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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[Mark One]

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 01-19826

MOHAWK INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	52-1604305
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P. O. Box 12069, 160 S. Industrial Blvd., Calhoun, Georgia (Address of principal executive offices)	30701 (Zip Code)

Registrant's telephone number, including area code: (706) 629-7721

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. [_]

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant (28,444,916 shares) on March 15, 2002 was $1,845,221,701. The aggregate market value was computed by reference to the closing price of the Common Stock on such date.

Number of shares of Common Stock outstanding as of March 15, 2002: 52,845,686 shares of Common Stock, $.01 par value.

PART I

Item 1. Business

General

Mohawk Industries, Inc. ("Mohawk" or the "Company," a term which includes the Company and its subsidiaries, including its primary operating subsidiaries, Mohawk Carpet Corporation, Aladdin Manufacturing Corporation and Dal-Tile International Inc. ("Dal-Tile")) is the leading producer of floorcovering products for residential and commercial applications in the United States. The Company is the second largest carpet and rug manufacturer, and a leading manufacturer, marketer and distributor of ceramic tile and natural stone, in the United States. On a pro forma basis after giving effect to the merger with Dal-Tile, the Company had annual net sales in 2001 of approximately $4.5 billion.

Through the Company's carpet and rug business, the Company designs, manufactures and markets carpet and rugs in a broad range of colors, textures and patterns and is a leading producer of woven and tufted broadloom carpet and rugs for principally residential applications. The Company positions its products in all price ranges and emphasizes quality, style, performance and service. The Company is widely recognized through its premier brand names, which include "Mohawk," "Aladdin," "Mohawk Home," "Bigelow," "Bigelow Commercial," "Custom Weave," "Durkan Commercial," "Durkan Patterned Carpets," "Goodwin Weavers," "Helios," "Horizon," "Karastan," "Karastan Contract," "Mohawk ColorCenter," "Mohawk Commercial," "Mohawk Floorscapes," "Newmark Rug," "Townhouse," "World" and "WundaWeve." The Company markets and distributes its carpet and rug products through over 30,000 customers, which include primarily independent carpet retailers, home centers, mass merchandisers, department stores, commercial dealers and commercial end users. Some products are also marketed through private labeling programs. The Company's carpet and rug operations are vertically integrated from the extrusion of resin and post-consumer plastics into fiber, to the conversion of fiber into yarn and to the manufacture and shipment of finished carpet and rugs.

Through the Company's ceramic tile business, it designs, manufactures and markets a broad line of wall, floor, quarry and mosaic tile products used in the residential and commercial markets for both new construction and remodeling. Most of the Company's ceramic tile products are marketed under the "daltile" and "American Olean" brand names. The Company's ceramic tile business is organized into three strategic business units: company-operated sales and service centers, independent distributors and home center retailers. The Company's company-operated sales center unit maintains over 200 sales and service centers in the United States, Canada and Puerto Rico. The Company's independent distributor unit distributes the American Olean brand through approximately 200 independent distributor locations and five company-operated sales and service centers serving a variety of residential and commercial customers. The Company's home center retailer unit supplies products to more than 2,000 home center retail outlets operating in the do-it-yourself and buy-it-yourself markets. Each business unit has a dedicated sales force supporting that unit. Additionally, the Company has showroom and design centers in Atlanta, Georgia and Dallas, Texas, where customers of local builders, remodelers, architects, designers and contractors may view and select ceramic tile and natural stone for their building projects.

The Company recently acquired a significant portion of its ceramic tile business in its merger with Dal-Tile. Initially, the Company will operate its ceramic tile business as a stand-alone entity and will not make significant changes to integrate the operations with its existing operations. The Company's management has begun to study the many opportunities to assimilate Dal-Tile's ceramic tile business and realize synergies. The Company will continue to review operations, systems and procedures to establish the most efficient operation possible.

The Dal-Tile Acquisition

On March 20, 2002, the Company completed its acquisition of Dal-Tile and

Dal-Tile merged with and into Maverick Merger Sub, Inc., the Company's wholly owned subsidiary. Maverick Merger Sub was the surviving corporation of the merger and was renamed Dal-Tile International Inc. The aggregate consideration paid to Dal-Tile stockholders at closing, including holders of options to purchase Dal-Tile common stock, consisted of approximately $692 million in cash, approximately 12.9 million shares of the Company's common stock and options to purchase approximately 2.1 million shares of the Company's common stock. In connection with the merger, the Company also paid costs of approximately $21 million and repaid or assumed approximately $198 million of Dal-Tile's outstanding debt.

The Company believes that the acquisition of Dal-Tile will give it the opportunity to:

- combine Mohawk's current efforts in the hard-flooring business with Dal-Tile's larger, more established ceramic tile and natural stone business;
- use Mohawk and Dal-Tile's existing distribution channels to increase sales of both carpets and hard floorcoverings;
- further develop Mohawk's various brands and increase sales by distributing its products through Dal-Tile's distribution network;
- reduce overhead and other costs by adding Dal-Tile's distribution network to Mohawk's logistical and distribution system;
- reduce manufacturing costs and increase quality by identifying manufacturing best practices; and
- reduce general, administrative, overhead and other miscellaneous costs by spreading fixed costs over a larger business.

The Company financed the Dal-Tile acquisition with $600 million of borrowings under a bridge credit facility, borrowings of approximately $126 million under its existing revolving credit facility and $110 million under its on-balance sheet asset financing securitization facility and the assumption of Dal-Tile's existing $75 million on-balance sheet receivables securitization facility.

Industry

The floorcovering industry has grown from $12.4 billion in sales in 1992 to $20.1 billion in 2000. In 2000, the primary categories of the United States floorcovering industry were carpet and rugs (63%), ceramic tile (11%), vinyl and rubber (14%), hardwood (8%) and laminate (4%). Each of these categories has been positively impacted by:

- U.S. population growth, requiring new and renovated housing and commercial space;
- increasing average house size (up approximately 30% since 1980); and
- growth in vacation homes.

Compound average growth rates for units sold (measured by square yards) for each of the floorcovering categories above for the period from 1992 through 2000 have exceeded the growth rate of the 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.

According to the most recent figures available from the United States

Department of Commerce, worldwide carpet and rug sales volume of American manufacturers and their domestic divisions was 2.0 billion square yards in 2000. This volume represents a market in excess of approximately $12 billion. The overall level of sales in the carpet industry is influenced by a number of factors, including consumer confidence, spending for durable goods, interest rates, turnover in housing, the condition of the residential and commercial construction industries and the overall strength of the economy.

Broadloom carpet, defined as carpet over six feet by nine feet in size, represented 80% of the amounts shipped by the industry in 2000. Tufted broadloom carpet, a category that refers to the manner of construction in

addition to size, represented 83.5% of the broadloom industry volume shipped in 2000. The broadloom carpet industry has two primary markets, residential and commercial, with the residential market making up approximately 69% of industry amounts shipped in 2000 and the commercial market comprising approximately 31%. An estimated 47% of industry shipments are made in response to replacement demand, which usually involves exact yardage, or "cut order," shipments that typically provide higher profit margins than sales of carpet sold in full rolls. Because the replacement business generally involves higher quality carpet cut to order by the manufacturer, rather than the dealer, this business tends to be more profitable for manufacturers than the new construction business.

The United States ceramic tile industry shipped 2.3 billion square feet, or $2.1 billion, in 2000, which represents an 8.1% and 5.9% growth rate over 1999, respectively. The compound average growth rate of dollar shipments was 9.5% from 1996 through 2000 for ceramic tile. Sales in the ceramic tile industry are influenced by the same factors that influence the carpet industry, including consumer confidence, spending for durable goods, interest rates, turnover in housing, the condition of the residential and commercial construction industries and the overall strength of the economy.

Glazed floor and wall tile represented 86% of the total industry dollars shipped in 2000. The balance of the industry 2000 dollar shipments are represented by unglazed mosaic and porcelain, 11.0% of total, and quarry tile, 3.0% of total. The ceramic tile industry's two primary markets, residential applications and commercial applications, represent 67.6% and 32.0% of the industry total, respectively. Of the total residential market, 62% of the dollar shipments are for new construction.

Competitive Strengths and Business Strategies

Competitive Strengths

The Company's competitive strengths include:

Strong Brand Equity. The Company's collection of national brands represents one of the strongest portfolios in the floorcovering industry. The Company has built strong brand equity by being a leader in service, quality and product innovation in its industry. The Company's established brands also provide it with a powerful platform for growth through new products and product line extensions.

Position as Market Leader. The Company is the second largest carpet and rug manufacturer in the United States and, as a result of its recent acquisition of Dal-Tile, it is now a leading manufacturer, marketer and distributor of ceramic tile and natural stone in the United States.

Superior Distribution System. The Company believes it provides superior product availability and faster delivery for customers of its carpet and rug business through its hub-and-spoke distribution network consisting of nine regional warehouses and over 40 smaller satellite distribution centers. The Company's distribution centers are supplied and serviced by its transportation fleet, which operates over 750 trucks and trailers. The Company's use of

advanced management information systems allows it to monitor a transaction from the customer order through manufacturing to shipment of the finished product and to operate its separate facilities in a more integrated fashion, resulting in faster delivery times, lower costs and increased operational efficiencies. The Company's acquisition of Dal-Tile added over 200 customer service centers, as well as three regional distribution centers, located strategically throughout the United States, which provides it with opportunities to expand its distribution capabilities.

Strong Customer Service. The Company is focused on building and maintaining long-term relationships with its customers. The Company assists its customers in selling its products and expanding their businesses by providing differentiated products and presentations. The Company also provides additional services that enhance its relationships with its customers, such as merchandising, training and administrative support programs. As a result of the Company's efforts, it was honored to be voted "Best Overall Carpet Manufacturer" and "Best Overall Tile Manufacturer" by floorcovering retailers in the Floor Covering News Award of Excellence as part of Surfaces 2001, a floorcovering industry tradeshow. In addition, in 2001, commercial designers gave the Company's Mohawk commercial brands a strong rating by placing them in one of the top three places for

service, quality, design, value and performance. No other commercial carpet manufacturer achieved as high a rating in all categories.

Total Floorcovering Supplier. The Company's product selections include hundreds of styles of carpets and rugs and ceramic tile in a broad range of colors, textures and patterns in all price ranges. Combining Dal-Tile's extensive ceramic and stone product offerings with Mohawk's products will provide the Company's customers with one of the broadest product offerings in the industry. This broad range of product offerings provides a foundation for the Company's goal of becoming the one-stop supplier of floorcovering products for residential and commercial applications.

Experienced Management. The Company's experienced management team has driven its successful performance by emphasizing customer satisfaction, operating efficiency, cost control, acquisition integration and product design. In 2002, the Company was named Fortune magazine's Most Admired Company in the Textiles category.

Business Strategies

The Company's business strategies are designed to take advantage of its competitive strengths while maintaining its focus on meeting or exceeding its customers' requirements. As a part of the Company's overall strategy, it has implemented the following marketing, operations and acquisition strategies designed to increase market share and achieve profitable growth through a focus on high-quality, low-cost production offered with superior service at competitive prices.

Marketing Strategy. The Company's marketing strategy includes initiatives designed to more fully develop and support its independent dealer base in order to increase the demand for its products. Key elements of the Company's marketing strategy include:

- continuing to offer high-value, quality products;
- using advertising and marketing programs to leverage the substantial brand equity of the Company's products, with a particular focus on high-growth product categories;
- seeking to develop marketing programs with the Company's customers;
- dedicating separate sales forces to each of the Company's major distribution channels; and

. offering merchandising, training and administrative support programs to the Company's customers on a national level to support product sales and assist in expanding their businesses.

Operations Strategy. The Company's operating strategy is to capitalize on its competitive strengths to be both highly efficient and cost effective in its manufacturing, marketing, distribution and administrative services. To this end, the Company has structured its manufacturing operations to include the vertical integration of production facilities using low-cost manufacturing techniques with a superior distribution network. The Company's carpet and rug operations are vertically integrated from the extrusion of resin into fiber, to the conversion of fiber into yarn and to the manufacture and distribution of finished carpet and rugs. The Company's ceramic tile operations are vertically integrated from the production of frit and manufacturing supplies to the manufacture of ceramic tile at modern facilities in both the United States and Mexico to the distribution of finished ceramic tile through its three separate distribution channels. The Company continues to evaluate enhancements in manufacturing technology, operational procedures and management information systems and to its hub-and-spoke distribution system where the Company believes the investments will allow it to improve operating efficiencies or otherwise reduce costs or improve customer service.

Acquisition Strategy. The Company's acquisition strategy is to continue to explore growth through acquisition opportunities in an effort to expand its product offerings, reduce its costs of production through vertical integration, and maintain its position as a leading producer of floorcovering products for residential and commercial applications. The Company regularly evaluates acquisition opportunities that would help it meet these goals.

The Company's management team has considerable experience in completing acquisitions. Since the Company's initial public offering in 1992 (the "Initial Public Offering"), and prior to its merger with Dal-Tile, the Company completed and integrated twelve acquisitions that collectively have (i) broadened price points; (ii) increased the Company's vertical integration; (iii) expanded distribution capabilities; (iv) facilitated entry into niche or complementary businesses, such as rugs, decorative throws, bedspreads, coverlets and ceramic tile and (v) added to the depth of the Company's management team.

Sales and Distribution

Carpet and Rug Business.

The Company designs, manufactures and markets hundreds of styles of carpet and rugs in a broad range of colors, textures and patterns. The carpet and rug division positions its products in all price ranges and emphasizes quality, style, performance and service. The Company is widely recognized through its premier brand names, including "Mohawk," "Aladdin," " Mohawk Home," "Bigelow," "Bigelow Commercial," "Custom Weave," "Durkan Commercial," "Durkan Patterned Carpets," "Goodwin Weavers," "Helios," "Horizon," "Karastan," "Karastan Contract," "Mohawk ColorCenter," "Mohawk Commercial," "Mohawk Floorscapes," "Newmark Rug," "Townhouse," "World" and "WundaWeve." The Company markets and distributes carpet and rugs through over 30,000 customers, which include independent carpet retailers, home centers, mass merchandisers, department stores, commercial dealers, and commercial end users. Some products are also marketed through private labeling programs.

Sales to residential customers represent a significant portion of the total industry and the majority of the Company's carpet and rug sales. The Company currently markets approximately 650 residential products to its customers, which include independent retailers, department stores, mass merchandisers, buying groups and building and tenant improvement contractors.

The Company has positioned its premier residential carpet and rug brand

names across all price ranges. "Mohawk," "Custom Weave," "WundaWeve," "Bigelow," "Galaxy," "Horizon," "Helios" and "Karastan" are positioned to sell primarily in the medium-to-high retail price range in the residential broadloom market, and these lines are also sold under private labels. These lines have substantial brand name recognition among carpet dealers and retailers with the "Karastan," "Mohawk" and "Bigelow" brands having the highest consumer recognition in the industry. "Karastan" is the leader in the exclusive high-end market. The "Aladdin" and "World" brand names compete primarily in the low-to-medium retail price range.

The Company offers intensive marketing and advertising support through dealer programs like Karastan Gallery, Mohawk ColorCenter and Mohawk Floorscapes. These programs offer varying degrees of support to dealers in the form of sales and management training, merchandising systems, exclusive promotions and assistance in certain administrative functions such as consumer credit, advertising and insurance.

The Company's carpet and rug business generally markets its residential products through its residential sales forces that report to common management on a regional basis. All of the regional vice presidents report to one senior vice president of sales. Each region has responsibility for sales, distribution and inventory management in its region, all of which is coordinated by the senior vice president of sales at a national level. The inventory management on a regional level is accomplished by a hub-and-spoke distribution network. In this system, the Company's trucks generally deliver carpet from mill sites to regional warehouses. From there, it is shipped to local distribution warehouses, then to retailers.

The commercial customer base is divided into several groups: educational institutions, corporate office space, hospitality facilities, retail space and health care facilities. In addition, the Company produces and sells carpet for the export market, the federal government and other niche businesses. Different purchase decision makers and decision-making processes exist for each group.

The sales distribution channels for the commercial products have been divided into five groups based upon traditional marketing paths: main street, dealer negotiated, performance specified, fashion specified and hospitality and lodging.

The main street channel traditionally offers lower price point carpets sold through retail dealers under the "Aladdin" brand and is distributed through the residential sales force. Products sold into this channel are service driven and price sensitive.

The dealer-negotiated channel is serviced through the "Bigelow Commercial" brand. In this channel, large commercial flooring contractors play the most important role in product selection on negotiated project work such as leased commercial office and retail space. This channel is relationship driven and service oriented where top performers are rewarded with a higher percentage of a contractor's discretionary business.

The performance specified channel is serviced through the "Mohawk Commercial" and "Mohawk Modular" brands, where long-term appearance retention and durability are key buyer criteria for more demanding project environments such as auditoriums, airports, schools, institutional buildings and high traffic retail outlets. Woven products are strategically advantaged over tufted products in this market channel due to differentiated performance characteristics that are more highly valued in high traffic installations.

The "Karastan Contract" and "Durkan Commercial" brands are sold into the fashion specified channel where distinctive styling and custom product variations are more commonly required for project work. This market channel, almost entirely specified through architects and designers, includes end use installations such as higher end corporate offices, law firms, boutique retail,

and high profile institutional projects. Because of the distinctive styling and tailored pattern detail that can be achieved through the weaving process, woven styling is highly valued among the design community.

Both the performance and fashion specified sales groups also solicit business from large end user accounts that typically make product selections centrally for their company through internal facilities managers and purchasing agents.

The hospitality and lodging channel markets the "Durkan Hospitality" brand that specializes in complex printed carpets commonly seen in higher end hotels, resort facilities and casinos. This channel is generally specified through a designer but ultimately sold through independent purchasing agents that consolidate interior furnishings purchase decisions for hotel property owners. Durkan Hospitality has historically offered a premium print product due to an extensive pattern offering distinguished by visually sharper and cleaner color separation in the final product.

The Company believes its ability to make woven carpet under the Mohawk Commercial and Karastan Contract brand names in large volume for commercial applications differentiates it from other manufacturers, most of which produce tufted carpet almost exclusively. Woven carpet, and specifically the Company's woven interlock products, sell at higher prices than tufted carpet and generally produce higher profit margins. The Company believes that it is one of the largest producers of woven carpet in the United States and that it has several carpet weaving machines and processes that no other manufacturer has, thereby allowing it to create carpet to meet specifications that its competitors cannot duplicate.

The machine-made rug market is currently the fastest growing product line of the U.S. carpet and rug industry with an annual growth rate estimated to be approximately 5% in 2000. Much of this growth has occurred at the low-to-medium retail price ranges. The distribution channels for the rug market primarily include department stores, mass merchants, floorcovering stores, catalog stores, home centers and furniture stores.

The Company's product lines include a broad array of rugs. The Karastan brand name rugs represent the higher retail price ranges with one of the most valued brand names in the industry and are distributed through specialty stores, along with department and furniture stores. These are higher quality woven wool rugs manufactured primarily on Axminster looms.

The Company emphasizes the fast growing lower retail price ranges through the Mohawk Home Division. The rugs sold are primarily woven and tufted polypropylene area rugs, tufted border rugs and decorative mats. These products are distributed primarily through mass merchants and home centers under the brands Mohawk Home and American Weavers. Mohawk Home also distributes blankets, pillows, bedspreads and throws to mass merchants and home centers.

The Company also sells bath mats, washable scatter rugs and other woven textile products to the rug market through its Townhouse, Newmark, Goodwin Weavers and Aladdin brand names. The Aladdin products are tufted nylon and polyester products, which are distributed through department stores and mass merchants. Both the Townhouse and Newmark products are high-end washable cotton bath rugs that are distributed to the luxury market of department stores, specialty stores, and catalog businesses. The Goodwin Weavers products include blankets, pillows, bedspreads and throws, which are distributed through catalogs and trade shows.

Ceramic Tile Business.

The Company's ceramic tile and natural stone products are distributed through three separate distribution channels consisting of company-operated sales centers, independent distributors and home center retailers. The business

is organized into three strategic business units to address the specific customer needs of each distribution channel. Each strategic business unit is supported by a dedicated sales force.

The Company has three regional distribution centers strategically located in California, Maryland and Texas. These centers help the Company maintain high-quality customer service in each distribution channel by focusing on shorter lead times, increased order fill rates and improved on-time deliveries to its customers. In addition, these regional distribution centers enhance the Company's ability to plan and schedule production and to manage inventory requirements.

The Company has state-of-the-art showrooms and design centers in Atlanta, Georgia and Dallas, Texas. These showrooms are dedicated primarily to the residential business and provide a place for customers of local builders, remodelers, architects, designers and contractors to view and select ceramic tile for their building projects. The showroom is staffed with design professionals knowledgeable in wall and floor tile applications, as well as current design and decorating trends.

Company-Operated Sales Centers. The Company's network of over 200 company-operated sales centers located in the United States, Canada and Puerto Rico distributes primarily the daltile brand product, serving customers in all 50 states and portions of Canada and Puerto Rico. In 2001, a majority of the Company's ceramic tile and natural stone sales were made through company-operated sales centers.

In addition to sales center staff, this distribution channel is supported by approximately 131 sales associates servicing both commercial and residential markets. The daltile brand also has a group of 44 sales representatives dedicated exclusively to the architectural community. The architectural community exercises significant influence over the specification of products utilized in commercial applications.

The Company has designed each sales center to serve as a "one-stop" source that provides customers with one of the ceramic tile industry's broadest product lines--a complete selection of glazed floor tile, glazed wall tile, glazed and unglazed ceramic mosaic tile, porcelain tile, quarry tile and stone products, as well as allied products. In addition to products manufactured by the Company's ceramic tile business, the sales centers carry a selection of products purchased from other manufacturers to provide customers with a broader product line. The sales centers generally range in size from 6,000 to 30,000 square feet, with a typical center occupying approximately 12,000 square feet. The sales centers consist of a showroom dedicated to displaying the product offerings together with office space and a warehouse in which inventory is stocked. Sales center displays and inventories are designed to reflect local consumer preferences. The sales centers generally are located in light industrial areas rather than retail areas and generally occupy moderately priced lease space under 3 to 10 year leases.

As of March 1, 2002, the sales center distribution system included 217 Dal-Tile sales centers and five American Olean sales centers, four stone slab operations and two residential showrooms, which provide sales and merchandising support to the sales centers. In the future, the Company may open additional sales centers in areas where factors such as population, construction activity, local economic conditions and usage of tile create an attractive environment for a sales center. From time to time, sales centers are closed in locations where economic and competitive conditions have changed.

Independent Distributors. The independent distributor channel is serviced through a dedicated business unit that includes 10 regional sales managers to serve the particular requirements of its customers. Currently, the American Olean brand is distributed through approximately 200 independent distributor locations and five company-owned sales centers that service a variety of

residential and commercial customers. The Company is focused on increasing its presence in the independent distributor channel, particularly in tile products that are most commonly used in flooring applications.

Home-Center Retailers. The Company believes its Dal-Tile division is one of the U.S. ceramic tile industry's largest suppliers to the do-it-yourself and buy-it-yourself markets through home center retailers, such as The Home Depot and Lowe's, serving more than 2,000 home center retail outlets nationwide. The home center retailer channel has provided this segment with new sources of sales over the past five years and is expected to continue presenting important growth opportunities.

Brands and Marketing Programs. The Company believes that it has two of the leading brand names in the U.S. ceramic tile industry--daltile and American Olean. The roots of the daltile and American Olean brand names date back approximately fifty and seventy-five years, respectively.

The company-operated sales centers distribute primarily the daltile brand, which includes a fully integrated marketing program, emphasizing a focus on fashion. The product offering is based on the Company's assessment of the needs of professional installers, designers, architects and builders, as well as a review of competitive products. The marketing program includes public relations support, merchandising (displays/sample boards, chip chests), literature/catalogs and an Internet website.

The American Olean brand consists of a full product offering and is distributed primarily through independent distributors. The brand is supported by a fully integrated marketing program, including public relations efforts, displays, merchandising (sample boards, chip chests), literature/catalogs and an Internet website.

Advertising and Promotion

The Company promotes its products in the form of co-operative advertising, point-of-sale displays and marketing literature provided to assist in marketing various carpet and ceramic tile styles. The Company also continues to rely on the substantial brand name identification of its product lines. The cost of producing display samples, a significant promotional expense, is partially offset by sales of samples and support from raw materials suppliers in the carpet and rug business.

Manufacturing and Operations

Carpet and Rugs Business. The Company's manufacturing operations are vertically integrated and include the extrusion of resin and post-consumer plastics into polypropylene, polyester and nylon fiber, yarn processing, tufting, weaving, dyeing, coating and finishing. Capital expenditures are primarily focused on increasing capacity, improving productivity and reducing costs. Over the past three years, the Company has incurred significant capital expenditures that have helped increase manufacturing efficiency and capacity, and improve overall cost competitiveness.

Ceramic Tile Business. The Company operates nine tile manufacturing facilities with an aggregate annual manufacturing capacity of 527 million square feet. Over the past three years, the Company has invested significantly in capital expenditures, principally for new plants and state-of-the-art fast-fire equipment to increase manufacturing capacity, improve efficiency and develop new capabilities. Operating capacity has expanded from 378 million square feet to 527 million square feet during the same period.

The ceramic tile business commenced operations in Mexico at the Company's Monterrey facility in 1955 and since then has been manufacturing products at this facility for U.S. and Mexican consumption. The Monterrey location contains five distinct manufacturing facilities, three of which produce ceramic tile, one of which produces frit (ground glass) and one of which produces refractories.

The Company believes that its manufacturing organization offers competitive advantages due to its ability to manufacture a differentiated product line consisting of one of the industry's broadest product offerings of colors, textures and finishes, as well as the industry's largest offering of trim and angle pieces and its ability to utilize the industry's newest technology. The Company seeks to maximize production at its lowest cost manufacturing facilities, continue ongoing improvements by implementing demonstrated best practices and continue to invest in manufacturing technology to lower its costs and develop new capabilities.

Raw Materials and Suppliers

Carpet and Rugs Business. The principal raw materials the carpet and rug business uses are nylon staple fibers, nylon filament fibers, raw wool, polypropylene filament fibers, polyester staple fibers, polypropylene, nylon and polyester resins and post-consumer plastics, synthetic backing materials, polyurethane and latex and various dyes and chemicals. The Company obtains all of its major raw materials from independent sources and all of its externally purchased nylon fibers from four major suppliers: E.I. du Pont de Nemours and Company, Solutia, Inc., BASF Corporation and Honeywell, Inc. Most of the fibers the Company uses in carpet production are treated with stain-resistant chemicals. The carpet and rug business has not experienced significant shortages of raw materials in recent years. The Company believes that the loss of any one supplier to its carpet and rug business would not have a material effect on its business and that an alternative supply arrangement could be made in a relatively short period of time.

Ceramic Tile Business. In the Company's ceramic tile business, the Company manufactures wall tile primarily from talc and clay; floor tile and glazed mosaic tile primarily from impure nepheline syenite and clay; unglazed ceramic tile primarily from pure nepheline syenite and clay; and unglazed quarry tile from clay. During the fourth quarter of 1999, Dal-Tile sold its talc mining operation, along with the related mineral rights, to Wold Talc Company, Inc. In conjunction with the sale, Dal-Tile entered into a long-term supply agreement for talc requirements with Wold Talc.

The Company owns long-term clay mining rights in Alabama, Kentucky and Mississippi that satisfy nearly all of its clay requirements for producing unglazed quarry tile. The Company purchases a number of different grades of clay for the manufacture of its non-quarry tile. The Company believes that there is an adequate supply of all grades of clay and that all are readily available from a number of independent sources.

The Company purchases all of its impure nepheline syenite requirements from Minnesota Mining and Manufacturing Company. The Company believes, however, that there is an adequate supply of impure nepheline syenite, which can be obtained from other sources. Pure nepheline syenite is purchased from Unimin Corporation, which is the only major supplier of this raw material in North America. If there were a supply interruption of pure nepheline syenite, feldspar could be used in the production of mosaic tile. Feldspar can be purchased from a number of sources at comparable cost to pure nepheline syenite.

Glazes are used on a significant percentage of the Company's manufactured tile. Glazes consist of frit (ground glass), zircon, stains and other materials, with frit being the largest ingredient. The Company manufactures approximately 56% of its frit requirements.

Competition

Carpet and Rugs Business. The carpet and rugs industry is highly competitive. Based on industry publications, the top 20 North American carpet and rug manufacturers (including their American and foreign divisions) in 2000 had worldwide sales in excess of $16.8 billion, and the top 20 manufacturers in 1990 had sales in excess of $6 billion. In 2000, the top five manufacturers had worldwide sales in excess of $11.8 billion. With 2001 net sales of approximately $3.5 billion, the Company believes it is the second largest producer of carpet

and rugs (in terms of sales volume).

Ceramic Tile Business. The Company estimates that over 100 tile manufacturers, more than half of which are based outside the United States, compete for sales of ceramic tile to customers located in the United States. Although the U.S. ceramic tile industry is highly fragmented at both the manufacturing and distribution levels, the Company believes it is the largest manufacturer, distributor and marketer of ceramic tile in the United States and one of the largest in the world.

The principal methods of competition within the carpet and rugs and ceramic tile industries are price, style, quality and service. In each of the Company's markets, price competition and market coverage are particularly important because there is relatively little perceived differentiation among competing product lines. The Company's recent investments in modernized, advanced manufacturing and data processing equipment, the extensive diversity of equipment in which the Company has invested and its marketing strategy contribute to its ability to compete primarily on the basis of performance, quality, style and service, rather than just price.

In each of the Company's carpet and rug and ceramic tile businesses, the Company faces competition from a large number of domestic and foreign manufacturers and independent distributors of floorcovering products. Some of the Company's existing and potential competitors may be larger and have greater resources and access to capital than the Company 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 the Company's 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.

Trademarks

The Company uses several trademarks that it considers important in the marketing of its products, including "Aladdin," "American Olean(R)," "Alexander Smith(R)," "Bigelow(R)," "Bigelow Commercial," "Custom Weave" "daltile(R)," "Dal-Monte," "Durkan Commercial," "Durkan Patterned Carpets," "Goodwin Weavers," "Helios(R)," "Home Source," "Horizon(R)," "Karastan(R)," "Karastan Contract," "Mohawk(R)," "Mohawk ColorCenter(R)," "Mohawk Commercial," "Mohawk Floorscape," "Mohawk Home," "Tommy Mohawk(R)," "Townhouse(R)," "World(R)" and "WundaWeve(R)."

Sales Terms and Major Customers

The Company's sales terms are the same as those generally available throughout the industry. The Company generally permits its customers to return broadloom carpet and ceramic tile purchased from it within 30 days from the date of sale if the customer is not satisfied with the quality of the product. This return policy is consistent with the Company's emphasis on quality, style and performance and promotes customer satisfaction without generating enough returns to affect materially its operating results or financial position.

During 2001, no single customer accounted for more than 10% of Mohawk's total net sales. The Company believes the loss of one or a few major customers would not have a material adverse effect on its business.

Employees

As of March 1, 2002, after the merger with Dal-Tile, the Company employed approximately 31,350 persons, of which approximately 700 of its employees in the United States and approximately 3,000 of its employees in Mexico are members of unions. Other than with respect to these employees, the Company is not a party

to any collective bargaining agreements. Additionally, the Company has not experienced any strikes or work stoppages for over 20 years. The Company believes that its relations with its employees are good.

Item 2. Properties

The Company owns a 47,500 square foot headquarters office in Calhoun, Georgia on an eight acre site. The following table lists the principal manufacturing and distribution facilities owned by the Company:

Location	Primary Products or Purposes	Approx. Enclosed Area in Square footage
Dalton, GA	Carpet and rug manufacturing and warehousing	2,089,000
Monterrey, Mexico	Tile manufacturing, distribution and office	1,464,597
Dalton, GA	Carpet manufacturing, distribution and offices	1,103,200
Dalton, GA	Carpet and yarn manufacturing	1,101,600
Dublin, GA	Carpet manufacturing, warehousing and offices	831,000
Lyerly, GA	Carpet manufacturing and warehousing	820,000
Chatsworth, GA	Distribution center	812,075
Calhoun, GA	Carpet manufacturing and distribution center	792,000
Chatsworth, GA	Carpet manufacturing, warehousing and offices	787,800
Eden, NC	Carpet and rug manufacturing	784,200
Dallas, TX	Tile manufacturing, distribution and office	733,846
Jackson, TN	Tile manufacturing	655,211
Summerville, GA	Yarn extrusion	579,000
Eton, GA	Carpet manufacturing	577,205
Shannon, GA	Distribution center	567,000
Sugar Valley, GA	Rug manufacturing, warehousing and offices	472,500
Calhoun Falls, SC	Yarn manufacturing	425,000
Bennettsville, SC	Yarn manufacturing	412,000
Dalton, GA	Carpet manufacturing, distribution and offices	396,900
Dahlonega, GA	Yarn manufacturing	380,000
Landrum, SC	Weaving and finishing of carpet	350,000
Dalton, GA	Carpet manufacturing	342,000
Calhoun, GA	Distribution center	300,248
Chatsworth, GA	Sample manufacturing	291,800
Calhoun, GA	Textile and Rug Manufacturing	287,688
Olean, NY	Tile manufacturing	278,417
Fayette, AL	Tile manufacturing	276,467
Lewisport, KY	Tile manufacturing	270,836
Dalton, GA	Carpet dyeing	259,000
Chatsworth, GA	Yarn extrusion	257,800
Calhoun, GA	Rug manufacturing and warehousing	250,000
Summerville, GA	Sample manufacturing and distribution	235,000
Gettysburg, PA	Tile manufacturing	218,609
Dalton, GA	Carpet dyeing	216,000
Conroe, TX	Tile manufacturing	208,059
Calhoun, GA	Textile manufacturing, distribution and offices	207,432
Eden, NC	Carpet and rug distribution	194,000
Calhoun, GA	Mat manufacturing and warehouse	164,400
Dalton, GA	Rug manufacturing and offices	135,000
Dalton, GA	Sample storage and distribution	123,000
Chatsworth, GA	Warping, warehousing	112,121
Greenville, NC	Wool processing	103,000

The following table lists the Company's material leased office, manufacturing and warehouse facilities:

Location	Primary Products or Purposes	Approx. Enclosed Area in Square footage	Lease Term Through (1)
Dallas, TX	Distribution warehouse	472,500	Jan-2003
Los Angeles, CA	Distribution warehouse	410,515	Mar-2007
El Paso, TX	Tile manufacturing	366,876	Mar-2006
Baltimore, MD	Distribution warehouse	315,000	Feb-2007
Kensington, GA	Warehouse	277,484	May-2002

Calhoun, GA	Carpet manufacturing, Rug Distribution....	263,162	Mar-2006
Pembroke Park, FL	Distribution warehouse.....	258,270	Jul-2020
La Mirada, CA	Distribution warehouse.....	220,000	Jan-2011
Grand Prairie, TX	Distribution warehouse.....	202,890	Jun-2012
Bowlingbrook, IL	Distribution warehouse.....	201,959	Nov-2019
Glen Burnie, MD	Distribution warehouse.....	187,200	Mar-2012
Pompton Plains, NJ	Distribution warehouse.....	164,437	Jul-2011
Calhoun, GA	Rug warehouse.....	140,000	Dec-2003
Columbus, OH	Distribution warehouse.....	135,000	Sep-2004
Kent, WA	Distribution warehouse.....	120,950	Nov-2020
Romeoville, IL	Distribution warehouse.....	108,000	Sep-2004
Lathrop, CA	Distribution warehouse.....	101,112	Jan-2007
La Mirada, CA	Distribution warehouse.....	100,000	Jan-2011

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(1) Include renewal options exercisable by the Company.

The Company's properties are in good condition and adequate for its requirements. The Company also believes its principal plants are generally adequate to meet its production plans pursuant to its long-term sales goals. In the ordinary course of its business, the Company monitors the condition of its facilities to ensure that they remain adequate to meet long-term sales goals and production plans.

Item 3. Legal Proceedings

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

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

Environmental Matters

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

Two sites near Mohawk's Dallas facility in its Dal-Tile division are involved in Resource Conservation and Recovery Act ("RCRA") Part B post-closure

care cleanup projects proceeding under the oversight of the Texas Natural Resource Conservation Commission ("TNRCC"). In 1991, Dal-Tile and the predecessor to the TNRCC agreed to an administrative order (the "1991 Order") relating principally to the disposal by Dal-Tile of waste materials containing lead compounds in a gravel pit ("Elam") near the City of Mesquite's landfill in Dallas County and at a Dal-Tile-operated landfill located on Pleasant Run Road ("Pleasant Run") in Dallas County. Dal-Tile's closure plans for Elam and Pleasant Run were approved by the TNRCC, and remediation and other activities associated with the closures implemented. The TNRCC issued post-closure care permits for Elam and Pleasant Run in 2000. The Company expects to incur future costs in connection with post-closure at Elam and Pleasant Run. The Company believes that any such amounts will not have a material adverse effect on it.

In October 1994, Dal-Tile, Master-Halco, Inc. ("Master-Halco") (a manufacturing company not affiliated with Dal-Tile), certain third party individuals and the TNRCC agreed to an administrative order (the "1994 Order") relating to, among other things, investigation and remediation in connection with the alleged disposal of waste materials containing lead compounds at a gravel pit on Kleburg Road ("Walton") in Dallas. Pursuant to the 1994 Order, among other things, an administrative penalty of $213,200 was deferred pending timely and satisfactory completion of the requirements in the 1994 Order. Dal-Tile has completed certain required remediation and closure activities and in 2000 submitted a Closure Certification Report to the TNRCC for approval. Approval of the Closure Certification Report was received in June 2001. The TNRCC has informed the Company that a formal Post Closure Care Permit is not required. The Company is now performing Post Closure activities of the Walton site and expects to incur future costs in connection with this activity. The Company believes that any such amounts will not have a material adverse effect on it.

Dal-Tile has reported that the Texas environmental proceedings described above followed a related criminal investigation which led to the indictments and, in 1993, the convictions of a former owner and a former officer of Dal-Tile on federal charges of violating environmental laws, and that the U.S. Attorney's Office for the Northern District of Texas, which obtained the indictments, informed Dal-Tile on April 22, 1992 that, based on information in their possession, it had decided not to prosecute Dal-Tile for violations of environmental criminal statutes.

Dal-Tile has been named as a potentially responsible party under the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and similar state statutes with respect to the disposal of certain hazardous substances at various other sites in the United States including, without limitation, the Salford Quarry Superfund Site and the North Penn 6 Superfund Site. Based on currently available information, the Company believes that the ultimate allocation of costs associated with the investigation and remediation of these pending sites will not, in the aggregate, have a material adverse effect on it.

Numerous aspects of the Company's manufacturing operations require expenditures for environmental compliance. For example, the manufacture of carpet and tile require expenditures for compliance with laws and regulations governing air emissions, wastewater discharges, and the generation of solid and hazardous waste. Many of these manufacturing processes also require expenditures in order to comply with Occupational Safety and Health Administration ("OSHA") regulations with respect to potential employee exposure including operations that result in the accumulation of dust that contains silica. Expenditures required for compliance activities associated with environmental and OSHA compliance have not had, and are not expected to have, a material adverse effect on the Company.

In addition, in light of the lengthy manufacturing history of the Company's facilities, it is possible that additional environmental issues and related matters may arise relating to past activities which the Company cannot now

reliably predict, including tort liability and liability under environmental laws. For example, a number of the Company's facilities in the Dal-Tile division located in the United States used lead compounds in glaze materials. The Company's Mexican facilities continue to use lead compounds in their glaze materials on certain specially ordered tiles. Significant exposure to lead compounds may have adverse health effects. Although it is impossible to quantify the Company's liability, if any, in respect of these matters, including liability to individuals exposed to lead compounds, no claims relating to use of lead compounds or waste disposal matters are pending against it except as set forth above. In addition, the Company cannot now reliably predict the effect which future environmental regulation in the United States, Mexico and Canada could have on it.

As a result of a voluntary audit, the air operating permits for three of Mohawk's facilities in its Dal-Tile division located in Texas are in the process of being modified and voluntary Compliance Agreements with the TNRCC have been entered into. In conjunction with this activity, it was determined that air pollution control equipment will be required for certain emission sources at the Dallas and El Paso facilities. Further, in November 2001 the TNRCC issued a Notice of Violation ("NOV") to the El Paso facility alleging failure to install air pollution control equipment during a recent expansion. The NOV will be addressed as part of the permit modification process for the El Paso facility. The Company believes the expenditures associated with obtaining the permit modifications in Texas, including installation of the air pollution control equipment, will not have a material adverse effect on it.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders of the Company during the fourth quarter ended December 31, 2001.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Market for the Common Stock

The Company's common stock, $.01 par value per share (the "common stock") is quoted on the New York Stock Exchange ("NYSE") under the symbol "MHK." The table below shows the high and low sales prices per share of the Common Stock as reported on the NYSE Composite Tape, for each fiscal period indicated.

	Mohawk Common Stock	
	High	Low
2000		
First quarter	$ 26.00	18.94
Second quarter	26.25	20.50
Third quarter	27.81	21.13
Fourth quarter	29.13	19.06
2001		
First quarter	$ 32.60	25.50
Second quarter	35.85	27.91
Third quarter	47.13	29.85
Fourth quarter	55.55	35.90
2002		

First quarter (through March 15, 2002)	$ 68.10	50.50

As of March 15, 2002, there were approximately 360 holders of record of Common Stock. The Company has not paid or declared any cash dividends on shares of its Common Stock since completing its Initial Public Offering. The Company's policy is to retain all net earnings for the development of its business, and it does not anticipate paying cash dividends on the Common Stock in the foreseeable future. The payment of future cash dividends will be at the sole discretion of the Board of Directors and will depend upon the Company's profitability, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. The payment of cash dividends is limited by certain covenants within various Company loan agreements.

Item 6. Selected Financial Data

The following table sets forth the selected financial data of the Company for the periods indicated, which information is derived from the consolidated financial statements of the Company. On July 23, 1997, the Company acquired certain assets of Diamond Rug & Carpet Mills, Inc. ("Diamond") and other assets owned by Diamond's principal shareholders using the purchase method of accounting. On November 12, 1998, the Company acquired all of the outstanding capital stock of World Carpets, Inc. ("World") in exchange for approximately 4.9 million shares of the Company's common stock in a transaction recorded using the pooling-of-interests method of accounting. On January 29, 1999, the Company acquired certain assets and assumed certain liabilities of Image Industries, Inc. ("Image"). The acquisition was recorded using the purchase method of accounting. On March 9, 1999, the Company acquired all of the outstanding capital stock of Durkan Patterned Carpets, Inc. ("Durkan") in exchange for approximately 3.1 million shares of the Company's common stock in a transaction recorded using the pooling-of-interests method of accounting. On November 14, 2000, the Company acquired certain fixed assets and inventory of Crown Crafts, Inc. ("Crown Crafts"). The acquisition was accounted for using the purchase method of accounting. All financial data have been restated to include the accounts and results of operations of World and Durkan. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes thereto included elsewhere herein.

	At or for the Years ended December 31,				
	2001	2000	1999	1998	1997
	(In thousands, except per share data)				
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

	At or for the Years ended December 31,				
	2001	2000	1999	1998	1997
	(In thousands)				
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.

Item 7. 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 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 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. 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 and options were 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.

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 $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 past 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.

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 the 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 Form 10-K, 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 and 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 Securities 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.

Item 7A. 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.

Item 8. Consolidated Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Mohawk Industries, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in Item 14(a)2. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules 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. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/KPMG LLP
KPMG LLP

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

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2001 and 2000

(In thousands, except per share data)

ASSETS	2001	2000
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)	-
Less treasury stock at cost; 8,715 and 8,538 shares in 2001 and 2000, respectively	1,142,147	942,442
Total stockholders' equity	193,596	188,082
Commitments and contingencies (Note 11)	948,551	754,360
	$ 1,768,485	1,795,378

See accompanying notes to consolidated financial statements.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings
Years Ended December 31, 2001, 2000 and 1999

(In thousands, except per share data)

	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.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and Comprehensive Income
Years Ended December 31, 2001, 2000 and 1999

(In thousands)

	Common stock		Additional paid-in	Retained	Accumulated other comprehensive	Treasury	Total stockholders'
	Shares	Amount	capital	earnings	loss	stock	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 Inome:							
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.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years Ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
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 stock options exercised	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.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2001, 2000 and 1999
(In thousands, except per share data)

(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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Accounts Receivable and Revenue Recognition

The Company is principally a broadloom carpet and rug manufacturer and sells 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 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.

(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:

	Years Ended December 31, 2001	2000	1999
	(In thousands, except per share data)		
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, buydowns and co-op advertising. All of these payments reduce gross sales with the exception of co-op advertising. Co-op advertising is classified as a selling, general and administrative expense. 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.

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 EITF 00-10 and accordingly, re-classified shipping and handling costs from net sales to cost of sales. The impact of this 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 approximately 12,900 shares of the Company's common stock, options to purchase approximately 2,100 shares of the Company's common stock and $720,000 in cash. The Company's common stock and options were 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

(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 lines 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 24, 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, and to receive in return an amount equal to a specified variable-rate of interest times the same notional principal amount of $100,000. 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.

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 as determined by the Compensation Committee of the Company's Board of Directors.

During 1996, the Company adopted the 1997 Non-Employee Director Stock Compensation Plan. The plan provides for awards of common stock of the Company for non-employee directors to receive in lieu of cash for their annual retainers. During 2001, 2000, and 1999 a total of two, four, and three shares, respectively were awarded to the non-employee directors under the plan.

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:

Exercise price range	Outstanding Number of Shares	Average Life (1)	Average Price (2)	Exercisable 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.

(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 employees vested in the contributions based on years of credited service. For the years 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

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 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 noncancelable 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. 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

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(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

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The Company's Certificate of Incorporation provides for the Board of Directors of the Company to consist of three classes of directors serving staggered terms of office. Upon the expiration of the term of office for a class of directors, the nominees for that class will be elected for a term of three years to serve until the election and qualification of their successors. The terms of Messrs. John F. Fiedler, Jeffrey S. Lorberbaum and Robert N. Pokelwaldt will expire at

the Annual Meeting of Shareholders in 2002. The terms of Messrs. Bruce C. Bruckmann, Larry W. McCurdy and Sylvester H. Sharpe will expire in 2003. The terms of Messrs. Leo Benatar, David L. Kolb and W. Christopher Wellborn will expire in 2004. The Board of Directors has appointed a compensation committee, comprised of Messrs. McCurdy, Benatar and Pokelwaldt, and an audit committee comprised of Messrs. McCurdy, Bruckmann and Pokelwaldt.

The following table sets forth information regarding the directors and executive officers of the Company:

Name	Age	Position
Jeffrey S. Lorberbaum	47	President, Chief Executive Officer and Director (term expiring 2002)
William B. Kilbride	51	President-Mohawk Home
David E. Polley	67	President- Residential Division
Sylvester ("Jack") H. Sharpe	70	Executive Vice President, Mohawk Residential Business, Director (term expiring 2003)
John D. Swift	60	Vice President-Finance and Chief Financial Officer
Herbert M. Thornton	61	President-Carpet Group
W. Christopher Wellborn	46	President-Dal-Tile Division and Director (term expiring 2004)
Leo Benatar	72	Director (term expiring 2004)
Bruce C. Bruckmann	48	Director (term expiring 2003)
John F. Fiedler	63	Director (term expiring 2002)
David L. Kolb	63	Chairman of the Board of Directors (term expiring 2004)
Larry W. McCurdy	66	Director (term expiring 2003)
Robert N. Pokelwaldt	65	Director (term expiring 2002)

Jeffrey S. Lorberbaum--Mr. Lorberbaum has been a director of the Company since March 28, 1994 and served as President and Chief Operating Officer of the Company since January 24, 1995. Effective January 1, 2001, Mr. Lorberbaum succeeded Mr. Kolb as Chief Executive Officer and currently holds the position of President and Chief Executive Officer. Mr. Lorberbaum joined Aladdin Mills, Inc. ("Aladdin"), a company acquired in 1994 by Mohawk, in 1976 and served as Vice President--Operations from 1986 until February 25, 1994 when he became President and Chief Executive Officer of Aladdin.

William B. Kilbride--Mr. Kilbride joined American Rug Craftsmen, formerly a wholly owned subsidiary of the Company, as its President in June 1992. Mr. Kilbride served in that position until he became President of the Mohawk Home Division, upon its formation in 1999. Before joining American Rug Craftsmen, Mr. Kilbride served as First Vice President--Planning of Dean Witter Discover, which he joined in February 1983.

David E. Polley--Mr. Polley served as President and a Director of World from 1991, until World was acquired by Mohawk in Novemebr 1998 and has served as President of the Residential Division since the acquisition. Before joining World, he worked for Burlington Industries, Inc. and served as President of Burlington's Residential Group and President of Burlington's Lees Residential Carpets. He also served as Chairman of David Industries, Inc., and Executive Vice-President of Stephen-Leedom Carpets.

Sylvester ("Jack") H. Sharpe--Mr. Sharpe has been a director of the Company since October 1999. Mr. Sharpe has served as Executive Vice President of the Residential Business of the Company since January 1995. From 1975 to 1995, Mr. Sharpe served as the Executive Vice President of Aladdin.

John D. Swift--Mr. Swift served as Vice President-Finance of Mohawk Carpet Corporation from September 1984 to December 1988 and since that time has served as the Company's Vice President-Finance and Chief Financial Officer. Mr. Swift served as the Company's Treasurer from December 1988 to February 1994 and served as Secretary of the Company from December 1988 to May 23, 1996. Prior to joining Mohawk Carpet Corporation, he worked for General Electric Company for 18 years in various positions of accounting, auditing and financial management.

Herbert M. Thornton--Mr. Thornton joined Karastan Bigelow, a division of Fieldcrest Cannon, Inc. in July 1990 and was named President of Karastan at the

time of that division's acquisition by Mohawk in July 1993. Mr. Thornton served in that position until April of 2000 when he became President of the Fashion and Performance Division (which serves the commercial and hospitality markets and the Karastan customers). On December 1, 2001, Mr. Thornton was appointed President-Carpet Group, assuming responsibility for sales and marketing of carpet products. Before joining Karastan, Mr. Thornton served as President of Hollytex, Inc., a carpet manufacturer, which he joined in December 1984.

W. Christopher Wellborn--Mr. Wellborn was Executive Vice President, Chief Financial Officer and Assistant Secretary of Dal-Tile from August 1997 through March 20, 2002 when he was named a director of Mohawk and the President of Dal-Tile, at the time the Dal-Tile acquisition was completed. From June 1993 to August 1997, Mr. Wellborn was Senior Vice President and Chief Financial Officer of Lenox, Inc.

Leo Benatar--Mr. Benatar has been a director of the Company since the consummation of the Company's Initial Public Offering. Mr. Benatar has been an Associated Consultant with A. T. Kearney since May 1996. From June 1995 until May 1996, Mr. Benatar was Chairman of the Board of Engraph, Inc., a manufacturer of packaging and product identification materials. Before June 1995, Mr. Benatar served as Chairman of the Board, President and Chief Executive Officer of Engraph, Inc. for more than five years. Engraph, Inc. was acquired by Sonoco Products Company, a manufacturer of packaging and product identification materials, in October 1992, and Mr. Benatar served as Senior Vice President and a director of Sonoco Products Company from October 1992 until May 1996. Mr. Benatar is also a director of Interstate Bakeries Corporation, a manufacturer and distributor of food products, Aaron Rents, Inc., a furniture and appliance retailer and Paxar Corporation, a provider of identification and tracking solutions to retailers and apparel manufacturers. From January 1, 1994 until December 31, 1995, Mr. Benatar also served as Chairman of the Federal Reserve Bank of Atlanta.

Bruce C. Bruckmann--Mr. Bruckmann has been a director of the Company since October 1992. Mr. Bruckmann has been a Managing Director of Bruckmann, Rosser, Sherrill & Co., Inc., a venture capital firm, since January 1995. From March 1994 to January 1995, Mr. Bruckmann served as Managing Director of Citicorp Venture Capital, Ltd. ("CVC, Ltd. ") and as an executive officer of 399 Venture Partners, Inc. (formerly Citicorp Investments, Inc.). From 1983 until March 1994, Mr. Bruckmann served as Vice President of CVC, Ltd. Mr. Bruckmann is also a director of AmeriSource Distribution Corporation, a distributor of pharmaceuticals, Town Sports International, Inc., a fitness club operator, Anvil Knitwear, Inc., an activewear manufacturer, Penhall International, Inc., a renter of operator-assisted construction equipment, California Pizza Kitchen, Inc., a casual restaurant chain serving pizza, pasta and salads, and Mediq, Inc., a renter of movable critical care and life-support medical equipment.

John F. Fiedler--Mr. Fiedler has been a director of the Company since March 20, 2002, the time the Dal-Tile acquisition was completed. Mr. Fiedler is Chairman and Chief Executive Officer of Borg Warner Inc. Prior to joining Borg Warner in June of 1994, Mr. Fiedler was Executive Vice President of Goodyear Tire & Rubber Company, where Mr. Fiedler was responsible for North American Tires. Mr. Fiedler's 29-year career with Goodyear included numerous sales, marketing and manufacturing positions in the United States and the Far East. Mr. Fiedler is also a director of Roadway Express, Inc.

David L. Kolb--Mr. Kolb served as President of Mohawk Carpet Corporation (now one of the Company's principal operating subsidiaries) until Mohawk Carpet Corporation was acquired by the Company in December 1988, at which time he became Chairman of the Board of Directors and Chief Executive Officer of the Company. Effective January 1, 2001, Mr. Kolb retired from his position as Chief Executive Officer. Prior to joining Mohawk Carpet Corporation, Mr. Kolb served in various executive positions with Allied-Signal Corporation for 19 years, most recently as Vice President and General Manager of Home Furnishings. Mr. Kolb is also a director of Chromcraft Revington Corporation, a furniture manufacturer, Oglethorpe University, The Georgia Board of

Industry, Trade and Tourism and Paxar Corporation, a provider of identification and tracking solutions to retailers and apparel manufacturers.

Larry W. McCurdy--Mr. McCurdy has been a director of the Company since the consummation of the Company's Initial Public Offering. Mr. McCurdy was President and Chief Executive Officer of Moog Automotive, Inc., a privately held manufacturer of automotive aftermarket products, from November 1985 until April 1994. Moog Automotive, Inc. was acquired by Cooper Industries, Inc., a manufacturer of electrical and automotive products, tools and hardware, in October 1992, and Mr. McCurdy became Executive Vice President-Operations of Cooper Industries, Inc. in April 1994. Mr. McCurdy held that position until March 7, 1997, when he became President, Chief Executive Officer and a director of Echlin Inc., a worldwide manufacturer of motor vehicle parts. On December 17, 1997, Mr. McCurdy was elected Chairman of the board of directors of Echlin, Inc. In July 1998 Echlin was merged with Dana Corporation, a global leader in the engineering, manufacturing and distribution of components and systems for worldwide vehicular and industrial manufacturers. Mr. McCurdy served as President of the Dana Automotive Aftermarket Group from July 1998 until his retirement in August 2000. Mr. McCurdy also serves on the boards of directors of American Axle & Manufacturing Holdings, Inc., Lear Corporation, both international manufacturers for original equipment vehicles, Breed Technologies, Inc., an equipment supplier of air bag sensing devices and air bag components and Genuine Parts, Inc., a North American automotive parts distributor.

Robert N. Pokelwaldt--Mr. Pokelwaldt has been a director of the Company since the consummation of the Company's Initial Public Offering. Mr. Pokelwaldt served as Chairman and Chief Executive Officer of York International Corporation, a manufacturer of air conditioning and cooling systems, from January 1993 until his retirement in October 1999. He also served York International from June 1991 until January 1993 as President, Chief Executive Officer and a director and, from January 1990 until June 1991, as President and Chief Operating Officer. Mr. Pokelwaldt is also a director of Carpenter Technologies Corporation, a manufacturer of specialty steel, Susquehanna Pfaltzgraff Corp., a manufacturer of dinnerware products and an owner/operator of radio and cable systems networks, Intersil Corp., a telecommunications chip manufacturer, and First Energy Corporation, a generator and power distribution company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent of the Company's Common Stock, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Directors, executive officers and greater than ten percent stockholders are required by SEC regulation to furnish the Company copies of all Section 16(a) reports they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2001, all Section 16(a) filing requirements applicable to directors, executive officers and greater than ten percent beneficial owners were complied with by such persons except for the following inadvertent late filings: (i) the initial statement of beneficial ownership on Form 3 required to be filed (assuming that a report is required under such circumstances) by Mr. Mark Lorberbaum within ten days after his becoming a member of the Lorberbaum family reporting group of Mohawk which occurred on July 10, 2000 as a result of various family estate planning transactions was filed on January 19, 2002 and the sale of 5,100 shares of Common Stock on October 25, 2001 by Mr. Mark Lorberbaum reportable on a Form 4 due by November 10, 2001, was reported on a Form 4 filed on January 19, 2002; (ii) the initial statement of beneficial ownership on Form 3 required to be filed (assuming that a report is required under such circumstances) by Ms. Suzanne L. Helen within ten days after her becoming a member of the Lorberbaum family reporting group of Mohawk which occurred on July 10, 2000 as a result of various family estate planning transactions was filed on January 19, 2002; and (iii) transactions reportable on Form 5's required to be filed for the years 1999 and 2000 by Mr. Alan S.

Lorberbaum, a former director of Mohawk, to report estate planning transactions resulting in a change in beneficial ownership were combined into a single Form 5 filed on January 19, 2002; and (iv) an exchange fund transaction on December 1, 2000 by Mr. David L. Kolb resulting in a change in beneficial ownership was filed on Form 4 on March 8, 2002 .

Item 11. Executive Compensation

Report of the Compensation Committee of the Board of Directors of Mohawk Industries, Inc.

Executive Compensation Philosophy. The Committee believes that a compensation program that enables the Company to attract and retain outstanding executives will assist the Company in meeting its long-range objectives, thereby serving the interest of the Company's stockholders. The compensation program of the Company is designed to achieve the following objectives:

1. Provide compensation opportunities that are competitive with those of companies of a similar size.

2. Create a strong link between the executive's compensation and the Company's annual and long-term financial performance.

3. Include above average elements of financial risk through performance-based incentive compensation which offers an opportunity for above average financial reward to the executives.

The Company's executive compensation program has three components: base salaries, annual incentives and long-term incentives.

Base Salaries. The Company's executive officers receive base salaries as compensation for the skills, knowledge and experience that they bring to their positions. Base salaries paid to the Company's executive officers are intended to be maintained at a competitive level with companies of a similar size. In order to assess competitive rates, in 2001, the committee used compensation surveys produced by a nationally recognized compensation consulting firm of executives with similar job functions and responsibilities in public companies engaged in nondurable goods manufacturing in the same net sales range. The group of companies included in the surveys used was typically broader than the peer group used in the Performance Graph following this report because the competitive marketplace for executive talent has been viewed by the Committee as national in scope and not restricted to the carpet and textile industries. With respect to base salaries, the Committee has tried to achieve competitive rates by targeting the approximate midpoint of the range of base salaries for comparable positions. Within this overall policy, the Committee has preserved the flexibility to make exceptions where performance over several years dictates a higher base salary.

Annual Incentive Bonuses. Annual incentive bonuses under the executive incentive program are provided in addition to base salaries to create total annual compensation. Using the compensation surveys discussed above, the Committee has targeted the upper quartile of total annual compensation for similarly situated executives in companies of similar size. By placing a significant portion of an executive's annual pay "at risk," the Committee believes that compensation is more directly related to performance and will more closely link the financial interests of the executives and those of the stockholders. Given the Company's aggressive business objectives, the Committee believes this policy to be appropriate and fair for both the executives and the stockholders.

The 2001 Executive Incentive Program (the "Plan") was designed to provide incentive bonus opportunities for 29 key executives of the Company, including the executive officers named in the Summary Compensation Table. For those executives who were classified as Corporate Participants, including the Chief

Executive Officer ("CEO") and the Chief Financial Officer, to be eligible for any bonus the total corporation must have attained in 2001 a threshold level of earnings per share ("EPS") established by the Committee. For those executives who were classified as Residential Business Participants, Karastan Business Participants, Commercial Business Participants, Home Products Participants or Hospitality Business Participants to be eligible for any bonus their business unit must have attained in 2001 a threshold level of EPS contribution established by the Committee. The factors considered in establishing the thresholds in the Plan were the previous year's EPS for the total corporation and EPS contribution by each business unit. If the threshold is attained, then the bonus calculation is based on the attainment of increasing levels of improvement of (i) 2001 EPS over 2000 EPS and (ii) 2001 Earnings After Capital Charge ("EAC") (after tax operating earnings less a cost of capital charge) over EAC targets established by the Committee using 2000 results as a base. The bonus calculation is weighted 75% to the EPS level attained and 25% to the EAC level attained. The bonus attainable at various levels in the Plan is calculated as a percentage of 2001 compensation payments excluding all bonus, deferred bonus and other non-salary amounts ("Base Compensation"). The percentages of Base Compensation for which individual participants become eligible at the various levels vary and were set for the CEO by the Committee and for the other executives by the CEO (subject to the approval of the Committee) in order to relate performance goals to a targeted level of total annual compensation.

A portion of each award ranging from 20% to 26% is paid as follows: one-half is paid in shares of the Common Stock purchased in the market and issued to the participant as restricted shares under the Mohawk Industries, Inc. 1997 Long-Term Incentive Plan and one-half is used to pay withholding tax on the award. One-half of the shares granted will be restricted for one year and the other half for two years. The number of restricted shares to be granted is calculated using the average monthly closing stock price of the Common Stock during 2001. The balance of the award is paid in cash to the participant in 2002.

The Committee has the authority to interpret the Plan, make changes therein or grant special bonuses for exceptional performance as it determines appropriate.

Long-Term Incentives. The Company provides long-term incentives to its executives through stock option programs designed to encourage executives to acquire and hold shares of Common Stock. The stock option plans are designed to retain executives and motivate them to improve the market value of the Common Stock over a number of years. The Committee believes that equity ownership by executives furthers the Committee's compensation policy objective of aligning long-term financial interests of executives with those of the stockholders. The Committee considers the amount and terms of options previously awarded to and held by executive officers in determining the size of option grants. In 2001, options were granted to all of the executive officers named in the Summary Compensation Table. These options all vest in 20% annual increments.

Other Compensation Plans. The Company maintains several broadly-based employee benefit plans in which the executive officers are permitted to participate on the same terms as other employees. These include the retirement savings plan (designed to qualify under section 401(k) of the Internal Revenue Code), a supplemental executive retirement plan which provides certain supplemental retirement and other benefits to a certain executive who has completed an aggregate of 60 months employment with the Company, and a nonqualified deferred compensation plan for highly compensated employees which permits deferral of income on a portion of the employee's compensation.

To the extent readily determinable and as one of the factors in its consideration of the various components of executive compensation, the Committee considers the anticipated tax treatment to the Company and to the executives of various payments and benefits. Some types of compensation payments and their deductibility (e.g., the spread on exercise of non-qualified options) depend

upon the timing of an executive's vesting or exercise of previously granted rights. Further, interpretations of and changes in the tax laws and other factors beyond the Committee's control also affect the deductibility of compensation. For these and other reasons, the Committee will not necessarily and in all circumstances limit executive compensation to that deductible under Section 162(m) of the Internal Revenue Code. The Committee will consider various alternatives for preserving the deductibility of compensation payments and benefits to the extent reasonably practicable and to the extent consistent with its other compensation objectives.

Chief Executive Officer Compensation. In accordance with the compensation philosophy and process described above, the Committee set Mr. Lorberbaum's base salary for 2001 at $575,000, which was below the midpoint for CEO's of similar sized companies in the surveys used by the Committee. Mr. Lorberbaum's total annual cash compensation is linked to the Company's performance by his participation in the 2001 Executive Incentive Program. Under the Plan, he would earn no bonus unless 2001 EPS exceeded the threshold level established in the Plan. In 2001, Mr. Lorberbaum earned a bonus equal to approximately 100% of his Base Compensation based upon an improvement in EPS for the total corporation of 18 percent over 2000 EPS and an improvement in EAC for the total corporation of 16 percent over 2000 EAC. This bonus will be paid in cash and restricted shares as described above. In 2001, Mr. Lorberbaum was awarded stock options to purchase 50,000 shares of Common Stock at fair market value on the dates of the grants. These options vest in 20% annual increments.

The Committee's objectives in setting Mr. Lorberbaum `s compensation for 2001 were to be competitive with other companies in the carpet industry and with other public companies of a similar size and to provide Mr. Lorberbaum with appropriate incentives to achieve the Company's short-term and long-term objectives.

Compensation Committee
Leo Benatar-Chairman
Robert N. Pokelwaldt
Larry McCurdy

Performance Graph

The following is a line graph comparing the yearly percentage change in the Company's cumulative total stockholder returns to those of the Standard & Poor's 500 Index and a group of peer issuers beginning on December 31, 1996 and ending on December 31, 2001.

Comparison of Total Cumulative Returns Among Mohawk Industries, Inc., the S&P 500 Index and a Peer Group

[GRAPH]

	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01
Mohawk	$100.00	$149.57	$286.79	$179.83	$186.65	$374.18
S&P 500	$100.00	$133.36	$171.47	$207.56	$188.66	$166.24
Peer Group	$100.00	$137.62	$149.48	$129.34	$125.73	$127.39

The peer group includes the following companies: Cone Mills Corporation, Dixie Group, Inc., Guilford Mills, Inc., Interface, Inc., Leggett & Platt, Inc., Masco Corporation and West Point Stevens, Inc. Total return values were calculated based on cumulative total return, assuming the value of the

investment in the Company's Common Stock and in each index on December 31, 1996 was $100 and that all dividends were reinvested. The Company is not included in the peer group because management believes that, by excluding the Company, investors will have a more accurate view of the Company's performance relative to certain other carpet and textile companies.

Summary of Cash and Certain Other Compensation

The following table presents certain summary information concerning compensation paid or accrued by the Company for services rendered in all capacities during the fiscal years ended December 31, 1999, 2000, and 2001 for (i) the Chief Executive Officer of the Company and (ii) each of the four other most highly compensated

executive officers of the Company (determined as of December 31, 2001) (collectively, the "Named Executive Officers").

Summary Compensation Table

		Annual Compensation			Long-Term Compensation		
Name and Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)(1)	Restricted Stock Awards($)(2)	Securities Underlying Options(#)	All Other Compensation ($)(3)
Jeffrey S. Lorberbaum	2001	$575,000	$503,125	$ --	$118,577	50,000	$3,450
President and	2000	495,000	363,176	--	61,437	1,500	3,450
Chief Executive Officer	1999	480,000	417,375	--	45,793	7,000	3,200
David E. Polley	2001	$322,500	$241,875	$ --	$53,164	25,000	$3,450
President-Residential	2000	295,417	186,000	--	30,315	--	3,450
Division	1999	248,333	153,125	--	18,281	--	3,200
Herbert M. Thornton	2001	$320,000	$240,000	$ --	$52,785	55,000	$3,450
President-Carpet Group	2000	295,417	186,000	--	29,134	20,000	3,450
	1999	248,333	153,125	--	14,661	7,000	3,200
William B. Kilbride	2001	$320,000	$240,000	$ --	$52,785	35,000	$3,450
President -Mohawk Home	2000	290,000	183,750	--	28,824	--	3,450
	1999	275,000	206,250	--	21,946	27,000	4,105
John D. Swift	2001	$320,000	$240,000	$ --	$52,785	25,000	$3,450
Vice President-Finance and	2000	275,000	173,853	--	27,333	--	3,450
Chief Financial Officer	1999	267,000	199,082	6,097	20,363	7,000(4)	3,200

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(1) Amounts in 1999 include (i) imputed interest on the outstanding balance of interest free loans made by the Company to Mr. Swift upon exercise of stock options granted in connection with the Company's leveraged buyout ("LBO Stock Options") in the amount of $3,317, and (ii) $2,780 paid by the Company in 1999 to Mr. Swift, so that he could pay the 1999 tax liability on imputed income arising from such interest free loans. All future obligations in connection with the LBO Stock Options have been terminated.

(2) Amounts in 2001 include 1,878, 842, 836, 836 and 836 shares for Messrs. Lorberbaum, Polley, Thornton, Kilbride and Swift, respectively. These shares were granted on February 26, 2002, in connection with each executive's annual incentive bonus for 2001 and have been valued at $63.14 per share. The restrictions will lapse on February 26, 2003 for 50% of the shares and will lapse on February 26, 2004 for the remaining 50%. Amounts in 2000 include 1,978, 976, 938, 928 and 880 shares for Messrs. Lorberbaum, Polley, Thornton, Kilbride and Swift, respectively. These shares were granted on February 26, 2001, in connection with each executive's annual incentive bonus for 2000 and have been valued at $31.06 per share. The restrictions lapsed on February 15, 2002 for 50% of the shares and will lapse on February 15, 2003 for the remaining 50%. Amounts in 1999 include 2,024, 808, 648, 970 and 900 shares for Messrs. Lorberbaum, Polley, Thornton, Kilbride and Swift, respectively. These shares were granted on February 15, 2000, in connection with each executive's annual incentive bonus for 1999 and have been valued at $22.625 per share. The restrictions

lapsed on February 15, 2001 for 50% of the shares and lapsed on February 15, 2002 for the remaining 50%. See "Executive Compensation-Report of the Compensation Committee of the Board of Directors of Mohawk Industries, Inc." As of December 31, 2001, Mr. Lorberbaum held 2,990 shares of restricted stock valued at $164,091, Mr. Polley held 1,380 shares of restricted stock valued at $75,734, Mr. Thornton held 1,262 shares of restricted stock valued at $69,259, Mr. Kilbride held 1,413 shares of restricted stock valued at $77,545 and Mr. Swift held 1,330 shares of restricted stock valued at $72,990.

(3) Except with respect to Mr. Kilbride in 1999, represents matching contributions pursuant to the Company's Retirement Savings Plan. In 1999, amounts for Mr. Kilbride represent contributions pursuant to the American Rug Craftsmen 401(k) Savings and Retirement Plan.

(4) Amount represents options granted in 1999 pursuant to the 1993 Stock Option Plan (3,500 shares) and the 1997 Long Term Incentive Plan (3,500 shares).

Option Grants

The following table sets forth information on options granted to the Named Executive Officers in fiscal 2001.

Option Grants In Fiscal Year Ended December 31, 2001

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)	
Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employee in the Fiscal Year (1)	Exercise or Base Price ($/Sh)	Expiration Date	5%	10%
Jeffrey S.Lorberbaum ...	50,000 (3)	7.09%	$30.53	02/27/11	$960,007	$2,432,847
Herbert M. Thornton	35,000 (3)	4.97%	$30.53	02/27/11	$672,005	$1,702,993
	20,000 (4)	2.84%	$53.04	12/20/11	$666,754	$1,689,685
David E. Polley	25,000 (3)	3.54%	$30.53	02/27/11	$480,003	$1,216,423
William B. Kilbride	35,000 (3)	4.97%	$30.53	02/27/11	$672,005	$1,702,993
John D. Swift	25,000 (3)	3.54%	$30.53	02/27/11	$480,003	$1,216,423

(1) The total number of shares of Common Stock covered by options granted to employees in the 2001 fiscal year was 704,850.

(2) Potential realizable value is based on the assumption that the Common Stock price appreciates at the annual rate shown (compounded annually) from the date of grant until the end of the 10-year option term. The numbers are calculated based on the requirements promulgated by the Securities and Exchange Commission (the "SEC") and are not intended to predict future performance.

(3) These options were granted under the Company's 1997 Long-Term Incentive Plan and vest in 20% annual increments beginning February 27, 2002.

(4) These options were granted under the Company's 1997 Long-Term Incentive Plan and vest in 20% annual increments beginning December 20, 2002.

Option Exercises and Holdings

The following table sets forth certain information regarding the exercise of stock options by the Named Executive Officers during fiscal 2001 and the number of shares covered by both exercisable and non-exercisable stock options held by the Named Executive Officers as of December 31, 2001. Also reported are the values for "in-the-money" options, which represent the positive spread between the exercise price of any such existing stock options and the fiscal year-end price of the Common Stock (which was $54.88).

Aggregated December 31, 2001
Year End Option Values

Name	Shares Acquired on Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised In-the-Money Options at FY-End ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jeffrey S. Lorberbaum	-	-	78,100	55,400	$3,421,350	$1,371,596
Herbert M. Thornton	12,850	$278,559	2,950	77,450	$104,520	$1,586,005
David E. Polley	-	-	15,000	35,000	$367,575	$853,805
William B. Kilbride	37,499	$963,754	10,800	51,200	$266,466	$1,251,950
John D. Swift	-	-	2,800	29,200	$76,926	$724,140

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(1) Value realized is the difference between the fair market value of the securities underlying the options and the exercise price on the date of exercise.

Pension Plans

The following table shows estimated annual retirement benefits payable to Mr. Swift at age 65 under the Supplemental Executive Retirement Plan (the "SERP") as described below.

Pension Plan Table

Remuneration	Years of Service 15 or more
$ 200,000	$ 80,000
300,000	120,000
400,000	160,000
500,000	200,000
600,000	240,000
700,000	280,000
800,000	320,000
900,000	360,000
1,000,000	400,000
1,100,000	440,000
1,200,000	480,000
1,300,000	520,000

The Company has established a Retirement Savings Plan (the "Retirement Savings Plan"), which is a combination 401(k)/profit-sharing plan that provides for employee pre-tax contributions under Section 401(k) of the Internal Revenue Code, Company matching contributions, and, if profits are sufficient, a Company profit sharing contribution. The Company has also established the SERP, a

non-qualified plan designed to supplement the benefits payable under the Retirement Savings Plan and certain other plans. The SERP provides such benefits to Mr. Swift.

Benefits under the SERP generally vest after the participant has sixty months of employment with the Company and generally can begin once the participant attains age 60. The retirement benefit payable at age 65 to Mr. Swift (and prior to reduction as described below) is 40% of Mr. Swift's average annual compensation (as determined in accordance with the preceding sentence). Benefits under the SERP are reduced if the participant begins to receive SERP benefits prior to age 65.

Benefits payable under the SERP as shown in the foregoing table are reduced by (i) one-half of the participant's Social Security benefits; (ii) certain other Company benefit plans; and (iii) the annuity benefit to the participant from a subsequent employer's pension plan. Upon retirement, the normal form of SERP benefit is a life annuity for the life of the participant, but the Board and the participant may approve payment in an alternate form. There are also certain death benefits and medical benefits that are payable under the SERP.

Mr. Swift had an average five-year compensation of $458,728 and 17 years of creditable service. Messrs. Lorberbaum, Thornton, Polley and Kilbride do not participate in the SERP.

Meetings and Committees of the Board of Directors

General. During fiscal 2001, the Board of Directors held seven meetings. All members of the Board of Directors attended at least 86% of the total number of Board of Directors and Committee meetings that they were eligible to attend.

The Audit Committee consists of Mr. Bruckmann, Mr. McCurdy and Mr. Pokelwaldt. The Audit Committee met three times during 2001. The Audit Committee oversees management's conduct of the financial reporting process, the system of internal, financial and administrative controls and the annual independent audit of the Company's financial statements. In addition, the Audit Committee makes recommendations to the Board of Directors regarding the Company's employment of independent auditors, reviews the independence of such auditors, approves the scope of the annual activities of the independent and internal auditors and reviews audit results. The Board of Directors has adopted a written charter for the Audit Committee.

The Compensation Committee consists of Mr. Benatar, Mr. Pokelwaldt and Mr. McCurdy. The Compensation Committee met five times during 2001. The Compensation Committee is responsible for deciding, recommending and reviewing the compensation, including benefits, of the executive officers and directors of the Company and for administering the Company's incentive compensation plans. See also "Executive Compensation--Report of the Compensation Committee of the Board of Directors of Mohawk Industries, Inc."

The Company has no nominating committee.

Director Compensation. Employees of the Company or its subsidiaries who are also directors do not receive any fee or remuneration for services as members of the Board of Directors or any Committee of the Board of Directors. The Company pays non-employee directors an annual retainer of $20,000 and a fee of $2,000 for each Board meeting and $1,000 for each Committee meeting attended. In lieu of this retainer and fees, Mr. Kolb receives an annual retainer of $30,000 for his services as Chairman of the Board of Directors and a fee of $3,000 for each Board meeting and $2,000 for each Committee meeting attended. Committee Chairmen also receive an annual retainer of $2,500. Pursuant to the Company's 1993 Stock Option Plan and the 1997 Long-Term Incentive Plan, directors who are not employees of the Company are initially granted a non-qualified stock option to purchase 11,250 shares of Common Stock as of the date they commence service as a

director. On January 1 of each year, eligible directors who are directors on such date receive an option to purchase 2,250 shares of Common Stock. The exercise prices for all such option grants are based on a formula that with respect to initial grants relates to the closing sale price of the underlying Common Stock on the business day immediately preceding the date of grant and with respect to subsequent grants is the average of the closing sale prices of the underlying Common Stock on the last business day of each of the Company's four fiscal quarters during the preceding fiscal year. The Company reimburses all directors for expenses the directors incur in connection with attendance at meetings of the Board of Directors or Committees.

In December 1996, the Board of Directors adopted the Mohawk Industries, Inc. 1997 Non-Employee Director Stock Compensation Plan (the "Director Stock Compensation Plan") to promote the long-term growth of the Company by providing a vehicle for its non-employee directors to increase their proprietary interest in the Company and to attract and retain highly qualified and capable non-employee directors. Under the Director Stock Compensation Plan, non-employee directors may elect to receive their annual cash retainer fees (excluding any meeting fees) in shares of Common Stock of the Company, based on the fair market value of the Common Stock on the quarterly payment date. The maximum number of shares of Common Stock which may be granted under the plan is 37,500 shares, which shares may not be original issue shares. In 1997, the Director Stock Compensation

Plan was amended by the Board of Directors to include an optional income deferral feature using a book entry (phantom stock) account that would fluctuate in value based on the performance of the Common Stock of the Company over the deferral period. The Board of Directors may suspend or terminate the Director Stock Compensation Plan at any time.

In connection with the merger of Dal-Tile International Inc., Mr. Wellborn entered into an agreement with the Company whereby he agreed to serve as President of Dal-Tile commencing on March 20, 2002 through March 20, 2004. If during the term of the agreement Mr. Wellborn's employment is terminated without cause he would receive his annual salary, currently $400,000, for the remainder of the term plus annual bonuses based on the greater of his target bonus or the average bonus received for the two prior fiscal years. Mr. Wellborn also received 25,000 options to purchase the Company's Common Stock pursuant to this agreement.

Pursuant to a change in control agreement Mr. Wellborn had with Dal-Tile, Mr. Wellborn received a payment of $2,019,384 in connection with the merger with Mohawk.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Principal Stockholders of the Company

The following table sets forth certain information with respect to the beneficial ownership of the Common Stock as of March 20, 2002, by (i) each person who is known by the Company beneficially to own more than five percent of the outstanding shares of the Common Stock, (ii) each of the Company's directors and nominees, (iii) each of the Named Executive Officers, and (iv) all of the Company's directors and executive officers as a group. Unless otherwise indicated, the holders listed below have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them.

Name of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percent of Class

Jeffrey S. Lorberbaum(1)	14,349,536	21.8%
Aladdin Partners, L.P.(2)	9,900,000	15.1
FMR Corporation(3)	8,755,372	13.3
JMS Group Limited Partnership(4)	3,985,604	6.1
David L. Kolb(5)	562,342	*
Sylvester H. Sharpe(6)	499,114	*
Bruce C. Bruckmann(7)	281,593	*
W. Christopher Wellborn(8)	149,523	*
John D. Swift(9)	70,586	*
William B. Kilbride(10)	23,551	*
Leo Benatar(11)	24,014	*
Larry W. McCurdy(11)	20,547	*
Robert N. Pokelwaldt(11)	27,230	*
David E. Polley(12)	22,946	*
Herbert M. Thornton(13)	12,886	*
John F. Fiedler	1,398	*
All directors and executive officers as a group (13 persons)	16,045,266	24.4%

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* Less than one percent.

(1) The address of Mr. Jeffrey Lorberbaum is 2001 Antioch Road, Dalton, Georgia 30721. Includes 9,900,000 shares held by Aladdin Partners, L.P., with respect to which Mr. Lorberbaum may be deemed to share voting and investment power. Mr. Lorberbaum is the owner of 100% of the outstanding voting stock of ASL Management Corp., the majority general partner of Aladdin Partners, L.P. Mr. Lorberbaum disclaims beneficial ownership of the shares held by Aladdin Partners, L.P. Also includes 263,721 shares owned by The Alan S. Lorberbaum Family Foundation, of which Mr. Jeffrey Lorberbaum is a trustee and may be deemed to share voting and investment power. Mr. Jeffrey Lorberbaum disclaims beneficial ownership of the shares held by The Alan S. Lorberbaum Family Foundation. Includes 3,985,604 shares held by the JMS Group Limited Partnership ("JMS"). The general partner of JMS is SJL Management Company, LLC ("SJL"). Mr.

Lorberbaum is an equal member of SJL and may be deemed to share voting and dipositive power with respect to all shares held by JMS. Mr. Lorberbaum disclaims beneficial ownership of such shares. Includes 89,100 shares issuable upon the exercise of currently vested options, and 10,928 shares issued pursuant to the Company's Executive Incentive Program, of which 2,867 are restricted shares, and 1,548 shares owned pursuant to the Company's 401(k) Plan.

(2) The address of Aladdin Partners, L.P. is 2001 Antioch Road, Dalton, Georgia 30721. ASL Management Corp. is the majority general partner of Aladdin Partners, L.P. and shares voting and investment power with respect to these shares. The address of ASL Management Corp. is 2001 Antioch Road, Dalton, Georgia 30721. Mr. Jeffrey Lorberbaum is the owner of 100% of the outstanding voting stock of ASL Management Corp. and, as a result, may be deemed to share voting and investment power with respect to these shares. Mr. Barry L. Hoffman is a director of ASL Management Corp. and, as a result of such position, may be deemed to share voting and investment power with respect to these shares. Excludes 3,500 shares owned of record by Mr. Hoffman in his individual capacity. The business address of Mr. Hoffman is Joseph Decosimo & Company, 1100 Tallan Building, Two Union Square, Chattanooga, Tennessee 37402. Each of ASL Management Corp., Mr. Jeffrey Lorberbaum and Mr. Hoffman, disclaim beneficial ownership of the shares held by Aladdin Partners, L.P.

(3) Based upon Schedule 13G/A dated February 14, 2002 filed with the SEC by FMR Corporation. The address of FMR Corporation is 82 Devonshire Street, Boston, Massachusetts 02109.

(4) The address of JMS is Joseph Decosimo & Company, 1100 Tallan Building, Two Union Square, Chattanooga, Tennessee 37402. The general partner of JMS is SJL. Each of Ms. Suzanne L. Helen and Mr. Mark Lorberbaum is an equal member of SJL and may be deemed to share voting and dispositive power with respect to all shares held by JMS. Each of Ms. Helen and Mr. Mark Lorberbaum disclaims beneficial ownership of such shares.

(5) Includes 450 shares issuable upon the exercise of currently vested options and 12,444 shares issued pursuant to the Company's Executive Incentive Program, of which 1,395 are restricted shares, and 703 shares owned pursuant to the Company's 401(k) plan. Also includes 4,820 held by two minor children.

(6) Includes 26,700 shares issuable upon the exercise of currently vested options and 4,246 shares issued pursuant to the Company's Executive Incentive Program, of which 872 are restricted shares and 145 shares owned pursuant to the Company's 401(k) Plan.

(7) Includes 24,750 shares issuable upon the exercise of currently vested options.

(8) Includes 141,632 shares issuable upon the exercise of currently vested options.

(9) Includes 8,500 shares issuable upon the exercise of currently vested options, 4,678 shares issued pursuant to the Company's Executive Incentive Program, of which 1,276 are restricted shares, and 14,523 shares owned pursuant to the Company's 401(k) plan.

(10) Includes 18,500 shares issuable upon the exercise of currently vested options and 4,780 shares issued pursuant to the Company's Executive Incentive Program, of which 1,300 are restricted shares and 46 shares owned pursuant to the Company's 401(k) Plan.

(11) Includes 13,500 shares issuable upon the exercise of currently vested options.

(12) Includes 20,000 shares issuable upon the exercise of currently vested options, 2,626 shares issued pursuant to the Company's Executive Incentive Program, of which 1,330 are restricted shares, and 320 shares owned pursuant to the Company's 401(k) plan.

(13) Includes 10,650 shares issuable upon the exercise of currently vested options, 22,236 shares issued pursuant to the Company's Executive Incentive Program, of which 1,305 are restricted shares, and 138 shares owned pursuant to the Company's 401(k) plan.

Item 13. Certain Relationships and Related Transactions

In connection with the merger of Dal-Tile International Inc., Mr. Wellborn entered into an agreement with the Company whereby he agreed to serve as President of Dal-Tile commencing on March 20, 2002 through March 20, 2004. If during the term of the agreement Mr. Wellborn's employment is terminated without cause he would receive his annual salary, currently $400,000, for the remainder of the term plus annual bonuses based on the greater of his target bonus or the average bonus received for the two prior fiscal years. Mr. Wellborn also received 25,000 options to purchase the Company's Common Stock pursuant to this agreement.

Pursuant to a change in control agreement Mr. Wellborn had with Dal-Tile, Mr. Wellborn received a payment of $2,019,384 in connection with the merger with Mohawk.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Consolidated Financial Statements

The Consolidated Financial Statements of Mohawk Industries, Inc. and subsidiaries listed in Item 8 of Part II are incorporated by reference into this item.

2. Consolidated Financial Statement Schedules

Schedules not listed above have been omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits

The exhibit number for the exhibit as originally filed is included in parentheses at the end of the description.

Mohawk Exhibit Number	Description
*2.1	Agreement and Plan of Merger dated as of December 3, 1993 and amended as of January 17, 1994 among Mohawk, AMI Acquisition Corp., Aladdin and certain Shareholders of Aladdin. (Incorporated herein by reference to Exhibit 2(i)(a) in Mohawk's Registration Statement on Form S-4, Registration No. 33-74220.)
*2.2	Agreement and Plan of Merger by and among Mohawk, WC Acquisition Corp., World Carpets, Inc. and the shareholders of World Carpets, Inc. dated as of October 22, 1998. (Incorporated herein by reference to Exhibit 2 of the Mohawk Registration Statement on Form S-3, Registration No. 333-66061, as filed October 22, 1998.)
*2.3	Asset Purchase Agreement by and among Aladdin Manufacturing Corporation, Image Industries, Inc. and The Maxim Group, Inc. dated as of November 12, 1998, as amended and restated on January 29, 1999. (Incorporated herein by reference to Exhibit 2.1 in Mohawk's Current Report on Form 8-K dated January 29, 1999.)
*2.4	Agreement and Plan of Merger by and among Mohawk, Durkan Acquisition Corp., Nonpareil Acquisition Corp, Durkan Patterned Carpets, Inc. the shareholders of Durkan Patterned Carpets, Inc. and the shareholders of Nonpareil Dying and Finishing, Inc., dated as of February 26, 1999. (Incorporated herein by reference to Exhibit 2.1 of the Mohawk Registration Statement on Form S-3, Registration No. 333-77231, as filed April 28, 1999.)
*2.5	Agreement and Plan of Merger by and between Mohawk, Maverick Merger Sub, Inc. and Dal-Tile International Inc., dated as of November 19, 2001. (Incorporated herein by reference to Exhibit 2.1 of the Mohawk Registration Statement on Form S-4, Registration No. 333-74806, as filed December 7, 2001.)
*2.6	Amendment No. 1, to the Agreement and Plan of Merger by and between Mohawk, Maverick Merger Sub, Inc. and Dal-Tile International Inc., dated as of January 16, 2002. (Incorporated herein by reference to Exhibit 2.2 of the Mohawk Registration

Statement on Form S-4, Registration No. 333-74806, as filed January 17, 2002.)

*3.1	Restated Certificate of Incorporation of Mohawk, as amended. (Incorporated herein by reference to Exhibit 3.1 in Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*3.2	Amended and Restated Bylaws of Mohawk. (Incorporated herein by reference to Exhibit 3.1 of the Mohawk registration Statement on Form S-4, Registration No. 333-74806, as filed February 6, 2002.)
*4.1	See Article 4 of the Restated Certificate of Incorporation of Mohawk. (Incorporated herein by reference to Exhibit 3.1 in Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*4.2	See Articles 2, 6, and 9 of the Amended and Restated Bylaws of Mohawk. (Incorporated herein by reference to Exhibit 3.1 of the Mohawk registration Statement on Form S-4, Registration No. 333-74806, as filed February 6, 2002.)
*10.1	Lease dated October 15, 1990 between NBD Trust Company of Illinois and Aladdin related to a finished goods distribution warehouse in Romeoville, Illinois. (Incorporated herein by reference to Exhibit 10.28 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)
*10.2	Lease dated October 3, 1994 between Almoda and Aladdin related to a finished goods distribution warehouse in Columbus, Ohio. (Incorporated herein by reference to Exhibit 10.29 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)
*10.3	Lease dated May 1, 1997 between Opus East, LLC and Mohawk concerning a distribution warehouse in Glen Burnie, Maryland. (Incorporated herein by reference to Exhibit 10.8 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*10.4	Lease dated September 23, 1996 between West End Road Associates and Mohawk concerning a distribution warehouse in Pompton Plains, New Jersey. (Incorporated herein by reference to Exhibit 10.10 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*10.5	Lease dated November 27, 1996 between CP-Regency Business Park LTD and Aladdin concerning a distribution warehouse in Grand Prairie, Texas. (Incorporated herein by reference to Exhibit 10.12 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*10.6	Lease dated September 1, 1996 between Catellus Development Corp. and Mohawk concerning a distribution warehouse in LaMirada, California. (Incorporated herein by reference to Exhibit 10.11 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*10.7	Lease dated October 15, 2000 between Majestic Realty Co. and Principal Life Insurance Company and Aladdin concerning a

distribution warehouse in La Mirada, California. (Incorporated herein by reference to Exhibit 10.9 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

*10.8 Lease dated June 1, 1998 between Intermark USA, Inc. and Aladdin Manufacturing Corporation concerning a warehouse in Kensington, Georgia. (Incorporated herein by reference to Exhibit 10.11 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.9 Lease dated February 18, 1999 between Aladdin Manufacturing Corporation and Industrial Developments International Inc. concerning a warehouse in Bolingbrook, Illinois. (Incorporated herein by reference to Exhibit 10.12 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.10 Lease dated February 18, 1999 between Mohawk Industries, Inc. and Senecca G&H, L.L.C. concerning a warehouse in Miami, Florida. (Incorporated herein by reference to Exhibit 10.13 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.11 Lease dated November 28, 2000 between Aladdin Manufacturing Corporation and Lathrop industrial development, LLC a warehouse in Lathrop, California. (Incorporated herein by reference to Exhibit 10.13 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

*10.12 Lease dated December 3, 1999 between Aladdin Manufacturing Corporation and Ex-Cell Home Fashions, Inc. concerning a plant in Bentonville, Arkansas. (Incorporated herein by reference to Exhibit 10.14 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.13 Lease dated April 1, 2000 between Aladdin Manufacturing Corporation and DMK Holdings LLC, concerning a warehouse in Calhoun, Georgia. (Incorporated herein by reference to Exhibit 10.17 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

*10.14 Lease dated December 29, 1999 between Aladdin Manufacturing Corporation and Seattle-Tacoma Box Company concerning a warehouse in Kent, Washington. (Incorporated herein by reference to Exhibit 10.18 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

10.15 Lease dated November 16, 2001 between Aladdin Manufacturing Corporation and Ostow Holdings, L.L.C. concerning a warehouse in Calhoun, Georgia.

10.16 Lease dated June 27, 2001 between Dal Tile Corporation and Merritt Eli, L.L.C. concerning a warehouse in Baltimore, Maryland.

10.17 Sublease dated February 3, 1997 between Dal Tile Corporation and KMART Corporation concerning a warehouse in Dallas, Texas.

10.18 Lease dated August 24, 1996 between Dal Tile Corporation _ and Harry L. Hussmann Jr., Inc., a Texas Corporation concerning a tile manufacturing facility in El Paso, Texas.

10.19 Lease dated September 30, 1996 between Dal Tile Corporation and Ontario industrial Partners concerning a warehouse in Los

Angeles, California.

*10.20 Fifth Amended and Restated Credit Agreement dated as of November 23, 1999 among Mohawk, Wachovia Bank, N.A., Suntrust Bank, Atlanta and First Union National Bank. (Incorporated herein by reference to Exhibit 10.15 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.21 Amended and Restated Series Note Agreement dated as of August 31, 1999 for $85 million of senior notes due September 1, 2005 among Mohawk, John Hancock Mutual Life Insurance Company, John Hancock Variable Life Insurance Company, Investors Partner Life Insurance Company, Principal Life Insurance Company, The Franklin Life Insurance Company and The Prudential Insurance Company of America. (Incorporated herein by reference to Exhibit 10.2 of Mohawk's Quarterly Report on Form 10-Q for the quarter ended October 2, 1999.)

*10.22 Amended and Restated Note Purchase Agreement dated as of August 31, 1999 for $100 million senior notes due September 16, 2004 among Mohawk, The Prudential Insurance Company of America, Principal Life Insurance Company, John Hancock Mutual Life Insurance Company, Massachusetts Mutual Life Insurance Company, Alexander Hamilton Life Insurance Company of America and The Franklin Life Insurance Company. (Incorporated herein by reference to Exhibit 10.2 of Mohawk's Quarterly Report on Form 10-Q for the quarter ended October 2, 1999.)

*10.23 Registration Rights Agreement by and among Mohawk, Citicorp Investments, Inc., ML-Lee Acquisition Fund, L.P. and Certain Management Investors. (Incorporated herein by reference to Exhibit 10.14 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.24 Voting Agreement, Consent of Stockholders and Amendment to 1992 Registration Rights Agreement dated December 3, 1993 by and among Aladdin, Mohawk, Citicorp Investments, Inc., ML-Lee Acquisition Fund, L.P., David L. Kolb, Donald G. Mercer, Frank A. Procopio and John D. Swift. (Incorporated herein by reference to Exhibit 10(b) of Mohawk's Registration Statement on Form S-4, Registration No. 33-74220.)

*10.25 Registration Rights Agreement by and among Mohawk and the former shareholders of Aladdin. (Incorporated herein by reference to Exhibit 10.32 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

*10.26 Waiver Agreement between Alan S. Lorberbaum and Mohawk dated as of March 23, 1994 to the Registration Rights Agreement dated as of February 25, 1994 between Mohawk and those other persons who are signatories thereto. (Incorporated herein by reference to Exhibit 10.3 of Mohawk's Quarterly Report on Form 10-Q for the quarter ended July 2, 1994.)

*10.27 Second Consolidated, Amended and Restated Note Agreement dated as of August 31, 1999 for $50 million of senior notes, $40,000,000 of which are due October 26, 2002 and $10,000,000 of which are due July 30, 2002, among Mohawk and The Prudential Insurance Company of America. (Incorporated herein by reference to Exhibit 10.3 of Mohawk's Quarterly Report on Form 10-Q dated October 2, 1999.)

*10.28 Receivables Purchase and Sale Agreement dated as of October 25,

2000 by and among Mohawk Carpet Corporation, Mohawk Commercial, Inc., and Durkan Patterned Carpets, Inc. and Mohawk Factoring, Inc. (Incorporated herein by reference to Exhibit 10.28 of Mohawk's Annual Report on Form 10-K for the year ended December 31, 2000)

*10.29 Credit and Security Agreement dated as of October 25, 2000 by and among Mohawk Factoring, Inc, as borrower, Mohawk Servicing, Inc., as Servicer, Blue Ridge Asset Funding Corporation, The Liquidity Banks and Wachovia Bank, N.A., as Agent. (Incorporated herein by reference to Exhibit 10.29 of Mohawk's Annual Report on Form 10-K for the year ended December 31, 2000)

10.30 First Amendment to the Credit and Security Agreement dated as of October 25, 2000 by and among Mohawk Factoring, Inc, as borrower, Mohawk Servicing, Inc., as Servicer, Blue Ridge Asset Funding Corporation, The Liquidity Banks and Wachovia Bank, N.A., as Agent.

*10.31 Interest Rate Swap Agreement dated August 31 2000 by Mohawk Industries, Inc, and First Union National Bank. (Incorporated herein by reference to Exhibit 10.30 of Mohawk's Annual Report on Form 10-K for the year ended December 31, 2000)

10.32 Bridge Credit Facility among Mohawk Industries Inc., Goldman, Sachs Credit Partners, LP, First Union Securities Inc., and SunTrust Bank dated March 20, 2002.

Exhibits Related to Executive Compensation Plans, Contracts and other Arrangements:

*10.33 Mohawk Carpet Corporation Retirement Savings Plan, as amended. (Incorporated herein by reference to Exhibit 10.1 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.34 Mohawk Carpet Corporation Supplemental Executive Retirement Plan, as amended. (Incorporated herein by reference to Exhibit 10.2 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.35 World Carpets, Inc. Savings and Retirement Plan dated January 1, 1989. (Incorporated herein by reference to Exhibit 10.70 of Mohawk's Annual Report on Form 10-K for the year ended December 31, 1998)

*10.36 Mohawk Industries, Inc. Employee Stock Purchase Plan together with forms of related Management Investment Agreement, Non-Qualified Stock Option Agreement, and amendments thereto. (Incorporated herein by reference to Exhibit 10.3 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.37 Stock Purchase Agreement dated as of December 30, 1988 between Mohawk and Mohasco as supplemented by Supplement to Stock Purchase Agreement dated December 30, 1988. (Incorporated herein by reference to Exhibit 10.4 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.38 Securities Purchase and Holders Agreement dated as of December 31, 1988, as amended and restated March 30, 1989, together with amendments thereto and forms of related Non-Qualified Stock

Option Agreement and amendments thereto. (Incorporated herein by reference to Exhibit 10.5 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.39 Investment Agreement dated as of March 31, 1989 among Mohawk, Mohawk Carpet, Citicorp Capital Investors Ltd., Citicorp Venture Capital Ltd. and ML-Lee Acquisition Fund, L.P. (Incorporated herein by reference to Exhibit 10.6 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.40 Equity Securities Agreement dated March 31, 1989 among Mohawk, ML-Lee Acquisition Fund, L.P. and Citicorp Venture Capital Ltd. (Incorporated herein by reference to Exhibit 10.7 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.41 Securities Holders Agreement among Mohawk and Certain Management Investors dated as of March 6, 1992. (Incorporated herein by reference to Exhibit 10.40 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

*10.42 Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.8 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.43 Amendment dated July 22, 1993 to the Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.2 in Mohawk's quarterly report on Form 10-Q for the quarter ended July 3, 1993.)

*10.44 Second Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.35 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.45 Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Option Plan. (Incorporated herein by reference to Exhibit 10.15 of Mohawk's Registration Statement on Form S-1, Registration Number 33-53932.)

*10.46 Amendment dated July 22, 1993 to the Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Option Plan. (Incorporated herein by reference to Exhibit 10.1 of Mohawk's quarterly report on Form 10-Q for the quarter ended July 3, 1993.)

*10.47 Second Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Option Plan. (Incorporated herein by reference to Exhibit 10.38 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.48 Mohawk Industries, Inc. 1993 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.39 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.)

*10.49 First Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1993 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.40 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.50 The Mohawk Industries, Inc. Executive Deferred Compensation Plan.

	(Incorporated herein by reference to Exhibit 10.65 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)
*10.51	The Mohawk Industries, Inc. Management Deferred Compensation Plan. (Incorporated herein by reference to Exhibit 10.66 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)
*10.52	1997 Non-Employee Director Stock Compensation Plan. (Incorporated herein by reference to Exhibit10.79 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)
*10.53	1997 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.80 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)
*10.54	Amendment No. 1 to 1997 Non-Employee Director Stock Compensation Plan. (Incorporated herein by reference to Exhibit 10.74 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.)
*10.55	Amendment and Restated Consulting Agreement between Mohawk Industries, Inc. and David L. Kolb dated January 17, 2001. (Incorporated herein by reference to Exhibit 10.55 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
10.56	Employment Agreement between Mohawk Industries, Inc., Dal-Tile International Inc. and W. Christopher Wellborn dated March 11, 2002.
*10.57	Dal-Tile International Inc. 1990 Stock Option Plan, as amended and restated (also known as the 2000 Amended and Restated Stock Option Plan)(Incorporated herein by reference to Appendix B in Dal-Tile International Inc.'s Definitive Proxy Statement for its 2001 Annual Meeting of Stockholders, as filed with the Securities and Exchange Commission on March 27, 2001).
*10.58	Supply Agreement dated as of December 29, 1999, between Dal-Tile Corporation and Wold Talc Company. (Incorporated herein by reference to Exhibit 10.18 of the Dal-Tile International Inc. Form 10-K for fiscal year 1999.)
21	Subsidiaries of the Registrant.
23.1	Independent Auditors' Consent - KPMG LLP.

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* Indicates exhibit incorporated by reference.

(b) Reports on Form 8-K.

1. Current Report on Form 8-K: Third quarter earnings press release, dated October 15, 2001

2. Current Report on Form 8-K: Announcement of merger with Dal-Tile International Inc. dated November 19, 2001.

3. Current Report on Form 8-K: Announcement of increase in estimated earnings for the fourth quarter of 2001, dated December 7, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Mohawk Industries, Inc.

Dated: March 20, 2002

By: /s/ JEFFREY S. LORBERBAUM

Jeffrey S. Lorberbaum,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: March 20, 2002 /s/ JEFFREY S. LORBERBAUM

Jeffrey S. Lorberbaum,
President and Chief Executive Officer
(principal executive officer)

Dated: March 20, 2002 /s/ JOHN D. SWIFT

John D. Swift,
Chief Financial Officer, Vice President-Finance
and Assistant Secretary
(principal financial and accounting officer)

Dated: March 20, 2002 /s/ DAVID L. KOLB

David L. Kolb,
Chairman of the Board

Dated: March 20, 2002 /s/ LEO BENATAR

Leo Benatar,
Director

Dated: March 20, 2002 /s/ BRUCE C. BRUCKMANN

Bruce C. Bruckmann,
Director

Dated: March 20, 2002 /s/ JOHN F. FIEDLER

John F. Fiedler,
Director

Dated: March 20, 2002 /s/ S. H. SHARPE

S. H. Sharpe
Director

Dated: March 20, 2002 /s/ LARRY W. MCCURDY

Larry W. McCurdy,
Director

Dated: March 20, 2002 /s/ ROBERT N. POKELWALDT

Robert N. Pokelwaldt,
Director

Dated: March 20, 2002 /s/ W. CHRISTOPHER WELLBORN

W. Christopher Wellborn,
Director

SCHEDULE I

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Financial Information Of Registrant
Mohawk Industries, Inc.

Balance Sheets

December 31, 2001 and 2000

(In thousands, except per share data)

ASSETS	2001	2000
Current assets - intercompany receivable	$ --	207,134
Investment in subsidiaries	1,071,755	883,163
	$1,071,755	1,090,297
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Intercompay payable	$ 105	--
Current portion of long-term debt	30,873	30,878
Long-term debt, less current portion	92,226	305,059
Total liabilities	123,204	335,937
Stockholders' equity:		
Preferred stock, $.01 per value; 60 shares authorized; no shares issued	--	--
Common stock, $.01 par value; 150,000 shares authorized; 61,408 and 60,638 shares issued in 2001 and 2000, respectively	614	608
Addition paid-in capital	197,247	183,303
Retained earning	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
	$1,071,755	1,090,297

See accompanying notes to condensed financial information of registrant.

SCHEDULE I
(continued)

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Financial Information Of Registrant
Mohawk Industries, Inc.

Statements of Earnings

Years Ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1998
Dividend income from subsidiaries	$208,250	200,155	157,239
Interest expense	19,658	37,556	-
Equity in earnings of subsidiaries	188,592	162,599	157,239
Net earnings	$188,592	162,599	157,239

See accompanying notes to condensed financial information of registrant.

SCHEDULE I
(continued)

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Financial Information Of Registrant
Mohawk Industries, Inc.

Statements of Cash Flows

Years Ended December 31, 2001, 2000 and 1999

(In thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net earnings	$ 188,592	162,599	157,239
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:			
Equity in earnings of subsidiaries	(188,592)	(162,599)	(157,239)
Tax benefit from exercise of stock options	4,847	914	216
Decrease (increase) in intercompany receivable	207,047	302,845	(451,075)
Net cash (used in) provided by operating activities	211,894	303,759	(450,859)
Cash flows from financing activities:			
Net change in revolving line of credit	(181,964)	(168,595)	384,452
Net (payments) proceeds from term loans	(30,874)	(30,872)	150,952

Stock options exercised	9,103	2,397	1,391
Purchase of treasury stock	(8,159)	(106,689)	(85,936)
Net cash (used in) provided by financing activities	(211,894)	(303,759)	450,859
Net change in cash	-	-	-
Cash, beginning of year	-	-	-
Cash, end of year	$ -	-	-

See accompanying notes to condensed financial information of registrant.

SCHEDULE I
(continued)

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Condensed Financial Information Of Registrant
Mohawk Industries, Inc.

December 31, 2001, 2000 and 1999

(In thousands, except per share data)

(1) Long-Term Debt

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 $450,000 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 lines 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.

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, and to receive in return an amount equal to a specified variable-rate of interest times the same notional principal amount of $100,000. 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.

Long-term debt consists of the following:

	2001	2000
Revolving line of credit, due January 28, 2004	$ 33,893	215,857

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
Total long-term debt	123,099	335,937
Less current portion	30,873	30,878
Long-term debt, excluding current portion	$ 92,226	305,059

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

2002	$ 30,873
2003	25,159
2004	57,623
2005	9,444
	$ 123,099

(2) Dividends

The dividends paid to Mohawk by its consolidated subsidiaries were $208,250, $200,155 and $157,239 for 2001, 2000 and 1999, respectively.

SCHEDULE II

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Valuation and Qualifying Accounts

Years Ended December 31, 2001, 2000 and 1999

(In thousands)

Description	Balance at beginning of year	Additions charged to costs and expenses	Deductions(1)	Balance at end of year
Year ended December 31, 1999:				
Allowance for doubtful accounts - trade	$ 23,010	15,804	4,710	34,104
Provision for cash discounts	10,487	75,155	76,680	8,962
Provision for claims and allowances	24,736	123,515	120,838	27,413
Total	$ 58,233	214,474	202,228	70,479
Year ended December 31, 2000:				
Allowance for doubtful accounts - trade	$ 34,104	15,717	10,968	38,853
Provision for cash discounts	8,962	81,872	78,641	12,193
Provision for claims and allowances	27,413	138,815	138,916	27,312
Total	$ 70,479	236,404	228,525	78,358
Year ended December 31, 2001:				
Allowance for doubtful accounts - trade	$ 38,853	12,048	9,608	41,293
Provision for cash discounts	12,193	80,145	80,264	12,074
Provision for claims and allowances	27,312	153,634	154,932	26,014
Total	$ 78,358	245,827	244,804	79,381

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(1) Represents charge offs, net of recoveries, to the reserves.

EXHIBIT INDEX

Mohawk Exhibit Number	Description
*2.1	Agreement and Plan of Merger dated as of December 3, 1993 and amended as of January 17, 1994 among Mohawk, AMI Acquisition Corp., Aladdin and certain Shareholders of Aladdin. (Incorporated herein by reference to Exhibit 2(i)(a) in Mohawk's Registration Statement on Form S-4, Registration No. 33-74220.)
*2.2	Agreement and Plan of Merger by and among Mohawk, WC Acquisition Corp., World Carpets, Inc. and the shareholders of World Carpets, Inc. dated as of October 22, 1998. (Incorporated herein by reference to Exhibit 2 of the Mohawk Registration Statement on Form S-3, Registration No. 333-66061, as filed October 22, 1998.)
*2.3	Asset Purchase Agreement by and among Aladdin Manufacturing Corporation, Image Industries, Inc. and The Maxim Group, Inc. dated as of November 12, 1998, as amended and restated on January 29, 1999. (Incorporated herein by reference to Exhibit 2.1 in Mohawk's Current Report on Form 8-K dated January 29, 1999.)
*2.4	Agreement and Plan of Merger by and among Mohawk, Durkan Acquisition Corp., Nonpareil Acquisition Corp, Durkan Patterned Carpets, Inc. the shareholders of Durkan Patterned Carpets, Inc. and the shareholders of Nonpareil Dying and Finishing, Inc., dated as of February 26, 1999. (Incorporated herein by reference to Exhibit 2.1 of the Mohawk Registration Statement on Form S-3, Registration No. 333-77231, as filed April 28, 1999.)
*2.5	Agreement and Plan of Merger by and between Mohawk, Maverick Merger Sub, Inc. and Dal-Tile International Inc., dated as of November 19, 2001. (Incorporated herein by reference to Exhibit 2.1 of the Mohawk Registration Statement on Form S-4, Registration No. 333-74806, as filed December 7, 2001.)
*2.6	Amendment No. 1, to the Agreement and Plan of Merger by and between Mohawk, Maverick Merger Sub, Inc. and Dal-Tile International Inc., dated as of January 16, 2002. (Incorporated herein by reference to Exhibit 2.2 of the Mohawk Registration Statement on Form S-4, Registration No. 333-74806, as filed January 17, 2002.)
*3.1	Restated Certificate of Incorporation of Mohawk, as amended. (Incorporated herein by reference to Exhibit 3.1 in Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*3.2	Amended and Restated Bylaws of Mohawk. (Incorporated herein by reference to Exhibit 3.1 of the Mohawk registration Statement on Form S-4, Registration No. 333-74806, as filed February 6, 2002.)
*4.1	See Article 4 of the Restated Certificate of Incorporation of Mohawk. (Incorporated herein by reference to Exhibit 3.1 in Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)

*4.2 See Articles 2, 6, and 9 of the Amended and Restated Bylaws of Mohawk. (Incorporated herein by reference to Exhibit 3.1 of the Mohawk registration Statement on Form S-4, Registration No. 333-74806, as filed February 6, 2002.)

*10.1 Lease dated October 15, 1990 between NBD Trust Company of Illinois and Aladdin related to a finished goods distribution warehouse in Romeoville, Illinois. (Incorporated herein by reference to Exhibit 10.28 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

*10.2 Lease dated October 3, 1994 between Almoda and Aladdin related to a finished goods distribution warehouse in Columbus, Ohio. (Incorporated herein by reference to Exhibit 10.29 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

*10.3 Lease dated May 1, 1997 between Opus East, LLC and Mohawk concerning a distribution warehouse in Glen Burnie, Maryland. (Incorporated herein by reference to Exhibit 10.8 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)

*10.4 Lease dated September 23, 1996 between West End Road Associates and Mohawk concerning a distribution warehouse in Pompton Plains, New Jersey. (Incorporated herein by reference to Exhibit 10.10 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)

*10.5 Lease dated November 27, 1996 between CP-Regency Business Park LTD and Aladdin concerning a distribution warehouse in Grand Prairie, Texas. (Incorporated herein by reference to Exhibit 10.12 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)

*10.6 Lease dated September 1, 1996 between Catellus Development Corp. and Mohawk concerning a distribution warehouse in LaMirada, California. (Incorporated herein by reference to Exhibit 10.11 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)

*10.7 Lease dated October 15, 2000 between Majestic Realty Co. and Principal Life Insurance Company and Aladdin concerning a distribution warehouse in La Mirada, California. (Incorporated herein by reference to Exhibit 10.9 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

*10.8 Lease dated June 1, 1998 between Intermark USA, Inc. and Aladdin Manufacturing Corporation concerning a warehouse in Kensington, Georgia. (Incorporated herein by reference to Exhibit 10.11 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.9 Lease dated February 18, 1999 between Aladdin Manufacturing Corporation and Industrial Developments International Inc. concerning a warehouse in Bolingbrook, Illinois. (Incorporated herein by reference to Exhibit 10.12 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.10 Lease dated February 18, 1999 between Mohawk Industries, Inc.

and Senecca G&H, L.L.C. concerning a warehouse in Miami, Florida. (Incorporated herein by reference to Exhibit 10.13 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.11 Lease dated November 28, 2000 between Aladdin Manufacturing Corporation and Lathrop industrial development, LLC a warehouse in Lathrop, California. (Incorporated herein by reference to Exhibit 10.13 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

*10.12 Lease dated December 3, 1999 between Aladdin Manufacturing Corporation and Ex-Cell Home Fashions, Inc. concerning a plant in Bentonville, Arkansas. (Incorporated herein by reference to Exhibit 10.14 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.13 Lease dated April 1, 2000 between Aladdin Manufacturing Corporation and DMK Holdings LLC, concerning a warehouse in Calhoun, Georgia. (Incorporated herein by reference to

Exhibit 10.17 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

*10.14 Lease dated December 29, 1999 between Aladdin Manufacturing Corporation and Seattle-Tacoma Box Company concerning a warehouse in Kent, Washington. (Incorporated herein by reference to Exhibit 10.18 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

10.15 Lease dated November 16, 2001 between Aladdin Manufacturing Corporation and Ostow Holdings, L.L.C. concerning a warehouse in Calhoun, Georgia.

10.16 Lease dated June 27, 2001 between Dal Tile Corporation and Merritt Eli, L.L.C. concerning a warehouse in Baltimore, Maryland.

10.17 Sublease dated February 3, 1997 between Dal Tile Corporation and KMART Corporation concerning a warehouse in Dallas, Texas.

10.18 Lease dated August 24, 1996 between Dal Tile Corporation _ and Harry L. Hussmann Jr., Inc., a Texas Corporation concerning a tile manufacturing facility in El Paso, Texas.

10.19 Lease dated September 30, 1996 between Dal Tile Corporation and Ontario industrial Partners concerning a warehouse in Los Angeles, California.

*10.20 Fifth Amended and Restated Credit Agreement dated as of November 23, 1999 among Mohawk, Wachovia Bank, N.A., Suntrust Bank, Atlanta and First Union National Bank. (Incorporated herein by reference to Exhibit 10.15 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.21 Amended and Restated Series Note Agreement dated as of August 31, 1999 for $85 million of senior notes due September 1, 2005 among Mohawk, John Hancock Mutual Life Insurance Company, John Hancock Variable Life Insurance Company, Investors Partner Life Insurance Company, Principal Life Insurance Company, The Franklin Life Insurance Company and The Prudential Insurance Company of America. (Incorporated herein by reference to Exhibit 10.2 of Mohawk's Quarterly Report on Form 10-Q for the quarter ended October 2, 1999.)

*10.22 Amended and Restated Note Purchase Agreement dated as of August 31, 1999 for $100 million senior notes due September 16, 2004 among Mohawk, The Prudential Insurance Company of America, Principal Life Insurance Company, John Hancock Mutual Life Insurance Company, Massachusetts Mutual Life Insurance Company, Alexander Hamilton Life Insurance Company of America and The Franklin Life Insurance Company. (Incorporated herein by reference to Exhibit 10.2 of Mohawk's Quarterly Report on Form 10-Q for the quarter ended October 2, 1999.)

*10.23 Registration Rights Agreement by and among Mohawk, Citicorp Investments, Inc., ML-Lee Acquisition Fund, L.P. and Certain Management Investors. (Incorporated herein by reference to Exhibit 10.14 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.24 Voting Agreement, Consent of Stockholders and Amendment to 1992 Registration Rights Agreement dated December 3, 1993 by and among Aladdin, Mohawk, Citicorp Investments, Inc., ML-Lee Acquisition Fund, L.P., David L. Kolb, Donald G. Mercer, Frank A. Procopio and John D. Swift. (Incorporated herein by reference to Exhibit 10(b) of Mohawk's Registration Statement on Form S-4, Registration No. 33-74220.)

*10.25 Registration Rights Agreement by and among Mohawk and the former shareholders of Aladdin. (Incorporated herein by reference to Exhibit 10.32 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

*10.26 Waiver Agreement between Alan S. Lorberbaum and Mohawk dated as of March 23, 1994 to the Registration Rights Agreement dated as of February 25, 1994 between Mohawk and those other persons who are signatories thereto. (Incorporated herein by reference to Exhibit 10.3 of Mohawk's Quarterly Report on Form 10-Q for the quarter ended July 2, 1994.)

*10.27 Second Consolidated, Amended and Restated Note Agreement dated as of August 31, 1999 for $50 million of senior notes, $40,000,000 of which are due October 26, 2002 and $10,000,000 of which are due July 30, 2002, among Mohawk and The Prudential Insurance Company of America. (Incorporated herein by reference to Exhibit 10.3 of Mohawk's Quarterly Report on Form 10-Q dated October 2, 1999.)

*10.28 Receivables Purchase and Sale Agreement dated as of October 25, 2000 by and among Mohawk Carpet Corporation, Mohawk Commercial, Inc., and Durkan Patterned Carpets, Inc. and Mohawk Factoring, Inc. (Incorporated herein by reference to Exhibit 10.28 of Mohawk's Annual Report on Form 10-K for the year ended December 31, 2000)

*10.29 Credit and Security Agreement dated as of October 25, 2000 by and among Mohawk Factoring, Inc, as borrower, Mohawk Servicing, Inc., as Servicer, Blue Ridge Asset Funding Corporation, The Liquidity Banks and Wachovia Bank, N.A., as Agent. (Incorporated herein by reference to Exhibit 10.29 of Mohawk's Annual Report on Form 10-K for the year ended December 31, 2000)

10.30 First Amendment to the Credit and Security Agreement dated as of October 25, 2000 by and among Mohawk Factoring, Inc, as borrower, Mohawk Servicing, Inc., as Servicer, Blue Ridge Asset Funding Corporation, The Liquidity Banks and Wachovia Bank, N.A., as Agent.

*10.31 Interest Rate Swap Agreement dated August 31 2000 by Mohawk

Industries, Inc, and First Union National Bank. (Incorporated herein by reference to Exhibit 10.30 of Mohawk's Annual Report on Form 10-K for the year ended December 31, 2000)

10.32 Bridge Credit Facility among Mohawk Industries Inc., Goldman, Sachs Credit Partners, LP, First Union Securities Inc., and SunTrust Bank dated March 20, 2002.

Exhibits Related to Executive Compensation Plans, Contracts and other Arrangements:

*10.33 Mohawk Carpet Corporation Retirement Savings Plan, as amended. (Incorporated herein by reference to Exhibit 10.1 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.34 Mohawk Carpet Corporation Supplemental Executive Retirement Plan, as amended. (Incorporated herein by reference to Exhibit 10.2 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.35 World Carpets, Inc. Savings and Retirement Plan dated January 1, 1989. (Incorporated herein by reference to Exhibit 10.70 of Mohawk's Annual Report on Form 10-K for the year ended December 31, 1998)

*10.36 Mohawk Industries, Inc. Employee Stock Purchase Plan together with forms of related Management Investment Agreement, Non-Qualified Stock Option Agreement, and

amendments thereto. (Incorporated herein by reference to Exhibit 10.3 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.37 Stock Purchase Agreement dated as of December 30, 1988 between Mohawk and Mohasco as supplemented by Supplement to Stock Purchase Agreement dated December 30, 1988. (Incorporated herein by reference to Exhibit 10.4 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.38 Securities Purchase and Holders Agreement dated as of December 31, 1988, as amended and restated March 30, 1989, together with amendments thereto and forms of related Non-Qualified Stock Option Agreement and amendments thereto. (Incorporated herein by reference to Exhibit 10.5 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.39 Investment Agreement dated as of March 31, 1989 among Mohawk, Mohawk Carpet, Citicorp Capital Investors Ltd., Citicorp Venture Capital Ltd. and ML-Lee Acquisition Fund, L.P. (Incorporated herein by reference to Exhibit 10.6 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.40 Equity Securities Agreement dated March 31, 1989 among Mohawk, ML-Lee Acquisition Fund, L.P. and Citicorp Venture Capital Ltd. (Incorporated herein by reference to Exhibit 10.7 of Mohawk's Registration Statement on Form S-1, Registration No. 33-45418.)

*10.41 Securities Holders Agreement among Mohawk and Certain Management Investors dated as of March 6, 1992. (Incorporated herein by reference to Exhibit 10.40 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)

*10.42 Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.8 of Mohawk's Registration

Statement on Form S-1, Registration No. 33-45418.)

*10.43 Amendment dated July 22, 1993 to the Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.2 in Mohawk's quarterly report on Form 10-Q for the quarter ended July 3, 1993.)

*10.44 Second Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.35 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.45 Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Option Plan. (Incorporated herein by reference to Exhibit 10.15 of Mohawk's Registration Statement on Form S-1, Registration Number 33-53932.)

*10.46 Amendment dated July 22, 1993 to the Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Option Plan. (Incorporated herein by reference to Exhibit 10.1 of Mohawk's quarterly report on Form 10-Q for the quarter ended July 3, 1993.)

*10.47 Second Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Option Plan. (Incorporated herein by reference to Exhibit 10.38 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.48 Mohawk Industries, Inc. 1993 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.39 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.)

*10.49 First Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1993 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.40 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)

*10.50 The Mohawk Industries, Inc. Executive Deferred Compensation Plan. (Incorporated herein by reference to Exhibit 10.65 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

*10.51 The Mohawk Industries, Inc. Management Deferred Compensation Plan. (Incorporated herein by reference to Exhibit 10.66 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.)

*10.52 1997 Non-Employee Director Stock Compensation Plan. (Incorporated herein by reference to Exhibit10.79 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)

*10.53 1997 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.80 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)

*10.54 Amendment No. 1 to 1997 Non-Employee Director Stock Compensation Plan. (Incorporated herein by reference to Exhibit 10.74 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.)

*10.55 Amendment and Restated Consulting Agreement between Mohawk Industries, Inc. and David L. Kolb dated January 17, 2001.

	(Incorporated herein by reference to Exhibit 10.55 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
10.56	Employment Agreement between Mohawk Industries, Inc., Dal-Tile International Inc. and W. Christopher Wellborn dated March 11, 2002.
*10.57	Dal-Tile International Inc. 1990 Stock Option Plan, as amended and restated (also known as the 2000 Amended and Restated Stock Option Plan)(Incorporated herein by reference to Appendix B in Dal-Tile International Inc.'s Definitive Proxy Statement for its 2001 Annual Meeting of Stockholders, as filed with the Securities and Exchange Commission on March 27, 2001).
*10.58	Supply Agreement dated as of December 29, 1999, between Dal-Tile Corporation and Wold Talc Company. (Incorporated herein by reference to Exhibit 10.18 of the Dal-Tile International Inc. Form 10-K for fiscal year 1999.)
21	Subsidiaries of the Registrant.
23.1	Independent Auditors' Consent - KPMG LLP.

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* Indicates exhibit incorporated by reference.

Exhibit 10.15

STATE OF GEORGIA

COUNTY OF GORDON

COMMERCIAL LEASE

THIS LEASE, made this 16/th/ day of NOVEMBER, 2001, by and between OSTOW HOLDINGS, L.L.C. c/o Mr. Stanley J. Ostow, 55 Lookout Circle, Larchmont, N.Y. 10538 (hereinafter referred to as "Landlord"); and ALADDIN MANUFACTURING CORPORATION (hereinafter referred to as "Tenant").

WITNESSETH:

Premises

1. That Landlord, for and in consideration of the rents, covenants, agreements , and stipulations hereinafter mentioned, reserved, and contained, to be paid, kept and performed by Tenant, has leased and rented, and by these presents does lease and rent, unto Tenant, and Tenant hereby leases and takes upon the terms and conditions which hereinafter appear, the following described property (hereinafter called "the premises") to wit:

ONE HUNDRED FORTY THOUSAND SQUARE FEET OF WAREHOUSE SPACE REPRESENTING A PORTION OF THE PREMISES AT 501 OAK STREET, CALHOUN GEORGIA AS DESIGNATED AND AGREED UPON BETWEEN LANDLORD AND TENANT AND SHOWN ON EXHIBIT B ATTACHED HERETO.

[PLAN]

TERM

2. Tenant shall have and hold the premises for a term beginning on the 1/st/ day of January, 2002 ending on the 31st day of December, 2003 at midnight unless sooner terminated or extended as hereinafter specifically provided in this Lease.

RENTAL

3. Tenant shall pay Landlord, by payments to F B & F HOLDING CO., L.L.C. P.O. Box 2409, Calhoun, Georgia, 30703 (hereinafter called "Manager") or at such other address of which Tenant shall from time to time otherwise be notified, promptly on the first day of each month in advance, during all terms of this Lease a monthly rental of $17,600. All amounts payable under this lease by Tenant to Landlord, if not paid when due, will bear interest from the due date until paid at the highest rate permitted by law.

UTILITY

4. Tenant shall pay all water, sewer, sewer service charges, gas, electricity, fuel, light, heat and power bills for permises or used by Tenant in connection therewith, during all terms of this Lease. If Tenant does not pay such bills or charges Landlord may pay the same, and such payments shall be added to the

following month's rental of premises. Notwithstanding any payments of such bills and charges by the Landlord, Tenant's failure to pay such bills and charges when and as due shall constitute a default under this Lease and will give the Landlord, interalia, the right to cancel this Lease as provided hereinafter in Paragraph Sixteen (16).

USE OF THE PREMISES

5. The premises shall be used specifically for warehousing only and no other purposes whatsoever. The premises shall not be used for any illegal purposes; nor in any manner to create any nuisance or trespass; nor in any manner to vitiate the insurance or increase the rate of insurance on premises.

ABANDONMENT OF THE PREMISES

6. Tenant may abandon or vacate the premises during any term of this Lease but shall maintain premises only for the aforesaid purpose herein leased until the expiration of the final term hereof.

REPAIRS BY LANDLORD

7. Landlord shall keep in good repair the roof, foundations and exterior walls of the premises, and sewer pipes outside the exterior walls of the building in which the premises is located, except repairs rendered necessary by the negligence, wilful act or omission of Tenant, Tenant's agents, employees and invitees. Landlord hereby gives Tenant exclusive control of the premises, and Landlord shall be under no obligation to inspect the premises. Tenant shall promptly report in writing to Landlord any defective condition known to Tenant which Landlord is required to repair, and failure to so report such defects shall make Tenant responsible to Landlord for any liability incurred by Landlord by reason of such defects.

REPAIRS BY TENANT

8. Tenant accepts the premises in its present condition and as suited for the uses intended by Tenant. Tenant shall, throughout all terms of this Lease, at Tenant's expense, maintain the premises in good order and repair, except those repairs expressly required in Paragraph 7 hereof to be made by Landlord. Tenant further agrees to care for and clean the ground surrounding the building, including the removal of snow, mowing of grass, cleaning of the paved areas, and general landscaping. Tenant shall return the premises to Landlord at the expiration, or prior to termination, of the term of this Lease in as good condition and repair as when first received, natural wear and tear expected.

DESTRUCTION OF OR DAMAGE TO PREMISES

10. (a) If the premises or any part thereof shall be damaged by fire or other casualty, Tenant shall give immediate notice thereof to Landlord and Manager, and this Lease shall continue in full force and effect except as hereinafter set forth.

(b) If the premises are partially damaged or rendered partially unusable by fire or other casualty, not caused by Tenant, the damages thereto shall be repaired by and at the expense of the Landlord and the rent, until such repair shall be substantially completed, shall be apportioned from the day following the casualty according to the part of the premises which is usable.

(c) If the premises are totally damaged or rendered wholly unusable by fire or other casualty, not caused by Tenant, then the rent shall be proportionately paid up to the time of

the casualty and thenceforth shall cease until the date when the premises shall

have been repaired and restored by Landlord, subject to Landlord's right to elect not to restore the same as hereinafter provided.

(d) If the premises are rendered wholly unusable or (whether or not the premises are damaged in whole or in part) if the building shall be so damaged that Landlord shall decide to demolish it or to rebuild it; then, in any of such events, Landlord may elect to terminate this lease by written notice to Tenant, given within 90 days after such fire or casualty, specifying a date for the expiration of the lease, which date shall not be more than 60 days after the giving of such notice, and upon the date specified in such notice the term of this lease shall expire as fully and completely as of such date were the date set forth above for the termination of this lease and Tenant shall forthwith quit, surrender and vacate the premises without prejudice, however, to Landlord's rights and remedies against Tenant under the lease provisions in effect prior to such termination, and any rent owing shall be paid up to such date and any payments of rent made by Tenant which were on account of any period subsequent to such date shall be returned to Tenant unless such damages were caused by Tenant, in which event Tenant shall not be entitled to the return of any rent. Unless Landlord shall serve a termination notice as provided for herein, Landlord shall make the repairs and restorations under the conditions of (b) and (c) hereof, with all reasonable expedition, subject to delays due to adjustment of insurance claims, labor troubles and causes beyond Landlord's control. After any such casualty, Tenant shall cooperate with Landlord's restoration by removing from the premises as promptly as reasonably possible, all of the Tenant's salvageable inventory and movable equipment, furniture and other property. Tenant's liability for rent shall resume five (5) days after written notice from Landlord that

the premises are substantially ready for Tenant's occupancy.

(e) Nothing contained hereinabove shall relieve Tenant from liability that may exist as a result of damage from fire or other casualty. Notwithstanding the foregoing, each party shall look first to any insurance in its favor before making any claim against the other party for recovery for loss or damage resulting from fire or other casualty, and to the extent that such insurance is in force and collectible and to the extent permitted by law, Landlord and Tenant each hereby releases and waives all right of recovery against the other or any one claiming through or under each of them by way of subrogation or otherwise. The foregoing release and waiver shall be in force only if both releasors' insurance policies contain a clause providing that such a release or waiver shall not invalidate the insurance. If, and to the extent, that such waiver can be obtained only by the payment of additional premium, then the party benefitting from the waiver shall pay such premium within ten days after written demand or shall be deemed to have agreed that the party obtaining insurance coverage shall be free of any further obligation under the provisions hereof with respect to waiver of subrogation. Tenant acknowledges that Landlord will not carry insurance on Tenant's furniture, furnishings, equipment, fixtures, inventory, improvements or appurtenances removable by Tenant and agrees that Landlord will not be obligated to repair any damage thereto or replace the same,

INDEMNITY

11. Tenant agrees to and hereby does, indemnify and save Landlord harmless against all claims for damages to persons or property by reason of Tenant's use or occupancy of the premises, and all expenses incurred by the Landlord because thereof, including attorney's fees and court costs.

REQUIREMENTS OF LAW

12. Prior to the commencement of the lease term, if Tenant is then in possession, and at all times thereafter, Tenant, at Tenant's sole cost and expense, shall promptly comply with all present and future laws, orders, and regulations of all state, federal, municipal and local governments, departments, commissions and boards and any direction of any public officer pursuant to law,

and all orders, rules and regulations of the State Fire Marshall of Georgia or any similar body which shall impose any violation, or order or duty upon Landlord or Tenant with respect to the premises, whether or not arising out of Tenant's use or manner of use thereof, (including Tenant's permitted use) or, with respect to the building if arising out of Tenant's use or manner of use of the premises or the building (including the use permitted under the lease). Nothing herein shall require Tenant to make structural repairs or alterations unless Tenant has, by its manner of use of the premises or method of operation therein, violated any such laws, ordinances, orders, rules, regulations or requirements with respect thereto. Tenant may after securing Landlord to Landlord's satisfaction against all damages, interest, penalties and expenses, including but not limited to reasonable attorney's fees, by cash deposit or by surety bond in an amount and in a company satisfactory to Landlord, contest and appeal any such laws, ordinances, orders, rules, regulations or requirements provided same is done with all reasonable promptness and provided such appeal shall not subject Landlord to prosecution for a criminal offense or constitute a default under any lease or mortgage under which Landlord may be obligated, or cause the premises or any part thereof to be condemned or vacated. Tenant shall not do or permit any act or thing to be done in or to the premises which is contrary to law, or which will invalidate or be

in conflict with the public liability, fire or other policies of insurance at any time carried by or for the benefit of Landlord with respect to the premises or the building of which the premises form a part, or which shall or might subject Landlord to any liability or responsibility to any persons or for property damage. Tenant shall not keep anything in the premises except as now or hereafter permitted by the State Fire Marshall of Georgia or other authority having jurisdiction, and then only in such manner and such quantity so as not to increase the rate for fire insurance applicable to the building, nor use the premises in a manner which will increase the insurance rate for the building or any property located therein over that in effect prior to the commencement of Tenant's occupancy. Tenant shall pay all costs, expenses, fines, penalties, or damages which may be imposed upon Landlord by reason of Tenant's failure to comply with the provisions of this article and if by reason of such failure the fire insurance rate shall at the beginning of this lease or any time thereafter, be higher than it otherwise would be, then Tenant shall reimburse Landlord, as additional rent hereunder, for that portion of all fire insurance premiums thereafter paid by Landlord which shall have been charged because of such failure of Tenant. Tenant shall not place a load upon any floor of the premises exceeding the floor load per square foot area which it was designed to carry and which is allowed by law. Landlord reserves the right to prescribe the weight and position of all safes, business machines and mechanical equipment.

Such installations shall be placed and maintained by Tenant at Tenant's expense in settings sufficient, in Landlord's judgement, to absorb and prevent vibration, noise and annoyance.

CONDEMNATION

13. If the whole of the premises, or such portion thereof as will make premises unusable for the purposes herein leased, be condemned by any legally constituted authority for any public use or purposes, then in either of said events this Lease shall cease from the time when possession thereof is taken by public authorities, and rental shall be accounted for as between Landlord and Tenant as of that date. Such termination, however, shall be without prejudice to the rights of either Landlord or Tenant to recover compensation and damage caused by condemnation from the condemnor. It is further understood and agreed that Tenant shall not have any rights in any award made by any condemnation authority notwithstanding the termination of this Lease as herein provided.

ASSIGNMENT AND SUBLETTING

14. Tenant shall not, without the prior written consent of the Landlord endorsed hereon, assign or encumber this Lease or any interest hereunder, or

sublet premises or any part thereof, or permit the use of premises by any other party other than Tenant, Unless such assignment is to a division or subsidiary of Tenant. Landlord's consent to any assignment, encumbrance or sublease shall not constitute consent to any further assignments, encumbrances or subleases, which shall be made likewise only on the prior written consent of Landlord. Assignee of Tenant, at option of Landlord, shall become directly liable to Landlord for all obligations of Tenant hereunder, but no sublease or assignment by Tenant shall relieve Tenant of any liability hereunder.

TENANT ALTERATIONS, REMOVAL OF FIXTURES AND PROPERTY

15. Tenant shall make no changes in or to the premises of any nature without the Landlord's prior written consent. Subject to the prior written consent of the Landlord, and to the provisions of this article, Tenant at Tenant's expense, may make alterations, installations, additions or improvements which are nonstructural and which do not affect utility services or plumbing and electrical lines, in or to the interior of the premises by using contractors or mechanics first approved by Landlord. Tenant shall, before making any alterations or additions, installations, or improvements, at its expense, obtain all permits, approvals and certificates required by any governmental or quasi-governmental bodies and (upon completion) certificates of final approval thereof and shall deliver promptly duplicates of all such permits, approvals and certificates to Landlord and Tenant agrees to carry and will cause the Tenant's contractors and subcontractors to carry such workman's compensation, general liability, personal and property damage insurance as Landlord may require. If any mechanic's or materialman's lien is filed against the premises for work claimed to have been done for, or material furnished to Tenant, whether or not done pursuant to this article, the same shall be discharged by Tenant within thirty (30) days thereafter, at Tenant's expense, by filing the bond required by law. All fixtures and all paneling, partitions, railings and like installations, installed in the premises at any time, either by Tenant or Landlord in Tenant's behalf, shall, upon installation, become the property of Landlord and shall remain upon and be surrendered with the premises unless Landlord, by notice to the Tenant no later than twenty (20) days prior to the date fixed as the termination of this Lease, elects to relinquish

the Landlord's rights thereto and to have them removed by Tenant, in which event the same shall be removed from the premises by Tenant, under Landlord's supervision, prior to the expiration of the Lease, at Tenant's expense. Nothing in this article shall be construed to give Landlord title to or prevent Tenant's removal of trade fixtures, moveable office furniture and equipment, but upon removal of any such from the premises or upon removal of other installations as may be required by the Landlord, Tenant shall immediately and at its expense, repair and restore the premises to the condition existing prior to the installation and repair any damage to the premises due to such removal. All property permitted or required to be removed by Tenant at the end of the term remaining in the premises after Tenant's removal shall be deemed abandoned and may, at the election of Landlord, either be retained as Landlord's property or may be removed from the premises by Landlord at Tenant's expense.

CANCELLATION OF LEASE BY LANDLORD

16. It is mutually agreed that, in the event Tenant shall default in the payment of rent herein reserved, when due; or if Tenant shall be in default in performing any of the terms or provisions of this Lease other than the provisions requiring the payment of rent, and fails to cure such default within thirty (30) days after the date of written notice of default from Landlord; or if Tenant is adjudicated bankrupt; or if a permanent receiver is appointed for Tenant's property and such receiver is not removed within sixty (60) days after written notice from Landlord to Tenant to obtain such removal; or if, whether voluntary or involuntary, Tenant takes advantage of any debtor relief proceedings under any present or future law, whereby the rent or any part thereof, or is proposed to be reduced or payment thereof deferred; or if Tenant

makes an assignment for the benefit of creditors; or if Tenant's effects

shall be levied upon or attached under process against Tenant, not satisfied or dissolved within thirty (30) days after written notice from Landlord to Tenant to obtain satisfaction thereof; then, and in any of said events, Landlord at its option may terminate this Lease by written notice to Tenant; whereupon this Lease shall end. Any notice provided in this Paragraph 16 may be given by Landlord, Landlord's attorney, Manager or Manager's attorney. Upon such termination by Landlord, Tenant will at once surrender possession of premises to Landlord and remove therefrom all of Tenant's effects in which Landlord claims no interest under Paragraph 15 of this Lease; and Landlord shall have the right forthwith to re-enter premises and repossess itself thereof, and remove all persons and effects therefrom, using such force as may be necessary without being guilty of trespass, forcible entry or detainer or other tort.

RELETTING BY LANDLORD

17. In the case of any default, re-entry, expiration and/or disposes by summary proceedings or otherwise, (a) the rent shall become due thereupon and be paid up to time of such re-entry, disposes, and/or expiration, (b) Landlord may re-let the premises or any part or parts thereof, either in the name of the Landlord or otherwise, for a term or terms, which may at Landlord's option be less than or exceed the period which would otherwise have constituted the balance of the term of this lease and may grant concessions or free rent or charge a higher rental than that in this lease, and/or (c) Tenant or the legal representative of Tenant shall also pay Landlord as liquidated damages for failure of Tenant to observe and perform Tenant's covenants herein contained, any deficiency between the rent hereby reserved and/or covenanted to be paid and the net amount, if any, of the rents collected on

account of the lease or leases of the premises for each month of the period which would otherwise have constituted the balance of the term of this Lease. The failure of the Landlord to relet the premises or any part or parts thereof shall not release or affect Tenant's liability for damages. In computing such liquidated damages there shall be added to the said deficiency such expenses as Landlord may incur in connection with reletting, such as legal expenses, attorney's fees, brokerage, advertising and for keeping the premises in good order or for preparing the same for re-letting. Any such liquidated damages shall be paid in monthly installments by Tenant on the rent day specified in this lease and any suit brought to collect the amount of deficiency for any month shall not prejudice in any way the rights of Landlord to collect the deficiency for any subsequent month by a similar proceeding. Landlord may, in putting the demised premises in good order or preparing the same for re-rental, at Landlord's option, make such alterations, repairs, replacements, and/or decorations in the premises as Landlord, in Landlord's sole judgement, considers advisable and necessary for the purpose of re-letting the premises, such repair or alterations will not exceed condition of premises as originally leased by Tenant and the making of such alterations, repairs, replacements, and/or decorations shall not operate or be construed to release Tenant from any liability hereunder as aforesaid. Landlord shall in no event be liable in any way whatsoever for failure to re-let the premises, or in the event that the premises are re-let, for failure to collect the rent thereof under such re-letting, and in no event shall Tenant be entitled to receive any excess, if any, of such net rents collected over the sums payable by Tenant to Landlord hereunder. In the event of a breach or threatened breach by Tenant of any of the covenants or provisions hereof, Landlord shall have the right of injunction and the right to invoke any remedy allowed at law or in equity as if re-entry, summary proceedings and other remedies were not herein provided for. Mention in this lease of any particular

remedy shall not preclude Landlord from any other remedy in law or equity. Tenant hereby expressly waives any and all rights of redemption granted by or

under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the premises by reason of the violation by Tenant of any of the covenants and conditions of this lease or otherwise.

EXTERIOR SIGNS

18. Tenant shall place no signs upon the outside walls or roof of the premises except with prior written consent of Landlord. Any and all signs placed on the premises by Tenant shall be maintained in compliance with all governmental ordinances, rules, and regulations governing such signs, and Tenant shall be responsible to Landlord for any damage caused by installation, use or maintenance of said signs or violation of ordinance, rule or regulation with regard thereto. Upon any removal of said signs Tenant shall simultaneously repair all damage incident to such removal.

INTERRUPTION OF SERVICES OR OF OCCUPANCY

19. Interruption or curtailment of any service to the premises, such as (but not limited to) utilities, if caused by strikes, mechanical difficulties or other causes beyond the Landlord's control will not entitle Tenant to any claim against Landlord or any abatement in rent, nor will it constitute constructive or partial eviction, unless Landlord fails to take measures that are reasonable in the circumstances to restore the service without undue delay.

CONSTRUCTIVE EVICTION

20. Tenant will not be entitled to claim a constructive eviction from the premises unless Tenant will have first notified Landlord and Manager in writing of the condition giving rise to the claim and, if the complaints meet the appropriate legal standard for constructive

eviction, unless Landlord fails to remedy the condition within a reasonable time after receipt of the notice.

ENTRY

21. Landlord may card the premises "For Rent" one hundred eighty (180) days before the termination of this Lease. At any time during the term hereof, Landlord and Manager shall have the right to enter the premises at reasonable hours to exhibit the same to prospective purchasers or tenants and to make repairs, replacements and improvements required by Landlord under the terms hereof or as Landlord may deem necessary and reasonably desirable or to make repairs to Landlord's adjoining property, if any. Landlord may, during the progress of any work in the premises take all necessary materials and equipment into the premises without the same constituting an eviction nor shall the tenant be entitled to an abatement of rent while such work is in progress nor to any damages by reason of loss or interruption of business or otherwise.

EFFECT OF TERMINATION OF LEASE

22. No termination of this Lease prior to the normal ending thereof, by lapse of time or otherwise, shall affect Landlord's right to collect rent for the period prior to termination thereof.

SUBORDINATION QUIET ENJOYMENT

23. This lease is subject and subordinate to all ground or underlying leases and to all mortgages which may or hereafter affect such leases of the real property of which the premises are a part and to all renewals, modifications, consolidations, replacements and extensions of any such underlying leases and mortgages. This clause shall be self-operative

and no further instrument of subordination shall be required by any ground or

underlying lessor or by any mortgagee, affecting any lease of the real property of which the premises are a part. In confirmation of such subordination, Tenant shall execute promptly any certificate that Owner may request.

Landlord covenants and agrees with Tenant that upon Tenant paying said rent, and performing all the covenants and conditions aforesaid, on Tenant's part to be observed and performed, Tenant shall and may peaceably and quietly have, hold, and enjoy the premises hereby demised, for the term aforesaid, subject, however, to the terms of this lease and of any ground lease, underlying leases, and mortgages hereinbefore mentioned.

NO ESTATE IN LAND

24. This Lease shall create the relationship of Landlord and Tenant between the parties hereto no estate shall pass out of Landlord. Tenant has only a usufruct, not subject to levy and sale, and not assignable by Tenant except by Landlord's consent. Neither Landlord nor Tenant shall cause this Lease to be recorded without prior written consent of the other party to such recording.

HOLDING OVER

25. If Tenant remains in possession of premises after expiration of the term hereof, with Landlord's acquiescence and without any express agreement of parties, Tenant shall be a tenant at will at two (2) times the gross rental rate in effect at end of Lease; and there shall be no renewal of this Lease by operation of law.

HOMESTEAD

26. Tenant waives all homestead rights and exemptions which Tenant may have under any law as against any obligation owing under this Lease. Tenant hereby assigns to Landlord

Tenant's homestead and exemption.

SERVICE OF NOTICE

27. Tenant hereby appoints as Tenant's agent to receive service of all dispossessory or other legal proceedings and notices thereunder, and all notices required under this Lease, the person in charge of the premises or occupying the premises at the time of delivery or service of such notice; and if no person is in charge of or occupying the premises at such time, then such service or notice may be made by attaching the same on the main entrance to the premises. A copy of all notices under this Lease shall also be sent to Tenant's last known address, if different from the premises. All notices given hereunder by Tenant to Landlord shall be sent to Landlord's address set forth hereinafter in this Lease with additional notice given Manager at Manager's address set out hereinafter, unless Landlord has otherwise notified Tenant of another address for Landlord.

ESTOPPEL CERTIFICATE

28. Tenant, at any time, and from time to time, upon at least ten (10) days prior notice by Landlord, shall execute, acknowledge and deliver to Landlord, and/or any other person, firm or corporation specified by Landlord, a statement certifying that this Lease is unmodified and in full force and effect (or, if there have been modifications, that the same is in full force and effect as modified and stating the modifications), stating the dates to which the rent and additional rent have been paid, and stating whether or not there exists any default by the Landlord under this Lease, and, if so, specifying each such default.

TENANT'S OBLIGATION TO INSURE

29. During the term of this lease, Tenant, at its sole cost and expense, and for the mutual benefit of Landlord and Tenant, shall carry and maintain the

following types of insurance in

the amounts specified:

(b) Comprehensive public liability insurance, including property damage, insuring Landlord and Tenant against liability for injury to persons or property occurring in or about the premises or arising out of the ownership, maintenance, use or occupancy thereof. The liability under such insurance shall not be less than $1,000,000.00 for any one person injured or killed and not less than $5,000,000.00 for any one accident and not less than $1,000,000.00 for personal property damage per accident.

BUILDING ALTERATIONS AND MANAGEMENT

30. Landlord shall have the right at any time without the same constituting an eviction and without incurring liability to Tenant therefor to change the arrangement and/or location of public entrances, passageways, doors, doorways, corridors, elevators, stairs, toilets or other public part of the building and to change the name, number or designation by which

the building may be known. There shall be no allowance to Tenant for diminution in rental value and no liability on the part of Landlord by reason of inconvenience, annoyance or injury to business arising from Landlord or other Tenants making any repairs in the building or any such alterations, additions and improvements. Furthermore, Tenant shall not have any claim against Landlord by reason of Landlord's imposition of such controls of the manner of access to the building by Tenant's social or business visitors as the Landlord may deem necessary for the security of the building and its occupants. If such repair or change diminishes Tenant's use of Building, Tenant shall have the right to terminate Lease.

FAILURE TO GIVE POSSESSION

31. If Landlord is unable to give possession of the premises on the date of commencement of the term hereof, because of the holdingover or retention of possession of any tenant, undertenant, or occupants or for any other reason, Landlord shall not be liable for failure to give possession on said date and the validity of the lease shall not be impaired under such circumstances, nor shall the same be construed in any wise to extend the term of this Lease, but the rent payable hereunder shall be abated (provided Tenant is not responsible for Landlord's inability to obtain possession) until after Landlord shall have given Tenant written notice that the premises are substantially ready for Tenant's occupancy. If permission is given to Tenant to enter into the possession of the premises prior to the date specified as the commencement of the term of this Lease, Tenant covenants and agrees that such occupancy shall be deemed to be under the terms, covenants, conditions and provisions of this Lease.

SECURITY

32 Tenant has deposited with Landlord the sum of N/A as security for the faithful performance and observance by Tenant of the terms, provisions and conditions of this Lease.

It is agreed that in the event Tenant defaults in respect of any of the terms, provisions and conditions of this Lease, including, but not limited to, the payment of rent and additional rent. Landlord may use, apply or retain the whole or any part of the security so deposited to the extent required for the payment of any rent and additional rent or any other sum as to which Tenant is in default or for any sum which Landlord may expend or may be required to expend by required to expend by reason of Tenant's default in respect of any of the terms, covenants and conditions of this Lease, including, but not limited to, any damages or deficiency in the re-letting of the premises, whether such

damages or deficiency accrued before or after summary proceedings or other re-entry by Landlord. In the event that shall fully and faithfully comply with all of the terms, provisions, covenants and conditions of this Lease, the security shall be returned to tenant after the date fixed as the end of the Lease and after delivery of entire possession of the premises to Landlord. In the event of a sale of the land and building or leasing of the building of which the premises form a part, Landlord shall thereupon be released by Tenant from all liability for the return of such security; and Tenant agrees to look to the new owner solely for the return of said security, and it is agreed that the provisions hereof shall apply to every transfer or assignment made of the security to a new Landlord. Tenant further covenants that it will not assign or encumber or attempt to assign or encumber the monies deposited herein as security and that neither Landlord nor its successors or assigns shall be bound by any such assignment, encumbrance, attempted assignment or attempted encumbrance.

FEES AND EXPENSES

33. If Tenant shall default in the observance or performance of any term or covenant on

Tenant's part to be observed or performed under or by virtue of any of the terms or provisions in any article of this Lease, then, unless otherwise provided elsewhere in this Lease, Landlord may immediately or at any time thereafter and without notice perform the obligation of Tenant thereunder. If Landlord, in connection with the foregoing or in connection with any default by Tenant in the covenant to pay rent hereunder, makes any expenditure or incurs any obligation for the payment of money, including, but not limited to attorneys' fees and disbursements, in instituting, prosecuting or defending any action or proceeding, then Tenant will reimburse Landlord for such sums (including attorneys' fees and disbursements) so paid or obligations incurred with interests and costs. The foregoing expenses incurred by reason of Tenant's default shall be deemed to be additional rent hereunder and shall be paid by Tenant to Owner within five (5) days of rendition of any bill or statement to Tenant therefor. If Tenant's lease term shall have expired at the time of making of such expenditures or incurring such obligations, such sums shall be recoverable by Owner as damages.

TENANT NOT TO INCREASE RISK

34. Tenant shall not do or permit to be done any act or thing in or upon the premises which will invalidate or be in conflict with the certificate of occupancy or the terms of the Georgia State standard form of fire, boiler, sprinkler, water damage, or other insurance policies covering the building and the fixtures and property therein; and Tenant shall, at its own expense, comply with all rules, orders, regulations or requirements of the Georgia Board of Fire Underwriters or any other similar body having jurisdiction, and shall not knowingly do or permit anything to be done in or upon the premises or bring or keep anything therein or use the premises in a manner which increases the rate of fire insurance

upon the building or on any property or equipment located therein over the rate in effect at the commencement of the term of this Lease.

If, by reason of any failure of Tenant to comply with the provisions of this Lease, the rate of fire, boiler, sprinkler, water damage, or other insurance (with extended coverage) on the building or on the property shall be higher than it otherwise would be, Tenant shall reimburse Landlord and the other tenants in the building for that part of the fire, boiler, sprinkler, water damage, or other insurance premiums thereafter paid by Landlord which shall have been charged because such failure by Tenant and Tenant shall make the reimbursement on the first day of the month following such payment by Landlord. In any action or proceeding wherein Landlord and Tenant are parties, a schedule or "make-up" of rate for the building or the premises issued by the Georgia Fire

Insurance Exchange or other body making fire insurance rates for said premises, shall be conclusive evidence of the facts therein stated and of the several items and charges in the fire insurance rate then applicable to said building or the premises.

NO REPRESENTATIONS BY OWNER

3.5 Neither Landlord nor Landlord's agents have made any representations or promises with respect to the physical condition of the building, the land upon which it is erected or the premises, the rents, leases, expenses of operation or any other matter or things affecting or related to the premises except as herein expressly set forth and no rights, easements or licenses are acquired by Tenant by implication or otherwise except as expressly set forth in the provisions of this Lease. Tenant has inspected the building and the premises and is thoroughly acquainted with their condition and agrees to take the same "as is" and acknowledges that the taking of possession of the premises by Tenant shall be conclusive

evidence that the said premises and the building of which the same form a part were in good and satisfactory condition at the time such possession was so taken, except as to latent defects. All understanding and agreements heretofore made between the parties thereto are merged in this contract, which alone fully and completely expresses the agreement between Landlord and Tenant and any executory agreement hereafter made shall be ineffective to change, modify, discharge or effect an abandonment of it in whole or in part, unless such executory agreement is in writing and signed by the party against whom enforcement of the change, modification, discharge or abandonment is sought.

NO WAIVER

36. The failure of Landlord to seek redress for violation of, or to insist upon the strict performance of any covenant or condition of this Lease shall not prevent a subsequent act which would have originally constituted a violation from having all the force and effect of an original violation. The receipt by Landlord of rent with knowledge of the breach of any covenant of this Lease shall not be deemed a waiver of such breach and no provision of this Lease shall be deemed to have been waived by Landlord unless such waiver be in writing signed by Landlord. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly rental stipulated herein shall be deemed to be other than on account of the earliest stipulated rent, nor shall any endorsement or statement of any check or any letter accompanying and check or payment as rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy provided in this Lease. No act or thing done by Landlord or Landlord's agents during the term hereby demised shall be deemed an acceptance of a surrender of said premises, and no agreement to accept such surrender shall

be valid unless in writing signed by Landlord. No employee of Landlord or Landlord's agents shall have any power to accept the keys of said premises prior to the termination of the Lease and delivery of keys to any such agent or employee shall not operate as a termination of this Lease or a surrender of the premises.

WAIVER OF TRIAL BY JURY

37. It is mutually agreed by and between Landlord and Tenant that the respective parties hereto shall and they hereby do waive trial by jury in any action, proceeding or counter-claim brought by either of the parties hereto against the other (except for personal injury or property damage) on any matters whatsoever arising out of or in any way connected with this lease, the relationship of Landlord and Tenant, Tenant's use of or occupancy of said premises any emergency statutory or any other statutory remedy. It is further mutually agreed that in the event Landlord commences any summary proceedings for

possession of the premises, Tenant will not interpose any counterclaim of whatever nature or description in any such proceeding.

SUCCESSORS AND ASSIGNS

38. The covenants, conditions and agreements contained in this Lease shall bind and inure to the benefit of Landlord and Tenant and their respective heirs, distributees, executors, administrators, successors, and except as otherwise provided in this lease, their assigns.

MISCELLANEOUS

39. All rights, powers and privileges conferred hereunder upon parties hereto shall be cumulative but not restrictive to those given by law. No failure of Landlord to exercise any power given Landlord hereunder, or to insist upon strict compliance by Tenant with its

obligation hereunder, and no custom or practice of compliance by Tenant with its obligation hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Landlord's right to demand exact compliance with the terms hereof. "Landlord" as used in this Lease shall include Landlord, his or its heirs, executors, administrators, legal representatives, assigns and successors in title to the premises. "Tenant" shall include Tenant, his or its heirs, executors, administrators, legal representatives, successors, and, if this Lease shall be validly assigned or sublet, shall also include Tenant's assignees or sublessees, as to the premises covered by such assignment or sublease. "Landlord" and "Tenant" shall include male and female, singular and plural, corporation, partnership or individual, as may fit the particular parties. Time is of the essence of this Lease.

40. Tenant shall at all times maintain the interior of the premises at such temperature to safeguard all exposed water pipes, sprinkler pipes, sewage pipes or other water containing machinery, equipment or fixtures within the premises from freezing or cracking due to an interior temperature at or below 32 degrees F. Any such failure to maintain the interior temperature at or above 32 degrees F shall constitute a default under this Lease and will give the Landlord the right to cancel this Lease as provided in Paragraph Sixteen (16). Any damage to any water pipe or fixture caused by Tenant's failure to maintain the interior of the premises at or above 32 degrees F. shall be repaired immediately at Tenant's expense as provided in Paragraph Eight (8).

ENTIRE AGREEMENT

42. This Lease contains the entire agreement of the parties hereto and no representations, inducements, promises, or agreement, oral or otherwise, between the parties, not embodied herein, shall be of any force or effect.

IN WITNESS WHEREOF, the parties herein have hereunto set their hands and seals or caused this instrument to be executed through authorized officials in their name, in triplicate, the day and year first above written.

Signed, sealed and delivered
in the presence of:

/s/ Margaret Ryan

UNOFFICIAL WITNESS

NOTARY PUBLIC
NEW YORK STATE AT LARGE
MY COMMISSION EXPIRES
July 17, 2003

[STAMP]

LANDLORD: Ostow Holdings, L.L.C.

by: /s/ [ILLEGIBLE] (SEAL)

ADDRESS: [ILLEGIBLE]

[ILLEGIBLE]

Signed, sealed and delivered
in the presence of:

TENANT: ALADDIN
MANUFACTURING
CORPORATION

/s/ [ILLEGIBLE]

UNOFFICIAL WITNESS

by: /s/ [ILLEGIBLE] (SEAL)

/s/ Penny Dixon

NOTARY PUBLIC
GA. STATE AT LARGE
MY COMMISSION EXPIRES: 7-18-02

ADDRESS: [ILLEGIBLE]

[SEAL]

Exhibit 10.16

THIS FIRST AMENDATORY LEASE AGREEMENT made this 27/th/ day of June, 2001, by and between (ELDERSBURG BUSINESS CENTER, INC.) MERRITT-ELI, LLC, (hereinafter called "Landlord") and DAL-TILE CORPORATION, (hereinafter called "Tenant"). Subsequently, the interest of Eldersburg Business Center, Inc. under the Lease was assigned to MERRITT-ELI, LLC.

EXPLANATORY STATEMENT

By lease (hereinafter called the "Lease") dated January 16, 1997, Landlord leased to Tenant, and the latter rented from the former, certain premises within the building known as 1470 Progress Way, Suites 701-725, Eldersburg, MD 21784. Pursuant to Section 48, Tenant desires to expand its premises. In accordance with Section 48, the parties desire to amend the Lease as hereinafter set forth.

NOW, THEREFORE, AND IN CONSIDERATION of the mutual covenants and agreement herein contained, the parties hereto hereby covenant and agree as follows:

1. Landlord and Tenant agree to expand Tenant's premises to include 1470 Progress Way, Suites 726-729, Eldersburg, MD 21784 ("Expansion Premises") which represents 41,400 square feet, for a period of sixty-six (66) months, commencing August 1, 2001 and expiring February 28, 2007. Tenant's premises shall be known as 1470 Progress Way, Suites 701-729, Eldersburg, MD 21784, which represents 356,400 square feet.

2. Landlord shall provide an allowance of up to twenty thousand seven hundred dollars ($20,700.00) for improvements to the Expansion Premises.

3. Landlord shall provide all electrical, plumbing and mechanical systems in good working order upon occupancy. Landlord shall provide two (2) openings through the demising wall to the premises and shall combine the electric services at Landlord's expense. Landlord shall be under no obligation to perform any other work at Landlord's expense.

4. The rental rate for the total square footage shall be as follows:

Term	Annual Rate:	Monthly Rate:	Per Sq. Ft.:
8/1/01 - 2/28/02	N/A	$ 95,634.00	$3.22
3/1/02 - 2/28/03	$1,168,992.00	$ 97,416.00	$3.28
3/1/03 - 2/28/04	$1,193.940.00	$ 99,495.00	$3.35
3/1/04 - 2/28/05	$1,218.888.00	$101,574.00	$3.42
3/1/05 - 2/28/06	$1,240,272.00	$103,356.00	$3.48
3/1/06 - 2/28/07	$1,265,220.00	$105,435.00	$3.55

5. Tenant's pro-rata share shall increase from 74.19% to 83.90% effective August 1, 2001.

6. Tenant's cancellation fee referenced in Section 42 of the Lease shall be increased to three hundred ninety-nine thousand ninety-six dollars

and sixty-eight cents ($399,096.68).

7. Except as herein provided, the Lease shall remain unchanged and in full force and effect.

8. Time is of the essence for all purposes in this Amendatory Lease Agreement.

IN WITNESS WHEREOF, the parties hereto have executed the within Amendatory Lease Agreement as of the day and year first above written.

WITNESS: DAL-TILE CORPORATION

/s/ [ILLEGIBLE] BY: /s/ [ILLEGIBLE] (SEAL)
---------- ----------
Tenant Vice President

MERRITT-ELI, LLC
ATTEST: BY: MERRITT MANAGEMENT CORPORATION AGENT

/s/ [ILLEGIBLE] BY: /s/ [ILLEGIBLE] (SEAL)
---------- ----------
Landlord

[LOGO OF MERRITT]

INDUSTIAL . COMMERCIAL . OFFICE BUILDINGS

March 7, 1997

CERTIFIED, RETURN RECEIPT REQUESTED

Dal-Tile Corporation
7834 Hawn Freeway
P.O. Box 17130
Dallas, Texas 75217

ATTN: Real Estate Department

Re: Commencement of Lease

Ref: 1470 Progress Way, Eldersburg, MD 21784

ACCOUNT #EL1240

Dear Sir/Madam:

Per the terms of your lease dated January 16, 1997, by and between Eldersburg Business Center, Inc. and Dal-Tile Corporation, I would like to confirm the following:

- Lease Term Commencement Date: March 1, 1997

- Lease Term Termination Date: February 28, 2007

- Rent Commencement Date: March 1, 1997

As the original term of the Lease is for ten (10) years, the above termination date supersedes that of February 28, 2006, as originally stated in the Lease.

- Monthly Minimum Rent for Initial Term:
*March 1, 1997 - February 28, 1998: $75,075.00
*March 1, 1998 - February 28, 1999: $77,327.25
*March 1, 1999 - February 28, 2000: $79,647.07

*March 1, 2000 - February 28, 2001: $82,036.48
*March 1, 2001 - February 28, 2002: $84,497.57
*March 1, 2002 - February 28, 2003: $86,187.52
*March 1, 2003 - February 28, 2004: $87,911.27
*March 1, 2004 - February 28, 2005: $89,669.50
*March 1, 2005 - February 28, 2006: $91,462.89
*March 1, 2006 - February 28, 2007: $93,292.15

Please acknowledge by signing the duplicate copy where indicated and return to my attention in the enclosed envelope within ten (10) days of the date of this letter. Also, please be sure to fill in the section at the bottom of the signature page with the name and phone of the person we can contact after business hours should there be an emergency.

All rental payments are due in our office by the first day of each month. Please be advised that Landlord

2066 Lord Baltimore Drive . Baltimore, Maryland . 21244 . (410) 298-2600
FAX (410) 298-9644

does not send out monthly invoices. Your check should be made payable to Eldersburg Business Center, Inc. and mailed to same at 2066 Lord Baltimore Drive, Baltimore, MD 21244. Also, kindly reference the above account number on your check.

If you have not done so already, please contact BGE at (410) 685-0123 and have the electric service placed in your name effective as of your commencement date being March 1, 1997. This can be done retractively and if you fail to contact BGE, you run the risk of having your service interrupted.

Please return the following items to my attention with the acknowledgment of the above:

- The enclosed Tenant Emergency Card
- A Certificate of Insurance showing current coverage as outlined in Section 8 of your lease
- A copy of your HVAC Maintenance Agreement as required under Section 11 of your lease

Regarding the HVAC Maintenance Agreement, I am enclosing a proposal for the maintenance required. Merritt has Certified HVAC Technicians on staff and we offer a full service Maintenance Agreement at a below market rate that not only covers all parts and labor but also guarantees the HVAC unit for the term of you lease and any extension(s). If you would like to accept our proposal, please sign both copies and return one along with payment to the attention of Josie Kaminiski. Please feel free to contact Josie with any questions you may have regarding the proposal.

Sincerely,

ELDERSBURG BUSINESS CENTER, INC.

BY MERRITT MANAGEMENT CORPORATION
AGENT FOR ELDERSBURG BUSINESS CENTER, INC.

/s/ Beth Meuche

Beth Meuche

enclosure

AGREED TO AND ACKNOWLEDGED THIS 21 DAY OF MARCH, 1997

WITNESS DAL-TILE CORPORATION

/s/ [ILLEGIBLE]
--------------------(SEAL)

EMERGENCY CONTACT PERSON AFTER BUSINESS HOURS:

---------- ----------
NAME (PLEASE PRINT) PHONE

cc: 1470 Progress Way
Eldersburg, MD 21784
District Manager

TABLE OF CONTENTS FOR LEASE BETWEEN

ELDERSBURG BUSINESS CENTER, INC., LANDLORD

DAL-TITLE CORPORATION, TENANT.

month of the term to the date the term ends shall be prorated and shall be payable on the first day of the last month of the term.

All rentals shall be paid to Landlord at 2066 Lord Baltimore Drive, Baltimore, Maryland 21244, or at such other place or to such appointee of the Landlord as the Landlord may from time to time designate in writing.

This Lease is made subject to the following additional terms, covenants and conditions:

1. Payment of Rental.

Tenant covenants and agrees to pay the rental herein reserved and each installment thereof promptly when and as due, without setoff or deduction whatsoever. Tenant further agrees that it will not prepay rent more than one (1 month in advance without Landlord's prior written consent.

2. Use.

Tenant covenants and agrees to use and occupy the Premises solely for the following purposes:

STORAGE, DISTRIBUTION, AND RELATED OFFICE, AND ANY OTHER USE PERMITTED UNDER THE EXISTING ZONING.

Tenant agrees to comply with all applicable zoning and other laws and regulations, and provide and install at its own expense any additional equipment or alterations required to comply with all such laws and regulations as required from time to time; provided, however, in any non-compliance by Tenant which does not have an adverse effect on the Premises shall not be deemed a breach of this lease. Tenant will not permit, allow or cause any public or private auction sales or sheriffs' or constables' sales to be conducted on or from the Premises.

3. Utilities.

(a) Tenant agrees to pay as additional rent Tenant's pro rata share of the water rent and sewer service charges chargeable to the total building in which the Premises are located, based upon the size of the Premises in proportion to the total square footage of the building, which sum shall be due within fifteen (15) days after Landlord's written demand. However, if in Landlord's reasonable judgment, the water and sewer charges for the Premises are substantially higher than normal due

THIS LEASE, made this 16/th/ day of January, 1997, by and between ELDERSBURG BUSINESS CENTER, INC., hereinafter called "Landlord," and DAL-TILE CORPORATION, hereinafter call "Tenant."

WITNESSETH, that in consideration of the rental hereinafter agreed upon and the performance of all the conditions and covenants hereinafter set forth on the part of the Tenant to be performed, the Landlord does hereby lease unto the said Tenant, and the latter does lease from the former the following Premises (hereinafter sometimes called the "Premises"):

BEING those Premises outlined in red on the Plat attached hereto as Exhibit A, said Premises being located within the building known as 1470 Progress Way, Eldersburg, MD 21784; 315,000 square feet; (Building)

for the term of ten (10) years, beginning on the first day of March 1997, and ending on the last day of February, 2006, at and for the annual rental as follows:

Terms:	Annually:	Monthly:	Per S.F.:
Year 1	$ 900,900.00	$75,075.00	$2.86
Year 2	$ 927,927.00	$77,327.25	$2.95
Year 3	$ 955,764.84	$79,647.07	$3.03

Year 4	$ 984,437.76	$82,036.48	$3.13
Year 5	$1,013,970.84	$84,497.57	$3.22
Year 6	$1,034,250.24	$86,187.52	$3.28
Year 7	$1,054,935.24	$87,911.27	$3.35
Year 8	$1,076,034.00	$89,669.50	$3.42
Year 9	$1,097,554.68	$91,462.89	$3.48
Year 10	$1,119,505.80	$93,292.15	$3.55

* Notwithstanding the above, Tenant will receive a total rent credit in the amount of Ninety Thousand Dollars ($90,000.00) which shall be applied at a rate of Thirty Thousand Dollars ($30,000.00) per month for the first three (3) months of the first year of the lease term.

Payable in advance on the first day of each and every month during the term of this Lease, in equal monthly installments each, without setoff or deduction whatsoever. If the term of this Lease shall commence on a date other than the first day of a month, the rental for the period from the date of commencement of the term to the first day of the first full calendar month of the term shall be prorated and shall be payable on the first day of the term; if the term of this Lease shall end on a date other than the last day of a month, the rent for the period from the first day of the last

to Tenant's water usage, the Landlord may install a water meter at Landlord's expense and thereafter Tenant will pay all water charges for the Premises based on such meter readings.

(b) Tenant shall also pay all costs of electricity, gas, telephone and other utilities used or consumed on the Premises together with all taxes, levies or other charges on such utilities. If Tenant defaults in payment of any such utilities, charges or taxes, Landlord may, at its option, pay the same for and on Tenant's account, in which event Tenant shall promptly reimburse Landlord therefor.

(c) In addition, Tenant shall pay, as additional rent, 74.15% (being the same percentage which the square foot floor area of the Premises bears to the entire leasable area of the building) of Landlord's costs of public service electric usage, including usage for lighting the parking and other common areas, which sum shall be due within fifteen (15) days after Landlord's demand.

4. Compliance with Laws.

(a) Tenant covenants and agrees that it will, at its own expense, observe, comply with and execute all laws, orders, rules, requirements and regulations of any and all governmental departments, bodies, bureaus, agencies and officers, and all rules, directions, requirements and recommendations of the local board of fire underwriters and the fire insurance rating organizations having jurisdiction over the area in which the Premises are situated, or other bodies or agencies now or hereafter exercising similar functions in the area in which the Premises are situated, in any way pertaining to the Premises or the use and occupancy thereof, provided, however that any non-compliance by Tenant which does not have an adverse effect on the Premises shall not be a breach of this lease. In the event Tenant shall fail or neglect to comply with any of the aforesaid laws, orders, rules, requirements or recommendations and any such non-compliance does not have an adverse effect on the Premises, Landlord or its agents may enter the Premises after providing written notice to Tenant and Tenant has a thirty (30) day period to comply with any laws, orders, rules, requirements or recommendations, and take all such action and do all such work in or to the Premises as may be necessary in order to cause compliance with such laws, orders, rules, requirements or recommendations, and Tenant covenants and agrees to reimburse Landlord promptly upon demand for the expenses incurred by Landlord in taking such action and performing such work.

(b) Without limiting the generality of paragraph (a) hereof, Tenant shall at all times keep the Premises in compliance

with the Americans With Disabilities Act and its supporting regulations, and all similar federal, state or local laws, regulations and ordinances. If Landlord's consent would be required for alterations to bring the Premises into compliance, Landlord agrees not to unreasonably withhold its consent.

5. Assignment and Subletting.

(a) Tenant covenants and agrees not to assign this Lease, in whole or in part, nor sublet the Premises, or any part or portion thereof, nor grant any license or concession for all or any part thereof, without the prior written consent of the Landlord in each instance first had and obtained. If such assignment or subletting is permitted, Tenant shall not be relieved from any liability whatsoever under this Lease. In the event that the amount of the rent or other consideration to be paid to the Tenant by any assignee or sublessee is greater than the rent required to be paid by the Tenant to the Landlord pursuant to this Lease, Tenant shall pay to Landlord one-half of any such excess, after deducting Tenant's transaction and improvement costs, as is received by Tenant from such assignee or sublessee. Any consent by Landlord to an assignment or subletting of this Lease shall not constitute a waiver of the necessity of such consent as to any subsequent assignment or subletting. An assignment for the benefit of Tenant's creditors shall not be effective to transfer or assign Tenant's interest under this Lease unless Landlord shall have first consented thereto in writing.

(b) In the event this Lease contains a renewal option exercisable by Tenant, Landlord's consent to an assignment or sublease of the Premises or any portion thereof during the original Lease term shall be deemed to be conditioned upon the agreement of Tenant and such assignee or sublessee that such renewal right or option shall terminate and be of no further force or effect unless Landlord's consent to such assignment or sublease expressly provides otherwise. Consequently, unless so provided otherwise, any assignment or sublease during the original Lease term shall automatically constitute a termination of the right of Tenant or such assignee or sublessee to exercise any renewal option contained herein.

(c) In the event Tenant desires to assign this Lease or to sublease all or any substantial portion of the Premises, Landlord shall have the right and option to terminate this Lease, which right or option shall be exercisable by written notice from Landlord to Tenant within thirty (30) days from the date Tenant gives Landlord written notice of its desire to assign or sublease.

6. Loading Capacity.

Tenant covenants and agrees not to load the Premises beyond its present carrying or loading capacity, subject to the specifications set forth in Exhibit "A".

7. Increase in Landlord's Insurance Rates.

Tenant will not do, or suffer to be done, anything in or about the Premises, or keep or suffer to be kept, anything in or about the Premises which will contravene or materially affect any policy of insurance against loss by fire or other hazards, including, but not limited to, public liability, now existing or which will prevent the Landlord from procuring such policies in companies acceptable to Landlord at standard rates.

8. Insurance - Indemnity.

(a) Tenant covenants and agrees that from and after the date of delivery of the Premises from Landlord to Tenant, Tenant will carry and maintain, at its sole cost and expense and in the amounts specified and in the form hereinafter provided, the following types of insurance

(i) Public Liability and Property Damage. General Public Liability Insurance covering the Premises and Tenant's use thereof against claims for personal injury or death and property damage occurring upon, in or about the Premises, such insurance to afford protection to the limit of not less than $2,000,000 arising out of any one occurrence, and against property damage to afford protection to the limit of not less than $2,000,000; or such insurance may be for a combined single limit of $2,000,000 per occurrence. The insurance coverage required under this Section 8(a)(i) shall, in addition, extend to any liability of Tenant arising out of Tenant's indemnities hereinafter provided, as well as Independent Contractors' Liability, Products/Completed Operations Liability, Personal Injury LIability and Contractual Liability.

(ii) Boilers. If Tenant's Premises shall contain a boiler or other similar pressure vessel, Tenant shall carry Boiler and Machinery Insurance with a direct damage limit not less than the full value of the building in which Tenant's Premises are situated. Such insurance shall be written on a "repair and replacement" (replacement cost) basis.

(iii) Tenant Improvements and Property. Insurance covering all leasehold improvements and other improvements installed by Tenant upon the Premises, trade fixtures and personal property from time to time in, on or upon the

Premises and any alterations, improvements, additions or changes made by Tenant thereto in an amount not less than one hundred percent (100%) of their full replacement cost from time to time during the Lease term, providing protection against perils included within the standard Maryland form of fire and extended coverage insurance policy, together with insurance against sprinkler leakage or other sprinkler damage, vandalism and malicious mischief.

(iv) Plate Glass. Plate glass insurance covering all plate glass in the Premises. Tenant shall be and remain liable for the repair and restoration of all such plate glass.

(b) All policies of insurance to be provided by Tenant shall be issued in form acceptable to Landlord by insurance companies with general policyholder's rating of not less than A and a financial rating of AAA as rated in the most current available "Best's" Insurance Reports, and qualified to do business in Maryland. A certificate of insurance, naming Landlord as additional insured shall be delivered to Landlord within ten (10) days after delivery of possession of the Premises to Tenant and thereafter at least fifteen (15) days prior to the expiration of each such policy. As often as any such policy shall expire or terminate, renewal or additional policies shall be procured and maintained by Tenant in like manner and to like extent. All such policies of insurance shall contain a provision that the company writing said policy will give to Landlord at least thirty (30) days' notice in writing in advance of any cancellations, or lapse, or the effective date of any reduction in the amounts of insurance. In the event Tenant shall fail to promptly furnish any insurance herein required, Landlord may after giving Tenant written notice effect the same for a period not exceeding one (1) year and Tenant shall promptly reimburse Landlord upon demand, as additional rent, the premium so paid by Landlord. If, upon Tenant's failure, rather than purchase separate insurance coverage, Landlord chooses to include Tenant's coverage under Landlord's insurance policies, then Tenant shall promptly reimburse Landlord upon demand, as additional rent, the greater of the increase in Landlord's premium resulting therefrom or One Thousand Dollars ($1,000.00). All such public liability,

property damage and other casualty policies shall be written as primary policies which do not contribute to and are not in excess of coverage which Landlord may carry. All such public liability and property damage policies shall contain a provision that Landlord shall damage policies shall contain a provision that Landlord shall nevertheless be entitled to recover under said policies for any loss occasioned to it, its servants, agents and employees by

reason of the negligence of Tenant or any other named assured. Any insurance provided for may be affected by a policy or policies of blanket insurance, covering additional items or locations; provided, however, that (i) Landlord shall be named as an additional assured thereunder as its interests may appear; (ii) the coverage afforded Landlord will not be reduced or diminished by reason of the use of such blanket policy of insurance; (iii) any such policy or policies (except any covering the risks referred to in paragraph [i]), shall specify therein (or Tenant shall furnish Landlord with a written statement from the insurers under such policy specifying) the amount of the total insurance allocated to the "Tenant Improvements and Property" more specifically detailed in paragraph (iii), above; and (iv) the requirements set forth herein are otherwise satisfied. Any insurance policies herein required to be procured by Tenant shall contain an express waiver of any right of subrogation by the insurance company against the Landlord.

(c) Tenant shall, and does hereby, indemnify and hold harmless Landlord and any other parties in interest set forth in paragraph (b), above, from and against any and all liabilities, fines, claims, damages and actions, costs and expenses of any kind or nature (including attorneys' fees) and of anyone whatsoever (i) relating to or arising from Tenant's use and occupancy of the Premises, to the extent that Tenant's negligent acts or omissions are a proximate cause of any such liabilities, fines, claims, damages, actions, costs and expenses of any kind or nature (including attorneys fees), (ii) due to or arising out of any mechanic's lien filed against the building, or any part thereof, for labor performed or for materials furnished or claimed to be furnished to Tenant, or (iii) due to or arising out of any breach, violation or nonperformance of any covenant, condition or agreement in this Lease set forth and contained on the part of Tenant to be fulfilled, kept, observed or performed, unless such damage or injury shall be occasioned by the negligence or willful act or omission of the Landlord, and its agents in which event, Landlord shall indemnify and hold harmless Tenant to the extent of such negligence or willful act or omission. Notwithstanding the foregoing, Tenant shall at all times remain liable for, and indemnify and hold harmless Landlord as aforesaid against, any damage or injury arising from perils against which Tenant is required by this Lease to insure regardless of the negligence or willful act or omissions of others, to the extent that Tenant's negligent acts or omissions are a proximate cause of any such damage or injury and only to

the extent of payments received pursuant to such insurance coverage.

9. Alterations.

Tenant shall not make alterations (other than non-structural interior alterations or alterations whose cost is less than $5,000.00 in each instance) to the Premises, or any part thereof, without prior written consent of Landlord in each instance first had and obtained. If Tenant shall desire to make such alterations, plans for the same shall first be submitted to and approved by Landlord, and all work and installations shall be performed by Tenant at its own expense in accordance with approved plans. Tenant agrees that all such work shall be done in a good and workmanlike manner, that the structural integrity of the building shall not be impaired, and that no liens shall attach to the Premises by reason thereof. Tenant agrees to obtain, at Tenant's expense, all permits required for such alterations.

10. Ownership of Alterations.

Unless Landlord shall elect that all or part of any alteration made by Tenant to the Premises (including any alteration consented to by Landlord pursuant to paragraph 9 hereof) shall remain on the Premises after the termination of this Lease, the Premises shall be restored to their original condition by Tenant before the expiration of this Lease at Tenant's sole expense, excepting normal wear and tear. Upon such election by Landlord, any such alterations, improvement, betterments or mechanical equipment, including but not limited to, heating and air conditioning systems, shall become the property of Landlord as soon as they are affixed to the Premises, and all right, title and interest thereof of Tenant shall immediately cease, unless otherwise agreed to in writing by Landlord. Tenant shall promptly pay any franchise, minor privilege or other tax or assessment resulting directly or indirectly from any alterations or improvements made by Tenant to the Premises. Tenant shall repair promptly, at its own expense, any damage to the Premises caused by bringing into the Premises any property for Tenant's use, or by the installation or removal of such property, regardless of fault or by whom such damage shall be caused.

11. Repairs and Maintenance.

(a) Except for the improvements provided by Landlord as set forth on the attached Exhibit "A", the Premises hereby leased are leased to Tenant "as is." Except as herein expressly provided, Landlord shall be under no liability, nor have any

obligation to do any work or make any repairs in or to the Premises and any work which may be necessary to outfit the Premises for Tenant's occupancy or for the operation of Tenant's business therein is the sole responsibility of Tenant and shall be performed by Tenant at its own cost and expense. Tenant acknowledges that it has fully inspected the Premises prior to the execution of this Lease, and Tenant further acknowledges that Landlord has made no warranties or representations (other than the warranties and representations made by Landlord as set forth in Section 11(d)) with respect to the condition or state of repairs of the Premises.

(b) Tenant will, during the term of this Lease, keep the Premises and appurtenances (including windows, doors, plumbing heating and electrical facilities and installations) in good order and repair and will make all necessary repairs thereof at its own expense, except that Landlord will make all necessary repairs to the exterior masonry walls and roof of the Premises, after being notified in writing by Tenant of the need for such repairs, and shall have a reasonable time in which to complete such repairs. Tenant agrees to carry a maintenance and/or service agreement or policy on the HVAC system in the demised Premises. This agreement or policy shall be carried throughout the term of this Lease and any renewals or extensions hereof. Tenant shall provide Landlord with a copy of such policy or a certificate evidencing such coverage. In the event that the repairs required to be made by Landlord are necessitated as a result of negligence or misuse by Tenant, its agents, servants, employees, licensees or guests, or by any contractor engaged by or on behalf of Tenant, such repairs shall be made by and be paid for by Tenant. Tenant will, at the expiration of the term or at the sooner termination thereof by forfeiture or otherwise, deliver up the Premises in the same good order and condition as they were at the beginning of tenancy, reasonable wear and tear excepted. Tenant further agrees that it will maintain the Premises at its own expense in a clean, orderly and sanitary condition, free of insects, rodents, vermin, and other pests; and that it will not permit undue accumulation of garbage, trash, rubbish or other refuse, but will remove the same at its own expense and will keep such refuse in proper containers within the interior of the Premises until called for to be removed. Except as provided for in paragraph 9 herein, Tenant further agrees that it will not install any additional electrical wiring or plumbing unless it has first obtained Landlord's written consent thereto, and, if such consent is given, Tenant will install the same at its own cost and expense, and Tenant

shall

obtain, at Tenant's expense, all permits required for such installation.

(c) In the event Tenant shall not proceed promptly and diligently to make any repairs or perform any obligation imposed upon it by subparagraphs (a) and (b) hereof within thirty (30) days after receiving written notice from Landlord to make such repairs or perform such obligation, then and in such event, Landlord may, at its option, enter the Premises and do and perform the things specified in said notice, and Tenant agrees to pay promptly upon demand any cost or expense incurred by Landlord in taking such action.

(d) Notwithstanding the provisions of paragraph 11, Landlord represents that at the commencement of the lease the Site to include any paved areas, the Building and all operating systems to include the roof, electrical, mechanical, plumbing and sprinkler systems, are in a good state of repair and condition and are in compliance with all applicable building codes, rules and regulations. Landlord represents that the condition of the aforementioned systems will comply with the specifications set forth on Exhibit "A".

12. Operating Costs.

(a) "Operating Costs" are the costs of operating, maintaining, repairing, redecorating, refurbishing and insuring the building in which the Premises is situate: together with all common areas and facilities within the property herein described (collectively "the Building and Common Areas") including, but not limited to, stairwells, loading areas, parking areas, pavements and walkways, landscaping, gardening, storm drainage, and other utility systems; the cost of utilities for the Building and Common Areas and facilities; fire protection and security services, if any; traffic control equipment; repairs; parking lot striping; lighting; sanitary control; removal of snow, trash, rubbish, garbage and other refuse; depreciation on or rentals of machinery and equipment used exclusively in such maintenance; the pro-rata cost of personnel to implement such services; all insurance of whatsoever nature kept, or caused to be kept, by Landlord out of or in connection with the ownership of the Building and Common areas, including, but not limited to, insurance insuring the same against loss or damage by, or abatement of rental income resulting from, fire and other such hazards, casualties, and contingencies, and liability and indemnity insurance. Such costs shall not include;

(i) Landlord's management and office overhead costs:

(ii) the cost of any capital improvements to the Building as determined under generally accepted accounting principles or

(iii) work which Landlord performs specifically for or at the expense of any tenant of the Building. "Operating Costs" shall also include all taxes (as hereinafter defined) assessed against the Building and Common Areas, whether as a result of an increase in the tax rate, or the levy, assessment or imposition of any tax on real estate as such not now levied, assessed or imposed. The foregoing shall apply to increases in real estate taxes assessed against the Building and Common Areas generally, and not resulting from improvements placed thereon by Tenant. In the event of any increases in real estate taxes resulting from improvements, alterations or additions made by Tenant, Tenant shall pay the entire amount of said increase. "Taxes" as used herein shall also include, but not by way of limitation, all paving taxes, special paving taxes, Metropolitan District Charges, and any and all other benefits or assessments which may be levied on the Building and Common Areas, but shall not include any income tax on the income or rent payable hereunder.

"Taxes" shall also include all reasonable expenses incurred by Landlord (including attorneys' fees and costs) in contesting any increase in, or applying for any reduction of, a tax assessment only to the extent of any reduction.

(b) Tenant shall pay Landlord, as additional rent, an amount equal to Tenant's "Proportionate Share" (as hereinafter defined) of all Operating Costs during the Lease term, and any renewal term thereof. As used herein, Tenant's "Proportionate Share" shall be seventy-four and fifteen hundredths percent (74.15%), which is the same percentage which the leasable area of the Premises bears to the total leasable area of the Building.

(c) Landlord shall notify Tenant from time to time of the amount which Landlord estimates will be the amount payable by Tenant in accordance with paragraph (b), above, and Tenant shall pay such amounts to Landlord in equal monthly installments, in advance, on the first day of each month, simultaneously with payments of the base rent reserved hereunder. Within a reasonable period of time following the end of each annual period of the term, Landlord shall submit to Tenant a statement showing the actual amounts incurred by Landlord as set forth in paragraph (b), the amount theretofore paid by Tenant, and the amount of the resulting balance due thereon, or overpayment thereof, as the case may be. In the event any balance may be due by Tenant, Tenant shall pay said balance within thirty (30) days from the date of such statement. In the event Tenant has made any overpayment,

such overpayment shall be credited by Landlord against the next installment or installments of rent which are due and payable hereunder, or if the term of this Lease has expired, such overpayment shall be refunded by Landlord to Tenant, without interest, within thirty (30) days after the date of such statement. Each such statement submitted by Landlord shall be final and conclusive between the parties hereto as to the matters therein set forth, if no objection is raised with respect thereto within thirty (30) days after submission of each such statement.

13. Default.

(a) Any of the following events shall constitute a default by Tenant:

(i) If the rent (basic or additional) shall be in arrears for a period of ten (10) days following receipt of written notice from Landlord, in whole or in part; or

(ii) If Tenant shall have failed to perform any other term, condition, or covenant of this Lease on its part to be performed for a period of thirty (30) days after notice of such failure from Landlord and Tenant is not diligently pursuing the cure of such default; or

(iii) If the Premises are vacant, unoccupied or deserted for a period of thirty (30) days or more at any time during the term; or

(iv) If Tenant is adjudicated a bankrupt or insolvent by any court of competent jurisdiction, or if any such court enters an order, judgment or decree finally approving any petition against Tenant seeking reorganization, liquidation, dissolution or similar relief or if a receiver, trustee, liquidator or conservator is appointed for all or substantially all of Tenant's assets and such appointment is not vacated within ten (10) days after the appointment, or if Tenant seeks or consents to any of the relief hereinabove enumerated in this subparagraph (iv) or files a voluntary petition in bankruptcy or insolvency or makes an assignment of all or substantially all of its assets for the benefit of creditors or admits in writing of its inability to pay its debts generally as they come due or files Articles of Dissolution, or similar writing indicating its intention to wind up or liquidate its business, with the appropriate authority of the place of its incorporation; or

(v) If Tenant's leasehold interest under this Lease is sold under execution, attachment or decree of court to satisfy any debt of Tenant, or if any lien (including a

mechanic's lien) is filed against Tenant's leasehold interest and is not discharged within ten (10) days thereafter.

(b) In the event of default as defined in paragraph (a) hereof, Landlord, in addition to any and all legal and equitable remedies it may have, shall have the following remedies;

(i) To distrain for any rent or additional rent in default; and

(ii) At any time after default, without notice, to declare this Lease terminated and enter the Premises with or without legal process; and in such event Landlord shall have the benefit of all provisions of law now or hereafter in force respecting the speedy recovery of possession from Tenant's holding over or proceedings in forcible entry and detainer, and Tenant waives any and all provisions for notice under such laws.

Notwithstanding such reentry and/or termination, Tenant shall immediately be liable to Landlord for the sum of the following: (a) all rent and additional rent then in arrears, without apportionment to the termination date, including Tenant's contribution to taxes under paragraph 12 for the year of termination, whether such termination is before or after July 1st of such year; (b) all other liabilities of Tenant and damages sustained by Landlord as a result of Tenant's default, including, but not limited to, the reasonable costs of reletting the Premises and any broker's commissions payable as a result thereof; (c) all of Landlord's costs and expenses (including reasonable counsel fees) in connection with such default and recovery of possession; (d) the difference between the rent reserved under this Lease for the balance of the term and the fair rental value of the Premises for the balance of the term to be determined as of the date of reentry; or at Landlord's option in lieu thereof, Tenant shall pay the amount of the rent and additional rent reserved under this Lease at the times herein stipulated for payment of rent and additional rent for the balance of the term, less any amount received by Landlord during such period from others to whom the Premises may be rented on such terms and conditions and at such rentals as Landlord, in its sole discretion, shall deem proper; and (e) any other damages recoverable by law. In the event Landlord brings any action against Tenant to enforce compliance by Tenant with any covenant or condition of this Lease, including the covenant to pay rent, and it is judicially determined that Tenant has defaulted in performing or complying with any such covenant or condition, then and in such event, Tenant shall pay to Landlord all costs and expenses incurred by Landlord in bringing and

prosecuting such action against Tenant, including a reasonable attorney's fee.

(c) In the event Tenant fails to pay Landlord any rental payment or other charge due hereunder on the date due, Tenant shall pay a late charge equal to five percent (5%) of the rental payment or other such charge, which late charge shall be collectible as additional rent. In addition, any such rental payment or other charge which is delinquent, shall bear interest from the date on which same was due at the prime rate of interest then being charged by NationsBank to its most favored commercial customers.

14. Damage or Destruction.

(a) If, during the Lease term, the Premises hereby leased are damaged by fire or other casualty, but not to the extent that Tenant is materially prevented from carrying on business in the Premises, Landlord shall promptly cause such damage to be repaired, if such damage renders a substantial portion

of the Premises untenantable, the rent reserved hereunder (except Tenant's share of any charges for water) shall be abated, and such abatement shall be from the date of the casualty to the date when the leased Premises are rendered fully tenantable. Notwithstanding the foregoing, in the event such fire or other casualty damages or destroys any of Tenant's leasehold improvements, alterations, betterments, fixtures or equipment, Landlord shall have no liability for the restoration or repair thereof.

(b) If, during the Lease term, the Premises or a substantial portion of the building in which the Premises is situated are rendered as untenantable to the extent that Tenant's ability to conduct its business is materially impaired as the result of fire, the elements, unavoidable accident or other casualty, Landlord shall have the option either to restore the Premises to their condition immediately prior to the casualty or to terminate this Lease, such option shall be exercised by Landlord by written notice to Tenant within thirty (30) days after the fire, accident or casualty. In the event of such termination, the rent reserved hereunder shall be adjusted as of the date of the fire, accident or casualty. If Landlord elects to restore the Premises, such restoration shall be completed within one hundred twenty (120) days of such casualty and the rent reserved hereunder shall abate until the Premises are again rendered tenantable.

15. Possession.

In case possession of the Premises, in whole or in part, cannot be given to Tenant on or before the commencement of the term of this Lease, Landlord agrees to abate the rent proportionately until possession is given to Tenant, and Tenant agrees to accept such pro rata abatement as liquidated damages for the failure to obtain possession on the commencement date herein specified. The parties hereto covenant and agree that if the term of this Lease commences on a date other than the date herein specified, they will, upon the request of either of them, execute an agreement in recordable form setting forth the new commencement and termination dates of the Lease term. Under no circumstances shall Landlord be under any liability for failure to deliver possession of the Premises to Tenant on the date herein specified. Tenant shall have the right to place its manufactured product (Inventory) in the Premises prior to the lease commencement date without the provision to pay rent. Tenant agrees not to interfere with Landlord, its agents or contractors who may be performing improvements within the Premises or the Building. Landlord shall not be responsible for any damage or theft of Tenant's inventory during the early occupancy period.

16. Exterior of Premises - Signs.

(a) Tenant covenants and agrees that it will not place or permit any sign, billboard, marquee, lights, awning, poles, placard, advertising matter, or other thing of any kind, in or about the exterior of the Premises or the building in which the Premises are situate, nor paint or make any change in, to or on the exterior of said Premises to change the uniform architecture, paint or appearance of the building, without in each such instance obtaining the prior written consent of Landlord. In the event such consent is given, Tenant agrees to pay any minor privilege or other tax arising as a result of any such installation immediately when due. Tenant shall obtain, at Tenant's expense, all permits required for such installation. Tenant further agrees to maintain any sign, billboard, marquee, awning, decoration, placard, or advertising matter or other thing of any kind as may be approved by Landlord in good condition and repair at all times.

(b) Tenant further covenants and agrees not to pile or place anything on the sidewalk, parking lot or other exterior portion of the Premises or building or in the front, rear or sides of the building, nor block the sidewalk, parking lot or other exterior portion of the Premises or building, nor do anything that directly or indirectly will interfere with any of the rights of ingress or egress or of light from any other tenant, nor do anything which will,

in any way, change the uniform and general

design of any property of Landlord in which the Premises are situate. In the event this Lease covers all or substantially all of an entire building, Tenant agrees to keep sidewalks, steps and porches free and clear of ice, snow and debris.

17. Relocation

Intentionally deleted.

18. For Rent/Sale Signs

Landlord shall have the right to place a "For Rent" sign on any portion of said Premises for six (6) months prior to termination of this Lease and to place a "For Sale" sign thereon at any time. During such six-month period, Landlord may after reasonable notice to Tenant show the Premises and all parts thereof to prospective tenants during Tenant's normal business hours.

19. Water and Other Damage

Landlord shall not be liable for, and Landlord is hereby released and relieved from, all claims and demands of any kind by reason of or resulting from damage or injury to person or property of Tenant or any other party, directly or indirectly caused by (a) dampness, water, rain or snow, in any part of the Premises and/or (b) falling plaster, steam, gas, electricity, or any leak or break in any part of the Premises or from any pipes, appliances or plumbing or from sewers or the street or subsurface or from any other place in the Premises or of others or in the pipes of the plumbing or heating facilities thereof, no matter how caused.

20. Right of Entry.

Landlord and its agents, servants, employees, including any builder or contractor employed by Landlord, shall have the absolute and unconditional right, license and permission, at any and all reasonable times, to enter with prior notice and inspect the Premises or any part thereof, and at the option of Landlord, to make such reasonable repairs and/or changes in the Premises as Landlord may deem necessary or proper and/or to enforce and carry out any provision of this Lease.

21. Termination of Term

(a) It is agreed that the term of this Lease shall expire and terminate at the end of the original term hereof (or at the expiration of the last renewal term, if this Lease contains a renewal option and the same is properly exercised), without the necessity of any notice by or to any of the parties hereto, unless otherwise provided herein. If Tenant shall occupy the Premises

after such expiration or termination, it is understood that Tenant shall hold the Premises as a tenant from month-to-month, subject to all the other terms and conditions of this Lease, at an amount equal to 110% the highest monthly rental installment reserved in this Lease. Landlord shall, upon such expiration or termination of this Lease, be entitled to the benefit of all public general or local laws relating to the speedy recovery of possession of lands and tenements held over by Tenants that may be now in force or may hereafter be enacted.

(b) At the time Tenant surrenders the Premises to Landlord, the Premises shall be in compliance with all applicable building code requirements insofar as such requirements relate to Tenant's use and occupancy of the Premises or to any installations, alterations or improvements made by Tenant

thereto.

22. Condemnation.

(a) If, during the term of this Lease, all or a substantial part of the Premises shall be taken by or under power of eminent domain, this Lease shall terminate as of, and the rent (basic and additional) shall be apportioned to and abate from and after, the date of taking. Except as to Tenant's improvements, Tenant shall have no right to participate in any award or damages for such taking and hereby assigns all of its right, title and interest therein to Landlord. For the purposes of this paragraph, "a substantial part of the Premises" shall mean such part that the remainder thereof is rendered inadequate for Tenant's business and that such remainder cannot practicably be repaired and improved so as to be rendered adequate to permit Tenant to carry on its business with substantially the same efficiency as before the taking.

(b) If, during the Lease term, less than a substantial part of the Premises (as hereinabove defined) is taken by or under power of eminent domain, this Lease shall remain in full force and effect according to its terms; and Tenant shall not have the right to participate in any award or damages for such taking and Tenant hereby assigns all of its right, title and interest in and to the award to Landlord. In such event Landlord shall, at its expense, promptly make such repairs and improvements as shall be necessary to make the remainder of the Premises adequate to permit Tenant to carry on its business to substantially the same extent and with substantially the same efficiency as before the taking; provided that in no event shall Landlord be required to expend an amount in excess of the award received by Landlord for such taking. If, as a result of such taking, any part of the Premises is rendered permanently unusable, the basic annual rent reserved hereunder

shall be reduced in such amount as may be fair and reasonable, which amount shall not exceed the proportion which the area so taken or made unusable bears to the total area which was usable by Tenant prior to the taking. If the taking does not render any part of the Premises unusable, there shall be no abatement of rent.

(c) For purposes of this section, "taking" shall include a negotiated sale or lease and transfer of possession to a condemning authority under bona fide threat of condemnation for public use, and Landlord alone shall have the right to negotiate with the condemning authority and conduct and settle all litigation connected with the condemnation. As hereinabove used, the words "award or damages" shall, in the event of such sale or settlement, include the purchase or settlement price.

(d) Nothing herein shall be deemed to prevent Tenant from claiming and receiving from the condemning authority, if legally payable, compensation for the taking of Tenant's own tangible property and such amount as may be payable by statute or ordinance toward Tenant's damages for Tenant's loss of business, removal and relocation expenses.

(e) Notwithstanding the provisions of paragraph 22 herein, Tenant shall have the right to file for a separate award from any condemning authority.

23. Subordination.

Tenant covenants and agrees that all of Tenant's rights hereunder are and shall be subject and subordinate to the lien of any first mortgage hereafter placed on the leased Premises or any part thereof, except the Tenant's property or trade fixtures, and to any and all renewals, modifications, consolidations, replacements, extensions or substitutions of any first mortgage. Such subordination shall be automatic, without the execution of any further subordination agreement by Tenant. If, however, a written subordination agreement, consistent with the provision, is required by a mortgagee, Tenant agrees to execute, acknowledge and deliver the same and in the event of failure

so to do, Landlord may, execute, acknowledge and deliver the same as the agent or attorney in fact of Tenant, and Tenant hereby irrevocably constitutes Landlord its attorney-in-fact for such purpose.

24. Landlord's Right to Perform Tenant's Covenants.

If Tenant shall fail to perform any covenant or duty required of it by this Lease or by law, Landlord, after giving thirty (30) days prior written notice to Tenant and Tenant shall fail to cure or diligently pursue the cure of such default, shall have the

right (but not the obligation) to perform the same, and if necessary to enter the Premises for such purposes without notice.

The reasonable cost thereof to Landlord shall be deemed to be additional rent hereunder payable by Tenant, and Landlord shall have the same rights and remedies with respect to such additional rent as Landlord has with respect to the rental reserved hereunder.

25. Attornment.

(a) If Landlord assigns this Lease or the rents hereunder to a creditor as security for a debt, Tenant shall, after notice of such assignment and upon demand by Landlord or the assignee, pay all sums thereafter becoming due Landlord hereunder either to Landlord or such assignee. Tenant shall also, upon receipt of such notice, have all policies of insurance required hereunder endorsed so as to protect the assignee's interest as it may appear and shall deliver such policies, or certificates thereof, to the assignee.

(b) If, at any time during the term of this Lease, the Landlord of the leased Premises shall be the holder of a leasehold estate covering Premises which include the leased Premises, and if such leasehold shall terminate or be terminated for any reason, or if, at any time during the term of Lease a mortgage to which this Lease is subordinate shall be foreclosed, Tenant agrees at the election and upon demand of any owner of the Premises which include the leased Premises, or of any mortgagee in possession thereof, or of any holder of a leasehold thereafter affecting Premises which include the leased Premises, or of any purchaser at foreclosure, to attorn, from time to time, to any such owner, mortgagee, holder or purchaser upon the terms and conditions set forth herein for the remainder of the term demised in this Lease.

Provided however, that Tenant shall not be obligated to attorn unless, if Tenant shall so request in writing, such holder, owner, mortgage or purchaser shall execute and deliver to Tenant an instrument wherein said holder, owner, mortgagee or purchaser agrees that so long as Tenant performs all the terms, covenants and conditions of this Lease, on Tenant's part to be performed, Tenant's possession under the provisions of this Lease shall not be disturbed by such holder, owner, mortgagee or purchaser.

(c) The foregoing provisions shall inure to the benefit of any such owner, mortgagee, holder or purchaser and shall apply notwithstanding that this Lease may terminate upon the termination of any such leasehold estate or upon such foreclosure, and shall be self-operative upon any such demand, without requiring any further instrument to give effect to such

provisions. Tenant, however upon demand of any such owner, mortgagee, holder or purchaser, agrees to execute, from time to time an instrument in confirmation of the foregoing provisions, satisfactory to any such owner, mortgagee, holder or purchaser, in which Tenant shall acknowledge such attornment and set forth herein and shall apply for the remainder of the term originally demised in this

Lease.

26. Non-Waiver of Future Enforcement.

The receipt of rent by Landlord, with knowledge of any breach of this Lease by Tenant or of any default on the part of Tenant in the observance or performance of any of the conditions or covenants of this Lease, shall not be deemed to be a waiver of any provisions of this Lease, other than the provisions relating to the non-payment of such rental payment. No failure on the part of Landlord or of the Tenant to enforce any covenant or provision herein contained nor any waiver of any right hereunder by Landlord or Tenant, shall discharge or invalidate such covenant or provision or affect the right of Landlord or Tenant to enforce the same in the event of any subsequent default. The receipt by Landlord of any rent or any sum of money or any other consideration hereunder paid by Tenant after the termination, in any manner, of the term herein demised, or after the giving by Landlord of any notice hereunder to effect such termination, shall not reinstate, continue or extend the term herein demised, or destroy, or in any manner impair the efficacy of any such notice of termination as may have been given hereunder by Landlord to Tenant prior to the receipt of any such sum of money or other consideration, unless so agreed to in writing and signed by Landlord. Neither acceptance of the keys nor any other act or thing done by Landlord or any agent or employee during the term herein demised shall be deemed to be an acceptance of a surrender of said Premises, excepting only an agreement in writing signed by landlord accepting or agreeing to accept such surrender.

27. Personal Property Taxes.

Tenant shall be responsible for and shall pay any taxes or assessments levied or assessed during the term of this Lease against any leasehold interest of Tenant or personal property or trade fixtures of Tenant of any kind, owned by Tenant or placed in, upon or about the Premises by Tenant.

28. Recordation of Lease.

Tenant agrees that it will, upon Landlord's request, execute a Memorandum of the Lease in a form suitable for recording under

applicable Maryland law. The party recording such Memorandum of Lease shall pay all costs of recordation, including transfer taxes and documentary stamp taxes hereon.

29. Notices.

Any notice required by this Lease shall be sent by certified mail or by a recognized overnight delivery service such as Federal Express with a receipt by addressee to Landlord at: 2066 Lord Baltimore Drive, Baltimore, Maryland 21244. Any notice required by this Lease shall be sent by certified mail, return receipt requested to Tenant at:

Dal-Tile Corporation	AND A COPY TO:	Dal-Tile Corporation
7834 Hawn Freeway		1470 Progress Way
P.O. Box 17130		Eldersburg, MD 21784
Dallas, Texas 75217		ATTN: DISTRICT MGR.
ATTN: REAL ESTATE DEBT.		

if no other address specified, such notices to Tenant shall be addressed to the leased Premises). Either party may, at any time, or from time to time, designate in writing a substitute address for that above set forth, and thereafter all notices to such party shall be sent by certified mail to such substitute address.

31. Severability.

(a) It is agreed that, for the purpose of any suit brought or based

on this Lease, this Lease shall be construed to be a divisible contract, to the end that successive actions may be maintained thereon as successive periodic sums shall mature or be due hereunder, and it is further agreed that failure to include in any suit or action any sum or sums then matured or due shall not be a bar to the maintenance of any suit or action for the recovery of said sum or sums so omitted; and Tenant agrees that it will not, in any suit or suits brought or arising under this Lease for a matured sum for which judgment has not previously been obtained or entered, plead, rely on or interpose the defenses of res adjudicata, former recovery, extinguishment, merger, election of remedies or other similar defense as a default to said suit or suits.

(b) If any terms, clause or provision of this Lease is declared invalid by a court of competent jurisdiction, the validity of the remainder of this Lease shall not be affected thereby but shall remain in full force and effect.

32. Non-Waiver

It is understood and agreed that nothing herein shall be construed to be a waiver of any of the terms, covenants or conditions herein contained, unless the same shall be in writing, signed by the party to be charged with such waiver and no waiver of the breach of any covenant herein shall be construed as a waiver of such covenant or any subsequent breach thereof. No mention in this Lease of any specific right or remedy shall preclude Landlord from exercising any other right or from having any other remedy or from maintaining any action to which it may be otherwise entitled either at law or in equity.

33. Successors and Assign.

Except as herein provided, this Lease and the covenants and conditions herein contained shall inure to the benefit of and be binding upon Tenant, its successors and assigns, and shall inure to the benefit of Tenant and only such assignees of Tenant to whom an assignment by Tenant has been consented to in writing by Landlord. In the event more than one person, firm or corporation is named herein as Tenant, the liability of all parties named herein as Tenant shall be joint and several.

In the event Landlord's interest under this Lease is transferred or assigned and written notice thereof is given to Tenant, the Landlord herein named (or any subsequent assignee or transferee of Landlord's interest under this Lease who gives such notice to Tenant) shall automatically be relieved and released from and after the date of such transfer or conveyance from all liability hereunder. The provision contained in the foregoing sentence is not intended to, and shall not, limit any right that Tenant might otherwise have to obtain injunctive relief against Landlord or Landlord's successors in interest or any other action not involving the personal liability of Landlord to respond in monetary damages from assets other than Landlord's interest in the building or any suit or action in connection with enforcement or collection of amounts which may become owing or payable under or on account of insurance maintained by Landlord.

34. Notices to Mortgagee.

Tenant agrees that a copy of any notice of default from Tenant to Landlord shall also be sent to the holder of any mortgage or deed of trust on the Premises; provided Tenant has been given written notice of the fact that such mortgage or deed of trust has been made; and Tenant shall allow said mortgagee or holder of the deed of trust a reasonable time, not to exceed thirty (30) days from

the receipt of said notice, to cure, or cause to be cured, any such default. If

such default cannot reasonably be cured within the time specified herein, then such additional time as may be necessary shall be allowed, provided the curing of such default is commenced and diligently pursued within such time period (including, but not limited to, commencement of foreclosure proceedings if necessary to effect such cure) in which event this Lease shall not be terminated while such remedies are being thus diligently pursued.

35. Estoppel Certificate.

Tenant shall, at any time and from time to time during the term of this Lease or any renewal thereof, upon request of Landlord, execute, acknowledge, and deliver to Landlord or its designee, a statement in writing, certifying that this Lease is unmodified and in full force and effect if such is the fact (or if there have been any modifications thereof, that the same is in full force as modified and stating the modifications), the dates to which the rents and other charges have been paid in advance, if any, and any defaults or claimed defaults by Landlord. Any such statement delivered pursuant to this paragraph may be relied upon by any prospective purchaser of the estate of Landlord or by the mortgagee or any assignee of any mortgagee or the trustee or beneficiary of any deed of trust constituting a lien on the Premises or upon property in which the Premises are situate.

36. Environmental Provisions.

(a) Tenant and its successors and assigns shall use and operate the building, the property and the leased premises, respectively, at all times during the term hereof, under and in compliance with the laws of the State of Maryland and in compliance with all applicable Environmental Legal Requirements. "Environmental Legal Requirements" shall mean any applicable law relating to public health, safety or the environment, including, without limitation, relating to releases, discharges or omissions to air, water, land or groundwater, to the withdrawal or use of groundwater, to the use and handling of polychlorinated biphenyls (PCB's") or asbestos, or asbestos containing products, to the disposal, treatment, storage or management of solid or other hazardous or harmful wastes or to exposure to toxic, hazardous or other harmful materials (collectively "Hazardous Substances") to the handling, transportation, discharge or release of gaseous or liquid substance and any regulation or final order or directive issues pursuant to such statute or ordinance, in each case applicable to the premises, the building or its operation,

construction or modification, including without limitation the following: the Clean Air Act, the Federal Water Pollution Control Act ("FWPCA"), the Safe Drinking Water Act, the Toxic Substances Control Act, the Comprehensive Environmental Response Compensation and Liability Act, as amended by the Solid and Hazardous Waste Amendments of 1984 ("RCRA"), the Occupational Safety and Health Act, the Emergency Planning and Community Right-to-Know Act of 1986, the Solid Waste Disposal Act, and any state statutes addressing similar matters, and any state statute providing for financial responsibility for clean-up or other actions with respect to the release or threatened release of any of the abovereferenced substances.

(b) Tenant hereby indemnifies and saves Landlord harmless from all liabilities and claims arising from the use, storage or placement of any Hazardous Substances upon the premises or elsewhere within the Building or property of Landlord (if brought or placed thereon by Tenant, its agents, employees, contractors or invitees); and Tenant shall (i) within fifteen (15) days after written notice thereof, take or cause to be taken, at its sole expense, such actions as may be necessary to comply with all Environmental Legal Requirements and (ii) within fifteen (15) days after written demand therefore, reimburse Landlord for any amounts reasonably expended by Landlord (after first consulting with Tenant) to comply with any Environmental Requirements with respect to the premises or with respect to any other portions of Landlord's Building or property as the result of the placement or storage of Hazardous Substances by Tenant, its agents, employees, contractors or invitees, or in

connection with any judicial or administrative investigation or proceeding relating thereto, including, without limitation, reasonable attorneys' fees, fines or other penalty payments, to the extent that the acts or omissions of Tenant are determined by a final, non-appealable order to have been a producing cause of the violation of Environmental Legal Requirement.

(c) For purposes of this provision, Tenant shall be conclusively deemed to have violated the Environmental Legal Requirements if (i) Landlord obtains and delivers to Tenant a report prepared by an engineer or other party engaged in the business of testing or determining the existence of Hazardous Substances, which report states that there are Hazardous Substances used, stored or placed upon the premises, in violation of the Environmental Legal Requirements that requires remediation, to the extent that the acts or omission of the tenant are a producing cause of the violation requiring remediation.

In the event Tenant is deemed to have violated any of the Environmental Legal Requirements requiring remediation as set forth in the preceding sentence, Landlord shall have the right and option, after fifteen (15) days prior written notice to Tenant, to terminate this lease by written notice thereof to Tenant, in which event Landlord shall retain all rights and remedies, and Tenant shall be subject to all liabilities, set forth in Article 13 of this lease notwithstanding such termination.

(d) Tenant hereby grants Landlord, and Landlord's agents and employees (including but not limited to, any engineers or other parties engaged in the testing of Hazardous Substances) the right to enter upon the premises for the purpose of determining whether Tenant, its agents, employees, contractors or invitees, has violated any of the provisions of this Section.

Environmental representations and warranties of the Landlord regarding the Premises are set forth in the attached Exhibit "C".

37. Captions.

The captions of the various sections of this Lease are for convenience only and are not a part of this Lease. Such captions shall not be construed to define or limit any of the provisions of this Lease.

38. Final and Entire Agreement.

This Lease contains the final and entire agreement between the parties hereto, and neither they nor their agents shall be bound by any terms, conditions or representations not herein written.

39. Tenant Representative.

Tenant shall provide Landlord with the name, address and telephone number of Tenant's representative to be contacted in event of emergency:

40. Additional Rent.

All sums of money required to be paid by Tenant to Landlord pursuant to the terms of this Lease, unless otherwise specified herein, shall be considered additional rent and shall be collectible by Landlord as additional rent, in accordance with the terms of this Lease. Nothing herein contained shall be deemed to suspend or delay the payment of any amount of money or charge at the time the same becomes due and payable hereunder or to limit any other remedy of Landlord.

41. Landlord's Work.

Landlord shall be responsible at its sole cost and expense for providing the

improvements to the Building and Premises as set forth in Exhibit "A" attached hereto. The commencement date of the lease is conditioned upon Landlord's substantial completion (excepting punch list items) of the improvement work set forth on Exhibit "A". Landlord shall provide the finished offices (inclusive of truckers' reception area with restroom) and shall provide openings in the demising walls as reflected on the attached Exhibit "A". Landlord shall provide warehouse lighting sufficient to maintain 30 foot-candles at four feet (4') above the floor in accordance with a rack layout provided by Tenant.

42. Cancellation Option.

Tenant shall have the one-time right to terminate this contract after the seventh (7th) year of occupancy by providing Landlord written notice of its intention to terminate on or before February 28, 2003. Should Tenant terminate this lease at the end of the seventh (7th) year, Tenant shall pay a cancellation fee to Landlord at the time Tenant gives notice in the amount of Three Hundred Fifty-one Thousand, Six Hundred Forty-five Dollars and Twelve Cents ($351,645.12). One-half of the cancellation fee shall be paid upon the date of Tenant's notification, and the balance shall be due and payable at lease termination.

43. Landlord's Guarantee.

Landlord shall provide and Guarantee Tenant a "Dedicated Loading Area" with a paved truck court depth of 120', for Tenant's exclusive use. Landlord shall also provide a "Common Loading Area" to be used by Tenant in common with others, and Landlord shall not permit any improvements or obstructions to be constructed by others in this area which may interfere with Tenant's truck access or maneuvering. Both of the aforementioned "Dedicated and Common Loading Areas" are described on the attached Exhibit "B".

44. Consent.

Any consent required of any party hereto shall not be unreasonably withheld or delayed.

45. Right of First Offer for Contiguous Space.

Landlord hereby grants Tenant the first right to lease any contiguous space as same becomes available within the Building. In the event Landlord becomes aware that such contiguous space is available, Landlord shall give Tenant written notice thereof which notice shall set forth the prevailing market rent (inclusive of tenant improvements) for comparable space in the Eldersburg Business Center. In the event Tenant elects to exercise its right under this Section, Tenant shall be required to give Landlord written notice thereof within five (5) business days from the date of such notice from Landlord, and Tenant shall be required to enter into a lease for such space within thirty (30) days following the date of such notice. In the event Tenant fails to give Landlord written notice of acceptance within such five (5) business day period or in the event Tenant fails to execute a lease within thirty (30) days thereafter, Tenant shall be deemed to have forfeited its rights with respect to such contiguous space, for that specific event of notification from Landlord. It is the intent of the parties, that Tenant's right to lease space as set forth herein shall apply to each instance where space becomes available, and Landlord will provide Tenant the Right of First Offer. The terms of this Section 45 shall not alter or change the provisions set forth in Section 48 of this Lease.

46. Non-Disturbance.

Landlord agrees within fifteen (15) days of execution of this Lease by both parties to submit a written request for a Non-Disturbance Agreement on behalf of Tenant from Landlord's mortgagee, and to use its best efforts to obtain the Agreement within ninety (90) days from the date of Landlord's initial written request. In the event Landlord refinances the Building, Landlord agrees to

resubmit a Non-Disturbance Agreement request to the new mortgagee, and Tenant agrees to review same and make any reasonable modifications.

47. Tenant Fence.

Tenant shall have the right to install, at its sole cost and expense, chain link fences both in the "Dedicated Loading Area" and the "Common Loading Area", with an additional fence linking the two fenced areas together, no greater than 8 feet in height, and in the locations as shown on the attached Exhibit "B". Tenant shall provide Landlord with six (6) months prior written notice of its intent to install the fence(s). Tenant shall provide access to the "Common Loading Area" for all other tenants in the Building.

48. Expansion

At any time during the lease term or any extension term (provided there is a minimum of three (3) years remaining in the lease term) Tenant may notify Landlord of its need to occupy the adjacent 41,400 square foot space ("Expansion Space") and upon such notice Landlord agrees to relocate any Tenant occupying such Expansion Space within one (1) year from the date of Tenant's notification to Landlord. Tenant shall lease the Expansion Space at the then prevailing market rent, inclusive of tenant improvements, for comparable space in the Eldersburg Business Center.

49. Renewal Options.

If Tenant is not then in default under this Lease or any of the provisions hereof, Tenant may extend the term of this Lease for one (1) additional successive period of five (5) years, by notifying Landlord in writing of its intention to do so at least six (6) months prior to the expiration of the then current term. The renewal term shall be under the same lease terms and conditions as are herein set forth except that the annual rental for the renewal term shall be adjusted as follows:

Term:	Annually:	Monthly:	Per S.F.:
Year 11	$1,141,895.88	$95,157.99	$3.63
Year 12	$1,164,733.80	$97,001.15	$3.70
Year 13	$1,188,028.44	$99,002.37	$3.77
Year 14	$1,211,789.04	$100,982.42	$3.85
Year 15	$1,236,024.84	$103,002.07	$3.92

All said rental shall be payable in advance in equal monthly installments on the 1st day of each month during said renewal term, without setoff or deduction.

There shall be no additional right to renew or extend this Lease except as provided herein.

AS WITNESS the hands and seals of the parties hereto the date and year first above written.

ELDERSBURG BUSINESS CENTER, INC.

BY: MERRITT MANAGEMENT CORPORATION, INC.

AGENT

[ILLEGIBLE] (SEAL)

President

LANDLORD

DAL-TILE CORPORATION

BY: [ILLEGIBLE]
---(SEAL)

TENANT

DAL-TILE CORPORATION
ELDERSBURG BUSINESS CENTER
EXHIBIT "A"

FLOOR: 6" concrete reinforced with Fibre Mesh (trade name) with a compression strength equal to or greater than 3,000 psi,

HVAC: Warehouse heat to be provided by gas-fired air rotation units sufficient to maintain an indoor temperature of 65 degrees Fahrenheit at an outside temperature of 8 degrees Fahrenheit.

ELECTRICAL: 277'480 volt three-phase, four wire service. One (1) duplex receptacle provided for each pair of overhead loading doors.

CHARGING STATIONS: To be provided as shown on the attached floor plan.

VENTILATION: Cross ventilation to be provided in warehouse areas, as shown on attached floor plan, sufficient to maintain comfortable, in Landlord's reasonable judgment, working conditions.

DOCK LIGHTS & DOCK LOCKS: Tenant shall have the right to install dock lights and dock locks at Tenant's expense. Landlord will upon written notice from Tenant prior to the commencement date of this Lease, agree to furnish and install dock locks on dock doors as specified by Tenant, provided that the total costs including installation does not exceed One Hundred Thousand Dollars ($100,000.00). Tenant agrees that the principal amount of Landlord's actual costs for the dock locks shall be amortized at an interest rate of ten percent (10%) for a term of seven (7) years, and that the annual payment for amortization shall be added to the annual rent payable by Tenant for the first seven (7) years of the lease term.

TRAILER STORAGE: Landlord shall provide a paved lot approximately 90' x 120' for Tenant's exclusive use for trailer storage. Landlord shall retain the right throughout the lease term, to relocate the lot within Eldersburg Business Center.

LIGHTING: As set forth in paragraph 41 in the lease agreement.

WATER FOUNTAINS: Landlord will furnish and install water fountains in the locations identified on the Exhibit A floor plan.

*Exhibit A shall also include the attached floor plan describing the office space and other related improvements.

"EXHIBIT C"

ADDITIONAL PROVISIONS TO THAT CERTAIN LEASE

1. REPRESENTATIONS AND WARRANTIES OF LANDLORD REGARDING THE PREMISES

A. Not withstanding any other provisions in this Lease to the contrary, Landlord hereby warrants, covenants and represents to Tenant that, to the best of Landlord's knowledge after reasonable inquiry, with respect to the Premises:

(i) it is in complete compliance, without exception, with the Environmental Requirements:

(ii) it has no present knowledge, directly or indirectly, of the issuance or threat of issuance by a Governmental Agency of any notice of violation of the Environmental Requirements by the Landlord or a Co-Tenant;

(iii) No Hazardous Material is now located on the Premises in such a manner or condition that results or could reasonably be expected to result in any Adverse Environmental Impact;

(v) No part of the Premises has ever been used for the disposal, storage, treatment, processing, manufacturing or other handling of Hazardous Material in such a manner as to result in any Adverse Environmental Impact, nor has any part of the Premises been affected by any Hazardous Materials Contamination;

(vi) Landlord has not obtained and is not required to obtain any licenses, permits or authorizations pursuant to any Environmental Requirements in order to construct, occupy, operate or use any building, improvement, fixture or equipment constituing any part of the premises;

(vii) No property adjoining the Premises is or has ever been used for the disposal, storage, treatment, processing, manufacturing or other handling of Hazardous Material, nor has any other property adjoining the Premises been affected by Hazardous Material Contamination;

(viii) No investigaion, administrative order, consent order and agreement, litigation or settlement with respect to Hazadous Material or Hazardous Material Contamination is proposed, threatened, anticipated or in existence; and

(ix) The Premises has never been included on any federal or state "Superfund" or "Superlien" list.

2. INDEMNITY BY LANDLORD

A. Notwithstanding any other provisions in this Lease to the contrary:

(i) Landlord, its successors and assigns agree to indemnify, defend, reimburse and hold harmless:

(a) The Tenant Group; and

(b) The directors, officers, shareholders, employees, partners, contractors, subcontractors, experts, licensees, affiliates, lessees, mortgagees, trustees, heirs, devises, successors, assigns and invitees of such persons from and against any and all Environmental Damages, for which the activities or omissions of the Landlord were a proximate cause or which exist as a result of the breach of any warranty or covenant or the material inaccuracy of any representation of Landlord contained in this Lease, or by Landlord's remediation of the Premises or failure to meet its remediation obligations contained in this Lease.

(ii) The obligations contained in this Section 2 shall include, but not be limited to, the reasonable and necessary burden and expense of defending all claims, suits and administrative proceedings, even if such claims, suits or proceedings are groundless, false or fraudulent, and conducting all negotiations of any description, and paying and discharging, when and as the same become due, any and all judgments, penalties or other sums due against such indemnified persons. Landlord, at its sole expense, may employ additional counsel of its choice to associate with counsel representing Tenant.

(iii) Landlord shall have the right but not the obligation to join and participate in, at its own expense, if it so elects, any legal proceedings or actions initiated in connection with Tenant's activities.

(iv) The obligations of Landlord in this paragraph shall survive the expiration or termination of this Lease.

(v) The obligations of Landlord under this paragraph shall not be affected by any investigation by or on behalf of Tenant, or by any information which Tenant may have or obtain with respect thereto.

(vi) In addition to the obligation of Landlord to indemnify Tenant pursuant to this Lease, Landlord shall, upon approval and demand of Tenant, at its sole cost and expense and using contractors approved by Tenant, which approval shall not be unreasonably withheld, promptly take all actions to remediate the Premises which are required by any Governmental Agency, or which are reasonably necessary to mitigate Environmental Damages or to allow full economic use of the Premises, which remediation is necessitated from the presence upon, about or beneath the Premises, at any time during or immediately prior to termination of this Lease, of a Hazardous Material or a violation of Environmental Requirements for which the activities or omissions of the Landlord

Group and/or Co-Tenant Group were a proximate cause. Such actions shall include, but not be limited to, the investigation of the environmental condition of the Premises, the preparation of any feasibility studies, reports or remedial plans, and the performance of any cleanup, remediation, containment, operation, maintenance, monitoring or restoration work, whether on or off the Premises, which shall be performed in a manner approved by Tenant which approval shall not be unreasonably withheld. Landlord shall take all actions reasonable and practicable to restore the Premises to substantially the condition existing prior to the introduction of Hazardous Material upon, about or beneath the Premises.

3. LANDLORD'S ADDITIONAL OBLIGATIONS

A. Nothwithstanding any other provision in this Lease to the contrary:

(i) Landlord shall not cause, permit or suffer the existence of Hazardous Material Contamination or the commission by the Landlord Group or the Co-Tenant Group of any violation of any Environmental Requirements upon, about or beneath the Premises.

(ii) Landlord shall neither create or suffer to exist, nor permit the Landlord Group or the Co-Tenant Group to create or suffer to exist any lien, security interest or other charge or encumbrance of any kind with respect to the Premises including, but without limitation, any lien imposed pursuant to Section 107(f) of the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C.(S)9607(1)) or any similar state statute, arising as a proximate result of the acts or omissions of the Landlord Group and/or the Co-Tenant Group.

(iii) Landlord's breach of any of its covenants or obligations under these Additional Provisions shall constitute a material default under the Lease; if not remediated within twenty days after written notice from Tenant. The obligations of the Landlord under these Additional Provisions shall survive the expiration or earlier termination of the Lease without any limitation, and

shall constitute obligations that are independent and severable from Landlord's covenants and obligations under the Lease.

4. INDEMNITY BY TENANT

Notwithstanding any other provisions in this Lease to the contrary:

A. Tenant, its successors and assigns agree to indemnify, defend reimburse and hold harmless the Landlord Group; and from and against any and all Environmental Damages, for which the activities or omissions of the Tenant were a proximate cause or which exist as a result of the breach of any warranty or covenant or the inaccuracy of any representation of Tenant contained in this Lease.

B. The obligations contained in this Section 4 shall include, but not be limited to, the reasonable and necessary burden and expense of defending all claims, suits and administrative proceedings, even if such claims, suits or proceedings are groundless, false or fraudulent, and conducting all negotiations of any description, and paying and discharging, when and as the same become due, any and all judgments, penalties or other sums due against such indemnified persons.

C. Tenant shall have the right but not the obligation to join and participate in, at its own expense, if it so elects any legal proceedings or actions initiated in connection with Tenant's activities. Tenant may also, at its own expense and risk, participate in any Hazardous Material attributable to Landlord or Co-Tenant.

D. The obligations of Tenant in this paragraph shall survive the expiration or termination of this Lease.

5. ADDITIONAL DEFINITIONS:

Notwithstanding any other provisions in this Lease to the contrary.

A. "Hazardous Material" means any substance, whether solid, liquid, or gaseous in nature:

(i) the presence of which requires investigation or remediation under any federal, state or local statue, regulation, ordinance, order, action, policy or common law; or

(ii) which is or becomes defined as a "hazardous waste," hazardous substance," pollutant or contaminant under any federal, state or local statute, regulations, rule or ordinance or amendments thereto including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. section 9601, et seq.) and/or the Resource Conservation and Recovery Act (42 U.S.C. section 6901, et seq.); or

(iii) which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic, or otherwise hazardous or is or becomes regulated by any governmental authority, agency, department, commission, board, agency or instrumentality of the United States, the State of Maryland or any political subdivision thereof.; or

(iv) the presence of which on the Premises causes or threatens to pose a hazard to the health or safety of persons on or about the Premises; or

(v) the presence of which on adjacent properties could constitute a trespass by Landlord; or

(vi) without limitation which contains gasoline, diesel fuel or other petroleum hydrocarbons; or

(vii) without limitation which contains polychlorinated biphenyls (PCBs), asbestos or urea formaldehyde foam insulation; or

(viii) without limitation which contains radon gas.

B. "Hazardous Material Contamination" means the contamination (whether presently existing or hereafter occurring) of the Improvements, facilities, soil groundwater, air or other elements on or of the Premises by Hazardous Material, or the contamination of the buildings, facilities, soil, groundwater, air or other elements on or of any other property as a result of Hazardous Material at any time emanating from the Premises.

C. "Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing into the environment (including, but not limited to the abandonment or discarding of barrels, containers and other receptacles containing any Hazardous Material).

D. "Reportable Quantity" means that quantity of a material as set forth in 40 C.F.R. Part 302.

E. "Adverse Environmental Impact" means (i) a Release of a Hazardous Material in a Reportable Quantity or (ii) any material adverse impact on human health or the quality of any property.

F. "Environmental Requirements" means all applicable present and future:

(i) statutes, regulations, rules, ordinances, codes, licenses, permits, orders, approvals, plans, authorizations, concessions, franchises, and similar items (including, but not limited to those pertaining to reporting, licensing, permitting, investigations and remediation), of all Governmental Agencies; and

(ii) all applicable judicial, administrative, and regulatory decrees, judgments, and orders relating to the protection of human health or the environment, including, without limitation, all requirements pertaining to emissions, discharges, releases, or threatened releases of Hazardous Materials or chemical substances into the air, surface water, groundwater or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of Hazardous Materials or chemical substances.

G. "Environmental Damages" means all claims, judgments, damages, losses, penalties, fines, liabilities (including strict liability), encumbrances, liens, costs and expenses (including the expense of investigation and defense of any claim, whether or not such claim is ultimately defeated, or the amount of any good faith settlement or judgment arising from any such claim) of whatever kind or nature, contingent or otherwise, matured or unmatured, foreseeable or unforeseeable (including without limitation reasonable attorneys' fees and disbursements and consultants' fees) any of which are incurred at any time as a result of the existence of Hazardous Material or Hazardous Material Contamination upon, about, or beneath the Premises migrating or threatening to migrate in or from the Premises, or the existence of a violation of Environmental Requirements pertaining to the Premises and the activities thereon, regardless of whether the existence of such Hazardous Material or the violation of Environmental Requirements arose prior to the present ownership or operation of the Premises in whole or in part. Environmental Damages include, without limitation:

(i) damages for personal injury, or injury to property of natural resources occurring upon or off the Premises including, without limitation, lost

profits, consequential damages [if incurred as a result of fraud or material misrepresentation as to these two elements of damage only], the cost of demolition and rebuilding of any improvements on real property, interest and penalties; and damages arising from claims brought by or on behalf of employees of Landlord (with respect to which Landlord waives any right to raise as a defense against Tenant any immunity to which it may be entitled under any industrial or worker's compensation laws);

(ii) reasonable and necessary fees, costs or expenses incurred for the services of attorneys, consultants, contractors, experts, laboratories and all other costs incurred in connection with the investigation or remediation of such Hazardous Material or Hazardous Material Contamination or violation of such Environmental Requirements, including, but not limited to, the preparation of any feasibility studies or reports or the performance of any cleanup, remediation, removal, response, abatement, containment, closure, restoration or monitoring work required by any Governmental Agency or reasonably necessary to make full economic use of the Premises or any other property in a manner consistent with its current use or otherwise expanded in connection with such conditions, and including without limitation any reasonable and necessary attorneys' fees, costs and expenses incurred in enforcing the provisions of this Lease or collecting any sums due hereunder; and

(iii) liability to any third person or Governmental Agency to indemnify such person or Governmental Agency for costs expended in connection with the items referenced in subparagraph (ii) above.

H. "Governmental Agency" means all governmental agencies, departments, commissions, boards, bureaus or instrumentalities of the United States, states, counties, cities and political subdivisions thereof.

I. The "Tenant Group" means Tenant, Tenant's successors, assignees, guarantors, officers, directors, mortgagees trustees, agents, partners, employees, invitees, permitees or other parties under the supervision or control of Tenant or lawfully entering the Premises during the term of this Lease with the permission of Tenant, other than Landlord or its agents or employees.

J. The "Landlord Group" means the Landlord, Landlord's successors, assignees, guarantors, officers, directors, mortgagees, trustees, agents, partners, employees, invitees, permitees or other parties under the supervision or control of the Landlord or lawfully entering the Premises during the term of this Lease with the permission of Landlord, other than Tenant or its agents or employees.

K. "Co-Tenant" means any other lessee of any interest in the Premises.

L. The "Co-Tenant Group" means any Co-Tenant, Co-Tenant's successors, assigns, guarantors, officers, directors, mortgagees, trustees, agents, partners, employees, invitees, permitees or other parties under the supervision or control of the Co-Tenant or lawfully

entering the Premises during the term of this Lease with the permission of Co-Tenant, other than Tenant or Landlord or their agents or employees.

TENANT	LANDLORD
Dal-Tile Corporation	Eldersburg Business Center, Inc.

By:_____	By: /s/ [ILLEGIBLE]
Typewritten Carlos Sala, Vice President	Typewritten
Name: /s/ Carlos Sala	Name: Leroy M. Merritt
Title: _____	Title: President
Date: _____	Date: [ILLEGIBLE]

Exhibit 10.17

SUBLEASE

This sublease is made as of the 3 day of February, 1997 between KMART CORPORATION, 3100 West Big Beaver Road, Troy, Michigan 48084 ("Sublessor"), and DAL-TILE Corporation, a Pennsylvania corporation having an address 7834 C.F. Hawn Freeway, Dallas Texas 75217 ("Sublessee").

Recitals:

A. Metropolitan Life Insurance Company, a New York corporation, ("Prime Lessor") and Sublessor entered into that certain lease, dated February, 1989, (the "Prime Lease"), whereby the Prime Lessor leased to Sublessor certain land and building in the City of Sunnyvale, Dallas County, Texas together with certain non-exclusive rights and easements, all as more fully described on Exhibit "A" attached hereto and made a part hereof (the "Demised Premises").

B. Sublessor and Sublessee desire to enter into a Sublease of the Demised Premises upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the Demised Premises, the rents reserved herein and the mutual benefits to be derived by Sublessor and Sublessee, the parties hereby agree as follows:

1. Base Rent. Sublessee agrees to pay to Sublessor annual rent ("Base Rent") as follows: a) for the first two months of the term of this Sublease the Base Rent shall be abated; b) for the third month through the thirty-sixth month of the term of this Sublease, the Base Rent shall be One Million One Hundred Ten Thousand Three Hundred Seventy Five and no/100 Dollars ($1,110,375.00) payable in monthly installments of Ninety Two Thousand Five Hundred Thirty One and 25/100 Dollars ($92,531.25) each; c) for the thirty-seventh month through the seventy second month of the term of this Sublease, the annual Base Rent shall be One Million One Hundred Fifty Seven Thousand Six Hundred Twenty Five and 00/100 Dollars ($1,157,625.00) payable in monthly installments of Ninety Six Thousand Four Hundred Sixty Eight and 75/100 Dollars ($96,468.75) each; d) if Sublessee shall elect to extend the term hereof, for the First Extended Term of this Sublease, the Basic Rent shall be One Million Two Hundred Fifty Two Thousand One Hundred Twenty Five and 00/100 Dollars ($1,252,125.00) payable in monthly installments of One Hundred Four Thousand Three Hundred Forty Three and 75/100 Dollars ($104,343.75) each; and e) for the Second Extended Term of this Sublease the Base Rent shall be One Million Three Hundred Forty Six Thousand Six Thousand Twenty Five and 00/100 Dollars ($1,346,625.00), payable in monthly installments of One Hundred Twelve Thousand Two Hundred Eighteen and 75/100 Dollars ($112,218.75). Each installment shall be due on the first day of each calendar month, and provided that Sublessor is able to obtain the agreement of Prime Lessor as set forth in Section 6(e) below, shall be made at such place as may from time to time be designated by Sublessor, in writing, and without previous demand, setoff or deduction whatsoever; in the event that Sublessor is unable to obtain the agreement of Prime Lessor as set forth in Section 6(e), then and in that event, Sublessee shall pay a portion

of the Basic Rent directly to Prime Lessor each month equal to the installment of rent due to Prime Lessor under the Prime Lease, and shall pay the balance of the Basic Rental installment each month to Sublessor and deliver therewith a copy of the check for rent sent to the Prime Lessor. If the term of this Sublease commences on a day other than the first of the month or ends on a day other than the last day of the month (for a reason other than termination of the Sublease on account of Sublessee's default), Base Rent for such month shall be prorated. Prorated Base Rent for any such partial first month of the term hereof shall be paid on the date on which the term commences and Base Rent for a partial final month of the term shall be prorated on a daily basis and be

refunded to Sublessee.

2. Sublease Term. (a) Primary Term. Sublessor hereby subleases and demises to Sublessee and Sublessee hereby subleases and takes from Sublessor the Demised Premises for an initial term commencing on the earlier of the thirty first day from the date hereof or the date upon which the conditions of Sections 22(c) and 22(d) of the Prime Lease are satisfied (the "Term Commencement Date") and ending on January 30, 2003 (the "Primary Term"). Sublessor agrees to deliver to Sublessee and Sublessee agrees to accept from Sublessor exclusive possession of the Demised Premises on the Term Commencement Date and Sublessee shall thereafter have all of the rights and obligations of Tenant under the Prime Lease, except as hereinafter set forth. Sublessor hereby agrees that Sublessee shall have the benefit of all representations, rights and covenants provided to Sublessor under the Prime Lease as fully and completely as if such representations, rights and covenants were made by Prime Lessor directly to Sublessee. From and after the date of this Sublease until the Term Commencement Date, Sublessee shall have a license to enter upon the Demised Premises at reasonable times and upon reasonable notice, in order to minimize interference with the conduct of Sublessor's business and from time to time to make inspections and investigations, to show the Demised Premises to contractors, to professional consultants and others. All such entries by Sublessee and its employees, agents, and invitees shall be at Sublessee's own risk and expense and Sublessee agrees to indemnify Sublessor from and against any loss, cost, liability or damage which results from Sublessee's rights of entry provided for herein.

(b) Extension Terms. Sublessee shall have the option to extend the term of Sublease for two successive terms, the first of which ("First Extended Term") shall be for a period of six (6) years, and the second of which ("Second Extended Term") shall commence at the end of the First Extended Term and shall terminate on March 14, 2014, provided:

(i) Sublessee shall give Sublessor written notice of the exercise of its option not less than nine (9) months prior to the expiration of the then existing term hereof;

(ii) Sublessee shall not at the time of such exercise or at the commencement of the extension term, be in default under the terms of this Sublease; and

(iii) each such extension term shall be upon the terms and conditions as set forth herein.

3. Prime Lease Obligations. (a) Sublessor shall be responsible for the maintenance and repair of the roof of the Demised Premises.

(b) Except as otherwise specifically provided herein, Sublessee agrees to pay and perform Sublessor's obligations under the Prime Lease which are to be performed after the date hereof, other than the obligation to pay the annual rental required under the terms of Section 3, of the Prime Lease ("Prime Lease Rent"). All payments to be made to governmental authorities and other third parties shall be made by Sublessee on or before the due date. All such payments shall be made directly to such governmental authorities or third parties. Sublessor may from time to time request and Sublessee shall supply evidence of payment. Sublessee shall have the same rights with respect to the timing and manner of payments as Sublessor would have had under the Prime Lease including, without limitation, the right to contest the imposition or amount of any tax or other governmental assessment or levy, or the application to Sublessee or the Demised Premises of any law, rule, regulation, order, ordinance or other form of governmental regulation, to the same extent that Sublessor could do so under the Prime Lease. Sublessor shall forward to Sublessee immediately upon receipt all

bills, invoices, statements, notices, orders or communications of any kind concerning or pertainig to any matter or thing for which Sublessee is or may be responsible hereunder.

(c) All amounts which Sublessee is required to pay pursuant to this Sublease (other than Base Rent), together with every fine, penalty, interest and cost which may be added for non-payment or late payment thereof, (other than non-payment or late payment attributable to Sublessor's failure or delay in forwarding bills invoices, statements or notices relating to such required payment), shall constitute additional rent ("Additional Rent"). In the event that Sublessee shall fail to make any payment of Additional Rent for five (5) days following notice that the same was not paid when due, Sublessor shall have the right to make such payment on Sublessee's behalf and to demand reimbursement of such amount from Sublessee.

(d) If any installment of Base Rent shall not be paid on its due date, Sublessee shall pay to Sublessor, on demand, interest at the rate provided for late payments of Prime Lease Rent under the Prime Lease (or the highest interest rate allowed by law, whichever is lower) on the amount of such installment from the due date thereof until paid. Sublessee shall pay to Sublessor, on demand, interest at such rate on all overdue Additional Rent paid by Sublessor on behalf of Sublessee from the date of payment by Sublessor until repaid by Sublessee.

(e) Sublessor agrees that it will pay to Prime Lessor, on or before the date due, all installments of annual rent which are due under the Prime Lease and shall otherwise comply with all terms and conditions of the Prime Lease which are not undertaken by Sublessee under this Sublease. Sublessor agrees that it will, upon request of Sublessee, pursue any rights which it may have under the Prime Lease against the Prime Lessor in the event that the Prime Lessor shall fail to comply with a request by the Sublessee under the Prime Lease.

4. Use. The Demised Premises are agreed to contain 472,500 square feet
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and may be used by Sublessee solely as a warehouse and distribution facility and not for any manufacturing activities. The foregoing notwithstanding, Sublessee shall not use the Demised Premises nor permit the Demised Premises to be used, directly or indirectly, for: a massage parlor, adult book store or pornographic display of any nature; gas station, auto service or repair center; junk yard or dump; dry cleaner; or any use involving the operation of a below ground storage tank or the use or sale on the Demised Premises of toxic, hazardous or explosive substances, in violation of applicable law.

5. Title and Condition of Demised Premises. Sublessor will remove all of
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its equipment from the Demised Premises, except the security system and equipment utilized in the operation of the building and systems, prior to tender of possession. Except as specifically provided in Section 7, (a)(v) below, (a). The Demised Premises are subleased to Sublessee in their present condition by Sublessor, without representation or warranty, subject to: (i) the Prime Lease and all other easements, agreements, covenants and matters of record, (ii) all taxes not yet due and payable, and (iii) subject to paragraph 4 above, all applicable zoning rules, restrictions, regulations, resolutions and ordinances and building restrictions and governmental regulations now or hereafter in effect.

(b) By execution of this Sublease, Sublessee acknowledges and agrees that it shall accept the Demised Premises on the Term Commencement Date in its then "as is" and "where is" condition, provided that there has been no change or deterioration in the Demised Premises from the date hereof other than change or deterioration caused by Sublessee's use of the Demised Premises. Sublessee acknowledges and agrees that neither Sublessor nor its agents or employees has made any express warranty or representation regarding the physical or environmental condition of the Demised Premises, the quality or workmanship of

the Demised Premises, latent or patent, or the fitness of the Demised Premises for any particular use or purpose and that no such representation or warranty shall be implied by law, it being agreed that all such risks are to be borne by Sublessee.

(c) Sublessor makes no representation or warranty, express or implied, with respect to the necessity (or lack of necessity) for or availability of any permits, licenses or other governmental authorizations in order to modify, alter or change the Demised Premises or to operate the Demised Premises for the uses intended by Sublessee, it being agreed that all such risks are to be borne by Sublessee.

(d) Upon termination of this Sublease, Sublessee shall remove all of its equipment from the Demised Premises, repair any damage caused by such removal and return the Demised Premises, broom clean and in the same condition as received, ordinary wear and tear excepted.

6. The Prime Lease. (a) This Sublease and all rights of Sublease hereunder and with respect to the Demised Premises are subject to the terms, conditions and provisions of the Prime Lease. Sublessee shall have all of the rights of Sublessor vis a vis the Landlord to enforce the obligations of the Landlord under the Prime Lease.

(b) Without limitation of the foregoing:

(i) if Sublease desires to take any action, including structural changes within the Demised Premises, and the Prime Lease would require the Sublessor obtain the consent of the Prime Lessor before undertaking any action of the same kind, Sublessee shall not undertake the same without the prior written consent of Sublessor. Sublessor may condition its consent on the consent of the Prime Lessor being obtained, and may require Sublessee to contact the Prime Lessor directly for such consent but Sublessor shall not otherwise unreasonably withhold, delay or condition its consent;

(ii) Sublessor shall also have all rights, and all privileges, options, reservations and remedies, granted or allowed to, or held by, the Prime Lessor under the

Prime Lease to the extent that the exercise of those rights is not inconsistent with the terms of the Sublease;

(iii) Sublessee shall maintain insurance of the kinds required to be maintained by Sublessor under the Prime Lease and including any rights of self insurance subject to the Net Worth Requirement under the Prime Lease, and the consent of Prime Lessor. All policies of liability insurance shall name the Prime Lessor and Sublessor as additional insured and all physical damage insurance shall insure Prime Lessor as its interest may appear; provided, that Sublessee shall not be entitled to any insurance proceeds from policies which may be carried by Sublessor, and if Sublessor is required to repair or restore improvements and betterments to the Demised Premises insured by Sublessee, Sublessee shall make available all insurance proceeds for such repair or restoration to Prime Lessor; provided, however, that at the election of Sublessee, Sublessor will maintain the insurance required to be maintained under the Prime Lease, and Sublessee shall reimburse Sublessor therefore at the rate of Forty Seven Thousand Two Hundred Fifty and no/100 Dollars (47,250.00) per annum payable in equal monthly installment of Three Thousand Nine Hundred Thirty Seven and 50/100 Dollars ($3,937.50) in advance on the first of each calendar month;

(iv) Neither Sublessor nor Sublessee shall do anything or suffer or permit anything to be done which results in a default under the Prime Lease or permit the Prime Lease to be canceled or terminated. Sublessor shall not attempt or agree to amend modify, cancel or reject the Prime Lease without the

prior written consent of Sublessee which may be withheld or granted in Sublessor's sole discretion.

(c) Notwithstanding anything contained herein or in the Prime Lease which may appear to be to the contrary, Sublessor and Sublessee hereby agree as follows

(i) Sublessee shall not assign, or otherwise transfer or permit the transfer of the Sublease or any interest of Sublessee in this Sublease, by operation of law or otherwise, or permit the use of the Demised Premises or any part thereof by any persons other than Sublessee and Sublessee's employees, or sublet the Demised Premises or any part thereof, except to the extent Sublessor gives consent to a subletting or assignment; provided that no consent shall be required for a full or partial assignment of this Sublease or a sub-sublease of all or any portion of the Demised Premises to an entity which controls, is controlled by or under common control with the Sublessee. Sublessor agrees that it will not unreasonably withhold, delay or condition its consent to a proposed subletting or assignment for which its consent is required, provided that Sublessee shall remain liable under this Sublease;

(ii) neither rental nor other payments hereunder shall abate by reason of any damage to or destruction of all or part of the Demised Premises or the Building unless, and then only to the extent that, rent actually abates under the Prime Lease with respect to the Demised Premises on account of such event;

(iii) in the event of any conflict between the terms, conditions and provisions of the Prime Lease and of this Sublease, the terms, conditions and provisions of this Sublease shall govern and control.

(d) Except as provided herein it is expressly understood and agreed that Sublessor does not assume and shall not have any of the obligations or liabilities of the Prime Lessor under the Prime Lease and that Sublessor is not making the representations or warranties, if any, made by the Prime Lessor in the prime Lease. With respect to work, services, repairs and restorations or the performance of other obligations required of the Prime Lessor under the Prime Lease, Sublessor's sole obligation with respect thereto shall be to request the same, upon written request from Sublessee, and to use diligent efforts to abtain the same from the Prime Lessor. Sublessor shall have the right to deal directly with the Prime Lessor concerning the performance of Prime Lessor's obligations under the Prime Lease. Sublessor shall not be liable in damages, nor shall rent abate hereunder, for or on account of any failure by the Prime Lessor to perform the obligations and duties imposed on it under the Prime Lease, except as set forth in Section 6(c)(ii) above.

(e) Sublessor shall use its best commercially reasonable efforts to obtain an agreement from Prime Lessor for the benefit of Sublessee, that Prime Lessor shall give written notice of any default under the Prime Lease to Sublessee and thereafter Sublessee shall have fifteen (15) days to cure such default.

7. Representations and Warranties.

(a) Sublessor. Sublessor represents and warrants to Sublessee as follows:

(i) Sublessor is a corporation, duly organized, validly existing and in good standing in the State of Michigan; it has full power and authority to enter into this Sublease with Sublessee; it has duly authorized the execution and delivery of this Sublease; the Sublease has been duly executed and delivered and constitutes a valid and binding obligation of Sublessor, enforceable in accordance with its terms; the execution and delivery of the Sublease does not

violate or contravene any document, instrument, agreement, rule, regulation or order to which Sublessor is a party or by or under which Sublessor is bound; no consent or approval of any person or entity is required for this Sublease which has not been obtained. As of the execution and delivery of the Sublease, Sublessor is solvent, and will not be rendered insolvent by the transaction contemplated herein;

(ii) There is no litigation pending, or to Sublessor's best knowledge, threatened by any person or entity which does or could affect the Demised Premises, or the Prime Lease, or this Sublease; Sublessor has not been notified that there is any violation of law at or with respect to the Demised Premises;

(iii) The Prime Lease is in full force and effect, and has not been terminated, amended, or modified except as indicated above. To the best of Sublessor's knowledge and belief no default by Sublessor or Prime Lessor exists under the Prime Lease and no event or act has occurred which, with the giving of notice or passage of time or both, could ripen into a default under the Prime Lease;

(iv) To the best of Sublessor's knowledge and belief, no underground storage tanks are located on the Demised Premises;

(v) The Demised Premises will be delivered broom clean, equipment in proper working order and bolts will be removed or flush cut and holes in the floor caused by equipment removal or excessive wear by material handling equipment will be repaired to the extent required for safety;

(vi) The Commencement Date of the Prime Lease is March 15, 1989 and the Prime Lease shall terminate March 31, 2014;

(vii) On July 12, 1996, Sublessor sent written notice to Prime Lessor of its intention to discontinue its operation at the Demised Premises and of its desire to assign or sublet the Demised Premises, and that on the Term Commencement Date, Sublessor shall not have received a notice of termination of the Prime Lease from Prime Lessor.

(b) Sublessee represents and warrants to Sublessor that: (i) Sublessee is a corporation, duly organized, validly existing and in good standing under the laws of The State of Pennslyvania and has the power to own its property and assets and carry on its business in the State of Texas;

(ii) the execution of this Sublease constitutes the binding obligation of Sublessee;

(iii) the sublease of the Demised Premises will not conflict with or result in a breach of Sublessee's Articles of Incorporation or By-laws or any material agreement to which Sublessee is a party or by which it may be bound, or violate any state or federal governmental law, statute, ordinance or regulation.

8. Notices, Demands and Other Instruments. All notices, demands or other communications given pursuant to this Sublease shall be in writing and shall be deemed given on the date mailed if mailed by nationally recognized overnight courier or by registered or certified mail, return receipt requested, with postage prepaid if: (a) when mailed to Sublessor, it is addressed to Sublessor at its address set forth above, marked "Attention: Vice President - Corporate Facilities," and (b) when mailed to Sublessee, it is addressed to Sublessee at its address set forth above. The parties may specify any other address in the United States with fifteen (15) days' notice.

To Sublessor: Kmart Corporation.
3100 West Big Beaver Road
Troy, Michigan 48084

Attn: Vice President Real Estate
Telecopier: 810-643-2689

With a copy to: Dickinson Wright, Moon, VanDusen and Freeman
225 West Washington Street, #400
Chicago, Illinois 60606
Attention: Ronald B. Grais
Telecopier: 312-220-0021

To Sublessee: Dal-Tile Corporation
7834 Hawn Freeway
Dallas, TX 75217
Attn: Manager-Real Estate
Telecopier: 214-309-4934

With a copy to: Godwin & Carlton
901 Main Street
Suite 3300
Dallas, TX 75202-3714
Attn: Joshua Mond
Telecopier: 214-760-7332

9. Separability. If any provision of this Sublease or its application to any persor or circumstance shall be declared invalid or unenforceable, the remaining provisions of this Sublease, or the application of such provision to persons or circumstances other than those to which it is invalid or unenforceable, shall not be affected thereby and each provision shall be valid and enforceable to the extent permitted by law.

10. Binding Effect. All provisions contained in this Sublease shall be binding upon, inure to the benefit of, and be enforceable by, the respective successors and assigns of Sublessor and Sublessee. If Sublessor acquires a fee interest in the Demised Premises, this Sublease shall not be affected and shall continue as a direct lease of the Demised Premises between Sublessor and Sublessee.

11. Interpretation, Amendment and Modification. This Sublease shall be interpreted under the laws of the State of Texas. The Section and subsection captions are for the convenient reference of the parties only and are not intended to and shall not be deemed to modify the interpretation of the Section or subsection from that which is indicated by the text of the Section or subsection alone. All of the representations, warranties and indemnities contained in this Sublease shall survive indefinitely the expiration or termination of this Sublease. This Sublease is the product of negotiation and the parties agree that it shall not be interpreted against the drafter. This Sublease contains the entire agreement between the parties with respect to the Demised Premises and all prior negotiations or agreements, whether oral or written, are superseded and merged herein. This Sublease may not be changed or amended except by a writing duly authorized and executed by the party against whom enforcement is sought.

12. Brokers. Each party hereby represents and warranties to the other that it has had no dealings with any real estate broker or agent in connection with this Sublease excepting only Russ Peterson of Dallas, Texas, whose commission shall be paid upon Sublessee's occupancy by Sublessor in accordance with the agreement between broker and Sublessor and subject to rent offset and that it knows of no other real estate broker or agent who is or might be entitled to a commission in connection with this Sublease. Each party agrees to protect,

defend, indemnify and hold the other harmless from and against any and all claims inconsistent with the foregoing representations and warranty for any brokerage, finders or similar fee or commission in connection with this Sublease if such claims are based on or relate to any act of the indemnifying party which is contrary to the foregoing representations and warrantiies.

13. Memorandum of Sublease. This Sublease shall not be recorded. If a party records this Sublease, it shall be a default hereunder by such party. Sublessor and Sublessee shall, simultaneously with the execution of this Sublease, enter into a short form memorandum of this Sublease and Sublessee shall pay the cost to record the memorandum and any transfer, conveyance or similar tax due as a result of the subleasing of the Demised Premises or the recording of the memorandum.

14. Indemnification. (a) Indemnification by Sublessee. Sublessee agrees that it will indemnify and hold Sublessor, and its successors in interest hereunder, harmless from and against any loss, cost, expense, damage (including consequential or incidental damage), penalty or liability which Sublessor does incur as a result of or arising from

(i) Sublessee's use of the Demised Premises during the term;

(ii) the breach or violation of any representation, warranty, covenant or agreement made by Sublessee hereunder;

(iii) Sublessee's failure to perform its obligations under this Sublease or to perform those of the obligations under the Prime Lease which Sublessee has agreed to perform on Sublessor's behalf.

(b) Indemnification by Sublessor. Sublessor agrees that it will indemnify and hold Sublessee, and its successors in interest hereunder, harmless from and against any loss, cost, expense, damage (including consequential or incidental damage), penalty or liability which Sublessee does incur as a result of or arising from

(i) the condition or use of the demised Premises prior to the Sublease Term Commencement Date;

(ii) the breach or violation of any representation, warranty, covenant or agreement made by Sublessor hereunder.

(iii) the failure of Sublessor to perform its obligations under this Sublease or to perform those of its obligations under the Prime Lease which remain the primary responsibility of Sublessor, or

(iv) any act or omission done or made by Sublessor which results in the termination, cancellation or rejection of the Prime Lease and/or the Sublease, or the inability of Sublessee to have the full benefit of the rights provided to Sublessee hereunder.

(c) In no event shall Sublessee or Sublessor be required to indemnify or hold harmless any person or entity for any loss, cost, damage, penalty or liability which is the result of the negligence or willful misconduct of the person or entity seeking indemnification.

15. Rental Deposit. Upon the Term Commencement Date, Sublessee shall prepay the monthly installments of Base Rent for the eleventh and twelfth months of the Primary Term, in the amount of Ninety Two Thousand Five Hundred Thirty One and 25/100 Dollars ($92,531.25) each respectively.

16. Condition Precedent. This Sublease is subject to consent thereto by Prime Lessor either by lapse of time under Section 22 (b) of the Prime lease or by written consent to the terms of this Sublease, within thirty (30) days of the date hereof. If Prime Lessor refuses to consent to this Sublease, or elects to negotiate directly with Sublessee in accordance with Section 22(b) of the Prime Lease, this Sublease shall simultaneously terminate and neither party shall have any further rights or obligations under the Sublease and each party hereby releases the other from any cost, loss, damage, claim, liability, expense, fee or charge related to, arising from or involving this Sublease or the Demised Premises.

IN WITNESS WHEREOF, the parties hereto have caused this Sublease to be executed as of the date first above written.

WITNESSED:

/s/ [ILLEGIBLE]

KMART CORPORATION
("Sublessor")

By: /s/ [ILLEGIBLE]

Its: Real Estate Rep:

Dickinson, Wright:
Approved:_____
Reviewed (see comments): /s/ ILLEGIBLE

DAL-TILE CORPORATION
("Sublessee")

By: /s/ James Eckelberger

James Eckelberger
Its: Vice President

/s/ [ILLEGIBLE]

EXHIBIT A

K MART ADDITION, an Addition to the City of Sunnyvale, Dallas County, Texas, according to the Plat recorded in Volume 87118, Page 1904, Map Records, Dallas County, Texas, and being more particularly described by metes and bounds as follows:

Beginning at an iron rod found at the Northeast corner of Lot 1, Block 8 of SAMUEL PARK FARMS WEST, an Addition to the City of Mesquite, Texas, according to the Plat recorded in Volume 83216, Page 3409, Map Records, Dallas County, Texas, said iron rod also being in the West right-of-way line of Planters Road;

THENCE South 89 degrees 33 minutes 38 seconds West, along the North line of said SAMUEL PARK FARMS WEST, a distance of 1669,48 feet to an iron rod found in place;

THENCE North 0 degrees 05 minutes 25 seconds West, 970.81 feet to an iron rod found in place;

THENCE North 89 degrees 33 minutes 38 seconds East, 1237.00 East to an iron rod found in place in the aforementioned West right-of-way line of Planters Road;

THENCE along said West right-of-way line as follows;

1) Southeasterly, 8.04 feet along a curve to the left having a radius of 1030.00 feet, a central angle of 0 dgrees 26 minutes 50 seconds and a chord bearing South 46 degrees 18 minutes 50 seconds East a distance of 8.04 feet to an iron rod found in place at the-end of said curve;

2) South 46 degrees 32 minutes 20 seconds East, 373.37 feet to an iron rod found in place at the beginning of a curve to the right;

3) Southeasterly, 398.27 feet along said curve to the right having a radius of 495.00 feet, a central angle of 46 degrees 05 minutes 58 seconds and a chord bearing South 23 degrees 29 minutes 21 seconds East a distance of 387.81 feet to a ??? found cut in concrete at the end of said curve;

4) South 0 degrees 26 minutes 22 seconds East, 349.63 feet to the PLACE OF BEGINNING and containing 35.000 acres (1,524,600 square feet) of land.

EXHIBIT "C"

THIS LEASE (the "Lease") made and entered into as of the _____ day of February, 1989, by and between METROPLITAN LIFE INSURANCE COMPANY, a New York corporation having its principal office at One Madison Avenue, New York, New York 10010 (herein referred to as "Landlord"), and K MART CORPORATION, a Michigan corporation having its principal office at 3100 West Big Beaver Road, Troy, Michigan 48084 (herein referred to as "Tenant"),

WITNESSETH: That in consideration of the rents, covenants, and conditions herein set forth, landlord and Tenant do hereby covenant, promise and agree as follows:

Demised Premises

1. Without representation or warranty, express or implied, Landlord does demise unto Tenant and Tenant does take from Landlord, for the "Lease Term" (hereinafter defined), the following property: That certain tract or parcel of real property which is more particularly described on Exhibit "A" attached hereto and made a part hereof (the "Land"), together with the building(s) and/or improvements existing on the Land on the date hereof and all additional buildings and/or improvements hereafter erected or constructed on the Land (the "Improvements"); subject, however, to the matters listed on Exhibit "B" attached hereto and made a part hereof.

Said Land and Improvements, together with any right, title or interest of Landlord in or to any licenses, rights, privileges and easements appurtenant thereto, shall be hereinafter collectively referred to as the "demised premises".

Term

2. The term of this Lease shall commence upon the date of this Lease (the "Commencement Date") and shall terminate upon such date as shall be twenty-five (25) years from the last day of the month during which the Commencement Date occurs (the "Initial Lease Term); provided however, the term of this Lease may be extended as provided in Article 12 hereof. The phrase "Lease Term", as used in this Lease, shall mean the Initial Lease Term, together with any extension(s) pursuant to Article 12 hereof.

Annual Rental

3. Tenant shall, during the Lease Term, pay to Landlord, at such place as Landlord shall designate in writing from time to time, an annual rental in the following amounts:

Years 1-5: $1,040,910 per annum
Years 6-10: $1,092,956 per annum
Years 11-15: $1,147,604 per annum
Years 16-20: $1,204,984 per annum
Years 21-25: $1,265,233 per annum

Rental During Option Period

1st five-year option - $1,391,756.00 per annum
2nd five-year option - $1,530,931.00 per annum
3rd five-year option - $1,684,024.00 per annum
4th five-year option - $1,852,427.00 per annum
5th five-year option - $2,037,670.00 per annum
6th five-year option - $2,241,437.00 per annum

The annual rentals listed above shall be paid by Tenant to Landlord without deduction or offset, except as expressly provided in Articles 20 and 21 hereof, in equal monthly installments on the first day of each month, in advance, commencing on the Commencement Date; provided however, in the event the Commencement Date shall not be the first day of a calendar month, then the rental for such month shall be prorated (on the basis of a rental of $1,040,910.00 per annum) upon a daily basis and shall be in addition to rental for the first year of the Lease Term in the amount of $1,040,910.00 as provided above in this Article 3; it being understood between Landlord and Tenant that the first year of the Lease term shall be a period of twelve (12) months, plus the number of days which exist between the Commencement Date and the last day of the month during which the Commencement Date occurs. The annual rental to be paid by Tenant hereunder shall be absolutely net to Landlord and free of any operating expenses relative to the demised premises, so that this Lease shall yield the annual rentals specified above, net to Landlord, throughout the Lease Term.

Real Estate Tax

4. Tenant shall pay and discharge all ad valorem real estate taxes and assessments of any nature which shall be levied against the demised premises during the Lease Term.

Tenant shall pay and be liable for all sales and use taxes and other similar taxes, if any, levied or imposed by any city, state, county or other governmental body having authority. Tenant shall also be liable for and shall pay all taxes levied or assessed against Tenant's property or equipment located in or upon the demised premises, or any part thereof. Notwithstanding the immediately preceding sentence, Tenant shall not be chargeable with, nor be obligated to pay, any income, profit, inheritance, estate, succession, gift, franchise or transfer taxes which are or may be imposed upon Landlord, its successors or assigns, and which do not result from Tenant's use of the demised premises, by whatsoever authority imposed or howsoever designated.

Taxes and assessments payable by Tenant pursuant to this Article 4 for the last year of the Lease Term shall be prorated based upon actual tax and/or assessments statements, if available; otherwise, the

proration shall be made based upon the most recent tax and/or assessment statements available.

Written evidence of the payment by Tenant of taxes and assessments pursuant to this Article 4 shall be furnished by Tenant to Landlord not later than ten (10) days prior to the date upon which any such taxes or assessments would become delinquent.

Tenant shall have the right to contest, with such right to be exercised reasonably and in good faith, the validity or the amount of any tax or assessment levied against the demised premises by such appellate or other proceedings as may be appropriate in the jurisdiction and may defer payment of such obligations, pay same under protest, or take such other steps as Tenant may reasonably deem appropriate; provided that, (i) neither the demised premises, nor any part thereof or interest therein, would be, in Landlord's sole opinion, in any danger of being sold, forfeited, lost or interfered with, and (ii) Tenant

shall furnish such security as may be required in any legal proceeding or as shall be reasonably requested by Landlord. Landlord shall cooperate in the institution and prosecution of any such proceedings in a reasonable manner (but without cost or expense to Landlord) and will execute any documents reasonably required therefor. All costs and expenses of such proceedings shall be borne solely by Tenant and any refunds or rebates secured thereby shall belong to Tenant. Tenant shall not withhold payment of taxes which will cause any taxing authority to impose a tax lien against the demised premises, or any part thereof, and shall indemnify and hold Landlord harmless from any loss, cost or expense incurred by Landlord including, without limitation, attorneys' fees, as a result of any such contest(s) or proceeding(s).

5. Article 5 is Intentionally Deleted.

6. Article 6 is Intentionally Deleted.

7. Article 7 is Intentionally Deleted.

8. Article 8 is Intentionally Deleted.

9. Article 9 is Intentionally Deleted.

10. Article 10 is Intentionally Deleted.

Landlord's Covenant not to Build

11. Landlord covenants that it will not erect any buildings or other structures on the land described in Exhibit "A" during the Lease Term.

Options Extend Lease

12. Tenant shall have the right and option to extend the term of this Lease for six (6) successive additional periods of five (5) years each, such extended term to begin, as the case may be, upon the expiration of the Initial Lease Term or upon the expiration of the then current extension following the expiration of the Initial Lease Term and each such extension shall be upon the same terms and conditions as herein set forth, except as

otherwise provided herein. If Tenant shall elect to exercise one or more of the aforesaid option(s), it shall do so, in each case, by giving written notice to Landlord not less than six (6) months prior to the expiration of the then current term of this Lease. Time is of the essence with respect to each notice of Tenant's election to extend the term of this Lease and the failure of Tenant to provide written notice to Landlord on or before six (6) months prior to the expiration of the then current term of this Lease, shall be deemed to be an irrevocable waiver of any further rights to Tenant to extend the term of this Lease.

Purchase Options

13. Anything in this Lease contained to the contrary notwithstanding, and without in any manner affecting or limiting any of the rights, options or estates granted to Tenant under this Lease, if the Landlord, at any time during the Lease Term, receives one or more bona fide offers from third parties to purchase the demised premises, and if any such offer is acceptable to the Landlord, then Landlord shall notify Tenant in writing, giving the price, terms and conditions of such offer, and

Tenant shall have ten (10) days from and after the receipt of such notice from Landlord in which to elect to purchase the demised premises for the consideration and on the terms and conditions contained in the bona fide offer. If Tenant does not elect to purchase said demised premises and Landlord thereafter sells the demised premises, the purchaser shall take the demised premises, subject to and burdened with all the terms, provisions and conditions of this Lease, excluding this Article 13, the former landlord shall be relieved of all obligations hereunder, and the rights of the Tenant under this Lease as against the new owner shall not be lessened or diminished by reason of the change of ownership. Tenant's failure at any time to exercise its option under this Article 13 in the manner and within the time period specified above shall be deemed to be an irrevocable waiver by Tenant of such option. The date of closing of the subject sales transaction and the procedure to be followed with respect to the closing of the subject transaction shall be as specified in Landlord's notice. The purchase option granted to Tenant under this Article 13 shall be personal to Tenant and shall terminate upon the assignment of this Lease or the subletting of all or any portion of the demised premises by Tenant. The provisions of this Article 13 shall not be applicable to the transfer, conveyance or assignment, by whatsoever means, of the demised premises, or any portion thereof, or interest therein, and/or this Lease to an "Affiliate" of Landlord. As used in this Article 13, the term "Affiliate" shall mean any person or entity under common control of a person or entity which controls Landlord or which is controlled by Landlord.

Repairs

14. Tenant shall, at Tenant's sole cost and expense, undertake all maintenance and repairs with respect to the demised premises including, without limitation, structural and non-structural repairs and replacements, and Tenant shall, during and throughout the Lease Term, take good care of the demised premises and maintain the demised premises in good, safe and tenantable condition. With respect to any structural repairs or replacements, Tenant shall, after obtaining Landlord's prior written consent to the extent required pursuant to this Article 14, promptly cause all necessary structural repairs and replacements to be made in quality and class equal to the condition of such structural portions on the date of this Lease,

and upon completion shall furnish to Landlord "as built" plans and specifications for the work so performed. As used herein, the phrase "structural portions" refers to the foundation, exterior walls, members supporting the roof and the roof, but excludes, by way of example and not by way of limitation, interior walls, doors, molding, trim, window frames, door frames, closure, devices, hardware and plate glass. With respect to non-structural repairs or replacements, Tenant, after obtaining Landlord's consent to the extent required pursuant to this Article 14, shall promptly cause all necessary non-structural repairs and replacements to be made in quality and class equal to the condition of the demised premises on the date of this Lease. In the event that Landlord considers it necessary that any maintenance, replacements, renewals or repairs required by the provision of this Article 14 be made by Tenant, Landlord may request Tenant to undertake such repairs, renewals, replacements, or maintenance; and upon Tenant's failure or refusal to do so promptly, and in any event in case of an emergency, Landlord shall have the right, but not the obligation, to perform such maintenance or to make such repairs, renewals or replacements, Tenant hereby waiving any claim for damage caused thereby. Any

sum so expended by Landlord shall be promptly reimbursed to Landlord by Tenant; and any such amount shall bear interest from the date on which Landlord expends such sum to the date of payment by Tenant at the then highest lawful contract rate which Tenant is authorized to pay under applicable law, not to exceed 18% per annum. Any such sum for which Tenant becomes liable to reimburse Landlord may be treated by Landlord as rent and be payable to Landlord on the first (1st) day of the next succeeding month. In the event that Landlord performs any such maintenance or makes any such repairs, renewals or replacements or undertakes to do so, Landlord shall not be liable to Tenant for any loss or damage which may occur to Tenant's equipment and property located within or on the demised premises incident to such action by Landlord. Tenant need not obtain the consent of Landlord before undertaking repairs or replacements pursuant to this Article 14 or alterations pursuant to Article 15, provided, in the case of non-structural repairs, replacements, changes and alternations, the costs of all such non-structural repairs, replacements, changes and alternations made during any calendar year do not exceed $200,000.00 in the aggregate; and provided, further that in the case of structural repairs, replacements, changes and alterations, the costs of all such structural repairs, relacements, changes and alterations made during any calendar year do not exceed $75,000.00 in the aggregate. In the event the costs of repairs, replacements, changes, and alterations proposed to be made would cause the aggregate costs of such repairs, replacements and alterations to exceed the limits for a calendar year set forth in the immediately preceding sentence of this Article 14, then Tenant shall obtain the consent of Landlord to such repairs, replacements, changes and alterations proposed to be made before the same are commenced, which consent shall not be unreasonably withheld or delayed by Landlord.

Alterations and Additional Construction

15. Tenant may, at its own expense at any time, subject to the conditions hereinafter set forth in this Article 15, (a) after obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed, erect or construct additional buildings or structures ("Additional

Improvements") on any portion of the Land; (b) make such alterations or changes, structural or non-structural, in and to the buildings on the Land as it may deem necessary or suitable after obtaining the consent of Landlord to the extent required under the provisions of Article 14; or (c) after obtaining the prior written consent of Landlord, demolish the whole or any part of any building at any time standing on the Land; provided that, if Tenant obtains Landlord's prior written consent to demolish a building on the Land, Tenant will replace the building which was demolished with a structure equal to or greater in value than the building demolished (the demolition of a building and the replacement thereof being referred to in this Article 15 as "Demolition Improvements").

In the event Tenant obtains the prior written consent of Landlord for Additional Improvements or Demolition Improvement, the following terms and conditions shall be applicable to Tenant's making Additional Improvements or Demolition Improvements:

(a) In connection with the design and construction (including demolition work, if any) of Additional Improvements or Demolition Improvements, Tenant shall comply with and observe all laws, codes, rules, regulations and restrictions applicable to (i) such design and construction and (ii) the demised premises.

(b) The erection or construction of neither Additional Improvements nor Demolition Improvements shall adversely affect the Value (as hereinafter defined) of the demised premises.

(c) Prior to the commencement of any work to erect or construct (including demolition work, if any) Additional Improvements or Demolition Improvements, Tenant shall cause to be issued to Landlord an unconditional irrevocable sight draft letter of credit ("Letter of Credit") issued by a national banking institution acceptable to Landlord in an amount equal to 125% of the Costs (as hereinafter defined). The term of the Letter of Credit shall be for a period extending twelve (12) months beyond the Completed Date (as hereinafter defined).

(d) Completion (as hereinafter defined) of the Additional Improvements or Demolition Improvements must occur within 180 days after the Completion Date, and, notwithstanding anything to the contrary contained in this Lease, Tenant shall be deemed to be in default under the terms of this Lease if Completion does not occur within said 180 day period.

(e) Landlord, as separate covenants with Tenant and without imposing conditions on the right of Landlord to draw on the Letter of Credit by sight draft or restricting the obligation of the issuing bank to pay upon said Letter of Credit upon presentation of a sight draft from Landlord identifying the Letter of Credit, shall have the right to draw on the Letter of Credit only during the last sixty (60) days of the term of the Letter of Credit or at such earlier date on which Tenant shall be in default under the terms of this Lease.

(f) In the event Tenant is in default under the provisions of subparagraph (d) of this Article 15, Landlord shall have the right, but not the obligation, in its sole discretion, to (i) cause the Additional Improvements or Demolition Improvements to be completed in whole or in part to the satisfaction of Landlord and/or (ii) cause the Additional Improvements or Demolition Improvements to be removed in whole or in part from the Land. For the purposes of performing all work which may be necessary to the full exercise of the rights granted to Landlord pursuant to this subparagraph (f), Landlord, its agents, contractors and consultants and their respective agents, employees, contractors and materialmen shall have the right to enter upon and use the demised premises without being or

becoming liable for any damages resulting to Tenant from such actions.

(g) Landlord may use the proceeds obtained from payment to it on the Letter of Credit to pay (i) all costs and expenses of work performed pursuant to the provisions of subparagraph (f) of this Article 15,

including but not limited to architectural, engineering and consultant's fees, all charges for work performed and materials furnished and reasonable fees of independent legal counsel and (ii) all charges for labor performed, services rendered and materials furnished in connection with the Additional Improvements or Demolition Improvements performed, rendered or furnished prior to the date Landlord exercises its rights under subparagraph (f) of this Article 15 which have not been paid by Tenant. In the event such proceeds are insufficient to make all payments authorized in this paragraph, Tenant shall be and remain liable to Landlord for the payment of any deficiency. In the event any of such proceeds remain unexpended by Landlord thirty (30) days after the last date on which any contractor, subcontractor, laborer or materialman who performs labor or furnishes labor, material or services in connection with the Additional Improvements or Demolition Improvements or work which may be performed pursuant to subparagraph (f) could perfect a lien pursuant to the provisions of Chapter 53 of the Texas Property Code, as amended, such remaining proceeds shall be paid to Tenant.

(h) Upon request from Landlord, Tenant agrees to promptly furnish to Landlord such information and documentation relating to the design and construction of Additional Improvements of Demolition Improvements and Landlord may reasonably request, including but not limited to construction contracts and subcontracts, agreements with architects and engineers, working plans and specifications, permits and licenses, inspection reports, draw requests and cost certifications. Upon Completion, Tenant shall furnish to Landlord a complete set of the as-built plans and specifications for the Additional Improvements or Demolition Improvements and an as-built survey of the demised premises after Completion certified to Landlord in substantially the form of the Survey Certificate attached as Exhibit "D" to that certain Agreement of Sale dated _____ between Tenant, as Seller, and Landlord, as Buyer, covering the demised premises.

For the purposes of this Article 15 the term "Completion" is defined to mean the substantial completion of the Additional Improvements or Demolition Improvements in accordance with the plans and specifications therefor as evidenced by (i) a certificate addressed to Landlord and Tenant, in form and substance acceptable to Landlord, from Tenant's independent architect to the effect that the Additional Improvements or Demolition Improvements have been built in accordance with the plans and specifications, are in compliance with all codes, rules, regulations and restrictions applicable to (x) such construction or (y) the demised premises and have been substantially completed, (ii) the issuance to Tenant of a certificate of occupancy for the Additional Improvements or Demolition Improvements by the governmental authority having jurisdiction to issue the same and (iii) the written certification by Tenant to Landlord, in form and substance satisfactory to Landlord, that the Additional Improvements or Demolition Improvements have been constructed in accordance with the plans and specifications therefor and in compliance with all laws, codes, rules, regulations and restrictions applicable thereto, that after Completion the demised premises are in compliance with all laws, codes,

rules, regulations and restrictions applicable to the demised premises, that the Additional Improvements and Demolition

Improvements do not impair the Value of the demised premises and that all bills and charges for labor performed, services rendered and materials furnished in connection with the Additional Improvements of Demolition Improvements have been paid, said certification to be accompanied by lien waivers or releases from all contractors, subcontractors, materialmen and laborers who performed services or labor or furnished materials with respect to the Additional Improvements or demolition Improvements. The term "Completion Date" is defined for the purposes of this Article 15 as the original date specified in the initial construction contract, before any amendments, modifications or changes thereto or change orders relating thereto, for substantial completion of the Additional Improvements or Demolition Improvements, a copy or which contract shall be furnished by Tenant to Landlord. The term "Costs" is defined for the purposes of this Article 15 to mean the greater of (i) the estimated total costs and expenses (including all "soft costs") of designing and constructing (including demolition costs, if any) the Additional Improvements or Demolition Improvements as submitted in writing to Landlord by Tenant at the time Tenant requests the consent of Landlord as provided in this Article 15 or (ii) if Landlord, in its sole discretion, disagrees with the estimate submitted by Tenant, then such estimated total costs and expenses as Landlord may determine, in its sole discretion, and submit to Tenant within thirty (30) days after receipt of Tenant's estimate. The term "Value" as used in this Article 15 is defined to mean the fair market value of the demised premises assuming the completion of the Additional Improvements or Demolition Improvements, as estimated by Landlord in its sole discretion. The reference to "structural changes", as used in clause (b) of the first paragraph of this Article 15, shall not include the moving of non-loadbearing partitions, minor plumbing or minor electrical work, modification and rearrangement of fixtures or other minor changes.

Any costs connected with filing applications for building permits or authorizations for any work permitted under Article 14 or this Article 15, or processing or obtaining the same shall be borne by Tenant. Landlord, at Tenant's cost, shall cooperate with Tenant in securing building or other permits or authorizations required from time to time for any work permitted under Article 14 or this Article 15 or for installations by Tenant permitted under Article 14 or this Article 15.

Utilities

16. Tenant shall pay all charges for utility services furnished to the demised premises during the Lease Term and Landlord shall not be responsible for any interruption in or termination of any or all of said services.

Governmental Regulations

17. (a) Tenant shall, at its own expense, observe and comply with all rules, orders and regulations of all duly constituted public authorities including, without limitation, the environmental laws, rules, regulations and orders referred to in Article 17(b) and all restrictions, covenants, agreement and other matters of record on the date of this Lease effecting the Land and/or the

Improvements. Tenant shall have the right to diligently contest, by proper proceedings conducted reasonably and in good faith and without cost to Landlord, the validity or application of any such rule, order or regulation and may postpone compliance therewith until the final determination of any such proceeding, provided that:

(i) Neither the demised premises, nor any part thereof or interest therein, would be in any danger of being sold, forfeited, lost of interfered with;

(ii) Landlord would not be in any danger of any civil or any criminal penalty for the failure to comply therewith;

(iii) Tenant shall have furnished such security, if any, as may be required in any such proceedings or may be requested by Landlord; and

(iv) Nothing contained herein shall be construed as providing Tenant with the right to contest any sum billed to Tenant by Landlord.

(b) "Hazardous Materials" shall mean (a) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), as amended from time to time, and regulations promulgated thereunder; (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1080 (42 U.S.C. Section 9601 et seq.) ("CERLA"), as amended from time to time, and regulations promulgated thereunder; (c) asbestos; (d) polychlorinated biphenyls; (e) Underground or above ground storage tanks, whether empty, filled or partially filled with any substance; (f) any substance the presence of which on the demised premises is prohibited by any Governmental Requirements; (g) any other substance which by any Governmental Requirements requires special handling or notification of any federal, state or local governmental entity in its collection, storage, treatment, or disposal; (h) urea formaldehyde insulation; (i) "toxic chemicals," "hazardous chemicals", or "extremely hazardous substances," under either the Emergency Planning and Community Right to Know Act of 1986 or the Occupational Safety and Health Act of 1970; (j) any "pollutant" within the meaning of the federal Clean Water Act and the regulations promulgated thereunder, including within the definitions found in 40 CFR (S) 122.2; (k) any "waste" within the meaning of the Texas Water Code, including within the definition thereof in Section 26.001; (l) any substance governed by the Toxic Substances Control Act (15 U.S.C. (S) 2601); and (m) any "hazardous waste" or "solid waste" within the meaning of the Texas Solid Waste Act, with particular reference to the definitions of such terms which appear in TEX. REV. CIV. STAT. ANN. Art. 4477-7, (S) 2.

(i) Neither Tenant nor the demised premises shall become subject to any private or governmental lien or judicial or administrative notice, order or action relating to Hazardous Materials or subject to any public or governmental lien or judicial or administrative notice, order or action relating to any environmental problems, impairments, or liabilities with respect to the demised premises, as a result of Tenant's use of the demised premises.

(ii) Tenant shall immediately notify Landlord should Tenant become aware of (1) any Hazardous Materials in, upon or under the demised premises, (2) any lien, action or notice of the nature described in subparagraph (b) (i) of this Article 17 relating, directly or indirectly, to the demised premises, or (3) any litigation or threat of litigation relating to any alleged unauthorized release of any Hazardous Material from or the existence of any Hazardous Material in, on or under the demised premises.

(iii) Tenant hereby covenants and agrees not to do or take any action or omit or fail to take any such action

which will result in the introduction of any Hazardous Materials in, on or under the demised premises.

Liens and Encumbrances

18. Tenant will not, directly or indirectly, create or permit to be created or to remain, and will promptly discharge, any mortgage, lien, security interest, encumbrance, or charge on, pledge of, or conditional sale or other title retention agreement with respect to the demised premises or any part thereof, Tenant's interest therein, the rents accruing hereunder, or any other sum payable to Landlord under this Lease. Should any mechanic's or materialman's lien or liens or encumbrances or affidavits claiming liens or encumbrances be filed against the demised premises, or any part thereof, or interest therein, for any reason whatsoever incident to the acts or omissions of Tenant, or of any contractor, subcontractor, laborer performing labor, or materialmen furnishing materials at or for the demised premises or by reason of any specially fabricated materials, whether or not placed upon the demised premises, Tenant shall cause the same to be canceled or discharged of record by payment within fifteen (15) days of the filing thereof, or at such earlier time as shall be necessary to prevent the foreclosure thereof.

Insurance

19. Throughout the Lease Term, Tenant shall, at its own expense, be obligated to have procured and shall be obligated to maintain insurance against loss or damage by fire and such other hazards as are included in so-called "extended coverage" and against malicious mischief and against such other insurable hazards as, under good insurance practices, from time to time are insured against for structures similar to the Improvements in Dallas, Texas (the "Minimum Insurance"). The amount of such insurance shall be not less than eighty percent (80%) of the full replacement costs of the Improvements without reduction for depreciation. "Full replacement costs", as used in this Article 19, means the costs of replacing the Improvements; exclusive of the costs of excavations, foundations and footings below the lowest basement floor.

Notwithstanding the foregoing provisions of this Article 19, at any time during the Lease Term that Tenant's net worth, determined as hereinafter provided in this Article 19, shall have exceeded One Hundred Million and No/100 Dollars ($100,000,000.00) throughout the immediately preceding fiscal year of Tenant (the "Net Worth Requirement"), Tenant shall have the right, upon not less than thirty (30) days' prior written notice to Landlord and any mortgagee of Landlord, to self-insure the Improvements for perils which could be covered by the Minimum Insurance. Tenant shall promptly furnish to

Landlord, upon Landlord's request, quarterly financial statements for Tenant prepared in accordance with generally accepted accounting principles and signed or certified by an officer of Tenant, and Tenant shall furnish to Landlord not later than June 1 of each year during the Lease Term an annual report, which will include audited financial statements, for Tenant for the preceding fiscal year of Tenant ended January 31. Provided each of the financial statements required to be furnished to Landlord by Tenant reflect Tenant's net worth to be $100,000,000.00 or more the Net Worth Requirement shall be deemed satisfied; however, in the event any of the aforesaid financial statements shall reflect a net worth for Tenant of less than $100,000,000.00, then Landlord may give

written notice to Tenant that Tenant does not satisfy the Net Worth Requirement and that Tenant must immediately cease to be self insured under this Article 19. Tenant may not thereafter elect to be self insured under this Article 19 unless and until the financial statements for Tenant included in an annual report furnished to Landlord after the date of its notice of non-compliance to Tenant reflect a net worth for Tenant of $100,000,000.00, or more. Landlord hereby acknowledges that Tenant has furnished evidence of its satisfaction of the Net Worth Requirement as of the date of this Lease and that Landlord has been advised of Tenant's intent to self-insure the Improvements during the Lease Term; provided that, Tenant continues to satisfy the Net Worth Requirement. Tenant hereby acknowledges and agrees that during any time that Tenant shall have failed to obtain and shall fail to maintain the Minimum Insurance in the amount of not less than eighty percent (80%) of the full replacement cost of the Improvements, Tenant shall be deemed to be a self-insurer and, in the event of any casualty loss or damage to any of the Improvements, Tenant shall be obligated to pay to Landlord, as additional rent, an amount equal to eighty percent (80%) of the full replacement cost of such Improvements, with such additional rent being due and payable to Landlord by Tenant upon the first day of the first month following written notice from Landlord to Tenant of the amount of additional rent so due and owing by Tenant to Landlord.

In addition, Tenant shall obtain and keep in force, during and throughout the Lease Term, a policy of comprehensive public liability insurance insuring Landlord and Tenant, as their respective interests may appear, against any liability arising out of the ownership, use, occupancy or maintenance of the demised premises. Such insurance shall be in an amount of not less than One Million Dollars ($1,000,000,000.00) for injury to or death of one person in any one accident or occurrence and in an amount not less than Five Million Dollars ($5,000,000.00) for injury to or death of more than one person. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least Five Hundred Thousand Dollars ($500,000.00). The limits of said insurance shall not, however, limit the liability of Tenant hereunder. In addition, said policy of comprehensive public liability insurance shall insure Landlord with respect to the contractual indemnification of Landlord by Tenant for which provision is made in Article 29 of this Lease. In the event that Tenant shall fail to secure and maintain said policy of comprehensive public liability insurance, Landlord may, at Landlord's sole option and without any requirement with respect thereto, procure and maintain the same; and the cost of any such policy shall be considered as an operating

expense of Tenant which shall be repaid to Landlord on demand, with interest accruing on any sums so expended by Landlord at the then highest lawful contract rate which Tenant is authorised to pay under the laws of the State of Texas from the date on which Landlord expended such sums to the date of payment. Notwithstanding the foregoing, so long as Tenant satisfies the Net Worth Requirement, Tenant's general corporate public liability insurance shall be deemed to satisfy the public liability insurance requirements of this Article 19, and Tenant may self insure for losses under $50,000,000.00.

Policies of insurance procured and maintained pursuant to this Article 19 shall be payable to Landlord. Tenant shall furnish to Landlord and Landlord's mortgagee, if any, certificates from the insuring company showing the existence of the insurance required by this Article 19. In case of casualty loss or damage, Tenant shall have no right to adjust the loss or execute proof thereof in the name of Landlord without the prior written consent of Landlord.

Casualty

20. Should the whole or any part of the demised premises be partially or totally destroyed by fire or any other casualty after the commencement of this Lease, Tenant shall give prompt written notice thereof to Landlord, generally describing the nature and

the extent of such damage. Should over fifty (50%) percent of the usable area (as such term is defined in the third subparagraph (a) of Article 21) in the building existing on the Land as of the date of this Lease be destroyed during the last three years of the Lease Term, Tenant shall have the right, at its option, to terminate this Lease by giving written notice to Landlord within thirty (30) days after the casualty. In the event of the termination of this Lease by Tenant as provided in the immediately preceding sentence of this Article 20, the following provision shall apply:

(a) All the insurance proceeds payable as a result of such casualty shall be paid and belong to Landlord. In the event the Improvements are self insured at the time of the loss, Tenant shall pay to Landlord or as Landlord may direct, an amount equivalent to the insurance proceeds that would have been paid had insurance been in force, but not to exceed eighty (80%) percent of the full replacement costs of the Improvements.

(b) Tenant shall have sixty (60) days, rent free, within which to remove its property from the demised premises.

(c) All unearned rent and other charges paid in advance shall be refunded to Tenant.

If Tenant does not terminate or does not have the right to terminate this Lease as provided above, then the following provisions shall be applicable:

(a) Within forty-five (45) days after the date of the casualty and before work is commenced to repair or restore the demised premises to substantially the same condition as before the casualty ("Restoration Work"), Tenant shall cause to be issued to Landlord by a national banking institution acceptable to Landlord an unconditional irrevocable sight draft letter of credit ("Letter of

Credit") in an amount equal to 125% of the Costs (as hereinafter defined). The Letter of Credit shall be for a term extending for a period of twelve (12) months beyond the Completion Date (as hereinafter defined). Notwithstanding anything to the contrary contained in this Lease, if prior to the date of the casualty the originally named Landlord herein shall have transferred, conveyed or assigned the demised premises and/or this Lease to a party which is not an Affiliate of such Landlord (as the term Affiliate is defined in Article 13) payment on the Letter of Credit other than during the last sixty (60) days of the term thereof may be conditioned upon a certification by the then Landlord to the issuing bank the Tenant is in default under this Lease.

(b) All of the insurance proceeds payable under insurance policies maintained by Tenant pursuant to Article 19 as a result of the casualty shall be paid to Landlord. In the event the Improvements are self-insured at the time of the casualty, Tenant shall pay to Landlord on or before the expiration of forty-five (45) days after the date of the casualty an amount equivalent to the insurance proceeds that would have been paid had insurance been in force, but not to exceed eighty (80) percent of the full replacement cost of the Improvements, unless Tenant shall have theretofore furnished to Landlord the Letter of Credit.

(c) Not later than forty-five (45) days after the date of the casualty, Tenant shall commence the Restoration Work. Completion (as hereinafter defined) of the Restoration Work must occur within 180 days after the Completion Date, and, notwithstanding anything to the contrary contained in this Lease, Tenant

shall be deemed to be in default under the terms of this Lease if Completion does not occur within said 180 day period. Tenant shall be obligated to repair and restore the demised premises to substantially the same condition as before the casualty, notwithstanding the fact that insurance proceeds or proceeds from self insurance may not be adequate to pay the Costs in full.

(d) There shall be no abatement of rental or other charges payable by Tenant under the terms of this Lease during the period of repairs or restoration.

(e) Landlord, as separate covenants with Tenant and without imposing conditions on the right of Landlord to draw on the Letter of Credit by sight draft or restricting the obligation of the issuing bank to pay upon said Letter of Credit upon presentation of a sight draft from Landlord identifying the Letter of Credit, shall have the right to draw on the Letter of Credit only during the last sixty (60) days of the term of the Letter of Credit or at such earlier date on which Tenant shall be in default under the terms of this Lease.

(f) In the event Tenant is in default under the provisions of the second subparagraph (c) of this Article 20, Landlord shall have the right, but not the obligation, in its sole discretion, to cause the Restoration Work to be completed in whole or in part to the satisfaction of Landlord. For the purposes of

performing all work which may be necessary to the full exercise of the rights granted to Landlord pursuant to this subparagraph (f), Landlord, its agents, contractors and consultants and their respective agents, employees, contractors and materialmen shall have the right to enter upon and use the demised premises without being or becoming liable for any damages resulting to Tenant from such actions.

(g) Landlord may use the insurance proceeds and proceeds obtained from payment to it on the Letter of Credit to pay (i) all costs and expenses of work performed pursuant to the provisions of subparagraph (f) of this Article 20, including but not limited to architectural, engineering and consultant's fees, all charges for work performed and materials furnished and reasonable fees of independent legal counsel and (ii) all charges for labor performed, services rendered and materials furnished in connection with the Restoration Work performed, rendered or furnished prior to the date Landlord exercises its rights under subparagraph (f) of this Article 20 which have not been paid by Tenant. In the event such proceeds are insufficient to make all payments authorized in this paragraph, Tenant shall be and remain liable to Landlord for the payment of any deficiency. In the event any of such proceeds remain unexpended by Landlord thirty (30) days after the last date on which any contractor, subcontractor, laborer or materialman who performs labor or furnishes labor, material or services in connection with the Restoration Work or work which may be performed pursuant to subparagraph (f) could perfect a lien pursuant to the provisions of Chapter 53 of the Texas Property Code, as amended, such remaining proceeds shall be paid to Tenant.

(h) Upon request from Landlord, Tenant agrees to promptly furnish to Landlord such information and documentation relating to the design and construction of Restoration Work as Landlord may reasonably request, including but not limited to construction contracts and subcontracts, agreements with architects and engineers, working plans and specifications, permits and licenses, inspection reports, draw requests and cost certifications. Upon Completion, Tenant shall furnish to Landlord a complete set of the as-built plans and specifications for the Restoration Work and an as-built survey of the demised premises after Completion certified to Landlord in substantially the form of the Survey Certificate attached as Exhibit "D" to that certain Agreement of Sale dated _____ between Tenant, as Seller, and Landlord, as Buyer, covering the demised premises.

(i) In connection with the design and construction (including demolition work, if any) of Restoration Work, Tenant shall comply with and observe all laws, codes, rules, regulations, and restrictions applicable to (i) such design and construction and (ii) the demised premises.

For the purposes of this Article 20 the term "Completion" is defined to mean the substantial completion of the Restoration Work in accordance with the plans and specifications therefor as evidenced by (i) a certificate

addressed to Landlord and Tenant, in form and substance acceptable to Landlord, from Tenant's independent architect to the effect that the Restoration Work has been built in accordance with the plans and specifications, are in compliance with all codes, rules, regulations and restrictions applicable to (x) such construction or (y) the demised premises and have been substantially completed, (ii) the issuance to Tenant of a certificate of occupancy for the Restoration Work by the governmental authority having jurisdiction to issue the same and (iii) the written certification by Tenant to Landlord, in form and substance satisfactory to Landlord, that the Restoration Work has been constructed in accordance with the plans and specifications therefor and in compliance with all laws, codes, rules, regulations and restrictions applicable thereto, that after Completion the demised premises are in compliance with all laws, codes, rules, regulations and restrictions applicable to the demised premises, that the Restoration Work does not impair the Value of the demised premises and that all bills and charges for labor performed, services rendered and materials furnished in connection with the Restoration Work have been paid, said certification to be accompanied by lien waivers or releases from all contractors, subcontractors, materialmen and laborers who performed services or labor or furnished materials with respect to the Restoration Work. The term "Completion Date" is defined for the purposes of this Article 20 as the original date specified in the initial construction contract, before any amendments, modifications or changes thereto or change orders relating thereto, for substantial completion of the Restoration Work, a copy of which contract shall be furnished by Tenant to Landlord. The term "Costs" is defined for the purposes of this Article 20 to mean the greater of (i) the estimated total costs and expenses (including all "soft costs") of designing and constructing (including demolition costs, if any) the Restoration Work as submitted in writing to Landlord by Tenant prior to commencement of the Restoration Work or (ii) if Landlord, in its sole discretion, disagrees with the estimate submitted by Tenant, then such estimated total costs and expenses as Landlord may determine, in its sole discretion, and submit to Tenant within twenty (20) days after receipt of Tenant's estimate. The term "Value" as used in this Article 20 is defined to mean the fair market value of the demised premises assuming the completion of the Restoration Work, as estimated by Landlord in its sole discretion.

Any costs connected with filing applications for building permits or authorizations for any work required under this Article 20, or processing or obtaining the same shall be borne by Tenant. Landlord, at Tenant's cost, shall cooperate with Tenant in securing building or other permits or authorizations required from time to time for any work required under this Article 20.

Eminent Domain
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21. As used herein, the term "Taking" refers to a permanent taking during the Lease Term of all or any part of the demised premises or of Tenant's leasehold interest with respect thereto, as the result of or in lieu of or in anticipation of the exercise of the right of condemnation or of eminent domain for any public or

quasi-public use under any governmental law, ordinance or regulation including, without limitation, a sale to a condemning authority in lieu of condemnation. As used herein, the term "Total Taking" shall refer to a Taking of the whole

or substantially the whole of the demised premises. As used herein, the term "Partial Taking" shall refer to a Taking of less than the whole of the Improvements or the demised premises. As used herein, the term "Tender Date" shall refer to the earlier of (i) the date physical possession of the demised premises or any portion thereof is tendered to the condemning authority or (ii) the date physical possession of the demised premises or any portion thereof is taken by the condemning authority. As used in this Article 21, the term "Restoration Work" is defined to mean the work necessary to repair and restore the demised premises to substantially the same condition as before the Partial Taking insofar as possible. For the purposes of this Article 21 the term "Completion" is defined to mean the substantial completion of the Restoration Work in accordance with the plans and specifications therefor as evidenced by (i) a certificate addressed to Landlord and Tenant, in form and substance acceptable to Landlord, from Tenant's independent architect to the effect that the Restoration Work has been built in accordance with the plans and specifications, are in compliance with all codes, rules, regulations and restrictions applicable to (x) such construction or (y) the demised premises and have been substantially completed, (ii) the issuance to Tenant of a certificate of occupancy for the Restoration Work by the governmental authority having jurisdiction to issue the same and (iii) the written certification by Tenant to Landlord, in form and substance satisfactory to Landlord, that the Restoration Work has been constructed in accordance with the plans and specifications therefor and in compliance with all laws, codes, rules, regulations and restrictions applicable thereto, that after Completion the demised premises are in compliance with all laws, codes, rules, regulations and restrictions applicable to the demised premises, and that all bills and charges for labor performed, services rendered and materials furnished in connection with the Restoration Work have been paid, said certification to be accompanied by lien waivers or releases from all contractors, subcontractors, materialmen and laborers who performed services or labor or furnished materials with respect to the Restoration Work. The term "Completion Date" is defined for the purposes of this Article 21 as the original date specified in the initial construction contract, before any amendments, modifications or changes thereto or change orders relating thereto, for substantial completion of the Restoration Work, a copy of which contract shall be furnished by Tenant to Landlord. The term "Costs" is defined for the purposes of this Article 21 to mean the greater of (i) the estimated total costs and expenses (including all "soft costs") of designing and constructing (including demolition costs, if any) the Restoration Work as submitted in writing to Landlord by Tenant prior to commencement of the Restoration Work or (ii) if Landlord, in its sole discretion, disagrees with the estimate submitted by Tenant, then such estimated total costs and expenses as Landlord may determine, in its sole discretion, and submit to Tenant within twenty (20) days after receipt of Tenant's estimate. The term "Value" as used in this Article 21 is defined to mean the fair market value of the demised premises assuming the completion of the Restoration Work, as estimated by Landlord in its sole discretion.

Any costs connected with filing applications for building permits or authorizations for any work required under this Article 21, or processing or obtaining the same shall be borne by Tenant. Landlord, at Tenant's cost,

shall cooperate with Tenant in securing building or other permits or authorizations required from time to time for any work required under this Article 21.

In the event of a Total Taking during the Lease Term, such Total Taking shall be deemed to have caused this Lease to terminate and the Lease Term to expire on the Tender Date.

If at any time during the Lease Term a Partial Taking occurs, then:

(a) If the Partial Taking involves a Taking of more than 75,000 square feet of usable area (as defined in the third paragraph (a) of this Article 21) in the building existing on the Land on the date of this Lease, Tenant shall have the option to terminate this Lease by giving Landlord written notice of such termination within thirty (30) days after the Tender Date of the usable area, such termination to be effective as of the date of the tender or taking of physical possession.

(b) If the Partial Taking results in the total denial of access by Tenant to (i) any utility necessary to service the demised premises, (ii) all of the parking areas on the Land or (iii) the building located on the Land as of the date of this Lease, or if as a result of such Partial Taking the parking area or spaces on the demised premises remaining after such Partial Taking are inadequate to satisfy zoning or parking ordinances or regulations applicable to the demised premises as applied to the Improvements existing on the date of this Lease or restrictive covenants applicable to the demised premises improved only by the Improvements existing on the date of this lease (the requirements of which shall be reduced by any modifications or waivers thereof made or granted prior to the date of the Partial Taking) and substitute or alternate areas for parking necessary to bring the demised premises into compliance with such ordinances, regulations or restrictive covenants are not available on the demised premises for reasons other than the construction of additional buildings or structures on the demised premises by Tenant after the date of this Lease, Tenant shall have the option to terminate the Lease by giving Landlord written notice of such termination within thirty (30) days after the Tender Date of that portion of the demised premises involved in the Taking, such termination to be effective as of the date of the Tender Date.

(c) If more than 75,000 square feet of usable area in the building existing on the Land as of the date of this Lease is involved in the Partial Taking, Landlord shall have the option to terminate this Lease by giving Tenant written notice of such termination within thirty (30) days after the Tender Date of the usable area, such termination to be effective as of the last described date.

In the event this Lease should be terminated pursuant to this Article 21, any rent paid for occupancy subsequent to the effective termination date shall be refunded to Tenant, and Tenant shall have sixty (60) days, rent free, within which to remove its property from the demised premises.

If this Lease is not terminated as provided above in this Article 21 as a result of a Partial Taking, then the following provisions shall be applicable:

(a) Within forty-five (45) days after the Tender Date and before Restoration Work is commenced Tenant shall cause to be issued to Landlord by a national banking institution acceptable to Landlord an unconditional irrevocable sight draft letter of credit ("Letter of Credit") in an amount equal to 125% of the Costs. The Letter of Credit shall be for a term extending for a period of twelve (12) months beyond the Completion Date.

(b) All damages awarded for such Partial Taking shall be deposited in an account with a national banking institution acceptable to Landlord under the joint control of Landlord and Tenant. Upon Completion by Tenant there shall be disbursed from such joint account to Tenant an amount up to the Costs, and any balance remaining in the joint Account after such disbursement shall be disbursed to Landlord.

(c) Not later than forty-five (45) days after the Tender Date, Tenant shall commence the Restoration Work. Completion of the Restoration Work must occur within 180 days after the Completion Date, and, notwithstanding anything to the contrary contained in this Lease, Tenant shall be deemed to be in default under the terms of this Lease if Completion does not occur within said 180 day period. Tenant shall be obligated to repair and restore the demised premises to substantially the same condition as before the Partial Taking, notwithstanding the fact that damages awarded for such Partial Taking may not be adequate to pay the Costs in full.

(d) Landlord, as separate covenants with Tenant and without imposing conditions on the right of Landlord to draw on the Letter of Credit by sight draft or restricting the obligation of the issuing bank to pay upon said Letter of Credit upon presentation of a sight draft from Landlord identifying the Letter of Credit, shall have the right to draw on the Letter of Credit only during the last sixty (60) days of the term of the Letter of Credit or at such earlier date on which Tenant shall be in default under the terms of this Lease.

(e) In the event Tenant is in default under the provisions of the second subparagraph (c) of this Article 21, Landlord shall have the right, but not the obligation, in its sole discretion, to cause the Restoration Work to be completed in whole or in part to the satisfaction of Landlord. For the purposes of performing all work which may be necessary to the full exercise of the rights granted to Landlord pursuant to this subparagraph (e), Landlord, its agents, contractors and consultants and their respective agents, employees, contractors and materialmen shall have the right to enter upon and use the demised premises without being or becoming liable for any damages resulting to Tenant from such actions.

(f) Landlord may use the proceeds from the Condemnation Award and proceeds obtained from payment to it on the Letter of Credit to pay (i) all costs and expenses of work performed pursuant to the provisions of subparagraph (e) of this Article 21, including but not limited to architectural, engineering and consultant's fees, all charges for work performed and materials furnished and reasonable fees of independent legal counsel and (ii) all charges for labor performed, services rendered and materials furnished in connection with the Restoration Work performed, rendered or furnished prior to the date Landlord exercises its rights under subparagraph (e) of this Article 21 which have not been paid by Tenant. In the event such proceeds are insufficient to make all payments authorized in this paragraph, Tenant shall be paid and remain liable to Landlord for the payment of any deficiency. In the event any of such proceeds remain unexpended by Landlord thirty (30) days after the last date on which any contractor, subcontractor, laborer or materialman who performs labor or furnishes labor, material or services in connection with the Restoration Work or work which may be performed pursuant to subparagraph (e) could perfect a lien pursuant to the provision of Chapter 53 of the Texas Property Code, as amended, such remaining proceeds shall be paid to Tenant.

(g) Upon request from Landlord, Tenant agrees to promptly furnish to Landlord such information and documentation relating to the design and

construction of Restoration Work as Landlord may reasonably request, including but not limited to construction contracts and subcontracts, agreements with architects and engineers, working plans and specifications, permits and licenses, inspection reports, draw requests and cost certifications. Upon Completion, Tenant shall furnish to Landlord a complete set of the as-built plans and specifications for the Restoration Work and an as-built survey of the demised premises after Completion certified to Landlord in substantially the form of the Survey Certificate attched as Exhibit "D" to that certain Agreement of Sale dated _____ between Tenant, as Seller, and Landlord, as Buyer, covering the demised premises.

(h) In connection with the design and construction (including demolition work, if any) of Restoration Work, Tenant shall comply with and observe all laws, codes, rules, regulations and restrictions applicable to (i) such design and construction and (ii) the demised premises.

If a Partial Taking involves less than 75,000 square feet of usable area in the building existing on the Land on the date of this Lease, then the annual rent rate payable during the remainder of the Lease Term commencing with the first day of the first full calendar month following the calendar month in which the Tender Date occurs shall be the greater of the following:

(a) The annual rent payable pursuant to the provisions of Article 3 multiplied by a fraction the numerator of which is the number of square feet of usable area remaining in the building existing on the Land after the Partial Taking and the denominator of which is the number of square feet of usable area in

such building immediately prior to such Partial Taking. For the purposes of this Article 21, the term "usable area" is defined to mean the gross square footage of building area enclosed within the interior surface of the exterior walls of the building, and, as of the date of this Lease, is deemed to be 470,182 square feet; or

(b) An annual rental computed in accordance with the following formula: ($11,500,000.00 minus Net Award) X Rental Percentage. For the purposes of the above stated formula the term "Net Award" is defined to mean the award made to the Landlord or the proceeds of sale realized by Landlord resulting from a taking for public or quasi-public purposes less (i) attorneys fees and other costs and expenses incurred by Landlord in connection with obtaining the award or consummating the sale and (ii) the portion of such award or proceeds used by Landlord and/or made available to Tenant to pay for or reimburse Tenant for the Costs of Restoration Work. For the purposes of the above stated formula "Rental Percentage" is defined to mean the percentage set forth below for the year in which the Tender Date Occurs:

Years 1-5	9.1 %
Years 6-10	9.5 %
Years 11-15	10.0 %
Years 16-20	10.5 %
Years 21-25	11.0 %
1st Renewal option	12.1 %
2nd Renewal option	13.3 %
3rd Renewal option	14.6 %
4th Renewal option	16.1 %
5th Renewal option	17.7 %

6th Renewal option 19.5 %

Provided, however, in no event shall the Tenant be required to pay rent at an annual rental rate which exceeds the annual rental rates set forth in Article 3 of this Lease. There shall be no other abatement of rental or other charges payable by Tenant as a result of a Partial Taking under this Lease.

All damages awarded for a Taking hereunder which results in a termination of this Lease shall belong to the Landlord; nothing herein contained, however, shall prevent Tenant from claiming, proving, collecting (from the condemning authority) and retaining any damages separately awarded to the Tenant by the condemnor for Tenant's fixtures and leasehold improvements, relocation costs, lost business or for any other damage separately compensable to Tenant by the condemnor without causing or resulting in a reduction of any award to Landlord. Landlord makes no representation or warranty that any such separate award or compensation is available under applicable law.

Assignment and Subletting

22. (a) Tenant shall not (i) assign this Lease or any interest therein, or (ii) sublease the demised premises or any portion thereof except in accordance with the terms and covenants of this Article 22. Any attempted assignment or sublease by Tenant in violation of the terms and covenants of this Article 22 shall be void. If Tenant is not a natural person, the acquisition of a controlling interest in Tenant shall be deemed to be an assignment for

purposes hereof. As used herein, the phrase "controlling interest" shall mean ownership of in excess of forty-nine percent (49%) of the voting interest in Tenant. Notwithstanding the provisions of this Article 22, Tenant may, upon written notice to Landlord but without the necessity of obtaining Landlord's consent and without the necessity to comply with the provisions of subparagraph (b) of this Article 22, assign this Lease or sublet the demised premises to an "Affiliate." As used herein, the term "Affiliate" shall mean any entity under common control of a person or entity which controls Tenant or which is controlled by Tenant. Notwithstanding any assignment or sublease to an Affiliate, Tenant shall remain liable for payment of all rents and the performance and compliance with all other obligations and liabilities imposed upon Tenant hereunder.

(b) In the event Tenant desires to assign this Lease or sublet all (but not less than all) of the demised premises, Tenant shall give Landlord written notice thereof ("Tenant's Notice"). If, as of the date of Tenant's Notice, Tenant has received or made a proposal for an assignment of the Lease or a sublease of the entire demised premises or has had communications with a third party regarding the same, Tenant's Notice shall identify the party to or from whom the proposal was made or received or the party with whom Tenant has had communications regarding a possible assignment or sublease. Landlord may request from Tenant such additional information and materials relating to the aforesaid proposal or communications as may be within Tenant's knowledge or control. During a period of two hundred ten (210) days after receipt of Tenant's Notice ("Negotiation Period"), Landlord shall have an absolute right to negotiate directly with third parties (including the party or parties identified in Tenant's Notice) for a lease covering the demised premises. At any time prior to the expiration of the Negotiation Period, Landlord may terminate this Lease by giving Tenant written notice of termination ("Landlord's Notice") and this Lease shall terminate thirty (30) days after the date of Landlord's Notice. In the event Landlord does not give Landlord's Notice as provided in the immediately preceding sentence, then from and after the expiration of the Negotiation Period

Tenant shall have the right to assign this Lease or sublease the entire demised premises (but not less than all of the demised premises) without the necessity for obtaining Landlord's consent, provided (i) any such assignment or sublease is subject to the terms and provisions of this Lease, including but not limited to subparagraphs (c) and (d) of this Article 22 and Article 47 and (ii) Tenant shall remain primarily liable for payment of all rents and the performance and compliance with all other obligations and liabilities imposed upon Tenant under this Lease notwithstanding such assignment or sublease.

(c) Notwithstanding the provisions of subparagraphs (a) and (b) of this Article 22, no assignment of this Lease or sublease of the demised premises pursuant to the provisions of subparagraphs (a) or (b) of this Article 22 shall be effective until such time as Landlord receives evidence satisfactory to Landlord that (i) the proposed subtenant or assignee will use the demised premises in accordance with Article 47 hereof, for the remainder of the Lease Term, or for the entire term of any sublease, if such expires prior to the

expiration of the Lease Term; (ii) the occupancy of the demised premises by the proposed third party would not increase fire hazards, require substantial alterations to the demised premises, or adversely affect the reputation and image of the demised premises; and (iii) the third party is not owned or controlled by a foreign government, involved in lobbying activities, or reputed to be involved in illegal or illicit activities.

(d) No assignment or sublease by Tenant permitted under the terms of this Article 22 shall be effective until Tenant has furnished Landlord with a true and correct copy of the assignment or sublease and, with respect to an assignment or sublease pursuant to subparagraph (b) of this Article 22, until Landlord has been furnished with the evidence as required by subparagraph (c) of this Article 22. In the event of an assignment or sublease by Tenant pursuant to the provisions of subparagraph (b) of this Article 22, no assignee or sublessee or any subsequent assignee or sublessee shall have (i) any options to extend the term of this Lease as provided in Article 12 beyond the expiration of the then current term of this Lease; (ii) any right to make Additional Improvements or Demolition Improvements pursuant to Article 15; or (iii) any right to self-insure in any of the amounts or against any of the perils as provided in Article 19. Notwithstanding any assignment or sublease made in compliance with this Article 22 or the collection by Landlord of rent from any assignee or sublessee, Tenant shall remain primarily 1iable for payment of all rents and the performance and compliance with all other obligations and liabilities imposed upon Tenant under this Lease.

Signs

23. During the Lease Term and the continued occupancy of the entire demised premises by Tenant, the demised premises shall be referred to by only such designation as Tenant may indicate. Landlord expressly recognizes that Tenant claims the service mark and trademark "K mart" as valid and exclusive property of Tenant, and Landlord agrees that it shall not either during the Lease Term or thereafter, directly or indirectly, contest the validity of said mark "K mart" or any of Tenant's registrations pertaining thereto in the United States or elsewhere, nor adopt or use said mark or any term, word, mark or designation which is in any aspect similar to the mark of Tenant. Landlord further agrees that it will not at any time do or cause to be done any act or thing directly or indirectly, contesting or in any way impairing or tending to impair any part of the Tenant's right, title and interest in the aforesaid mark, and Landlord shall not in any manner represent that it has ownership interest in the aforesaid mark or registrations therefor, and specifically acknowledges that any use thereof pursuant to this Lease shall not create in Landlord any right, title or interest in the aforesaid mark.

Ingress and Egress

24. Landlord warrants, as a consideration for Tenant entering into this Lease, that it will refrain from taking any steps to interfere with the ingress and egress facilities to public streets and highways in the number and substantially in the locations existing on the date of this Lease, subject to unavoidable temporary closings or temporary relocations necessitated by public authority, or other circumstances beyond Landlord's control.

Landlord's Remedies

25. (a) The following events shall be deemed to be events of default by Tenant under this Lease: (i) Tenant shall fail to pay any rent or other sum of money due hereunder and such failure shall continue for a period of ten (10) business days after the date such sum is due; (ii) Tenant shall fail to comply with any provision of this Lease or any other agreement between Landlord and Tenant not requiring the payment of money, all of which terms, provisions and covenants shall be deemed material and such failure shall continue for a period of thirty (30) days after written notice of such default is delivered to Tenant, or if such condition cannot reasonably be cured within such thirty (30) day period, Tenant shall fail to commence to cure such condition within such thirty (30) day period and/or shall thereafter fail to prosecute such cure diligently and continuously to completion within ninety (90) days of the date of Landlord's notice of such default; (iii) the leasehold hereunder demised shall be taken on execution or other process of law in any action against Tenant; (iv) Tenant shall cease to do business in (except for temporary periods necessary to prepare the demised premises or a portion thereof for occupancy by an assignee or sublessee permitted under the terms of this Lease) or abandon any portion of the demised premises; (v) Tenant shall become insolvent or unable to pay its debts as they become due, or Tenant notifies Landlord that it anticipates either condition; or (vi) a receiver or trustee shall be appointed for Tenant's leasehold interest in the demised premises or for all or a substantial part of the assets of Tenant and such receiver or trustee shall not be discharged within (90) days of appointment.

(b) Upon the occurrence of any event or events of default by Tenant, Landlord shall have the option to pursue any one or more of the following remedies without any notice [except for such notice expressly required by Article 25(a)(ii) or applicable law] or demand for possession whatsoever (and without limiting the generality of the foregoing, Tenant hereby specifically waives notice and demand for payment of rent or other obligations due and waives any and all other notices or demand requirements except as imposed by applicable law): (i) terminate this Lease, in which event Tenant shall immediately surrender the demised premises to Landlord; (ii) terminate Tenant's right to occupy the demised premises and re-enter and take possession of the demised premises (without terminating this Lease); (iii) enter upon the demised premises and do whatever Tenant is obligated to do under the terms of this Lease; and Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in effecting compliance with Tenant's obligations under this Lease, and Tenant further agrees that landlord shall not be liable for any damages resulting to the Tenant from such action; and (iv) exercise all other remedies available to Landlord at law or in equity including, without

limitation, injunctive relief of all varieties.

(c) In the event Landlord elects to re-enter or take possession of the demised premises after Tenant's default, Tenant hereby waives notice of such re-entry or repossession except to the extent required by law and of Landlord's intent to re-enter or retake possession. Landlord may, without prejudice to any other remedy which it may have for possession arrearages in or future rent, expel or remove Tenant and any other person who may

be occupying said demised premises or any part thereof. The rental provisions for holding over of Article 32 hereof shall apply with respect to the period from and after the giving of notice of such repossession by Landlord. In addition, Landlord may change or alter the locks and other security devices on the doors to the demised premises after having a notice posted on the demised premises as to the location of a key to such new locks and any right to obtain such a key. All Landlord's remedies shall be cumulative and not exclusive. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a waiver of such default.

(d) In the event that Landlord elects to terminate this Lease, then, notwithstanding such termination, Tenant shall be liable for and shall pay to Landlord the sum of all rents and other indebtedness accrued to the date of such termination, plus, as damages, an amount equal to the total of (i) the cost of recovering the demised premises, (ii) the cost of removing land storing Tenant's and other occupant's property located therein, (iii) the costs of reletting the demised premises, or portion thereof, (including, without limitation, brokerage commission), and (iv) the cost of collecting such amounts from Tenant hereunder.

(e) In the event that Landlord elects to take possession of the demised premises and terminate Tenant's right to occupy the demised premises without terminating this Lease, Tenant shall remain liable, and shall pay to Landlord, monthly, on demand, any deficiency between the total rental due under this Lease for the remainder of the Lease Term and rents, if any, which Landlord is able to collect from another tenant(s) for the demised premises, or portion thereof, during the remainder of the Lease Term ("Rental Deficiency"). In addition, Tenant shall be liable for and shall pay to Landlord, on demand, an amount equal to (i) the cost of recovering possession of the demised premises, (ii) the cost of removing and storing Tenant's or any other occupant's property located therein, (iii) the costs of reletting the demised premises, or applicable portion thereof, whether accomplished in one or more phases (including without limitation, brokerage alterations and additions to the demised premises, or applicable portion thereof, whether accomplished in one or more phases, reasonably required to relet the demised premises, (v) the cost of collection of the rent accruing from any such reletting, and (vi) the cost of collecting any sums billable to Tenant by Landlord hereunder. Landlord may file suit to recover any sums falling due under the terms hereof, from time to time, and no delivery to or recovery by Landlord of any portion of the sums due Landlord hereunder shall be any defense in any action to recover any unpaid amount not theretofore reduced to judgment in favor of Landlord. Landlord shall be obligated to use reasonable efforts to relet the demised premises by engaging the services of a management company, leasing agent and/or real estate brokerage firm to attempt to obtain another tenant or tenants, but the acceptability of a proposed tenant and the terms and conditions of any such reletting shall be within the sole discretion of Landlord. Any sums received by Landlord through reletting shall reduce the sums owing by Tenant to Landlord hereunder, but in no event shall Tenant be entitled to any excess of any sums obtained by reletting over and above the sums owing

by Tenant to Landlord. For the purpose of such reletting, Landlord is authorized to decorate or to make any repairs, changes, alterations, or additions in and to the demised premises or applicable portion thereof, reasonably necessary or advisable to relet the demised premises. No reletting shall be construed as an election on the part of Landlord to terminate this Lease unless a written notice of such intention is given to Tenant by Landlord. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous default. In the alternative, Landlord may elect to immediately recover as damages, in lieu of the Rental Deficiency, a sum equal to the difference between (i) the total rent due under this Lease for the remainder of the Lease Term, and (ii) the then fair market rental value of the demised premises during such period, discounted to present value at the prime interest rate charged by Chase Manhattan Bank, N.A. as announced or published by such bank as of the date Landlord took possession of the demised premises and terminated Tenant's right to occupy the same ("Discounted Future Rent"). In such event, Landlord shall have no responsibility to attempt to relet the demised premises or to apply any rentals received by Landlord as a result of any such reletting (other than rentals received by Landlord from other tenants for the demised premises prior to the exercise by Landlord of its election to recover damages in lieu of the Rental Deficiency) to Tenant's obligations hereunder; and the aggregate amount of all damages due to Landlord, including the Discounted Future Rent hereunder, shall be immediately due and payable to Landlord upon demand.

(f) This Article 25 shall be enforceable to the maximum extent not prohibited by applicable law, and the unenforceability of any portion thereof shall not thereby render unenforceable any other portion. No act or thing done by Landlord or its agents during the Lease Term shall be deemed an acceptance of an attempted surrender of the demised premises, and no agreement to accept a surrender of the demised premises shall be valid unless made in writing and signed by Landlord. No re-entry or taking of possession of the demised premises by Landlord shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such termination is given to Tenant.

(g) Landlord shall be in default hereunder in the event Landlord has not begun and pursued with reasonable diligence the cure of any failure of Landlord to meet its obligations hereunder within ninety (90) days of the receipt by Landlord of written notice from Tenant of the alleged failure to perform. Tenant hereby covenants that, prior to the exercise by Tenant of any remedies to terminate this Lease, it will give the mortgagees holding mortgages on the demised premises notice and a reasonable time to cure any default by Landlord.

Bankruptcy

26. Article 26 is Intentionally Deleted.

Quiet Enjoyment

27. Landlord covenants, represents and warrants that it has full right and power to execute and perform this Lease and to grant the estate demised herein and that Tenant, on payment of the rent and performance of the covenants and agreements hereof, shall peaceably and

quietly have, hold and enjoy the demised premises during the Lease Term.

Mortgage Subordination

28. Tenant accepts this Lease subject and subordinate to any mortgage, deed of trust or other lien presently existing or hereafter arising upon the demised premises, and to any renewals, modifications, consolidations, refinancing and extensions thereof, but Tenant agrees that any such mortgagee shall have the right at any time to subordinate such mortgage, deed of trust or other lien to this Lease on such terms and subject to such conditions as such mortgagee may deem appropriate in its discretion. Within ten (10) business days after written request from Landlord, Tenant agrees to execute such further instruments subordinating this Lease or attorning to the holder of any such liens as Landlord may request. Tenant agrees that it will, within ten (10) business days after written request by Landlord execute and deliver to such persons as Landlord shall request a statement in the form attached hereto as Exhibit "C" furnishing the information required therein and further stating such other matters as Landlord shall reasonably require. Landlord shall as a condition to Tenant's subordination of the Lease as provided herein obtain and deliver to Tenant a non-disturbance agreement from any Landlord's mortgagee, similar in form and content to the form of Subordination, Non-Disturbance and Attornment Agreement attached hereto as Exhibit "D" and made a part hereof.

Tenant Indemnifies Landlord

29. During the Lease Term, Tenant shall indemnify and save Landlord harmless against all expenses, losses, costs, penalties, claims or demands of whatsoever nature arising from Tenant's use of the demised premises, except those which shall result from and are in the amount attributable to the willful misconduct or negligence of Landlord.

Tenant's Right to Cure Defaults

30. In the event Landlord shall neglect to pay when due any obligations on any mortgage or encumbrance affecting title to the demised premises and to which this Lease shall be subordinate and for which Tenant has not received a Subordination Non-disturbance and Attornment Agreement, then Tenant may, after the continuance of any such default for thirty (30) days after written notice thereof by Tenant (specifying the nature of such default), pay said principal, interest or other charges all on behalf of and at the expense of Landlord, and Landlord shall on demand pay Tenant forthwith the amount so paid by Tenant, together with interest thereon at the highest lawful contract rate which Landlord is authorized to pay under applicable law not to exceed 18% per annum, and Tenant may withhold any and all rental payments thereafter due to Landlord, and apply the same to the payment of such in-debtedness.

Condition of Premises at Termination

31. At the expiration or earlier termination of the Lease Term, Tenant shall surrender the demised premises, together with alterations, additions and improvements then

a part thereof, in good order and condition, ordinary wear, tear and use thereof excepted. All trade fixtures located on the demised premises on the date of this Lease other than the trade fixtures described on Exhibit "F", attached hereto and made a part hereof, are and shall remain the property of Landlord. The trade fixtures described in Exhibit "F" and all replacements and substitutions thereof installed at the expense of Tenant or other occupant shall remain the property of Tenant or such other occupant, and Tenant shall repair any damage to the buildings resulting from their removal; provided however, Tenant shall, at any time and from time to time during the Lease Term, have the option to relinquish its property rights with respect to such trade fixtures, which option shall be exercised by notice of such relinquishment to Landlord, and from and after the exercise of said option the property specified in said notice shall be the property of Landlord.

Holding Over
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32. In the absence of any written agreement to the contrary, if Tenant should remain in occupancy of the demised premises after the expiration of the Lease Term or earlier termination of this Lease, it shall so remain as a tenant from month-to-month and all provisions of this Lease applicable to such tenancy shall remain in full force and effect, except that rent hereunder shall be at the rate of one hundred fifty percent (150%) of the rent payable by Tenant on the last day of the Lease Term.

33. This Article 33 is Intentionally Deleted.

Notices
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34. Notices required under this Lease shall be in writing and deemed to be properly served on receipt thereof if sent by certified or registered mail to Landlord at the last address where rent was paid, with a copy to 8150 N. Central Expressway, Suite 1201, Dallas, Texas 75206, Attention: Assistant Vice President, Real Estate Investments, and to Metropolitan Life Insurance Company, 5420 LBJ Freeway, Two Lincoln Centre, Suite 1300, Dallas, Texas 75240, Attention: Vice President, Real Estate Investments, or to Tenant at its principal office in Troy, Michigan, Attention: Vice President, Real Estate, or to any subsequent address which Landlord or Tenant shall designate for such purpose. Date of notice shall be the date on which such notice is deposited in a post office of the United States Postal Service.

Captions and Definitions
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35. Marginal captions of this Lease are solely for convenience of reference and shall not in any way limit or amplify the terms and provisions thereof. The necessary grammatical changes which shall be required to make the provisions of this Lease apply (a) in the plural sense if there shall be more than one Landlord, and (b) to any Landlord which shall be either corporation, an association, a partnership, or an individual, male or female, shall in all instances be assumed as though in each case fully expressed. Unless otherwise provided, upon the termination of this Lease under any of the Articles hereof, the parties hereto shall be relieved of any further liability hereunder except as to acts, omissions or defaults occurring prior to such termination.

Successors and Assigns

36. The conditions, covenants and agreements contained in this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns. All covenants and agreements of this Lease shall run with the Land.

Memorandum of Lease

37. The parties hereto have simultaneously with the execution and delivery of this Lease executed and delivered a Memorandum of Lease which Landlord shall, at its sole expense, cause to be recorded within (60) days following delivery of this Lease and returned to Tenant by Landlord after return from the County Clerk's Office where recorded. Such Memorandum of Lease shall be in form and content identical to the form of Memorandum of Lease Attached hereto as Exhibit "E" and incorporated herein by reference for all purposes. Upon the expiration or termination of this Lease and Tenant's removal from the demised premises, whether by expiration of the Lease Term, event of default, or otherwise, at the written request of Landlord, Tenant shall execute and deliver to Landlord a document in form and content acceptable to Landlord, which shall be in recordable form, and shall evidence the cancellation and termination of this Lease and the Memorandum of Lease. Tenant's obligations to execute and deliver such document of release shall survive the termination of this Lease and may be enforced by Landlord in an action for specific performance of the provisions of this Article 37. In addition, Tenant shall indemnify and save Landlord harmless from and against any and all losses, costs and expenses including, without limitation, reasonable attorneys' fees, and other incidental and consequential costs, claims, damages or obligations incurred by Landlord and arising out of Tenant's failure to execute and deliver such documents as are required by this Article 37 within thirty (30) days after being requested to do so by Landlord including, without limitation, any additional interest, expenses, nonrefundable fees or commissions, or other costs and expenses associated with any sale, financing or refinancing of any improvements that are delayed or withdrawn because of the failure of Tenant to execute and deliver such documents to Landlord within the time period specified.

No Waiver

38. The failure of either Landlord or Tenant to declare an event of default immediately upon its occurrence, or delay in taking any action in connection with an event of default, shall not constitute a waiver of the default, but said party shall have the right to declare the default at any time and take such action as is lawful or authorized under this Lease.

Estoppel Certificate

39. Article 39 is Intentionally Deleted.

No Brokers

40. Landlord and Tenant each represents and warrants to the other that except as provided for in Article 16 of the Agreement of Sale between Landlord and Tenant, dated _____, 1989 (the "Contract"), providing for the purchase of the demised premises by Landlord from Tenant,

it has not entered into any agreement with, or otherwise had any

dealings with, any broker or agent in connection with the negotiation or execution of this Lease which could form the basis of any claim by any such broker or agent for a brokerage fee, commission, finder's fee, or any other compensation of any kind or nature in connection with the negotiation or execution of this Lease, and Landlord and Tenant shall each indemnify and hold harmless the other from any costs (including, but not limited to, court costs, investigation costs and attorneys' fees), expenses or liability for commissions or other compensation claimed by any broker or agent with respect to this Lease which arise out of any agreement or dealings by such party, or alleged agreement or dealings by such party, with any such agent or broker.

Severability

41. In case any of the provisions of this Lease shall for any reason be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Lease shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

Entire Agreement

42. It is expressly agreed by Landlord and Tenant, as a material consideration for the execution of this Lease, that this Lease, with the specific references to written extrinsic documents, if any, is the entire agreement of the parties; that there are, and were, no verbal representations, warranties, understandings, stipulations, agreements or promises pertaining to this Lease or the expressly mentioned written extrinsic documents not incorporated in writing in this Lease or in the Contract or in that certain Agreement dated of even date executed by Tenant and containing representations and warranties with respect to environmental matters (the "Environmental Certificate"). Landlord and Tenant expressly agree that there are and shall be no implied warranties of merchantability, habitability, fitness for a particular purpose or of any other kind arising out of this Lease and there are no warranties which extend beyond those expressly set forth in this Lease; except as otherwise provided in the Contract or the Environmental Certificate. It is likewise agreed that this Lease shall be governed by the laws of the State of Texas and may not be altered, waived, amended or extended except by an instrument in writing signed by both Landlord and Tenant.

Attorney's Fees

43. In the event either party files suit to enforce the performance of or obtain damages caused by a default under any of the terms of this Lease, the party against whom a judgment is rendered shall pay the prevailing party's reasonable attorneys' fees.

Personal Liability

44. In no event shall Landlord be liable to Tenant either for (a) any loss or damage that may be occasioned by or through the acts or omissions of Landlord or of any employee or agent of Landlord or of any other persons whomsoever, or (b) any consequential damages regardless of causation. With respect to tort claims against Landlord, Landlord shall not be liable to Tenant or to any other person for any act or omission of Landlord or of its

repairs thereto (provided Landlord shall never be under any obligation to

do so) and Tenant shall not be entitled to any abatement or reduction of rent by reason thereof.

IN WITNESS WHEREOF, the parties hereto have executed these presents in triplicate and affixed their seals as of the day and year first above written.

LANDLORD:

WITNESS: METROPOLITAN LIFE INSURANCE COMPANY

_____ By:_____

_____

Its _____

_____

TENANT:

WITNESS: K MART CORPORATION

_____ By:_____

_____

Its /s/ M. L. SKILES. VICE PRESIDENT

_____

EXHIBIT "C"

THIS LEASE (the "Lease") made and entered into as of the _____ day of February, 1989 by and between METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation having its principal office at One Madison Avenue, New York, New York 10010 (herein referred to as "Landlord"), and K MART CORPORATION, a Michigan corporation having its principal office at 3100 West Big Beaver Road, Troy, Michigan 48084 (herein referred to as "Tenant"),

WITNESSETH: That in consideration of the rents, covenants, and conditions herein set forth, Landlord and Tenant do hereby covenant, promise and agree as follows:

Demised Premises
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1. Without representation or warranty, express or implied, Landlord does demise unto Tenant and Tenant does take from Landlord, for the "Lease Term" (hereinafter defined), the following property: That certain tract or parcel of real property which is more particularly described on Exhibit "A" attached hereto and made a part hereof (the "Land"), together with the building(s) and/or improvements existing on the Land on the date hereof and all additional buildings and/or improvements hereafter erected or constructed on the Land (the "Improvements"); subject, however, to the matters listed on Exhibit "B" attached hereto and made a part hereof.

Said Land and Improvements, together with any right, title or interest of Landlord in or to any licenses, rights, privileges and easements appurtenant thereto, shall be herein after collectively referred to as the "demised premises".

Term
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2. The term of this lease shall commence upon the date of this Lease (the "Commencement Date") and shall terminate upon such date as

shall be twenty-five (25) years from the last day of the month during which the Commencement Date occurs (the "Initial Lease Term); provided however, the term of this Lease may be extended as provided in Article 12 hereof. The phrase "Lease Term", as used in this Lease, shall mean the Initial Lease Term, together with any extension(s) pursuant to Article 12 hereof.

Annual Rental

3. Tenant shall, during the Lease Term, pay to Landlord, at such place as Landlord shall designate in writing from time to time, an annual rental in the following amounts:

89-94 Years 1-5: $1,040,910 per annum
94-99 Years 6-10: $1,092,956 per annum
99-01 Years 11-15: $1,147,604 per annum
01-09 Years 16-20: $1,204,984 per annum
09-19 Years 21-25: $1,265,233 per annum

Rental During Option Period

1st five-year option - $1,391,756.00 per annum
2nd five-year option - $1,530,931.00 per annum
3rd five-year option - $1,684,024.00 per annum
4th five-year option - $1,852,427.00 per annum
5th five-year option - $2,037,670.00 per annum
6th five-year option - $2,241,437.00 per annum.

The annual rentals listed above shall be paid by Tenant to Landlord without deduction or offset, except as expressly provided in Articles 20 and 21 hereof, in equal monthly installments on the first day of each month, in advance, commencing on the Commencement Date; provided however, in the event the Commencement Date shall not be the first day of a calendar month, then the rental for such month shall be prorated (on the basis of a rental of $1,040,910.00 per annum) upon a daily basis and shall be in addition to rental for the first year of the Lease Term in the amount of $1,040,910.00 as provided above in this Article 3; it being understood between Landlord and Tenant that the first year of the Lease Term shall be a period of twelve (12) months, plus the number of days which exist between the Commencement Date and the last day of the month during which the Commencement Date occurs. The annual rental to be paid by Tenant hereunder shall be absolutely net to Landlord and free of any operating expenses relative to the demised premises, so that this Lease shall yield the annual rentals specified above, net to Landlord, throughout the Lease Term.

Real Estate Tax

4. Tenant shall pay and discharge all ad valorem real estate taxes and assessments of any nature which shall be levied against the demised premises during the Lease Term.

Tenant shall pay and be liable for all sales and use taxes and other similar taxes, if any, levied or imposed by any city, state, county or other governmental body having authority. Tenant shall also be liable for and shall pay all taxes levied or assessed against Tenant's property or equipment located in or upon the demised premises, or any part thereof. Notwithstanding the immediately preceding sentence, Tenant shall not be chargeable with, nor be obligated to pay, any income, profit, inheritance, estate, succession, gift, franchise or transfer taxes which are or may be imposed upon Landlord, its successors or assigns, and which do not result from Tenant's use of the

demised premises, by whatsoever authority imposed or howsoever designated.

Taxes and assessments payable by Tenant pursuant to this Article 4 for the last year of the Lease Term shall be prorated based upon actual tax and/or assessments statements, if available; otherwise, the proration shall be made based upon the most recent tax and/or assessment statements available.

Written evidence of the payment by Tenant of taxes and assessments pursuant to this Article 4 shall be furnished by Tenant to Landlord not later than ten (10) days prior to the date upon which any such taxes or assessments would become delinquent.

Tenant shall have the right to contest, with such right to be exercised reasonably and in good faith, the validity or the amount of any tax or assessment levied against the demised premises by such appellate or other proceedings as may be appropriate in the jurisdiction and may defer payment of such obligations, pay same under protest, or take such other steps as Tenant may reasonably deem appropriate; provided that, (i) neither the demised premises, nor any part thereof or interest therein, would be, in Landlord's sole opinion, in any danger of being sold, forfeited, lost or interfered with, and (ii) Tenant

shall furnish such security as may be required in any legal proceeding or as shall be reasonably requested by Landlord. Landlord shall cooperate in the institution and prosecution of any such proceedings in a reasonable manner (but without cost or expense to Landlord) and will execute any documents reasonably required therefor. All costs and expenses of such proceedings shall be borne solely by Tenant and any refunds or rebates secured thereby shall belong to Tenant. Tenant shall not withold payment of taxes which will cause any taxing authority to impose a tax lien against the demised premises, or any part thereof, and shall indemnify and hold Landlord harmless from any loss, cost or expense incurrred by Landlord including, without limitation, attorneys' fees, as a result of any such contest(s) or proceeding(s).

5. Article 5 is Intentionally Deleted.

6. Article 6 is Intentionally Deleted.

7. Article 7 is Intentionally Deleted.

8. Article 8 is Intentionally Deleted.

9. Article 9 is Intentionally Deleted.

10. Article 10 is Intentionally Deleted.

Landlord's Covenant not to Build

11. Landlord covenants that it will not erect any buildings or other structures on the land described in Exhibit "A" during the Lease Term.

Options Extend

Lease
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12. Tenant shall have the right and option to extend the term of this Lease for six (6) successive additional periods of five (5) years each, such extended term to begin, as the case may be, upon the expiration of the Initial Lease Term or upon the expiration of the then current extension following the expiration of the Initial Lease Term and each such extension shall be upon the same terms and conditions as herein set forth, except as otherwise provided herein. If Tenant shall elect to exercise one or more of the aforesaid option(s), it shall do so, in each case, by giving written notice to Landlord not less than six (6) months prior to the expiration of the then current term of this Lease. Time is of the essence with respect to each notice of Tenant's election to extend the term of this Lease and the failure of Tenant to provide written notice to Landlord on or before six (6) months prior to the expiration of the then current term of this Lease, shall be deemed to be an irrevocable waiver of any further rights of Tenant to extend the term of this Lease.

Purchase
Options
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13. Anything in this Lease contained to the contrary nothwithstanding, and without in any manner affecting or limiting any of the rights, options or estates granted to Tenant under this Lease, if the Landlord, at any time during the Lease Term, receives one or more bona fide offers from third parties to purchase the demised premises, and if any such offer is acceptable to the Landlord, then Landlord shall notify Tenant in writing, giving the price, terms and conditions of such offer, and

Tenant shall have ten (10) days from and after the receipt of such notice from Landlord in which to elect to purchase the demised premises for the consideration and on the terms and conditions contained in the bona fide offer. If Tenant does not elect to purchase said demised premises and Landlord thereafter sells the demised premises, the purchaser shall take the demised premises, subject to and burdened with all the terms, provisions and conditions of this Lease, excluding this Article 13, the former landlord shall be relieved of all obligations hereunder, and the rights of the Tenant under this Lease as against the new owner shall not be lessened or diminished by reason of the change of ownership. Tenant's failure at any time to exercise its option under this Article 13 in the manner and within the time period specified above shall be deemed to be an irrevocable waiver by Tenant of such option. The date of closing of the subject sales transaction and the procedure to be followed with respect to the closing of the subject transaction shall be as specified in Landlord's notice. The purchase option granted to Tenant under this Article 13 shall be personal to Tenant and shall terminate upon the assignment of this Lease or the subletting of all or any portion of the demised premises by Tenant. The provisions of this Article 13 shall not be applicable to the transfer, conveyance or assignment, by whatsoever means, of the demised premises, or any portion thereof, or interest therein, and/or this Lease to an "Affiliate" of Landlord. As used in this Article 13, the term "Affiliate" shall mean any person or entity under common control of a person or entity which controls Landlord or which is controlled by Landlord.

Repairs

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14. Tenant shall, at Tenant's sole cost and expense, undertake all maintenance and repairs with respect to the demised premises including, without limitation, structural and non-structural repairs and replacements, and Tenant shall, during and throughout the Lease Term, take good care of the demised premises and maintain the demised premises in good, safe and tenantable condition. With respect to any structural repairs or replacements, Tenant shall, after obtaining Landlord's prior written consent to the extent required pursuant to this Article 14, promptly cause all necessary structural repairs and replacements to be made in quality and class equal to the condition of such structural portions on the date of this Lease, and upon completion shall furnish to Landlord "as built" plans and specifications for the work so performed. As used herein, the phrase "structural portions" refers to the foundation, exterior walls, members supporting the roof and the roof, but excludes, by way of example and not by way of limitation, interior walls, doors, molding, trim, window frames, door frames, closure devices, hardware and plate glass. With respect to non-structural repairs or replacements, Tenant, after obtaining Landlord's consent to the extent required pursuant to this Article 14, shall promptly cause all necessary non-structural repairs and replacements to be made in quality and class equal to the condition of the demised premises on the date of this Lease. In the event that Landlord considers it necessary that any maintenance, replacements, renewals or repairs required by the provision of this Article 14 be made by Tenant, Landlord may request Tenant to undertake such repairs, renewals, replacements or maintenance; and upon Tenant's failure or refusal to do so promptly, and in any event in case of an emergency, Landlord shall have the right, but not the obligation, to perform such maintenance or to make such repairs, renewals or replacements, Tenant hereby waiving any claim for damage caused thereby. Any

sum so expended by Landlord shall be promptly reimbursed to Landlord by Tenant; and any such amount shall bear interest from the date on which Landlord expends such sum to the date of payment by Tenant at the then highest lawful contract rate which Tenant is authorized to pay under applicable law, not to exceed 18% per annum. Any such sum for which Tenant becomes liable to reimburse Landlord may be treated by Landlord as rent and be payable to Landlord on the first (1st) day of the next succeeding month. In the event that Landlord performs any such maintenance or makes any such repairs, renewals or replacements or undertakes to do so, Landlord shall not be liable to Tenant for any loss or damage which may occur to Tenant's equipment and property located within or on the demised premises incident to such action by Landlord. Tenant need not obtain the consent of Landlord before undertaking repairs or replacements pursuant to this Article 14 or alterations pursuant to Article 15, provided, in the case of non-structural repairs, replacements, changes and alterations, the costs of all such non-structural repairs, replacements, changes and alterations made during any calendar year do not exceed $200,000.00 in the aggregate; and provided, further that in the case of structural repairs, replacements, changes and alterations, the costs of all such structural repairs, replacements, changes and alterations made during any calendar year do not exceed $75,000.00 in the aggregate. In the event the costs of repairs, replacements, changes and alterations proposed to be made would cause the aggregate costs of such repairs, replacements and alterations to exceed the limits for a calendar year set forth in the immediately preceding sentence of this Article 14, then Tenant shall obtain the consent of Landlord to such repairs, replacements, changes and alterations proposed to be made before the same are commenced, which consent shall not be unreasonably withheld or delayed by Landlord.

Alterations and Additional Construction

15. Tenant may, at its own expense at any time, subject to the conditions hereinafter set forth in this Article 15, (a) after obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed, erect or construct additional buildings or structures ("Additional Improvements") on any portion of the Land; (b) make such alterations or changes, structural or non-structural, in and to the buildings on the Land as it may deem necessary or suitable after obtaining the consent of Landlord to the extent required under the provisions of Article 14; or (c) after obtaining the prior written consent of Landlord, demolish the whole or any part of any building at any time standing on the Land; provided that, if Tenant obtains Landlord's prior written consent to demolish a building on the Land, Tenant will replace the building which was demolished with a structure equal to or greater in value than the building demolished (the demolition of a building and the replacement thereof being referred to in this Article 15 as "Demolition Improvements").

In the event Tenant obtains the prior written consent of Landlord for Additional Improvements or Demolition Improvements, the following terms and conditions shall be applicable to Tenant's making Additional Improvements or Demolition Improvements:

(a) In connection with the design and construction (including demolition work, if any) of Additional Improvements or Demolition Improvements, Tenant shall comply with and observe all laws, codes, rules, regulations and restrictions applicable to (i) such design and construction and (ii) the demised premises.

(b) The erection or construction of neither Additional Improvements nor Demolition Improvements shall adversely affect the Value (as hereinafter defined) of the demised premises.

(c) Prior to the commencement of any work to erect or construct (including demolition work, if any) Additional Improvements or Demolition Improvements, Tenant shall cause to be issued to Landlord an unconditional irrevocable sight draft letter of credit ("Letter of Credit") issued by a national banking institution acceptable to Landlord in an amount equal to 125% of the Costs (as hereinafter defined). The term of the Letter of Credit shall be for a period extending twelve (12) months beyond the Completion Date (as hereinafter defined).

(d) Completion (as hereinafter defined) of the Additional Improvements or Demolition Improvements must occur within 180 days after the Completion Date, and, notwithstanding anything to the contrary contained in this Lease, Tenant shall be deemed to be in default under the terms of this Lease if Completion does not occur within said 180 day period.

(e) Landlord, as separate covenants with Tenant and without imposing conditions on the right of Landlord to draw on the Letter of Credit by sight draft or restricting the obligation of the issuing bank to pay upon said Letter of Credit upon presentation of a sight draft from Landlord identifying the Letter of Credit, shall have the right to draw on the Letter of Credit only during the last sixty (60) days of the term of the Letter of Credit or at such earlier date on which Tenant shall be in default under the terms of this Lease.

(f) In the event Tenant is in default under the provisions of subparagraph (d) of this Article 15, Landlord shall have the right, but not the obligation,

in its sole discretion, to (i) cause the Additional Improvements or Demolition Improvements to be completed in whole or in part to be satisfaction of Landlord and/or (ii) cause the Additional Improvements or Demolition Improvements to be removed in whole or in part from Land. For the purposes of performing all work which may be necessary to the full exercise of the rights granted to Landlord pursuant to this subparagraph (f), Landlord, its agents, contractors and consultants and their respective agents, employees, contractors and materialmen shall have the right to enter upon and use the demised premises without being or becoming liable for any damages resulting to Tenant from such actions.

(g) Landlord may use the proceeds obtained from payment to it on the Letter of Credit to pay (i) all costs and expenses of work performed pursuant to the provisions of subparagraph (f) of this Article 15,

including but not limited to architectural, engineering and consultant's fees, all charges for work performed and materials furnished and reasonable fees of independent legal counsel and (ii) all charges for labor performed, services rendered and materials furnished in connection with the Additional Improvements or Demolition Improvements performed, rendered or furnished prior to the date Landlord exercises its rights under subparagraph (f) of this Article 15 which have not been paid by Tenant. In the event such proceeds are insufficient to make all payments authorized in this paragraph, Tenant shall be and remain liable to Landlord for the payment of any deficiency. In the event any of such proceeds remain unexpended by Landlord thirty (30) days after the last date on which any contractor, subcontractor, laborer or materialman who performs labor or furnishes labor, material or services in connection with the Additional Improvements or Demolition Improvements or work which may be performed pursuant to subparagraph (f) could perfect a lien pursuant to the provisions of Chapter 53 of the Texas Property Code, as amended, such remaining proceeds shall be paid to Tenant.

(h) Upon request from Landlord, Tenant agrees to promptly furnish to Landlord such information and documentation relating to the design and construction of Additional Improvements or Demolition Improvements as Landlord may reasonably request, including but not limited to construction contracts and subcontracts, agreements with architects and engineers, working plans and specifications, permits and licenses, inspection reports, draw requests and cost certifications. Upon Completion, Tenant shall furnish to Landlord a complete set of the as-built plans and specifications for the Additional Improvements or Demolition Improvements and an as-built survey of the demised premises after Completion certified to Landlord in substantially the form of the Survey Certificate attached as Exhibit "D" to that certain Agreement of Sale dated _____ between Tenant, as Seller, and Landlord, as Buyer, covering the demised premises.

For the purposes of this Article 15 the term "Completion" is defined to mean the substantial completion of the Additional Improvements or Demolition Improvements in accordance with the plans and specifications therefor as evidenced by (i) a certificate addressed to Landlord and Tenant, in form and substance acceptable to Landlord, from Tenant's independent architect to the effect that the Additional Improvements or Demolition Improvements have been built in accordance with the plans and specifications, are in compliance with all codes, rules, regulations and restrictions applicable to (x) such

construction or (y) the demised premises and have been substantially completed, (ii) the issuance to Tenant of a certificate of occupancy for the Additional Improvements or Demolition Improvements by the governmental authority having jurisdiction to issue the same and (iii) the written certification by Tenant to Landlord, in form and substance satisfactory to Landlord, that the Additional Improvements or Demolition Improvements have been constructed in accordance with the plans and specifications therefor and in compliance with all laws, codes, rules, regulations and restrictions applicable thereto, that after Completion the demised premises are in compliance with all laws, codes,

rules, regulations and restrictions applicable to the demised premises, that the Additional Improvements and Demolition Improvements do not impair the Value of the demised premises and that all bills and charges for labor performed, services rendered and materials furnished in connection with the Additional Improvements or Demolition Improvements have been paid, said certification to be accompanied by lien waivers or releases from all contractors, subcontractors, materialmen and laborers who performed services or labor or furnished materials with respect to the Additional Improvements or Demolition Improvements. The term "Completion Date" is defined for the purposes of this Article 15 as the original date specified in the initial construction contract, before any amendments, modifications or changes thereto or change orders relating thereto, for substantial completion of the Additional Improvements or Demolition Improvements, a copy of which contract shall be furnished by Tenant to Landlord. The term "Costs" is defined for the purposes of this Article 15 to mean the greater of (i) the estimated total costs and expenses (including all "soft costs") of designing and constructing (including demolition costs, if any) the Additional Improvements or Demolition Improvements as submitted in writing to Landlord by Tenant at the time Tenant requests the consent of Landlord as provided in this Article 15 or (ii) if Landlord, in its sole discretion, disagrees with the estimate submitted by Tenant, then such estimated total costs and expenses as Landlord may determine, in its sole discretion, and submit to Tenant within thirty (30) days after receipt of Tenant's estimate. The term "Value" as used in this Article 15 is defined to mean the fair market value of the demised premises assuming the completion of the Additional Improvements or Demolition Improvements, as estimated by Landlord in its sole discretion. The reference to "structural changes", as used in clause (b) of the first paragraph of this Article 15, shall not include the moving of non-loadbearing partitions, minor plumbing or minor electrical work, modification and rearrangement of fixtures or other minor changes.

Any costs connected with filing applications for building permits or authorizations for any work permitted under Article 14 or this Article 15, or processing or obtaining the same shall be borne by Tenant. Landlord, at Tenant's cost, shall cooperate with Tenant in securing building or other permits or authorizations required from time to time for any work permitted under Article 14 or this Article 15 or for installations by Tenant permitted under Article 14 or this Article 15.

Utilities

16. Tenant shall pay all charges for utility services

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furnished to the demised premises during the Lease Term and Landlord shall not be responsible for any interruption in or termination of any or all of said services.

Governmental Regulations
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17. (a) Tenant shall, at its own expense, observe and comply with all rules, orders and regulations of all duly constituted public authorities including, without limitation, the environmental laws, rules, regulations and orders referred to in Article 17(b) and all restrictions, covenants, agreements and other matters of record on the date of this Lease effecting the Land and/or the

Improvements. Tenant shall have the right to diligently contest, by proper proceedings conducted reasonably and in good faith and without cost to Landlord, the validity or application of any such rule, order or regulation and may postpone compliance therewith until the final determination of any such proceeding, provided that:

(i) Neither the demised premises, nor any part thereof, or interest therein, would be in any danger of being sold, forfeited, lost or interfered with;

(ii) Landlord would not be in any danger of any civil or any criminal penalty for the failure to comply therewith;

(iii) Tenant shall have furnished such security, if any, as may be required in any such proceedings or may be requested by Landlord; and

(iv) Nothing contained herein shall be construed as providing Tenant with the right to contest any sum billed to Tenant by Landlord.

(b) "Hazardous Materials" shall mean (a) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), as amended from time to time, and regulations promulgated thereunder; (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1080 (42 U.S.C. Section 9601 et seq.) ("CERCLA"), as amended from time to time, and regulations promulgated thereunder; (c) asbestos; (d) polychlorinated biphenyls; (e) underground or above ground storage tanks, whether empty, filled or partially filled with any substance; (f) any substance the presence of which on the demised premises is prohibited by any Governmental Requirements; (g) any other substance which by any Governmental Requirements requires special handling or notification of any federal, state or local governmental entity in its collection, storage, treatment, or disposal; (h) urea formaldehyde insulation; (i) "toxic chemicals," "hazardous chemicals", or "extremely hazardous substances," under either the Emergency Planning and Community Right to Know Act of 1986 or the Occupational Safety and Health Act of 1970; (j) any "pollutant" within the meaning of the federal Clean Water Act and the regulations promulgated thereunder, including within the definitions found in 40 CFR (S) 122.2; (k) any "waste" within the meaning of the Texas Water Code, including within the definition thereof in Section 26.001; (l) any substance governed by the Toxic Substances Control Act (15 U.S.C (S) 2601); and (m) any

"hazardous waste" or "solid waste" within the meaning of the Texas Solid Waste Act, with particular reference to the definitions of such terms which appear in TEX. REV. CIV. STAT. ANN. Art. 4477-7, (S) 2.

(i) Neither Tenant nor the demised premises shall become subject to any private or governmental lien or judicial or administrative notice, order or action relating to Hazardous Materials or subject to any public or governmental lien or judicial or administrative notice, order or action relating to any environmental problems, impairments, or liabilities with respect to the demised premises, as a result of Tenant's use of the demised premises.

(ii) Tenant shall immediately notify Landlord should Tenant become aware of (1) any Hazardous Materials in, upon or under the demised premises, (2) any lien, action or notice of the nature described in subparagraph (b)(i) of this Article 17 relating, directly or indirectly, to the demised premises, or (3) any litigation or threat of litigation relating to any alleged unauthorized release of any Hazardous Material from or in the existence of any Hazardous Material in, on or under the demised premises.

(iii) Tenant hereby covenants and agrees not to do or take any action or omit or fail to take any such action which will result in the introduction of any Hazardous Materials in, on or under the demised premises.

Liens and Encumbrances

18. Tenant will not, directly or indirectly, create or permit to be created or to remain, and will promptly discharge, any mortgage, lien, security interest, encumbrance, or charge on, pledge of, or conditional sale or other title retention agreement with respect to the demised premises or any part thereof, Tenant's interest therein, the rents accruing hereunder, or any other sum payable to Landlord under this Lease. Should any mechanic's or materialman's lien or liens or encumbrances or affidavits claiming liens or encumbrances be filed against the demised premises, or any part thereof, or interest therein, for any reason whatsoever incident to the acts or omissions of Tenant, or of any contractor, subcontractor, laborer performing labor, or materialmen furnishing materials at or for the demised premises or by reason of any specially fabricated materials, whether or not placed upon the demised premises, Tenant shall cause the same to be canceled or discharged of record by payment within fifteen (15) days of filing thereof, or at such earlier time as shall be necessary to prevent the foreclosure thereof.

Insurance

19. Throughout the Lease Term, Tenant shall, at its own expense, be obligated to have procured and shall be obligated to maintain insurance against loss or damage by fire and such other hazards as are included in so-called "extended coverage" and against malicious mischief and against such other insurable hazards as, under good insurance practices, from time to time are insured against for structures similar to the Improvements in Dallas, Texas (the "Minimum Insurance"). The amount of such insurance shall not be less than eighty percent (80%) of the full replacement costs of the Improvements without reduction for depreciation. "Full replacement costs", as used in this Article 19, means the costs of replacing the Improvements; exclusive of

the cost of excavations, foundations and footings below the lowest basement floor.

Notwithstanding the foregoing provisions of this Article 19, at any time during the Lease Term that Tenant's net worth, determined as hereinafter provided in this Article 19, shall have exceed One Hundred Million and No/100 Dollars ($100,000,000.00) throughout the immediately preceding fiscal year of Tenant (the "Net Worth Requirement"), Tenant shall have the right, upon not less than thirty (30) days' prior written notice to Landlord and any mortgagee of Landlord, to self-insure the Improvements for perils which could be covered by the Minimum Insurance. Tenant shall promptly furnish to

Landlord, upon Landlord's request, quarterly financial statements for Tenant prepared in accordance with generally accepted accounting principles and signed or certified by an officer of Tenant, and Tenant shall furnish to Landlord not later than June 1 of each year during the Lease Term an annual report, which will include audited financial statements, for Tenant for the preceding fiscal year of Tenant ended January 31. Provided each of the financial statements required to be furnished to Landlord by Tenant reflect Tenant's net worth to be $100,000,000.00 or more the Net Worth Requirement shall be deemed satisfied; however, in the event any of the aforesaid financial statements shall reflect a net worth for Tenant of less than $100,000,000.00, then Landlord may give written notice to Tenant that Tenant does not satisfy the Net Worth Requirement and that Tenant must immediately cease to be self insured under this Article 19. Tenant may not thereafter elect to be self insured under this Article 19 unless and until the financial statements for Tenant included in an annual report furnished to Landlord after the date of its notice of non-compliance to Tenant reflect a net worth for Tenant of $100,000,000.00 or more. Landlord hereby acknowledges that Tenant has furnished evidence of its satisfaction of the Net Worth Requirement as of the date of this Lease and that Landlord has been advised of Tenant's intent to self-insure the Improvements during the Lease Term; provided that, Tenant continues to satisfy the Net Worth Requirement. Tenant hereby acknowledges and agrees that during any time that Tenant shall have failed to obtain and shall fail to maintain the Minimum Insurance in the amount of not less than eighty percent (80%) of the full replacement cost of the Improvements, Tenant shall be deemed to be self-insurer and, in the event of any casualty loss or damage to any of the Improvements, Tenant shall be obligated to pay to Landlord, as additional rent, an amount equal to eighty percent (80%) of the full replacement cost of such Improvements, with such additional rent being due and payable to Landlord by Tenant upon the first day of the first month following written notice from Landlord to Tenant of the amount of additional rent so due and owing by Tenant to Landlord.

In addition, Tenant shall obtain and keep in force, during and throughout the Lease Term, a policy of comprehensive public liability insurance insuring Landlord and Tenant, as their respective interests may appear, against any liability arising out of the ownership, use, occupancy or maintenance of the demised premises. Such insurance shall be in an amount of not less than One Million Dollars ($1,000,000.00) for injury to or death of one person in any one accident or occurrence and in an amount not less than Five Million Dollars ($5,000,000.00) for injury to or death of more than one person. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least Five Hundred Thousand Dollars ($500,000.00). The limits of said insurance shall not, however, limit the liability of Tenant hereunder. In addition, said policy of comprehensive public liability insurance shall insure Landlord with respect to the contractual indemnification of Landlord by Tenant for which provision is made in Article 29 of this Lease. In the event that Tenant shall fail to secure and maintain said policy of comprehensive public liability insurance, Landlord may, at Landlord's sole option and without any requirement with respect thereto, procure and maintain the same; and the cost of any such policy shall be considered as an operating

expense of Tenant which shall be repaid to Landlord on demand, with interest accruing on any sums so expended by Landlord at the then highest lawful contract rate which Tenant is authorized to pay under the laws of the State of Texas from the date on which Landlord expended such sums to the date of payment. Notwithstanding the foregoing, so long as Tenant satisfies the Net Worth Requirement, Tenant's general corporate public liability insurance shall be deemed to satisfy the public liability insurance requirements of this Article 19, and Tenant may self insure for losses under $50,000,000.00.

Policies of insurance procured and maintained pursuant to this Article 19 shall be payable to Landlord. Tenant shall furnish to Landlord and Landlord's mortgagee, if any, certificates from the insuring company showing the existence of the insurance required by this Article 19. In case of casualty loss or damage, Tenant shall have no right to adjust the loss or execute proof thereof in the name of Landlord without the prior written consent of Landlord.

Casualty

20. Should the whole or any part of the demised premises be partially or totally destroyed by fire or any other casualty after the commencement of this Lease, Tenant shall give prompt written notice thereof to Landlord, generally describing the nature and the extent of such damage. Should over fifty (50%) percent of the usable are (as such term is defined in the third subparagraph (a) of Article 21) in the building existing on the Land as of the date of this Lease be destroyed during the last three years of the Lease Term, Tenant shall have the right, at its option, to terminate this Lease by giving written notice to Landlord within thirty (30) days after the casualty. In the event of the termination of this Lease by Tenant as provided in the immediately preceding sentence of this Article 20, the following provision shall apply:

(a) All the insurance proceeds payable as a result of such casualty shall be paid and belong to Landlord. In the event the Improvements are self insured at the time of the loss, Tenant shall pay to Landlord or as Landlord may direct, an amount equivalent to the insurance proceeds that would have been paid had insurance been in force, but not to exceed eighty (80%) percent of the full replacement costs of the Improvements.

(b) Tenant shall have sixty (60) days, rent free, within which to remove its property from the demised premises.

(c) All unearned rent and other charges paid in advance shall be refunded to Tenant.

If Tenant does not terminate or does not have the right to terminate this Lease as provided above, then the following provisions shall be applicable:

(a) Within forty-five (45) days after the date of the casualty and before work is commenced to repair or restore the demised premises to substantially the same condition as before the casualty ("Restoration Work"), Tenant shall cause to be issued to Landlord by a national banking institution acceptable to Landlord an unconditional irrevocable sight draft letter of credit ("Letter of

Credit") in an amount equal to 125% of the Costs (as hereinafter defined). The Letter of Credit shall be for a term extending for a period of twelve (12) months beyond the Completion Date (as hereinafter defined). Notwithstanding anything to the contrary contained in this Lease, if prior to the date of the casualty the originally named Landlord herein shall have transferred, conveyed or assigned the demised premises and/or this Lease to a party which is not an Affiliate of such Landlord (as the term Affiliate is defined in Article 13) payment on the Letter of Credit other than during the last sixty (60) days of the term thereof may be conditioned upon a certification by the then Landlord to the issuing bank the Tenant is in default under this Lease.

(b) All of the insurance proceeds payable under insurance policies maintained by Tenant pursuant to Article 19 as a result of the casualty shall be paid to Landlord. In the event the Improvements are self-insured at the time of the casualty, Tenant shall pay to Landlord on or before the expiration of forty-five (45) days after the date of the casualty an amount equivalent to the insurance proceeds that would have been paid had insurance been in force, but not to exceed eighty (80) percent of the full replacement cost of the Improvements, unless Tenant shall have theretofore furnished to Landlord the Letter of Credit.

(c) Not later than forty-five (45) days after the date of the casualty, Tenant shall commence the Restoration Work. Completion (as hereinafter defined) of the Restoration Work must occur within 180 days after the Completion Date, and, notwithstanding anything to the contrary contained in this Lease, Tenant shall be deemed to be in default under the terms of this Lease if Completion does not occur within said 180 day period. Tenant shall be obligated to repair and restore the demised premises to substantially the same condition as before the casualty, notwithstanding the fact that insurance proceeds or proceeds from self insurance may not be adequate to pay the Costs in full.

(d) There shall be no abatement of rental or other charges payable by Tenant under the terms of this Lease during the period of repairs or restoration.

(e) Landlord, as separate covenants with Tenant and without imposing conditions on the right of Landlord to draw on the Letter of Credit by sight draft or restricting the obligation of the issuing bank to pay upon said Letter of Credit upon presentation of a sight draft from Landlord identifying the Letter of Credit, shall have the right to draw on the Letter of Credit only during the last sixty (60) days of the term of the Letter of Credit or at such earlier date on which Tenant shall be in default under the terms of this Lease.

(f) In the event Tenant is in default under the provisions of the second subparagraph (c) of this Article 20, Landlord shall have the right, but not the obligation, in its sole discretion, to cause the Restoration Work to be completed in whole or in part to the satisfaction of Landlord. For the purposes of

performing all work which may be necessary to the full exercise of the rights granted to Landlord pursuant to this subparagraph (f), Landlord, its agents, contractors and consultants and their respective agents, employees, contractors and materialmen shall have the right to enter upon and use the demised premises without being or becoming

liable for any damages resulting to Tenant from such actions.

(g) Landlord may use the insurance proceeds and proceeds obtained from payment to it on the Letter of Credit to pay (i) all costs and expenses of work performed pursuant to the provisions of subparagraph (f) of this Article 20, including but not limited to architectural, engineering and consultant's fees, all charges for work performed and materials furnished and reasonable fees of independent legal counsel and (ii) all charges for labor performed, services rendered and materials furnished in connection with the Restoration Work performed, rendered or furnished prior to the date Landlord exercises its rights under subparagraph (f) of this Article 20 which have not been paid by Tenant. In the event such proceeds are insufficient to make all payments authorized in this paragraph, Tenant shall be and remain liable to Landlord for the payment of any deficiency. In the event any of such proceeds remain unexpended by Landlord thirty (30) days after the last date on which any contractor, subcontractor, laborer or materialman who performs labor or furnishes labor, material or services in connection with the Restoration Work or work which may be performed pursuant to subparagraph (f) could perfect a lien pursuant to the provisions of Chapter 53 of the Texas Property code, as amended, such remaining proceeds shall be paid to Tenant.

(h) Upon request from Landlord, Tenant agrees to promptly furnish to Landlord such information and documentation relating to the design and construction of Restoration Work as Landlord may reasonably request, including but not limited to construction contracts and sub-contracts, agreements with architects and engineers, working plans and specifications, permits and licenses, inspection reports, draw requests and cost certifications. Upon Completion, Tenant shall furnish to Landlord a complete set of the as-built plans and specifications for the Restoration Work and an as-built survey of the demised premises after Completion certified to Landlord in substantially the form of the Survey Certificate attached as Exhibit "D" to that certain Agreement of Sale dated _____ between Tenant, as Seller, and Landlord, as Buyer, covering the demised premises.

(i) In connection with the design and construction (including demolition work, if any) of Restoration Work, Tenant shall comply with and observe all laws, codes, rules, regulations and restrictions applicable to (i) such design and construction and (ii) the demised premises.

For the purposes of this Article 20 the term "Completion" is defined to mean the substantial completion of the Restoration Work in accordance with the plans and specifications therefor as evidenced by (i) a certificate

addressed to Landlord and Tenant, in form and substance acceptable to Landlord, from Tenant's independent architect to the effect that the Restoration Work has been built in accordance with the plans and specifications, are in compliance with all codes, rules, regulations and restrictions applicable to (x) such construction or (y) the demised premises and have been substantially completed, (ii) the issuance to Tenant of a certificate of occupancy for the Restoration Work by the

governmental authority having jurisdiction to issue the same and (iii) the written certification by Tenant to Landlord, in form and substance satisfactory to Landlord, that the Restoration Work has been constructed in accordance with the plans and specifications therefor and in compliance with all laws, codes, rules, regulations and restrictions applicable thereto, that after Completion the demised premises are in compliance with all laws, codes, rules, regulations and restrictions applicable to the demised premises, that the Restoration Work does not impair the Value of the demised premises and that all bills and charges for labor performed, services rendered and materials furnished in connection with the Restoration Work have been paid, said certification to be accompanied by lien waivers or releases from all contractors, subcontractors, materialmen and laborers who performed services or labor or furnished materials with respect to the Restoration Work. The term "Completion Date" is defined for the purposes of this Article 20 as the original date specified in the initial construction contract, before any amendments, modifications or changes thereto or change orders relating thereto, for substantial completion of the Restoration Work, a copy of which contract shall be furnished by Tenant to Landlord. The term "Costs" is defined for the purposes of this Article 20 to mean the greater of (i) the estimated total costs and expenses (including all "soft costs") of designing and constructing (including demolition costs, if any) the Restoration Work as submitted in writing to Landlord by Tenant prior to commencement of the Restoration Work or (ii) if Landlord, in its sole discretion, disagrees with the estimate submitted by Tenant, then such estimated total costs and expenses as Landlord may determine, in its sole discretion, and submit to Tenant within twenty (20) days after receipt of Tenant's estimate. The term "Value" as used in this Article 20 is defined to mean the fair market value of the demised premises assuming the completion of the Restoration Work, as estimated by Landlord in its sole discretion.

Any costs connected with filing applications for building permits or authorizations for any work required under this Article 20, or processing or obtaining the same shall be borne by Tenant. Landlord, at Tenant's cost, shall cooperate with Tenant in securing building or other permits or authorizations required from time to time for any work required under this Article 20.

Eminent Domain
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21. As used herein, the term "Taking" refers to a permanent taking during the Lease Term of all or any part of the demised premises or of Tenant's leasehold interest with respect thereto, as the result of or in lieu of or in anticipation of the exercise of the right of condemnation or of eminent domain for any public or quasi-public use under any governmental law, ordinance or regulation including, without limitation, a sale to a condemning authority in lieu of condemnation. As used herein, the term "Total Taking" shall refer to a Taking of the whole

or substantially the whole of the demised premises. As used herein, the term "Partial Taking" shall refer to a Taking of less than the whole of the Improvements or the demised premises. As used herein, the term "Tender Date" shall refer to the earlier of (i) the date physical possession of the demised premises or any portion thereof is tendered to the condemning authority or (ii) the date physical possession of the demised premises or any portion thereof is taken by the condemning authority. As used in this Article 21, the term "Restoration Work" is defined to mean the work necessary to repair and restore the demised premises to substantially the same condition as before the Partial Taking insofar as possible. For the purposes of this Article 21 the term

"Completion" is defined to mean the substantial completion of the Restoration Work in accordance with the plans and specifications therefor as evidenced by (i) a certificate addressed to Landlord and Tenant, in form and substance acceptable to Landlord, from Tenant's independent architect to the effect that the Restoration Work has been built in accordance with the plans and specifications, are in compliance with all codes, rules, regulations and restrictions applicable to (x) such construction or (y) the demised premises and have been substantially completed, (ii) the issuance to Tenant of a certificate of occupancy for the Restoration Work by the governmental authority having jurisdiction to issue the same and (iii) the written certification by Tenant to Landlord, in form and substance satisfactory to Landlord, that the Restoration Work has been constructed in accordance with the plans and specifications therefor and in compliance with all laws, codes, rules, regulations and restrictions applicable thereto, that after Completion the demised premises are in compliance with all laws, codes, rules, regulations and restrictions applicable to the demised premises, and that all bills and charges for labor performed, services rendered and materials furnished in connection with the Restoration Work have been paid, said certification to be accompanied by lien waivers or releases from all contractors, subcontractors, materialmen and laborers who performed services or labor or furnished materials with respect to the Restoration Work. The term "Completion Date" is defined for the purposes of this Article 21 as the original date specified in the initial construction contract, before any amendments, modifications or changes thereto or change orders relating thereto, for substantial completion of the Restoration Work, a copy of which contract shall be furnished by Tenant to Landlord. The term "Costs" is defined for the purposes of this Article 21 to mean the greater of (i) the estimated total costs and expenses (including all "soft costs") of designing and constructing (including demolition costs, if any) the Restoration Work as submitted in writing to Landlord by Tenant prior to commencement of the Restoration Work or (ii) if Landlord, in its sole discretion, disagrees with the estimate submitted by Tenant, then such estimated total costs and expenses as Landlord may determine, in its sole discretion, and submit to Tenant within twenty (20) days after receipt of Tenant's estimate. The term "Value" as used in this Article 21 is defined to mean the fair market value of the demised premises assuming the completion of the Restoration Work, as estimated by Landlord in its sole discretion.

Any costs connected with filing applications for building permits or authorizations for any work required under this Article 21, or processing or obtaining the same shall be borne by Tenant. Landlord, at Tenant's cost,

shall cooperate with Tenant in securing building or other permits or authorizations required from time to time for any work required under this Article 21.

In the event of a Total Taking during the Lease Term, such Total Taking shall be deemed to have caused this Lease to terminate and the Lease Term to expire on the Tender Date.

If at any time during the Lease Term a Partial Taking occurs, then:

(a) If the Partial Taking involves a Taking of more than 75,000 square feet of usable area (as defined in the third paragraph (a) of this Article 21) in the building existing on the Land on the date of this Lease, Tenant shall have the option to terminate this Lease by giving Landlord written notice of such termination within thirty (30) days after the Tender Date of the usable area, such termination to be effective as of the date of the tender or taking of physical possession.

(b) If the Partial Taking results in the total denial of access by Tenant to (i) any utility necessary to service the demised premises, (ii) all of the parking areas on the Land or (iii) the building located on the Land as of the date of this Lease, or if as a result of such Partial Taking the parking area or spaces on the demised premises remaining after

such Partial Taking are inadequate to satisfy zoning or parking ordinances or regulations applicable to the demised premises as applied to the Improvements existing on the date of this Lease or restrictive covenants applicable to the demised premises improved only by the Improvements existing on the date of this lease (the requirements of which shall be reduced by any modifications or waivers thereof made or granted prior to the date of the Partial Taking) and substitute or alternate areas for parking necessary to bring the demised premises into compliance with such ordinances, regulations or restrictive covenants are not available on the demised premises for reasons other than the construction of additional buildings or structures on the demised premises by Tenant after the date of this Lease, Tenant shall have the option to terminate the Lease by giving Landlord written notice of such termination within thirty (30) days after the Tender Date of that portion of the demised premises involved in the Taking, such termination to be effective as of the date of the Tender Date.

(c) If more than 75,000 square feet of usable area in the building existing on the Land as of the date of this Lease is involved in the Partial Taking, Landlord shall have the option to terminate this Lease by giving Tenant written notice of such termination within thirty (30) days after the Tender Date of the usable area, such termination to be effective as of the last described date.

In the event this Lease shall be terminated pursuant to this Article 21, any rent paid for occupancy subsequent to the effective termination date shall be refunded to Tenant, and Tenant shall have sixty (60) days, rent free, within which to remove its property from the demised premises.

If this Lease is not terminated as provided above in this Article 21 as a result of a Partial Taking, then the following provisions shall be applicable:

(a) Within forty-five (45) days after the Tender Date and before Restoration Work is commenced Tenant shall cause to be issued to Landlord by a national banking institution acceptable to Landlord an unconditional irrevocable sight draft letter of credit ("Letter of Credit") in an amount equal to 125% of the Costs. The Letter of Credit shall be for a term extending for a period of twelve (12) months beyond the Completion Date.

(b) All damages awarded for such Partial Taking shall be deposited in an account with a national banking institution acceptable to Landlord under the joint control of Landlord and Tenant. Upon Completion by Tenant there shall be disbursed from such joint account to Tenant an amount up to the Costs, and any balance remaining in the joint account after such disbursement shall be disbursed to Landlord.

(c) Not later than forty-five (45) days after the Tender Date, Tenant shall commence the Restoration work. Completion of the Restoration Work must occur within 180 days after the Completion Date, and, notwithstanding anything to the contrary contained in this Lease, Tenant shall be deemed to be in default under the terms of this Lease if Completion does not occur within said 180 day period. Tenant shall be obligated to repair and restore the demised premises to substantially the same condition as before the Partial Taking, notwithstanding the fact that damages awarded for such Partial Taking may not be adequate to pay the Costs in full.

(d) Landlord, as separate covenants with Tenant and without imposing conditions on the right of Landlord to draw on the Letter of Credit by sight draft or restricting the obligation of the issuing bank to pay upon said Letter of Credit upon presentation of a sight draft from Landlord identifying the Letter of Credit, shall have the right to draw on the Letter of Credit only during the last sixty (60) days of the term of the Letter of Credit or at such earlier date on which Tenant shall be in default under the terms of this Lease.

(e) In the event Tenant is in default under the provisions of the second subparagraph (c) of this Article 21, Landlord shall have the right, but not the obligation, in its sole discretion, to cause the Restoration Work to be completed in whole or in part to the satisfaction of Landlord. For the purposes of performing all work which may be necessary to the full exercise of the rights granted to Landlord pursuant to this subparagraph (e), Landlord, its agents, contractors and consultants and their respective agents, employees, contractors and materialmen shall have the right to enter upon and use the demised premises without being or becoming liable for any damages resulting to Tenant from such actions.

(f) Landlord may use the proceeds from the Condemnation Award and proceeds obtained from payment to it on the Letter of Credit to pay (i) all costs and expenses of work performed pursuant to the provisions of subparagraph (e) of this Article 21, including but not limited to architectural, engineering and consultant's fees, all charges for work performed and materials furnished and reasonable fees of independent legal counsel and (ii) all charges for labor performed, services rendered and materials furnished in connection with the Restoration work performed, rendered or furnished prior to the date Landlord exercises its rights under subparagraph (e) of this Article 21 which have not been paid by Tenant. In the event such proceeds are insufficient to make all payments authorized in this paragraph, Tenant shall be and remain liable to Landlord for the payment of any deficiency. In the event any of such proceeds remain unexpended by Landlord thirty (30) days after the last date on which any contractor, subcontractor, laborer or materialman who performs labor or furnishes labor, material or services in connection with the Restoration Work or work which may be performed pursuant to subparagraph (e) could perfect a lien pursuant to the provisions of Chapter 53 of the Texas Property Code, as amended, such remaining proceeds shall be paid to tenant.

(g) Upon request from Landlord, Tenant agrees to promptly furnish to Landlord such information and documentation relating to the design and construction of Restoration Work as Landlord may reasonably request, including but not limited to construction contracts and subcontracts, agreements with architects and engineers, working plans and specifications, permits and licenses, inspection reports, draw requests and cost certifications. Upon Completion, Tenant shall furnish to Landlord a complete set of the as-built plans and specifications for the Restoration Work and an as-built survey of the demised premises after Completion certified to Landlord in substantially the form of the Survey Certificate attached as Exhibit "D" to that certain Agreement of Sale dated _____ between Tenant, as Seller, and Landlord, as Buyer, covering the demised premises.

(h) In connection with the design and construction (including demolition work, if any) of Restoration Work, Tenant shall comply with and observe all laws, codes, rules, regulations and restrictions applicable to (i) such design and construction and (ii) the demised premises.

If a Partial Taking involves less than 75,000 square feet of usable area in the building existing on the Land on the date of this Lease, then the annual rent rate payable during the remainder of the Lease Term commencing with the first day of the first full calendar month following the calendar month in which the Tender Date occurs shall be the greater of the following:

(a) The annual rent payable pursuant to the provisions of Article 3 multiplied by a fraction the numerator of which is the number of square feet of usable area remaining in the building existing on the Land after the Partial Taking and the denominator of which is the number of square feet of usable area in

such building immediately prior to such Partial Taking. For the purposes of this Article 21, the term "usable area" is defined to mean the gross square footage of building area enclosed within the interior surface of the exterior walls of the building, and, as of the date of this Lease, is deemed to be 470,182 square feet; or

(b) An annual rental computed in accordance with the following formula: ($11,500,000.00 minus Net Award) X Rental Percentage. For the purposes of the above stated formula the term "Net Award" is defined to mean the award made to the Landlord or the proceeds of sale realized by Landlord resulting from a taking for public or quasi-public purposes less (i) attorneys fees and other costs and expenses incurred by Landlord in connection with obtaining the award or consummating the sale and (ii) the portion of such award or proceeds used by Landlord and/or made available to Tenant to pay for or reimburse Tenant for the Costs of Restoration Work. For the purposes of the above stated formula "Rental Percentage" is defined to mean the percentage set forth below for the year in which the Tender Date occurs:

Years 1-5	9.1%
Years 6-10	9.5%
Years 11-15	10.0%
Years 16-20	10.5%
Years 21-25	11.0%
1st Renewal Option	12.1%
2nd Renewal Option	13.3%
3rd Renewal Option	14.6%
4th Renewal Option	16.1%
5th Renewal Option	17.7%
6th Renewal Option	19.5%

Provided, however, in no event shall the Tenant be required to pay rent at an annual rental rate which exceeds the annual rental rates set forth in Article 3 of this Lease. There shall be no other abatement of rental or other charges payable by Tenant as a result of a Partial Taking under this Lease.

All damages awarded for a Taking hereunder which results in a termination of this Lease shall belong to the Landlord; nothing herein contained, however, shall prevent Tenant from claiming, proving, collecting (from the

condemning authority) and retaining any damages separately awarded to the Tenant by the condemnor for Tenant's fixtures and leasehold improvements, relocation costs, lost business or for any other damage separately compensable to Tenant by the condemnor without causing or resulting in a reduction of any award to Landlord. Landlord makes no representation or warranty that any such separate award or compensation is available under applicable law.

Assignment and Sub-letting

22. (a) Tenant shall not (i) assign this Lease or any interest therein, or (ii) sublease the demised premises or any portion thereof except in accordance with the terms and covenants of this Article 22. Any attempted assignment or sublease by Tenant in violation of the terms and covenants of this Article 22 shall be void. If Tenant is not a natural person, the acquisition of a controlling interest in Tenant shall be deemed to be an assignment for

purposes hereof. As used herein, the phrase "controlling interest" shall mean ownership of in excess of forty-nine percent (49%) of the voting interest in Tenant. Notwithstanding the provisions of this Article 22, Tenant may, upon written notice to Landlord but without the necessity of obtaining Landlord's consent and without the necessity to comply with the provisions of subparagraph (b) of this Article 22, assign this Lease or sublet the demised premises to an "Affiliate." As used herein, the term "Affiliate" shall mean any entity under common control of a person or entity which controls Tenant or which is controlled by Tenant. Notwithstanding any assignment or sublease to Affiliate, Tenant shall remain liable for payment of all rents and the performance and compliance with all other obligations and liabilities imposed upon Tenant hereunder.

(b) In the event Tenant desires to assign this Lease or sublet all (but not less than all) of the demised premises, Tenant shall give Landlord written notice thereof ("Tenant's Notice"). If, as of the date of Tenant's Notice, Tenant has received or made a proposal for an assignment of the Lease or a sublease of the entire demised premises or has had communications with a third party regarding the same, Tenant's Notice shall identify the party to or from whom the proposal was made or received or the party with whom Tenant has had communications regarding a possible assignment or sublease. Landlord may request from Tenant such additional information and materials relating to the aforesaid proposal or communications as may be within Tenant's knowledge or control. During a period of two hundred ten (210) days after receipt of Tenant's Notice ("Negotiation Period"), Landlord shall have an absolute right to negotiate directly with third (including the party or parties identified in Tenant's Notice) for a lease covering the demised premises. At any time prior to the expiration of the Negotiation Period, Landlord may terminate this Lease by giving Tenant written notice of termination ("Landlord's Notice") and this Lease shall terminate thirty (30) days after the date of Landlord's Notice. In the event Landlord does not give Landlord's Notice as provided in the immediately preceding sentence, then from and after the expiration of the Negotiation Period Tenant shall have the right to assign this Lease or sublease the entire demised premises (but not less than all of the demised premises) without the necessity for obtaining Landlord's consent, provided (i) any such assignment or sublease is subject to the terms and provisions of this Lease, including but not limited to subparagraphs (c) and (d) of this Article 22 and Article 47 and (ii) Tenant shall remain primarily liable for payment of all rents and the performance and compliance with all other obligations and liabilities imposed upon Tenant under this Lease notwithstanding such assignment or sublease.

(c) Notwithstanding the provisions of subparagraphs (a) and (b) of this Article 22, no assignment of this Lease or sublease of the demised premises

pursuant to the provisions of subparagraphs (a) or (b) of this Article 22 shall be effective until such time as Landlord receives evidence satisfactory to Landlord that (i) the proposed subtenant or assignee will use the demised premises in accordance with Article 47 hereof, for the remainder of the Lease Term, or for the entire term of any sublease, if such expires prior to the

expiration of the Lease Term; (ii) the occupancy of the demised premises by the proposed third party would not increase fire hazards, require substantial alterations to the demised premises, or adversely affect the reputation and image of the demised premises; and (iii) the third party is not owned or controlled by a foreign government, involved in lobbying activities, or reputed to be involved in illegal or illicit activities.

(d) No assignment or sublease by Tenant permitted under the terms of this Article 22 shall be effective until Tenant has furnished Landlord with a true and correct copy of the assignment or sublease and, with respect to an assignment or sublease pursuant to subparagraph (b) of this Article 22, until Landlord has been furnished with the evidence as required by subparagraph (c) of this Article 22. In the event of an assignment or sublease by Tenant pursuant to the provisions of subparagraph (b) of this Article 22, no assignee or sublessee or any subsequent assignee or sublessee shall have (i) any options to extend the term of this Lease as provided in Article 12 beyond the expiration of the then current term of this Lease; (ii) any right to make Additional Improvements or Demolition Improvements pursuant to Article 15; or (iii) any right to self-insure in any of the amounts or against any of the perils as provided in Article 19. Notwithstanding any assignment or sublease made in compliance with this Article 22 or the collection by Landlord or rent from any assignee or sublessee, Tenant shall remain primarily liable for payment of all rents and the performance and compliance with all other obligations and liabilities imposed upon Tenant under this Lease.

Signs
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23. During the Lease Term and the continued occupancy of the entire demised premises by Tenant, the demised premises shall be referred to by only such designation as Tenant may indicate. Landlord expressly recognizes that Tenant claims the service mark and trademark "K mart" as valid and exclusive property of Tenant, and Landlord agrees that it shall not either during the Lease Term or thereafter, directly or indirectly, contest the validity of said mark "K mart" or any of Tenant's registrations pertaining thereto in the United States or elsewhere, nor adopt or use said mark or any term, word, mark or designation which is in any aspect similar to the mark of Tenant. Landlord further agrees that it will not at any time do or cause to be done any act or thing directly or indirectly, contesting or in any way impairing or tending to impair any part of the Tenant's right, title and interest in the aforesaid mark, and Landlord shall not in any manner represent that it has ownership interest in the aforesaid mark or registrations therefor, and specifically acknowledges that any use thereof pursuant to this Lease shall not create in Landlord any right, title or interest in the aforesaid mark.

Ingress and Egress

24. Landlord warrants, as a consideration for Tenant entering into this Lease, that it will refrain from taking any steps to interfere with the ingress and egress facilities to public streets and highways in the number and substantially in the locations existing on the date of this Lease, subject to unavoidable temporary closings or temporary relocations necessitated by public authority, or other circumstances beyond Landlord's control.

Landlord's Remedies

25. (a) The following events shall be deemed to be events of default by Tenant under this Lease: (i) Tenant shall fail to pay any rent or other sum of money due hereunder and such failure shall continue for a period of ten (10) business days after the date such sum is due; (ii) Tenant shall fail to comply with any provision of this Lease or any other agreement between Landlord and Tenant not requiring the payment of money, all of which terms, provisions and covenants shall be deemed material and such failure shall continue for a period of thirty (30) days after written notice of such default is delivered to Tenant, or if such condition cannot reasonably be cured within such thirty (30) day period, Tenant shall fail to commence to cure such condition within such (30) day period and/or shall thereafter fail to prosecute such cure diligently and continuously to completion within ninety (90) days of the date of Landlord's notice of such default; (iii) the leasehold hereunder demised shall be taken on execution or other process of law in any action against Tenant; (iv) Tenant shall cease to do business in (except for temporary periods necessary to prepare the demised premises or a portion thereof for occupancy by an assignee or sublessee permitted under the terms of this Lease) or abandon any portion of the demised premises; (v) Tenant shall become insolvent or unable to pay its debts as they become due, or Tenant notifies Landlord that it anticipates either condition; or (vi) a receiver or trustee shall be appointed for Tenant's leasehold interest in the demised premises or for all or a substantial part of the assets of Tenant and such receiver or trustee shall not be discharged within (90) days of appointment.

(b) Upon the occurrence of any event or events of default by Tenant, Landlord shall have the option to pursue any one or more of the following remedies without any notice (except for such notice expressly required by Article 25(a)(ii) or applicable law) or demand for possession whatsoever (and without limiting the generality of the foregoing, Tenant hereby specifically waives notice and demand for payment of rent or other obligations due and waives any and all other notices or demand requirements except as imposed by applicable law): (i) terminate this Lease, in which event Tenant shall immediately surrender the demised premises to Landlord; (ii) terminate Tenant's right to occupy the demised premises and re-enter and take possession of the demised premises (without terminating this Lease); (iii) enter upon the demised premises and do whatever Tenant is obligated to do under the terms of this Lease; and Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in effecting compliance with Tenant's obligations under this Lease, and Tenant further agrees that Landlord shall not be liable for any damages resulting to the Tenant from such action; and (iv) exercise all other remedies

available to Landlord at law or in equity including, without limitation, injunctive relief of all varieties.

(c) In the event Landlord elects to re-enter or take possession of the demised premises after Tenant's default, Tenant hereby waives notice of such re-entry or repossession except to the extent required by law and of Landlord's intent to re-enter or retake possession. Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in or future rent, expel or remove Tenant and any other person who may

be occupying said demised premises or any part thereof. The rental provisions for holding over of Article 32 hereof shall apply with respect to the period from and after the giving of notice of such repossession by Landlord. In addition, Landlord may change or alter the locks and other security devices on the doors to the demised premises after having a notice posted on the demised premises as to the location of a key to such new locks and any right to obtain such a key. All Landlord's remedies shall be cumulative and not exclusive. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a waiver of such default.

(d) In the event that Landlord elects to terminate this Lease, then, notwithstanding such termination, Tenant shall be liable for and shall pay to Landlord the sum of all rents and other indebtedness accrued to the date of such termination, plus, as damages, an amount equal to the total of (i) the cost of recovering the demised premises, (ii) the cost of removing and storing Tenant's and other occupant's property located therein, (iii) the costs of reletting the demised premises, or portion thereof (including, without limitation, brokerage commissions), and (iv) the cost of collecting such amounts from Tenant hereunder.

(e) In the event that Landlord elects to take possession of the demised premises and terminate Tenant's right to occupy the demised premises without terminating this Lease, Tenant shall remain liable, and shall pay to Landlord, monthly, on demand, any deficiency between the total rental due under this Lease for the remainder of the Lease Term and rents, if any, which Landlord is able to collect from another tenant(s) for the demised premises, or portion thereof, during the remainder of the Lease Term ("Rental Deficiency"). In addition, Tenant shall be liable for and shall pay to Landlord, on demand, an amount equal to (i) the cost of recovering possession of the demised premises, (ii) the cost of removing and storing Tenant's or any other occupant's property located therein, (iii) the costs of reletting the demised premises, or applicable portion thereof, whether accomplished in one or more phases (including without limitation, brokerage commissions), (iv) the cost of decorations, changes, alterations and additions to the demised premises, or applicable portion thereof, whether accomplished in one or more phases, reasonably required to relet the demised premises, (v) the cost of collection of the rent accruing from any such reletting, and (vi) the cost of collecting any sums billable to Tenant by Landlord hereunder. Landlord may file suit to recover any sums falling due under the terms hereof, from time to time, and no delivery to or recovery by Landlord of any portion of the sums due Landlord hereunder shall be any defense in any action to recover any unpaid amount not theretofore reduced to judgment in favor of Landlord. Landlord shall be obligated to use reasonable efforts to relet the demised premises by engaging the services of

a management company, leasing agent and/or real estate brokerage firm to attempt to obtain another tenant or tenants, but the acceptability of a proposed tenant and the terms and conditions of any such reletting shall be within the sole discretion of Landlord. Any sums received by Landlord through reletting shall reduce the sums owing by Tenant to Landlord hereunder, but in no event shall Tenant be entitled to any excess of any sums obtained by reletting over and above the sums owing

by Tenant to Landlord. For the purpose of such reletting, Landlord is authorized to decorate or to make any repairs, changes, alterations, or additions in and to the demised premises or applicable portion thereof, reasonably necessary or advisable to relet the demised premises. No reletting shall be construed as an election on the part of Landlord to terminate this Lease unless a written notice of such intention is given to Tenant by Landlord. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous default. In the alternative, Landlord may elect to immediately recover as damages, in lieu of the Rental Deficiency, a sum equal to the difference between (i) the total rent due under this Lease for the remainder of the Lease Term, and (ii) the then fair market rental value of the demised premises during such period, discounted to present value at the prime interest rate charged by Chase Manhattan Bank, N.A. as announced or published by such bank as of the date Landlord took possession of the demised premises and terminated Tenant's right to occupy the same ("Discounted Future Rent"). In such event, Landlord shall have no responsibility to attempt to relet the demised premises or to apply any rentals received by Landlord as a result of any such reletting (other than rentals received by Landlord from other tenants for the demised premises prior to the exercise by Landlord of its election to recover damages in lieu of the Rental Deficiency) to Tenant's obligations hereunder; and the aggregate amount of all damages due to Landlord, including the Discounted Future Rent hereunder, shall be immediately due and payable to Landlord upon demand.

(f) This Article 25 shall be enforceable to the maximum extent not prohibited by applicable law, and the unenforceability of any portion thereof shall not thereby render unenforceable any other portion. No act or thing done by Landlord or its agents during the Lease Term shall be deemed an acceptance of an attempted surrender of the demised premises, and no agreement to accept a surrender of the demised premises shall be valid unless made in writing and signed by Landlord. No re-entry or taking of possession of the demised premises by Landlord shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such termination is given to Tenant.

(g) Landlord shall be in default hereunder in the event Landlord has not begun and pursued with reasonable diligence the cure of any failure of Landlord to meet its obligations hereunder within ninety (90) days of the receipt by Landlord of written notice from Tenant of the alleged failure to perform. Tenant hereby covenants that, prior to the exercise by Tenant of any remedies to terminate this Lease, it will give the mortgagees holding mortgages on the demised premises notice and a reasonable time to cure any

default by Landlord.

Bank-
ruptcy
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26. Article 26 is Intentionally Deleted.

Quiet
Enjoyment
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27. Landlord covenants, represents and warrants that it has full right and power to execute and perform this Lease and to grant the estate demised herein and that Tenant, on payment of the rent and performance of the covenants and agreements hereof, shall peaceably and

quietly have, hold and enjoy the demised premises during the Lease Term.

Mortgage
Subor-
dination
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28. Tenant accepts this Lease subject and subordinate to any mortgage, deed of trust or other lien presently existing or hereafter arising upon the demised premises, and to any renewals, modifications, consolidations, refinancing and extensions thereof, but Tenant agrees that any such mortgagee shall have the right at any time to subordinate such mortgage, deed of trust or other lien to this Lease on such terms and subject to such conditions as such mortgagee may deem appropriate in its discretion. Within ten (10) business days after written request from Landlord, Tenant agrees to execute such further instruments subordinating this Lease or attorning to the holder of any such liens as Landlord may request. Tenant agrees that it will, within ten (10) business days after written request by Landlord, execute and deliver to such persons as Landlord shall request a statement in the form attached hereto as Exhibit "C" furnishing the information required therein and further stating such other matters as Landlord shall reasonably require. Landlord shall as a condition to Tenant's subordination of the Lease as provided herein obtain and deliver to Tenant a non-disturbance agreement from any Landlord's mortgage, similar in form and content to the form of Subordination, Non-Disturbance and Attornment Agreement attached hereto as Exhibit "D" and made a part hereof.

Tenant
Indemnifies
Landlord
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29. During the Lease Term, Tenant shall indemnify and save Landlord harmless against all expenses, losses, costs, penalties, claims or demands of whatsoever nature arising from Tenant's use of the demised premises, except those which shall result from and are in the amount attributable to the willful misconduct or negligence of Landlord.

Tenant's
Right to
Cure
Defaults
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30. In the event Landlord shall neglect to pay when due any obligations on any mortgage or encumbrance affecting title to the demised premises and to which this Lease shall be subordinate and for which Tenant has not received a Subordination Non-disturbance and Attornment Agreement, then Tenant may, after the continuance of any such default for thirty (30) days after written notice thereof by Tenant (specifying the nature of such default), pay said principal,

interest or other charges all on behalf of and at the expense of Landlord, and Landlord shall on demand pay Tenant forthwith the amount so paid by Tenant, together with interest thereon at the highest lawful contract rate which Landlord is authorized to pay under applicable law not to exceed 18% per annum, and Tenant may withhold and all rental payments thereafter due to Landlord, and apply the same to the payment of such indebtedness.

Condition of Premises at Termination

31. At the expiration or earlier termination of the Lease Term, Tenant shall surrender the demised premises, together with alterations, additions and improvements then

a part thereof, in good order and condition, ordinary wear, tear and use thereof excepted. All trade fixtures located on the demised premises on the date of this Lease other than the trade fixtures described on Exhibit "F", attached hereto and made a part hereof, are and shall remain the property of Landlord. The trade fixtures described in Exhibit "F" and all replacements and substitutions thereof installed at the expense of Tenant or other occupant shall remain the property of Tenant or such other occupant, and Tenant shall repair any damage to the buildings resulting from their removal; provided however, Tenant shall, at any time and from time to time during the Lease Term, have the option to relinquish its property rights with respect to such trade fixtures, which option shall be exercised by notice of such relinquishment to Landlord, and from and after the exercise of said option the property specified in said notice shall be the property of Landlord.

Holding Over

32. In the absence of any written agreement to the contrary, if Tenant should remain in occupancy of the demised premises after the expiration of the Lease Term or earlier termination of this Lease, it shall so remain as a tenant from month-to-month and all provisions of this Lease applicable to such tenancy shall remain in full force and effect, except that rent hereunder shall be at the rate of one hundred fifty percent (150%) of the rent payable by Tenant on the last day of the Lease Term.

33. This Article 33 is Intentionally Deleted.

Notices

34. Notices required under this Lease shall be in writing and deemed to be properly served on receipt thereof if sent by certified or registered mail to Landlord at the last address where rent was paid, with a copy to 8150 N. Central Expressway, Suite 1201, Dallas, Texas 75206, Attention: Assistant Vice President, Real Estate Investments, and to Metropolitan Life Insurance Company, 5420 LBJ Freeway, Two Lincoln Centre, Suite 1300, Dallas, Texas 75240, Attention: Vice President, Real Estate Investments, or to Tenant at its principal office in Troy, Michigan, Attention: Vice President, Real Estate, or to any subsequent address which Landlord or Tenant shall designate for such purpose. Date of notice shall be the date on which such notice is deposited in a post office of the United States Postal Service.

Captions and Definitions

35. Marginal captions of this Lease are solely for convenience of reference and shall not in any way limit or amplify the terms and provisions thereof. The necessary grammatical changes which shall be

required to make the provisions of this Lease apply (a) in the plural sense if there shall be more than one Landlord, and (b) to any landlord which shall be either corporation, an association, a partnership, or an individual, male or female, shall in all instances be assumed as though in each case fully expressed. Unless otherwise provided, upon the termination of this Lease under any of the Articles hereof, the parties hereto shall be relieved of any further liability hereunder except as to acts, omissions or defaults occurring prior to such termination.

Successors and Assigns

36. The conditions, covenants and agreements contained in this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns. All covenants and agreements of this Lease shall run with the Land.

Memorandum of Lease

37. The parties hereto have simultaneously with the execution and delivery of this Lease executed and delivered a Memorandum of Lease which Landlord shall, at its sole expense, cause to be recorded within sixty (60) days following delivery of this Lease and returned to Tenant by Landlord after return from the County Clerk's Office where recorded. Such Memorandum of Lease shall be in form and content identical to the form of Memorandum of Lease attached hereto as Exhibit "E" and incorporated herein by reference for all purposes. Upon the expiration or termination of this Lease and tenant's removal from the demised premises, whether by expiration of the Lease Term, event of default, or otherwise, at the written request of Landlord, Tenant shall execute and deliver to Landlord a document in form and content acceptable to Landlord, which shall be in recordable form, and shall evidence the cancellation and termination of this Lease and the Memorandum of Lease. Tenant's obligations to execute and deliver such document of release shall survive the termination of this Lease and may be enforced by Landlord in an action for specific performance of the provisions of this Article 37. In addition, Tenant shall indemnify and save Landlord harmless from and against any and all losses, costs and expenses including, without limitation, reasonable attorney's fees, and other incidental and consequential costs, claims, damages or obligations incurred by Landlord and arising out of Tenant's failure to execute and deliver such documents as are required by this Article 37 within thirty (30) days after being requested to do so by Landlord including, without limitation, any additional interest, expenses, non-refundable fees or commissions, or other costs and expenses associated with any sale, financing or refinancing of any improvements that are delayed or withdrawn because of the failure of Tenant to execute and deliver such documents to Landlord within the time period specified.

No Waiver

38. The failure of either Landlord or Tenant to declare an event of default immediately upon its occurrence, or delay in taking any action in connection with an event of default, shall not constitute a waiver of the default, but said party shall have the right to declare the default at any time and take such action as is lawful or authorized under this Lease.

Estoppel Certificate

39. Article 39 is Intentionally Deleted.

No Brokers

40. Landlord and Tenant each represents and warrants to the other that except as provided for in Article 16 of the Agreement of Sale between Landlord and Tenant, dated _____, 1989 (the "Contract"), provided for the purchase of the demised premises by Landlord from Tenant,

it has not entered into any agreement with, or otherwise had any dealings with, any broker or agent in connection with the negotiation or execution of this Lease which could form the basis of any claim by any such broker or agent for a brokerage fee, commission, finder's fee, or any other compensation of any kind or nature in connection with the negotiation or execution of this Lease, and Landlord and Tenant shall each indemnify and hold harmless the other from any costs (including, but not limited to, court costs, investigation costs and attorneys' fees), expenses or liability for commissions or other compensation claimed by any broker or agent with respect to this Lease which arise out of any agreement or dealings by such party, or alleged agreement or dealings by such party, with any such agent or broker.

Sever-ability

41. In case any of the provisions of this Lease shall for any reason be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Lease shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

Entire Agree-ment

42. It is expressly agreed by Landlord and Tenant, as a material consideration for the execution of this Lease, that this Lease with the specific references to written extrinsic documents, if any, is the entire agreement of the parties; that there are, and were, no verbal representations, warranties, understandings, stipulations, agreements or promises pertaining to this Lease or the expressly mentioned written extrinsic documents not incorporated in writing in this Lease or in the Contract or in that certain Agreement dated of even date executed by Tenant and containing representations and warranties with respect to environmental matters (the "Environmental Certificate"). Landlord and Tenant expressly agree that they are and shall be no implied warranties of merchantability, habitability, fitness for a particular purpose or of any other kind arising out of this Lease and there are no warranties which extend beyond those expressly set forth in this Lease; except as otherwise provided in the Contract or the Environmental Certificate. It is likewise agreed that this Lease shall be governed by the laws of the State of Texas and may not be altered, waived, amended or extended except by an instrument in writing signed by both Landlord and Tenant.

Attorney's Fees

43. In the event either party files suit to enforce the performance of or obtain damages caused by a default under any of the terms of this Lease, the party against whom a judgement is rendered shall pay the prevailing party's reasonable attorneys' fees.

Personal Liability

44. In no event shall Landlord be liable to Tenant either for (a) any loss or damage that may be occasioned by or through the acts or omissions of Landlord or of any employee or agent of Landlord or of any other persons whomsoever, or (b) any consequential damages regardless of causation. With respect to tort claims against Landlord, Landlord shall not be liable to Tenant or to any other person for any act or omission of Landlord or of its

repairs thereto (provided Landlord shall never be under any obligation to do so) and Tenant shall not be entitled to any abatement or reduction of rent by reason thereof.

IN WITNESS WHEREOF, the parties hereto have executed these presents in triplicate and affixed their seals as of the day and year first above written.

LANDLORD:

WITNESS:

METROPOLITAN LIFE INSURANCE COMPANY

_____

By:_____

_____

Its_____

_____

TENANT:

WITNESS:

K MART CORPORATION

_____

By:_____

_____

Its: M. L. SKILES. VICE PRESIDENT

_____

Exhibit 10.18

Extension and Modification Agreement
Of Lease

THIS AGREEMENT, dated March 19, 2001, made between Harry L. Hussmann Jr., Inc., a Texas Corporation hereby referred to as "Landlord" and Dal-Tile Corporation, a Pennsylvania Corporation, formerly a Delaware Corporation, hereby referred to as "Tenant" will modify the "original lease", dated for reference purposes only, August 24, 1993 and expires on March 31, 2001. This agreement will in effect be a new lease that will apply all provisions from the original lease with the exception of paragraphs 1.5 and 1.10 and as hereafter set forth.

1. Premises: A 13,500 square foot building on approximately 45,000 square foot lot most commonly known as 11185 Pellicano, El Paso, Texas.

2. Term: The term of the Lease is hereby set for a period of five (5) years from and after April 1, 2001, so that the term shall extend to and include March 31, 2006.

3. Rent: The monthly Base Rent during this term shall remain at Four-thousand-six-hundred ($4,600.00) dollars per month.

4. Repairs and Improvements:

   a. Landlord will bear the cost to install new dock bumpers.

   b. Landlord will bear the cost to install a fire alarm system in warehouse to permit storage above 12 feet in compliance with city codes.
   After the initial installation it becomes the Tenant's responsibility and expense to maintain the system and schedule and pay for required inspections.

   c. Landlord will make necessary repairs to warehouse doors where able. If repairs cannot be made and replacement becomes necessary Landlord and Tenant will share the cost on a 50/50 basis.

   d. Landlord will immediately begin soliciting proposals and bids to install heat exhaust fans in the warehouse area. Landlord will make every effort to have fans installed before May 31, 2001.

5. Renewal Option: Tenant shall have the option to extend this lease for one (1) additional five (5) year term at the same rental rate.

6. Effectiveness of Lease: The parties confirm the Lease is valid and in full force and effect, and except as set forth in this agreement, all the provisions of the original lease shall remain in full force and effect and unchanged.

IN WITNESS WHEROF, The parties hereto have executed this agreement.

Harry L. Hussmann Jr., Inc.

Dated: 2/23/2001 /s/ William R. Peterson

William R. Peterson, President

DAL-TILE CORPORATION

Dated: 3/19/01 /s/ [ILLEGIBLE]

VICE PRESIDENT

[LOGO] AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE--NET
(Do not use this form for Multi-Tenant Property)

1. Basic Provisions ("Basic Provisions")

1.1 Parties: This Lease ("Lease"), dated for reference purposes only, August 24, 1993, is made by and between Harry L. Hussmann Jr., Inc., a Texas Corporation ("Lessor") and Dal-Tile Corporation, a Delaware Corporation ("Lessee"), (collectively the "Parties", or individually a "Party").

1.2 Premises: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known by the street address of north side of 11000 block of Pellicano, El Paso located in the County of El Paso, State of Texas, and generally described as (describe briefly the nature of the property) 13,500 square foot building to be built in accordance with mutually acceptable plans and specifications on an approximately 45,500 square foot lot ("Premises"). (See Paragraph 2 for further provisions.)

1.3 Term: Seven (7) years and -0- months ("Original Term") commencing April 1, 1994 ("Commencement Date") and ending March 31, 2001 ("Expiration Date"). (See Paragraph 3 for further provisions.)

1.4 Early Possession: Substantial completion of Lessor's improvements ("Early Possession Date"). (See Paragraphs 3.2 and 3.3 for further provisions.)

1.5 Base Rent: $3,750.00 per month ("Base Rent"), payable on the first day of each month commencing April 1, 1994 through March 31, 1996; $4,250.00 April 1, 1996 through March 31, 1999; $4,600.00 April 1, 1999 through March 31, 2001. (See Paragraph 4 for further provisions.)

[_] If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 Base Rent Paid Upon Execution: $ None as Base Rent for the period.

1.7 Security Deposit: $ None ("Security Deposit"). (See Paragraph 5 for further provisions.)

1.8 Permitted Use: Sale and distribution of ceramic tile and related products (See Paragraph 6 for further provisions.)

1.9 Insuring Party: Lessor is the "Insuring Party" unless otherwise stated herein. (See Paragraph 8 for further provisions.)

1.10 Real Estate Brokers: The following real estate brokers (collectively, the "Brokers") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):

Wolfe Real Estate, Inc. (Mark Peyton) represents
[X] Lessor exclusively "Lessor's Broker"); [_] both Lessor and Lessee, and

_____represents
[_] Lessee exclusively ("Lessee's Broker"); [_] both Lessee and Lessor. (See Paragraph 15 for further provisions.)

1.11 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by None ("Guarantor"). (See Paragraph 37 for further provisions.)

1.12 Addenda. Attached hereto is an Addendum or Addenda consisting of Paragraphs 49 through 52 and Exhibits Plans and Specifications to be added all of which constitute a part of this Lease.

2. Premises.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental, is an approximation which Lessor and Lessee agree is reasonable and the rental based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 Condition. Lessor shall deliver the Premises to Lessee clean and free of debris on the Commencement Date and warrants to Lessee that the existing plumbing, fire sprinkler system, lighting, air conditioning, heating, and loading doors, if any, in the Premises, other than those constructed by Lessee, shall be in good operating condition on the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within ninety (90) days after the Commencement Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 Compliance with Covenants, Restrictions and Building Code. Lessor warrants to Lessee that the improvements on the Premises comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense.

2.4 Acceptance of Premises. Lessee hereby acknowledges: (a) that it has been advised by the Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical and fire sprinkler systems, security, environmental aspects, compliance with Applicable Law, as defined in Paragraph 6.3) and the present and future suitability of the Premises for Lessee's intended use, (b) that Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to Lessee's occupancy of the Premises and/or the term of this Lease, and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to the said

matters other than as set forth in this Lease.

2.5 Lessee Prior Owner/Occupant. The warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises. In such event, Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

3. Term.

3.1 Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease, however, (including but not limited to the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall be in effect during such period. Any such early possession shall not affect nor advance the Expiration Date of the Original Term.

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3.3. Delay in Possession. If for any reason Lessor cannot deliver possession of the Premises to Lessee as agreed herein by the Early Possession Date, if one is specified in Paragraph 1.4 or if no Early Possession Date is specified, by the Commencement Date. Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease, or the obligations of Lessee hereunder, or extend the term hereof, but in such case, Lessee shall not except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee. If possession of the Premises is not delivered to Lessee within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease in which event the Parties shall be discharged from all obligations hereunder; provided however, that if such written notice by Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease shall terminate and be of no further force or effect. Except as may be otherwise provided, and regardless of when the term actually commences, if possession is not tendered to Lessee when required by this Lease and Lessee does not terminate this Lease, as aforesaid, the period free of the obligation to pay Base Rent, if any, that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts, changes or omissions of Lessee.

4. Rent

4.1 Base Rent. Lessee shall cause payment of Base Rent and other rent or charges, as the same may be adjusted from time to time, to be received by Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of the calendar month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or

at such other addresses as Lessor may from time to time designate in writing to Lessee.

6. Use.

6.1 Use. Lessee shall use and occupy the Premises only for the purposes set forth in Paragraph 1.8. or any other use which is comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to neighboring premises or properties.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either; (i) potentially injurious to the public health, safety or welfare the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in, on or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Law (as defined in Paragraph 6.3). "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority. Reportable Use shall also include Lessee's being responsible for the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Law requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without Lessor's prior consent, but in compliance with all Applicable Law, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of Lessee's business permitted on the Premises, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may (but without any obligation to do so) condition its consent to the use or presence of any Hazardous Substance, activity or storage tank by Lessee upon Lessee's giving Lessor such additional assurances as Lessor, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefrom or therefor, including, but not limited to, the installation (and removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance or a condition involving or resulting from same, has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, Lessee shall also immediately give Lessor a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action or proceeding given to, or received from, any governmental authority or private party, or persons entering or occupying the premises, concerning the presence, spill, release, discharge of, or exposure to, any Hazardous Substance or contamination in, on, or about the Premises, including but not limited to all such documents as may be involved in any Reportable Uses involving the Premises.

(c) Indemnification. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the

Premises, harmless from and against any and all loss of rents and/or damages, liabilities, judgements, costs, claims, liens, expenses, penalties, permits and attorney's and consultant's fees arising out of or involving any Hazardous Substance or storage tank brought onto the Premises by or for Lessee or under Lessee's control. Lessee's obligations under this Paragraph 6 shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultant's and attorney's fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release from its obligations under this Lease with respect to Hazardous Substances or storage tanks, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 Lessee's Compliance with Law. Except as otherwise provided in this Lease, Lessee, shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner comply with all "Applicable Law" which term is used in this Lease to include all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill or release of any Hazardous Substance or storage tank), now in effect or which may hereafter come into effect, and whether or not reflecting a change in policy from any previously existing policy. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including, but not limited to, permits, registration, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Law specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Law.

6.4 Inspection; Compliance. Lessor and Lessor's Lender(s) (as defined in Paragraph 8.3(a)) shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Laws (as defined in Paragraph 6.3), and to employ experts and/or consultants in connection therewith and/or to advise Lessor with respect to Lessee's activities, including but not limited to the installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance or storage tank on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease, violation of Applicable Law, or a contamination, caused or materially contributed to by Lessee is found to exist or be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In any such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. Maintenance; Repairs; Utility Installation; Trade Fixtures and Alterations.

7.1 Lessee's Obligations.

(a) Subject to the provisions of Paragraphs 2.2 (Lessor's warranty as to condition), 2.3 (Lessor's warranty as to compliance with covenants, etc), 7.2 (Lessor's obligations to repair), 9 (damage and destruction), and 14 (condemnation), Lessee shall, at Lessee's sole cost and expense and at all times keep the Premises and every part thereof in good order, condition and repair, (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs except for repair and maintenance of the

roof, foundation, structural walls, and utility lines outside the perimeter of the building, for which the Lessor, at Lessor's expense, shall be the responsible.

as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities serving the Premises such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fire or unfired pressure vessels, fire sprinkler and/or standpipe and hose or other automatic fire extinguishing system, including fire alarm and/or smoke detection systems and equipment, fire hydrants, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, about, or adjacent to the Premises Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of, the Premises, the elements surrounding same, or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance and/or storage tank brought onto the Premises by or for Lessee or under its control Lessee, in keeping the Premises in good order, condition and repair shall exercise and perform good maintenance practices Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair if Lessee occupies the Premises for seven (7) years or more, Lessor may require Lessee to repaint the exterior of the buildings on the Premises as reasonably required, but not more frequently than once every seven (7) years.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in, the inspection, maintenance and service of the following equipment and improvements, if any, located on the Premises: (i) heating, air conditioning and ventilation equipment, (ii) boiler, fired or unfired pressure vessels, (iii) fire sprinkler and/or standpipe and hose or other automatic fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, (iv) roof covering and drain maintenance and (vi) asphalt and parking lot maintenance.

7.2 Lessor's Obligations. Except for the warranties and agreements of Lessor contained in Paragraphs 2.2 (relating to condition of the Premises), 2.3 (relating to compliance with covenants, restrictions and building code), 9 (relating to destruction of the Premises) and 14 (relating to condemnation of the Premises), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, the improvements located thereon, or the equipment therein, with the exception of the Lessor's responsibilities described in Paragraph 7.1a, all of which obligations are intended to be that of the Lessee under Paragraph 7.1 hereof. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises. Lessee and Lessor expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease with respect to, or which affords Lessee the right to make repairs at the expense of Lessor or to terminate this Lease by reason of any needed repairs.

7.3 Utility Installations; Trade Fixtures; Alterations.

(a) Definitions; Consent Required. The term "Utility Installations" is used in this Lease to refer to all carpeting, window coverings, air lines, power panels, electrical distribution, security, fire protection systems,

communication systems, lighting fixtures, heating, ventilating, and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements on the Premises from that which are provided by Lessor under the terms of this Lease other than Utility Installations or Trade Fixtures, whether by addition or deletion "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor as defined in Paragraph 7.4(a). Lessee shall not make any Alterations or Utility Installations in, on, under or about the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof), as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during the term of this Lease as extended does not exceed $25,000.

(b) Consent. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consents of the Lessor shall be presented to Lessor in written form with proposed detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities, (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon, and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and in compliance with all Applicable Law Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor Lessor may (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs $10,000 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor under Paragraph 36 hereof.

(c) Indemnification. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanics' or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself. Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorney's fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 Ownership; Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor's right to require their removal or become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Additions made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per subparagraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon and be surrendered by Lessee with the Premises.

(b) Removal. Unless otherwise agreed in writing, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding their installation may have been consented to by Lessor. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent of Lessor.

(c) Surrender/Restoration. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, with all of the improvements, parts and surfaces thereof clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified in writing by Lessor, the Premises, as surrendered shall include the Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Alterations and/or Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Law and/or good practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. Insurance; Indemnity.

8.1 Payment For Insurance. Regardless of whether the Lessor or Lessee is the Insuring Party, Lessee shall pay for all insurance required under this Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor in excess of $1,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee to Lessor within thirty (30) days following receipt of an invoice for any amount due.

8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee and Lessor (as an additional insured) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises" Endorsement and contain the "Amendment of the Pollution Exclusion" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) Carried By Lessor. In the event Lessor is the Insuring Party, Lessor shall also maintain liability insurance described in Paragraph 8.2(a), above, in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance--Building, Improvements and Rental Value.

(a) Building and Improvements. The Insuring Party shall obtain and keep in force during the term of this Lease a policy or policies in the name of

Lessor, with loss payable to Lessor and to the holders of any mortgages, deeds of trust or ground leases on the Premises ("Lender(s)"), insuring loss

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or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by Lenders, but in no event more than the commercially reasonable and available insurable value thereof if by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. If Lessor is the Insuring Party, however, Lessee Owned Alterations and Utility Installation shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake enforcement of any ordinance or law regulating the reconstruction or replace of any undamaged sections of the PRemises required to be demolished or removed by reason of the enforcement of any building zoning safety or land use laws as the result of a covered cause of loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price4 Index for all Urban Consumers for the city nearest to where the Premises are located. If such Insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence and Lessee shall be liable for such deductible amount in the event of an insured Loss, as defined in Paragraph 9.1(c)

(b) Rental Value. The Insuring Party shall in addition obtain and keep in force during the term of this LEase a policy or policies in the name of Lessor, with loss payable to Lessor and Lender(s), insuring the loss of the full rental and other charges payable by Lessee to Lessor under this Lease for one (1) year (including all real estate taxes, insurance costs, and any scheduled rental increases). Said insurance shall provide (that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacements of the Premises, to provide for one full year's loss of rental revenues form the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, property taxes, insurance premium costs and other expenses, if any, otherwise payable by Lessee, for the next twelve (12) month period Lessor shall be liable for any deductible amount in the event of such loss.

(c) Adjacent Premises. If the Premises are part of a larger building, or if the Premises are part of a group of building owned by Lessor which are adjacent to the PRemises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's act, omission, use or occupancy of the Premises.

(d) Tenant's Improvement. If the Lessor is the Insuring Party, the Lessor shall not be required to insure Lessee Owned Alteration and Utility Installation unless the item in question has become the property of Lessor under the terms of this LEase4. If Lessee is the Insuring Party, the policy carried by Lessee under this Paragraph 8.3 shall insure LEssee Owned Alterations and Utility Installations.

8.4 Lessee's Property Insurance. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or at Lessor's option by endorsement to a policy already carried, maintained insurance coverage on all of Lessee's personal property, Lessee Owned Alterations and Utility Installations in, on, or about the PRemises similar in coverage to that carried by the Insuring Party under Paragraph 8.3. Such insurance shall be used by Lessee for

the replacement of personal property or the restoration of Lessee Owned Alterations and Utility Installation. Lessee shall be the Insuring Party with respect to the insurance required by this Paragraph 8.4 and shall provide Lessor with written evidence that such insurance is in force.

8.5 Insurance Policies. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+,V or such other rating as may be required by a Lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done, anything which shall invalidate the insurance policies referred to this Paragraph 8. If Lessee is the Insuring Party, Lessee shall cause to be delivered to Lesser certified copies of policies of such insurance or certificates evidencing the existence and amounts of such insurance with the insureds and loss payable clauses as required by this Lease. No such policy shall be cancellable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand if the Insuring Party shall fail to procure and maintain the insurance required to be carried by the Insuring party under this Paragraph 8 the other Party may but shall not be required to procure and maintain the same, but at Lessee's expense.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor ("Waiving Party") each hereby release and relieve the other and waive their entire right to recover damages (whether in contact or in Tort) against the other, for loss of or damage to the Waiving Party's property arising out of our incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto.

8.7 Indemnity. Except for Lessor's negligence and/or breach of express warranties. Lessee shall indemnity, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or changes, costs liens judgments, penalties, permits, attorney's and consultant's fees expenses and/or liabilities arising out of, involving, or in dealing with the occupancy of the Premises by Lease, the conduct of Lessee business, any, omission or neglect of Lessee. Its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment, and whether well founded or not, in case any action or proceeding be brought against Lessor by reason of any of the foregoing matters. Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 Exemption of Lessor from Liability. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant or Lessor. Notwithstanding Lessor's negligence or breach of this Lease. Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. Damage or Destruction.

9.1 Definitions

(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility installations, the repair cost of which damage or destruction is less then 50% of the then Replacement Cost of the Premises immediately prior to such damage or destruction excluding from such calculation the value of the land and Lessee Owned Alterations and Utility Installations

(b) "Premises Total Destruction" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations the repair cost of which damage or destruction is 50% or more of the then Replacement Cost of the Premises immediately prior to such damage or destruction, excluding from such calculation the value of the land and Lessee Owned Alterations and Utility Installations.

(c) "Insured Loss" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation applicable building codes, ordinaces or laws, and without deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2 (a), in, on, or under the Premises.

9.2 Partial Damage-Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $10,000 or less, and, in such event, Lessor shall make the insurance proceeds available to Lessee on a reasonable basis for that purpose Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, the shortage in proceeds was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect if Lessor does not receive such funds or assurance within said period, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor

paying any shortage in proceeds, in which case this Lease shall remain in full force and effect. If in such case Lessor does not so elect, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2. notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

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9.3 Partial Damage--Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 13). Lessor may at Lessor's option, either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease. Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following Lessee's said commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible and the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee. Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, within twenty (20) days following the occurrence of the damage, or before the expiration of the time provided in such option for its exercise, whichever is earlier ("Exercise Period"), (i) exercising such option and (ii) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs. If Lessee duly exercises such option during

said Exercise Period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds. Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during said Exercise Period, then Lessor may at Lessor's option terminate this Lease as of the expiration of said sixty (60) day period following the occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of the Exercise Period, notwithstanding any term or provision in the grant of option to the contrary.

9.6 Abatement of Rent: Lessee's Remedies.

(a) In the event of damage described in Paragraph 9.2 (Partial Damage--Insured), whether or not Lessor or Lessee repairs or restores the Premises, the Base Rent, Real Property Taxes, insurance premiums, and other charges, if any, payable by Lessee hereunder for the period during which such damage, its repair or the restoration continues (not to exceed the period for which rental value insurance is required under Paragraph 8.3(b)), shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of Base Rent, Real Property Taxes, insurance premiums, and other charges, if any, as aforesaid all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after receipt of such notice, this Lease shall continue in full force and effect, "Commence" as used in this Paragraph shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 Hazardous Substance Conditions. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by Applicable Law and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 13). Lessor may at Lessor's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition of Lessor's desire to terminate this Lease as of the date 20 days following the giving of such notice in the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the investigation and remediation of such Hazardous Substance Condition totally at Lessee's expense and without reimbursement from Lessor except to the extent of an amount equal to twelve (12) times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with the funds required of Lessee or satisfactory assurance thereof within thirty (30) days following Lessee's said commitment in such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such investigation and remediation as soon as reasonably possible and the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the times

specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination. If a Hazardous Substance Condition occurs for which Lessee is not legally responsible, there shall be abatement of Lessee's obligations under this Lease to the same extent as provided in Paragraph 9.6(a) for a period of not to exceed twelve months.

9.8 Termination--Advance Payments. Upon termination of this Lease pursuant to this Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 Waive Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. Real Property Taxes.

10.1 (a) Payment of Taxes. Lessor shall pay and Lessee shall reimburse Lessor within thirty (30) days of receipt of written documentation, the Real Property Taxes, as defined in Paragraph 10.2, applicable to the Premises during the term of this Lease. Subject to Paragraph 10.1(b), all such payments shall be made at least ten (10) days prior to the delinquency date of the applicable installment Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. If any such taxes to be paid by Lessee shall cover any period of time prior to or after the expiration or earlier termination of the term hereof, Lessee's share of such taxes shall be equitably prorated to cover only the period of time within the tax fiscal year this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment after such proration. If Lessee shall fail to pay any Real Property Taxes required by this Lease to be paid by Lessee, Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefor upon demand.

(b) Advance Payment. In order to insure payment when due and before delinquency of any or all Real Property Taxes, Lessor reserves the right, at Lessor's option, to estimate the current Real Property Taxes applicable to the Premises, and to require such current year's Real Property Taxes to be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least twenty (20) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be that equal monthly amount which, over the number of months remaining before the month in which the applicable tax installment would become delinquent (and without interest thereon), would provide a fund large enough to fully discharge before delinquency the estimated installment of taxes to be paid. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payment shall be adjusted as required to provide the fund needed to pay the applicable taxes before delinquency. If the amounts paid to Lessor by Lessee under the provisions of this Paragraph are insufficient to discharge the obligations of Lessee to pay such Real Property Taxes as the same become due, Lessee shall pay to Lessor, upon Lessor's demand, such additional sums as are necessary to pay such obligations. All moneys paid to Lessor under this Paragraph may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of the obligations of Lessee under this Lease, then any balance of funds paid to Lessor under the provisions of this Paragraph may, subject to proration as provided in Paragraph 10.1(a), at the option of Lessor, be treated as an additional Security Deposit under Paragraph 5.

10.2 Definition of "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Premises by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or

other improvement district thereof, levied against any legal or equitable interest of Lessor in the Premises or in the real property of which the Premises are a part, Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in applicable law taking effect, during the term of this Lease, including but not limited to a change in the ownership of the Premises or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties.

10.3 Joint Assessment. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.4 Personal Property Taxes. Lease shall prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations. Utility installations. Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or elsewhere When possible, Lessee shall cause its Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor if any of Lessee's said personal property shall be assessed with Lessor's real property. Lessee shall pay Lessor the taxes attributable to Lessee within ten (10) days after the receipt of a written statement setting forth the taxes applicable to Lessee's property or at Lessor's option, as provided in Paragraph 10.1 (b)

11. Utilities. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon if any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises.

12. Assignment and Subletting

12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 36

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee, as hereinafter defined, by an amount equal to or greater than twenty-five percent (25%) of such Net Worth of Lessee as it was represented to Lessor at the time of the execution by Lessor of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent "Net Worth of Lessee" for purposes of this Lease shall be the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles

consistently applied.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior written consent shall at Lessor's option, be a Default curable after notice per Paragraph 13 1 (c), or a noncurable Breach without the necessity of any notice and grace period if Lessor elects to treat such unconsented to assignment or subletting as a noncurable Breach. Lessor shall have the right to either (i) terminate this Lease, or (ii) upon thirty (30) days written notice ("Lessor's Notice"), increase the monthly Base Rent to fair market rental value or one hundred ten percent (110%) of the Base Rent then in effect, whichever is greater Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice with any overpayment credited against the next installment(s) of Base Rent coming due and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and market value adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to the then fair market value without the Lease being considered an encumbrance or any deduction for depreciation or obsolescence, and considering the Premises at its highest and best use and in good condition), or one hundred ten percent (110%) of the price previously in effect, whichever is greater, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with reference to the index applicable to the time of such adjustment and (iii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new market rental bears to the Base Rent in effect immediately prior in the market value adjustment

12.2 Term and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease (ii) release Lessee of any obligations hereunder, or (iii) after the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the sublessee However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the lease or sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or sublease.

(d) In the event of any Default or Breach of Lessee's obligations under this Lease, Lessor may proceed directly against Lessee, any Guarantors or any one else responsible for the performance of the Lessee's obligations under this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease, provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease. Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease Lessor shall not, by reason of this or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against said sublessee or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease: provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior Defaults or Breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default: Breach: Remedies.

13.1 Default: Breach. Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as hereinafter defined), $350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said Default. A "Default" is defined as a failure by the Lessee to observe, comply with or perform any of the terms,

covenants, conditions or rules applicable to Lessee under this Lease. A "Breach" is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, and shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) the vacating of the Premises without the intention to reoccupy or sublease same, or the abandonment of the Premises.

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(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent or any other monetary payment required to be made by Lessee hereunder, whether to Lessor or to a third party, as and when due the failure by Lessee to provide Lessor with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with applicable law per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1 (b), (iii) the recission of an unauthorized assignment or subletting per Paragraph 12 1(b), (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1 11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, convenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, that are to be observed, complied with or performed by Lessee, other than those described in subparagraphs (a), (b) or (c) above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events (i) The making by Lessee of any general arrangement or assignment for the benefit of creditors, (ii) Lessee's becoming a "debtor" as defined in 11 U.S.C. (S)101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days, or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days, provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not effect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement given to

Lessor by Lessee or any Guarantor of Lessee's obligations hereunder was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed; (i) the death of a guarantor, (ii) the termination of a guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a guarantor's refusal to honor the guaranty, or (v) a guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee for in case of an emergency, without notice. Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may required all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee as defined in Paragraph 13.1. with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate lessee's right to possession of the Pemises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees and that portion of the leasing commission paid by Lessor applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the prior sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve therein the right to recover all or any part thereof in a separate suit for such rent and/or damages if a notice and grace period required under subparagraphs 13.1(b), (c) or (d) was not previously given, a notice in pay rent or quit, or to perform or quit, as the case may be given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by subparagraphs 13.1(b), (c) or (d). In such case, the applicable grace period under subparagraphs 13.1(b), (c) or (d) and under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or

by said statute.

(b) Continue the Lease and Lessee's right to possession in effect in California under California Civil Code Section 1951.41 after Lessee's Breach and abandonment and recover the rent as it becomes due, provide Lessee has the right to sublet or assign, subject only to reasonable limitations. See Paragraph 12 and 36 for the limitations on assignment and subletting which limitations Lessee and Lessor agree and reasonable. Acts of maintenance or preservation, efforts to relet the Premises or the appointment of a receiver to protect the Lessor's interest under the Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 Inducement Recapture in Event Of Breach. Any agreement by Lessor for free or abated rent or other to charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions", shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, convenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach of the Lease by Lessee, as defined in Paragraph 13.1, any such inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph shall not be deemed a waiver by Lessor of the provisions of this Paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such cost include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the term of any ground lease, mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within 15 days after such amount shall be due, then, without any requirement for notice to Lessee. Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary. Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 Breach by Lessor. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5. a reasonable time shall generally not be less than thirty (30) days after receipt by Lessor, and by the holders of any ground lease, mortgage or deed of trust covering the Premises whose name and address shall have been furnished by Lessor, and by the holders of any ground lease, mortgage or deed of trust covering the Premises whose name and address shall have been furnished Lessee in writing for such

purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within a reasonable time and thereafter diligently pursued to completion.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power fail of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority take title or possession, whichever first occurs. If more than ten percent (10%) of the floor area of the Premises, or more than twenty-five percent (25%) of the land area not occupied by any building, is taken by condemnation, or if such condemnation materially hampers Lessee's operations, Lessee may, at Lessee's option, to be exercised in writing within thirty (30) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within thirty (30) days after the condemning authority shall

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have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the building located on the Premises. No reduction of Base Rent shall occur if the only portion of the Premises taken is land on which there is no building. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages, provided, however, that Lessee shall be entitled to any compensation, separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation, except to the extent that Lessee has been reimbursed therefor by the condemning authority, Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. Broker's Fee.

15.1 The Brokers named in Paragraph 1.10 are the procuring causes of this Lease.

15.2 Upon execution of this Lease by both Parties, Lessor shall pay to said Brokers jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Brokers for in the event there is no separate written agreement between Lessor and said Brokers, the sum of $_____) for brokerage services rendered by said Brokers to Lessor in this transaction

15.3 Unless Lessor and Brokers have otherwise agreed in writing, Lessor further agrees that: (a) if Lessee exercises any Option (as defined in Paragraph 39.1) or any Option subsequently granted which is substantially similar to an Option granted to Lessee in this Lease, or (b) if Lessee acquires any rights to the Premises or other premises described in this Lease which are substantially similar to what Lessee would have acquired had an Option herein granted to

Lessee been exercised, or (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Brokers a fee in accordance with the schedule of said Brokers in effect at the time of the execution of this Lease.

15.4 Any buyer or transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Each Broker shall be a third party beneficiary of the provisions of this Paragraph 15 to the extent of its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.

15.5 Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers if any named in Paragraph 1.10) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Brokers is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

15.6 Lessor and Lessee hereby consent to and approve all agency relationships, including any dual agencies, indicated in Paragraph 1.10.

16. Tenancy Statement.

16.1 Each Party (as "Responding Party") shall within ten (10) days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Tenancy Statement" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

17. Lessor's Liability. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease of the lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Interest on Past-Due Obligations. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within thirty (30) days following the date on which it was due, shall bear interest from the thirty-first (31st) day after it was due at the rate of 12% per annum, but not exceeding the maximum rate allowed by law, in addition to the late charge provided for in Paragraph 13.4.

20. Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.

23. Notices.

23.1 All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

23.2 Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, such act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any preceding Default or Breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted. Any payment given Lessor by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. Recording. Either Lessor or Lessee shall, upon request of the other, execute acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. No Right To Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease.

27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

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28. Covenants and Conditions. All provisions on this Lease to be observed or performed by Lessee are both covenants and conditions.

29. Binding Effect:Choice of Law. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination:Attornment:Non-Disturbance.

30.1. Subordination. This lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default and allow such Lender thirty (30) days following receipt of such notice for the cure of said default before invoking any remedies Lessee may have by reason thereof. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one month's rent.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents, provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such

subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. Attorney's Fees. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) or Broker in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorney's fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorney's fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorney's fees reasonably incurred. Lessor shall be entitled to attorney's fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. Lessor's Access:Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are a part, as Lessor may reasonably deem necessary. Lessor may at any time place on or about the Premises or building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred twenty (120) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of rent or liability to Lessee.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. Signs. Lessee shall not place any sign upon the Premises, except that Lessee may, with Lessor's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Lessor reserves all rights to the use of the roof and the right to install, and all revenues from the installation of such advertising signs on the Premises, including the roof, as do not unreasonably interfere with the conduct of Lessee's business.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises: provided, however, Lessor shall in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers', or other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including but not

limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, practice or storage tank, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor, Subject to Paragraph 12.2 (e) (applicable to assignment or subletting). Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Except as otherwise provided, any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. Guarantor.

37.1 If there are to be any Guarantors of this Lease per Paragraph 1.11, the form of the guaranty to be executed by each such Guarantor shall be in the form most published by the American Industrial Real Estate Association, and each said Guarantor shall have the same obligations as Lessee under this Lease, including but not limited to the obligation to provide the Tenancy Statement and information called for by Paragraph 16.

37.2 It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and including in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signatures of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Lessor, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession. Upon payment by Lessee of the rent for the Premises and the observance and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. Options.

39.1 Definition. As used in this Paragraph 39 the word "Option" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2 Options Personal to Original Lessee. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1.1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the intention of thereafter

assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 Multiple Options. In the event that Lessee has any multiple Options to extend or renew this Lease, a later option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

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39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor has given to Lessee three (3) or more notices of Default under Paragraph 13.1, whether or not the Defaults are cured during the twelve (12) month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessor gives to Lessee three or more notices of Default under Paragraph 13.1 during any twelve month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. Multiple Buildings. If the Premises are part of a group of buildings controlled by Lessor, Lessee agrees that it will abide by keep and observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, care and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of such other buildings and their invitees, and that Lessee will pay its fair share of common expenses incurred in connection therewith.

41. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. Reservations. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions

hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. Authority. If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or hand-written provisions shall be controlled by the typewritten or handwritten provisions.

46. Other. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease to Lessee. This Lease is not intended to be binding until executed by all Parties hereto.

47. Amendments. This Lease may be modified only in writing, signed by parties in interest at the time of the modification. The parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease.

48. Multiple Parties. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR HIS APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY AS TO THE POSSIBLE PRESENCE OF ASBESTOS, STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER(S) OR THEIR AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE IF THE SUBJECT PROPERTY IS LOCATED IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The parties hereto have executed this Lease at the place on the dates specified above to their respective signatures.

Executed at El Paso, Texas
on SEPTEMBER 17, 1993
by LESSOR:

Executed at Dallas Texas
on_____
by LESSEE:

Harry L Hussman Jr., Inc.	Dal-Tile Corporation
2159 Mills Avenue El Paso, Tx 79901	7834 CF Hawn Frwy PO Box 17130 Dallas Texas 75217
By /s/ Harry L Hussman III	By_____
Name Printed: Harry L Hussman III	Name Printed: William J Coppola
Title: President	Title: Executive Vice President
By_____	By_____
Name Printed:_____	Name Printed:_____
Title:_____	Title:_____
Address:_____	Address:_____
Tel. No. (___)_____ Fax No.(___)_____	Tel. No. (___)_____ Fax No.(___)_____

NET

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: American Industrial Real Estate Association, 345 South Figueroa Street, Suite M-1, Los Angeles, CA 90071, (213)687-6777. Fax No. (213)687-8616.

ADDENDUM A

to lease dated August 24, 1993, between
Harry L. Hussman III and Dal-Tile Corporation

49. TENANT IMPROVEMENTS

Lessor, at lessor's sole cost, shall furnish and install the following:

A. Building. Approximately 13,500 square feet (100' x 135') of substantially the same construction and design of the "Hardtke building" to include:

Tilt wall concrete construction
Pre-engineered metal building roof structure
Clear span
20 foot minimum eave height
6 inch concrete slab
Paving and/or blacktop on remainder of the lot
Parking to equal or exceed city specifications
Landscaping (not to exceed $500)
Electric service - 200 amps, 120/208 volt service
Alarm system (not to exceed $2,000)

B. Warehouse Area. Approximately 12,000 square feet of warehouse to include:

20 skylights
Fluorescent lighting (not to obstruct 20' clear height)
Two dock high and one grade level roll up loading doors
Personnel door

C. Office/Showroom area. Approximately 1,500 square feet, layout per Lessee, to include:

Three (3) individual offices
Dropped T-bar ceiling with recessed fluorescent lighting
Glass store front with glass door
Taped and textured sheetrock walls ready for wallpaper and/or paint
Stained doors
Electrical and phone jack distribution
Roughed-in plumbing
Hot and cold water
Slab to be clean and ready to receive tile

50. PLANS AND SPECIFICATIONS. Lessor shall, within five (5) days after the execution of this Lease, at Lessor's expense, engage a mutually acceptable licensed architect having offices in El Paso, Texas to prepare plans and specifications for the building described in Paragraph 49 above, consistent with the building description set forth therein, and the said plans and

specifications shall be prepared by the said architect and submitted to both parties within the next 25 days. Either party may, within 10 days after receipt of the said plans and specifications, submit to the other party any reasonable changes in the said plans and specifications that are, in the opinion of the architect, consistent with the said building description and that will not increase the estimated cost of the building by more than 1-1/2%. If neither party desires any such changes to be made, Lessor shall proceed as soon as is reasonably feasible with the construction of the building in accordance with said original plans and specifications, or if all such desired changes in the plans and specifications, or if all such desired changes in the plans and specifications are mutually acceptable to the parties, Lessor shall so proceed with the construction of the building. However, if any such desired changes in the plans and specifications should not be mutually acceptable to the parties,
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then either party may give notice in writing to the other party to that effect, and the Lease shall thereupon be immediately and automatically cancelled, and neither party shall be further liable to the other under the Lease, except that each party shall bear 1/2 of all of the costs incurred for the preparation of the said plans and specifications.

51. EARLY ACCESS. Lessor grants Lessee, his agents or contractors the right to enter upon the premises for the purposes of performing the finish work on the office/showroom portion of the building and for setting up and operation of storage and distribution business. This work is to be done during Lessor's construction of Tenant's improvements provided, however, that Lessee cooperates in full with Lessor's contractors and/or agents and in no way inhibits Lessor's ability to perform the tenant improvements in a timely and unimpeded fashion.

52. TENANT FINISH ALLOWANCE. Upon Lessee's request within thirty (30) days of completion of Lessee's finish out, Lessor shall reimburse Lessee for Lessee's documented signage and finish out expenses not to exceed $20,000.00. Lessee shall reimburse Lessor for expense in sixty (60) equal payments in the amount of $445.00 commencing April 1, 1994. If Lessor's expense pursuant to this paragraph is less than $20,000.00, then the monthly payment amount shall be the product of the actual Lessor's expense multiplied by the fraction .02225. Such reimbursement payments shall be considered additional rent per paragraph 21.

LESSOR:	LESSEE:
Harry L. Hussmann Jr., Inc.	Dal-Title Corporation
by: /s/ Harry L Hussmann III	by: /s/ William J Coppola
Harry L Hussmann III, Pres.	William J Coppola, Exec. VP
Date: Sept 17, 1993	Date: 9/8/93

ADDENDUM B

This is an addendum to that certain Lease dated August 24, 1993 between HARRY L. HUSSMANN, JR., INC., as Lessor, and DAL-TILE CORPORATION, as Lessee.

Lessor and Lessee hereby agree that the Plans and Specifications for the building decribed in Paragraph 49 of the said Lease, as prepared by Ron Brown Architects, and dated November 4, 1993, have been submitted to and reviewed and accepted by both parties pursuant to Paragraph 50 of Addendum A to the said Lease, and that Lessor shall proceed to have said building constructed by BALBOA ENTERPRISES, INC., or other contractor selected by Lessor, in accordance with the said Plans and Specifications, as soon as is reasonably feasible.

EXECUTED this ____ day of December, 1993.

HARRY L. HUSSMANN, JR., INC.,
Lessor

By: /s/ Harry L. Hussmann, III

Harry L. Hussmann, III, President

DAL-TILE CORPORATION,
Lessee

By: /s/ William Floppole

Exhibit 10.19

NOTICE OF LEASE TERM DATES

To: Steve Diffenderfer
Dal Tile Corporation

Date: February 2, 2001

Re: Lease dated September 30, 1996, by and between Ontario Industrial Partners, a Delaware Corporation, Landlord, and Dal Tile Corporation, Tenant, concerning the Premises located at 3625 E. Jurupa Street, Ontario, CA.

In accordance with the subject Lease, we wish to advise and/or confirm as follows:

1. That the Premises under the Lease was accepted on January 20, 1997 herewith by the Tenant as being substantially completed in accordance with the Lease Agreement.

2. The Landlord and Tenant mutually agree that early possession of the subject Premises took place on December 22, 1996 which was thirty-eight (38) days after November 15, 1996 (the original target date for completion). That Landlord and Tenant acknowledges that under the provisions of the subject Lease Agreement, the lease term of the subject Premises shall commence as of December 22, 1996 for a term of 123 months, ending on March 31, 2007.

3. That in accordance with the subject Lease, Base Rent and Operating Expense Reimbursement (CAM) shall commence to accrue on December 22, 1996.

4. If the Commencement date of the subject Lease is other than the first day of the month, the first billing will contain a pro-rata adjustment. Each billing thereafter shall be for the full amount of the monthly installment as provided for in said Lease.

5. Rent is due and payable in advance on the first day of each and every month during the term of said Lease. Rent checks should be made payable to Ontario Industrial Partners. Inc. c/o Sares-Regis Group.

6. Tenant's obligation to pay monthly installments of Annual Basic Rent will be waived for a period of six (6) months beginning on December 22, 1996 and ending on June 21, 1997 in accordance with the Basic Lease Information of subject Lease Agreement. This Base Rent waiver shall not include Operating Expense Reimbursement (CAM) payments.

7. The number of Rentable Square Feet contained within the Premises for all purposes of this Lease is 410,515 square feet.

8. Tenant's Percentage, based upon the number of Rentable Square Feet contained withing the Premises and the Building is 100%.

AGREED AND ACCEPTED

LANDLORD:

Ontario Industrial Partners, Inc., A Delaware Corporation

By: /s/ [ILLEGIBLE]

Its: Vice President

TENANT:

Dal Tile Corporation, a Pennsylvania Corporation

By: /s/ Steve Diffenderfer

Steve Diffenderfer

Its: Manager of Real Estate

ONTARIO INDUSTRIAL LEASE

Net

Basic Lease Information

Lease Date:	September 30, 1996
Lessor:	ONTARIO INDUSTRIAL PARTNERS,INC., a Delaware corporation
Lessor's Address:	c/o SARES REGIS GROUP 18802 Bardeen Avenue Irvine, California 92612-1521
Lessee:	DAL TILE CORPORATION, a Pennsylvania corporation
Lessee's Address:	7834 C.F. Hawn Freeway Dallas, Texas 75217
Premises:	Approximately 410,515 square feet as shown on Exhibit "A"
Premises Address:	3625 E. Jurupa Street Ontario, California
Lot:	The legal lot on which the Premises is situated
Park:	Ontario Industrial Park
Term:	123 Months

Base Rent:

Months During Term	Monthly Base Rent
1-6	Free
7-60	$110,839.00 ($.27 pst)
61-123	$129,312.00 ($.315 pst)

Security Deposit:	$129,312.00
Permitted Use:	Warehouse and distribution and general offices in connection therewith, but only to the extent permitted by the City of Ontario and by any and all entities having jurisdiction.
Insurance Amount:	Single combined liability limit of $1 million, and property damage limits of not less than $1 million.
Parking Spaces:	400

Exhibits: Exhibit A -- Premises
Exhibit B -- Tenant Improvements
Exhibit C -- Environmental Questionnaire
Exhibit D -- Rules & Regulations

Addenda: Addendum I: Option to Extend Lease

LEASE AGREEMENT

DATE: This Lease is made and entered into as of the Lease Date defined on Page 1. The Basic Lease Information set forth on Page 1, the Exhibits and Addendum or Addenda described in the Basic Lease Information and this Lease are and shall be construed as a single Instrument and are referred to herein as the Lease.

1. Premises: Lessor hereby leases to Lessee upon the terms and conditions contained herein the Premises.

2. Commencement Date: The "Commencement Date" of the term of this Lease shall be the earlier of (i) the date the "Primary Tenant Improvements" (as defined in Exhibit "B" attached to this; Lease) have been substantially completed in accordance with the plans and specifications therefor (except for minor punch-list items) and signed off by the City of Ontario, or (ii) the date Lessee commences occupancy of the Premises (other than for Lessee's installation of utilities furniture and fixtures, or to complete the Primary Tenant Improvements as provided below). The date of substantial completion of the Primary Tenant Improvements is currently anticipated to occur on approximately November 1, 1996. If Lessor cannot deliver possession of the Premises to Lessee on the Commencement Date, Lessor shall not be subject to any liability nor shall the validity of the Lease be affected; provided the Lease term and the obligation to pay Rent shall commence on the date possession is tendered and the termination date shall be extended by a period of time equal to the period computed from the Commencement Date to the date possession is tendered; provided however that if Lessor fails to substantially complete the Primary Tenant Improvements by December 1, 1996 plus periods attributable to Lessee delays or change orders to the Primary Tenant improvements or due to force majeure, then Lessee shall thereafter have the right, upon written notice to Lessor, to assume the obligations of Lessor to complete the Primary Tenant Improvements, in which event the reasonable amounts of actual costs incurred by Lessee (proof of which reasonably satisfactory to Lessor shall be provided by Lessee together with lien release waivers and other evidence reasonably satisfactory to Lessor that all such work has been fully paid for by Lessee) shall he reimbursed by Lessor to Lessee upon demand. In the event that Lessor permits Lessee to occupy the Premises prior to the Commencement Date, such occupancy shall be subject to all the provisions of this Lease.

3. Rent: Lessee agrees to pay Lessor, without prior notice or demand, the Base Rent described on Page 1, payable in advance at Lessor's address shown on Page 1 on the first day of each month throughout the term of the Lease. In addition to the Base Rent set forth on Page 1. Rent also includes Lessee's share of Operating Expenses, Tax Expenses. Additional Expenses and Utilities as specified in Paragraphs 6.A., 6.B., 6.C., and 7

of this Lease, and the term "Rent" whenever used herein refers to all these amounts. Lessee's payment of Base Rent for the first full month that Base Rent is due (i.e., for month 7 of the term) shall he delivered to Lessor concurrently with Lessee's execution of this Lease.

4. Security Deposit: Upon execution of this Lease, Lessee shall deposit with Lessor as a Security Deposit for the full and faithful performance by Lessee of its obligations under this Lease the amount described on Page 1. If Lessee is in default with respect to any covenant or condition

of this Lease, Lessor may use the Security Deposit, or any portion thereof, to cure the default or to compensate Lessor for all damage sustained by Lessor resulting from Lessee's default. Lessee shall immediately on demand pay to Lessor a sum equal to the portion of the Security Deposit so applied so as to maintain the Security Deposit in the sum initially deposited with Lessor. If Lessee shall have fully complied with all of the covenants and conditions of this Lease, but not otherwise, Lessor shall return the Security Deposit to Lessee, less such amounts as are reasonably necessary to remedy Lessee's defaults within thirty (30) days after the expiration or the sooner termination of this Lease. Lessor shall not be required to keep the Security Deposit separate from other funds, but Lessor shall (i) credit to Lessee on the Security Deposit unapplied and outstanding from time to time simple interest at the rate being obtained by Lessor on its investment thereof, and (ii) provided and so long as the net worth of Lessee is not less than the net worth of Lessee as of the Lease Date, Lessee is not in default pursuant to Paragraph 20 below, and Lessee has not been late in the payment of Rent more than five (5) times during the term, then commencing with the 61st month of the term and continuing every 12th month thereafter through the 121st month or the term, Lessor shall return to Lessee from the Security Deposit the amount of Twenty Thousand Dollars ($20,000.00) per year, and the Security Deposit shall he reduced by the amounts so returned.

5. Tenant Improvements: Lessor shall install the improvements ("Tenant Improvements") on the Premises as described and in accordance with the criteria set forth in Exhibit "B", attached and incorporated herein by this reference.

6. Expenses:

A. Operating Expenses: In addition to the Rent set forth in Paragraph 3, Lessee shall pay all "Operating Expenses". "Operating Expenses" are defined as the total amounts paid or payable by the Lessor in connection with the ownership, maintenance, repair and operation of the Premises and the Lot, or where applicable, Lessee's pro rata share of the Park. These Operating Expenses may include, but are not limited to:

(a) Lessor's cost of non-structural repairs to and maintenance of the roof and exterior walls of the Premises; roof structure replacement shall not be considered an Operating Expense; any nonstructural Capital Improvement will be amortized over the life of the improvement; Lessee shall have the benefit of, on a non-exclusive basis with Lessor, and without warranty of any kind from Lessor or recourse against Lessor, all guaranties, warranties and agreements from suppliers, contractors, and subcontractors regarding their performance, quality of workmanship and quality of materials supplied in connection with the Premises and all equipment and fixtures installed therein;

(b) Lessor's cost of maintaining the outside paved area, landscaping and other common areas for the Park to the extent such areas have been developed and leased; and

(c) Lessor's annual cost of Lessor's general liability insurance relating to this Lease, all risk (excluding earthquake) insurance for the Premises and the Lot, and rental loss insurance.

Operating Expenses expressly shall not include any expenses incurred by Lessor in the development or leasing of the Park.

B. Tax Expenses: In addition to the Rent set forth in Paragraph 3. Lessee shall pay all real property taxes applicable to the land and improvements included within the Lot ("Tax Expense"). The term "Tax Expense" includes any form of tax and assessment (general, special, ordinary or extraordinary), commercial rental tax, payments under any improvement bond or bonds, license, rental tax, transaction tax, levy, or penalty (if incurred as a result of Lessee's delinquency) imposed by authority having the direct or indirect power of tax (including any city, county, state or federal government, or any school, agricultural, lighting, drainage or other improvement district thereof) as against any legal or equitable interest of Lessor in the Premises, Lot or Park, as against Lessor's right to rent or other income therefrom, or as against Lessor's business of leasing the Premises or the occupancy of Lessee or any other tax, fee, or excise, however described (other than inheritance or estate taxes), including any value added tax, or any tax imposed in substitution, partially or totally, of any tax previously included within the definition of real property taxes, or any additional tax the nature of which was previously included within the definition of real property tax.

C. Additional Expenses: In addition to the Rent set forth in Paragraph 3. Lessee shall pay all of the following expenses ("Additional Expenses"):

(a) Lessor's cost of modification to the Park occasioned by any rules, laws or regulation effective subsequent to the commencement of the Lease and arising from Lessee's use:

(b) Lessor's cost of modifications to the Premises occasioned by any rules, laws or regulations arising from Lessee's use of the Premises regardless of when such rules, laws or regulations became effective: and Lessor's cost of modifications to the Lot occasioned by any rules, law or regulations arising from Lessee's use of the Premises regardless of when such rules, laws or regulations become effective. Lessee shall not be required to pay Lessor's costs of modifications to the Park that are not caused by Lessee's use of Premises; and

(c) As compensation to Lessor for accounting and management services rendered, an additional amount equal to ten percent (10%) of the sum of the total cost and expenses described in Paragraphs 6.A. and 6.C. above.

D. Payment of Operating Expenses. Tax Expense and Additional Expenses: Lessor shall estimate the Operating Expense, Tax Expense and Additional Expenses for the calendar year in which the Lease commences. Commencing on the Commencement Date, one-twelfth (1/12th) of this estimate shall be paid by Lessee to Lessor on the first day of each month of the remaining months of the calendar year. Thereafter, Lessor may estimate such expenses as of the beginning of each calendar year and require Lessee to pay one-twelfth (1/12th) of such estimated amount as additional Rent hereunder on the first day of each month. Not later than March 31 of the following calendar year, or as soon thereafter as reasonably possible, including the year following the year in which this Lease terminates, Lessor shall endeavor to furnish Lessee with a true and correct

accounting of actual Operating Expenses, Tax Expenses and Additional Expenses and

within thirty (30) days of Lessor's delivery of such accounting, Lessee shall pay to Lessor the amount of any underpayment. Notwithstanding the foregoing, failure by Lessor to give such accounting by such date shall not constitute a waiver of Lessor of its right to collect Lessee's share of any underpayment. Lessor shall credit the amount of any overpayment by Lessee toward the next estimate monthly installment(s) falling due, or where the term of the Lease has expired, refund the amount of overpayment to Lessee. Lessor shall, upon request by Lessee, provide additional documentation to substantiate Operating Expenses and reasonable verification that Operating Expenses have been competitively bid.

7. Utilities: Lessee shall pay the cost of all water, sewer, gas, heat, electricity, telephone and other utilities billed or metered separately to Lessee. For utility fees or use charges that are not billed separately to Lessee, Lessee shall pay the amount which is attributable to Lessee's use of the Premises. In addition, Lessee shall within thirty (30) days after receiving a bill from Lessor pay Lessor an common area utility costs.

8. Late Charges: Lessee acknowledges that late payment by Lessee to Lessor of Base Rent, Tax Expenses, Additional Expenses, utility costs or other sums due hereunder, will cause Lessor to incur costs not contemplated by this Lease and the exact amount of such costs are extremely difficult and impracticable to fix. Such costs, include, without limitation, processing and accounting charges, and late charges that may be imposed on Lessor by the terms of any note secured by any encumbrance against the Premises. Therefore, if any installment of Rent or other sums due from Lessee is not received by Lessor within ten (10) days when due, Lessee shall pay to Lessor a sum equal to five percent (5%) of such overdue amount plus attorney's fees and costs incurred by Lessor by reason of Lessee's failure to pay Base Rent and other charges when due hereunder as a late charge. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Lessor will incur by reason of late payment by Lessee. Acceptance of any late charge without full payment of the amount overdue shall not constitute a waiver of Lessee's default with respect to the overdue amount, nor prevent Lessor from exercising any of the other rights and remedies available to Lessor.

9. Use of Premises: The Premises are to be used for the uses stated on Page 1 and for no other purposes.

Lessee shall not do or permit anything to be done in or about the Premises nor, without Lessor's prior written consent (which shall not be unreasonably withheld), keep or bring anything therein which will in any way increase the existing rate or affect any policy of fire or other insurance upon the Premises or any of its contents (other than customary periodic increases in insurance premiums not arising out of a change in use), or cause a cancellation of any insurance policy. Lessee shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Premises or other buildings in the Park or injure or annoy other tenants or use or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, nor shall Lessee cause, maintain or permit any nuisance in, on or about the Premises. Lessee shall not damage or deface or otherwise commit or suffer to be committed any waste in or upon the Premises. Lessee shall honor the terms of all recorded covenants, conditions and restrictions relating to the Lot, copies of which existing as of the Lease Date have been delivered to Lessee. Lessee shal1 honor reasonable rules and regulations of the Lessor related to parking and the operation of the Park. Lessee at its sole cost and expense shall comply with all laws relating to its use or occupancy of the Premises.

10. Alterations and Additions: Lessee shall not install any signs, fixtures or improvements to the Premises without the prior written consent of Lessor. Lessee shall keep the Premises and the Lot free from any liens arising out of any work performed, materials furnished or obligations incurred by or on behalf of Lessee (excluding the Tenant Improvements). As a condition to Lessor's consent to the installation of any fixtures or improvements, Lessor may require Lessee to post a completion bond for up to 150% of the cost of the work. Upon termination of this Lease, Lessee shall remove all signs, fixtures, furniture, furnishings and if requested by Lessor, remove any improvements made by Lessee and repair any damage caused by the installation or renewal of such signs, fixtures, furniture, furnishings and improvements and leave Premises in as good condition as they were in at the time of the Commencement Date, excepting for reasonable wear and tear.

11. Repairs and Maintenance: Lessee shall, at Lessee's sole cost and expense, maintain the Premises and adjacent areas including, without limitation, interior of windows, skylights, doors and storefronts and the interior of the Premises in good, clean and safe condition and repair to the reasonable satisfaction of the Lessor any damage caused by Lessee or its employees, agents, invitees, licensees or contractors. Without limiting the generality of the foregoing, Lessee shall be solely responsible for maintaining and repairing all utilities, fixtures, plumbing and mechanical equipment, heating, ventilating and air conditioning systems ("HVAC"), fire protection systems, and furnish all expendables (e.g. light bulbs, paper goods, soap, etc.) used in the Premises. All repairs shall he made by a licensed and bonded contractor reasonably approved by Lessor. In addition, Lessee shall procure a preventive maintenance and inspection contract for the HVAC and fire protection systems reasonably acceptable to Lessor.

Except for repairs rendered necessary by the negligence or willful misconduct of Lessee, its agents, customers, employees and invitees, Lessor shall, at Lessor's sole cost and expense, cause to be maintained, repaired or replaced (collectively "repairs") as necessary in Lessor's reasonable discretion the structural portions of the roof, foundations and exterior walls of the Premises (exclusive of glass and exterior doors), and underground utility and sewer pipes outside the exterior walls of the building on the Premises. In addition, subject to being reimbursed by Lessee as an Operating Expense hereunder, Lessor shall except for repairs rendered necessary by the negligence or willful misconduct of Lessee, its agents, customers, employees and invitees, repair the nonstructural portions of the roof and exterior walls of the Premises, outside paved areas and landscaping. Lessee shall not make repairs to the Premises at the cost of Lessor whether by reduction of Base Rent or otherwise; provided however, that if Lessor fails to commence any repairs required to be made by Lessor hereunder within a reasonable period of time (determined based on the particular circumstances involved) after receipt of reasonable notice under the circumstances by Lessor of the need for such repair, and the failure to make such repair will result in an imminent threat of injury to persons or damage to personal property within the Premises or the inability of Lessee to occupy the Premises, then provided no default by Lessee as described in Paragraph 20 hereof has occurred and is continuing, Lessee may elect to make such repair strictly in accordance with the following: (i) before making any such repair, Lessee shall deliver to Lessor a second notice of the need for such repair, which notice shall specifically advise Lessor that Lessee intends to exercise its self-help right hereunder ("Self-Help Notice"), (ii) should Lessor further fail, within a reasonable period of time under the particular circumstances involved, to commence the necessary repair, or to make other arrangements reasonable under the circumstances, then Lessee shall have the right to make only such repairs as are necessary to secure the Premises from the imminent threat of injury to persons or damage to personal property, or to permit Lessee to occupy the Premises, (iii) any such repairs undertaken by

Lessee shall be performed and completed in accordance with Lessee's obligations for its own repairs and alterations under Paragraph 10 above and this Paragraph 11, (iv) Lessee shall be responsible for obtaining

any necessary governmental permits before commencing the repair work, and Lessee shall assume the risk of any damage, loss or injury resulting from such work, and (v) Lessee shall be entitled to reimbursement from Lessor for the reasonable amounts of actual costs incurred by Lessee (proof of which reasonably satisfactory to Lessor shall be provided by Lessee together with lien release waivers and other evidence reasonably satisfactory to Lessor that all such work has been fully paid for by Lessee) upon demand, but Lessee shall have no right to obtain such reimbursement by reduction of Rent or otherwise.

Except for normal maintenance and repair of the items outlined above, Lessee shall have no right of access to or install any device on the roof of the Premises nor make any penetrations of the roof of the Premises without the express prior written consent of Lessor.

12. Insurance: Lessee shall at all times during the term of this Lease, and at its sole cost and expense, maintain workers compensation insurance and comprehensive general liability insurance again liability for bodily injury and property damage with liability limits as set forth on Page 1 with such insurance naming Lessor and its managing agent as additional insureds and including such coverages and endorsements as may be required by Lessor. In no event shall the limits of said policy or policies be considered as limiting the liability of Lessee under this Lease.

All insurance shall be with companies licensed to do business with the Insurance Commissioner of the State of California having a rating of not less than "B+", X as set forth in the most current issue of Best's Insurance Guide. A certificate of all such insurance shall be delivered to the Lessor prior to the Commencement Date of this Lease, and annually thereafter over the term of the Lease, which shall certify that the policy names Lessor and its managing agent as additional insureds and that the policy shall not be cancelled or altered without thirty (30) days prior written notice to Lessor.

13. Limitation of Liability and Indemnity: Except for damage resulting from the sole active negligence or willful misconduct of Lessor or its agents or employees, Lessee agrees to save and hold lessor harmless and indemnify Lessor from and against all liabilities, charges and expenses (including reasonable attorneys' fees, costs of court and expenses necessary in the prosecution or defense of any litigation) by reason of injury to person or property, from whatever cause, while in or on the Premises, in any way connected with the Premises or with the improvements or personal property therein, including any liability for injury to person or property of Lessee, his agents or employees or third party persons.

Except for damage resulting from sole active negligence or willful misconduct of Lessor or it agents or employees, Lessor shall not be liable to Lessee for any damage to Lessee or Lessee's property, for any injury to or loss of Lessee's business or for any damage or injury to any person from any cause.

14. Assignment and Subleasing: Lessee shall not assign or transfer this Lease nor sublet all or any portion of the Premises without the written consent of Lessor, which shall not be unreasonably withheld. Notwithstanding the foregoing, Lessee shall have the right, upon notice to Lessor but without the need for Lessor's consent, to sublease all or any portion of the Premises or assign this Lease to any subsidiary, affiliate or parent of Lessee so long as the general purpose and use of the Premises (including without limitation the volume of business therein) involves the ceramic tile business as conducted by Lessee as of the Commencement Date. Lessor shall be deemed reasonable in withholding its

consent to any assignment or sublease hereunder if Lessor determines in its reasonable discretion that the intended use of the Premises will constitute a violation of this Lease or any law, rule, ordinance, regulation, covenant,

condition or restriction governing or encumbering the Premises or would involve the storage, use or keeping of Hazardous Materials (as defined in Paragraph 29 below) in, on or about the Premises other than those being utilized by Lessee for the ceramic tile business as of the Commencement Date, or if the proposed assignee or sublessee has had a history of past violations of law with respect to its handling of Hazardous Materials. If Lessee seeks to sublet or assign all or any portion of the Premises, a copy of the proposed sublease or assignment agreement and all agreements collateral thereto, shall be delivered to Lessor at least thirty (30) days prior to the commencement of the sublease or assignment (the "Proposed Effective Date"). In the event the sublease is for a term which by itself or taken together with prior or other subleases is for the remaining term of this Lease as of the time of the Proposed Effective Date, then Lessor shall have the right, to be exercised by giving written notice to Lessee, to recapture the space described in the sublease. If such recapture notice is given, it shall serve to terminate this Lease with respect to the proposed sublease space, or, if the proposed sublease space covers all the Premises, it shall serve to terminate the entire term of this Lease, in either case as of the Proposed Effective Date. However, no termination of this Lease with respect to part or all of the Premises shall become effective without the prior written consent, where necessary, or the holder of each deed of trust encumbering the Premises or any part thereof. If this Lease is terminated pursuant to the foregoing with respect to less than the entire Premises, the Rent shall be adjusted on the basis of the proportion of square feet retained by Lessee to the square feet originally demised and this Lease as so amended shall continue thereafter in full force and effect. Each permitted assignee or sublessee shall assume and be deemed to assume this Lease and shall be and remain liable jointly and severally with Lessee for payment of rent and for the due performance, of and compliance with all the terms, covenants, conditions and agreements herein contained on Lessee's part to be performed or complied with, for the term of this Lease.

15. Subrogation: Lessor and Lessee hereby mutually waive their respective rights of recovery against each other from any loss required to be insured by any property insurance under this Lease, except that nothing contained herein shall waive Lessor's rights to any deductibles, liability insurance coverage or indemnity claims permitted against Lessee elsewhere in this Lease. Each party shall obtain any special endorsements, if required by their insurer, to evidence compliance with the aforementioned waiver.

16. Ad Valorem Taxes: Lessee shall pay before delinquent all taxes assessed against the personal property of the Lessee and all taxes attributable to any leasehold improvements made by Lessee.

17. Subordination: Lessee shall, upon request of the Lessor, execute any instrument necessary or desirable to subordinate this Lease and all its rights contained hereunder to any and all encumbrances now or hereafter a force against the Lot and the Premises, provided such instrument includes the nondisturbance protections contained in the last sentence of this Paragraph 17.

In the event any proceedings are brought for foreclosure or in the event of the exercise of the power of sale or a deed under any deed of trust made by Lessor covering the Premises or a deed in lieu of foreclosure thereunder, Lessee shall attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Lessor under this Lease any such purchaser or such transferee who acquires the Premises by deed in lieu of foreclosure. Notwithstanding such subordination, Lessee's possession of the Premises shall not be disturbed as long as Lessee is not in default and as long as Lessee

timely pays the Rent and observes and performs all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms.

18. Right of Entry: Lessee grants Lessor or its agent the right to enter the Premises with 24-hour notice and during business hours for purposes of inspection, exhibition, repair or alteration. Lessor shall at all times have and retain a key with which to unlock all the doors in, upon and about the Premises, excluding Lessee's vaults and safes, and Lessor shall have the right to use any and all means Lessor deems necessary to enter the Premises in an emergency. Lessor shall also have the right, during the final 90 days of the Lease term to place "for rent" and/or "for sale" signs on the outside of the Premises. Lessee hereby waives any claim from damages or for any injury or inconvenience to or interference with Lessee's business, or any other loss occasioned thereby except for any claim for any of the foregoing arising out of the negligent acts or omissions of Lessor or its authorized representatives.

19. Estoppel Certificate: Lessee shall execute and deliver to Lessor, upon not less than ten (10) days prior written notice, a statement in writing certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification) and the date to which the Rent and other charges are paid in advance, if any, and acknowledging that there are not, to Lessee's knowledge, any uncured defaults on the part of Lessor hereunder or specifying such defaults as are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises. Lessee's failure to deliver such statement within such time shall be conclusive upon the Lessee that (1) this Lease is in full force and effect, without modification except as may be represented by or; (2) there are no uncured defaults in the Lessor's performance; and (3) not more than one month's rent has been paid in advance.

20. Lessee's Default: The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Lessee:

(a) The vacation or abandonment of the Premises by the Lessee, without intent to reoccupy or sublease.

(b) The failure by Lessee to make payment of Rent or any other payment required hereunder within five (5) days after delivery of written notice that said payment was not received when due.

(c) The failure of Lessee to observe, perform or comply with any of the conditions or provisions of this Lease for a period, unless otherwise noted herein, of thirty (30) days after written notice, provided however, that if the nature of such failure is such that the same cannot reasonably be cured within such thirty (30) day period, then Lessee shall not be in default hereunder if Lessee shall, within such thirty (30) day period, commence such cure and thereafter diligently prosecute such cure to completion.

(d) The Lessee becoming the subject of any bankruptcy (including reorganization or arrangement proceedings pursuant to any bankruptcy act) or insolvency proceeding whether voluntary or involuntary.

(e) The Lessee using or storing Hazardous Materials on the Premises other than as permitted by the provisions of Paragraph 29 below.

Any written notice delivered under this Paragraph 20 shall be in lieu of (and not in addition to) any notice required under California CCP (S)1161 et seq. or any similar or successor statute.

21. Remedies for Lessee's Default: In the event of Lessee's default or breach of the Lease, Lessor may terminate Lessee's right to possession of the Premises by any lawful means in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In addition, the Lessor shall have the immediate right of re-entry, and if this right of re-entry is exercised following abandonment of the Premises by Lessee. Lessor may consider any personal property belonging to Lessee and left on the Premises to also have been abandoned.

If Lessee breaches this Lease and abandons the property before the end of the term, or if Lessee's right to possession is terminated by Lessor because of a breach of the Lease, then in either such case, Lessor may hereunder, including, but not restricted to, the worth at the time of the award (computed in accordance with paragraph (3) of the Subdivision (a) of Section 1951.2 of the California Civil Code) of the amount by which the Rent then unpaid hereunder for the balance of the Lease term exceeds the amount of such loss of Rent for the same period which the Lessee proves could be reasonably avoided by Lessor and in such case, Lessor prior to the award, may relet the Premises for the purpose of mitigating damages suffered by Lessor because of Lessee's failure to perform its obligations hereunder; provided, however, that even though Lessee has abandoned the Premises following such breach, this Lease shall nevertheless continue in full force and effect for as long as the Lessor does not terminate Lessee's right of possession, and until such termination, Lessor may enforce all its rights and remedies under this Lease, including the right to recover the Rent from Lessee as it becomes due hereunder. The "worth at the time of the award" within the meaning of Subparagraphs (a)(l) and (a)(2) of Section 1951.2 of the California Civil Code shall be computed by allowing interest at the rate of ten percent (10%) per annum.

The foregoing remedies are not exclusive; they are cumulative in addition to any remedies now or later allowed by law or to any equitable remedies Lessor may have, and to any remedies Lessor may have under bankruptcy laws or laws affecting creditor's right generally.

The waiver by Lessor of any breach of any term of this Lease shall not be deemed a waiver of such term or of any subsequent breach thereof.

22. Holding Over: If Lessee holds possession of the Premises after the term of this Lease with Lessor's consent, Lessee shall become a tenant from month to month upon the terms specified at a monthly Rent of 125% for the first three (3) months, and 150% thereafter of the Rent due on the last month of the Lease term, payable in advance on or before the first day of each month. All options, if any, granted under the terms of this Lease shall be deemed terminated and be of no effect during said month to month tenancy. Lessee shall continue in possession until such tenancy shall be terminated by either Lessor or Lessee giving written notice of termination to the other party at least thirty (30) days prior to the effective date of termination.

23. Lessor's Default: Lessees agrees to give any holder of a deed of trust encumbering the Premises ("Trust Deed Holders"), by certified mail, a copy of any notice of default served upon the Lessor by Lessee, provided that prior to such notice Lessee has been notified in writing (by way of Notice of Assignment of Rents and Leases, or otherwise) of the address of such Trust Deed Holder. Lessee further agrees that if Lessor shall have failed to cure such default within the time, if any, provided for in this Lease, then the Trust Deed Holders shall have an additional thirty (30) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary, if within such thirty (30) days, the Trust Deed Holders has

commenced and is diligently pursuing the

remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated while such remedies are being so diligently pursued.

24. Parking: Lessee shall have the use of the number of undesignated parking spaces set forth on Page 1. Lessor shall exercise its best efforts to insure that such spaces are available to Lessee for its use, but Lessor shall not be required to enforce Lessees right to use the same.

25. Sale of Premises: In the event of any sale of the Premises by Lessor, Lessor shall be and is hereby released from its obligations which accrue subsequent to the date of the sale under this Lease; and the purchaser, at such sale or any subsequent sale of the Premises shall be deemed, without any further agreement between the parties or their successors in interest or between the parties and any such purchaser, to have assumed and agreed to carry out any and all of the covenants and obligations of the Lessor under this Lease.

26. Waiver: No delay or omission in the exercise of any right or remedy of Lesser on any default by Lessee shall impair such a right of remedy or be construed as a waiver.

The subsequent acceptance of Rent by Lessor after breach by Lessee of any other covenant or term of this Lease shall not be deemed a waiver of such other breach, other than a waiver of timely payment for the particular Rent payment involved, and shall not prevent Lessor from maintaining an unlawful detainer or other action based on such other breach.

No payment by Lessee or receipt by Lessor of a lesser amount than the monthly Rent and other sums due hereunder shall be deemed to be other than on account of the earliest Rent or other sums due, nor shall any endorsement or statement on any check or accompanying any check or payment be deemed an accord and satisfaction; and Lessor may accept such check or payment without prejudice to Lessor's right to recover the balance of such Rent or other sums or pursue any other remedy provided in this Lease.

27. Casualty Damage: If the Premises or any part thereof shall be damaged by fire or other casualty, Lessee shall give prompt written notice thereof to Lessor. In case the building shall be so damaged by fire or other casualty that substantial alteration or reconstruction of the building shall, in Lessor's reasonable opinion, be required (whether or not the Premises shall have been damaged by such fire or other casualty), Lessor may, at its option, terminate this Lease by notifying Lessee in writing of such termination within thirty (30) days after the date of such damage, in which event the Rent shall be abated as of the date of such damage. If Lessor does not elect to terminate this Lease, Lessor shall within sixty (60) days after the date of such damage commence to repair and restore the Premises and shall proceed with best efforts (but without incurring increased cost to Lessor) to restore the Premises as soon as reasonably possible (except that Lessor shall not be responsible for delays outside its control) to substantially the same condition in which it was immediately prior to the happening of the casualty, except that Lessor shall not be required to rebuild, repair, or replace any part of Lessee's furniture, furnishings or fixtures and equipment removable by Lessee or any improvements installed by Lessee under the provisions of this Lease. If Lessor reasonably estimates prior to commencing such repairs that the building cannot be reasonably restored within 180 days, Lessee shall have the right, within fifteen (15) days after its receipt of such estimate, to terminate this Lease by written notice to Lessor delivered during such 15-day period; but if Lessee fails to so

notify Lessor in writing within such 15-day period,

then Lessee's termination right hereunder shall expire and be of no further force or effect. Lessor shall not in any event be required to spend for such work an amount in excess of insurance proceeds actually received by Lessor as a result of the fire or other casualty. Lessor shall not be liable for any inconvenience or annoyance to Lessee, injury to the business of Lessee, loss of use of any part of the Premises by the Lessee or loss of Lessee's personal property resulting in any way from such damage or the repair thereof, except that, subject to the provisions of the next sentence, Lessor shall allow Lessee a fair diminution of Rent during the term and to the extent the Premises are unfit for occupancy. If the Premises or any other portion of the Park shall be damaged by fire or other casualty resulting from the fault or negligence of Lessee of any of Lessee's agents, employees, or invitees, the Rent shall not be diminished during the repair of such damage and Lessee shall be liable to Lessor for the cost and expense for the repair and restoration caused thereby to the extent such cost and expense is not covered by insurance proceeds.

Except as otherwise provided in this Paragraph 27, Lessee hereby waives the provisions of Sections 1932(2.), 1933(4.), 1941 and 1942 of the California Civil Code.

28. Condemnation: If twenty-five percent (25%) or more of the building portion of the Premises is taken for any public or quasi-public purpose of any lawful governmental power or authority or sold to a governmental entity to prevent such taking, the Lessee or the Lessor may at its sole option terminate this Lease as of the date when physical possession of the Premises is taken by the taking authority. Lessee shall not because of such taking assert any claim against the Lessor for any compensation because of such taking, and Lessor shall be entitled to receive the entire amount of any award without deduction for any estate of interest of Lessee. If a substantial portion of the Park or the Lot is so taken, Lessor at its option may terminate this Lease. If Lessor does not elect to terminate this Lease, Lessor shall, if necessary, promptly proceed to restore the Premises or the Premises to substantially its same condition prior to such partial taking, allowing for the reasonable effects of such taking, and a proportionate allowance shall be made to Lessee for the Rent corresponding to the time during which, and to the part of the Premises of which, Lessee is deprived on account of such taking and restoration. Lessor shall not be required to spend funds for restoration in excess of the amount received by Lessor as compensation awarded.

29. Environmental Covenants:

(a) As used herein, the term "Hazardous Material" shall mean any substance or material which has been determined by any state, federal or local governmental authority to be capable of posing a risk or injury to health, safety or property, including all of those materials and substances designated as hazardous or toxic by the city in which the Premises are located, the U.S. Environmental Protection Agency, the Consumer Product Safety Commission, the Food and drug Administration, the California Water Resources Control Board, the Regional Water Quality Control Board, San Bernardino County Region, the California Air Resources Board CAL/OSHA Standards Board, Division of Occupational Safety and Health, the California Department of Food and Agriculture, the California Department of Health Services, or any federal agencies that have overlapping jurisdiction with such California agencies, or any other governmental agency now or hereafter authorized to regulate materials and substances in the environment. Without limiting the generality of the foregoing, the term "Hazardous Materials" shall include all of those materials and substances defined as "hazardous materials" or "hazardous waste" in Section 66680 through 66685 of Title 22 of the California Administrative Code,

Division 4, Chapter 30, as the same shall be amended from time to time, petroleum, petroleum-related substances, asbestos, and any other materials requiring remediation now or in the future under federal, state or local statutes, ordinances, regulations or policies.

(b) Lessee represents, warrants and covenants (i) that it will use and store in, on or about the Premises, only those Hazardous Materials that are necessary for Lessee to conduct its business activities on the Premises, (ii) that, with respect of any such Hazardous Materials, Lessee shall comply with all applicable federal, state and local laws, rules, regulations, policies and authorities relating to the storage, use, disposal or cleanup of Hazardous Materials, including, but not limited to, the obtaining of property permits, and (iii) that it will not dispose of any Hazardous Materials in, on or about the Premises under any circumstances.

(c) Lessee shall immediately notify Lessor of any inquiry, test, investigation or enforcement proceeding by or against Lessee, Lessor or the Premises concerning a Hazardous Material. Lessee acknowledges that Lessor, as the owner of the Premises, shall have the right, at its election, in its own name or as Lessee's agent, to negotiate, defend, approve and appeal, at Lessee's expense, any action taken or order issued with regard to a Hazardous Material by an applicable governmental authority.

(d) If Lessee's storage, use or disposal of any Hazardous Material in on or adjacent to the Premises results in any contamination of the Premises, the soil or surface or groundwater, Lessee agrees to clean up said contamination. Lessee further agrees to indemnify, defend and hold Lessor harmless from and against any claims, liabilities, losses, suits, causes of action, costs, expenses or fees, including attorneys' fees and costs, arising out of or in connection with any remediation, cleanup work, inquiry or enforcement proceeding in connection therewith, and any Hazardous Materials currently or hereafter used, stored or disposed of by Lessee or its agents, employees, contractors or invitees in, on or adjacent to the Premises.

(e) Notwithstanding any other right of entry granted to Lessor under this Lease, Lessor shall have the right to enter the Premises or to have consultants enter the Premises throughout the term of this Lease for the purpose of (1) determining whether the Premises are in conformity with federal, state and local statues, regulations, ordinances, and policies including those pertaining to the environmental condition of the Premises, (2) conducting any environmental audit or investigation of the Premises for purposes of sale, transfer, conveyance or financing, (3) determining whether Lessee has complied with this Paragraph 29, and (4) determining the corrective measures, if any, required of Lessee to ensure the safe use, storage and disposal of Hazardous Materials, or to remove Hazardous Materials (except to the extent used, stored or disposed of by Lessee or its agents, employees, contractors or invitees in compliance with applicable law). Lessee agrees to provide access and reasonable assistance for such inspections. In addition, concurrently with its execution and delivery of this Lease and at any time prior to such an inspection upon Lessor's request, Lessee shall complete responses to Questions 1-20 of an Environmental Site Assessment Transaction Screen Questionnaire in the form of Exhibit "C" attached hereto. Such inspections may include, but are not limited to, entering the Premises or adjacent property with drill rigs or other machinery for the purpose of obtaining laboratory samples. Lessor shall not be limited in the number of such inspections disclose the presence of Hazardous Materials used, stored or disposed of by Lessee or its agents, employees, contractors or invitees, Lessee shall reimburse

Lessor for the cost of such inspections within ten (10) days of receipt of a written statement thereof. If such consultants determine that the Premises are contaminated with Hazardous Materials used, stored or disposed of by Lessee or its agents, employees, contractors or invitees, Lessee shall, in a timely manner, at its expense, remove such Hazardous Materials or otherwise comply with the recommendations of such consultants to the reasonable satisfaction of Lessor and any applicable governmental agencies. The right granted to Lessor herein to inspect the Premises shall not create a duty on Lessor's part to inspect the Premises, or liability of Lessor for Lessee's use, storage or disposal of Hazardous Materials, it being understood that Lessee shall be solely responsible for all liability in connection therewith.

(f) Lessee shall surrender the Premises to Lessor upon the expiration or earlier termination of this Lease free of debris, waste and Hazardous Materials used, stored or disposed of by Lessee or its agents, employees, contractors or invitees, and in a condition which complies with all governmental statues, ordinances, regulations and policies, recommendations of consultants hired by Lessor, and such other reasonable requirements as may be imposed by Lessor.

(g) Lessee's obligations under this Paragraph 29 shall survive termination of this Lease.

(h) Lessee acknowledges having received from Lessor (i) a Phase I environmental assessment previously conducted on the Premises, and (ii) responses to Questions 1-20 of an Environmental Site Assessment Transaction Screen Questionnaire in the form of Exhibit "C" attached hereto completed to the actual knowledge of Lessor's designated representative therein, on behalf of Lessor, without investigation or inquiry, as of the Lease Date. Lessee shall have no liability or responsibility with respect to any matter identified in such assessment or questionnaire.

(i) Lessor shall not require Lessee to clean up, remediate or comply with Hazardous Materials Laws to the extent that the compliance is required as a result of the fact that Hazardous Materials were located in or on the Premises or Property prior to the Commencement Date (or Lessee's occupancy of the Premises, whichever occurs earlier), and except to the extent that Lessee contributes to the presence of such Hazardous Materials or exacerbates the conditions associated with such Hazardous Materials.

30. General Provisions:

(i) Time. Time is of the essence in this Lease and with respect of each and all of its provisions in which performance is a factor.

(ii) Successors and Assigns. The covenants and conditions herein contained, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of the parties hereto.

(iii) Recordation. Lessee shall not record this lease or a short form memorandum hereof without the prior written consent of Lessor.

(iv) Lessor's Personal Liability. The liability of Lessor (which, for purposes of this Lease, shall include Lessor and the owner of the Premises if other than the Lessor) to Lessee for any default by Lessor under the terms of this Lease shall be limited to the actual interest of Lessor and its present or future partners in the Premises and Lessee agrees to look

solely to Lessor's or Lessor's present or future partners' active interest in the Premises for the recovery of any judgment against Lessor, it being intended that Lessor shall not be personally liable for any judgment or deficiency. The liability of Lessor under this Lease is limited to its period of ownership of title to the Premises, and Lessor shall be released from liability accruing subsequent to the date of such transfer upon transfer of title to the Premises.

(v) Separability. Any provisions of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provisions hereof and such other provision shall remain in full force and effect.

(vi) Choice of Law. This Lease shall be governed by the laws of the State of California.

(vii) Integration. This Lease supersedes any prior agreements and contains the entire agreement of the parties on matters covered. No other agreement, statement or promise made by any party that is not in writing and signed by all parties to this Lease shall be binding.

(ix) Warranty of Authority. Each person executing this agreement on behalf of a party represents and warrants that (1) such person is duly and validly authorized to do so on behalf of the entity it purports to so bind, and (2) if such party is a partnership, corporation or trustee, that such partnership, corporation or trustee has full right and authority to enter into this Lease and perform all of its obligations hereunder.

(x) Notices. All notices and demands required or permitted to be sent to the Lessor or Lessee shall be in writing and should be sent by United State certified mail or by personal delivery or by overnight courier, addressed to Lessor c/o SARES REGIS Group, 18802 Bardeen Avenue, Irvine, California 92612-1521, Attn: Director of Property Services, with a copy to J.P. Morgan Investment Management, 522 Fifth Avenue, New York, NY 10036, Attn: Ann E. Cole, or to Lessee at 7834 C.F. Hawn Freeway, Dallas, Texas 75217, Attention: Real Estate Department, or to such other place as such party may designate in a notice to the other party given as provided herein. Notice shall be deemed given upon the earlier of actual receipt or the third day following deposit in the United State mail.

EXHIBIT "A" - PREMISES

Ontario Industrial Lease dated September 30, 1996, between

DAL TILE CORPORATION,
a Pennsylvania corporation
("Lessee"),
and
ONTARIO INDUSTRIAL PARTNERS, INC.,
a Delaware corporation
("Lessor")

[PLAN]

EXHIBIT "B" - TENANT IMPROVEMENTS

Page 1 of 2

Ontario Industrial Lease dated September 30, 1996, between

DAL TILE CORPORATION,
a Pennsylvania corporation
("Lessee"),
and
ONTARIO INDUSTRIAL PARTNERS, INC.,
a Delaware corporation
("Lessor")

This Exhibit, entitled "Tenant Improvements," is and shall constitute Exhibit "B" to the Lease Agreement, dated as of the Lease Date, by and between Lessor and Lessee for the Premises. The terms and conditions of this Exhibit "B" are hereby incorporated into and are made a part of the Lease. Capitalized terms used, but not otherwise defined, in this Exhibit "B" have the meanings ascribed to such terms in the Lease.

1. Lessor agrees to, at Lessor's cost, improve the Premises as described in Paragraph 2 below (the "Tenant Improvements").

2. The Tenant Improvements shall consist of the following specifications:

A. Office: Provide approximately 8,000 square feet of office space in two areas which shall include:

* Primary Office Area: Approximately 6,000 square feet to include four (4) private offices, one (1) truckers' lounge, open area, conference room, small computer room, small storage room, a large lunch room and two (2) restrooms inside, four (4) restrooms in warehouse.

* Future Office Area: Approximately 2000 square feet with one (1) private office, open area, two (2) restrooms.

B. Electrical: A minimum of 800 amp 270/480 volt, 3 phase.

C. Warehouse Lighting: To be high pressure metal halide. The locations to accommodate Lessee but consistent with ESFR sprinkler design, not to exceed 25 foot-candles general warehouse lighting.

D. Loading: Fifty-three (53) single dock doors along front of building with load levelers on 27 of the doors and edge of dock plates on the balance. All doors to have locks and canopies (or a single canopy covering all doors, at Lessor's option).

E. Warehouse Floor: To have two coats of heavy duty polyurothane floor sealer (tenant company 400 or equal).

The Primary Office Area, Electrical, Warehouse Lighting, Loading and Warehouse Floor are collectively sometimes referred to as the "Primary Tenant Improvements".

EXHIBIT "C"

6. Transaction Screen Questionnaire

6.1 Persons to be Questioned---The following questions should be asked of (1) the current owner of the property, (2) any major occupant of the property or, if the property does not have any major occupants, at least 10% of the occupants of the property, and (3) in addition to the current owner and the occupants identified in (2), any occupant likely to be using, treating, generating, storing or disposing of hazardous substances or petroleum products on or from the property. A major occupant is any occupant using at least 40% of the leasable area of the property or any anchor tenant when the property is a shopping center. In a multifamily property containing both residential and commercial uses, the preparer does not need to ask questions of the residential occupants. The preparer should ask each person to answer all questions to the best of the respondent's actual knowledge and in good faith. When completing the site visit column, the preparer should be sure to observe the property and any buildings and other structures on the property. The guide provides further details on the appropriate use of this questionnaire.

Description of Site: Address:

3625 E. Jurupa Street

Ontario, CA 91761

_____

Question	Owner			Occupants (if applicable)			Observed During Site Visit		
1. Is the property or any adjoining property used for an industrial use?	Yes	[No]	Unk/1/	Yes	No	Unk	Yes	No	Unk
2. To the best of your knowledge, has the property or any adjoining property been used for an industrial use in the past?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
3. Is the property or any adjoining property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
4. To the best of your knowledge, has the property or any adjoining property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
5. Are there currently to the best of your knowledge, or to the best of your knowledge have there been previously any damaged or discarded automotive or industrial batteries, or pesticides, paints, or other chemicals in individual containers of greater than 5 gal (19 L) in volume or 50 gal (109 L) in the aggregate, stored on or used at the property or at the facility?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
6. Are there currently to the best of your knowledge,or to the best of your knowledge have there been previously, any industrial drums (typically 55 gal (208 L)) or sacks of chemicals located on the property or at the facility?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
7. Has fill dirt been brought onto the property that originated from a contaminated site or that is of an unknown origin? There was no fill dirt brought on site during construction.	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
8. Are there currently, or to the best of your knowledge have there been previously, any pits, ponds, or lagoons located on the property in connection with waste treatment or waste disposal?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
9. Is there currently to the best of your knowledge, or to the best of your knowledge has there been previously, any stained soil on the property?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk

	Question	Owner			Occupants (if applicable			Observed During Site Visit		
10.	Are there currently, or to the best of your knowledge have there been previously, any registered or unregistered storage tanks (above or underground) located on the property?	Yes	No	Unk	Yes	No	Unk	Yes	No	Unk
		SEE PHASE I								
11.	Are there currently to the best of your knowledge, or have there been previously, any vent pipes, fill pipes, or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
12.	Are there currently, or to the best of your knowledge have there been previously, any flooring, drains, or walls located within the facility that are stained by Substances other than water or are emitting foul odors?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk

Unk = "unknown" or "no response"

This document is an excerpt of E1528-93: Standard Practice for Environmental Site Assessments: Transaction Screen Process, which is under the jurisdiction of ASTM Committee E-50 on Environmental Assessment and is the direct responsibility of Subcommittee E50.02 on Commercial Real Estate Transactions. This questionnaire represents only items 5.1 through 6.1 of E 1528-93 and should not be construed as being the complete standard. It is necessary to the full standard prior to using this questionnaire. For the complete standard, or to order additional copies of this questionnaire contact ASTM Customer Service at (215) 299-5585.

	Question	Owner			Occupants (if applicable			Observed During Site Visit		
13.	If the property is served by a private well or non-public water system, have contaminants been identified in the well or system that exceed guidelines applicable to the water system or has the well been designated as contaminated by any government environmental/health agency?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
14.	Does the owner or occupant of the property have any knowledge of environmental liens or governmental notification relating to past or recurrent violations of environmental laws with respect to the property or any facility located on the property?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
		SEE PHASE I								
15.	Has the owner to the best of its knowledge or occupant of the property been informed of the past or current existence of hazardous substances or petroleum products or environmental violations with respect to the property or any facility located on the property?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
16.	Does the owner or occupant of the property have any knowledge of any environmental site assessment of the property or facility that indicated the presence of hazardous substances or petroleum products on, or contamination of, the property or recommended further assessment of the property?	Yes	No	Unk	Yes	No	Unk	Yes	No	Unk
		SEE PHASE I								
17.	Does the owner to the best of its knowledge or occupant of the property know of any past, threatened, or pending lawsuits or administrative proceedings concerning a release or threatened release of any hazardous substance or petroleum products involving the property by any owner or occupant of the property?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
18.	Does the property discharge wastewater on or adjacent to the property other than storm water into a sanitary sewer system?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk
19.	To the best of your knowledge, since owner purchased the property have any hazardous substances or petroleum products, unidentified waste materials, tires, automotive or industrial batteries or any other waste materials been dumped above grade, buried and/or burned, on the property?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk

20. Is there a transformer, capacitor, or any hydraulic equipment for which there are any records indicating the presence of PCBs?	Yes	[No]	Unk	Yes	No	Unk	Yes	No	Unk

Government Records/Historical Sources Inquiry
(See guide. Section 10 of ASTM E 1528-93)

21. Do any of the following Federal government record systems list the property or any property within the circumference of the area noted below:

	SEE PHASE I		
National Priorities List (NPL)--within 1.0 mile (1.6 km)?	Yes	No	
CERCLIS List--within 0.5 mile (0.8 km)?	Yes	No	
RCRA TSD Facilities--within 1.0 mile (1.6 km)?	Yes	No	

22. Do any of the following state record systems list the property or any property within the circumference of the area noted below:

List maintained by state environmental agency of hazardous waste sites identified for investigation or remediation that is the state agency equivalent to NPL--within approximately 1.0 mile (1.6 km)?	Yes	No	
List maintained by state environmental agency of sites identified for investigation or remediation that is the state equivalent to CERCLIS within 0.5 mile (0.8 km)?		Yes	No
Leaking Underground Storage Tank (LUST) List--within 0.5 mile (0.8 km)?	Yes	No	
Solid Waste/Landfill Facilities--within 0.5 mile (0.8 km)?	Yes	No	

23. Based upon a review of fire insurance maps or consultation with the local fire department serving the property all as specified in the guide, are any buildings or other improvements on the property or on an adjoining property identified as having been used for an industrial use or uses likely to lead to contamination of the property? Yes No N/A

The preparer of the transaction screen questionnaire must complete and sign the following statement. (For definition of preparer and user, see 5.3 or 3.3.25 of ASTM E 1528-93.)

This questionnaire was completed by:

Name TOM GARLOCK

Title SUP - CONSTRUCTION

Firm SARES - REGIS GROUP

Address 18802 BARDEEN AVE

IRVINE, CA 92612

Phone number 714-756-5959

Date 10/1/96

==========

If the preparer is different than the user, complete the following:

Name of user _____

User's address _____

_____

User's phone number _____

Preparer's relationship to site _____

Preparer's relationship to site _____
(for example, principal, employee, agent, consultant)

==========

Copies of the completed questionnaire have been filed at:	Copies of the completed questionnaire have been mailed or delivered to:
_____	_____
_____	_____
_____	_____

==========

Preparer represents that to the best of the preparer's knowledge the above statements and facts are true and correct and to the best of the preparer's actual knowledge, no material facts have been suppressed or misstated.

Signature /s/ Tom Garlock Date 10/1/96

Signature _____ Date _____

Signature _____ Date _____

This document is an excerpt of E 1528-93: Standard Practice for Environmental Site Assessments: Transaction Screen Process, which is under the jurisdiction of ASTM Committee E 50 on Environmental Assessment and is the direct responsibility of Subcommittee E 50.02 on Commercial Real Estate Transactions. This questionnaire represents only items 5.1 through 6.1 of E1528.93 and should not be construed for being the complete standard. It is necessary to refer to the full standard prior to using his questionnaire. For the complete standard, or to order additional copies of this questionnaire contact ASTM Customer Service at (215) 299-5585.

EXHIBIT "D" - RULES & REGULATIONS

Ontario Industrial Lease dated September 30, 1996, between

DAL TILE CORPORATION,
a Pennsylvania corporation
("Lessee"),
and
ONTARIO INDUSTRIAL PARTNERS, INC.,
a Delaware corporation
("Lessor")

1. Neither Lessee nor any of its agents, employees, servants, licensees, clients or visitors nor any of the operations and activities of Lessee shall cause or permit any disturbing noises or objectionable odors to be produced upon or to emanate from the Premises.

2. All trash, rubbish or litter removed from the Premises by Lessee shall be placed only in such areas and/or receptacles as may be designated or provided by Lessor.

3. Lessee shall not store any materials, equipment, products, pallets, etc., outside the Premises without the reasonable prior written consent of Lessor.

4. No sign, placard, picture, advertisement, name or notice shall be displayed, painted, or affixed by Lessee in or on any part of the Premises without the prior written consent of Lessor and then only of such color, size, character, style, material, installation and in such places as shall be approved and designated by Lessor.

5. Neither Lessee nor any agents, employees, servants, licensees, clients or visitors shall use the Park or the Premises for housing, lodging, or sleeping purposes. No immoral or unlawful purpose will be allowed in or on any portion of the Park.

6. No birds, fowl, or animals shall be brought into or kept in or about the Premises without the prior written consent of Lessor.

7. Lessor will not be responsible for lost, stolen or damaged personal property, equipment, money, merchandise or any article from the Premises or common areas regardless of whether loss, theft, or damage occurs when the Premises are locked against entry or not.

8. Any damage done to the Premises in any way by the movement of furniture, equipment, or merchandise within, into or out of the Premises by Lessee's servants, subtenants, agents, employees, visitors or invitees shall be the responsibility of and paid by Lessee.

ADDENDUM NO. 1

OPTION TO EXTEND LEASE

(Fair Market Value Adjustment)

Ontario Industrial Lease dated September 30, 1996, between

DAL TILE CORPORATION,

a Pennsylvania corporation
("Lessee"),
and
ONTARIO INDUSTRIAL PARTNERS, INC.,
a Delaware corporation
("Lessor")

The capitalized terms used and not otherwise defined herein shall have the same definitions as set forth in the Lease. The provisions of this Addendum shall supersede any inconsistent or conflicting provisions of the Lease.

A. Option to Extend Term.

1. Grant of Option. Lessor hereby grants to Lessee the option (the "Option") to extend the term of the Lease for an additional consecutive term of five (5) years (the "Extension"), on the same terms and conditions as set forth in the Lease, except the Base Rent shall be the amount determined as set forth below. The Option shall be exercised only by written notice delivered to Lessor at least one hundred eighty (180) days before the expiration of the initial term of the Lease. If Lessee fails to deliver to Lessor written notice of the exercise of the Option within the time period prescribed above, the Option shall lapse and there shall be no further right to extend the term of the Lease. The Option shall be exercisable by Lessee on the express conditions that (i) at the time of the exercise of the Option, and thereafter at all times prior to the commencement of the Extension, an Event of Default shall not have occurred and be continuing under the Lease, and (ii) Lessee has not been ten (10) or more days late in the payment of Rent more than a total of five (5) times during the term of the Lease. If Lessee properly exercises the Option, "term", as used herein and in the Lease, shall be deemed to include the Extension, unless specified otherwise herein or in the Lease.

2. Personal Option. The Option is personal to Lessee. If Lessee subleases or assigns or otherwise transfers any interest under the Lease prior to the exercise of the Option, the Option shall lapse. If Lessee subleases or assigns or otherwise transfers any interest of Lessee under the Lease after the exercise of the Option but prior to the commencement of the Extension, the Option shall lapse and the term of the Lease shall expire as if the Option were not exercised.

B. Calculation of Base Rent.

The Base Rent during the Extension shall be increased, as of the commencement of the Extension (the "Rental Adjustment Date") to the "Fair Market Value" of the Premises, determined in the

following manner: Not later than one hundred (100) days prior to the Rental Adjustment Date, Lessor and Lessee shall meet in an effort to negotiate, in good faith, the Fair Market Value of the Premises as of the Rental Adjustment Date. If Lessor and Lessee have not agreed upon the Fair Market Value of the Premises at least ninety (90) days prior to the Rental Adjustment Date, the Fair Market Value shall be determined by the following appraisal method:

(i) If Lessor and Lessee are not able to agree upon the Fair Market Value of the Premises within the time period described above, then Lessor and Lessee shall attempt to agree in good faith upon a single appraiser not

later than seventy-five (75) days prior to the Rental Adjustment Date. If Lessor and Lessee are unable to agree upon a single appraiser within such time period, then Lessor and Lessee shall each appoint one appraiser not later than sixty-five (65) days prior to the Rental Adjustment Date, and Lessor and Lessee shall each give written notice to the other of such appointment at the time of such appointment. Within ten (10) days thereafter, the two appointed appraisers shall appoint a third appraiser. If either Lessor or Lessee fails to appoint its appraiser and to give written notice thereof to the other party within the prescribed time period, the single appraiser appointed shall determine the Fair Market Value of the Premises. If both parties fail to appoint appraisers within the prescribed time periods, then the first appraiser thereafter selected by a party (such selection to be by written notice thereof to such appraiser and the other party) shall determine the Fair Market Value of the Premises. Each party shall bear the cost of its own appraiser and the parties shall share equally the cost of the single or third appraiser if applicable. All appraisers shall have at least five (5) years' experience in the appraisal of commercial/industrial real property in the area in which the Premises are located and shall be members of professional organizations such as MAI or its equivalent.

(ii) For the purposes of such appraisal, the term "Fair Market Value" shall mean the price that a ready and willing tenant would pay, as of the Rental Adjustment Date, as monthly rent, to a ready and willing landlord of property comparable to the Premises if such property were exposed for lease on the open market for a reasonable period of time and taking into account all of the purposes for which such property may be used. If a single appraiser is chosen, then such appraiser shall determine the Fair Market Value of the Premises. Otherwise, the Fair Market Value of the Premises shall be the arithmetic average of the two (2) of the three (3) appraisals which are closest in amount, and the third appraisal shall be disregarded. Lessor and Lessee shall instruct the appraiser(s) to complete their determination of the Fair Market Value not later than thirty (30) days prior to the Rental Adjustment Date. If the Fair Market Value is not determined prior to the Rental Adjustment Date, then Lessee shall continue to pay to Lessor the Base Rent applicable to the Premises immediately prior to the Rental Adjustment Date until the Fair Market Value is determined. When the Fair Market Value of the Premises is determined, Lessor shall deliver notice thereof to Lessee, and Lessee shall pay to Lessor, within ten (10) days after receipt of such notice, the difference between the Base Rent actually paid by Lessee to Lessor for the period after the Rental Adjustment Date and the new Base Rent determined hereunder effective as of the Rental Adjustment Date. In no event shall the Base Rent be reduced below the Base Rent applicable to the Premises immediately prior to the Rental Adjustment Date.

(xi) Interlineation. The use of underlining or strikeouts (strikeouts) within the Lease is for reference purposes only. No other meaning or emphasis is intended by this use, nor should any be inferred.

LESSEE:

DAL TILE CORPORATION,
a Pennsylvania corporation

By: /s/ [ILLEGIBLE]

Its: Exec. V.P & CFO

By: /s/ [ILLEGIBLE]

Its: [ILLEGIBLE]

LESSOR:

ONTARIO INDUSTRIAL PARTNERS, INC.,
a Delaware corporation

By: /s/ [ILLEGIBLE]

Its: Vice President

Exhibit 10.30

FIRST AMENDMENT TO LIQUIDITY ASSET PURCHASE AGREEMENT

(Re: Mohawk Factoring, Inc.)

This FIRST Amendment to the Liquidity Asset Purchase Agreement (this "Amendment") is entered into as of October 24, 2001 among WACHOVIA BANK, N.A. a national banking association (in its individual capacity, "Wachovia Bank" and each of the parties who has executed as an "Assignee" an Assignment of Liquidity Asset Purchase Commitment in the form of Exhibit A hereto (each, an "Assignment") (Wachovia Bank and each such other party being referred to collectively as the "Purchasers" and individually as a "Purchaser"), WACHOVIA BANK, N.A. as agent for the Purchasers under this Agreement (in such capacity, together with its successors and permitted assigns in such capacity, the "Liquidity Agent"), BLUE RIDGE ASSET FUNDING CORPORATION, a Delaware corporation (together with its successors and permitted assigns, the "Issuer"), and Wachovia Bank, as the administrative agent for the Issuer (in such capacity, together with its successors and permitted assigns in such capacity, the "Agent"), with respect to the Liquidity Asset Purchase Agreement dated as of October 25, 2000 by and among the parties hereto (as amended, restated, supplemented or otherwise modified from time to time in accordance with the provisions hereof, the "Agreement"). Capitalized terms used and not otherwise defined herein are used with the meanings attributed thereto in the Agreement.

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The "Liquidity Termination Date" shall be amended to mean October 23, 2002.

2. Except as expressly amended hereby, the Agreement remains unaltered and in full force and effect and is hereby ratified and confirmed.

3. In order to induce the other parties hereto to enter into this Amendment, each of the parties represents and warrants to the other parties hereto that this Amendment has been duly authorized, executed and delivered by it, and constitutes its legally valid and binding obligation, enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, receivership, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity.

4. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF).

5. This Amendment may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which

when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

6. This Amendment shall become effective as of October 24, 2001 upon execution by all parties subject to conditions precedent that (a)

agent shall have received a fully executed amendment to the Fee Letter dated as of the date hereof, and (b) agent shall have received a fully earned and non-refundable amendment fee of $10,000 U.S. Dollars.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

WACHOVIA BANK, N.A.,
as Liquidity Agent

By: _____
Name:
Title:

Address: 191 Peachtree Street, N.E.
Atlanta, GA 30303
Attention: Kenny Karpowicz
Telephone: (404) 332-1164
Telecopy: (404) 332-5152

WACHOVIA BANK, N.A.,
as Administrator

By: _____
Name:
Title:

Address: 191 Peachtree Street, N.E.
Atlanta, GA 30303
Attention: Kenny Karpowicz
Telephone: (404) 332-1164
Telecopy: (404) 332-5152

BLUE RIDGE ASSET FUNDING CORPORATION
as Issuer

By: _____
Name:
Title:

Address:

c/o AMACAR Group, L.L.C.
6706-D Fairview Road
Charlotte, North Carolina 28210

Attention: Douglas K. Johnson
Telephone: (704) 365-0569
Telecopy: (704) 365-1362

With a copy to: Wachovia Bank, N.A.,
as Administrative Agent

Address: 100 North Main Street
Winston, Salem, NC 27150
Attention: John Dillon
Telephone: (336) 732-2690
Telecopy: (336) 732-5021

THE PURCHASERS
WACHOVIA BANK, N.A.
By: _____
Name:
Title:

Wachovia Bank, N.A.

Address: 191 Peachtree Street, N.E.
Atlanta, GA 30303
Attention: Kenny Karpowicz
Telephone: (404) 332-1164
Telecopy: (404) 332-5152

Purchaser Percentage:	100%
Maximum Liquidity Purchase:	$209,100,000

Exhibit 10.32

CREDIT AGREEMENT

dated as of

March 20, 2002

among

MOHAWK INDUSTRIES, INC., as Borrower,

WACHOVIA INVESTORS, INC., as Administrative Agent,

THE LENDERS IDENTIFIED HEREIN,

GOLDMAN SACHS CREDIT PARTNERS L.P. and

SUNTRUST BANK, as Co-Syndication Agents

and

FIRST UNION SECURITIES, INC., d/b/a WACHOVIA SECURITIES,
and GOLDMAN SACHS CREDIT PARTNERS L.P.,
as Joint Lead Arrangers and Book Runners

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT (the "Credit Agreement") is entered into as of March 20, 2002, among MOHAWK INDUSTRIES, INC., a Delaware corporation (the "Borrower"), the several banks and other financial institutions as may from time to time become parties to this Credit Agreement (collectively, the "Lenders" and individually, a "Lender"), WACHOVIA INVESTORS, INC., as Administrative Agent for the Lenders (the "Administrative Agent"), and GOLDMAN SACHS CREDIT PARTNERS L.P. and SUNTRUST BANK, as Co-Syndication Agents (the "Co-Syndication Agents").

RECITALS

WHEREAS, the Borrower proposes: (a) to acquire the outstanding capital stock of Dal-Tile International Inc., a Delaware corporation (the "Acquired Company"); (b) to refinance certain existing funded debt of the Acquired Company and its Subsidiaries and (c) to obtain a senior bank credit facility in connection therewith which will also be used to pay fees, costs and expenses incurred in connection with the foregoing transactions;

WHEREAS, in connection with the foregoing, the Borrower has requested that the Lenders make loans and other financial accommodations to the Borrower as more particularly described herein; and

WHEREAS, the Lenders have agreed to make such loans and other financial accommodations to the Borrower on the terms and conditions contained herein.

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions.

The terms as defined in this Section 1.01 shall, for all purposes of this Credit Agreement and all amendment hereto (except as herein otherwise expressly provided or unless the context otherwise requires), have the meanings set forth herein. Defined terms herein shall include in the singular number the plural and in the plural the singular:

"Account Designation Letter" means the Notice of Account Designation Letter dated the Closing Date from the Borrower to the Administrative Agent substantially in the form attached hereto as Schedule 1.01(a).

"Acquired Company" shall have the meaning set forth in the first recital above.

"Acquisition" means any transaction, or any series of related transactions, by which the Borrower and/or any of its Subsidiaries directly or indirectly (a) acquires any ongoing business or all or substantially all of the assets of any Person or division thereof, whether through purchase of assets, merger or otherwise or (b) acquires (in one transaction or as the most recent transaction in a series of transactions) control of at least a majority in ordinary voting power of the securities of a Person which have ordinary voting

power for the election of directors (or other individuals performing similar functions).

"Acquisition Agreement" shall mean that certain Agreement and Plan of Merger dated as of November 19, 2001 by and among the Borrower, Maverick Merger Sub, Inc. and Dal-Tile International Inc.

"Acquisition Documents" shall mean the Acquisition Agreement, and each other document executed and delivered pursuant to the terms of the Acquisition Agreement in connection with the consummation of the Dal-Tile Acquisition.

"Additional Credit Party" shall mean each Person that becomes a Guarantor by execution of a Joinder Agreement in accordance with Section 5.24.

"Adjusted London Interbank Offered Rate" has the meaning set forth in Section 2.05(c).

"Affected Lender" has the meaning set forth in Section 7.06.

"Affiliate" means (i) any Person (a "Controlling Person") that directly, or indirectly through one or more intermediaries, controls the Borrower, (ii) any Person (other than the Borrower or a Subsidiary) which is controlled by or is under common control with a Controlling Person, or (iii) any Person (other than a Subsidiary) of which the Borrower owns, directly or indirectly, 20% or more of the common stock or equivalent equity interests. As used herein, the term "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Agents" collectively means the Administrative Agent, the Co-Syndication Agents and First Union Securities, Inc., d/b/a Wachovia Securities.

"Aladdin" means Aladdin Manufacturing Corporation, a Delaware corporation.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Rate in effect on such day plus 1/2 of 1%. For purposes hereof: "Prime Rate" shall mean, at any time, the rate of interest per annum publicly announced from time to time by First Union at its principal office in Charlotte, North Carolina as its prime rate. Each change in the Prime Rate shall be effective as of the opening of business on the day such change in the Prime Rate occurs. The parties hereto acknowledge that the rate announced publicly by First Union as its Prime Rate is an index or base rate and shall not necessarily be its lowest or best rate charged to its customers or other banks. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive in the

absence of manifest error) that it is unable to ascertain the Federal Funds Rate, for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms thereof, the Alternate Base Rate shall be determined without regard to clause (b) of the first sentence of this definition, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Rate shall be effective on the opening of business on the date of such change.

"Alternate Base Rate Loan" means a Loan that bears interest at an interest rate based on the Alternate Base Rate.

"Applicable Margin" has the meaning set forth in Section 2.05(a).

"Approved Investment" means an Investment in compliance with the Investment Guidelines, as in effect on the Closing Date excluding for purposes hereof, Investments of the type referred to in Section I.(iv), Section I.(ix), Section I.(xi), Section II.(i) and Section II.(iv) thereof.

"Asset Disposition" means the disposition of any or all of the assets (including, without limitation, the Capital Stock of a Subsidiary or any ownership interest in a joint venture) of the Borrower or any Subsidiary whether by sale, lease, transfer or otherwise. The term "Asset Disposition" shall not include (i) Specified Sales, (ii) the sale, lease or transfer of assets permitted by Section 5.10(a)(iii), (iv) or (v) hereof, (iii) any Equity Issuance or (iv) any Recovery Event.

"Assignee" has the meaning set forth in Section 8.08(c).

"Assignment and Acceptance" means an Assignment and Acceptance executed in accordance with Section 8.08(c) in the form of Exhibit 8.08(c).

"Attributed Principal Amount" means, on any day, with respect to any Permitted Receivables Financing entered into by the Borrower or any of its Subsidiaries, the aggregate amount (with respect to any such transaction, the "Invested Amount") paid to, or borrowed by, such Person as of such date under such Permitted Receivables Financing, minus the aggregate amount received by the
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applicable Receivables Financier and applied to the reduction of the Invested Amount under such Permitted Receivables Financing.

"Borrower" means Mohawk Industries, Inc., a Delaware corporation, and its successors and permitted assigns.

"Borrowing" means a borrowing hereunder consisting of Loans made to the Borrower at the same time by the Lenders pursuant to Article II. A Borrowing is a "Alternate Base Rate Borrowing" if such Loans are Alternate Base Rate Loans or a "Eurodollar Borrowing" if such Loans are Eurodollar Loans.

"Capital Lease" means any lease of property, real or personal, the obligations with respect to which are required to be capitalized on a balance sheet of the lessee in accordance with GAAP.

"Capital Stock" means (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Catoosa Co. IRB" means that issuance of certain bonds by The Development Authority of Catoosa County, Georgia, pursuant to the terms and conditions set forth in that certain Indenture of Trust dated as of November 1, 1991.

"CERCLA" means the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C.ss. 9601 et. seq. and its implementing regulations and amendments.

"CERCLIS" means the Comprehensive Environmental Response Compensation and Liability Inventory System established pursuant to CERCLA.

"Change of Control" means the occurrence of any of the following events: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities and Exchange Act of 1934, as amended) becomes after

the date hereof the "beneficial owner" (defined as aforesaid), directly or indirectly, of more than 30% of the Voting Stock of the Borrower, or (b) Continuing Directors shall cease for any reason to constitute a majority of the Board of Directors of the Borrower then in office.

"Change of Law" shall have the meaning set forth in Section 7.02.

"Closing Date" means March 20, 2002.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor Federal tax code.

"Commitment" means, with respect to each Lender, the commitment of such Lender to make Loans in an amount equal to the amount listed as its Commitment on Schedule 2.01(a), or in the Assignment and Acceptance by which
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such Lender becomes a party hereto, as such amount may be reduced from time to time in accordance with the provisions hereof.

"Commitment Percentage" means, for each Lender, the percentage
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identified as its Commitment Percentage on Schedule 2.01(a), as such percentage may be modified in connection with any assignment made in accordance with the provisions of Section 9.6(c).

"Compliance Certificate" has the meaning set forth in Section 5.01(c).

"Consolidated Debt" means at any date the Debt of the Borrower and its Consolidated Subsidiaries, determined on a consolidated basis as of such date.

"Consolidated EBITDA" means, for any period, the sum of (i) Consolidated Net Income for such period, plus (ii) an amount which, in the determination of Consolidated Net Income for such period, has been deducted for (A) Consolidated Interest Expense, (B) total federal, state, local and foreign income taxes and other similar taxes, (C) losses (or minus gains) on the sale or
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disposition of assets outside the ordinary course of business, (D) depreciation, amortization expense and other non-cash charges, all as determined in accordance with GAAP and (E) non-recurring expenses incurred in connection with a Permitted Acquisition.

"Consolidated Interest Expense" for any period means interest, whether expensed or capitalized, in respect of Debt of the Borrower or any of its Consolidated Subsidiaries outstanding during such period.

"Consolidated Net Income" means, for any period, the Net Income of the Borrower and its Consolidated Subsidiaries for such period determined on a consolidated basis, but excluding (i) extraordinary items and (ii) any equity interests of the Borrower or any Subsidiary in the unremitted earnings of any Person that is not a Subsidiary.

"Consolidated Net Worth" means at any time Stockholders' Equity.

"Consolidated Subsidiary" means at any date any Subsidiary or other entity the accounts of which, in accordance with GAAP, would be consolidated with those of the Borrower in its consolidated financial statements as of such date.

"Consolidated Total Assets" means, at any time, (x) the total assets of the Borrower and its Consolidated Subsidiaries, determined on a consolidated basis, as set forth on the consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, prepared in accordance with GAAP, plus (y) the accounts receivable balance reported as of the last day of the calendar month most recently ended by the Borrower or a Subsidiary with respect to Permitted

Receivables Financings.

"Consolidated Total Capital" means, at any time, the sum of the following as of such time (i) Consolidated Net Worth and (ii) Consolidated Debt.

"Continuing Directors" means the individuals who at the Closing Date were directors of the Borrower (together with any new director whose election by the Borrower's board of directors or whose nomination for election by the Borrower's shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the Closing Date or whose election or nomination for election was previously so approved).

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414 of the Code.

"Credit Documents" means this Credit Agreement, the Notes, any Joinder Agreement, and any other document evidencing, relating to or securing the Loans, and any other document or instrument delivered in connection with this Credit Agreement, the Notes or the Loans.

"Credit Party" means any of the Borrower or the Guarantors, if any.

"Dal-Tile Acquisition" means the acquisition of the Acquired Company by the Borrower and/or one of its Wholly-Owned Subsidiaries pursuant to the terms of the Acquisition Documents.

"Debt" of any Person means at any date without duplication, all of the following as of such date (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee under Capital Leases, (v) all obligations of such Person to reimburse any bank or other Person in respect of amounts payable under a banker's acceptance, (vi) all Redeemable Preferred Stock of such Person (in the event such Person is a corporation), (vii) all obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, (viii) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person, (ix) all Debt of others Guaranteed by such Person, (x) the total accounts receivable reported as sold as of the last day of the calendar month most recently ended by the Borrower or a Subsidiary with respect to a Permitted Receivables Financing, (xi) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (xii) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements, (xiii) all obligations of such Person under Hedging Agreements, (xiv) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product and (xv) the Debt of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer. For all purposes of this Agreement, the amount of a Person's Debt under a loan or lease agreement between such Person and a governmental agency that has issued industrial development bonds or similar instruments, the repayment of which is secured by the payment obligations of such Person under such loan or lease agreement, shall be equal to the aggregate principal amount of such bonds or instruments outstanding at the time of determination less the amount of proceeds of such bonds or instruments

which at such time are on deposit with a trustee or other fiduciary in a "construction" fund, or other similar fund which would be available to such trustee or other fiduciary to repay the bonds or other instruments if then due and payable.

"Debt Issuance" means the issuance of any Debt for borrowed money by the Borrower or any of its Subsidiaries. The term "Debt Issuance" shall not include (i) Debt owing among the

Borrower and its Subsidiaries; (ii) Debt deemed incurred in connection with a Permitted Receivables Financing; or (iii) renewals, refinancings and extensions of Debt of the Borrower or any Subsidiary outstanding on the Closing Date in the same or lesser principal amount of the Debt then outstanding relating thereto so long as such renewed, refinanced or extended Debt is on terms and conditions no less favorable to the Borrower or such Subsidiary, as the case may be, than the Debt originally issued.

"Debt to Capitalization Ratio" means the ratio of Consolidated Debt to Consolidated Total Capital.

"Debt Rating" means the debt rating for the Borrower's senior, unsecured, non-credit enhanced long term indebtedness for money borrowed as determined by Moody's or S&P.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Default Rate" means, with respect to any Loan, on any day, the sum of 2% plus the then highest interest rate (including the Applicable Margin) which may be applicable to any Loans hereunder, including, without limitation, under Section 7.06, (irrespective of whether any such class of Loans are actually outstanding hereunder).

"Dollars" or "$" means dollars in lawful currency of the United States of America.

"Domestic Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or the State of New York are authorized by law to close.

"Domestic Subsidiary" means any Subsidiary that is organized and existing under the laws of the United States or any state or commonwealth thereof or under the laws of the District of Columbia.

"Environmental Authority" means any foreign, federal, state, local or regional government that exercises any form of jurisdiction or authority under any Environmental Requirement.

"Environmental Judgments and Orders" means all judgments, decrees or orders arising from or in any way associated with any Environmental Requirements, whether or not entered upon consent or written agreements with an Environmental Authority or other entity arising from or in any way associated with any Environmental Requirement, whether or not incorporated in a judgment, decree or order.

"Environmental Liabilities" means any liabilities, whether pending or, to the knowledge of the Borrower or any Subsidiary threatened, arising from and in any way associated with any Environmental Requirements and which would have or create a reasonable possibility of causing a Material Adverse Effect.

"Environmental Notices" means notice from any Environmental Authority or by any other person or entity, of possible or alleged noncompliance with or liability under any Environmental Requirement, including without limitation any complaints, citations, demands or requests from any Environmental Authority or from any other person or entity, for correction of any, violation of any Environmental Requirement or any investigations concerning any violation of any Environmental Requirement.

"Environmental Proceedings" means any judicial or administrative proceedings arising from or in any way associated with any Environmental Requirement.

"Environmental Releases" means releases as defined in CERCLA or under any applicable state or local environmental law or regulation.

"Environmental Requirements" means any legal requirement relating to health, safety or the environment and applicable to any of the Borrower, any Subsidiary, or the Properties, including but not limited to any such requirement under CERCLA or similar state legislation and all federal, state and local laws, ordinances, regulations, orders, writs, decrees and common law.

"Equity Issuance" means any issuance by the Borrower or any Subsidiary to any Person other than the Borrower or any Subsidiary of (a) shares of its Capital Stock, (b) any shares of its Capital Stock pursuant to the exercise of options or warrants or (c) any shares of its Capital Stock pursuant to the conversion of any debt securities to equity. The term "Equity Issuance" shall not include (i) any equity issued in connection with the Dal-Tile Acquisition, (ii) any Asset Disposition, (iii) any Debt Issuance, or (iv) the issuance of common stock by the Borrower or any of its Subsidiaries to officers, directors or employees of the Borrower or any Subsidiary in connection with stock offering plans and other benefit plans of the Borrower or its Subsidiaries in the ordinary course of business.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor law. Any reference to any provision of ERISA shall also be deemed to be a reference to any successor provision or provisions thereof.

"Eurodollar Business Day" means any Domestic Business Day on which dealings in Dollar deposits are carried out in the London interbank market.

"Eurodollar Loan" means a Loan the rate of interest applicable to which is based on the London Interbank Offered Rate.

"Eurodollar Reserve Percentage" has the meaning set forth in Section 2.05(c).

"Event of Default" has the meaning set forth in Section 6.01.

"Excluded Subsidiary" means any Subsidiary of the Borrower that is subject to provisions in its charter documents that require it to be a "bankruptcy remote" entity or a "single

purpose" entity and therefore prohibit it from, among other things, guaranteeing or becoming jointly and severally liable for the Debt of others.

"Existing Credit Agreement" means that certain Fifth Amended and Restated Credit Agreement dated as of November 23, 1999 among Mohawk Industries, Inc., First Union National Bank, SunTrust Bank, Atlanta, Wachovia Bank, N.A., and the other banks from time to time party thereto.

"Federal Funds Rate" means, for any day the rate per annum (rounded upward, if necessary, to the next higher 1/100/th/ of 1%) equal to the weighted average

of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (i) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average rate charged to First Union on such day on such transactions, as determined by First Union.

"Fee Letter" means that certain Fee Letter dated November 19, 2001 among the Borrower and the Agents.

"First Union" means Wachovia Investors, Inc., and its successors and, as the context requires, its permitted assigns.

"Fiscal Quarter" means any fiscal quarter of the Borrower.

"Fiscal Year" means any fiscal year of the Borrower.

"Foreign Subsidiary" means any Subsidiary that is not a Domestic Subsidiary.

"Funding Indemnity Letter" has the meaning set forth in Section 2.01(b).

"GAAP" means generally accepted accounting principles applied on a basis consistent with those which, in accordance with Section 1.02, are to be used in making the calculations for purposes of determining compliance with the terms of this Credit Agreement.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantee" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to secure, purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership

arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to provide collateral security, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), provided that the term Guarantee shall
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not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Guarantee Obligations" means, with respect to any Person, without duplication, any obligations of such Person (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing or intended to guarantee any Debt of any other Person in any manner, whether direct or indirect, and including without limitation any obligation, whether or not contingent, (i) to purchase any such Debt or any property constituting security therefor, (ii) to advance or provide funds or other support for the payment or purchase of any such Debt or to maintain working capital, solvency or other balance sheet condition of such other Person (including without limitation keep well agreements, maintenance agreements, comfort letters or similar agreements or arrangements) for the benefit of any holder of Debt of such other Person, (iii) to lease or purchase property, securities or services primarily for the purpose of assuring the holder of such

Debt, or (iv) to otherwise assure or hold harmless the holder of such Debt against loss in respect thereof. The amount of any Guarantee Obligation hereunder shall (subject to any limitations set forth therein) be deemed to be an amount equal to the outstanding principal amount (or maximum principal amount, if larger) of the Debt in respect of which such Guarantee Obligation is made.

"Guarantor" means any of the Additional Credit Parties that executes a Joinder Agreement, together with their successors and permitted assigns.

"Hazardous Materials" means (a) solid or hazardous waste, as defined in the Resource Conservation and Recovery Act of 1980, 42 U.S.C. ss. 6901 et seq. and its implementing regulations and amendments, or in any applicable state or local law or regulation, (b) "hazardous substance", "pollutant", or "contaminant" as defined in CERCLA, or in any applicable state or local law or regulation, (c) gasoline, or any other petroleum product or by-product, including, crude oil or any fraction thereof (d) toxic substances, as defined in the Toxic Substances Control Act of 1976, or in any applicable state or local law or regulation or (e) insecticides, fungicides, or rodenticides, as defined in the Federal Insecticide, Fungicide, and Rodenticide Act of 1975, or any applicable state or local law or regulation, as each such Act, statute or regulation may be amended from time to time.

"Hedging Agreement" means, with respect to any Person, any agreement entered into to protect such Person against fluctuations in interest rates, or currency or raw materials values, including, without limitation, any interest rate swap, cap or collar agreement or similar arrangement between such Person and one or more counterparties, any foreign currency exchange agreement, currency protection agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging agreements.

"Highest Lawful Rate" means the maximum lawful interest rate, if any, that at any time or from time to time may be contracted for, charged, or received under the laws applicable to any Lender which are presently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

"Interest Coverage Ratio" means, with respect to the Borrower and its Consolidated Subsidiaries on a consolidated basis for the twelve month period ending on the last day of any fiscal quarter of the Borrower, the ratio of (a) Consolidated EBITDA for such period to (b) Consolidated Interest Expense for such period.

"Interest Period" means: (1) with respect to each Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the first, second or third month thereafter, as the Borrower may elect; provided that:

(a) any Interest Period (other than an Interest Period determined pursuant to paragraph (c) below) which would otherwise end on a day which is not a Eurodollar Business Day shall be extended to the next succeeding Eurodollar Business Day unless such Eurodollar Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Eurodollar Business Day;

(b) any Interest Period which begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall, subject to paragraph (c) below, end on the last Eurodollar Business Day of the appropriate subsequent calendar month; and

(c) any Interest Period which begins before the Termination Date and

would otherwise end after the Termination Date shall end on the Termination Date;

(2) with respect to each Alternate Base Rate Borrowing, the period commencing on the date of such Borrowing and ending 30 days thereafter; provided that:

(a) any Interest Period (other than an Interest Period determined pursuant to paragraph (b) below) which would otherwise end on a day which is not a Domestic Business Day shall be extended to the next succeeding Domestic Business Day; and

(b) any Interest Period which begins before the Termination Date and would otherwise end after the Termination Date shall end on the Termination Date.

"Investment" in any Person means (a) the acquisition (whether for cash, property, services, assumption of Debt, securities or otherwise) of Capital Stock, bonds, notes, debentures, partnership, joint ventures or other ownership interests or other securities of such Person, (b) any advance, loan or other extension of credit to such Person (other than deposits made in connection with the purchase of equipment or other assets in the ordinary course of business) or (c) any other capital contribution to or investment in such Person, but excluding any Restricted Payment to such Person.

"Investment Guidelines" means the guidelines for investment of funds of the Borrower and the Subsidiaries as in effect on the Closing Date as approved by the Board of Directors of the Borrower at a meeting held on December 17, 1998.

"Joinder Agreement" means a Joinder Agreement substantially in the form of Exhibit 5.24(a), executed and delivered by an Additional Credit Party in
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accordance with the provisions of Section 5.24.

"Lender" has the meaning set forth in the first paragraph of this Credit Agreement.

"Lending Office" means, as to each Lender, its office located at its address set forth on Schedule 8.01 or such other office as such Lender may
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hereafter designate as its Lending Office by notice to the Borrower and the Administrative Agent.

"Lien" means, with respect to any asset, any mortgage, deed to secure debt, deed of trust, lien, pledge, charge, security interest, security title, preferential arrangement, which has the practical effect of constituting a security interest or encumbrance, or encumbrance or servitude of any kind in respect of such asset to secure or assure payment of a Debt or a Guarantee, whether by consensual agreement or by operation of statute or other law. For the purposes of this Credit Agreement, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, Capital Lease or other title retention agreement relating to such asset.

"Loan" means an Alternate Base Rate Loan or a Eurodollar Loan and "Loans" means Alternate Base Rate Loans or Eurodollar Loans, or either or each of them, as the context shall require.

"London Interbank Offered Rate" has the meaning set forth in Section 2.05(c).

"Margin Stock" means "margin stock" as defined in Regulations T, U or X.

"Material Adverse Effect" means, with respect to any event, act, condition or occurrence of whatever nature (including any adverse determination in any litigation, arbitration, or governmental investigation or proceeding), whether singly or in conjunction with any other event or events, act or acts, condition or conditions, occurrence or occurrences, whether or not related, a material adverse change in, or a material adverse effect upon, any of (a) the business, properties, prospects, operations or condition (financial or otherwise) of the Borrower and its Consolidated Subsidiaries (for the avoidance of doubt, to be deemed to include at all times the Acquired Company and its Subsidiaries) taken as a whole, (b) the material rights and remedies of the Lenders under the Credit Documents, or the ability of the Borrower to perform its material obligations under the Credit Documents to which it is a party, as applicable, or (c) the legality, validity or enforceability of any Credit Document.

"Material Contract" means any contract or other arrangement, whether written or oral, to which the Borrower, the Acquired Company or any of their respective Subsidiaries is a party as

to which contract the breach, nonperformance or cancellation of such contract by any party thereto could reasonably be expected to have a Material Adverse Effect.

"Material Subsidiary" means, as of the date of any determination thereof, any Subsidiary that either: (a) owns assets having a book value equal to or greater than 5.0% of Consolidated Total Assets, or (b) had Net Income for any prior period of four consecutive Fiscal Quarters equal to or greater than 5.0% of Consolidated Net Income for the same four Fiscal Quarter period.

"Multiemployer Plan" has the meaning set forth in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds" means the aggregate cash proceeds received by the Borrower or any Subsidiary in respect of any Asset Disposition, Equity Issuance or Debt Issuance, net of (a) direct costs (including, without limitation, reasonable legal, accounting and investment banking fees, and sales commissions), (b) taxes paid or payable as a result thereof, and (c) in the case of any Asset Disposition, any repayments by the Borrower or such Subsidiary of Debt (other than Debt under any of the Credit Documents) to the extent that such Debt is secured by a Lien on the property that is the subject of such Asset Disposition; it being understood that "Net Cash Proceeds" shall include, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received by the Borrower or any Subsidiary in any Asset Disposition, Equity Issuance or Debt Issuance.

"Net Income" means, as applied to any Person for any period, the aggregate amount of net income of such Person, after taxes, for such period, as determined in accordance with GAAP.

"Notes" means the promissory notes of the Borrower, substantially in the form of Exhibit 2.03, evidencing the obligation of the Borrower to repay the
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Loans.

"Obligations" means, without duplication, all of the obligations of the Borrower and Guarantors, if any, to the Lenders and the Administrative Agent, whenever arising, under this Credit Agreement, the Notes or any of the other Credit Documents (including, but not limited to, any interest accruing after the occurrence of a filing of a petition of bankruptcy under the Bankruptcy Code with respect to the Borrower, regardless of whether such interest is an allowed claim under the Bankruptcy Code).

"Participant" has the meaning set forth in Section 8.08(b).

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Permitted Acquisition" means an Acquisition by the Borrower or any Subsidiary of the Borrower; provided that (a) in the case of an Acquisition of the capital stock of another Person, the board of directors (or other comparable governing body) of such other Person shall have duly approved such Acquisition, (b) the Borrower shall have delivered to the Administrative Agent, prior to the closing of such Acquisition, a certificate of its chief financial officer, controller or treasurer demonstrating that, upon giving effect to such Acquisition on a pro forma basis, the

Borrower would be in compliance with all of the covenants set forth in Section 5.04, (c) the representations and warranties made by the Borrower in any Credit Document shall be true and correct in all material respects at and as if made as of the date of such Acquisition (after giving effect thereto) except to the extent such representations and warranties expressly relate to an earlier date, (d) at the time of such Acquisition and after giving effect thereto, no Default or Event of Default shall exist or be continuing and (e) the aggregate consideration (including cash and non-cash consideration and any assumption of Debt) paid by the Borrower or any of its Subsidiaries for all such Acquisitions occurring after the Closing Date shall not exceed in the aggregate, during the term of this Credit Agreement, $50,000,000.

"Permitted Investment" has the meaning set forth in Section 5.06.

"Permitted Line of Business" means the manufacturing, marketing and or distribution of commercial or home furnishings and floor coverings and other reasonably related products and any "vertical integration" with respect thereto.

"Permitted Receivables Financing" means (i) the sale of Transferred Assets by the Borrower or any of its Subsidiaries to a Receivables Financier, (ii) a loan to the Borrower or any of its Subsidiaries secured by a pledge to a Receivables Financier of Transferred Assets or (iii) any other financing arrangement with the Borrower or any of its Subsidiaries whereby a Receivables Financier receives an interest in Transferred Assets from the Borrower or any of its Subsidiaries, provided that (A) the aggregate Attributed Principal Amount for all such receivables financings shall not at any time exceed $350,000,000, (B) the terms of any such receivables financing shall, at the time such receivables financing is established, be consistent with those prevailing in the market for similar transactions involving a receivables originator/servicer of similar credit quality and an asset pool of similar characteristics and (C) the documentation for such transaction shall not be amended or modified in any material manner without the prior written approval of the Agents; provided that, notwithstanding the above, any receivables financing of the Borrower in effect as of the Closing Date shall be deemed to be a Permitted Receivables Financing.

"Person" means an individual, a corporation, a partnership, an unincorporated association, joint venture, limited liability company, a trust or any other entity, or organization, including, but not limited to, a government or political subdivision or an agency or instrumentality thereof.

"Plan" means at any time an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either (i) maintained by a member of the Controlled Group for employees of any member of the Controlled Group or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made

contributions.

"Properties" means all real property owned, leased or otherwise used or occupied by the Borrower or any Subsidiary (which shall at all times be deemed to include the Acquired Company and its Subsidiaries), wherever located.

"Receivables Financier" means any Person, other than a Subsidiary or Affiliate of the Borrower, who, in connection with a Permitted Receivables Financing, (i) purchases any accounts receivable, notes receivable, rights to future lease payments or residuals (collectively, together with any property relating thereto and the right to collections thereon, the "Transferred Assets") from the Borrower or any of its Subsidiaries, (ii) lends to the Borrower or any of its Subsidiaries and, in connection therewith, receives a pledge of such Transferred Assets and/or (iii) otherwise enters into any financing arrangement with the Borrower or any of its Subsidiaries whereby it receives an interest in such Transferred Assets from the Borrower or any of its Subsidiaries.

"Recovery Event" means the receipt by the Borrower or any of its Subsidiaries of any cash insurance proceeds or condemnation award payable by reason of theft, loss, physical destruction or damage, taking or similar event with respect to any of their respective property or assets.

"Redeemable Preferred Stock" of any Person means any preferred stock issued by such Person which is at any time prior to the Termination Date either (i) mandatorily redeemable (by sinking fund or similar payments or otherwise) or (ii) redeemable at the option of the holder thereof.

"Regulation T" means Regulation T of the Board of Governors of the Federal Reserve System, as in effect from time to time, together with all official rulings and interpretations issued thereunder.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time, together with all official rulings and interpretations issued thereunder.

"Regulation X" means Regulation X of the Board of Governors of the Federal Reserve System, as in effect from time to time, together with all official rulings and interpretations issued thereunder.

"Related Fund" means, with respect to any Lender, a special purpose entity that purchases or participates in such Lender's loans and for which such Lender is agent, advisor or manager for such special purpose entity.

"Replacement Lender" has the meaning set forth in Section 7.06.

"Required Lenders" means at any time Lenders having at least 50% of the aggregate amount of the Commitments, or if the Commitments are no longer in effect, holding at least 50% of the aggregate outstanding principal amount of the Notes; provided, that if there are only two Lenders at any time, Required Lenders shall mean both Lenders, and if there are three Lenders at any time, Required Lenders shall mean at least two of such Lenders collectively holding more than 50% of the Commitments.

"Restricted Payment" means (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of Capital Stock of the Borrower or any of its Subsidiaries, now or hereafter outstanding (other than any dividend or distribution payable in Capital Stock), (b) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of Capital Stock of the

Borrower or any of its Subsidiaries, now or hereafter outstanding, (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of Capital Stock of the Borrower or any of its Subsidiaries, now or hereafter outstanding, or (d) any payment or prepayment of principal of, premium, if any, or interest on, redemption, purchase, retirement, defeasance, sinking fund or similar payment with respect to, any Subordinated Debt; provided that the term Restricted
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Payment shall not include (A) payments in respect of Permitted Receivables Financings to the extent permitted hereunder or (B) the payment of royalties in the ordinary course of business from one Subsidiary to another Subsidiary.

"Specified Sales" means (a) the sale, transfer, lease or other disposition of inventory and materials in the ordinary course of business and (b) the sale, transfer or other disposition for fair market value on arm's length commercial terms of Permitted Investments described in clauses (b), (c), (d), (e) or (j) of Section 5.06.

"Stockholders' Equity" means, at any time, the stockholders' equity of the Borrower and its Consolidated Subsidiaries, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries prepared in accordance with GAAP, but excluding any Redeemable
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Preferred Stock of the Borrower or any of its Consolidated Subsidiaries. Stockholders' Equity generally would include, but not be limited to, (i) the par or stated value of all outstanding Capital Stock, (ii) capital surplus, (iii) retained earnings, and (iv) various deductions such as (A) purchases of treasury stock, (B) valuation allowances, (C) receivables due from an employee stock ownership plan, (D) employee stock ownership plan debt guarantees, and (E) foreign currency translation adjustments. Notwithstanding the foregoing, the Lenders hereby agree that the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 121 ("FAS 121") relating to, among other things, the accounting for the impairment of long-lived assets, and its effect upon the consolidated financial statements of the Borrower as of and for the Fiscal Year ended December 31, 1996, shall be disregarded for the purposes of determining Stockholders' Equity, provided that any charge against income for the Fiscal Year ended December 31, 1996, resulting from the impairment of long-lived assets shall not exceed $2,000,000. In addition, the Lenders agree that the effect of that certain non-recurring $4,000,000 charge, incurred by Borrower during the fourth Fiscal Quarter of 1995 as a result of income tax reimbursement made to certain executives of Borrower relating to their exercise of certain stock options, shall be disregarded when determining Stockholders' Equity.

"Subject Transactions" has the meaning set forth in Section 1.02.

"Subordinated Debt" means any other Debt incurred by the Borrower and its Subsidiaries which by its terms is specifically subordinated in right of payment to the prior payment in full of the Obligations.

"Subsidiary" means, with respect to a Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other individuals performing similar functions are at the time directly or indirectly owned by such Person.

"Summerville City IRB" means that issuance of certain bonds by The Development Authority of the City of Summerville, Georgia, pursuant to the terms and conditions set forth in that certain Trust Indenture dated as of September 1, 1997.

"Term Loan Amount" means an amount up to SEVEN HUNDRED MILLION DOLLARS ($700,000,000), as requested by the Borrower.

"Termination Date" means March 19, 2003.

"Third Parties" means all lessees, sublessees, licensees and other users of the Properties, excluding those users of the Properties in the ordinary course of the Borrower's business and on a temporary basis.

"Transferred Assets" has the meaning set forth in the definition of Receivables Financier.

"Transferee" has the meaning set forth in Section 8.08(d).

"Voting Stock" means, with respect to any Person, Capital Stock issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or individuals performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

"Wholly Owned Subsidiary" means any Subsidiary all of the shares of capital stock or other ownership interests of which (except directors' qualifying shares) are at the time directly or indirectly owned by the Borrower or any Subsidiary.

Section 1.02 Accounting Terms and Determinations.

(a) Unless otherwise specified herein, all terms of an accounting character used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants or otherwise required by a change in GAAP) with the most recent audited consolidated financial statements of the Borrower delivered to the Lenders unless with respect to any such change concurred in by the Borrower's independent public accountants or required by GAAP, in determining compliance with any of the provisions of any of the Credit Documents: (i) the Borrower shall have objected to determining such compliance on such basis at the time of delivery of such financial statements, or (ii) the Required Lenders shall so object in writing within 30 days after the delivery of such financial statements, in either of which events the Lenders and the Borrower shall negotiate in good faith to resolve any existing disagreements regarding such calculations, provided, that if such disagreements are not resolved within 30 days

after receipt or a notice of objection, such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if objection is made in respect of the first financial statements delivered under Section 5.01, shall mean the financial statements referred to in Section 4.04).

(b) With respect to any period during which an Acquisition or an Asset Disposition has occurred (each, a "Subject Transaction"), for purposes of determining compliance with the financial covenants set forth in Section 5.04, Consolidated EBITDA and Consolidated Interest Expense shall be calculated with respect to such period on a pro forma basis (including pro forma adjustments arising out of events which are directly attributable to a specific transaction, are factually supportable and are expected to have a continuing impact, in each case determined on a basis consistent with Article 11 of Regulation S-X promulgated under the Securities Act and as interpreted by the staff of the Securities and Exchange Commission, which would include cost savings resulting from head count reduction, closure of facilities and similar restructuring charges, which pro forma adjustments shall be certified by the chief financial officer, controller or treasurer of the Borrower and agreed to by the Agents) using the historical audited financial statements of any business so acquired or

to be acquired or sold or to be sold and the consolidated financial statements of the Borrower and its Subsidiaries which shall be reformulated as if such Subject Transaction, and any Debt incurred or repaid in connection therewith, had been consummated or incurred or repaid at the beginning of such period (and assuming that such Debt bears interest during any portion of the applicable measurement period prior to the relevant acquisition at the weighted average of the interest rates applicable to outstanding Loans incurred during such period).

Section 1.03 References.

Unless otherwise indicated, references in this Credit Agreement to "Articles", "Exhibits", "Schedules", "Sections" and other Subdivisions are references to Articles, exhibits, schedules, sections and other subdivisions hereof. references in this Agreement to any document, instrument or agreement (a) shall include all exhibits, schedules and other attachments thereto, (b) shall include all documents, instruments or agreements issued or executed in replacement thereof, to the extent permitted hereby and (c) shall mean such document, instrument or agreement, or replacement or predecessor thereto, as amended, supplemented, restated or otherwise modified from time to time to the extent permitted hereby and in effect at any given time. Unless explicitly set forth to the contrary, a reference to "Subsidiary" means a Subsidiary of the Borrower.

Section 1.04 Use of Defined Terms.

All terms defined in this Credit Agreement shall have the same defined meanings when used in any of the other Credit Documents, unless otherwise defined therein or unless the context shall require otherwise.

Section 1.05 Terminology.

All personal pronouns used in this Credit Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and the plural shall include the singular. Titles of Articles and Sections in this Credit Agreement are for convenience only, and neither limit nor amplify the provisions of this Credit Agreement.

ARTICLE II

THE CREDIT

Section 2.01 Loans.

(a) Loans. Subject to the terms and conditions set forth herein, each Lender severally agrees, on the Closing Date to make a term loan (each a "Loan" and, collectively, the "Loans") to the Borrower, in Dollars, in an amount equal to such Lender's Commitment Percentage of the Term Loan Amount; provided that (i) the aggregate amount of Loans made shall not exceed the Term Loan Amount and (ii) the Loans shall only be made in a single funding. Once repaid, the Loans may not be reborrowed.

(b) Funding of the Loans. If the Borrower desires for Eurodollar Loans to be extended on the Closing Date, at least three (3) Eurodollar Business Days prior to the Closing Date, the Borrower shall

deliver to the Administrative Agent a funding indemnity letter (the "Funding Indemnity Letter"), in form and substance satisfactory to the Agents, whereby the Borrower shall (i) request that the Term Loan Amount be extended to the Borrower in the form of Eurodollar Loans on the Closing Date and (ii) agree to indemnify the Lenders against any loss or expense incurred by the Lenders resulting from the failure of the Borrower to borrow the Eurodollar Loans on the Closing Date, whether as a result of the Credit Agreement not closing on the Closing Date or otherwise. If the Administrative Agent receives the Funding Indemnity Letter in accordance with the terms set forth above, the Term Loan Amount shall be extended to the Borrower as Eurodollar Loans on the Closing Date (subject to the satisfaction of the requirements set forth in Section 3.01). If the Administrative Agent does not receive the Funding Indemnity Letter in accordance with the terms set forth above, the Term Loan Amount shall be extended to the Borrower as Alternate Base Rate Loans on the Closing Date (subject to the satisfaction of the requirements set forth in Section 3.01). On the Closing Date, each applicable Lender will make its Commitment Percentage of the Term Loan Amount available to the Administrative Agent by deposit, in Dollars and in immediately available funds, at the Administrative Agent's Lending Office or at such other address as the Administrative Agent may designate in writing. The amount of the Loans will then be made available to the Borrower by the Administrative Agent as directed by the Borrower or, if no such direction is provided, by crediting the account of the Borrower on the books of such office of the Administrative Agent, to the extent the amount of such Loans are made available to the Administrative Agent.

No Lender shall be responsible for the failure or delay by any other Lender in its obligation to make a Loan hereunder; provided, however, that the failure of any Lender to fulfill its obligations hereunder shall not relieve any other Lender of its obligations hereunder. If the Administrative Agent shall have received an executed signature page to this Credit Agreement (whether an original or via telecopy) from a Lender, the Administrative Agent and the Borrower may assume that such Lender has or will make the amount of its Loans available to the Administrative Agent on the Closing Date, and the Administrative Agent in reliance upon such assumption, may (in its sole discretion but without any obligation to do so) make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Administrative Agent, the Administrative Agent shall be able to recover such corresponding amount from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent will promptly notify the Borrower, and the Borrower shall immediately pay such corresponding amount to the Administrative Agent. The Administrative Agent shall also be entitled to recover from the Lender or the Borrower, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Administrative Agent to the Borrower to the date such corresponding amount is recovered by the Administrative Agent at a per annum rate equal to (i) from the Borrower at the rate otherwise payable by the Borrower in respect of the Loans made available by the other Lenders and (ii) from a Lender at the Federal Funds Rate if paid within two (2) Domestic Business Days of the date of drawing and thereafter at a rate equal to the Alternate Base Rate.

Section 2.02 Continuations and Conversions.

(a) Generally. The Borrower shall have the option, on any

Eurodollar Business Day, to continue existing Eurodollar Loans for a subsequent Interest Period, to convert Alternate Base Rate Loans into Eurodollar Loans, or to convert Eurodollar Loans into Alternate Base Rate

Loans; provided, however, that (i) each such continuation or conversion must be requested by the Borrower pursuant to a written Notice of Continuation/Conversion, in the form of Exhibit 2.02, in compliance with
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the terms set forth below, (ii) Eurodollar Loans may only be continued or converted on the last day of the Interest Period applicable thereto, (iii) Eurodollar Loans may not be continued nor may Alternate Base Rate Loans be converted into Eurodollar Loans during the existence and continuation of a Default or Event of Default and (iv) any request to continue a Eurodollar Loan that fails to comply with the terms hereof or any failure to request a continuation of a Eurodollar Loan at the end of an Interest Period shall result in a conversion of such Eurodollar Loan to a Alternate Base Rate Loan on the last day of the applicable Interest Period (it being understood that no such failure shall constitute a Default or Event of Default). Each continuation or conversion must be requested by the Borrower no later than 11:00 a.m. (A) on the day of a requested conversion of a Eurodollar Loan to a Alternate Base Rate Loan or (B) three (3) Eurodollar Business Days prior to the date for a requested continuation of a Eurodollar Loan or conversion of an Alternate Base Rate Loan to a Eurodollar Loan, in each case pursuant to a written Notice of Continuation/Conversion submitted to the Administrative Agent (which shall promptly notify each of the Lenders)

which shall set forth (x) whether the Borrower wishes to continue or convert such Loans and (y) if the request is to continue a Eurodollar Loan or convert an Alternate Base Rate Loan to a Eurodollar Loan, the Interest Period applicable thereto.

(b) Minimum Amounts. Each request for a conversion or
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continuation shall be subject to the requirements that (i) each Eurodollar Loan shall be in a minimum amount of $25,000,000 and in integral multiples of $5,000,000 in excess thereof, (ii) each Alternate Base Rate Loan shall be in a minimum amount of $10,000,000 (and integral multiples of $1,000,000 in excess thereof) and (iii) no more than four Eurodollar Loans shall be outstanding at any one time. For the purposes of this Section 2.02(b), all Eurodollar Loans with the same Interest Periods beginning on the same date shall be considered as one Eurodollar Loan, but Eurodollar Loans with different Interest Periods, even if they begin or end on the same date, shall be considered as separate Eurodollar Loans.

Section 2.03 Notes.

The Loans of each Lender shall be evidenced by a single Note made by the Borrower payable to the order of such Lender for the account of its Lending Office in an amount equal to the original principal amount of such Lender's Commitment.

Section 2.04 Maturity of Loans.

All Loans shall mature and be due and payable in full on the Termination Date.

Section 2.05 Interest Rates.

(a) "Applicable Margin" means, for any day, the rate per annum set forth below opposite the applicable Level then in effect based on the Borrower's then current Debt Rating, it being understood that the Applicable Margin for (i) Loans which are Alternate Base Rate Loans shall be the percentage set forth under the column "Alternate Base Rate Margin" and (ii) Loans which are Eurodollar Loans shall be the percentage set forth under the column "Eurodollar Rate Margin":

Level	Rating	Alternate Base Rate Margin	Eurodollar Rate Margin
I	BBB-/Baa3 or higher	0.000%	1.375%
II	BB+/Ba1	0.250%	1.750%
III	BB/Ba2 or lower	0.500%	2.000%

; provided, however, that the Applicable Margin for Eurodollar Loans and for Alternate Base Rate Loans shall increase by an additional 0.250% as of the end of each 90 day

period after the Closing Date that Loans remain outstanding (i.e. assuming no downgrading of the Borrower's Debt Rating throughout such period, if the Borrower's Debt Rating is BBB-/Baa3, then beginning as of the end of the first 90 day period the Applicable Margin for Eurodollar Loans would be 1.625% and for Alternate Base Rate Loans would be 0.25% and beginning as of the end of the second 90 day period the Applicable Margin for Eurodollar Loans would be 1.875% and for Alternate Base Rate Loans would be 0.50%. If the Borrower's Debt Rating is downgraded during such period, the increase of 0.25% shall be added to the then prevailing rate at the end of such period).

Any change in the Applicable Margin due to a change in the Debt Rating shall be effective on the effective date of such change in the Debt Rating. Notwithstanding the foregoing, the Borrower shall be obligated to provide notice to the Administrative Agent and the Lenders of any change in the Debt Rating in accordance with Section 5.03(e).

If (a) only one of S&P and Moody's at any time of determination shall have in effect a Debt Rating, the Applicable Margin shall be determined by reference to the available rating, (b) neither S&P nor Moody's at any time of determination shall have in effect a Debt Rating, the Applicable Margin will be set in accordance with Level III, (c) the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin shall be based upon the lower rating, (d) any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change, and (e) S&P or Moody's shall change the basis on which ratings are established, each reference to the Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

(b) Each Alternate Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Alternate Base Rate for such day plus the Applicable Margin. Such interest shall be payable for each Interest Period on the last day thereof, but no less frequently than quarterly. Any overdue principal of and, to the extent permitted by applicable law, overdue interest on any Alternate Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

(c) Each Eurodollar Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of the Applicable Margin plus the applicable Adjusted London Interbank Offered Rate for such Interest Period;

provided that if any Eurodollar Loan shall, as a result of paragraph (l)(c) of the definition of Interest Period, have an Interest Period of less than one month, such Eurodollar Loan shall bear interest during such Interest Period at the rate applicable to Alternate Base Rate Loans during such period. Such interest shall be payable for each Interest Period on the last day thereof. Any overdue principal of and, to the extent permitted by law, overdue interest on any Eurodollar Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

The "Adjusted London Interbank Offered Rate" applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upwards, if necessary, to the next higher 1/100/th/ of 1%) by dividing (i) the applicable London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Eurodollar Reserve Percentage.

The "London Interbank Offered Rate" applicable to any Eurodollar Loan means for the Interest Period of such Eurodollar Loan, the rate per annum determined on the basis of the offered rate for deposits in Dollars of amounts equal or comparable to the principal amount of such Eurodollar Loan offered for a term comparable to such Interest Period, which rates appear on Telerate Page 3750 effective as of 11:00 A.M., London time, two (2) Eurodollar Business Days prior to the first day of such Interest Period, provided that (i) if more than one such offered rate appears on Telerate Page 3750, the "London Interbank Offered Rate" will be the arithmetic average (rounded upward, if necessary, to the next higher 1/100/th/ of 1%) of such offered rates; (ii) if no such offered rates appear on such page, the "London Interbank Offered Rate" for such Interest Period will be the arithmetic average (rounded upward, if necessary, to the next higher 1/100/th/ of 1%) of rates quoted by not less than two major banks in New York City, selected by the Administrative Agent, at approximately 10:00 A.M., Eastern time, two (2) Eurodollar Business Days prior to the first day of such Interest Period, for deposits in Dollars offered to leading European banks for a period comparable to such Interest Period in an amount comparable to the principal amount of such Eurodollar Loan.

"Eurodollar Reserve Percentage" means, with respect to a given Lender, for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the actual reserve requirement for such Lender in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Eurodollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Lender to United States residents). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Percentage.

(d) The Administrative Agent shall determine the interest rates applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the other Lenders (by telephone or facsimile transmission) of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

Section 2.06 Fees.

The Borrower shall pay to each Lender the fees payable to such Lender as mutually agreed in writing as of the Closing Date.

Section 2.07 Pro Rata Treatment and Payments after Event of Default.

(a) Generally. Each payment under this Credit Agreement or any Note shall be applied, first, to any fees then due and owing by the Borrower pursuant to Section 2.06, second, to interest then due and owing in respect of the Loans and, third, to principal of the Loans then due and owing. Each payment on account of any fees pursuant to Section 2.06 shall be made pro rata in accordance with the respective amounts due and owing. Each payment (other than prepayments) by the Borrower on account of principal of and interest on the Loans, shall be made pro rata according to the respective amounts due and owing. Each mandatory prepayment on account of principal of the Loans shall be applied in accordance with Section 2.10; provided, that prepayments made pursuant to Section 7.02 shall be applied in accordance with such section. All payments (including prepayments) to be made by the Borrower on account of principal, interest and fees shall be made without defense, set-off or counterclaim.

(b) Allocation of Payments After Event of Default. Notwithstanding any other provisions of this Credit Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Administrative Agent or any Lender on account of the Obligations or any other amounts outstanding under any of the Credit Documents shall be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation reasonable attorneys' fees actually incurred) of the Administrative Agent in connection with enforcing the rights of the Lenders under the Credit Documents;

SECOND, to payment of any fees owed to the Administrative Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees actually incurred) of each of the Lenders in connection with enforcing its rights under the Credit Documents or otherwise enforcing its rights with respect to the Obligations owing to such Lender;

FOURTH, to the payment of all of the Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Obligations;

SIXTH, to all other Obligations which shall have become due and payable under the Credit Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to whomever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the

numerical order provided until exhausted prior to application to the next succeeding category; and (ii) each of the Lenders shall receive an amount equal to its pro rata share (based on the proportion that the then outstanding Loans held by such Lender bears to the aggregate then outstanding Loans) of amounts available to be applied pursuant to clauses "THIRD", "FOURTH", "FIFTH" and "SIXTH" above.

Section 2.08 Mandatory Reduction and Termination of Commitments.

The Commitments shall terminate on the Termination Date and any Loans then outstanding (together with accrued interest thereon) shall be due and payable by the Borrower on such date.

Section 2.09 Optional Prepayments.

(a) The Borrower may prepay any Alternate Base Rate Borrowing in whole at any time, or from time to time in part in amounts aggregating at least $10,000,000 or any larger amount, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment.

(b) Subject to Section 7.05, the Borrower may, upon at least three (3) Eurodollar Business Days' notice to the Administrative Agent, prepay any Eurodollar Loan in whole at any time, or from time to time in part, prior to the maturity thereof, in amounts aggregating at least $25,000,000 or any larger amount, by paying the principal amount to be prepaid together with accrued interest thereon to the date of the prepayment

(c) Upon the Administrative Agent's receipt of a notice of prepayment pursuant to this Section, such notice shall not thereafter be revocable by the Borrower.

Section 2.10 Mandatory Prepayments.

(a) Asset Dispositions. Promptly following any Asset Disposition, the Borrower shall prepay the Loans in an aggregate amount equal to the Net Cash Proceeds derived from such Asset Disposition (such prepayment to be applied as set forth in clause (d) below); provided, however, the provisions of this clause (a) shall not apply to (i) any Asset Disposition to the extent the Net Cash Proceeds thereof are used to purchase or otherwise acquire replacement assets within 90 days prior to or 180 days after the receipt of such Net Cash Proceeds or (ii) any Asset Disposition or Asset Dispositions where the amount of Net Cash Proceeds does not exceed $10,000,000 in the aggregate in any fiscal year.

(b) Issuances. Immediately upon receipt by the Borrower or any of its Subsidiaries of proceeds from (i) any Debt Issuance, the Borrower shall prepay the Loans in an aggregate amount equal to one hundred percent (100%) of the Net Cash Proceeds of such Debt Issuance to the Lenders (such prepayment to be applied as set forth in clause (d) below) or (ii) any Equity Issuance, the Borrower shall prepay the Loans in an

aggregate amount equal to one hundred percent (100%) of the Net Cash Proceeds of such Equity Issuance to the Lenders (such prepayment to be applied as set forth in clause (d) below); provided, however, (A) the provisions of the preceding clause (i) shall not apply to any Debt permitted to be incurred pursuant to Section 5.17 and (B) the provisions of

the preceding clause (ii) shall not apply to any Equity Issuance issued in exchange for any other Capital Stock of the Borrower to the extent no Net Cash Proceeds shall be generated from any such transaction.

(c) Recovery Event. To the extent the Borrower or any of its Subsidiaries receives cash proceeds in connection with a Recovery Event which are not applied toward the repair, replacement or relocation of damaged properties within 270 days after the receipt by such Person of such cash proceeds, the Borrower shall prepay the Loans in an aggregate amount equal to 100% of such cash proceeds to the Lenders (such prepayment to be applied as set forth in clause (d) below).

(d) Application of Mandatory Prepayments. All amounts required to be paid pursuant to Section 2.10(a) through (c) shall be applied to the Lenders on a pro rata basis, first to Alternate Base Rate Loans and then to Eurodollar Rate Loans pro rata to the remaining Interest Period maturities. All prepayments under this Section 2.10 shall be subject to Section 7.05 and be accompanied by interest on the principal amount prepaid through the date of prepayment.

Section 2.11 General Provisions as to Payments.

(a) The Borrower shall make each payment of principal of, and interest on, each Lender's Loans and of each Lender's fees hereunder, not later than 11:00 A.M. (Eastern time) on the date when due, in federal or other funds immediately available at the place where payment is due, to the Administrative Agent at its address set forth on Schedule 8.01 or at such other address as the Administrative Agent shall notify the Borrower in writing from time to time.

(b) Whenever any payment of principal of, or interest on, the Alternate Base Rate Loans or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of or interest on, the Eurodollar Loans shall be due on a day which is not a Eurodollar Business Day, the date for payment thereof shall be extended to the next succeeding Eurodollar Business Day unless such Eurodollar Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Eurodollar Business Day.

Section 2.12 Computation of Interest and Fees.

Interest on Alternate Base Rate Loans shall be computed on the basis of the actual number of days elapsed in a 365/366 day year (including the first day but excluding the last day). Interest on Eurodollar Loans shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed, calculated as to each Interest Period from and including the

first day thereof to but excluding the last day thereof. Any fees payable hereunder shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.13 Default Rate.

Upon the occurrence, and during the continuance, of an Event of Default, the principal of and, to the extent permitted by law, interest on the

Loans and any other amounts owing hereunder or under the other Credit Documents shall bear interest, payable on demand, at the Default Rate.

ARTICLE III

CONDITIONS TO BORROWINGS

Section 3.01 Closing Conditions.

The obligations of each Lender under this Credit Agreement are subject to the receipt by the Administrative Agent of the following (in sufficient number of counterparts (except as to the Notes) for delivery of a counterpart to each Lender; it being acknowledged and agreed that each Lender shall receive a copy of the executed signature pages to the Credit Agreement and a copy of such Lender's respective Note prior to funding):

(a) Execution of Credit Documents. (i) Counterparts of this Credit Agreement, executed by a duly authorized officer of each party hereto and (ii) a Note for the account of each Lender, each in form and substance reasonably acceptable to the Administrative Agent, in each case executed by a duly authorized officer of each party thereto.

(b) Authority Documents. A secretary's certificate addressed to the Administrative Agent, on behalf of the Lenders, with respect to the following:

(i) Charter Documents. A copy of the certificate of incorporation of the Borrower certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state of its incorporation.

(ii) Resolutions. Copies of the resolutions of the board of directors of the Borrower and the Acquired Company, approving the Borrower's entering into of the Credit Agreement and the Borrower's and the Acquired Company's entering into of the Acquisition Agreement, and the consummations of the transactions contemplated therein, and authorizing execution and delivery thereof, certified by an officer of such Person, as of the Closing Date to be true and correct and in force and effect as of such date.

(iii) Bylaws. Copies of the bylaws of the Borrower certified by an officer of the Borrower as of the Closing Date to be true and correct and in force and effect as of such date.

(iv) Good Standing. Copies of certificates of good standing, existence or its equivalent with respect to the Borrower certified as of a recent date by the appropriate Governmental Authorities of the state of incorporation or organization and each other state in which the failure to so qualify and be in good standing could reasonably be expected to have a Material Adverse Effect.

(v) Incumbency. An incumbency certificate of the Borrower certified by a secretary or assistant secretary to be

true and correct as of the Closing Date.

(c) Legal Opinion of Counsel. An opinion or opinions of legal counsel (including local counsel) for the Borrower, dated as of the Closing Date and addressed to the Administrative Agent and the Lenders, in form and substance reasonably acceptable to the Administrative Agent.

(d) Litigation. There shall not exist any pending or threatened litigation, proceeding, bankruptcy or insolvency, injunction, order or claim affecting or relating to the Borrower, the Acquired Company or any of their respective Subsidiaries, this Credit Agreement and the other Credit Documents or the Dal-Tile Acquisition that in the judgment of any Agent could reasonably be expected to have a Material Adverse Effect, that has not been settled, dismissed, vacated, discharged or terminated prior to the Closing Date.

(e) Fees and Expenses. Evidence that all fees, if any, owing pursuant to the Fee Letter and Section 2.06 have been paid.

(f) Reliance. A copy of each material opinion, report and agreement required to be delivered pursuant to the Acquisition Documents in connection with the Dal-Tile Acquisition and related transactions, and to the extent available, a letter from each Person delivering any such opinion authorizing reliance thereon by the Agents and the Lenders, all in form and substance reasonably satisfactory to the Agents.

(g) Account Designation Letter. A copy of an executed Account Designation Letter in the form of Schedule 1.01(a) hereto.

(h) Dal-Tile Acquisition. The corporate and capital structure of the Borrower and its subsidiaries after giving effect to the Dal-Tile Acquisition and the other related transactions shall be as set forth on Schedule 4.08. All legal, tax, accounting business and other matters relating to the Dal-Tile Acquisition or to the Borrower and its subsidiaries after giving effect thereto, shall be satisfactory in all material respects to each Agent. All documentation related to the Dal-Tile Acquisition (including without limitation the purchase agreements and all schedules thereto, employment agreements, and any other material agreements including merger agreements) shall be satisfactory to each Agent in all material respects. The representations and warranties in the Acquisition Agreement shall be accurate in all material respects as of the Closing Date and the conditions contained therein shall have been satisfied as of such date and the Administrative

Agent, on behalf of the Lenders, shall have received a final copy of the Acquisition Agreement and any other material documents executed in connection therewith requested by the Agents, and all amendments or supplements thereto, certified by a officer of the Borrower to be true and correct and in full force and effect.

(i) Consents. All governmental, shareholder and material third party consents and approvals (including, without limitation, consents

and approvals of the Board of Directors of the Acquired Company) necessary in connection with the transactions contemplated by the Acquisition Documents and the financings and other transactions contemplated hereby shall have been obtained and all applicable waiting periods shall have expired without any action being taken by any authority that could restrain, prevent or impose any material adverse conditions on such transactions or that could seek or threaten any of the foregoing.

(j) Compliance with Laws. The financings and other transactions contemplated hereby shall be in compliance with all applicable laws and regulations (including Environmental Requirements and all applicable securities and banking laws, rules and regulations).

(k) Lien Searches. The Agents shall have received the results of lien searches with respect to the Borrower, the Acquired Company and their respective Subsidiaries, in such jurisdictions as selected by the Agents, and the Agents shall be satisfied with the results thereof.

(l) Financial Statements. The Agents and the Lenders shall have received final audited financial statements for the Borrower and the Acquired Company for the fiscal years ended 1999, 2000 and 2001.

(m) Sources and Uses of Funds. The Agents shall have received a memorandum detailing the sources and uses of the funds to be used to consummate the Dal-Tile Acquisition, the other transactions contemplated by this Credit Agreement and the other Credit Documents and related expenses, in form and substance reasonably satisfactory to the Agents.

(n) Pro Forma Opening Balance Sheet and Updated Projections: The Agents and the Lenders shall have received (i) an unaudited pro forma condensed, combined, consolidated balance sheet of the Borrower and its Subsidiaries as of December 31, 2001 giving pro forma effect to the Dal-Tile Acquisition (the "Pro Forma Balance Sheet") and (ii) five-year projections ("Five-Year Projections") together with such information as the Agents and the Lenders may reasonably request to confirm the tax, legal, and business assumptions made in such Pro Forma Balance Sheet and Five-Year Projections. The Pro Forma Balance Sheet and Five-Year Projections must demonstrate, in the reasonable judgment of each Agent, together with all other information then available to the Agents and the Lenders, the ability of the Borrower and its Subsidiaries, taken as a whole, to repay their debts and satisfy their respective other obligations as and when due.

(o) Financial Requirement Certificate. The Borrower shall have demonstrated to the Administrative Agent, by delivery of an officer's certificate providing detailed calculations thereof, the following: (i) pro forma adjusted Consolidated EBITDA (as approved by the Agents) of the Borrower, the Acquired Company and their respective Subsidiaries for the twelve consecutive calendar month period ending as of the end of the calendar month immediately preceding the Closing Date shall be greater than or equal to $500,000,000 and (ii) the aggregate amount of Debt of the Borrower, the Acquired Company and their respective Subsidiaries shall be less than or equal to $1,500,000,000.

(p) Material Adverse Change. Since the date of the last set of

audited financial statements of the Borrower delivered to the Agents prior to the Closing Date, in the reasonable determination of the Agents, there shall not have been any occurrence or happening resulting in a Material Adverse Effect or an event, condition or state of facts that could reasonably be expected to have a Material Adverse Effect.

(q) Officer's Certificates. The Administrative Agent, on behalf of the Lenders, shall have received a certificate or certificates executed by the chief financial officer or treasurer of the Borrower certifying that (A) the Borrower and its Consolidated Subsidiaries are, and to the best of his knowledge having made due inquiry, the Acquired Company and its Subsidiaries are, in compliance with all existing material financial obligations, (B) all governmental, shareholder and third party consents and approvals, if any, with respect to the Credit Documents, the Acquisition Documents and the transactions contemplated thereby have been obtained, (C) no action, suit, investigation or proceeding is pending or threatened in any court or before any arbitrator or governmental instrumentality that purports to affect the Borrower, the Acquired Company or any of their respective Subsidiaries or any transaction contemplated by the Credit Documents, which action, suit, investigation or proceeding could reasonably be expected to have a Material Adverse Effect, and (D) immediately after giving effect to this Credit Agreement, the other Credit Documents, the Acquisition Documents and all the transactions contemplated therein to occur on such date, (1) the Borrower is solvent, (2) no Default or Event of Default exists, (3) all representations and warranties contained herein, in the other Credit Documents and, to the best knowledge of the Borrower, in the Acquisition Documents are true and correct in all material respects and (4) the Borrower is in compliance with each of the financial covenants set forth in Section 5.04 on a pro forma basis after giving effect to the Dal-Tile Acquisition and the Borrowing of Loans hereunder, together with detailed covenant compliance calculations providing evidence thereof.

(r) Debt Rating. The Borrower shall have obtained with a stable outlook as of the Closing Date, after giving effect to the Dal-Tile Acquisition, a senior unsecured long-term, non-credit enhanced debt rating of at least BBB- from Standard & Poor's Ratings Group and at least Baa3 from Moody's Investor Service, Inc.

(s) Additional Matters. Each of the Agents and the Lenders shall have received such other documents, agreements and opinions in connection with the Credit

Documents, all satisfactory in form and substance, as any Agent or any Lender may reasonably request.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 4.01 Corporate Existence and Power.

The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, is duly qualified to transact business in every jurisdiction where, by the nature of its business, such qualification is necessary and where failure to be so qualified could have or create a reasonable possibility of causing a Material Adverse

Effect, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

Section 4.02 Corporate and Governmental Authorization; No Contravention.

The execution, delivery, and performance by the Borrower of this Credit Agreement, the Notes and the other Credit Documents to which it is a party (i) are within its corporate powers, (ii) have been duly authorized by all necessary corporate action, (iii) require no action by or in respect of or filing with, any governmental body, agency or official (other than routine filings with the Securities and Exchange Commission), (iv) do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or bylaws of the Borrower, the Acquired Company or any of their respective Subsidiaries or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower, the Acquired Company or any of their respective Subsidiaries, and (v) do not result in the creation or imposition of any Lien on any asset of the Borrower, the Acquired Company or any of their respective Subsidiaries other than the Liens arising under or contemplated in connection with the Credit Documents.

Section 4.03 Binding Effect.

This Credit Agreement constitutes a valid and binding agreement of the Borrower enforceable in accordance with its terms, and the Notes and the other Credit Documents, when executed and delivered in accordance with this Credit Agreement, will constitute valid and binding obligations of the Borrower (provided that the Borrower is a party to any such Credit Document) enforceable in accordance with their respective terms, provided that the enforceability hereof and thereof is subject in each case to general principles of equity and to bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights generally.

Section 4.04 Financial Information.

(a) The consolidated balance sheets of the Borrower and its Consolidated Subsidiaries for the Fiscal Years ended 1999, 2000 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for such Fiscal Years, reported on by KPMG LLP, copies of which have been delivered to each of the Lenders fairly present in all material respects, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such dates and their consolidated results of operations and cash flows for such periods stated.

(b) The consolidated balance sheets of the Acquired Company and its subsidiaries for the Fiscal Years ended 1999, 2000 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for such Fiscal Years, reported on by Ernst & Young LLP, copies of which have been delivered to each of the Lenders, fairly present in all material respects, in conformity with GAAP, the consolidated financial position of the Acquired Company and its subsidiaries as of such dates and their consolidated results of operations and cash flows for such periods stated.

(c) Since December 31, 2001, there has been no event, act, condition or occurrence having, or which could reasonably be expected to have, a Material Adverse Effect.

Section 4.05 No Litigation.

Except as set forth on Schedule 4.05, as of the date hereof, there is no action, suit or proceeding pending, or to the knowledge of the Borrower threatened in writing, against or affecting the Borrower, the Acquired Company or any of their respective Subsidiaries before any court or arbitrator or any governmental body, agency or official which could reasonably be expected to have a Material Adverse Effect.

Section 4.06 Compliance with ERISA.

(a) The Borrower and each member of the Controlled Group have fulfilled their obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance with the presently applicable provisions of ERISA and the Code (except where such noncompliance could not reasonably be expected to have a Material Adverse Effect), and have not incurred any liability to the PBGC under Title IV of ERISA (other than premiums payable to the PBGC in the normal course).

(b) Neither the Borrower nor any member of the Controlled Group is obligated to contribute to any Multiemployer Plan.

Section 4.07 Taxes.

There have been filed on behalf of the Borrower, the Acquired Company and each their respective Subsidiaries all Federal, state and local income, excise, property, and other tax returns which are required to be filed by them and all taxes due pursuant to such returns or pursuant to all assessments (including interest and penalties) received by or on behalf of the Borrower, the Acquired Company or any of their respective Subsidiaries have been paid or valid and effective extensions therefor have been obtained. The charges, accruals and reserves on the books of the Borrower, the Acquired Company and each their respective Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Borrower, adequate. United States income tax returns of the Borrower, the Acquired Company and each their respective Subsidiaries have been examined and closed through the Fiscal Year ended 1996 and the United States income tax returns of the Acquired Company and its Subsidiaries have been examined and closed through the Fiscal Year ended 1990. Neither the Borrower, the Acquired Company, nor any of their respective Subsidiaries is aware as of the Closing Date of any proposed tax assessments against them or any of their Subsidiaries or the Acquired Company or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

Section 4.08 Subsidiaries.

Each of the Borrower's Subsidiaries is duly organized or formed, validly existing and in good standing under the laws of the jurisdiction of its creation and organization, and has all powers (by virtue of its creation and organization) and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted. As of the date hereof, the Borrower has no Subsidiaries except for those Subsidiaries listed on Schedule 4.08, which accurately sets forth each such Subsidiary's complete name and jurisdiction of creation and organization.

Section 4.09 Not an Investment Company.

None of the Borrower, the Acquired Company or any of their respective Subsidiaries is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

Section 4.10 Ownership of Assets; Liens.

Each of the Borrower and its Consolidated Subsidiaries is the owner (or lessee) of, and in the case of owned assets has good and marketable title to, all of its respective assets, and none of its respective assets is subject to any Lien except as permitted in Section 5.07.

Section 4.11 No Default.

Neither the Borrower, nor any of its Consolidated Subsidiaries (including the Acquired Company and its Consolidated Subsidiaries) is in default under or with respect to any agreement, instrument or undertaking to which it is a party or by which it or any of its property is bound

which could reasonably be expected to have or cause a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

Section 4.12 Full Disclosure.

All information, other than the Projections (as defined below), which has been or is hereafter made available by or on behalf of the Borrower or any of its Subsidiaries to the Administrative Agent or any Lender for purposes of or in connection with this Credit Agreement, any other Credit Document, any Acquisition Document, or any transaction contemplated hereby or thereby, is and will be complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein not misleading; provided, however, with respect to any such information relating to the Acquired Company or any of its Subsidiaries that was made available to the Administrative Agent or any Lender prior to the Closing Date, the foregoing representation is made only to the Borrower's knowledge. All financial projections concerning the Borrower, the Acquired Company and their respective Subsidiaries that have been or are hereafter made available by or on behalf of the Borrower or any of its Subsidiaries to the Administrative Agent or any Lender for purposes of or in connection with this Credit Agreement, any other Credit Document, any Acquisition Document, or any transaction contemplated hereby or thereby (the "Projections") have been or will be prepared in good faith based upon reasonable assumptions. There is no fact now known to the Borrower which has, or could reasonably be expected to have, a Material Adverse Effect which fact has not been set forth herein, in the financial statements of the Borrower and its Consolidated Subsidiaries furnished to the Administrative Agent and/or the Lenders, or in any certificate, opinion or other written statement made or furnished by the Borrower to the Administrative Agent and/or the Lenders.

Section 4.13 Environmental Matters.

(a) Except as disclosed on Schedule 4.13, to the best knowledge of the Borrower, after due inquiry (which does not necessarily mean the performance of a phase I environmental audit), (a) neither the Borrower nor any Subsidiary is subject to any Environmental Liability and (b) neither the Borrower nor any Subsidiary has been designated as a potentially responsible party under CERCLA or under any state statute similar to CERCLA. To the best knowledge of the Borrower, after due inquiry (which does not necessarily mean the performance of a phase I environmental audit), none of the Properties has been identified on any current or proposed (i) National Priorities List under 40 C.F.R. Section 300, (ii) CERCLIS list or (iii) any list arising from a state statute similar to CERCLA.

(b) Except as disclosed on Schedule 4.13, to the best knowledge of the Borrower, after due inquiry (which does not necessarily mean the performance of a phase I environmental audit), no Hazardous Materials have been or are being used, produced, manufactured, processed, treated, recycled, generated, stored, disposed of, managed or otherwise handled at, or shipped or transported to or from the Properties or are otherwise present at, on, in or under the Properties, or, to the best of the knowledge of the

Borrower, at or from any adjacent site or facility, except for (i) Hazardous Materials, such as cleaning solvents, combustion enhancers, pesticides and other materials used, produced, manufactured, processed, treated, recycled, generated, stored, disposed of, managed, or otherwise handled in the ordinary course of business in compliance with all applicable Environmental Requirements, and (ii) Hazardous Materials with respect to which the presence thereof, any required remediation with respect thereto, or the expenses, fines, penalties and other costs relating thereto could not reasonably be expected to have a Material Adverse Effect.

(c) Except (i) as disclosed on Schedule 4.13 and (ii) for non-compliance which could not reasonably be expected to have a Material Adverse Effect, the Borrower and each of its Subsidiaries is in compliance with all Environmental Requirements in connection with the operation of the Properties and each of the Borrower's and each Subsidiary's respective businesses.

Section 4.14 Capital Stock.

All Capital Stock, debentures, bonds, notes and all other securities of the Borrower and its Subsidiaries presently issued and outstanding are validly and properly issued in accordance with all applicable laws, including but not limited to, the "Blue Sky" laws or all applicable states and the federal securities laws.

Section 4.15 Margin Stock.

Neither the Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of purchasing or carrying any Margin Stock, and no part of the proceeds of any Loan will be used, except as permitted by Section 5.11 (a) to purchase or carry any Margin Stock or (b) to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

Section 4.16 Insolvency.

After giving effect to the execution and delivery of the Credit Documents and the making of the Loans under this Credit Agreement, the Borrower will not be "insolvent," within the meaning of such term as used in O.C.G.A. (S) 18-2-22 or as defined in (S) 101 of Title 11 of the United States Code, as amended from time to time, or be unable to pay its debts generally as such debts become due, or have an unreasonably small capital to engage in any business or transaction, whether current or contemplated.

Section 4.17 Debt.

Set forth on Schedule 5.17 is as of the Closing Date a listing of all

outstanding Debt of the Borrower and its Subsidiaries.

Section 4.18 Intellectual Property.

Each of the Borrower and its respective Subsidiaries owns, or has the legal right to use, all patents, trademarks, tradenames, copyrights, technology, know-how and processes necessary for each of them to conduct its business as currently conducted. No claim has been asserted and is pending by any Person challenging or questioning the use of any such intellectual property or the validity or effectiveness of any such intellectual property, nor does the Borrower or any of its Subsidiaries know of any such claim, and, to the knowledge of the Borrower or any of its Subsidiaries, the use of such intellectual property by the Borrower or any of its Subsidiaries does not infringe on the rights of any Person, except for such claims and infringements that in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

Section 4.19 No Burdensome Restrictions.

None of the Borrower or any of its Subsidiaries is a party to any agreement or instrument or subject to any other obligation or any charter or corporate restriction or any provision of any applicable law, rule or regulation which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 4.20 Brokers' Fees.

None of the Borrower or any of its Subsidiaries has any obligation to any Person in respect of any finder's, broker's, investment banking or other similar fee in connection with any of the transactions evidenced by the Credit Documents other than the closing and other fees payable pursuant to the Credit Documents, including without limitation, the Fee Letter.

Section 4.21 Labor Matters.

There are no collective bargaining agreements or Multiemployer Plans covering the employees of the Borrower or any of its Subsidiaries as of the Closing Date, other than as set forth in Schedule 4.21 hereto, and none of the Borrower or any of its Subsidiaries (i) has suffered any strikes, walkouts, work stoppages or other material labor difficulty within the last five years, other than as set forth in Schedule 4.21 hereto or (ii) has knowledge of any potential or pending strike, walkout or work stoppage which could reasonably be expected to have a Material Adverse Effect.

Section 4.22 Material Contracts.

Schedule 4.22 sets forth a true, correct and complete list of all Material Contracts in effect as of the Closing Date. All of the Material Contracts are in full force and effect, and no material defaults currently exist thereunder.

ARTICLE V

The Borrower agrees that, so long as any Commitment shall remain in effect or any amount payable hereunder or under any Note remains unpaid:

Section 5.01 Information.

The Borrower will deliver to the Agents (who shall promptly make available to each of the Lenders):

(a) as soon as available and in any event within 90 days after the end of each Fiscal Year, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries of the end of such Fiscal Year and the related consolidated statements of earnings, stockholders' equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, including the related unqualified audit opinion issued by KPMG LLP or other independent public accountants of nationally recognized standing, with such certification to be free of exceptions and qualifications not acceptable to the Agents;

(b) as soon as available and in any event within 45 days after the end of each Fiscal Quarter (other than the fourth Fiscal Quarter), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such Fiscal Quarter, the related consolidated statements of earnings and statements of cash flows and a list of additional Material Contracts entered into for such quarter and for the portion of the Fiscal Year ended at the end of such quarter, setting forth in each case in comparative form the figures for the corresponding quarter and the corresponding portion of the previous Fiscal Year, all certified (subject to normal year-end adjustments) as to fairness of presentation, GAAP (except for the failure to provide footnotes thereto) and consistency by the chief financial officer or the corporate controller of the Borrower;

(c) simultaneously with the delivery of each set of financial statements referred to in paragraphs (a) and (b) above, a certificate, substantially in the form of Exhibit 5.01(c) (a "Compliance Certificate"),
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of the chief financial officer, treasurer or the corporate controller of the Borrower (i) setting forth in reasonable detail the calculations required to establish whether the Borrower was in compliance with the requirements of Sections 5.04 and Section 5.07, on the date of such financial statements and (ii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(d) simultaneously with the delivery, of each set of annual financial statements referred to in paragraph (a) above, operations and cash flow projections (indicating projected earnings and significant cash sources and uses) prepared by the Borrower for the Fiscal Year following the Fiscal Year reported on in such statements

referred to in paragraph (a), in such form and substance as is acceptable to the Agents, in their sole discretion;

(e) promptly upon the mailing thereof to the shareholders of the Borrower generally, copies of all financial statements, reports and proxy statements so mailed;

(f) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and annual, quarterly or monthly reports which the Borrower shall have filed with the Securities and Exchange

Commission;

(g) if and when any member of the Controlled Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability, under Title IV of ERISA, a copy of such notice; or (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate or appoint a trustee to administer any Plan, a copy of such notice; and

(h) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as any Lender may reasonably request, including, without limitation, consolidating balance sheets and statements of earning of the Borrower and the Borrower's Subsidiaries, in existence at such time, as at the end of any fiscal period.

Section 5.02 Inspection of Property, Books and Records.

The Borrower will (i) keep, and cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities; and (ii) permit, and cause each Subsidiary to permit, representatives of any Lender at such Lender's expense prior to the occurrence of a Default and at the Borrower's expense after the occurrence of a Default to visit and inspect any of their respective properties, to examine, and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants. The Borrower agrees to cooperate and assist in such visits and inspections, in each case upon reasonable notice, at such reasonable times and as often as may reasonably be desired.

Section 5.03 Notices.

The Borrower will give notice in writing to the Administrative Agent (which shall promptly transmit such notice to each Lender) of:

(a) the occurrence of any Default or Event of Default promptly, but in any event within two (2) Domestic Business Days, after the Borrower obtains knowledge thereof;

(b) promptly, any default or event of default under any Contractual Obligation or any Material Contract of the Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect;

(c) promptly, any litigation, or any investigation or proceeding (including, without limitation, any governmental or environmental proceeding) known to the Borrower, affecting the Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect or which in any manner questions the validity of this Credit Agreement, the Notes or any of the other transactions contemplated hereby or thereby, and give notice setting forth the nature of such pending or threatened action, suit or proceeding and such additional information as the Administrative Agent, at the request of any Lender, may reasonably request;

(d) as soon as possible and in any event within thirty (30) days after the Borrower knows or has reason to know of: (i) a failure to make any

required contribution to a Plan, or the termination, reorganization or insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any member of the Controlled Group or any Multiemployer Plan with respect to the withdrawal from, or the terminating, reorganization or insolvency of, any Plan;

(e) promptly, but in no event later than two (2) Domestic Business Days, after any change in the Debt Rating, notice of the new Debt Rating;

(f) prompt written notice of all Environmental Liabilities, pending, threatened or anticipated Environmental Proceedings, Environmental Notices, Environmental Judgments and Orders, and Environmental Releases at, on, in, under or in any way affecting the Properties or any adjacent property, which would have a Material Adverse Effect; and

(g) promptly, any other development or event which could reasonably be expected to have a Material Adverse Effect.

Each notice pursuant to this Section shall be accompanied by a statement of an officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower proposes to take with respect thereto. In the case of any notice of a Default or Event of Default, the Borrower shall specify that such notice is a Default or Event of Default notice on the face thereof.

Section 5.04 Financial Covenants.

Commencing on the day immediately following the Closing Date, the Borrower shall comply with the following financial covenants:

(a) Debt to Capitalization Ratio. The Debt to Capitalization Ratio shall be less than or equal to 0.55 to 1.0 as of the last day of each Fiscal Quarter.

(b) Interest Coverage Ratio. The Interest Coverage Ratio shall be greater than or equal to 3.50 to 1.0 as of the last day of each Fiscal Quarter.

(c) Consolidated Net Worth. Consolidated Net Worth at all times shall be greater than or equal to $1,450,000,000.

Section 5.05 Restricted Payments.

The Borrower will not, nor will it permit any Subsidiary to, directly or indirectly declare or make any Restricted Payment during the term of this Credit Agreement except that any Subsidiary may make Restricted Payments to the Borrower or any other Subsidiary that is its parent.

Section 5.06 Acquisitions, Advances, Investments and Loans.

The Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly, make any Acquisition or Investment, or enter into any agreement to make any Acquisition or Investment, except for (each of the following, a "Permitted Investment"):

(a) any Permitted Acquisition;

(b) Investments in direct obligations of, or obligations guaranteed as to principal and interest by, the United States government or any agency or instrumentality thereof maturing in one year or less from the date of acquisition thereof;

(c) Investments in deposits in (including money market funds of), or certificates of deposits or bankers' acceptances of, (i) any bank or trust company organized under the laws of the United States or any state thereof having capital and surplus in excess of $100,000,000, (ii) any international bank organized under the laws of any country which is a member of the OECD or a political subdivision of any such country, and having a combined capital and surplus of at least $100,000,000, or (iii) leading banks in a country where the Borrower or the Subsidiary making such Investment does business; provided, that all such Investments mature within 270 days of the date of such Investment; and provided, further, that all Investments pursuant to clause (iii) above are (A) solely of funds generated in the ordinary course of business by operations of the relevant investor in the country where such Investment is made, and (B) denominated in the currency of the country in which such Investment is made or in Dollars;

(d) Investments in commercial paper maturing within 270 days and having one of the two highest ratings of either S&P, Moody's or Fitch Investors' Service, Inc.;

(e) Investments in money market funds (other than those referred to in paragraph (c) above) that have assets in excess of $2,000,000,000, are managed by recognized and responsible institutions and invest solely in obligations of the types referred to in subsections (b), (c)(i) and (ii) and (d) above;

(f) Investments in the Borrower by any Subsidiary (determined immediately after such Investment);

(g) Guarantee Obligations incurred in the ordinary course of business so long as the aggregate outstanding amount of all Guarantee Obligations under this clause (g) does not exceed at any time $5,000,000;

(h) Investments (i) in the Borrower or any Domestic Subsidiary (excluding Excluded Subsidiaries except in connection with a Permitted Receivables Financing), including without limitation, advances or loans between or among the Borrower or any Domestic Subsidiary and (ii) in Foreign Subsidiaries in an aggregate amount, in the case of this clause (ii), not to exceed $10,000,000 at any time outstanding;

(i) loans and advances to officers and employees of the Borrower or any Subsidiary in the ordinary course of business in an aggregate amount not to exceed $5,000,000;

(j) Investments in Approved Investments;

(k) accounts receivable created, acquired or made in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(l) investments (including debt obligations) received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

(m) Investments made prior to the Closing Date and set forth on Schedule 5.06; and

(n) Investments of a nature not contemplated in the foregoing subsections in an amount not to exceed $10,000,000 in the aggregate at any time outstanding.

Section 5.07 Liens/Negative Pledge.

Neither the Borrower nor any of its Subsidiaries will create, assume or suffer to exist any Lien with respect to any of its property or assets of any kind (whether real or personal, tangible or intangible), whether now owned or hereafter acquired by it, except:

(a) Liens existing on the date of this Credit Agreement and set forth on Schedule 5.07 securing Debt outstanding on the date of this Credit Agreement in an aggregate principal amount not exceeding $3,198,899.00;

(b) any Lien existing on any asset of any Person at the time such Person becomes a Consolidated Subsidiary and not created in contemplation of such event;

(c) any Lien on any asset securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring or constructing such asset, provided that such Lien attaches to such asset concurrently with or within 120 days after the acquisition or completion of construction thereof;

(d) any Lien on any asset of any Person existing at the time such Person is merged or consolidated with or into the Borrower or a Consolidated Subsidiary and not created in contemplation of such event;

(e) any Lien existing on any asset prior to the acquisition thereof by the Borrower or a Consolidated Subsidiary and not created in contemplation of such acquisition;

(f) Liens securing Debt owing by any Subsidiary to the Borrower;

(g) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing paragraphs of this Section, provided that (i) such Debt is not secured by any additional assets, and (ii) the amount of such Debt secured by any such Lien is not increased;

(h) Liens incidental to the conduct of its business or the ownership of its assets which (i) do not secure Debt and (ii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business;

(i) Liens in connection with Permitted Receivables Financings permitted under Section 5.10;

(j) Liens involuntarily imposed and being contested in good faith, subject to the Borrower or such Subsidiary having established reasonable reserves therefor to the extent required under GAAP;

(k) Liens against the assets of Aladdin under the Catoosa Co. IRB solely to the extent existing as of the date hereof;

(l) Liens against the assets of Aladdin under the Summerville City IRB solely to the extent existing as of the date hereof;

(m) Liens in favor of the Administrative Agent (or other Person acting as a collateral agent, trustee or in a similar capacity) for the benefit of the Lenders and securing any of the Obligations; and

(n) Liens securing other Debt of the Borrower or any of its Subsidiaries required to be granted under the terms of the documents, instruments or agreements evidencing such Debt so that such Debt is equally and ratably secured with the Obligations to the extent the Obligations become secured by Liens permitted under the immediately preceding subsection (m).

provided that Liens permitted by the foregoing paragraphs (b) through (g) shall
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at no time secure Debt in an aggregate amount exceeding $25,000,000.

Section 5.08 Maintenance of Existence.

Other than as permitted by Section 5.09 or 5.10, the Borrower shall, and shall cause each Subsidiary to, maintain its corporate existence and carry on its business in a Permitted Line of Business.

Section 5.09 Dissolution.

Neither the Borrower nor any of its Subsidiaries shall suffer or permit dissolution or liquidation either in whole or in part or redeem or retire any shares of its own stock or that of any Subsidiary, except through corporate reorganization to the extent permitted by Section 5.10 or in connection with a Restricted Payment which is permitted pursuant to Section 5.05.

Section 5.10 Consolidations, Mergers and Sales of Assets.

The Borrower will not, nor will it permit any Subsidiary to,

(a) dissolve, liquidate or wind up its affairs, sell, transfer, lease or otherwise dispose of its property or assets or agree to do so at a future time except the following, without duplication, shall be expressly permitted:

(i) Specified Sales;

(ii) the sale, transfer, lease or other disposition of property or assets (A) to an unrelated party not in the ordinary course of business (other than Specified Sales), where and to the extent that they are the result of a Recovery Event or (B) the sale, lease, transfer or other disposition of machinery, parts and equipment no longer used or useful in the conduct of the business of the Borrower or any of its Subsidiaries, as appropriate, in its reasonable discretion, so long as the net proceeds therefrom are used to repair or replace damaged property or to purchase or otherwise acquire new assets or property, provided that such
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purchase

or acquisition is committed to within 180 days of receipt of the net proceeds and such purchase or acquisition is consummated within 180 days thereafter;

(iii) the sale, lease or transfer of property or assets (A) among the Borrower and its Domestic Subsidiaries, (B) among Foreign Subsidiaries to other Foreign Subsidiaries, (C) from Foreign Subsidiaries to the Borrower or any of its Domestic Subsidiaries and (D) to Foreign Subsidiaries in an aggregate amount not to exceed $25,000,000 (net of the value of assets transferred by Foreign Subsidiaries to the Borrower and its Domestic Subsidiaries);

(iv) the sale, conveyance, contribution or other transfer of assets (including without limitation, the granting of any Lien) of the Borrower and its Subsidiaries to Receivables Financiers in connection with Permitted Receivables Financings;

(v) any Subsidiary may dissolve or otherwise liquidate provided that the aggregate book value of assets not transferred to the Borrower or any of its other Subsidiaries shall not exceed the limitation imposed under the immediately following clause (vi); and

(vi) the sale, lease or transfer of property or assets not to exceed $50,000,000 in the aggregate in any fiscal year.

(b) Notwithstanding the provisions in Section 5.10(a), merge with or into any other Person, except that the following shall be permitted:

(i) any Subsidiary of the Borrower may merge with or into the Borrower or any Domestic Subsidiary of the Borrower (determined immediately thereafter) if, in connection with any such merger (A) either the Borrower or such Domestic Subsidiary is the surviving corporation and (B) no Default or Event of Default shall have occurred and be continuing immediately after giving effect to such merger or as a result thereof; and

(ii) any Subsidiary of the Borrower may merge with another Person in connection with an Acquisition permitted by Section 5.06 if (A) such Subsidiary is the surviving corporation and (B) following such Acquisition, the Borrower shall retain, directly or indirectly, a proportionate equity interest in such Subsidiary equal to or greater than the Borrower's equity interest immediately prior to such Acquisition.

Section 5.11 Use of Proceeds.

The proceeds of the Loans shall be used by the Borrower on the Closing Date to finance the Acquisition, to finance the fees and expenses incurred in connection with the Acquisition and to refinance certain existing Debt of the Acquired Company. In no event shall any portion of the

proceeds of the Loans be used by the Borrower for any purpose in violation of any applicable law or regulation.

Section 5.12 Compliance with Laws; Payment of Taxes.

The Borrower will, and will cause each of its Subsidiaries to, comply in all material respects with applicable laws (including but not limited to ERISA), regulations and similar requirements of Governmental Authorities (including but not limited to PBGC), except where the necessity of such compliance is being contested in good faith through appropriate proceedings or where noncompliance would not have or create a reasonable possibility of causing a Material Adverse Effect. The Borrower will, and will cause each of its Subsidiaries to, pay promptly when due, giving regard for any extensions obtained, all taxes, assessments, governmental charges, claims for labor, supplies, rent and other obligations which, if unpaid, might become a lien against the property of either the Borrower or any Subsidiary, except liabilities being contested in good faith

and against which, if requested by the Lenders, either the Borrower or such Subsidiary will set up reserves in accordance with GAAP.

Section 5.13 Insurance.

The Borrower will maintain, and will cause each of its Subsidiaries to maintain (either in the name of the Borrower or in such Subsidiary's own name), with financially sound and reputable insurance companies insurance on all its material property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to the Administrative Agent, upon written request, such information as to the insurance carried as the Administrative Agent may reasonably request.

Section 5.14 Maintenance of Property.

Subject to the rights of the Borrower or any Subsidiary to discontinue certain operations under Section 5.09 or 5.10, the Borrower shall, and shall cause each Subsidiary to, maintain all of its properties and assets in good working order, ordinary wear and tear and obsolescence excepted (excluding losses due to fully insured, subject to commercially reasonable deductibles, casualties).

Section 5.15 Environmental Matters.

The Borrower will not, nor will it permit any Third Party to, use, produce, manufacture, process, treat, recycle, generate, store, dispose of, manage at, or otherwise handle, or ship or transport to or from the Properties any Hazardous Materials except for Hazardous Materials such as cleaning solvents, combustion enhancers, pesticides and other similar materials used, produced, manufactured, processed, treated, recycled, generated, stored, disposed, managed, or otherwise handled in the ordinary course of business in compliance with all applicable Environmental Requirements.

Section 5.16 Environmental Release.

The Borrower agrees that upon the occurrence of an Environmental Release which could reasonably be expected to have a Material Adverse Effect and which violates any Environmental Requirement it will promptly investigate the extent of, and take appropriate action to remediate such Environmental Release, whether or not ordered or otherwise directed to do so by any Environmental Authority.

Section 5.17 Debt.

(a) The Borrower shall not create, incur, assume or suffer to exist any Debt (i) that is secured by any Lien that is not permitted by Section 5.07, (ii) that does not arise or exist under the Existing Credit Agreement, (iii) that does not arise or exist under this Credit Agreement or (iv) that is not in existence as of the Closing Date and set forth on Schedule 5.17 hereto; provided, however, that the Borrower may (A) renew, refinance or extend any Debt originally permitted to be created, incurred or assumed or permitted to exist pursuant to this subsection (a) so long as such renewed, refinanced or extended Debt (y) is on terms and conditions no less favorable to the Borrower than the Debt originally issued (including, without limitation, any shortening of the final maturity or average life to maturity or requiring any payment to be made sooner than originally scheduled or any increase in the interest rate applicable thereto or any change to any subordination provision thereof) and (z) matures no earlier

than six months after the Termination Date, (B) enter into Hedging Agreements, (C) incur Debt in respect of trade letters of credit in the ordinary course of business, (D) incur intercompany Debt to the extent not otherwise prohibited by this Credit Agreement, provided that such intercompany Debt shall be fully subordinated to the Obligations, on terms and conditions reasonably satisfactory to the Agents and (E) incur additional Debt after the date hereof in respect of uncommitted, unsecured lines of credit in an aggregate amount not to exceed $25,000,000 at any time outstanding and (F) Guarantee Obligations in respect of Debt of Subsidiaries permitted to be incurred by such Subsidiaries under the immediately following subsections (b)(i), (b)(iii) and (b)(iv) (provided that with respect to Debt incurred pursuant to subsection (b)(iv) below, such Guarantee Obligations may exist only to the extent the Borrower provided a Guarantee of such Debt as of the Closing Date).

(b) Except for Debt existing as of the Closing Date and set forth on Schedule 5.17, the Borrower shall not permit any Subsidiary to create, incur, assume or suffer to exist any Debt except for (i) Debt owed by a Domestic Subsidiary to the Borrower or another Domestic Subsidiary of the Borrower, (ii) Debt deemed incurred in connection with a Permitted Receivables Financing permitted under Section 5.10; (iii) Debt of Subsidiaries arising in connection with the Summerville City IRB and the Catoosa Co. IRB; and (iv) renewals, refinancings and extentions of Debt outstanding on the Closing Date in the same or lesser principal amount of the Debt then outstanding relating thereto so long as such renewed, refinanced or extended Debt is on terms and conditions no less favorable to such Subsidiary than the Debt originally issued (including, without limitation, any shortening of the final maturity or average life to maturity or requiring any payment to be made sooner than originally scheduled or any increase in the interest rate applicable

thereto or any change to any subordination provision thereof). It is understood and agreed that in the event that any Subsidiary or Subsidiaries of the Borrower provides a Guarantee or Guarantees to any Person or Persons other than the Lenders, such Subsidiary or Subsidiaries shall immediately provide equal and ratable Guarantees to the Lenders hereunder.

Section 5.18 Change in Fiscal Year; Changes in Capital Structure; Organizational Documents; Material Contracts.

The Borrower shall give the Lenders at least 30 day's prior written notice of any change in the determination of its Fiscal Year. Except as expressly permitted by this Credit Agreement, the Borrower will not, and will not permit any Subsidiary to, make any changes in its equity capital structure (including in the terms of its outstanding stock) that would reduce or impair the consolidated equity capital of the Borrower and its Subsidiaries immediately thereafter and the Borrower will not, nor will it permit any Subsidiary to, amend, modify or change its articles of incorporation or limited liability company operating agreement, as applicable (or corporate charter or other similar organizational document) or bylaws (or other similar document), except in the event that such changes, modifications or amendments could not reasonably be expected to have a Material Adverse Effect. The Borrower will not, nor will it permit any of its Subsidiaries to, without the prior written consent of the Administrative Agent (acting in concert with the other Agents), amend, modify, cancel or terminate or extend or permit the amendment, modification, cancellation or termination of any of the Material Contracts, except in the event that such amendments, modifications, cancellations or terminations could not reasonably be expected to have a Material Adverse Effect.

Section 5.19 Transactions with Affiliates.

The Borrower will not, nor will it permit any Subsidiary to, enter into any transaction or series of transactions, whether or not in the ordinary course of business, with any officer, director, shareholder or Affiliate other than on terms and conditions substantially as favorable as would be obtainable in a comparable arm's-length transaction with a Person other than an officer, director, shareholder or Affiliate.

Section 5.20 Limitation on Restricted Actions.

Except as set forth on Schedule 5.20, the Borrower will not, nor will it permit any Subsidiary, excluding Excluded Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Person to (a) pay dividends or make any other distributions to the Borrower or any Subsidiary on its Capital Stock (b) pay any Debt or other obligation owed to the Borrower or any Subsidiary, (c) make loans or advances to the Borrower or any Subsidiary, (d) sell, lease or transfer any of its properties or assets to the Borrower or any Subsidiary, or (e) act as a guarantor and pledge its assets pursuant to the Credit Documents or any renewals, refinancings, exchanges, refundings or extension thereof, except (in respect of any of the matters referred to in clauses (a)-(e) above) for such encumbrances or restrictions existing under or by reason of (i) this Credit Agreement and the other Credit Documents, (ii) the Existing Credit Agreement as in effect on the Closing Date,

(iii) applicable law or (iv) any Lien permitted under Section 5.07 or any document or instrument governing any such Lien, provided that any such restriction contained therein relates only to the asset or assets subject to such Lien.

Section 5.21 Amendments to Debt, etc.

The Borrower will not, nor will it permit any Subsidiary to, after the issuance thereof, amend or modify (or permit the amendment or modification of) any of the terms of any Debt if such amendment or modification would (i) shorten the final maturity or average life to maturity, (ii) require any payment to be made sooner than originally scheduled, (iii) increase the interest rate or fees applicable to such Debt or (iv) change any subordination provision thereof.

Section 5.22 Sale Leasebacks.

Except as set forth on Schedule 5.22, the Borrower will not, nor will it permit any Subsidiary to, directly or indirectly, become or remain liable as lessee or as guarantor or other surety with respect to any lease, whether an operating lease or a Capital Lease, of any property (whether real, personal or mixed), whether now owned or hereafter acquired in excess of $5,000,000 in the aggregate on an annual basis, (a) which the Borrower or any Subsidiary has sold or transferred or is to sell or transfer to a Person which is not the Borrower or any Subsidiary or (b) which the Borrower or any Subsidiary intends to use for substantially the same purpose as any other property which has been sold or is to be sold or transferred by the Borrower or any Subsidiary to another Person which is not the Borrower or any Subsidiary in connection with such lease.

Section 5.23 No Further Negative Pledges.

Except as set forth on Schedule 5.23, the Borrower will not, nor will it

permit any Subsidiary to, enter into, assume or become subject to any agreement prohibiting or otherwise restricting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired, or requiring the grant of any security for such obligation if security is given for some other obligation, except (a) pursuant to this Credit Agreement and the other Credit Documents, (b) pursuant to the Existing Credit Agreement and (c) in connection with any Lien permitted by Section 5.07 or any document or instrument governing any such Lien, provided that any such restriction contained therein
relates only to the asset or assets subject to such Lien.

Section 5.24 Security; Additional Credit Parties.

The Borrower shall if the Debt Rating shall be (i) BB+ or lower, as determined by S&P and/or (ii) Ba1 or lower, as determined by Moody's, and if requested by the Agents, negotiate with the Agents in good faith to (A) cause one or more Domestic Subsidiaries of the Borrower that are also Material Subsidiaries, excluding Excluded Material Subsidiaries, as requested by the Agents, to promptly become a Guarantor hereunder by way of execution of a Joinder Agreement and (B) enter into and cause each of the Additional Credit Parties to enter into a Security Agreement, in substantially the form attached hereto as Exhibit 5.24(b) (or such other form as

may be acceptable to the Agents), a Pledge Agreement, in substantially the form attached hereto as Exhibit 5.24(c) (or such other form as may be acceptable to
the Agents), and such other security documents with the Administrative Agent, on behalf of the Lenders, as the Agents shall deem necessary to grant liens in substantially all of the Credit Parties' assets to the Lenders to secure the Obligations.

Section 5.25 Roadshow.

The Borrower shall undertake a roadshow in connection with an offering of securities by the Borrower or other financing, as agreed upon by each Agent, upon ten (10) Domestic Business Days' notice from the Administrative Agent. The Borrower shall accept a transaction with a yield that each Agent reasonably deem to be consistent with prevailing market rates and is otherwise on customary terms and conditions including appropriate covenants, as applicable.

ARTICLE VI

DEFAULTS

Section 6.01 Events of Default.

If one or more of the following events ("Events of Default") shall have occurred and be continuing:

(a) the Borrower shall fail to pay any principal on any Note when due in accordance with the terms thereof or hereof; or the Borrower shall fail to pay any interest on any Note or any fee or other amount payable hereunder when due in accordance with the terms thereof or hereof and such failure shall continue unremedied for three (3) Domestic Business Days; or

(b) the Borrower shall fail to observe or perform any covenant contained in Sections 5.03(a), 5.04 through 5.11, inclusive, or 5.17 through 5.25, inclusive; or

(c) the Borrower shall fail to observe or perform any covenant or

agreement contained or incorporated by reference in this Credit Agreement (other than those covered by paragraph (a) or (b) above) and such failure shall not have been cured within 30 days after the earlier to occur of (i) written notice thereof has been given to the Borrower by the Lenders or (ii) the Borrower otherwise becomes aware of any such failure; or

(d) any representation, warranty, certification or statement made by the Borrower in this Credit Agreement or in any certificate, financial statement or other document delivered pursuant to this Credit Agreement or any of the other Credit Documents shall prove to have been incorrect or misleading in any material respect when made (or deemed made); or

(e) the Borrower or any Subsidiary shall fail to make any payment in respect of Debt in excess of $25,000,000 in the aggregate outstanding (other than the Notes or pursuant to any of the other Credit Documents) when due or within any applicable grace period; or

(f) any event or condition shall occur which (i) results in the acceleration of the maturity of Debt in excess of $25,000,000 in the aggregate outstanding of the Borrower or any Subsidiary (including, without limitation, any "put" of such Debt to the Borrower or any Subsidiary) or (ii) enables or, with the giving of notice or lapse of time or both, would enable, the holders of Debt in excess of $25,000,000 in the aggregate outstanding of the Borrower or any Subsidiary or any Person acting on such holders' behalf to accelerate the maturity thereof (including, without limitation, any "put" of such Debt to the Borrower or any Subsidiary); or

(g) the Borrower or any Material Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(h) an involuntary case or other proceeding shall be commenced against the Borrower or any Material Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment or a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary, case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower or any Material Subsidiary under the federal bankruptcy laws as now or hereafter in effect; or

(i) the Borrower or any member of the Controlled Group shall fail to pay when due any material amount which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or a notice of intent to terminate a Plan or Plans (other than pursuant to a standard termination) shall be filed under Title IV of ERISA by the Borrower, any member of the Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute a proceeding under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any such Plan or Plans or a proceeding shall be instituted by a fiduciary, of any such Plan or Plans to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 30 days thereafter: or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any such Plan or Plans should be

terminated; or

(j) one or more judgments or orders for the payment of money in an aggregate amount in excess of $25,000,000 (exclusive of insurance coverage if any insurer shall have acknowledged such coverage in writing) shall be rendered against the Borrower or any Material Subsidiary, and such judgment or order shall continue unsatisfied and unstayed for a period of 30 days; or

(k) one or more federal tax liens securing an aggregate amount in excess of $5,000,000 shall be filed against the Borrower or any Material Subsidiary under Section 6321 of the Code or a lien of the PBGC shall be filed against the Borrower or any Material Subsidiary under Section 4068 of ERISA and in either case such lien shall remain undischarged for a period of 25 days after the date of filing: or

(l) there shall occur a Change of Control; or

(m) an "Event of Default" shall occur under any of the other Credit Documents; or

(n) (i) any of the Credit Documents shall cease to be enforceable, or (ii) the Borrower shall assert that any Credit Document shall cease to be enforceable.

then, and in every such event, the Administrative Agent may, or upon the written request of the Required Lenders, the Administrative Agent shall (i) by notice to the Borrower terminate the Commitments or and they shall thereupon terminate, and (ii) by notice to the Borrower declare the Notes (together with accrued interest thereon) to be, and the Notes shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower together with interest at the Default Rate accruing on the principal amount thereof from and after the date of such Event of Default; provided that if any Event of Default specified in
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paragraph (g) or (h) above occurs with respect to the Borrower, without any notice to the Borrower or any other act by the Lenders, the Commitments shall thereupon terminate and the Notes (together with accrued interest thereon) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower together with interest thereon at the Default Rate accruing on the principal amount thereof from and after the date of such Event of Default. Notwithstanding the foregoing, each of the Lenders shall have available to it all other remedies at law or equity.

ARTICLE VII

CHANGE IN CIRCUMSTANCES, COMPENSATION

Section 7.01 Basis for Determining Interest Rate Inadequate or Unfair.

If on or prior to the first day of any Interest Period:

(a) any Lender determines that deposits in Dollars (in the applicable amounts) are not being offered in the relevant market for such Interest Period, or

(b) any Lender determines that the London Interbank Offered Rate, as the case may be, as determined by the Administrative Agent will not

adequately and fairly reflect the cost to such Lender of funding the relevant Eurodollar Loan for such Interest Period,

such Lender shall forthwith give notice thereof to the Borrower, whereupon until such Lender notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of such Lender to make any Eurodollar Loan specified in such notice shall be suspended.

Section 7.02 Illegality.

If, after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (any such event being referred to as a "Change of Law"), or compliance by any Lender (or its Lending Office) with any request or directive (whether or not having the force of law) of any Governmental Authority shall make it unlawful or impossible for any Lender (or its Lending Office) to make, maintain or fund its Eurodollar Loans, such Lender shall forthwith give notice thereof to the Borrower, whereupon until such Lender notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligation of such Lender to make Eurodollar Loans, shall be suspended. Before giving any notice to the Borrower pursuant to this Section, such Lender shall designate a different Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Lender, be otherwise materially disadvantageous to such Lender. If such Lender shall determine that it may not lawfully continue to maintain and fund any of its outstanding Eurodollar Loans to maturity and shall so specify in such notice, the Borrower shall immediately prepay in full the then outstanding principal amount of each Eurodollar Loan of such Lender, together with accrued interest thereon. Concurrently with prepaying each such Eurodollar Loan, the Borrower shall borrow a Alternate Base Rate Loan in an equal principal amount from such Lender (on which interest and principal shall be payable contemporaneously with the related Eurodollar Loans of the other Lenders), and such Lender shall make such a Alternate Base Rate Loan.

Section 7.03 Increased Cost and Reduced Return.

(a) If after the date hereof, a Change of Law or compliance by any Lender (or its Lending Office) with any request or directive (whether or not having the force of law) of any Governmental Authority:

(i) shall subject any Lender (or its Lending Office) to any tax, duty or other charge with respect to its Eurodollar Loans, its Note or its obligation to make Eurodollar Loans, or shall change the basis of taxation of payments to any Lender (or its Lending Office) of the principal of or interest on its Eurodollar Loans or any other amounts due under this Credit Agreement in respect of its Eurodollar Loans or its obligation to make Eurodollar Loans (except for changes

in the rate of tax on the overall net income of such Lender or its Lending Office imposed by the jurisdiction in which such Lender's principal executive office or Lending Office is located); or

(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Eurodollar Loan any such requirement included in an applicable Eurodollar Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Lender (or its Lending Office); or

(iii) shall impose on any Lender (or its Lending Office) or on the

United States market for certificates of deposit or the London interbank market any other condition affecting its Eurodollar Loans, its Note or its obligation to make Eurodollar Loans;

and the result of any of the foregoing is to increase the cost to such Lender (or its Lending Office) of making or maintaining any Eurodollar Rate Loan, or to reduce the amount of any sum received or receivable by such Lender (or its Lending Office) under this Credit Agreement or under its Note with respect thereto, by an amount deemed by such Lender to be material, then, within 15 days after demand by such Lender, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction.

(b) If any Lender shall have determined that after the date hereof the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) with any request or directive regarding capital adequacy (whether or not having the force of law) of any Governmental Authority, has or would have the effect of reducing the rate of return on such Lender's capital as a consequence of its obligations hereunder to a level below that which such Lender could have achieved but for such adoption, change or compliance (taking into consideration such Lender's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, within 15 days after demand by such Lender, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

(c) Each Lender will promptly notify the Borrower of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this Section and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise materially disadvantageous to such Lender. A certificate of any Lender claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

(d) The provisions of this Section 7.03 shall be applicable with respect to any Participant, Assignee or other Transferee (unless the date of any such assignment or transfer, a condition listed under Section 7.02 or 7.03 existed with respect to any such Participant, Assignee or other Transferee), and any calculations required by such provisions shall be made based upon the circumstances of such Participant, Assignee or other Transferee.

Section 7.04 Alternate Base Rate Loans Substituted for Eurodollar Loans.

If (i) the obligation of any Lender to make or maintain Eurodollar Loans has been suspended pursuant to Section 702 or (ii) any Lender has demanded compensation under Section 7.03, and the Borrower shall, by at least five (5) Eurodollar Business Days' prior notice to such Lender have elected that the provisions of this Section shall apply to such Lender, then, unless and until such Lender notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(a) all Loans which would otherwise be made by such Lender as Eurodollar Loans, as the case may be, shall be made instead as Alternate Base Rate Loans; provided, that interest and principal on such Loans shall be payable contemporaneously with the related Eurodollar Loans of the other

Lenders, and

(b) after each of its Eurodollar Loan, has been repaid, all payments of principal which would otherwise be applied to repay such Eurodollar Loans shall be applied to repay its Alternate Base Rate Loans instead.

Section 7.05 Compensation.

Upon the request of any Lender, the Borrower shall pay to such Lender such amount or amounts as shall compensate such Lender for any loss, cost or expense actually incurred by such Lender and not compensated pursuant to Section 7.03 as a result of:

(a) any payment or prepayment (pursuant to Section 2.09(b), Section 7.02 or otherwise) of a Eurodollar Loan on a date other than the last day of an Interest Period for such Eurodollar Loan; or

(b) any failure by the Borrower to prepay a Eurodollar Loan on the date for such prepayment specified in the relevant notice of prepayment hereunder; or

(c) any failure by the Borrower to borrow a Eurodollar Loan on the specified date for the Eurodollar Borrowing;

such compensation to include, without limitation, an amount equal to the excess, if any of (x) the amount of interest which would have accrued on the amount so paid or prepaid or not prepaid or borrowed for the period from the date of such payment, prepayment or failure to prepay or borrow to the last day of the then current Interest Period for such Eurodollar Loan (or, in the case

of a failure to prepay or borrow, the Interest Period for such Eurodollar Loan which would have commenced on the date of such failure to prepay or borrow) at the applicable rate of interest for such Eurodollar Loan provided for hereto over (y) the amount of interest (as reasonably determined by such Lender) such Lender would have paid on deposits in Dollars of comparable amounts having terms comparable to such period placed with it by leading banks in the London interbank market.

Section 7.06 Replacement of Lenders.

If any Lender (an "Affected Lender") makes demand for amounts owed under Section 7.03 (other than due to any change in the Eurodollar Reserve Percentage) or gives notice under Section 7.01 or 7.02 that it can no longer participate in Eurodollar Loans, then in each case the Borrower shall have the right, if no Default or Event of Default exists, and subject to the terms and conditions set forth in Section 8.08(c), to designate an Assignee (a "Replacement Lender") to purchase the Affected Lender's share of outstanding Loans and all other obligations hereunder and to assume the Affected Lender's obligations to the Borrower under this Credit Agreement; provided, that, any Replacement Lender must be reasonably acceptable to the Required Lenders (and, in any event, may not be an Affiliate of the Borrower). Subject to the foregoing, the Affected Lender agrees to assign without recourse to the Replacement Lender its share of outstanding Loans and its Commitment, and to delegate to the Replacement Lender its obligations to the Borrower under this Credit Agreement. Upon such sale and delegation by the Affected Lender and the purchase and assumption by the Replacement Lender, and compliance with the provisions of Section 8.08(c), the Affected Lender shall cease to be a "Lender" hereunder and the Replacement Lender shall become a "Lender" under this Credit Agreement; provide, however, that any Affected Lender shall continue to be entitled to the indemnification provisions contained elsewhere herein.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 Notices.

All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telecopier or similar writing) and shall be deemed to have been duly given or made (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section and the appropriate confirmation is received, or (ii) if given by mail or by overnight courier, or if delivered by hand, when received, in each case, addressed or given to each such party at the address set forth on Schedule 8.01, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes.

Section 8.02 No Waivers.

No failure or delay by any Lender in exercising any right, power or privilege hereunder or under its Note shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or

privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 8.03 Expenses; Documentary Taxes.

The Borrower agrees (a) to pay or reimburse the Agents for all their reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation, negotiation, printing and execution of, and any amendment, supplement or modification to, this Credit Agreement and the other Credit Documents and any other documents prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby (including, without limitation, reasonable field examination expenses and charges), together with the reasonable and actual fees and disbursements of counsel to each of the Agents, (b) to pay or reimburse the Agents for all their reasonable out-of-pocket expenses actually incurred in connection with the arrangement and syndication of the facilities established by this Credit Agreement, (c) to pay or reimburse each Lender and the Administrative Agent for all its reasonable costs and expenses actually incurred in connection with the enforcement or preservation of any rights under, or defense against any actions arising out of, this Credit Agreement, the Notes and any such other documents, including, without limitation, the reasonable and actual fees and disbursements of counsel to the Administrative Agent and to the Lenders and (d) on demand, to pay, indemnify, and hold each Lender and the Administrative Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other similar taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, the Credit Documents and any such other documents. The agreements in this Section 8.03 shall survive repayment of the Loans, Notes and all other amounts payable hereunder.

Section 8.04 Indemnification.

The Borrower shall pay, indemnify, and hold each Agent, each Lender and

their Affiliates harmless from and against, any and all other liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever including, without limitation, reasonable fees and disbursements of counsel to each of the Agents and the Lenders (including reasonable allocated costs of in-house legal counsel) and settlement costs, with respect to the enforcement of the Credit Documents and the use, or proposed use, of proceeds of the Loans (all of the foregoing, collectively, the "indemnified liabilities"); provided, however, that
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the Borrower shall not have any obligation hereunder to the Agents or any Lender with respect to indemnified liabilities arising from the gross negligence or willful misconduct of the Agents or any such Lender, as determined by a court of competent jurisdiction. The agreements in this Section 8.04 shall survive repayment of the Loans, Notes and all other amounts payable hereunder.

Section 8.05 Sharing of Setoffs.

Each Lender agrees that if it shall, by exercising any right of setoff or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest owing with respect to the Note held by it which is greater than the proportion received by any other Lender in respect of the aggregate amount of all principal and interest owing with respect to the Note held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Notes held by the other Lenders owing to such other Lenders, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Note held by the Lender owing to such other Lenders shall be shared by the Lenders pro rata; provided that (i) nothing in this Section shall
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impair the right of any Lender to exercise any right of setoff or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrower other than its indebtedness under the Notes, and (ii) if all or any portion of such payment received by the purchasing Lender is thereafter recovered from such purchasing Lender, such purchase from such other Lenders shall be rescinded and such other Lender shall repay to the purchasing Lender the purchase price of such participation to the extent of such recovery together with an amount equal to such other Lenders' ratable share (according to the proportion of (x) the amount of such other Lenders' required repayment to (y) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in a Note, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of setoff or counterclaim and other rights with respect to such participation as fully as if such holder or a participation were a direct creditor of the Borrower in the amount of such participation.

Section 8.06 Amendments and Waivers

(a) Any provision of this Credit Agreement, the Notes or any other Credit Documents may be amended, modified or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders; provided that, no such amendment or waiver shall, unless signed by all Lenders, (i) increase the Commitment of any Lender or subject any Lender to any additional obligation, (ii) decrease the principal of or decrease the rate of interest on any Loan or decrease any fees hereunder, (iii) extend the date fixed for any payment of principal of or interest on any Loan or any fees hereunder, (iv) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes, or the number of Lenders, which shall be required for the Lenders or any of them to take any action under this Section or any other provision of this Credit Agreement, (v)

release or substitute all or any substantial part of the collateral (if any) held as security for the Loans, (vi) release any Guarantee (if any) given to support payment of the Loans, (vii) amend, modify, terminate or waive any provision of Section 5.07(n), the last sentence of Section 5.17(b), this Section 8.06(a) or the definition of "Required Lenders" or (viii) waive a Default or an Event of Default under this Credit Agreement if an Event of Default (as defined therein) under the Existing Credit Agreement shall then be in existence; provided, however, this clause (viii) shall not apply to any Default or Event of Default (x) occurring under Section 6.01(e) or (f) of

this Credit Agreement solely as a result of the occurrence of an Event of Default (as defined therein) under the Existing Credit Agreement or (y) resulting from any event, condition or circumstance that does not also result in the occurrence of an Event of Default (as defined therein) under the Existing Credit Agreement (excluding any such Event of Default occurring under Section 6.01(e) or (f) of the Existing Credit Agreement solely as a result of the occurrence of a Default or Event of Default under this Credit Agreement).

(b) The Borrower will not solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Credit Agreement unless each Lender shall be informed thereof by the Borrower and shall be afforded an opportunity, of considering the same and shall be supplied by the Borrower with sufficient information to enable it to make an informed decision with respect thereto. Executed, true and correct copies of any waiver or consent effected pursuant to the provisions of this Credit Agreement shall be delivered by the Borrower to each Lender forthwith following the date on which the same shall have been executed and delivered by the requisite percentage of Lenders. The Borrower will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any Lender (in its capacity, as such) as consideration for or as an inducement to the entering into by such Lender of any waiver or amendment of any of the terms and provisions of this Credit Agreement unless such remuneration is concurrently paid, on the same terms, ratably to each of the Lenders.

Section 8.07 No Margin Stock Collateral.

Each of the Lenders represents to the other Lenders that it in good faith is not, directly or indirectly (by negative pledge or otherwise), relying upon any Margin Stock as collateral in the extension or maintenance of the credit provided for in this Credit Agreement.

Section 8.08 Successors and Assigns

(a) The provisions of this Credit Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that the Borrower may not assign or otherwise transfer any of its rights under this Credit Agreement without the prior written consent of all of the Lenders.

(b) Any Lender may at any time sell to one or more Persons (each a "Participant") participating interests in any Loan owing to such Lender, its Note, its Commitment hereunder or any other interest of such Lender hereunder. In the event of any such sale by a Lender of a participating interest to a Participant, such Lender's obligations under this Credit Agreement shall remain unchanged. Such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such Note for all purposes under this

Credit Agreement, and the Borrower shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Credit Agreement. In no event shall a Lender that sells a participation be obligated to the Participant to take or refrain from taking any

action hereunder except that such Lender may agree that it will not (except as provided below), without the consent of the Participant, agree to (i) extend any date fixed for the payment of principal of or interest on the related loan or loans, (ii) the change of the amount of any principal, interest or fees due on any date fixed for the payment thereof with respect to the related loan or loans, (iii) the change of the principal of the related loan or loans, (iv) any decrease in the rate at which interest is payable thereon from the rate at which the Participant is entitled to receive interest in respect of such participation, (v) the release or substitution of all or any substantial part of the collateral (if any) held as security, for the Loans, or (vi) the release of any Guarantee (if any) given to support payment of the Loans. Unless such Participant is a Related Fund with respect to such Lender, each Lender selling a participating interest in any Loan, Note, Commitment or other interest under this Credit Agreement shall, within ten (10) Domestic Business Days of such sale, provide the Borrower and the other Lenders with written notification stating that such sale has occurred and identifying the Participant and the interest purchased by such Participant. The Borrower agrees that each Participant shall be entitled to the benefits of Article VII with respect to its participation in Loans outstanding from time to time to the same extent as if it were a Lender.

(c) Any Lender may at any time assign to one or more banks, funds or financial institutions (each an "Assignee") all, or a proportionate part of all, of its rights and obligations under this Credit Agreement and the Notes, and such Assignee shall assume all such rights and obligations, pursuant to an Assignment and Acceptance in the form attached hereto as Exhibit 8.08(c), executed by such Assignee and
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such transferor Lender; provided that (i) no interest may be sold by a Lender pursuant to this paragraph (c) unless the Assignee shall agree to assume ratably equivalent portions of the transferor Lender's Commitment, (ii) the amount of the Commitment of the assigning Lender subject to such assignment (determined as of the effective date of the assignment) shall be equal to $5,000,000 (or any larger multiple of $1,000,000), and (iii) no interest may be sold by a Lender pursuant to this paragraph (c) to any Assignee that is not then a Lender without the consent of the Administrative Agent and, so long as no Default or Event of Default has occurred and is continuing, the Borrower, which consents shall not be unreasonably withheld or delayed. Each Lender agrees to notify the other Lenders of any assignment hereunder. Upon (A) execution of the Assignment and Acceptance by such transferor Lender, such Assignee, and the Borrower, (B) delivery of an executed copy of the Assignment and Acceptance to the Borrower, and (C) payment by such Assignee to such transferor Lender of an amount equal to the purchase price agreed between such transferor Lender and such Assignee, such Assignee shall for all purposes be a Lender party, to this Credit Agreement and shall have all the rights and obligations of a Lender under this Credit Agreement to the same extent as if it were an original party, hereto with a Commitment as set forth in such instrument of assumption, and the transferor Lender shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by the Borrower or the Lenders shall be required. Upon the consummation of any transfer to an Assignee pursuant to this paragraph (c), the transferor Lender and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to such Assignee.

(d) Subject to the provisions of Section 8.09, the Borrower authorizes each Lender to disclose to any Participant, Assignee or other transferee (each a "Transferee") and any prospective Transferee any and all financial information in such Lender's possession concerning the Borrower which has been delivered to such Lender by the Borrower pursuant to this Credit Agreement or which has been delivered to such Lender by the Borrower in connection with such Lender's credit evaluation prior to entering into this Credit Agreement.

(e) No Transferee shall be entitled to receive any greater payment under Section 7.03 than the transferor Lender would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Borrower's prior written consent or by reason of the provisions of Section 7.02 or 7.03 requiring such Lender to designate a different Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

(f) Upon its receipt of a duly executed Assignment and Acceptance, together with payment to the Administrative Agent by the transferor Lender or the Assignee, as agreed between them, of a registration and processing fee of (i) $3,500, if neither the transferor Lender nor the Assignee is an Agent, or (ii) $500, if either the transferor Lender or the Assignee (or both) is an Agent, the Administrative Agent shall (x) accept such Assignment and Acceptance, (y) record the information contained therein in a register for the recordation of the names and addresses of the Lenders and the Commitment of an principal amount of the Loans owing to, each Lender from time to time and (z) give prompt notice of such acceptance and recordation to the Lenders and the Borrower.

(g) In addition to any other assignment permitted pursuant to this Section 8.08, (i) any Lender may assign and/or pledge all or any portion of its Loans, the other Obligations owed by or to such Lender, and its Notes, if any, to secure obligations of such Lender including, without limitation, any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any operating circular issued by such Federal Reserve Bank; provided, no Lender, as between Borrower and such Lender, shall be relieved of any of its obligations hereunder as a result of any such assignment and pledge, and provided further, in no event shall the applicable Federal Reserve Bank or trustee be considered to be a "Lender" or be entitled to require the assigning Lender to take or omit to take any action hereunder.

Section 8.09 Confidentiality.

Each Lender agrees to exercise its best efforts to keep any information delivered or made available by the Borrower to it which is clearly indicated to be confidential information, confidential from any one other than persons employed or retained by such Lender who are or are expected to become engaged in evaluating, approving, structuring or administering the Loans; provided, however that nothing herein shall prevent any Lender from disclosing such information (i) to any other Lender, (ii) upon the order of any court or administrative agency, (iii) upon the request or demand of any regulatory agency or authority having jurisdiction over

such Lender, (iv) which has been publicly disclosed, (v) to the extent reasonably required in connection with any litigation to which any Lender or its respective Affiliates may be a party, (vi) to the extent reasonably required in connection with the exercise of any remedy hereunder, (vii) to such Lender's legal counsel and independent auditors and (viii) to any actual or proposed Participant, Assignee or other Transferee of all or part of its rights hereunder which has agreed in writing to be bound by the provisions of this Section 8.09.

Section 8.10 Representation by Lenders.

Each Lender hereby represents that it is a commercial lender, fund or financial institution which makes Loans in the ordinary course of its business and that it will make its Loans hereunder for its own account in the ordinary course of such business; provided, however that, subject to Section 8.08, the disposition of the Note or Notes held by that Lender shall at all times be within its exclusive control.

Section 8.11 Obligations Several.

The obligations of each Lender hereunder are several, and no Lender shall be responsible for the obligations or commitment of any other Lender hereunder. Nothing contained in this Credit Agreement and no action taken by Lenders pursuant hereto shall be deemed to constitute the Lenders to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Lender shall be a separate and independent debt, and each Lender shall be entitled to protect and enforce its rights arising out of this Credit Agreement or any other Credit Document, subject to any restrictions requiring actions to be taken upon the consent of the Required Lenders, and it shall not be necessary for any other Lender to be joined as an additional party in any proceeding for such purpose.

Section 8.12 New York Law.

This Credit Agreement and each Note shall be construed in accordance with and governed by the law of the State of New York without regard to conflicts of laws principles thereof.

Section 8.13 Interpretation.

No provision of this Credit Agreement or any of the other Credit Documents shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or dictated such provision.

Section 8.14 WAIVER OF JURY TRIAL; CONSENT TO JURISDICTION.

TO THE FULLEST EXTENT PERMITTED BY LAW, THE BORROWER (A) AND EACH OF THE LENDERS IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF THIS CREDIT AGREEMENT, ANY OF THE OTHER CREDIT DOCUMENTS, OR ANY OF THE

TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, (B) SUBMITS TO THE NONEXCLUSIVE PERSONAL JURISDICTION IN THE STATE OF NEW YORK, THE COURTS THEREOF AND THE UNITED STATES DISTRICT COURTS SITTING THEREIN, FOR THE ENFORCEMENT OF THIS CREDIT AGREEMENT, THE NOTES AND THE OTHER CREDIT DOCUMENTS, (C) WAIVES ANY AND

ALL PERSONAL RIGHTS UNDER THE LAW OF ANY JURISDICTION TO OBJECT ON ANY BASIS (INCLUDING, WITHOUT LIMITATION, INCONVENIENCE OF FORUM) TO JURISDICTION OR VENUE WITHIN THE STATE OF NEW YORK FOR THE PURPOSE OF LITIGATION TO ENFORCE THIS CREDIT AGREEMENT, THE NOTES OR THE OTHER CREDIT DOCUMENTS, AND (D) AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT IN THE MANNER PRESCRIBED IN SECTION 8.01 FOR THE GIVING OF NOTICE TO THE BORROWER. NOTHING HEREIN CONTAINED, HOWEVER, SHALL PREVENT THE LENDERS, FROM BRINGING ANY ACTION OR EXERCISING ANY RIGHTS AGAINST ANY SECURITY AND AGAINST THE BORROWER PERSONALLY, AND AGAINST ANY ASSETS OF THE BORROWER WITHIN ANY OTHER STATE OR JURISDICTION.

Section 8.15 Counterparts.

This Credit Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 8.16 Acknowledgments.

The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of each Credit Document;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Credit Agreement and the relationship between Administrative Agent and Lenders, on one hand, and the Borrower, on the other hand, in connection herewith is solely that of debtor and creditor; and

(c) no joint venture exists among the Lenders or among the Borrower and the Lenders.

Section 8.17 Survival of Representations and Warranties.

All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Credit Agreement and the Notes and the making of the Loans, provided that all such representations and warranties shall terminate on the date upon which the Commitments

have been terminated and all amounts owing hereunder and under any Notes have been paid in full.

Section 8.18 Severability.

Any provision of this Credit Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 8.19 Usury.

Notwithstanding any other provision herein, the aggregate interest rate charged with respect to any of the Obligations, including all charges or fees in connection therewith deemed in the nature of interest under applicable law shall

not exceed the Highest Lawful Rate. If the rate of interest (determined without regard to the preceding sentence) under this Credit Agreement at any time exceeds the Highest Lawful Rate, the outstanding amount of the Loans made hereunder shall bear interest at the Highest Lawful Rate until the total amount of interest due hereunder equals the amount of interest which would have been due hereunder if the stated rates of interest set forth in this Credit Agreement had at all times been in effect. In addition, if when the Loans made hereunder are repaid in full the total interest due hereunder (taking into account the increase provided for above) is less than the total amount of interest which would have been due hereunder if the stated rates of interest set forth in this Credit Agreement had at all times been in effect, then to the extent permitted by law, Borrower shall pay to Administrative Agent an amount equal to the difference between the amount of interest paid and the amount of interest which would have been paid if the Highest Lawful Rate had at all times been in effect. Notwithstanding the foregoing, it is the intention of Lenders and Borrower to conform strictly to any applicable usury laws. Accordingly, if any Lender contracts for, charges, or receives any consideration which constitutes interest in excess of the Highest Lawful Rate, then any such excess shall be cancelled automatically and, if previously paid, shall at such Lender's option be applied to the outstanding amount of the Loans made hereunder or be refunded to Borrower.

IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed under seal, by their respective authorized officers as of the day and year first above written.

BORROWER:

MOHAWK INDUSTRIES, INC.

By: /s/ Sidney J. Frost

Name: Sidney J. Frost
Title: Vice President and Treasurer

LENDERS:

WACHOVIA INVESTORS, INC.,
as Administrative Agent and as a Lender

By: /s/ Steven J. Taylor

Name: Steven J. Taylor
Title: Director

GOLDMAN SACHS CREDIT PARTNERS L.P.
as Co-Syndication Agent and as a Lender

By: /s/ Kevin Ulrich

Name: Kevin Ulrich
Title: Authorized Signatory

SUNTRUST BANK,
as Co-Syndication Agent and as a Lender

By: /s/ Stephen A. McKenna

Name: Stephen A. McKenna
Title: Managing Director,
Senior Risk Officer

Exhibit 10.56

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT dated as of March 20, 2002, by and between Mohawk Industries, Inc., a Delaware corporation ("Mohawk"), Dal-Tile International Inc., a Delaware corporation (the "Company"), and W. Christopher Wellborn (the "Executive"), to be effective on the effective date (the "Effective Date") of the merger (the "Merger") of Maverick Merger Sub, Inc., a Delaware corporation ("Merger Sub") and the Company, pursuant to the terms of a merger agreement dated November 19, 2001 among Mohawk, the Company and Merger Sub (the "Merger Agreement").

The Company is engaged in the business of the manufacture, distribution and marketing of glazed and unglazed tile. The Company desires to employ the Executive and the Executive desires to accept such employment on the terms and conditions of this Agreement.

This Agreement shall supersede all other Agreements between Executive and Company, and any employment agreements between Executive and Company, but shall not supersede any stock option or indemnity agreements between Executive and Company.

NOW, THEREFORE, in consideration of the mutual premises and agreements herein contained, and other good and valuable consideration, the receipt and adequacy of which is acknowledged, the parties hereby agree as follows:

1. Term of Employment. The term of the Executive's employment under this Agreement (the "Term") shall commence on the Effective Date and continue through and expire on March 20, 2004 unless earlier terminated as herein provided.

2. Change of Control Agreement Payment. Mohawk, Company, and Executive agree that Company shall pay to Executive on the Effective Date, pursuant to the terms of a Change of Control Agreement effective as of October 1, 2000, between Executive and Company (the "Change of Control Agreement"), the amount of $2,019,384 in cash, subject to all applicable withholding taxes, with such sum calculated in the manner set forth on Exhibit A hereto. In the event the payment made pursuant to this Section 2 shall be determined to be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, Mohawk and Company agree that additional payments shall be made to Executive pursuant to the terms and conditions of Section 16 of the Change of Control Agreement. In order to ensure the accurate reporting of all payments by the Company pursuant to this Section 2, Company agrees to provide the Executive with the services of a public accounting firm for the purpose of preparing Executive's tax returns for the 2002 taxable year.

3. Duties of Employment. The Executive hereby agrees for the Term to render his exclusive services to the Company as its President and, in connection therewith, to perform such duties commensurate with his office as he shall reasonably be directed by the Chief Executive Officer of Mohawk (the "CEO") or by an individual designated by the CEO to perform. The Executive shall devote during the Term all of his business time, energy and skill to his executive duties hereunder and perform such duties faithfully and efficiently, except for reasonable vacations and except for periods of illness or incapacity. When and if requested to do so by the CEO or an individual designated by the CEO, the Executive shall, for no additional compensation, serve as a director of the Company or of Mohawk, and a director or officer of any subsidiary or affiliate of the Company or Mohawk, provided that the Executive shall be indemnified in the same manner as other Mohawk employees in a similar position for liabilities

incurred by him in his capacity as a director or an officer as provided in the Company's (or Mohawk's) Certificate of Incorporation and By-Laws as in effect from time to time. Executive

shall not be required or expected to serve as a director of the Company, Mohawk, or any affiliate or subsidiary of either upon the termination of his employment with the Company.

4. Compensation and Other Benefits.

4.1 Salary. As compensation for all services to be rendered by the Executive during the Term, the Company shall pay to the Executive a salary at the rate of $400,000 per year (which may be increased from time to time by the Board (the "Annual Salary"), payable in accordance with the Company's usual payroll practices for executives. The Executive shall be eligible to receive annual salary reviews and salary increases as authorized by the Board.

4.2 Bonus. In addition to his Annual Salary, the Executive shall be eligible to be paid a bonus consistent with other senior executives of Mohawk each fiscal year of the Company (the "Annual Bonus") in accordance with the Company's bonus plan (the "Plan"), which Annual Bonus shall be determined by the Compensation Committee of the Board.

4.3 Stock Options. Concurrent with the Effective Date of this Agreement, Mohawk will grant stock options (the "Options") to Executive to purchase 25,000 shares of Mohawk common stock in accordance with the terms and provisions of the Mohawk Stock Option Plan. The terms and conditions of the Options shall be set forth in a written agreement (the "Stock Option Agreement") shall be consistent with the terms and conditions of stock option agreements applicable to comparable executives of Mohawk. Mohawk agrees that Executive shall participate in future grants of stock options in a manner comparable to similar Mohawk executives who are on a similar bonus program.

4.4 Participation in Employee Benefit Plans. Commencing on the respective eligibility dates of the employee benefit plans, during the Term, the Executive shall be permitted to participate in any group life, hospitalization or disability insurance plan, health program,

pension plan, similar benefit plan or other so-called "fringe benefit programs" of the Company as now existing or as may hereafter be revised or amended.

4.5 Vacation. The Executive shall be entitled to three (3) weeks vacation per annum.

5. Covenants By Executive. In order to induce the Company to enter this Agreement and the Stock Option Agreement, the Executive hereby agrees as follows:

5.1 Acknowledgments of Executive. The Executive acknowledges that (i) his work for the Company will give him access to trade secrets of and confidential information concerning Mohawk, the Company, and affiliates thereof

(the "Companies") including, without limitation, information concerning their organization, business, affairs, operations, "know-how", customer lists, details of client or consultant contracts, pricing policies, financial information, operational methods, marketing plans or strategies, business acquisition plans, new personnel acquisition plans, technical processes, projects of the Companies, financing projections, budget information and procedures, marketing plans or strategies, and research products (collectively, the "Trade Secrets"); and (ii) the agreements and covenants contained in this Section 5 are essential to protect the Trade Secrets of the Companies.

5.2. Confidential Information; Personal Relationships. During the term of Executive's employment by the Company and for a two-year period after the termination of such employment (the "Restricted Period") the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others, all confidential matters and Trade Secrets of the Companies.

5.3 Property of the Companies. All memoranda, notes, lists, records and other documents or papers, (and all copies thereof), including such items stored in computer memories,

on microfiche or by any means, made or controlled by or on behalf of the Executive, or made available to the Executive relating to the Companies are and shall be the Companies' property and shall be delivered to the Companies upon the termination of Executive's employment hereunder unless requested earlier by the Companies.

5.4 Business Opportunities. The Executive acknowledges that the Companies have been considering, and during the term of his employment may consider, the acquisition of various entities engaged in the business carried on by the Companies and that it would be harmful and damaging to the Companies if he were to become interested in any such entity without the Company's prior consent. During the term of his employment, the Executive will not, without the Company's prior consent, become interested in any such entity in any capacity, including, without limitation, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant, if the Executive is aware that the Companies are considering the acquisition of such entity.

5.5 Agreement Not to Compete. The Executive agrees that, commencing on the date hereof, and continuing through the period ending two years after the Effective Date, Executive will not, within the United States either directly or indirectly, engage in or provide managerial, supervisory, sales, financial, administrative, or consulting services or assistance to, or own a beneficial interest in, any Competing Business. For purposes of this Agreement, "Competing Business" shall be defined as any business entity (whether formed as a corporation, partnership, limited liability company, or otherwise) that is engaged primarily in the business of the manufacture, distribution, and marketing of glazed and unglazed tiles.

5.6. Agreement Not to Solicit Customers. The Executive agrees that, commencing on the date hereof and continuing through the period ending two years after the

Effective Date, he will not, within the United States, either directly or indirectly, solicit, divert or appropriate, to any Competing Business any

customer or client who was serviced by or under the supervision of the Company.

5.7 Agreement Not to Solicit Employees. The Executive agrees that, commencing on the date hereof and continuing through the period ending two years after the Effective Date, he will not, either directly or indirectly, solicit or divert any person employed by the Company ("Former Company Employee").

6. Termination.

6.1 Termination Upon Death. If the Executive dies during the Term, this Employment Agreement shall terminate immediately, except that the Executive's legal representatives shall be entitled to receive (i) any Annual Salary to the extent such Annual Salary has accrued and remains payable up to the date of the Executive's death (to be paid in accordance with the Company's usual payroll practices for executives), plus (ii) a pro-rata share of the Annual Bonus for the fiscal year in which Executive's death occurs, reflecting the portion of the year that had elapsed prior to Executive's death multiplied by the greater of (A) Executive's target bonus for that year or (B) the average bonus received by Executive for the two prior fiscal years, plus (iii) any benefits to which the Executive, his heirs or legal representatives may be entitled under and in accordance with the terms of any employee benefits plan or program maintained by the Company.

6.2 Termination Upon Disability. If the Executive becomes disabled during his employment hereunder so that he is unable substantially to perform his services hereunder for 180 consecutive days, then the terms of this Agreement may be terminated by resolution of the Board sixty days after the expiration of such 180 days, such termination to be effective upon

delivery of written notice to the Executive of the adoption of such resolution; provided, that the Executive shall be entitled to receive (i) any accrued and unpaid Annual Salary through such effective date of termination (to be paid in accordance with the Company's usual payroll practices for executives), plus (ii) a pro-rata share of the Annual Bonus for the fiscal year in which Executive's disability occurs, reflecting the portion of the year that had elapsed prior to Executive's disability multiplied by the greater of (A) Executive's target bonus for that year or (B) the average bonus received by Executive for the two prior fiscal years, plus (iii) any benefit to which the Executive may be entitled under and in accordance with the terms of any employee benefits plan or program maintained by the Company.

6.3 Termination for Cause. The Company has the right, at any time during the Term, subject to all of the provisions hereof, exercisable by serving notice, effective in accordance with its terms, to terminate the Executive's employment under this Agreement and discharge the Executive for "Cause" (as defined below). If such right is exercised, the Executive shall be entitled to receive unpaid and accrued Annual Salary prorated through the date of such termination, any benefits vested as of the date of such termination, and any other compensation or benefits otherwise required to be paid under applicable law. Except for such payments, the Company shall be under no further obligation to the Executive. The term "Cause" shall mean and include (i) the conviction of or plea of guilty by the Executive of any felony or other serious crime involving the Company, or (ii) gross or willful misconduct by the Executive in the performance of his duties hereunder; provided however, that no act shall be considered gross or willful misconduct if the Executive was acting in good faith or in a manner not opposed to the interests of the Company or (iii) if the Executive breaches one of his covenants under Section 5 of this Agreement. The Company shall be entitled to terminate the Executive for Cause

only

upon approval of a resolution adopted by the affirmative vote of not less than two-thirds of the membership of either the Mohawk Board or the Company Board (in either case excluding Executive). The Company agrees to provide to the Executive prior written notice (the "Notice") of its intention to terminate Executive's employment for Cause, such Notice to state in detail the particular acts or failure to act which constitute grounds for the termination. The Executive shall be entitled to a hearing before the applicable Board to contest the Board's findings, and to be accompanied by counsel. Such hearing shall be held within 45 days of the request thereof to the Company by the Executive, provided that such request must be made within 15 days of delivery of the Notice. If, following any such hearing, the Board maintains its determination to terminate the Executive's employment for Cause, the effective date of such termination shall be as specified in the Notice.

6.4 Termination Without Cause. The Company shall have the right at any time during the term to terminate the Executive's employment hereunder without Cause. Upon such termination, or the termination by the Executive for Good Reason, the Executive shall receive his Annual Salary for the remainder of the term paid in accordance with the company's usual payroll practices. In addition, the Executive will be entitled to annual bonuses for any fiscal year that begins on or prior to the end of the term of this Agreement, with such bonuses based on the greater of (A) Executive's target bonus or (B) the average bonus received for the two (2) prior fiscal years paid in accordance with the company's usual payroll practices. The Company will also be required to provide to the Executive for the remainder of the term of this Agreement all medical and dental benefits as specified in Section 4.4 hereof and, if one or more such benefits cannot be provided to the Executive pursuant to the terms of the Company's benefit plans, to

reimburse the Executive in cash for such amount as required in the event the Executive purchases such benefit.

For purposes of this Agreement, "Good Reason" shall mean (i) a reduction in the Annual Salary or Bonus Opportunity as specified in Section 4.1 or 4.2, (ii) a relocation of the Executive more than 100 miles outside of the Dallas/Fort Worth Metropolitan area, or (iii) a change in Executive's job title to a position other than President.

6.5 Other. Except as otherwise provided herein, upon the expiration or other termination of this Agreement, including the resignation of Executive, all obligations of the Company shall forthwith terminate, except as to any stock option rights as provided in the Stock Option Agreement and except as otherwise required by applicable law.

7. Expenses.

7.1 General. During the Term, the Executive will be reimbursed for his reasonable expenses incurred for the benefits of the Company in accordance with the general policy of the Company or directives and guidelines established by management of the Company and upon submission of documentation satisfactory to the Company. With respect to any expenses that are to be reimbursed by the Company to the Executive, the Executive shall be reimbursed upon his presenting to the Company an itemized expense voucher.

8. Provisions.

8.1 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered personally, telegraphed, telexed, sent by facsimile transmission, or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, telegraphed, telexed, or sent by facsimile

transmission or, if mailed, five days after the date of deposit in the United States mail, as follows:

(i) if to the Company, to:

Dal-Tile International Inc.
7834 Hawn Freeway
Dallas, Texas 75217
Attention: General Counsel

with a copy to:
Mohawk Industries, Inc.
160 South Industrial Blvd
Calhoun, Georgia 30701
Attention: John Swift, Chief Financial Officer

(ii) if to the Executive, to:
W. Christopher Wellborn
908 Suffolk Court
Southlake, Texas 76092

Any party may change its address for notice hereunder by notice to the other parties hereto.

8.2 Entire Agreement. This Agreement and the Stock Option Agreement contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements, written or oral, with respect thereto.

8.3 Waivers and Agreements. This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power, or privilege hereunder.

8.4 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia applicable to agreements made and to be performed entirely within such State.

8.5 Successors, Binding Agreement, Assignment. The Company will require any successor (whether, direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or

assets of the Company, by agreement in form and substance satisfactory to the Executive, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as would apply if the Executive terminated his employment pursuant to Section 6.4 hereto (except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the date of termination). As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that executes and delivers the agreement provided for in this section or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to his devisee, legatee, or other designee or, if there be no such designee, to his estate. Executive may not delegate the performance of any of his

duties hereunder. Neither party hereto may assign any rights hereunder without the written consent of the other party hereto.

8.6 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

8.7 Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

9. Arbitration. Any and all disputes arising out of or relating to this Agreement or the breach, termination or validity thereof shall be settled by arbitration before a sole arbitrator in accordance with the then current CPR Rules for Non-Administered Arbitration. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. ss. 116, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. The arbitration shall be held in Atlanta, Georgia, and unless the parties agree otherwise, the arbitrator shall be selected from CPR's panel of neutrals.

Either party may demand arbitration by sending to the other party by certified mail a written notice of demand for arbitration, setting forth the matters to be arbitrated. The arbitrator shall have the authority to award only compensatory damages, and neither party shall be entitled to written or deposition discovery from the other. The Company will pay the fees and expenses of the arbitrator, as well as any attorneys' fees, expert witness fees, and other expenses. The arbitrator shall have no authority to alter, amend or modify any of the terms and conditions of this Agreement.

Before arbitrating the dispute, the parties, if they so agree, may endeavor to settle the dispute by mediation under the then current CPR Mediation Procedure. Unless otherwise agreed,

the parties will select a mediator from the CPR panel of neutrals. If the

mediation is not successfully concluded within thirty (30) days, the dispute will proceed to arbitration as set forth above.

Notwithstanding the pendency of any dispute or controversy concerning termination or the effects thereof, the Company will continue to pay the Executive his full compensation in effect immediately before any notice of termination giving rise to the dispute was given and continue him as a participant in all Compensation, benefit and insurance plans in which he was then participating, until an award has been entered by the arbitrator. Any amounts paid hereunder shall be set off against or reduced by any other amounts due under this Agreement.

10. Legal Fees and Expenses.

It is the intent of the Company and Mohawk that the Executive not be required to incur the legal expenses associated with (i) the obtaining of any right or benefit under this Agreement or (ii) the enforcement of his rights under this Agreement by litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, the Company and Mohawk irrevocably authorize the Executive from time to time to retain counsel of his choice, at the expense of the Company and/or Mohawk to the extent hereafter provided, to represent the Executive in connection with the interpretation or enforcement of this Agreement, including the initiation or defense of any litigation or other legal action, whether by or against Mohawk, the Company, or any Director, officer, stockholder or other person affiliated with Mohawk or the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between (i) Mohawk or the Company and (ii) such counsel, Mohawk and the Company irrevocably consent to the Executive's entering into an attorney-client relationship with such counsel, and in that connection Mohawk, the Company, and the Executive

agree that a confidential relationship shall exist between the Executive and such counsel. Mohawk and/or the Company shall pay or cause to be paid and shall be solely responsible for any and all attorneys' and related fees and expenses incurred by the Executive under this Section 10, provided that Mohawk and/or the Company shall be responsible (in the aggregate) only for a maximum of $7,500 in legal fees hereunder, provided further that if such legal fees relate to the initiation or defense of a legal action in which the Executive is the prevailing party on one or more substantive issues, the $7,500 limitation on Mohawk and/or the Company's responsibility for legal fees shall not apply.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

DAL-TILE INTERNATIONAL INC.

By: _____

Name: _____

Title: _____

MOHAWK INDUSTRIES, INC.

By: _____

Name: _____

Title:

Exhibit A
Change of Control Payment Computation

(A) Current Salary	$360,000 x 3	=	$1,080,000
Bonus:			
2000	$322,956		
2001	$303,300		
Total	$626,256		
Average Bonus	$313,128		
(B) Average Bonus X 3		=	$ 939,384
Change of Control Amount (A+B)		=	$2,019,384

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Mohawk Carpet Corporation	Delaware
Aladdin Manufacturing Corporation	Delaware
Mohawk Commercial, Inc.	Delaware
Mohawk Factoring, Inc.	Delaware
Mohawk Servicing, Inc.	Delaware
World International, Inc.	Barbados
Mohawk Brands USA, Inc.	Delaware
Mohawk Brands, Inc.	Delaware
Mohawk Resources, Inc.	Delaware
Dal-Tile International Inc.	Delaware

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Mohawk Industries, Inc.:

We consent to incorporation by reference in the registration statements (No. 33-52070, No. 33-52544, No. 33-67282, No. 33-87998, No. 333-23577 and No. 333-74806) on Form S-8, of Mohawk Industries, Inc. and subsidiaries of our report dated February 1, 2002 except for the fourth paragraph of note 2 to the consolidated financial statements as to which the date is March 20, 2002, relating to the 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, and all related schedules, which report appears in the December 31, 2001 annual report on Form 10-K of Mohawk Industries, Inc.

/s/ KPMG LLP

KPMG LLP

Atlanta, Georgia
March 20, 2002