



Mohawk Industries 2002 Annual Report

Room to grow.

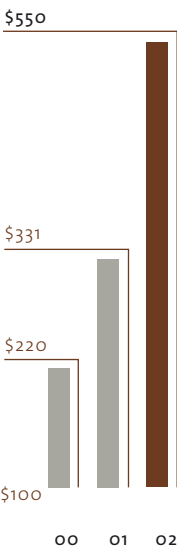


Absolutely. We're the leading manufacturer and marketer
25% of the more than \$20 billion floorcovering industry,

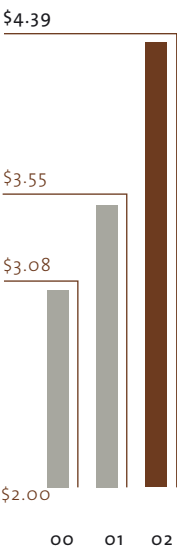
Financial Highlights

In thousands, except per share amounts

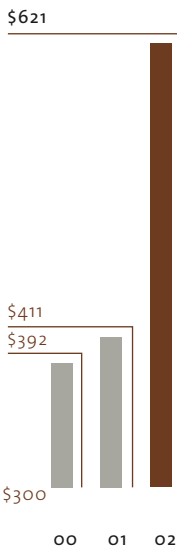
	2002	2001	2000
Net sales	\$ 4,522,336	3,445,945	3,404,034
Gross profit	\$ 1,237,114	832,902	822,849
Operating income before nonrecurring items	\$ 519,112	327,157	317,115
Net earnings before nonrecurring items	\$ 284,489	188,592	166,852
Earnings per share before nonrecurring items	\$ 4.39	3.55	3.08



Operating Cash Flow
(In millions)



Diluted Earnings
Per Share*



Operating Income* before interest,
depreciation, amortization & taxes
(In millions)

* Before Non-recurring items.

of floorcovering in the United States, but with less than we've got plenty of room to grow.

A Letter to Our Stockholders

| **Tough economy? Absolutely. Record returns? You bet.** As the economy faltered during 2002, Mohawk stood on solid ground. We managed the Company conservatively, adjusting to the economic environment and preparing to take advantage of the eventual upturn. We improved our internal metrics, our sales approach and our infrastructure while beginning to integrate the biggest acquisition in the Company's history. And, we focused on training and developing our people. The result? Mohawk delivered record earnings and became the industry's leading floorcovering supplier, positioning our Company as a leader in all floorcovering products. With about 30% of our total sales in hard surface products, we're now poised to capture greater market share in all floorcovering categories. | The Company's 2002 financial performance was impressive. Diluted earnings per share were \$4.39, 24 percent higher than 2001. Net earnings were \$284 million. These compare to EPS of \$3.55 or \$189 million in net earnings for 2001. Net sales grew to \$4.5 billion, a 31 percent increase over 2001. Of that, the Dal-Tile acquisition accounted for 26 percent. | Our balance sheet gained strength, with debt-to-capitalization falling to 29 percent at the end of the year. This compares to 39 percent at the end of the first quarter immediately following the Dal-Tile acquisition. We reduced the number of days of sales in accounts receivable from 43 to 40 days. | We repurchased

1.4 million shares of Mohawk stock. And, our investment grade public bond offering was highly successful – it was oversold to investors within the first few days. | **How we got here.** It all boils down to basic blocking and tackling. For the past few years, we've concentrated on execution and we continued those efforts in 2002. Across the Company, we invested in our people. New training programs, improved professionalism, processes and controls, and provided a big-picture view of Mohawk's businesses. | We expanded our fiber extrusion capacity and broadened our product lines in all hard and soft surface categories. Carpet cushion manufacturing grew with the opening of a new plant and higher output at other manufacturing locations. | In broadloom carpet, we restructured our sales force and created one team to sell the high-end Karastan, CustomWeave, Ralph Lauren and Helios lines. This targeted focus has enabled us to better serve high-end customers and reduce the number of people calling on each customer. | Our Karastan Rug operation moved to Mohawk Home and we created a rug-only sales force. Now, Mohawk is set to provide a greater range of Karastan Rug products and price points. Currently, we're concentrating on the mid-level market, which we believe has significant growth potential. | We finished integrating the Mohawk Home operations into our information systems. Internal reorganization at Mohawk Home has resulted in greater

Absolutely. We're the leading manufacturer and marketer
25% of the more than \$20 billion floorcovering industry,

10/92	4/93	7/93	2/94	1/95	7/97
Horizon Industries	Karastan	American Rug Craftsmen	Aladdin Mills	Galaxy Carpet Mills	Diamond

attention to product categories and individual customers. | Throughout the country, we expanded distribution of Congoleum vinyl, which enjoyed substantially increased sales. Wood floorcovering also grew rapidly in response to our offering more styles and products in all price points. | In The Mohawk Group, our commercial business, we increased our focus on national accounts and large end-users in an effort to offer them products that are more cost-effective and easier to maintain. We also worked to improve service levels and to build awareness of our commercial products through innovative marketing programs. And, we continued to run the Company in an environmentally responsible manner. Recently our efforts were officially recognized by the U.S. General Services Administration, which awarded Mohawk the 2003 Evergreen Award. Each year, selected companies receive this award for operations that respect and protect the quality of our environment. The award acknowledges Mohawk’s conservation of resources throughout all aspects of our operations – design, engineering, processes and production. We are proud to receive this prestigious award as validation of our ongoing environmental initiatives. | **What’s changed?** As we worked on the basics, we also began the Dal-Tile integration. The first phase of systems integration, which included finance and accounting functions, was completed before year-end. In addition, we began to unite functions

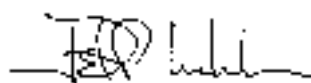
that will ultimately allow us to warehouse and ship products together. For example, we created a centralized logistics group to implement new systems that will improve service and costs. When fully implemented, our systems will enable us to deliver combined Mohawk and Dal-Tile shipments to customers more efficiently and provide more detailed tracking information. We expect the entire systems integration to be completed in 2004. | We transferred the marketing and merchandising of Mohawk’s ceramic tile program to Dal-Tile in order to leverage Dal-Tile’s expertise and attack the market in a unified manner. Construction began on the Muskogee, Oklahoma porcelain floor tile plant under Dal-Tile’s supervision. When the plant is completed in 2003, it will provide Mohawk with industry-leading capabilities. | These efforts allowed us to begin taking advantage of the synergies and opportunities created by this strategic merger. | **What’s behind our success?** Ultimately, what’s behind our success is people – our employees, customers and the consumers that buy our products. Like Mohawk, our customers are becoming total floorcovering suppliers and we’re helping them to offer a broader array of products in all categories. We’ll continue to provide a high level of service to these customers as we reinforce the value of the Mohawk brand. | Consumer surveys show high awareness and trust in the Mohawk brand. This foundation is crucial to our future success. To further solidify the

of floorcovering in the United States, but with less than we’ve got plenty of room to grow.

6/98	8/98	11/98	1/99	3/99	11/00	3/02
Newmark & James	American Weavers	World Carpets	Image Industries	Durkan Patterned Carpets	Crown Crafts	Dal-Tile International

Mohawk brand across all product lines, we've created standards aimed at increasing consistency in the way we present our brand. | Customers and consumers surveyed also agree on the attributes that set Mohawk apart from other floorcovering companies – our employees and corporate culture. Most survey respondents said we succeed because our people are empowered to take action and they do things well. Without a doubt, the dedication and hard work of Mohawk's more than 32,000 employees made the difference between thriving during 2002 and merely surviving. They understand our business and our customers' needs and they've pulled out all the stops to meet those needs. | **Where we're going.** Mohawk's long-term strategy is to be a North American company that provides all floorcovering types to every channel – residential, new construction and commercial – fully supported by our logistics and trucking system and our distribution partners. We took a major step toward realizing this goal with the Dal-Tile merger. We now have a deep knowledge base in hard surfaces and a well-respected team to help us increase market share in ceramic tile. | We estimate that Mohawk's market share is approximately 20 percent of the \$20 billion floorcovering industry. We have many opportunities to grow within our industry. And we intend to do that by offering our customers a broad product line, exceeding their service expectations

and increasing the value of the Mohawk brand. | When the economy improves, we'll have trained personnel, modern equipment and efficient logistics systems that will enable Mohawk to grow rapidly. We'll also look for acquisitions in hard and soft surface floorcovering categories that will further position Mohawk as the supplier of choice. | And, we will continue to run this Company with the same disciplined leadership. Mohawk has had corporate checks and balances in place for years and we stand behind the integrity of our financial statements. For Mohawk, conservative, ethical and honest financial reporting is business as usual. | In conclusion, I want to thank our customers, shareholders and employees for their support. On behalf of the Mohawk management team, I pledge to you a future where we have much room to grow and create value.



Jeffrey S. Lorberbaum
President and Chief Executive Officer
March 17, 2003



Absolutely. We're the leading manufacturer and marketer
25% of the more than \$20 billion floorcovering industry,

Over the years, we've succeeded through internal growth and strategic acquisitions. Acquisitions that have transformed Mohawk from a small niche carpet manufacturer into the leading floorcovering producer and supplier in the United States.

Today, we make and distribute hardwood floors, ceramic tile, rugs, laminate flooring, vinyl flooring, stone flooring and countertops ... and of course, carpet. We also offer complementary home products, like throws and pillows.

With our history of expansion, you may wonder: Is there still room to grow? Absolutely. And we're doing it one room at a time.

of floorcovering in the United States, but with less than we've got plenty of room to grow.

growth Investors want it. Individuals need it. The question is, where will we continue to get it?

it's in the nursery |

We're constantly growing our product lines to stay ahead of consumer preferences. In what is essentially a fashion business, we're creating new patterns, designs, yarns and fibers and bringing them to market quickly. For example, soft, luxurious feeling carpet is increasingly in demand. We've responded with new ultra-soft fibers in a variety of residential products. Mohawk remains at the forefront – in the early stages of newly born trends, supplying retailers with what consumers want.





it's in the playroom |

When it comes to innovation, Mohawk doesn't play around. Everyday, we're expanding our product mix to stimulate consumer demand, complement our carpet offerings and increase business for our retailers. Our new laminate floorcovering is a good example. Through 3-D imaging, we can produce printed laminate that rivals the look of real slate and other natural surfaces. Mohawk's unique floorcoverings, combined with today's most popular licensed products like Scooby Doo pillows and Spiderman throws, make any home a fun place to be.

you'll find it in the dorm |

Durkan's trend-setting designs appeal to the young at heart and more interior designers and architects are specifying these carpets in contemporary buildings. They also prefer Durkan's Echoflex cushioned carpet tile – the perfect modular complement to Mohawk's commercial brands. Along with fashion, our commercial brands help to make the indoors a greener place. Over 30 of our styles incorporate recycled post-consumer and post-industrial waste.



it's at work |

Mohawk products are hard workers. In both residential and commercial settings, we offer durable, dependable floorcoverings that retain their beauty. Whether it's the new Durkan Print carpet or Dal-Tile ceramic tile, our floorcoverings work together. That's why we're able to successfully cross-sell products to our customers and take advantage of the growth in both commercial and residential applications. Either at home or in the office, if it's Mohawk, it's working.





it's what's in store |

Durability and ease of maintenance are essential in products made for high traffic areas. And, we're constantly innovating to ensure that our products look good longer, with less effort. For instance, Mohawk's Ultra Performance System (UPS Block) moisture barrier is the most cost-effective, easily serviced moisture barrier backing system available today. And, our studies show Everset stain-proof fibers produce the most stain-resistant carpet in the flooring industry. Performance leadership – it's always in stock at Mohawk.

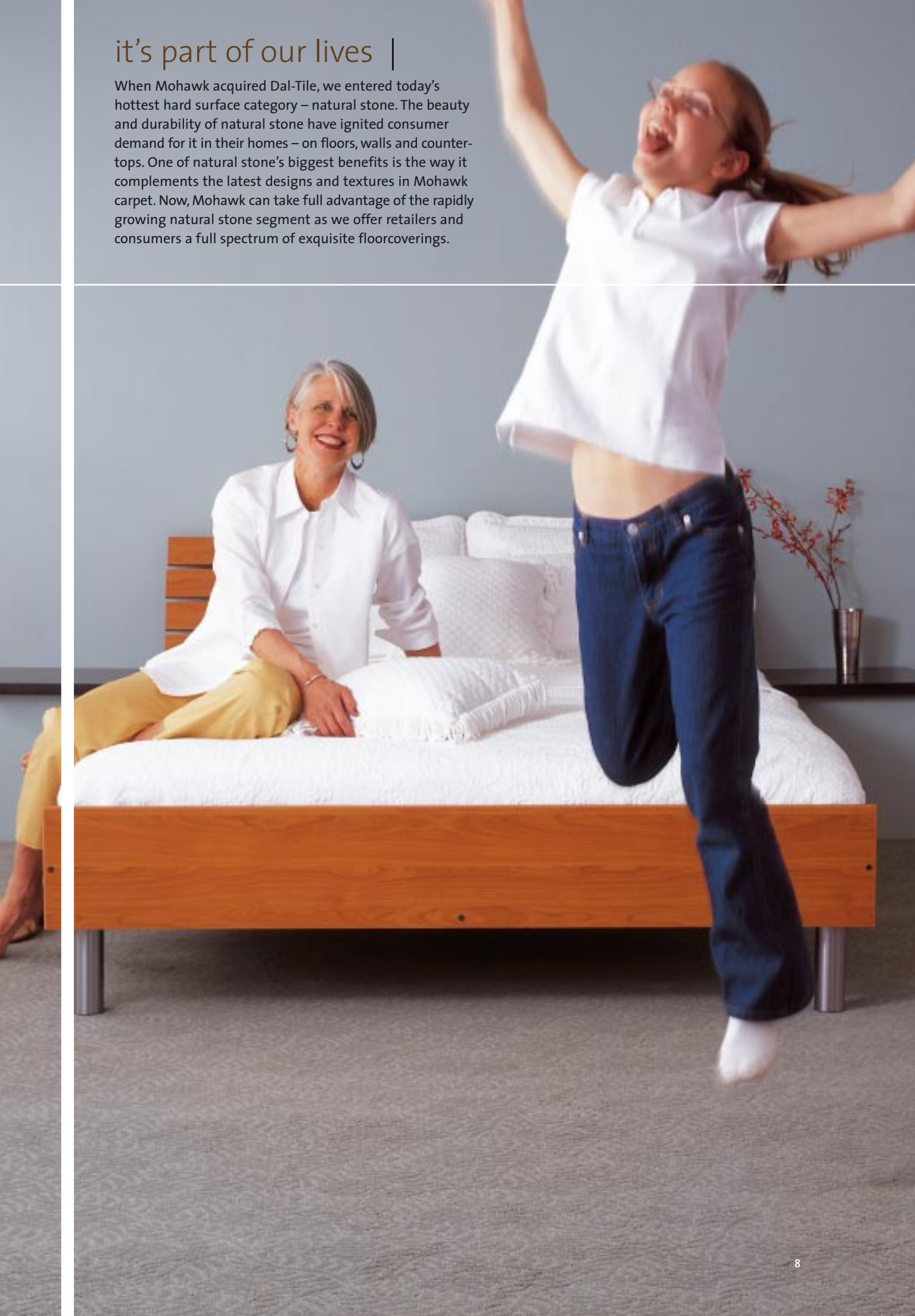


it's keeping in step |

Karastan will celebrate its 75th anniversary in 2003 and our rugs are more popular today than ever before. While the high-end, classic Persian styles remain our flagship, we're also introducing more casual looks and contemporary colors to attract younger consumers. These new designs are available at a variety of price points. We want to convince consumers that Karastan makes rugs and carpets for real life and real families – not museum pieces. And they just happen to look great with our hardwood, ceramic tile, vinyl and laminate floors.

it's part of our lives |

When Mohawk acquired Dal-Tile, we entered today's hottest hard surface category – natural stone. The beauty and durability of natural stone have ignited consumer demand for it in their homes – on floors, walls and countertops. One of natural stone's biggest benefits is the way it complements the latest designs and textures in Mohawk carpet. Now, Mohawk can take full advantage of the rapidly growing natural stone segment as we offer retailers and consumers a full spectrum of exquisite floorcoverings.



Our product mix is not all that has grown.

We've carefully developed our infrastructure, systems and methods to take advantage of new opportunities. But, size itself is not an end. It's a by-product of an ongoing process. One in which people can succeed by growing personally and professionally – one that rewards our employees, our customers and ultimately, those for whom we work – our shareholders.

So, we grow together in an entrepreneurial environment that fosters innovation and initiative. It's where our new products originate. It's where we save over 220 million pounds of waste from landfills. It's also how we broke into five new markets in as many years.

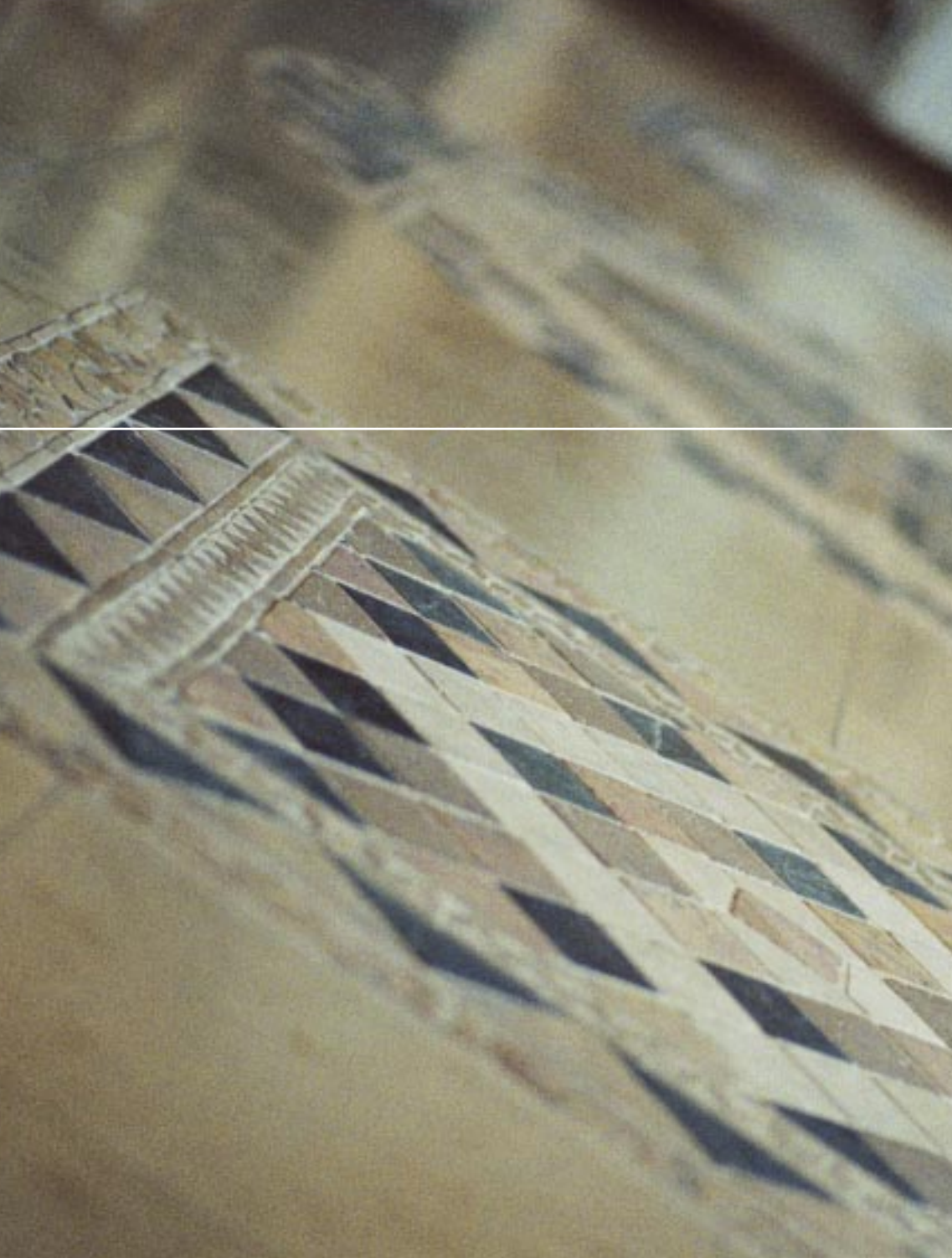
Are we still growing? Absolutely.
One life at a time.

Growth. It's personal.

At Mohawk, we believe growth begins with our people. That's why training is a priority throughout the Company. For our residential sales forces, we've initiated new sales automation training to improve account maintenance, provide detailed sales information and make reporting easier and faster. The Mohawk Group online training program also presents convenient access to the sales techniques our people have found most effective. Through these online presentations, sales representatives can identify the most important attributes to emphasize for each commercial customer. | Service is such an integral component of our businesses that we've begun to brand Mohawk's distinctive approach: "It's a people thing." Customer service representatives have completed an innovative training program that helps them relate better to customers – and teaches them more about themselves.

Growing with our people | Training





Growing with our customers | Channels

Mohawk's goal is to help our retail customers grow and prosper. During the past several years, we've been expanding our co-branding efforts and other retail programs with great success. In fact, today, approximately 2,200 floorcovering retailers have installed our Floorscapes and Color Center Boutique displays while our Karastan, Wunda Weve and CustomWeave Galleries offer brand specific merchandising systems to more than 1,500 high-end retailers. These displays facilitate consumer purchases of our carpet and hard surface products. | We realize that specific markets require a targeted sales approach. Accordingly, we've reorganized Mohawk's residential carpet sales force to create the Fashion Division, which includes the Karastan, CustomWeave, Ralph Lauren and Helios carpet brands. The sales force realignment will better serve customers who sell these high-end products. | The Dal-Tile merger offers Mohawk greater access to the building contractor segment. Incorporating the Dal-Tile brands, we can now offer a more complete package to builders. Conversely, Dal-Tile has greater opportunities to place ceramic and stone products with Mohawk's extensive residential retail customer base.



| Merchandising

Mohawk is continually providing retail dealers with better merchandising and sales tools. At our National Karastan Dealer Convention, for example, we preview products before we launch them and offer working sessions to train our customers' sales associates. | Mohawk Home recently opened a New York City showroom to maintain an ongoing presence with retailers. There, we're constantly rearranging our wide variety of products to fit different markets, demonstrating the speed and flexibility with which we operate to serve our retail customers. | Dal-Tile's Design Centers provide an inviting and convenient environment for consumers, designers and architects to view our complete line of tile and stone products. Design consultants offer creative ideas and assist with product selection and retailer referrals. | During 2003, floorcovering retailers will receive merchandising support for Mohawk ceramic tile through an innovative display system that will assist consumers with their product selections.

Extensive surveys of customers, consumers, suppliers and employees have revealed that what sets Mohawk apart is our people – people who are empowered to make decisions and get things done quickly; people who go beyond the expected in serving customers; people who enjoy opportunities for continual learning and advancement. During the coming year, we'll be incorporating this people orientation into our marketing messages to retailers and customers. | We'll continue offering retail customers marketing tools, such as complete ad portfolios for their promotional use. One new offering – for retailers and consumers – is an innovative software tool called *Just Picture It* that enables consumers to place Mohawk products in their own room settings to see the effect before they make a purchase. | The Mohawk Group has enjoyed great success in using the Internet for marketing advantage. Our animated E-mail messages have been well received by commercial customers. Webcasting on The Mohawk Group website now allows customers to tour our NeoCon showroom, view new products and talk directly to customer service representatives.

| Marketing



At Mohawk, distribution is not merely speed – it’s service, delivery and predictability. To enhance these efforts, we’ve developed a new routing and delivery system, which eventually will operate in real time. | Our drivers are some of Mohawk’s most important ambassadors. To help them be safer and more productive, we’re equipping our trailers with rear and side access doors, power assisted winches and tuck-away side lifts. We’re also reconfiguring our fleet to handle different shapes and sizes of products within a single trailer. | The majority of our commercial carpet is now shipped through Mohawk’s residential freight and distribution network, resulting in improved service and cost savings. Many of our commercial SKUs are available on a quick ship basis to customers. And by leveraging Mohawk’s technology and logistics, Dal-Tile continues to improve its distribution system, which is providing its customers with the highest service level in the ceramic tile industry. | Employees like Operations Coordinator Lesa Wheat (pictured at lower right), ensure that national retailers receive the Mohawk Home products they need – precisely when they need them. Such reliable service lets Mohawk increase its share of business from these retailers.

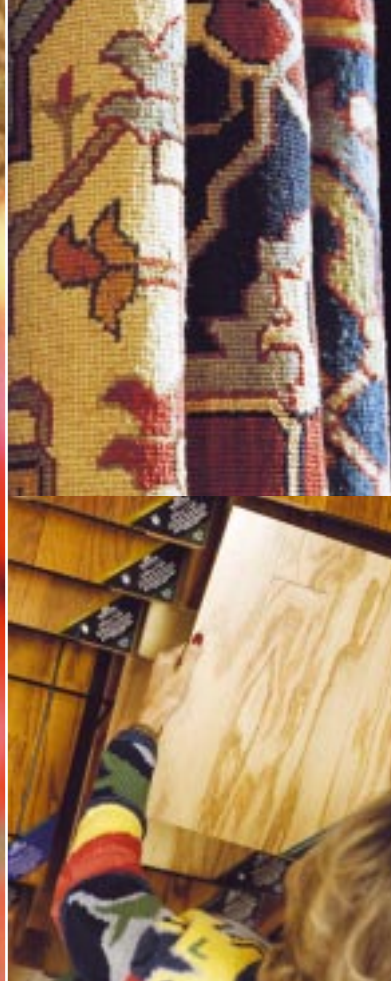
Growing from Within | Infrastructure





| Process Control

Controlling our processes enables Mohawk to contain costs and remain efficient. For The Mohawk Group, process control includes the use of ultrasound to control carpet patterns. The ultrasound technology allows patterns to be corrected on the manufacturing line. Commercial carpet packing slips now feature the bow, skew and bias of each roll – information that greatly assists installers. | The Mohawk Group has also initiated a uniform color-coding system to facilitate the ordering process. Called Color Logic by Pantone, this new coding system is available on Karastan Contract and Durkan products. Designers and specifiers can match colors across multiple interior furnishings using the Pantone coding system. | At Dal-Tile's modern, automated plants, innovative processes and technology help Mohawk remain ahead of the industry. During 2003, we will open the Muskogee, Oklahoma glazed porcelain tile plant. The new plant will have the latest technology. We expect porcelain tile to be a huge growth market as consumers discover its water and weather resistant properties.



Growing markets | Product Extension

Mohawk's hardwood floorcovering products continue to grow, with more colors, styles and types of wood available. We estimate that hardwood demand will grow at approximately the same level as ceramic – seven percent annually since 1996. | Demand continues to increase for high-end ceramic tile that looks like stone. In response to the demand, Dal-Tile has introduced the Ahnzu Collection, which features ceramic, stone, glass and metal tiles, along with stone sinks. | We continue to look for niche markets where we can help to increase our retail customers' profitability and make a difference to consumers. To protect consumers' investment in our high-end Karastan carpet, we're launching a full range of floor care products and certifying our installation process. | Through the innovative ideas and hard work of our people and the service, quality and performance of our products, Mohawk will continue to have room to grow.

Board of Directors



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

Leo Benatar † //
Principal of Benatar
and Associates, and
former Chairman,
Engraph, Inc., a
subsidiary of Sonoco
Products Company
(an international
manufacturer of
industrial and consumer
packaging products)

Bruce C. Bruckmann* //
Managing Director
Bruckmann, Rosser,
Sherrill & Co., Inc.
(a venture capital firm)

David L. Kolb
Chairman

Jeffrey S. Lorberbaum
President and
Chief Executive Officer

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

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

W. Christopher Wellborn
President
Dal-Tile Division

John F. Fiedler* //
Chairman
Borg-Warner Automotive Inc.
(a manufacturer of
automotive parts)

Officers



John D. Swift
Vice President
Finance and
Chief Financial Officer

Reid A. Batsel
Vice President
Technology

H. Monte Thornton
President
Carpet Group

Jeffrey S. Lorberbaum
President and
Chief Executive Officer

J. Murray David
Vice President
Yarn Manufacturing

Joe W. Yarbrough, Jr.
Vice President
Carpet Manufacturing

W. Christopher Wellborn
President
Dal-Tile Division


William B. Kilbridge
President
Mohawk Home

Jerry L. Melton
Vice President
Human Resources

* Audit Committee

† Compensation
Committee

// Nominating and Corporate
Governance Committee



Mohawk Industries, Inc. P.O. Box 12069 160 South Industrial Boulevard Calhoun, Georgia 30703 706-629-7721

To find out more about our brands, markets, and products, go to www.mohawkind.com