Mohawk Industries 2001 Annual Report

inside


and out.

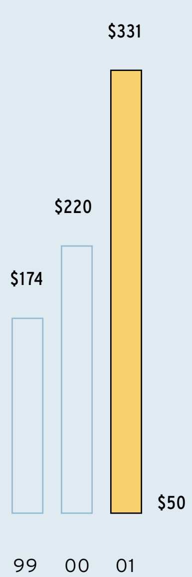
At Mohawk, we’ve got the flooring business covered – inside and out. On the inside, we’ve assembled a skilled workforce and a strong management team of cost control experts. We’ve also built and refined a well-oiled infrastructure that rapidly assimilates new acquisitions and allows us to take full advantage of synergies throughout our operation. On the outside, we’ve anticipated industry changes and pioneered in profitable new markets. Our marketing and merchandising efforts have contributed to our customers’ success and established Mohawk as one of the most respected brands among consumers. We’ve achieved because we’ve planned and delivered. And, our plan is to continue expanding our leadership position in the flooring industry. How? By effectively integrating all of the ins and outs.

financial ins and outs

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	1999	2000	2001
Net sales	$3,211,575	3,404,034	3,445,945
Gross profit	$ 776,859	822,849	832,902
Operating income before nonrecurring items	$ 294,797	317,115	327,157
Net earnings before nonrecurring items	$ 157,239	166,852	188,592
Diluted earnings per share before nonrecurring items	$ 2.61	3.08	3.55

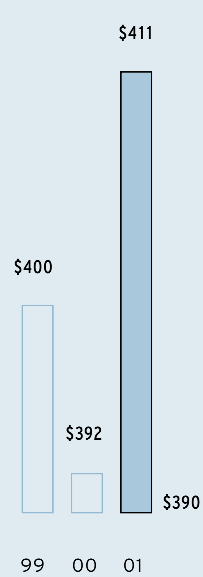
operating cash flows

(IN MILLIONS)



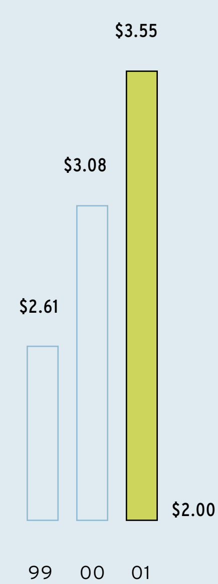
operating income

BEFORE INTEREST,
DEPRECIATION,
AMORTIZATION & TAXES*
(IN MILLIONS)



diluted earnings per share*

(IN MILLIONS)



* BEFORE NON-RECURRING CHARGES

Our vision: **Mohawk is a value-driven manufacturer and marketer of flooring products. We build value for our customers and investors by remaining the industry's low-cost producer; making smart, strategic acquisitions; developing our employees; taking socially responsible actions; and maintaining a solid financial position. Our success depends on creating customer loyalty and helping our retail partners succeed. Accordingly, we provide tools and services to boost their sales and profits. Ultimately, our goal is to enhance people's lives with our products … at home … at work … at play, everywhere. In achieving our goal, we will reward our investors with industry leading value.** **Jeffrey S. Lorberbaum** President and CEO

a letter to our stockholders:

The inside story Despite a sluggish economy exacerbated by the September terrorist attacks, Mohawk achieved a record year. Throughout the year, we worked diligently to reduce expenses and maintain profits. During the third and fourth quarters, we saw sales rebound in all product categories. Thanks to the Company's financial strength, we were able to pursue the exciting Dal-Tile merger opportunity that should solidify our position as a leader in both hard and soft surface flooring.

Seasoned managers, a supportive board and dedicated employees who understand our business enabled us to move successfully through the unique economic environment of 2001. Their innovative ideas and tireless attention to the smallest details drove Mohawk to record results with the highest net earnings and diluted earnings per share (EPS) in the Company's history.

Earnings per share were $3.55, 15 percent above 2000, or $188.6 million in net earnings. These results compare to EPS of $3.08 or $166.9 million in net earnings for 2000, before a $7 million pre-tax charge for a litigation settlement. Net sales improved to $3.4 billion, representing a one percent increase over 2000. With strong sales growth in the second half of the year, reduced selling, general and administrative expenses, lower interest expense and more favorable income tax rates, we exceeded our goals in every area.

We reduced our inventory levels by $43 million since the beginning of the year, improving our inventory turnover from 4.5 to 4.9 times. Keep in mind, we accomplished this as we added new hard surface product inventories. We lowered our debt by $281 million, resulting in a debt-to-capitalization ratio of 24.5 percent and reducing our interest expense by $8 million for the year. Our management exercised careful control over working capital and capital expenditures during 2001, keeping these to a minimum and still allowing the business to grow. Our cash flow from operations was the highest ever at $331 million for the year, or a $111 million improvement over last year.

Mohawk's solid financial performance does not tell the entire story of 2001. During the first half of the year, raw material and energy costs subsided, but this could not offset the significantly decreased demand for carpet. Management of all businesses responded with an intense effort to maximize the use of assets, people and marketing to maintain profitability. This allowed Mohawk to outperform competitors in the industry.

A new organizational structure enabled us to communicate more effectively within the Company to achieve common goals and implement improvements in various departments. We focused on offering different marketing strategies to our retail customers so they could improve their businesses and take full advantage of each distribution channel. By restructuring product group and sales strategies, we were able to bring a broader selection to individual customers and support a better, more rational approach.

Efficient operations We continued to enhance our information systems with the latest applications and hardware to provide detailed information on an immediate basis. Through our intranet, sales personnel can check inventory, order status, pricing, claims and customer history. With these enhancements, our sales force can react to market changes more quickly and identify new opportunities.

Included in our efforts were improvements in the information systems that drive Mohawk's distribution. These improvements allowed us to provide better delivery information to customers. Our investment should also help us better utilize our assets, reduce costs and improve productivity through optimal route selection and space allocation on each haul.

Our knowledge of fiber extrusion continued to expand last year. We broadened the fiber types we manufacture, improved performance characteristics and enhanced production of nylon and filament polyester. During 2001, we closed and consolidated yarn mills to improve our cost structure. And, we invested in new equipment that has delivered cost and quality improvements.

We are constantly finding new ways to use the assets of our manufacturing facilities to support various distribution channels. Our aim is to increase specialization within each distribution channel and within our sales personnel so they can offer expertise that will help to enhance our customers' businesses. We are striving for a more consultative relationship with our customers, providing more than simply products and services. As Mohawk continues to transition from a product strategy to a marketing strategy, it's necessary for our sales force to have more in-depth understanding of opportunities to improve customer sales.

Product innovation As we moved forward, we expanded our product innovation and targeted merchandising to address consumer needs. Our focused approach enables customers to present products whose benefits appeal to consumers and increase their profit margins by selling value rather than price.

In our home products division, we assimilated the woven assets from Crown Crafts efficiently and ahead of schedule in 2001. Our goal was to cut the cost of this operation, turn it around and bring it up to Mohawk profit margins on the product categories we kept in the marketplace. We achieved that goal by restructuring manufacturing and sales and improving marketing for each product category. Along with the Crown Crafts assets, we gained a new distribution channel. This channel, with the product line marketed as Goodwin Weavers, gives Mohawk access to the gift and novelty categories.

Our commercial business focused on national accounts, including major corporate buyers, to help them meet their business needs in specifying our products. We continued to reduce the complexity of our manufacturing as we restructured our commercial lines and improved styling. The results were significantly shorter delivery times and enhanced customer service.

Mohawk has become a leading padding manufacturer and distributor. To support this business, we made investments in manufacturing to provide better quality products while controlling service levels. We believe this is a growth category for Mohawk because it complements our carpet products so well.

By expanding and improving in all major hard surface product lines, we became a total flooring supplier. During 2001, we built the infrastructure to support our hard surface products, putting in place strategies, systems and people and leveraging our distribution network and existing customer relationships.

Synergistic combination As the fourth quarter drew to a close, we announced a merger with Dal-Tile International Inc., the largest manufacturer, distributor and marketer of ceramic tile in the United States. This merger, which was completed on March 20, 2002 with a combination of cash and Mohawk stock, gives us the opportunity to expand our hard surface business and become the leader in the ceramic tile market. Building on approximately $1 billion in existing annual sales through Dal-Tile's distribution channels, Mohawk will offer the most comprehensive line of ceramic tile and stone products in the industry. Our companies are extremely complementary and our strategies are consistent. By working together to identify synergies, we will be able to increase shareholder value as one combined company.

On the horizon As we look to the future, we will carry on with our efforts to strengthen the Mohawk brand, the most widely recognized carpet brand. We will continue the process of making Mohawk the umbrella brand across all businesses, with each of our other brands used to differentiate one collection or retail distribution channel.

We plan to expand our current product categories to become a leading provider of flooring solutions. During the product expansion, we will invest in equipment and processes to improve productivity, reduce costs and provide high returns to investors.

Synergistic acquisitions remain part of Mohawk's vision, and we will continue to look for them with an eye toward their contribution to cost-effective manufacturing and ultimately, return on shareholder investment.

We plan to maintain our focus on North American markets, leveraging our distribution assets to provide greater value for customers. We will foster the practice of our people working together across business functions to achieve a unified, customer-focused culture.

We expect the economy to pick up in 2002. New purchases, previously postponed by consumers and corporations, should have a significant positive impact on improving our business. As we move toward an expanding economy, Mohawk is well positioned for growth with the right people, facilities, products and distribution. In fact, Mohawk today enjoys the strongest financial, operational and marketing position since its inception. We look forward to the opportunities that will unfold in the future.

Jeffrey S. Lorberbaum *President and Chief Executive Officer*

The fact that Mohawk is growing in this economy indicates our strategies and direction are sound. To build an organization for the future requires continued, careful planning. Therefore, we're systematically putting the right people into the right jobs to broaden and strengthen the management team. We're thinking ahead about how we should be organized for the future – it's an ongoing process.

Herbert M. Thornton President, Carpet Group

karastan
contract

durkan
commercial

mohawk
commercial

bigelow
commercial

The important thing is that all of the business units work with each other to sell more products to more people, more profitably. We continue the cross-pollination of product development and the use of assets, people, sales relationships, support services and distribution facilities to find logical combinations. This unified approach adds value to our products and benefits our cost structure.
William B. Kilbride President, Mohawk Home

We market the brand name Mohawk. And, we're constantly working to elevate the Mohawk name across all product lines in the minds of consumers. To do this, we've made Mohawk the umbrella brand, with each of our other brands used to differentiate a collection or retail channel. What we want people to remember is Mohawk.

David E. Polley President Residential Division

rugs

hardwoods

ceramics

laminates

carpets

We continue to improve the way we do business by instituting cost-control measures and involving everyone down to the plant floor in the thought process. We've looked at our operations to improve product quality and we continue to fine-tune for efficiency. Today, we are delivering more superior products, with better quality and inventory availability, at a lower cost than any time in the past.

J. Murray David Vice President, Yarn Manufacturing

Joe W. Yarbrough, Jr. Vice President, Carpet Manufacturing

fiber

yarn

broadloom

tufted

woven

We intend to maintain our position as low-cost leader in the flooring industry. To accomplish this, we'll be vigilant about expenses and continue to exercise focused cost controls. We'll also work on getting the most from our assets at the lowest possible cost as we pursue select investments. Our conservative stance on costs supports Mohawk's financial strength and provides us with the resources to pursue synergistic acquisitions, such as Dal-Tile, and grow all other areas of the business, thereby returning value to our shareholders.
John D. Swift Vice President-Finance and Chief Financial Officer

kitchen

bath

restaurant

patio

foyers

A LOOK AT

2001

inside and out

How do we constantly increase the value we offer? It's simple. We listen to our people ... our retail partners and commercial customers ... and consumers. We understand their needs – inside and out.

Then, we act. On the following pages are examples of the steps we've taken internally and the impact we're making on the world beyond our doors.

EVERY MONTH WE MAKE ENOUGH 12' CARPET TO STRETCH FROM N.Y. TO L.A.

Taking Action At Mohawk, we continue to refine our internal processes, driving costs out of manufacturing and building an infrastructure for maximum profitability. Our plants are organized by type of technology, not by product line. Product development works the same way – the same team works on woven products for residential and commercial markets. We use the same yarn SKUs and the same equipment to build efficiencies of scale and reduce costs. We've transferred our Karastan wool technology to the residential CustomWeave lines and employed Durkan print technology in making home products and residential carpet. Our new Personal Style™ print collection combines the next level of print sophistication with innovative soft yarn technology for a look that is elegant and comfortable in the home.

We also extrude our own fiber, making much of what we need for residential and commercial broadloom. This enables us to lower costs, control service levels and reduce dependence on raw material suppliers. During 2001, we introduced the Mohawk fiber brands Chromell® and ColorStrand Infinity Nylon. These offer technological and brand differentiation as well as cost control.

When we make an acquisition, inheriting equipment and technology as we did with the woven assets of Crown Crafts, we assimilate it quickly in order to increase our capacity and expand product offerings. Crown Crafts' assets helped us to expand our woven bedspread, throw and blanket business and enabled us to add a new, higher-end product – cotton bedspreads. The fact is, we're always striving to make things better on the inside.

Win-Win-Win All of Mohawk's businesses felt the impact of the global slowdown during 2001. But, the hospitality and corporate markets were most severely affected by the terrorist attacks. While sales were down, we focused our energies on reworking many of our commercial offerings and energizing our sales approach.

In our Durkan line, we assembled a full package for hotel, casino and assisted living customers. Concentrating on the advantages of our Tapistron (Computer Yarn Placement) technology, we aggressively pursued the high-end Axminster business, which is a $100 million per year market. Tapistron has the same look as Axminster, but is less expensive and faster to produce. We can make virtually any printed design with this technology.

Durkan's Merit line continues to be well-known and respected for in-room hotel installations. Through changes in yarn management and improved production planning, we were able to develop 15 Merit styles that we can ship from stock, decreasing delivery time by 2 weeks. This was one of the steps we took to strengthen our position with national accounts, such as major hotel chains. We also designed more than 1,000 new Durkan patterns during 2001, staying ahead of the demand for more textural designs in printed carpet.

Our expertise in commercial carpet design translated well to the residential side of our business. We recognized that commercial design trends were heavily influencing the residential markets. We responded accordingly, improving quality and design, while producing more high-end carpets and rugs for residential customers. By making the necessary adjustments during 2001, Mohawk is ready to supply the pent-up demand that should surface with economic recovery.

We're Getting There Mohawk has more than 750 company-operated trucks on the move all day, every day. Over the years, we've continually revamped and improved our internal systems to take full advantage of our extensive trucking and warehouse resources.

In fact, distribution is one of the things Mohawk does best. We are able to ship our products at a lower cost because of our efficiencies and scale. By constantly updating our processes, we can move products more efficiently than ever before. For example, we transport our high-end Karastan residential carpet and rugs at a significantly lower cost today than we could 10 years ago.

Currently, we're focused on deploying best practices throughout our nine regional and 40 field warehouses. A corporate manager overseeing these operations will guide them in the quest for ways to provide better service. We're also in the process of implementing a software system to manage and plan long-haul freight delivery. This system will reduce costs by optimizing routes and space allocation in our trucks. Eventually, it will enable customers to have real-time information about the status and location of their delivery.

Improvements like these are crucial as we address complicated freight combinations of hard and soft-surface products. We look forward to the synergies the Dal-Tile acquisition will bring to our distribution network. It's a well-managed organization and many of Dal-Tile's warehouse and distribution strategies complement Mohawk's. Together, we believe we will satisfy customer needs in ways they have never imagined.

EVERY 20 MIN. A MOHAWK TRUCK LEAVES FOR THE WEST COAST

The Value of Values Mohawk is dedicated to building relationships with our retailers to positively impact their sales and profit margins. We've concentrated on differentiated products and presentations for these retailers, so they can compete profitably in the market. As part of our customer focus, we're creating tailored tile sales programs for the national chains. We anticipate the Dal-Tile acquisition will enable us to greatly enhance these programs.

We're also offering retailers a greater number of new products that will appeal to consumers. In Mohawk Home products, our offerings run the gamut from historical, to traditional, to contemporary, giving retailers flexibility in the marketplace. We are offering retailers more coordinated products than ever before.

Across the country, retailers have recognized the value Mohawk delivers. During 2001, Mohawk Home received more than a dozen awards for supplier performance and retail partnership initiatives.

Our commitment to customers is reinforced through the talented and diverse group of employees who manufacture, market and sell Mohawk products. At Mohawk, men and women from many races and cultures are united in their goal: to offer exceptional value to our customers.

We also continue to make a difference through our many charitable efforts. Last year, one of these programs, Specify for a Cure™, received endorsement from the International Interior Design Association. Through Specify for a Cure™, Mohawk contributes to the Komen Breast Cancer Foundation for each square yard of Durkan commercial or Karastan Contract products specified. This program allows Mohawk to contribute significantly to the war against one of America's most insidious diseases.

Bringing it Home Mohawk continues to take steps to build brand recognition throughout our entire product line, from home products, to carpet and rugs, to hard surface flooring. In both residential and commercial offerings, we're working toward elevating the Mohawk brand name and making the names of the sub-brands or collections secondary. Thanks to our past efforts and the popularity of our products, Mohawk is the most recognizable brand name among consumers.

As we keep the Mohawk name at the forefront, we're working to improve the way we sell our products. We continue to train retail sales associates to help them better understand the consumer for whom we design our products. In the case of Karastan carpet and rugs, the consumer is sophisticated and has an extensive knowledge of design and color. We're giving sales associates the knowledge they need to sell the right product to the right consumer.

With the latest electronic communications, we're improving the productivity of our own sales people. We're also continuing to train and support our hard surface sales force in selling all of our hard surface products. Having this specialized sales force in place last year made the Dal-Tile acquisition all the more opportune.

We've concentrated on cross-selling products – within commercial and residential lines and across them. On the commercial side, the Mohawk Group's brand segmentation strategy for its four product lines has led to a more focused sales approach and the ability to sell a package of goods and services to commercial customers. These efforts have helped to unify the Company and increase the value of our products for customers.

no. 1
IN BRAND
RECOGNITION

Innovation by Design Throughout Mohawk, we're ramping up the design of our products. Our efforts have earned much recognition from outside observers. We received a silver Best of NeoCon® award at NeoCon® 2001 for Durkan Commercial's Global Collection. Two designs from this collection also received Solutia DOC awards last year, as did a Durkan corporate installation in Illinois.

When it comes to quality, service and performance, Mohawk also excelled in 2001. StarNet, the nation's largest independent flooring contractor awarded Mohawk its highest rating in its annual most preferred vendor survey. The 2001 *Floor Focus* survey of designers found Mohawk's four commercial brands in the top spots for service, quality, design, value and performance.

Design excellence is matched by marketing innovation. To reach the tech-savvy design community, the Mohawk Group has employed an event marketing strategy that combines direct mail, traditional advertising and targeted multimedia. We're the first in the industry to deliver our messages directly to thousands of specifiers through sophisticated e-mail presentations. These electronic communications have generated a phenomenal response.

In addition, Mohawk has improved its ability to interact with customers online, providing them with the opportunity to carry out transactions, track their orders and check stock via the various intranet sites. These online capabilities reduce errors, increase efficiency and enable customers to better plan for labor and receipt of shipments. Such a service-driven approach is designed to be tremendously responsive, while collapsing the time and distance between Mohawk and our customers.

Walking the Walk Mohawk delivers value to customers, above and beyond the products we manufacture. We take a consultative approach with our retailers, helping them improve the look of their stores and providing displays, packaging and signage to assist them in selling our products. For example, during 2001, we developed a new display format for Ralph Lauren residential carpet and rugs. We've rolled out this display to 130 retail stores in an effort to broaden sales of these high-quality products.

Floorscapes, our co-branded merchandising program, is now in approximately 350 retail stores. And, our Color Center Boutique is assisting more than 2,000 dealers in displaying new and established products.

Durkan has introduced a Print Quick Ship program to get products to customers faster, as well as standardized pricing to speed-up the ordering process and increase the brand's competitiveness. Across all commercial products, we've worked to improve service response levels. By doing so, we've increased the number of rolls now shipped from stock by 30 percent. This has greatly reduced the amount of time needed for delivery of our products.

Beneath the surface of our products is the commitment to service that increases their value to our customers.

What's Valuable to You? For consumers, the extra value in Mohawk products is apparent. They can readily see the quality, durability and availability of our products at a variety of price points. However, we constantly strive to go beyond the expected to offer true innovation. Our Forever Fresh™ carpet is a perfect example (pictured left). Forever Fresh adds a new level of carpet protection – proven odor fighting technology from Odor Eaters®. Styles featuring Forever Fresh are available in nylon, olefin and polyester fibers.

Our new Paramount™ laminate is a premium line designed to appeal to consumers who may have only considered hardwood or other natural hard surfaces in the past. This thicker laminate offers a more substantial floor feel and a foot traffic sound that mimics hardwood. What's more, Paramount features our DuraLoc Plus installation system, a new glueless horizontal locking system designed to virtually eliminate seams.

Other valuable features of Mohawk products include our patented moisture barrier backing system and our ability to deliver environmentally responsible products. Among these are Infinity, our post-consumer recycled nylon carpet, and our recycled tire doormats.

As more consumers prefer hard surface flooring for their homes, Mohawk is well positioned to become the leader in the ceramic tile market through our merger with Dal-Tile. The daltile® and American Olean® brands are two of the most respected brands in the industry. Together, Mohawk and Dal-Tile will offer consumers more choices and higher quality than they've ever had.

no. 1
IN SERVICE
& QUALITY

board of directors

David L. Kolb
Chairman

Jeffrey S. Lorberbaum
President and
Chief Executive Officer

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

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

Larry W. McCurdy *†
Former President
Dana Corporation's
Automotive
Aftermarket Group
(a worldwide
manufacturer of
motor vehicle parts)

Leo Benatar †
Associated Consultant,
A.T. Kearney, and
former Chairman,
Engraph, Inc., a
subsidiary of Sonoco
Products Company
(an international
manufacturer of
industrial and consumer
packaging products)

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
Not pictured

John F. Fiedler
Chairman and Chief
Executive Officer
Borg-Warner Automotive Inc.
(a manufacturer of
automotive parts)
Not pictured

officers

Jeffrey S. Lorberbaum
President and
Chief Executive Officer

John D. Swift
Vice President
Finance and
Chief Financial Officer

Reid Batsel
Vice President
Technology

J. Murray David
Vice President
Yarn Manufacturing

William B. Kilbride
President
Mohawk Home

David E. Polley
President
Residential Division

Herbert M. Thornton
President
Carpet Group

Joe W. Yarbrough, Jr.
Vice President
Carpet Manufacturing

* Audit Committee

† Compensation Committee

Selected Financial Data

(In thousands, except per share data)	2001	2000	1999	1998	1997
	At or for the Years ended December 31,				
STATEMENT OF EARNINGS DATA:					
Net sales	$ 3,445,945	3,404,034	3,211,575	2,848,810	2,521,297
Cost of sales	2,613,043	2,581,185	2,434,716	2,167,523	1,961,433
Gross profit	832,902	822,849	776,859	681,287	559,864
Selling, general and administrative expenses	505,745	505,734	482,062	432,191	383,523
Carrying value reduction of property, plant and equipment and other assets [(a)]	–	–	–	2,900	5,500
Class-action legal settlement [(b)]	–	7,000	–	–	–
Compensation expense for stock option exercises [(c)]	–	–	–	–	2,600
Operating income	327,157	310,115	294,797	246,196	168,241
Interest expense	29,787	38,044	32,632	31,023	36,474
Acquisition costs – World Merger [(d)]	–	–	–	17,700	–
Other expense, net	5,954	4,442	2,266	2,667	338
	35,741	42,486	34,898	51,390	36,812
Earnings before income taxes	291,416	267,629	259,899	194,806	131,429
Income taxes	102,824	105,030	102,660	79,552	51,866
Net earnings	$ 188,592	162,599	157,239	115,254	79,563
Basic earnings per share [(e)]	$ 3.60	3.02	2.63	1.91	1.33
Weighted-average common shares outstanding [(e)]	52,418	53,769	59,730	60,393	59,962
Diluted earnings per share [(e)]	$ 3.55	3.00	2.61	1.89	1.32
Weighted-average common and dilutive potential common shares outstanding [(e)]	53,141	54,255	60,349	61,134	60,453
BALANCE SHEET DATA:					
Working capital	$ 449,361	427,192	560,057	438,474	389,378
Total assets	1,768,485	1,795,378	1,682,873	1,405,486	1,233,361
Long-term debt (including current portion)	308,433	589,828	596,065	377,089	402,854
Stockholders' equity	948,551	754,360	692,546	611,059	493,841

(a) 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 charge of $2.9 million for the write-down of assets to be disposed of relating to the acquisition of World.

(b) The Company recorded a one-time charge of $7.0 million in 2000, reflecting the settlement of two class action lawsuits.

(c) 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.

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

(e) 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.

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

General

During the three-year period ended December 31, 2001, the Company continued to experience growth both internally and through acquisitions.

On January 29, 1999, the Company acquired certain assets of Image Industries, Inc. ("Image") for approximately $192 million, including acquisition costs and the assumption of $30 million of tax-exempt debt, and on March 9, 1999, the Company acquired all of the outstanding capital stock of Durkan Patterned Carpets, Inc. ("Durkan") for approximately 3.1 million shares of the Company's common stock valued at $116.5 million based on the closing stock price the day the letter of intent was executed. The Image acquisition was accounted for using the purchase method of accounting, and the Durkan acquisition was accounted for using the pooling-of-interests method of accounting.

On November 14, 2000, the Company acquired certain assets of Crown Crafts, Inc. ("Crown Crafts"). Under the agreement, the Company paid approximately $37 million in cash for substantially all of the fixed assets and inventory of the division. The acquisition was accounted for using the purchase method of accounting.

On March 20, 2002, the Company acquired all of the outstanding capital stock of Dal-Tile International Inc. ("Dal-Tile") for a purchase price of approximately $1,545 million, consisting of approximately 12.9 million shares of the Company's common stock, options to purchase approximately 2.1 million shares of the Company's common stock and $720 million in cash. The Company's common stock was valued at $825 million based on the measurement date stock price. The transaction will be accounted for using the purchase method of accounting.

These acquisitions have created opportunities to enhance the Company's operations by (i) broadening price points, (ii) increasing vertical integration efforts, (iii) expanding distribution capabilities and (iv) facilitating entry into niche businesses, such as rugs, decorative throws, bedspreads, coverlets and ceramic tile.

Effective November 1, 2000, the Company entered into an agreement with Congoleum Corporation, Inc., to become a national distributor of their vinyl products. This agreement gave the Company access to a complete line of soft and hard floorcovering products to supply to customers throughout the United States.

The primary categories of the floorcovering industry include carpet and rugs (63%), ceramic tile (11%), vinyl and rubber (14%), hardwood (8%) and laminate (4%). Compound average growth rates in units (measured in square yards) for each of these categories for the period from 1992 through 2000 have exceeded Gross Domestic Product of the United States over the same period. During this period, the compound average growth rate was 4.4% for carpet and rugs, 10.6% for ceramic tile, 5.0% for vinyl and rubber and 9.1% for hardwood. Laminate, which is a relatively new product, experienced a compound average growth rate of 39.9% from 1996 through 2000. Although beginning from a smaller base, the growth rates for hard floorcoverings may indicate increasing consumer preference for these products for certain applications. In response to this increasing demand, the Company has increased its distribution of hard surface products, including ceramic tile, vinyl, hardwood and laminate. The acquisition of Dal-Tile provides a unique opportunity to help the Company achieve its strategic goal of becoming one of the world's leading floorcovering manufacturers and distributors.

The Company considers its most critical accounting policies to include its accounts receivable and revenue recognition, inventories and income tax policies because they are most important to the Company's financial condition and results of operations and involve difficult subjective or complex judgments. Revenues are recognized when goods are shipped, which is when the legal title passes to the customer. 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 the aging of accounts receivable. Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the last-in, first-out ("LIFO") method, which matches current costs with current revenues, for substantially all inventories and the first-in, first-out ("FIFO") method for the remaining inventories. 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. 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.

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

Results of Operations

Year Ended December 31, 2001 as Compared with Year Ended December 31, 2000

Net sales for the year ended December 31, 2001 were $3,445.9 million, reflecting an increase of $41.9 million, or approximately 1.2%, over the $3,404.0 million reported in the year ended December 31, 2000. The Company believes that the 2001 net sales increase was attributable primarily to internal growth in carpet, rugs, padding and hard surface products.

Quarterly net sales and the percentage changes in net sales by quarter for 2001 versus 2000 were as follows (dollars in thousands):

	2001	2000	Change
First quarter	$ 777,339	799,403	(2.8)%
Second quarter	864,958	890,980	(2.9)
Third quarter	907,850	875,765	3.7
Fourth quarter	895,798	837,886	6.9
Total year	$ 3,445,945	3,404,034	1.2%

Gross profit was $832.9 million (24.2% of net sales) for 2001 and gross profit of $822.8 million (24.2% of net sales) for 2000. Gross profit dollars for 2001 were impacted by favorable material and fuel costs and an improved product mix.

Selling, general and administrative expenses for 2001 were $505.7 million (14.7% of net sales) compared to $505.7 million (14.9% of net sales) for 2000.

Interest expense for 2001 was $29.8 million compared to $38.0 million in 2000. The primary factors contributing to the decrease were lower debt levels compared to 2000.

Income tax expense for 2001 was $102.8 million or 35.3% of earnings before income taxes. In 2000, income tax expense was $105.0 million, representing 39.2% of earnings before income taxes. The reduction in the effective income tax rate was primarily due to tax credits and other tax strategies.

Year Ended December 31, 2000 as Compared with Year Ended December 31, 1999

Net sales for the year ended December 31, 2000 were $3,404.0 million, reflecting an increase of $192.4 million, or approximately 6%, over the $3,211.6 million reported in the year ended December 31, 1999. The Company believes that the 2000 net sales increase was attributable primarily to internal growth.

Quarterly net sales and the percentage changes in net sales by quarter for 2000 versus 1999 were as follows (dollars in thousands):

	2000	1999	Change
First quarter	$ 799,403	732,536	9.1%
Second quarter	890,980	825,623	7.9
Third quarter	875,765	842,870	3.9
Fourth quarter	837,886	810,546	3.4
Total year	$ 3,404,034	3,211,575	6.0%

Gross profit was $822.8 million (24.2% of net sales) for 2000 and $776.9 million (24.2% of net sales) for 1999. Gross profit dollars for 2000 were impacted by favorable product mix and the change in depreciable lives of fixed assets as of the beginning of the year and offset by higher material and fuel costs.

Selling, general and administrative expenses for 2000 were $505.7 million (14.9% of net sales) compared to $482.1 million (15% of net sales) for 1999.

In the third quarter of 2000, the Company reached an agreement in principle to settle two antitrust class actions. The Company contributed $13.5 million to a settlement fund to resolve these claims. The court approved the settlement on February 5, 2001. During the third quarter of 2000, the Company recorded a charge of $7 million in connection with the settlement. This amount was in addition to $6.5 million accrued in earlier periods.

Interest expense for 2000 was $38.0 million compared to $32.6 million in 1999. The primary factors contributing to the increase were higher debt levels, attributable to the stock repurchase program and capital expenditures, and an increase in the weighted average borrowing rate compared to 1999.

In 2000, income tax expense was $105.0 million, or 39.2% of earnings before income taxes. In 1999, income tax expense was $102.7 million, representing 39.5% of earnings before income taxes.

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.

The level of accounts receivable increased from $358.8 million at the beginning of 2001 to $404.9 million at December 31, 2001. The $46.1 million increase was primarily attributable to strong sales growth. Inventories decreased from $574.6 million at the beginning of 2001 to $531.4 million at December 31, 2001, due primarily to improved inventory management.

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 balance sheet.

Capital expenditures totaled $52.9 million during 2001. The capital expenditures made during 2001 were incurred primarily to modernize and expand manufacturing facilities and equipment. The Company's capital projects are primarily focused on increasing capacity, improving productivity and reducing costs. Capital expenditures, including $199.3 million for acquisitions, have totaled $471.3 million over the last three years. Capital spending during 2002 for both Mohawk and Dal-Tile combined, excluding acquisitions, is expected to range from $125 million to $145 million, and will be used primarily to purchase equipment to increase production capacity and productivity.

The Company's revolving credit agreement provides for an interest rate of either (i) LIBOR plus 0.2% to 0.5%, depending upon the Company's performance measured against certain financial ratios, or (ii) the prime rate less 1.0%, and has a termination date of January 28, 2004. At December 31, 2001, the Company had credit facilities of $450 million under its revolving credit line and $70 million under various short-term uncommitted credit lines. All of these lines are unsecured. At December 31, 2001, a total of approximately $449 million was unused under these lines. The credit agreement contains customary financial and other covenants. The Company must pay an annual facility fee ranging from .0015 to .0025 of the total credit commitment, depending upon the Company's performance measured against specific coverage ratios, under the revolving credit line.

On October 25, 2000, the Company entered into a 364-day revolving asset financing securitization agreement enabling the Company to sell up to $205 million of an undivided interest in a defined pool of trade accounts receivable. The agreement, which has been recorded as an on-balance sheet financing transaction, may be extended in one-year terms and has been extended to October 24, 2002. The Company believes the securitization program provides a low cost of financing and is an additional source of debt capital with diversification from other alternatives. The Company sold an initial ownership interest in a defined pool of trade accounts receivable. As collections reduce the pool, the Company sells participating interests in new receivables to bring the amount in the pool up to the maximum permitted under the agreement. The receivables are sold at a discount, which approximates the purchasers' financing cost of the program. Receivables secured under the agreement were $461.1 million and $381.7 million at December 31, 2001 and 2000, respectively. The net proceeds were used to reduce borrowings under the revolving credit facility. Interest rates under the facility vary with the commercial paper rates for the Blue Ridge Asset Funding Corporation plus an applicable margin.

The Company's debt structure also includes a combination of variable rate industrial revenue bonds and fixed rate term notes and senior notes with interest rates ranging from 2.87% up to 8.48%. The industrial revenue bonds mature beginning in 2004 through 2019 and the term and senior notes mature through 2005. The industrial revenue bonds are backed by unsecured letters of credit. The term and senior notes are also unsecured. The aggregate principal amount of industrial revenue bonds, term and senior notes was $149.5 million at December 31, 2001.

On January 3, 2001, the Company entered into a five-year interest rate swap, which converted a notional amount of approximately $100 million of its variable rate debt to a fixed rate. Under the agreement, payments are made based on a fixed rate of 5.82% and received on a LIBOR based variable rate. Differentials received or paid under the agreement will be recognized as interest expense.

The Company's Board of Directors previously authorized the repurchase of up to 15 million shares of its outstanding common stock. Management believes that there are times when the repurchase of the Company's common stock provides a more attractive return on investment of the Company's resources than other investment alternatives. The Company may repurchase stock from time to time when conditions and circumstances warrant. Since the inception of the program, a total of approximately 9.0 million shares have been repurchased at an aggregate cost of approximately $200.8 million. All repurchases have been financed through the Company's operations and revolving line of credit.

The total amount of cash and borrowings required to complete the Mohawk and Dal-Tile merger, including the cash merger consideration, payment in respect of the maximum cash-out of one-half of the Dal-Tile options, refinancing or assuming the existing indebtedness of Dal-Tile and transaction fees and expenses, was approximately $911 million. The Company has entered into a 364-day term loan facility permitting the Company to borrow up to $700 million (the "bridge credit facility") under which the Company has borrowed $600 million to finance a portion of the merger costs. The bridge credit facility provides for an interest rate of either (i) LIBOR plus 1.375% to 2.0% or (ii) the prime rate plus 0% to 2% based upon certain conditions. The bridge credit facility is unsecured and contains customary financial and other covenants. The remaining $311 million of financing needs associated with the merger were met using approximately (i) $126 million under the Company's revolving credit facility, (ii) $110 million under the Company's on-balance sheet asset financing securitization facility and (iii) the assumption of Dal-Tile's existing $75 million on-balance sheet receivables securitization facility.

The Company's total financing needs at the closing of the Dal-Tile merger were approximately $1,224 million. The Company has currently addressed these financing needs using a combination of approximately (i) $600 million of the bridge credit facility, (ii) $194 million of its revolving credit facility, (iii) $205 million of its on-balance sheet asset financing securitization, (iv) $75 million of an on-balance sheet receivables securitization facility of Dal-Tile, and (v) $150 million of the Company's existing industrial revenue bonds, term notes and senior notes. Approximately $223 million of the Company's revolving credit facility and $44 million of various short-term uncommitted credit lines remain unused immediately after closing the merger. The Company intends to replace Dal-Tile's existing $75 million receivables securitization facility with a new $100 million receivables securitization facility through a multi-selling conduit. In addition, the Company intends to refinance the bridge credit facility prior to the twelfth business day following the closing of the merger. A failure to repay the bridge credit facility within such 12 business day period will subject the Company to an additional fee of $3.5 million under the bridge credit facility.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142.

The Company was required to adopt the provisions of SFAS No. 141 effective June 30, 2001, and SFAS No. 142 effective January 1, 2002. Furthermore, any goodwill that was acquired in a purchase business combination completed after June 30, 2001 will not be amortized. Goodwill acquired in business combinations completed before July 1, 2001 is no longer being amortized after December 31, 2001.

The Company has evaluated its existing goodwill that was acquired in prior purchase business combinations for impairment and has concluded that no adjustment to the Company's consolidated financial statements is required.

In April 2001, the EITF reached consensus on Issue No. 00-25 "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendors Products or Services." This issuance provides guidance primarily on income statement classification of consideration from a vendor to a purchaser of the vendor's products. Generally, cash consideration is to be classified as a reduction of revenue, unless specific criteria are met regarding goods or services that the vendor may receive in return for this consideration. The Company believes that its current accounting policies are in conformity with EITF 00-25, and does not believe that EITF 00-25 will have a material effect on the Company's consolidated financial statements.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, *Accounting for Asset Retirement Obligations.* SFAS No. 143 provides new guidance on the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for the Company's fiscal year beginning in 2003 and is not expected to materially impact the Company's consolidated financial statements.

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

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes discontinued operations and how the results of discontinued operations are to be measured and presented. SFAS No. 144 is effective for the Company's fiscal year beginning in 2002 and is not expected to materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in more matters being reported as discontinued operations than was permitted under previous accounting principles.

Impact of Inflation

Inflation affects the Company's manufacturing costs and operating expenses. The carpet and tile industry has experienced inflation in the prices of raw materials and fuel-related costs. In the past, the Company has generally passed along these price increases to its customers and has been able to enhance productivity to offset increases in costs resulting from inflation in both the United States and Mexico.

Seasonality

The Company is a calendar year-end company and 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 floorcovering which historically have decreased during the first two months of each year following the holiday season.

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 Mohawk 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 failure to integrate Mohawk and Dal-Tile successfully by managing the challenges of that integration may result in the Company not achieving the anticipated potential benefits of the merger.
The Company will face challenges in consolidating functions, integrating its 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 their businesses 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, Dal-Tile has a significant manufacturing operation in Mexico, and the Company has not previously operated a manufacturing facility outside of the United States. 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 floorcovering industry is cyclical and prolonged declines in residential or commercial construction activity could have a material adverse effect on the Company's business.
The U.S. floorcovering industry is highly dependent on residential and commercial construction activity, including new construction as well as remodeling. New construction activity and remodeling to a lesser degree, are cyclical in nature and a prolonged decline in residential or commercial construction activity could have a material adverse effect on the Company's business, financial condition and results of operations. Construction activity is significantly affected by numerous factors, all of which are beyond the Company's control, including:

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

The U.S. construction industry has experienced significant downturns in the past, which have adversely affected suppliers to the industry, including suppliers of floorcoverings. The industry could experience similar downturns in the future, which could have a negative impact on the Company's business, financial condition and results of operations.

The Company faces intense competition in its industry, which could decrease demand for its products and could have a material adverse effect on its profitability.
The industry is highly competitive. The Company faces competition from a large number of domestic and foreign manufacturers and independent distributors of floorcovering products. Some of its existing and potential competitors may be larger and have greater resources and access to capital than it does. Maintaining the Company's competitive position may require it to make substantial investments in its product development efforts, manufacturing facilities, distribution network and sales and marketing activities. Competitive pressures may also result in decreased demand for its products and in the loss of market share. In addition, the Company faces, and will continue to face, pressure on sales prices of its products from competitors as well as from large customers. As a result of any of these factors, there could be a material adverse effect on the Company's sales and profitability.

A failure to identify suitable acquisition candidates, to complete acquisitions and to integrate successfully the acquired operations could have a material adverse effect on the Company's business.
As part of its business strategy, the Company intends to pursue acquisitions of complementary businesses. Although it regularly evaluates acquisition opportunities, it may not be able to:

- successfully identify suitable acquisition candidates;
- obtain sufficient financing on acceptable terms to fund acquisitions;
- complete acquisitions; or
- profitably manage acquired businesses.

Acquired operations may not achieve levels of sales, operating income or productivity comparable to those of its existing operations, or otherwise perform as expected. Acquisitions may also involve a number of special risks, some or all of which could have a material adverse effect on the Company's business, results of operations and financial condition, including, among others:

- the Company's inability to integrate operations, systems and procedures and to eliminate redundancies and excess costs effectively;
- diversion of management's attention and resources; and
- difficulty retaining and training acquired key personnel.

The Company may be unable to obtain raw materials on a timely basis, which could have a material adverse effect on its business.
The Company's business is dependent upon a continuous supply of raw materials from third party suppliers. The principal raw materials used in its manufacturing operations include: nylon fiber and polypropylene resin, which are used exclusively in its carpet and rug business; talc, clay, impure nepheline syenite, pure nepheline syenite and various glazes, including frit (ground glass), zircon and stains, which are used exclusively in its ceramic tile business; and other materials. The Company purchases all of its impure nepheline syenite requirements from Minnesota Mining and Manufacturing Company and all of its pure nepheline syenite requirements from Unimin Corporation. Unimin is the only major supplier of pure nepheline syenite in North America. 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 its business, financial condition and results of operations.

The Company may be unable to pass on to its customers increases in the costs of raw materials and energy, which could have a material adverse effect on its profitability.
Significant increases in the costs of raw materials and natural gas used in the manufacture of the Company's products could have a material adverse effect on its operating margins and its business, financial condition and results of operations. The Company purchases nylon fiber, polypropylene resin, talc, clay, impure nepheline syenite, pure nepheline syenite, frit, zircon, stains and other materials from third party suppliers. The cost of some of these materials, like nylon and polypropylene resin, is related to oil prices. The Company also purchases significant amounts of natural gas to supply the energy required in some of its production processes. The prices of these raw materials and of natural gas vary with market conditions.

Although the Company generally attempts to pass on increases in the costs of raw materials and natural gas to its customers, the Company's ability to do so is, to a large extent, dependent upon the rate and magnitude of any increase, competitive pressures and market conditions for its 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, there could be a material adverse effect on the Company's profitability.

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 federal, state, local and foreign 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. New or additional requirements could be imposed, and the Company could incur material expenditures to comply with new or existing regulations.

The nature of the Company's operations and previous operations by others at real property currently or formerly owned or operated by the Company and the disposal of waste at third party sites exposes the Company 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. The Company has been, and will continue to be, subject to these claims.

The discovery of presently unknown environmental conditions, changes in environmental, health, and safety laws and regulations, enforcement of existing or new requirements or other unanticipated events could give rise to expenditures and liabilities, including fines or penalties, that could have a material adverse effect on the Company's business, operating results or financial condition.

The Company relies on its Monterrey, Mexico plant for a significant portion of its ceramic tile manufacturing capacity and any disruption in the plant's operations could negatively affect the Company's business.
The Company's Monterrey, Mexico manufacturing facility represents a significant portion of the Company's total manufacturing capacity for ceramic tile. This facility contains five distinct manufacturing plants, three of which produce ceramic tile, one of which produces frit used in the production of manufactured tile and one of which produces refractories. Any disruption in the operations of this facility could result in a material adverse effect on the Company's ceramic tile business and the Company's operations as a whole.

Changes in international trade laws and in the business, political and regulatory environment in Mexico could have a material adverse effect on the Company's business.
The Company's operations in Mexico include its Monterrey facility. Accordingly, an event that has a material adverse impact on the Company's Mexican operations could have a material adverse effect on its operations as a whole. The business, regulatory and political environments in Mexico differ from those in the United States, and the Company's Mexican operations are exposed to a number of inherent risks, including:

- changes in international trade laws, such as the North American Free Trade Agreement, or NAFTA, affecting the Company's import and export activities in Mexico;
- changes in Mexican labor laws and regulations affecting the Company's ability to hire and retain employees in Mexico;
- currency exchange restrictions and fluctuations in the value of foreign currency;
- potentially adverse tax consequences;
- local laws concerning repatriation of profits;
- political conditions in Mexico;
- unexpected changes in the regulatory environment in Mexico; and
- changes in general economic conditions in Mexico.

Future exchange rate fluctuations or inflation could have a material adverse effect on the Company's results of operations.
The Company's Mexican facility, which is considered an extension of its U.S. operations, primarily provides ceramic tile to the Company's U.S. distribution network, and to a more limited extent, sells ceramic tile in Mexico. The facility has more peso-denominated expenses than revenues. This means that the Company realizes a benefit when the peso devalues against the U.S. dollar, although this benefit may be offset by Mexican inflation. Any future increases in the Mexican inflation rate, which are not offset by devaluation of the peso, may negatively impact the Company's results of operations. The Mexican peso has been and may in the future be, subject to significant fluctuations. To the extent that the peso

appreciates against the U.S. dollar, there could be a material adverse effect on the Company's business, financial condition and results of operations.

The Company could face increased competition as a result of the General Agreement on Tariffs and Trade and the North American Free Trade Agreement. The United States is party to the General Agreement on Tariffs and Trade ("GATT"). Under GATT, the United States currently imposes import duties on ceramic tile imported from countries outside North America at no more than 13%, to be reduced ratably to no less than 8.5% by 2004. Accordingly, as these duties decrease, GATT may stimulate competition from manufacturers in these countries, which now export, or may seek to export, ceramic tile to the United States. The Company is uncertain what effect GATT may have on its operations.

The North American Free Trade Agreement ("NAFTA") was entered into by Canada, Mexico and the United States and over a transition period will remove most customs duties imposed on goods traded among the three countries. In addition, NAFTA will remove or limit many investment restrictions, liberalize trade in services, provide a specialized means for settlement of, and remedies for, trade disputes arising under its laws and will result in new laws and regulations to further these goals. Although NAFTA lowers the tariffs imposed on the Company's ceramic tile manufactured in Mexico and sold in the United States, it may also stimulate competition in the United States and Canada from manufacturers located in Mexico, which could negatively affect the Company's business.

Forward-Looking Information

Certain of the matters discussed in the preceding pages, particularly regarding anticipation of future financial performance, business prospects, growth and operating strategies, proposed acquisitions, new products and similar matters, and those preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "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 Securites and 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. Those statements are based on assumptions regarding the Company's ability to maintain its sales growth and gross margins and to control costs. These or other assumptions could prove inaccurate and therefore, there can be no assurance that the "forward-looking statements" will prove to be accurate. Forward-looking statements involve a number of risks and uncertainties. The following important factors, in addition to those discussed elsewhere in this document, affect the future results of Mohawk and could cause those results to differ materially from those expressed in the forward-looking statements: materially adverse changes in economic conditions generally in the carpet, rug, ceramic tile and other floorcovering markets served by Mohawk; the successful integration of Dal-Tile into Mohawk's business; competition from other carpet, rug, ceramic tile and floorcovering manufacturers; raw material prices; declines in residential or commercial construction activity; timing and level of capital expenditures; the successful integration of acquisitions, including the challenges inherent in diverting Mohawk management's attention and resources from other strategic matters and from operational matters for an extended period of time; the successful introduction of new products; the successful rationalization of existing operations; and other risks identified from time to time in the Company's SEC reports and public announcements. Any forward-looking statements represent Mohawk's estimates only as of the date of this report and should not be relied upon as representing Mohawk's estimates as of any subsequent date. While Mohawk may elect to update forward-looking statements at some point in the future, Mohawk specifically disclaims any obligation to do so, even if Mohawk's estimates change.

Quantitative and Qualitative Disclosures About Market Risk

To reduce the risk of interest rate fluctuations, the Company engages in the use of interest rate swap agreements. At December 31, 2001, the Company held one interest rate swap agreement under which the Company pays a fixed percent of interest times the notional principal amount of $100 million and receives in return an amount equal to a specified variable rate of interest times the same notional principal amount. The fixed interest rate per the agreement is 5.82%, which expires January 2, 2006. The average rate as of December 31, 2001 was 4.0%. This agreement is considered highly effective as of December 31, 2001. The cumulative fair value of the agreement as of December 31, 2001, was a liability of $2.8 million, net of taxes, which was recorded in long-term liabilities with the offset to other comprehensive loss, net of applicable income taxes.

Consolidated Statements of Earnings

(In thousands, except per share data)	Years ended December 31, 2001	2000	1999
Net sales	$ 3,445,945	3,404,034	3,211,575
Cost of sales	2,613,043	2,581,185	2,434,716
Gross profit	832,902	822,849	776,859
Selling, general and administrative expenses	505,745	505,734	482,062
Class action legal settlement	–	7,000	–
Operating income	327,157	310,115	294,797
Other expense (income):			
Interest expense	29,787	38,044	32,632
Other expense	7,780	5,660	5,665
Other income	(1,826)	(1,218)	(3,399)
	35,741	42,486	34,898
Earnings before income taxes	291,416	267,629	259,899
Income taxes	102,824	105,030	102,660
Net earnings	$ 188,592	162,599	157,239
Basic earnings per share	$ 3.60	3.02	2.63
Weighted-average common shares outstanding	52,418	53,769	59,730
Diluted earnings per share	$ 3.55	3.00	2.61
Weighted-average common and dilutive potential common shares outstanding	53,141	54,255	60,349

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands, except per share data)	December 31, 2001	2000
ASSETS		
Current assets:		
Receivables	$ 404,875	358,809
Inventories	531,405	574,595
Prepaid expenses	24,884	26,973
Deferred income taxes	70,058	66,474
Total current assets	1,031,222	1,026,851
Property, plant and equipment, net	619,703	650,053
Goodwill, net	109,167	112,376
Other assets	8,393	6,098
	$ 1,768,485	1,795,378
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 158,366	224,391
Accounts payable and accrued expenses	423,495	375,268
Total current liabilities	581,861	599,659
Deferred income taxes	84,955	75,808
Long-term debt, less current portion	150,067	365,437
Other long-term liabilities	3,051	114
Total liabilities	819,934	1,041,018
Stockholders' equity:		
Preferred stock, $.01 par value; 60 shares authorized; no shares issued	–	–
Common stock, $.01 par value; 150,000 shares authorized; 61,408 and 60,838 shares issued in 2001 and 2000, respectively	614	608
Additional paid-in capital	197,247	183,303
Retained earnings	947,123	758,531
Accumulated other comprehensive loss	(2,837)	–
	1,142,147	942,442
Less treasury stock at cost; 8,715 and 8,538 shares in 2001 and 2000, respectively	193,596	188,082
Total stockholders' equity	948,551	754,360
Commitments and contingencies (Note 11)		
	$ 1,768,485	1,795,378

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity and Comprehensive Income

(In thousands)	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss)	Treasury stock	Total stockholders' equity
Balances at							
December 31, 1998	60,533	$ 606	172,045	438,408	–	–	611,059
Stock options exercised	124	1	1,390	–	–	–	1,391
Purchase of treasury stock	–	–	–	–	–	(85,936)	(85,936)
Grant to employee							
profit sharing plan	–	–	–	–	–	1,950	1,950
Tax benefit from exercise							
of stock options	–	–	836	–	–	–	836
Durkan pooling adjustment	–	–	5,722	–	–	–	5,722
Adjustments to conform							
fiscal year end of Durkan	–	–	–	285	–	–	285
Net earnings	–	–	–	157,239	–	–	157,239
Balances at							
December 31, 1999	60,657	607	179,993	595,932	–	(83,986)	692,546
Stock options exercised	181	1	2,396	–	–	–	2,397
Purchase of treasury stock	–	–	–	–	–	(106,689)	(106,689)
Grant to employee							
profit sharing plan	–	–	–	–	–	2,593	2,593
Tax benefit from exercise							
of stock options	–	–	914	–	–	–	914
Net earnings	–	–	–	162,599	–	–	162,599
Balances at							
December 31, 2000	60,838	608	183,303	758,531	–	(188,082)	754,360
Stock options exercised	570	6	9,097	–	–	–	9,103
Purchase of treasury stock	–	–	–	–	–	(8,159)	(8,159)
Grant to employee							
profit sharing plan	–	–	–	–	–	2,500	2,500
Grant for executive							
incentive program	–	–	–	–	–	145	145
Tax benefit from exercise							
of stock options	–	–	4,847	–	–	–	4,847
Comprehensive income:							
Unrealized loss on							
hedge instruments	–	–	–	–	(2,837)	–	(2,837)
Net earnings	–	–	–	188,592	–	–	188,592
Total comprehensive income	–	–	–	–	–	–	185,755
Balances at							
December 31, 2001	61,408	$ 614	197,247	947,123	(2,837)	(193,596)	948,551

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash flows

(In thousands)	2001	2000	1999
	Years ended December 31,		
Cash flows from operating activities:			
Net earnings	$ 188,592	162,599	157,239
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	84,167	82,346	105,297
Deferred income taxes	5,563	32,179	(1,302)
Tax benefit on exercise of stock options	4,847	914	836
Loss on sale of property, plant and equipment	2,910	205	2,516
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	(46,066)	(18,248)	18,708
Inventories	43,190	(70,209)	(32,437)
Accounts payable and accrued expenses	48,754	33,770	(55,324)
Other assets and prepaid expenses	(811)	(3,257)	(16,086)
Other liabilities	101	27	(5,293)
Net cash provided by operating activities	331,247	220,326	174,154
Cash flows from investing activities:			
Additions to property, plant and equipment	(52,913)	(73,475)	(145,621)
Acquisitions	–	(36,844)	(162,463)
Net cash used in investing activities	(52,913)	(110,319)	(308,084)
Cash flows from financing activities:			
Net change in revolving line of credit	(181,964)	(168,595)	255,530
Net change in asset securitization	(66,104)	191,104	–
Payments on term loans	(32,212)	(32,226)	(32,229)
Redemption of acquisition indebtedness	–	–	(20,917)
Proceeds (redemption) from Industrial Revenue Bonds and other, net of payments	(1,115)	3,480	(7,779)
Change in outstanding checks in excess of cash	2,117	522	15,479
Acquisition of treasury stock	(8,159)	(106,689)	(85,936)
Common stock transactions	9,103	2,397	7,398
Net cash (used in) provided by financing activities	(278,334)	(110,007)	131,546
Net change in cash	–	–	(2,384)
Cash, beginning of year	–	–	2,384
Cash, end of year	$ –	–	–

See accompanying notes to consolidated financial statements.

1. 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.

On March 9, 1999, the Company acquired all of the outstanding capital stock of Durkan Patterned Carpets, Inc. ("Durkan") for 3,150 shares of the Company's common stock ("Durkan Merger"). The historical consolidated financial statements have been restated to give retroactive effect to the Durkan Merger. The Durkan Merger was accounted for as a pooling-of-interests in the accompanying consolidated financial statements.

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

(b) Accounts Receivable and Revenue Recognition

The Company is principally a broadloom carpet and rug manufacturer, selling carpet, rugs and other floorcovering materials throughout the United States principally for residential use. The Company grants credit to customers, most of whom are retail carpet dealers, under credit terms that are customary in the industry.

Revenues are recognized when goods are shipped, which is when the legal title passes to the customer. 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 the aging of the accounts receivable.

(c) Inventories

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the last-in, first-out (LIFO) method, which matches current costs with current revenues, for substantially all inventories and the first-in, first-out (FIFO) method for the remaining inventories.

(d) Property, Plant and Equipment

Property, plant and equipment is stated at cost, including interest on funds borrowed to finance the acquisition or construction of major capital additions. Depreciation is calculated on a straight-line basis over the estimated remaining useful lives, which are 35 years for buildings and improvements, 15 years for extrusion equipment, 10 years for tufting equipment, the life of the lease for leasehold improvements, five years for vehicles and seven years for other equipment, and furniture and fixtures.

(e) 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. 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.

(f) Financial Instruments

The Company's financial instruments consist primarily of accounts receivable, accounts payable, accrued expenses, and long-term debt. The carrying amount of accounts receivable, accounts payable and accrued expenses approximates their fair value because of the short-term maturity of such instruments. 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, 2001, and 2000, was $311,617 and $590,786, compared to a carrying amount of $308,433 and $589,828, respectively.

(g) Derivative Instruments

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") and its amendments, which require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a 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. 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 market may have on operating results. The Company does not regularly engage in speculative transactions, nor does it regularly hold or issue financial instruments for trading purposes. There was no impact on the consolidated financial statements upon the adoption of SFAS No. 133.

The Company maintains an interest rate risk management strategy that uses interest rate swaps to minimize significant, unanticipated earnings fluctuations caused by volatility in interest rates. The Company formally documents all 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 or liabilities on the 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 for that specific hedge instrument.

(h) 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.

(i) Goodwill

Goodwill arises in connection with business combinations accounted for as purchases. Goodwill is amortized primarily on a straight-line basis over 40 years. Amortization charged to earnings was $3,209 in 2001, $3,184 in 2000 and $2,808 in 1999. Accumulated amortization was $19,564 and $16,355 at December 31, 2001, and 2000, respectively. Goodwill increased in 2000 by $2,000 as a result of an earnout payment made to the former owners of Newmark & James, a company acquired in 1998, after certain earnings thresholds were reached by Newmark & James.

(j) Advertising Costs

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 $28,845 in 2001, $25,526 in 2000 and $25,152 in 1999.

(k) Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of FAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. Under FAS No. 121, the Company evaluates impairment of long-lived assets on a business unit basis, rather than on an aggregate entity basis, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for long-lived assets is based on the fair value of the asset.

December 31, 2001, 2000 and 1999 (in thousands, except per share data)

(l) Earnings per Share ("EPS")

The Company applies the provisions of Financial Accounting Standards Board ("FASB") FAS No. 128, Earnings per Share, which requires companies to present basic EPS and diluted EPS. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

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 are immaterial.

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

	2001	2000	1999
Net earnings	$ 188,592	162,599	157,239
Weighted-average common and dilutive potential common shares outstanding:			
Weighted-average common shares outstanding	52,418	53,769	59,730
Add weighted-average dilutive potential common shares – options to purchase common shares	723	486	619
Weighted-average common and dilutive potential common shares outstanding	53,141	54,255	60,349
Basic earnings per share	$ 3.60	3.02	2.63
Diluted earnings per share	$ 3.55	3.00	2.61

(m) Effect of New Accounting Pronouncements

In April 2001, the EITF reached consensus on Issue No. 00-25 "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendors Products or Services." This issuance provides guidance primarily on income statement classification of consideration from a vendor to a purchaser of the vendor's products. Generally, cash consideration is to be 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 believes that its current accounting policies are in conformity with EITF 00-25, and does not believe that EITF 00-25 will have a material effect on its consolidated financial statements. 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 selling, general and administrative expenses. Co-op advertising expenses were $11,803 in 2001, $11,570 in 2000 and $9,603 in 1999.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142.

The Company was required to adopt the provisions of SFAS No. 141 effective June 30, 2001, and SFAS No. 142 effective January 1, 2002. Furthermore, any goodwill that was acquired in a purchase business combination completed after June 30, 2001, will not be amortized. Goodwill acquired in business combinations completed before July 1, 2001, is no longer being amortized after December 31, 2001.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, *Accounting for Asset Retirement Obligations.* SFAS No. 143 provides new guidance on the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for the Company's fiscal year beginning in 2003 and is not expected to materially impact the Company's consolidated financial statements.

December 31, 2001, 2000 and 1999 (in thousands, except per share data)

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes discontinued operations and how the results of discontinued operations are to be measured and presented. SFAS No. 144 is effective for the Company's fiscal year beginning in 2002 and is not expected to materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in more matters being reported as discontinued operations than is permitted under previous accounting principles.

(n) Shipping and Handling Costs

The Emerging Issues Task Force ("EITF") reached a consensus on issue EITF 00-10 in September 2000, "Accounting for Shipping and Handling Fees and Costs." The Company has analyzed the implications of EITF 00-10 and accordingly, reclassified shipping and handling costs from net sales to cost of sales. The impact of the reclassification was to increase net sales and cost of sales by $148,921, $148,188 and $128,311 in 2001, 2000 and 1999, respectively.

(o) Reclassifications

Certain prior period financial statement balances have been reclassified to conform with the current period's classification.

2. Acquisitions

On January 29, 1999, the Company acquired certain assets of Image Industries, Inc. ("Image") for approximately $192,000, including acquisition costs and the assumption of $30,000 of tax-exempt debt. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. The estimated fair values were $205,366 for assets acquired and $42,903 for liabilities assumed.

On March 9, 1999, the Company acquired all of the outstanding capital stock of Durkan for approximately 3,150 shares of the Company's common stock valued at $116,500, based on the closing price the day the letter of intent was executed. The Durkan acquisition has been accounted for under the pooling-of-interests method of accounting and, accordingly, the Company's historical consolidated financial statements have been restated to include the accounts and results of operations of Durkan.

On November 14, 2000, the Company acquired certain fixed assets and inventory of Crown Crafts, Inc., using the purchase method of accounting and accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on estimated fair values at the date of acquisition. The estimated fair values were $37,284 for assets acquired and $440 for liabilities assumed.

On March 20, 2002, the Company acquired all of the outstanding capital stock of Dal-Tile International Inc., for approximately $1,545,000, consisting of 12,900 shares of the Company's common stock, options to purchase 2,100 shares of the Company's common stock and $720,000 in cash. The Company's common stock was valued at $825,000 based on the measurement date stock price.

3. Receivables

Receivables are as follows:

	2001	2000
Customers, trade	$ 479,219	433,042
Other	5,037	4,125
	484,256	437,167
Less allowance for discounts, returns, claims and doubtful accounts	79,381	78,358
Net receivables	$ 404,875	358,809

4. Inventories

The components of inventories are as follows:

	2001	2000
Finished goods	$ 287,525	295,447
Work in process	68,088	73,658
Raw materials	175,792	205,490
Total inventories	$ 531,405	574,595

December 31, 2001, 2000 and 1999 (in thousands, except per share data)

5. Property, Plant and Equipment

Following is a summary of property, plant and equipment:

	2001	2000
Land	$ 24,355	23,870
Buildings and improvements	275,174	266,094
Machinery and equipment	910,454	876,417
Furniture and fixtures	34,677	33,657
Leasehold improvements	6,405	5,727
Construction in progress	26,654	32,435
	1,277,719	1,238,200
Less accumulated depreciation and amortization	658,016	588,147
Net property, plant and equipment	$ 619,703	650,053

Property, plant and equipment includes capitalized interest of $1,855, $3,097 and $3,213 in 2001, 2000 and 1999, respectively.

Effective January 1, 2000, the Company extended the estimated useful lives on certain property, plant and equipment. The impact of the change was to increase net earnings for fiscal 2000 by approximately $14,600, or $0.27 per share.

6. Long-Term Debt

The Company's revolving line of credit agreement provides for an interest rate of either (i) LIBOR plus 0.2% to 0.5%, depending upon the Company's performance measured against certain financial ratios, or (ii) the prime rate less 1.0% and has a termination date of January 28, 2004. At December 31, 2001, the Company had credit facilities of $450,000 under its revolving credit line and $70,000 under various short-term uncommitted credit lines. At December 31, 2001, a total of $448,933 was unused under these lines. All of these are unsecured. The credit agreement contains customary financial and other covenants. The Company must pay an annual facility fee ranging from .0015% to .0025% of the total credit commitment, depending upon the Company's performance measured against specific coverage ratios, under the revolving credit line.

On October 25, 2000, the Company entered into a 364-day revolving asset financing securitization agreement, enabling the Company to sell up to $205,000 of an undivided interest in a defined pool of trade accounts receivable. The agreement, which has been recorded as an on-balance sheet financing transaction, may be extended in one-year terms and has been extended to October 26, 2002. The Company believes the securitization program provides low cost of financing and is an additional source of debt capital with diversification from other alternatives. The Company sold an initial ownership interest in a defined pool of trade accounts receivable limited by eligible accounts receivable. As collections reduce the pool, the Company sells participating interests in new receivables to bring the amount in the pool up to the maximum permitted under the agreement. The receivables are sold at a discount, which approximates the purchasers' financing cost of the program. Receivables secured under the agreement were $461,072 and $381,700 at December 31, 2001, and 2000, respectively.

The net proceeds were used to reduce borrowings under the revolving credit facility. Interest rates under the facility vary with the commercial paper rates for the Blue Ridge Asset Funding Corporation plus an applicable margin.

The Company uses an interest rate swap contract to adjust the proportion of total debt that is subject to variable interest rates as compared to fixed interest rates. Under an interest rate swap contract, the Company agrees to pay an amount equal to a fixed rate of interest times a notional principal amount of $100,000, and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. The notional amounts of the contracts are not exchanged, and no other cash payments are made. The contract fair value is reflected on the balance sheet and related gains or losses are deferred in other comprehensive income. These deferred gains and losses are recognized in income as an adjustment to interest expense over the same period in which the related interest payments being hedged are recognized in income. However, to the extent that any of these contracts are not considered to be 100% effective in offsetting the change in the value of the interest payments being hedged, any changes in fair value relating to the ineffective portion of these contracts is immediately recognized in income. As of December 31, 2001, the Company had an interest rate swap agreement outstanding for a notional amount of $100,000, which will be in effect until January 3, 2006. Under the terms of the swap agreement, the Company pays a fixed interest rate of 5.82%. As of December 31, 2001, the cumulative loss and fair value of the swap agreement was $4,503 or $2,837, net of applicable income taxes.

December 31, 2001, 2000 and 1999 (in thousands, except per share data)

The Company guarantees the Industrial Revenue Bonds with various letters of credit, which were in aggregate $55,600 at December 31, 2001, and 2000.

Long-term debt consists of the following:

	2001	2000
Revolving line of credit, due January 28, 2004	$ 33,893	215,857
Asset securitization, due October 24, 2002	125,000	191,104
8.46% senior notes, payable in annual principal installments beginning in 1998, due September 16, 2004, interest payable quarterly	42,857	57,143
7.14%-7.23% senior notes, payable in annual principal installments beginning in 1997, due September 1, 2005, interest payable semiannually	37,778	47,222
8.48% term loans, payable in annual principal installments, due October 26, 2002, interest payable quarterly	5,714	11,429
7.58% senior notes, payable in annual principal installments beginning in 1997, due July 30, 2003, interest payable semiannually	2,857	4,286
6% term note, payable in annual principal and interest installments beginning in 1998, due July 23, 2004	4,007	5,343
Industrial Revenue Bonds and other	56,327	57,444
Total long-term debt	308,433	589,828
Less current portion	158,366	224,391
Long-term debt, excluding current portion	$ 150,067	365,437

The aggregate maturities of long-term debt as of December 31, 2001 are as follows:

2002	$ 158,366
2003	27,424
2004	59,023
2005	9,447
2006	6,500
Thereafter	47,673
	$ 308,433

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are as follows:

	2001	2000
Outstanding checks in excess of cash	$ 45,012	42,895
Accounts payable, trade	171,620	165,108
Accrued expenses	132,944	104,313
Accrued compensation	73,919	62,952
Total accounts payable and accrued expenses	$ 423,495	375,268

8. Stock Options, Stock Compensation and Treasury Stock

Under the Company's 1992, 1993 and 1997 stock option plans, options may be granted to directors and key employees through 2002, 2003 and 2007 to purchase a maximum of 2,250, 675 and 2,550 shares of common stock, respectively. During 2001, 2000 and 1999, options to purchase 704, 187 and 809 shares respectively, were granted under these plans. Options granted under each of these plans expire 10 years from the date of grant and become exercisable at such dates and at prices 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 2001, 2000 and 1999 a total of two, four and three shares, respectively were awarded to the non-employee directors under the plan.

December 31, 2001, 2000 and 1999 (in thousands, except per share data)

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

	2001	2000	1999
Options outstanding at beginning of year	1,868	2,043	1,387
Options granted	704	184	809
Options exercised	(570)	(181)	(124)
Options canceled	(86)	(178)	(29)
Options outstanding at end of year	1,916	1,868	2,043
Options exercisable at end of year	599	931	873
Option prices per share:			
Options granted during the year	$23.33-53.01	20.13-26.26	19.69-35.13
Options exercised during the year	$ 5.67-35.13	5.67-19.70	5.67-19.17
Options canceled during the year	$ 5.67-42.86	6.67-35.14	9.33-35.13
Options outstanding at end of year	$ 5.61-53.01	5.61-35.13	5.61-35.13

As allowed under FAS No. 123, the Company accounts for stock options granted as prescribed under Accounting Principles Board Opinion No. 25, which recognizes compensation cost based upon the intrinsic value of the award. Accordingly, no compensation expense has been recognized in the consolidated statement of earnings for any stock options granted in 2001, 2000 and 1999. The following table represents pro forma net income and pro forma earnings per share had the Company elected to account for stock option grants using the fair value-based method.

	2001	2000	1999
Net earnings			
As reported	$ 188,592	162,599	157,239
Pro forma	185,394	160,313	155,282
Net earnings per common share (basic)			
As reported	$ 3.60	3.02	2.63
Pro forma	3.54	2.98	2.60
Net earnings per common share (diluted)			
As reported	$ 3.55	3.00	2.61
Pro forma	3.49	2.95	2.57

This pro forma impact only takes into account options granted since January 1, 1996, and is likely to increase in future years as additional options are granted and amortized ratably over the vesting period. The average fair value of options granted during 2001, 2000 and 1999 was $15.27, $13.00 and $15.28, respectively. This fair value was estimated using the Black-Scholes option pricing model based on a weighted-average market price at grant date of $31.91 in 2001, $22.69 in 2000 and $26.48 in 1999 and the following weighted-average assumptions:

	2001	2000	1999
Dividend yield	–	–	–
Risk-free interest rate	4.1%	5.1%	6.4%
Volatility	43.3%	48.1%	46.7%
Expected life (years)	6	7	7

Summarized information about stock options outstanding and exercisable at December 31, 2001, is as follows:

	Outstanding			Exercisable	
Exercise price range	Number of Shares	Average Life [(1)]	Average Price [(2)]	Number of Shares	Average Price [(2)]
Under $19.17	386	3.39	$ 12.05	380	$ 12.00
$19.38-22.63	422	7.84	20.16	91	19.85
$23.33-30.50	116	7.89	26.40	35	29.30
$30.53	568	9.16	30.53	–	–
$30.69-53.01	424	7.73	35.39	93	33.90
	1,916			599	

(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. Since the inception of the program, a total of approximately 8,993 shares have been repurchased at an aggregate cost of approximately $200,784. All of these repurchases have been financed through the Company's operations and banking arrangements.

December 31, 2001, 2000 and 1999 (in thousands, except per share data)

9. Employee Benefit Plans

The Company has a 401(k) retirement savings plan (the "Plan") open to substantially all of its employees who have completed one year of eligible service. The Company contributes $0.50 for every $1.00 of employee contributions up to a maximum of 4% of the employee's salary. Effective January 1, 2000, the Company amended the Plan to match an additional $0.25 for every $1.00 of employee contribution in excess of 4% of the employee's salary up to a maximum of 6%. Employee and employer contributions to the Plan were $18,322 and $6,521 in 2001, $16,926 and $6,055 in 2000, and $14,873 and $5,080 in 1999, respectively. The Company also made a discretionary contribution to the Plan of approximately $2,500, $2,500 and $2,100 in 2001, 2000 and 1999, respectively.

The World Carpet Savings Retirement Plan (the "World Plan"), a defined contribution 401(k) plan covering substantially all World employees, was merged into the Plan on March 1, 1999. Employees were eligible to participate after completion of one year of service. Under the terms of the World Plan, World would match employee contributions up to a maximum of 2% of the employee's salary and employee's vested in the contributions based on years of credited service. For the year ended December 31, 1999, the Company contributed approximately $142 to the World Plan.

Durkan maintained a 401(k) retirement savings plan (the "Durkan Plan") open to substantially all Durkan employees. Durkan contributed $0.50 for every $1.00 of employee contributions up to a maximum of 6% of eligible wages. For the years ended December 31, 2000 and 1999, Durkan contributed approximately $262, and $343, respectively, to the Durkan Plan. The Durkan Plan was merged into the Plan effective January 1, 2001.

10. Income Taxes

Income tax expense attributable to earnings before income taxes for the years ended December 31, 2001, 2000 and 1999 consists of the following:

	Current	Deferred	Total
2001:			
U.S. federal	$ 82,246	5,728	87,974
State and local	15,015	(165)	14,850
	$ 97,261	5,563	102,824
2000:			
U.S. federal	$ 64,444	28,466	92,910
State and local	8,407	3,713	12,120
	$ 72,851	32,179	105,030
1999:			
U.S. federal	$ 92,736	(1,928)	90,808
State and local	12,104	(252)	11,852
	$ 104,840	(2,180)	102,660

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:

	2001	2000	1999
Computed "expected" tax expense	$ 101,996	93,670	90,965
State and local income taxes, net of federal income tax benefit	9,652	7,878	7,704
Amortization of goodwill	709	700	684
Tax credits	(5,000)	–	–
Other, net	(4,533)	2,782	3,307
	$ 102,824	105,030	102,660

December 31, 2001, 2000 and 1999 (in thousands, except per share data)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are presented below:

	2001	2000
Deferred tax assets:		
Accounts receivable	$ 3,286	10,751
Inventories	19,089	11,533
Accrued expenses	49,030	46,372
Gross deferred tax assets	71,405	68,656
Deferred tax liabilities:		
Plant and equipment	(72,934)	(65,420)
Prepaid expenses	(1,347)	(2,182)
Other	(12,021)	(10,388)
Gross deferred tax liabilities	(86,302)	(77,990)
Net deferred tax liability	$ (14,897)	(9,334)

Based upon the expected reversal of deferred tax liabilities, 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 that the Company will realize the benefits of these deductible differences at December 31, 2001.

11. Commitments and Contingencies

The Company is obligated under various capital and 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) at December 31, 2001, are:

	Capital Leases	Operating Leases	Total Future Payments
2002	$ 1,214	34,802	36,016
2003	913	29,103	30,016
2004	63	22,206	22,269
2005	–	15,932	15,932
2006	–	10,503	10,503
Thereafter	–	16,533	16,533
Total payments	$ 2,190	129,079	131,269
Less amount representing interest	153		
Present value of capitalized lease payments with a weighted interest rate of 7.72 %	$ 2,037		

The Company assumed several capitalized leases from recent acquisitions for machinery and equipment, at a cost of $5,010, $7,480 and $8,899 for the periods ended December 31, 2001, 2000 and 1999, respectively. The amortization of these capital leases is included in depreciation expense. Accumulated amortization was $2,038, $3,312 and $3,619 in 2001, 2000 and 1999, respectively.

Rental expense under operating leases was $39,072, $36,392 and $28,407 in 2001, 2000 and 1999, respectively.

In December 1995, the Company and four other carpet manufacturers were added as defendants in a purported class-action lawsuit, In re Carpet Antitrust Litigation, pending in the United States District Court for the Northern District of Georgia, Rome Division. The amended complaint alleges price-fixing regarding polypropylene products in violation of Section One of the Sherman Act. In September 1997, the Court granted the plaintiffs' motion to certify the class. In October 1998, two plaintiffs, on behalf of an alleged class of purchasers of nylon carpet products, filed a complaint in the United States District Court for the Northern District of Georgia against the Company and two of its subsidiaries as well as certain competitors. The complaint alleges that the Company acted in concert with other carpet manufacturers to restrain competition in the sale of certain nylon carpet products. The Company has filed an answer, denied the allegations in the complaint and set forth its defenses.

On August 11, 2000, the Company presented to the Court the terms of an agreement in principle to settle these two cases. On February 5, 2001, the Court dismissed all claims against the Company and granted final approval to the settlement. Under the terms of the settlement agreement, the Company contributed $13,500 to a settlement fund to resolve price-fixing claims brought by a class of purchasers of polypropylene carpet and a proposed settlement class of purchasers of nylon carpet. The Company recorded a charge of $7,000 in the third quarter of 2000, in connection with the lawsuit. This was in addition to $6,500 accrued in earlier periods. The Company denies all liability and wrongdoing and has agreed to settle these claims in order to avoid the costs of further litigation.

The Company is a party to two consolidated lawsuits captioned Gaehwiler v. Sunrise Carpet Industries, Inc. et al. and Patco Enterprises, Inc.

December 31, 2001, 2000 and 1999 (in thousands, except per share data)

v. Sunrise Carpet Industries, Inc. et al., both of which were filed in the Superior Court of the State of California, City and County of San Francisco in 1996. Both complaints were brought on behalf of a purported class of indirect purchasers of polypropylene carpet in the State of California and seek damages for alleged violations of California antitrust and unfair competition laws. In February 1999, a similar complaint was filed in the Superior Court of the State of California, City and County of San Francisco, on behalf of a purported class based on indirect purchasers of nylon carpet in the State of California and alleges violations of California antitrust and unfair competition laws. The complaints described above do not specify any specific amount of damages, but do request injunctive relief and treble damages plus reimbursement for fees and costs. The Company has reached an agreement to settle the lawsuits and is in the process of finalizing documentation to be presented to the court for approval. The settlement amount has been recorded in accrued expenses.

12. Consolidated Statements of Cash Flows Information

Supplemental disclosures of cash flow information are as follows:

	2001	2000	1999
Net cash paid during the year for:			
Interest	$ 31,789	39,866	37,740
Income taxes	$ 73,498	74,592	120,371

13. Other income and expense

Other income and expense are as follows:

	2001	2000	1999
Miscellaneous income	$ 1,826	1,218	3,399
Miscellaneous expense	3,966	2,010	2,607
Amortization expense	3,814	3,650	3,058
	$ 7,780	5,660	5,665

14. Quarterly Financial Data (Unaudited)

The supplemental quarterly financial data are as follows:

	Quarters Ended			
	March 31, 2001	June 30, 2001	September 29, 2001	December 31, 2001
Net sales	$ 777,339	864,958	907,850	895,798
Gross profit	177,322	216,154	219,424	220,002
Net earnings	27,206	46,466	55,727	59,193
Basic earnings per share	0.52	0.89	1.06	1.12
Diluted earnings per share	0.51	0.88	1.05	1.11

	Quarters Ended			
	April 1, 2000	July 1, 2000	September 30, 2000	December 31, 2000
Net sales	$ 799,403	890,980	875,765	837,886
Gross profit	190,563	215,882	214,220	202,184
Net earnings	33,997	47,203	42,137	39,262
Basic earnings per share	0.61	0.88	0.79	0.75
Diluted earnings per share	0.61	0.87	0.79	0.74

Independent Auditors' Report

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, 2001, and 2000, 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, 2001. 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2001, and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Atlanta, Georgia
February 1, 2002, except for the fourth paragraph of note 2 as to which the date is March 20, 2002

Management's report

The management of Mohawk Industries, Inc. is responsible for the integrity and objectivity of the consolidated financial statements. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America. Some of the amounts included in these consolidated financial statements are estimates based upon management's best judgement of current conditions and circumstances. Management is also responsible for preparing other financial information included in the annual report.

The Company's management depends on the Company's internal controls to assure itself of the reliability of the financial statements. The internal controls are designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Periodic reviews of internal controls are made by management and the internal audit function, and corrective action is taken if needed.

The Audit Committee of the Board of Directors, consisting of outside directors, provides oversight of financial reporting. The Company's internal audit function and independent auditors meet with the Audit Committee to discuss financial reporting and internal control issues and have full and free access to the Audit Committee.

The consolidated financial statements have been audited by the Company's independent auditors and their report is presented above. The independent auditors are approved each year by the Audit Committee and the Board of Directors.

Stockholder Information

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Independent auditors
KPMG LLP
Atlanta, GA

Corporate Counsel
Alston & Bird LLP
Atlanta, GA

Transfer Agent and Registrar
First Union National Bank
Corporate Trust Client Services
1525 West W.T. Harris Blvd.
Charlotte, North Carolina 28288-1153
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Publications
The Company's Annual Report, Proxy Statement, Form 10-K and 10-Q reports are available with-out charge and can be ordered via our stockholder communications service at 1-800-625-7721 or via the Internet at www.mohawkind.com. Written requests should be sent to:

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

Product Inquiries
For more information about Mohawk's products, call toll-free: 1-800-622-6227

Investor / Analyst Contact
For additional information about Mohawk, please contact:

John D. Swift
Chief Financial Officer
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P.O.Box 12069
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Annual Meeting of Stockholders
The Annual Meeting of Stockholders of Mohawk Industries, Inc. will be held at the Company's headquarters on South Industrial Boulevard in Calhoun, Georgia, on Thursday, May 16, 2002 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

2001	High	Low
First Quarter	$ 32.60	25.50
Second Quarter	35.85	27.91
Third Quarter	47.13	29.85
Fourth Quarter	55.55	35.90

2000	High	Low
First Quarter	$ 26.00	18.94
Second Quarter	26.25	20.50
Third Quarter	27.81	21.13
Fourth Quarter	29.13	19.06

Common Stockholders of Record
As of February 28, 2002, there were 358 common stockholders of record.

Environmental Awareness
Mohawk supports environmental awareness by encouraging recycling, waste management and energy conservation in its business practices and operating procedures.

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

Partially printed on recycled paper.

Design : Lucid Partners, Inc./Atlanta **Photography:** Studio Burns **Printing:** Color Graphics, Inc./Atlanta

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