the defined benefit plans are invested 100% in insurance contracts. Since the insurance companies primarily invest in bonds, the long term expected rate of return reflects the yield of the bonds. A discount rate of 4.18% has been established by reference to the return on AA corporate bonds, an expected rate of return has been set equal to the discount rate and a rate of compensation increase of 3.45% is based on the Company's experience.

The accumulated benefit obligation for Unilin's defined benefit plans was $14,345 at December 31, 2005. The assets, projected benefit obligation and accumulated benefit obligation for the pension plans with accumulated benefit obligations in excess of plans' assets were $12,115, $15,194 and $13,468 respectively, as of December 31, 2005.

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

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INCOME TAXES

Following is a summary of income from continuing operations before income taxes for United States and foreign operations:

	2005	2004	2003
United States	**$545,427**	568,824	483,997
Foreign	**11,594**	8,565	4,437
Income before income taxes	**$557,021**	577,389	488,434

Income tax expense (benefit) for the years ended December 31, 2005, 2004 and 2003, consists of the following:

	Current	Deferred	Total
2005:			
U.S. federal	**$183,807**	**3,320**	**187,127**
State and local	**15,147**	**(1,395)**	**13,752**
Foreign	**11,555**	**(13,608)**	**(2,053)**
	$210,509	**(11,683)**	**198,826**
2004:			
U.S. federal	$158,704	32,541	191,245
State, local and other	11,363	6,159	17,522
	$170,067	38,700	208,767
2003:			
U.S. federal	$132,849	38,696	171,545
State, local and other	10,661	(3,921)	6,740
	$143,510	34,775	178,285

Income tax expense attributable to earnings before income taxes differs from the amounts computed by applying the U.S. statutory federal income tax rate to earnings before income taxes as follows:

	2005	2004	2003
Computed "expected" tax expense	**$194,958**	202,087	170,952
State and local income taxes, net of federal income tax benefit	**4,367**	11,675	5,071
Foreign income taxes	**(589)**	(892)	2,495
Change in valuation allowance	**(1,351)**	(1,821)	(2,312)
Other, net	**1,441**	(2,282)	2,079
	$198,826	208,767	178,285

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004, are presented below:

	2005	2004
Deferred tax assets:		
Accounts receivable	**$ 20,147**	32,008
Inventories	**(4,969)**	9,641
Federal and state net operating losses and credits	**44,620**	40,551
Accrued expenses	**99,836**	62,767
Valuation allowance	**(32,180)**	(33,531)
Gross deferred tax assets	**127,454**	111,436
Deferred tax liabilities:		
Plant and equipment	**(302,552)**	(129,287)
Intangibles	**(325,183)**	(83,545)
Other liabilities	**(56,069)**	(35,054)
Gross deferred tax liabilities	**(683,804)**	(247,886)
Net deferred tax liability (1)	**$(556,350)**	(136,450)

(1) This amount includes $25,114 of non-current deferred tax assets which are in other assets and $5,111 current deferred tax liabilities which are included in other accrued expenses in the consolidated balance sheet.

Based upon the expected reversal of deferred tax liabilities and the level of historical and projected taxable income over periods in which the deferred tax assets are deductible, the Company's management believes it is more likely than not the Company will realize the benefits of these deductible differences.

The Company does not provide for U.S. federal and state income taxes on the cumulative undistributed earnings of its foreign subsidiaries because such earnings are reinvested and will continue to be reinvested indefinitely. At December 31, 2005 and 2004, the Company had not provided federal income taxes on earnings of approximately $56,763 and $48,172 from its foreign subsidiaries. Should these earnings be distributed in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes and withholding taxes in various international jurisdictions. These taxes would be partially offset by U.S. foreign tax credits.

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The American Jobs Act of 2004 ("The Jobs Act") was enacted on October 22, 2004. The new law made numerous and substantive changes in the taxation of foreign and domestic-sourced income, including provisions for a lower tax rate on repatriated foreign earnings. The Company has completed its analysis of the relevant provisions of The Jobs Act and has determined that there is no impact on the Company's consolidated financial statements.

As of December 31, 2005 and 2004, the Company had state net operating loss carryforwards, state tax credits and Mexican asset tax credits with potential tax benefits of approximately $44,600 and $40,600, respectively, net of federal income tax benefit. Because the Company generates more state tax credits on an annual basis in certain jurisdictions than the related state taxable income, it is the Company's opinion that it is more likely than not that the benefit of these deferred tax assets related to state tax credits and certain state net operating losses will not be realized. Accordingly, a valuation allowance of approximately $32,180 and $33,531 has been recorded for the years ended December 31, 2005 and 2004, respectively. For 2005 the valuation allowance decreased by $1,351 primarily as a result of a Mexican tax credit benefit recognized in the current year, net of an increase in the state valuation allowance in various state jurisdictions. The Company has determined that these credits and losses may not be utilized before they expire.

In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities, and the Company has accrued a liability when it believes it is probable that it will be assessed. Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the Company's consolidated financial position but could possibly be material to the Company's consolidated results of operations or cash flow of any one period.

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COMMITMENTS AND CONTINGENCIES

The Company is obligated under various operating leases for office and manufacturing space, machinery, and equipment.

Future minimum lease payments under non-cancelable capital and operating leases (with initial or remaining lease terms in excess of one year) as of December 31:

	Capital	Operating	Total Future Payments
2006	$18,382	93,553	111,935
2007	14,381	75,247	89,628
2008	11,670	61,973	73,643
2009	4,597	51,558	56,155
2010	1,223	37,064	38,287
Thereafter	1,687	103,116	104,803
Total payments	51,940	422,511	474,451
Less amount representing interest	(3,636)		
Present value of capitalized lease payments	$48,304		

Rental expense under operating leases was $99,697, $87,659 and $78,007 in 2005, 2004 and 2003, respectively.

The Company has approximately $40,958 and $36,693 as of December 31, 2005 and 2004 in standby letters of credit for various insurance contracts and commitments to foreign vendors that expire within two years. In addition, at December 31, 2005, the Company guaranteed approximately $72,040 for VAT and building leases related to its operating facilities in France.

The Company is involved in routine litigation from time to time in the regular course of its business. Except as noted below, there are no material legal proceedings pending or known to be contemplated to which the Company is a party or to which any of its property is subject.

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

In *Shirley Williams, et al vs. Mohawk Industries, Inc*. four plaintiffs filed a purported class action lawsuit in January 2004, in the United States District Court for the Northern District of Georgia, alleging that they are former and current employees of the Company and that the actions and conduct of the Company, including the employment of persons who are not permitted to work in this country, have damaged them and the other members of the purported class by suppressing the wages of the Company's hourly employees in Georgia. The plaintiffs seek a variety of relief, including (a) treble damages; (b) return of any allegedly unlawful profits; and (c) attorney's fees and costs of litigation. In February 2004, the Company filed a Motion to Dismiss the Complaint, which was denied by the Northern District in April 2004. The Company then sought and obtained permission to file an immediate appeal of the Northern District's decision to the United States Court of Appeals for the 11th Circuit. In June 2005, the 11th Circuit reversed in part and affirmed in part the lower court's decision (Williams v. Mohawk Industries, Inc., 411 F.3d 1252 (11th Cir. 2005)). In June 2005, the Company filed a motion requesting review by the full 11th Circuit, which was denied in August 2005. In October 2005, the Company filed a petition for certiorari with the United States Supreme Court, which petition was granted in December of 2005. The Company believes it has meritorious defenses and intends to continue vigorously defending itself against this action.

The Company believes that adequate provisions have been made for all pending litigation for probable losses with respect to the resolution of all claims and pending litigation and that the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material effect on its results of operations in a given quarter or year.

The Company is subject to various federal, state, local and foreign environmental health and safety laws and regulations, including those governing air emissions, wastewater discharges, the use, storage, treatment and disposal of solid and hazardous materials, and the cleanup of contamination associated therewith. Because of the nature of the Company's business, the Company has incurred, and will continue to incur, costs relating to compliance with such laws and regulations. The Company is involved in various proceedings relating to environmental matters and is currently engaged in environmental investigation, remediation and post-closure care programs at certain sites. The Company has provided accruals for such activities that it has determined to be both probable and reasonably estimable. The Company does not expect that the ultimate liability with respect to such activities will have a material adverse effect on its operations, but may have an effect on a given quarter or annual period.

On October 31, 2005, the Company entered into a Discounted Stock Purchase Agreement (the "DSPA") with certain members of the Unilin management team (the "Unilin Management"). Under the terms of the DSPA the Company will be obligated to make cash payments to the Unilin management in the event that certain performance goals are satisfied. In each of the years in the five-year period ended December 31, 2010, the Unilin Management can earn amounts, in the aggregate, equal to the average value of 35,133 shares of the Company's common stock over the 20 trading day period ending on December 31 of the prior year. Any failure in a given year to reach the performance goals may be rectified, and consequently the amounts payable with respect to achieving such criteria may be made in any of the other years.

In the normal course of business, the Company has entered into various European collective bargaining agreements with its workforce, either locally or within its industry sector. Historically, the Company and its industry have maintained favorable relationships with its workforce and expect to do so in the future.

15 CONSOLIDATED STATEMENTS OF CASH FLOWS INFORMATION

Supplemental disclosures of cash flow information are as follows:

	2005	2004	2003
Net cash paid during the year for:			
Interest	$ 61,468	60,744	61,424
Income taxes	$ 191,601	226,227	139,914
Supplemental schedule of non-cash investing and financing activities:			
Fair value of assets acquired in acquisition	$3,375,605	16,236	407,320
Liabilities assumed in acquisition	(762,076)	(1,238)	(23,199)
	$2,613,529	14,998	384,121

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

16 SEGMENT REPORTING

The Company has three reporting segments, the Mohawk segment, the Dal-Tile segment, and the Unilin segment. The Mohawk segment (an aggregation of the Mohawk Flooring reporting unit and the Mohawk Home reporting unit) manufactures, sources, markets and distributes its product lines, which include carpet, rugs, pad, ceramic tile, hardwood, resilient and laminate through independent floor covering retailers, home centers, mass merchandisers, department stores, commercial dealers and commercial end users. The Dal-Tile segment product lines include ceramic tile, porcelain tile and stone products sold through tile and flooring retailers, contractors, independent distributors and home centers. The Unilin segment, which is headquartered in Belgium, is a leading manufacturer, distributor and marketer of laminate flooring, insulated roofing and other wood panels in Europe and the United States. Unilin sells its laminate flooring products through independent distributors and specialty stores in Europe and the United States, as well as through traditional retailers in France, Belgium and The Netherlands and, in some circumstances, under private label names.

Amounts disclosed for each segment are prior to any elimination or consolidation entries. Corporate general and administrative expenses attributable to each segment are estimated and allocated accordingly. Segment performance is evaluated based on operating income. No single customer accounted for more than 5% of net sales for the years ended December 31, 2005, 2004 and 2003. In addition, inter-segment net sales were not significant during these periods. The increase from 2005 compared to 2004 is primarily a result of the acquisition of Unilin.

Segment information is as follows:

	2005	2004	2003
Net sales:			
Mohawk	**$4,716,659**	4,368,831	3,730,845
Dal-Tile	**1,734,781**	1,511,541	1,268,536
Unilin	**168,814**	–	–
Corporate and eliminations	**(155)**	–	–
	$6,620,099	5,880,372	4,999,381
Operating income:			
Mohawk	**$ 381,699**	424,256	364,040
Dal-Tile	**260,194**	219,831	187,245
Unilin	**(5,162)**	–	–
Corporate and eliminations	**(9,459)**	(8,497)	(9,256)
	$ 627,272	635,590	542,029
Depreciation and amortization:			
Mohawk	**$ 91,452**	89,479	78,450
Dal-Tile	**31,731**	29,210	24,638
Unilin	**22,367**	–	–
Corporate and eliminations	**3,779**	4,399	3,527
	$ 149,329	123,088	106,615
Capital expenditures (excluding acquisitions):			
Mohawk	**$ 153,238**	66,563	55,587
Dal-Tile	**84,363**	38,720	57,856
Unilin	**6,207**	–	–
Corporate and eliminations	**3,498**	1,318	1,188
	$ 247,306	106,601	114,631
Assets:			
Mohawk	**$2,424,983**	2,285,025	
Dal-Tile	**2,207,514**	2,063,195	
Unilin	**3,263,248**	–	
Corporate and eliminations	**95,778**	54,898	
	$7,991,523	4,403,118	
Geographic net sales:			
North America	**$6,489,511**	5,880,372	4,999,381
Europe	**130,588**	–	–
	$6,620,099	5,880,372	4,999,381
Long-lived assets(1):			
North America	**$2,951,681**	2,282,681	
Europe	**1,481,010**	–	
	$4,432,691	2,282,681	

(1) Long-lived assets are composed of net property, plant and equipment and goodwill.

Mohawk Industries, Inc. and Subsidiaries December 31, 2005, 2004 and 2003 (In thousands, except per share data)

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QUARTERLY FINANCIAL DATA (UNAUDITED)

The supplemental quarterly financial data are as follows:

	Quarters Ended			
	April 2, 2005	July 2, 2005	October 1, 2005	December 31, 2005
Net sales	$1,493,222	1,624,692	1,697,634	1,804,551
Gross profit	384,702	431,509	451,868	455,055
Net earnings	70,020	93,811	108,652	85,712
Basic earnings per share	1.05	1.40	1.62	1.27
Diluted earnings per share	1.03	1.39	1.61	1.26

	Quarters Ended			
	April 3, 2004	July 3, 2004	October 2, 2004	December 31, 2004
Net sales	$1,389,725	1,485,897	1,529,651	1,475,099
Gross profit	365,546	403,319	436,053	415,923
Net earnings	66,307	87,158	112,687	102,470
Basic earnings per share	1.00	1.31	1.69	1.54
Diluted earnings per share	0.98	1.29	1.67	1.52

**The Board of Directors and Stockholders
Mohawk Industries, Inc.:**

We have audited the accompanying consolidated balance sheets of Mohawk Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the combined consolidated financial statements of Unilin Flooring BVBA and Unilin Holding Inc. and their subsidiaries (Unilin Group), which financial statements reflect total assets constituting approximately 41 percent and total revenues constituting approximately 3 percent in 2005, of the related consolidated totals. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Unilin Group, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mohawk Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Mohawk Industries, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Atlanta, Georgia
March 15, 2006

The Shareholders and the Board of Directors
Unilin Flooring BVBA and Unilin Holding Inc.
Ooigem, Belgium

We have audited the accompanying combined consolidated financial statements of Unilin Flooring BVBA and Unilin Holding Inc. and their subsidiaries (the Unilin Group) as of December 31, 2005 and the related combined consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the two month period then ended. These financial statements are the responsibility of the combined Companies' management. Our responsibility is to express an opinion on these combined consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The combined Companies are not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the combined Companies' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Unilin Group at December 31, 2005 and the results of their operations and their cash flows for the two month period then ended in conformity with accounting principles generally accepted in the United States of America.

February 17, 2006

BDO Atrio Bedrijfsrevisoren Burg. CVBA

**The Board of Directors and Stockholders
Mohawk Industries, Inc.:**

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Mohawk Industries, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Mohawk Industries, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Mohawk Industries, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Mohawk Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As described in the Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment of the effectiveness of Mohawk Industries, Inc.'s internal control over financial reporting as of December 31, 2005, Unilin Flooring BVBA and Unilin Holding Inc. and their subsidiaries (Unilin Group), which businesses were acquired on October 31, 2005 and whose financial statements reflect total assets constituting approximately 14% (excluding goodwill and identified intangible assets of approximately 27%) and revenues of approximately 3% of the related consolidated financial statement amounts as of and for the year ended December 31, 2005. Accordingly, our audit of internal control over financial reporting of Mohawk Industries, Inc. also excluded an evaluation of the internal control over financial reporting of the Unilin Group.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Mohawk Industries Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 15, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Atlanta, Georgia
March 15, 2006

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2005. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. The Company has excluded from the scope of its assessment of internal control over financial reporting as of December 31, 2005, Unilin Flooring BVBA, Unilin Holding Inc., and their subsidiaries (the Unilin Group), which businesses were acquired on October 31, 2005 and whose financial statements reflect total assets constituting approximately 14% (excluding goodwill and identified intangible assets of approximately 27%) and revenues of approximately 3% of the Company's related consolidated financial statements as of and for the year ended December 31, 2005. The Company's management has concluded that, as of December 31, 2005, its internal control over financial reporting is effective based on these criteria. The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on management's assessment of the Company's internal control over financial reporting, which is included herein.

Jeffrey S. Lorberbaum
Chairman, President and Chief Executive Officer

Frank H. Boykin
Chief Financial Officer and Vice President – Finance

CORPORATE HEADQUARTERS

P.O. Box 12069
160 South Industrial Boulevard
Calhoun, Georgia 30703
(706) 629-7721

INDEPENDENT AUDITORS

KPMG LLP
Atlanta, Georgia

BDO Atrio Bedrijfsrevisoren Burg. CVBA
Brussels, Belgium

CORPORATE COUNSEL

Alston & Bird LLP
Atlanta, Georgia

TRANSFER AGENT AND REGISTRAR

American Stock Transfer
and Trust Company
Corporate Trust Client Services
1525 West W.T. Harris Blvd., 3C3
Charlotte, North Carolina 28262-8522
(704) 590-7390

PUBLICATIONS

The Company's Annual Report, Proxy Statement, Form 8-K, 10-K and 10-Q reports are available without charge and can be ordered via our stockholder communications service at (800) 625-7721 or via the Internet at www.mohawkind.com under investor relations. Written requests should be sent to Christi Scarbro at the Company's headquarters address above.

PRODUCT INQUIRIES

For more information about Mohawk's products, call toll-free: (800) 622-6227 or visit our Web site at www.mohawk-flooring.com.

INVESTOR/ANALYST CONTACT

For additional information about Mohawk, please contact Frank H. Boykin at (706) 624-2695 or at the Company's headquarters address above.

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Mohawk Industries, Inc., will be held at the Company's headquarters on South Industrial Boulevard in Calhoun, Georgia, on Wednesday, May 17, 2006, at 10:00 a.m. For directions and a map, call Christi Scarbro at (706) 624-2246.

COMMON STOCK PRICE RANGE

Mohawk's common stock is traded on the New York Stock Exchange under the symbol MHK. The table below sets forth the high and low sales prices per share of the common stock as reported by the exchange, for each fiscal period indicated.

MOHAWK COMMON STOCK

2005	HIGH	LOW
First Quarter	$94.72	$82.15
Second Quarter	89.00	76.54
Third Quarter	92.45	76.19
Fourth Quarter	89.71	74.55

2004	HIGH	LOW
First Quarter	$85.79	$68.77
Second Quarter	82.98	68.89
Third Quarter	81.60	69.07
Fourth Quarter	92.44	74.05

COMMON SHAREHOLDERS OF RECORD

As of March 13, 2006, there were 384 common shareholders of record.

ENVIRONMENTAL AWARENESS

Mohawk supports environmental awareness by encouraging recycling, waste management and energy conservation in its business practices and operating procedures. In 2003, the Company received the U.S. General Services Administration's Evergreen Award for its commitment to the environment.

♻ Portions of this annual report printed on recycled paper.

EQUAL OPPORTUNITY

Mohawk is an Equal Opportunity/ Affirmative Action employer committed to attracting a diverse pool of applicants.

NYSE AFFIRMATION CERTIFICATIONS

As Chief Executive Officer of Mohawk Industries, Inc., and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE's Corporate Governance listing standards.

Jeffrey S. Lorberbaum
Chairman, President and
Chief Executive Officer

The Company has filed the certifications of its Chief Executive Officer and Chief Financial Officer required by Section 302 of Sarbanes-Oxley Act of 2002 as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 2005.

Mohawk Industries, Inc.
P.O. Box 12069, 160 South Industrial Boulevard, Calhoun, Georgia 30703
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