

MOHAWK INDUSTRIES INC
Form 11-K
June 20, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

[Mark One]

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934[FEE REQUIRED]

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934[NO FEE REQUIRED]

For the transition period from ____ to ____

Commission File Number 01-19826

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II
(Full title of the Plan)

MOHAWK INDUSTRIES, INC.
(Name of the issuer of the securities held pursuant to the Plan)

P. O. Box 12069, 160 S. Industrial Blvd.
Calhoun, Georgia 30701
(Address of principal executive offices)

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MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II
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Schedule H, Line 4i-Schedule of Assets (Held at Year End)-December 31, 2002

Signature

Exhibit 23 - Independent Auditors' Consent

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MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II

Financial Statements and Supplemental Schedule

December 31, 2002

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Independent Auditors' Report

The Administrator
Mohawk Carpet Corporation
Retirement Savings Plan II:

We have audited the accompanying statement of net assets available for plan benefits of the Mohawk Carpet Corporation Retirement Savings Plan II (Plan) as of December 31, 2002, and the related statement of changes in net assets available for plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2002, and the changes in net assets available for plan benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/KPMG LLP

Atlanta, Georgia
May 8, 2003

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MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II

Statement of Net Assets Available for Plan Benefits
December 31, 2002

Assets:

| | | |
|--|----|-------------|
| Cash | \$ | 41,732 |
| Investments (notes 3 and 4) | | 145,523,342 |
| Contributions receivable from employer | | 289,197 |
| Contributions receivable from participants | | 822,127 |
| Net assets available for plan benefits | \$ | 146,676,398 |

See accompanying notes to financial statements.

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Statement of Changes in Net Assets Available for Plan Benefits
 Year ended December 31, 2002

Additions:

| | |
|---|--------------|
| Investment income (loss): | |
| Interest and dividends | \$ 3,933,528 |
| Net appreciation (depreciation) in fair value of investments: | |
| Mutual funds | (12,985,966) |
| Common collective funds | (2,228,200) |
| Mohawk Industries, Inc. common stock | 1,174,867 |
| Net investment loss | (10,105,771) |
| Contributions from employer | 6,012,891 |
| Contributions from participants | 13,832,481 |
| Transfers from other plan (note 2) | 143,857,463 |
| Total additions | 153,597,064 |

Deductions:

| | |
|---|----------------|
| Participants' benefits | 6,895,266 |
| Administrative expenses | 25,400 |
| Total deductions | 6,920,666 |
| Increase in net assets available for plan benefits | 146,676,398 |
| Net assets available for plan benefits at beginning of year | - |
| Net assets available for plan benefits at end of year | \$ 146,676,398 |

See accompanying notes to financial statements.

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Notes to the Financial Statements

December 31, 2002

(1) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Plan in preparing its financial statements.

(a) *Basis of Presentation*

The records of the Plan are maintained on the cash basis of accounting. The accompanying financial statements of the Mohawk Carpet Corporation Retirement Savings Plan II (the Plan) have been prepared on the accrual basis of accounting and present the net assets available for plan benefits and changes in those net assets.

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

(b) *Investments*

Investments in mutual funds, common stock, and common collective funds are stated at fair value based on quoted market prices or as determined by Scudder Kemper Investments (Trustee). Investments in money market funds and loans to participants are stated at cost which approximates fair value. Securities transactions are accounted for on a trade date basis.

Realized and unrealized investment gains and losses are included in net depreciation in fair value of investments in the accompanying statement of changes in net assets available for plan benefits.

The Plan provides for investing in numerous funds, which invest in various types of investment securities and in various companies in various markets. Investment securities, generally, are exposed to several risks, such as interest rate, market, and credit risks. Due to the level of risk associated with the funds, it is reasonably possible that changes in the values of the funds will occur in the near term and such changes could materially affect the amounts reported in the financial statements and supplemental schedule.

(c) *Fair Value of Financial Instruments*

Investments in securities are stated at fair value. In addition, management of the Plan believes that the carrying amount of receivables is a reasonable approximation of the fair value due to the short-term nature of these instruments.

(2) Description of the Plan

The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

(a) *General*

The Plan is a defined contribution plan and covers substantially all salaried, sales, nonexempt employees, and all employees of Karastan Bigelow Group (KBY) and Lauren Park Mill (LPM) of Mohawk Carpet Corporation (the Company), a wholly owned subsidiary of Mohawk Industries, Inc. The Plan excludes all other hourly employees as they are covered under the Mohawk Carpet Corporation Retirement Savings Plan (Prior Plan). The Plan provides for retirement savings to qualified active participants through both participant and employer contributions and is subject to certain provisions of

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the Employee Retirement Income Security Act of 1974 (ERISA). Employees are eligible to participate in the Plan at the beginning of a calendar month after the completion of 90 days of service.

Notes to the Financial Statements (continued)

December 31, 2002

Effective January 1, 2002, account balances attributable to employees of KBY and LPM were transferred from the Prior Plan into the Plan. Also, account balances attributable to all salaried, sales employees, and nonexempt employees were transferred from the Prior Plan into the Plan. Plan assets transferred were \$143,857,463.

The Plan is administered by an Administrative Committee appointed by the Company. The Administrative Committee is responsible for the control, management, and administration of the Plan and the assets held in trust at Scudder Kemper Investments as of December 31, 2002 and for the year then ended.

(b) *Contributions*

Contributions to the Plan are made by both participants and the Company. Participants may contribute a maximum of 25% of their gross compensation, subject to certain limitations. Participants may allocate their contributions in multiples of 1% to various investment funds of the Plan. The Company provides 50% matching contributions up to the first 4% of each participant's gross compensation contributed to the Plan. The Company also provides an additional match of \$0.25 for every \$1.00 of employee contributions in excess of 4% up to a maximum of 6%. The terms of the Plan also provide for discretionary employer profit sharing contributions to the Mohawk Stock Fund for plan participants employed on the last day of the plan year or terminated during the plan year on account of death, disability, or retirement.

(c) *Participant Accounts*

Each participant's account is credited with their contribution for the period as well as the employer's matching contribution and an allocation of any employer profit sharing contribution. Investment income, realized gains/losses, and the change in unrealized appreciation or depreciation on plan investments are credited to participants' accounts monthly based on the proportion of each participant's account balance to the total account balance within each investment fund at the beginning of the month.

Participant accounts may be invested in one or more of the investment funds available under the Plan at the direction of the participant. The Plan provides for monthly valuation of accounts. Current investment funds available within the Plan include the following:

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Notes to the Financial Statements (continued)

December 31, 2002

| Investment fund | Fund objective |
|---|--|
| Scudder Stable Value Fund: | To provide rate of return for a fixed period of time. Money in this fund is invested in investment contracts, money market securities, and managed bond portfolios. |
| PIMCO Total Return Fund: | To provide the opportunity for higher earnings than the stable value fund. Money in this fund is primarily in intermediate term, high-quality, fixed income securities. |
| Scudder Balanced Fund: | To provide capital growth and current income while minimizing the risk of principal loss associated with common stocks by investing in a changing mix of seasoned stocks and investment grade bonds. |
| Kemper-Dreman High-Return Equity Fund: | To provide long-term capital growth through investing in large capitalization stocks in undervalued sectors of the stock market. |
| Scudder Stock Index Fund: | To track performance of the Standard and Poor's 500 Composite Stock Price Index, which emphasizes stocks of large U.S. companies. |
| Barron Asset Fund: | To provide long-term capital growth through investing in the stocks of small, and medium-sized companies with undervalued assets. |
| Scudder International Fund: | To provide long-term capital growth through a flexible policy of investing in stocks and debt obligations of companies and governments outside the U.S. |
| Mohawk Stock Fund: | To provide capital appreciation through the ownership of Mohawk Industries, Inc. shares. |
| Scudder 21 st Century Growth Fund: | To provide long-term growth of capital through investing primarily in emerging growth companies poised to become leaders in the 21 st century. |
| Transamerica Premier Equity Fund: | To provide long-term growth through investing in a diversified portfolio of equity securities of domestic growth companies of any size. |
| AIM Value Fund: | To provide long-term growth of capital through investing in stocks of companies that are undervalued relative to the market as a whole. |

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Notes to the Financial Statements (continued)

December 31, 2002

(d) *Distributions to Participants*

Upon termination of employment, the participant's account shall be distributed in a lump-sum cash payment as soon as administratively practicable.

Under the terms of the Plan, participants may make hardship withdrawals from their accounts upon furnishing proof of hardship as specified in the Plan agreement. Participants may also borrow the lesser of \$50,000 or 50% of the value of their accounts subject to limitations provided by the Plan. Loans must be paid back to the Plan generally within four years of the loan date.

Amounts due to participants who have withdrawn from the Plan but have not been paid at December 31, 2002 totaled \$5,044.

(e) *Vesting*

Participants are immediately vested in their contributions and any income earned on such contributions. Participants whose entry date under the Prior Plan or this Plan is on or after January 1, 2001 are vested in the Company's matching and discretionary contributions after one year of service.

Amounts forfeited by participants who terminate from the Plan prior to being 100% vested are applied to reduce subsequent Company contributions to the Plan. In 2002, employer contributions were reduced by forfeitures of \$74,196.

(f) *Administrative Expenses*

Certain administrative expenses of the Plan are paid by the Company. These costs include legal, accounting, and certain administrative fees.

(3) Transactions with Parties-in-Interest

At December 31, 2002, the Plan held investments in trust funds and money market accounts sponsored by the trustee with current values of \$99,559,821. The Plan also held investments in 442,215 shares of Mohawk Industries, Inc. common stock with current values of \$25,184,168 at December 31, 2002.

(4) Investments

The following investments represent 5% or more of the Plan assets at December 31, 2002:

| | |
|---------------------------------------|--------------|
| Mutual funds: | |
| Scudder Balances Fund | \$ 8,455,062 |
| Kemper-Dreman High-Return Equity Fund | 29,103,817 |
| Mohawk Industries, Inc. common stock | 25,184,168 |
| Common Collective funds: | |
| Scudder Stock Index Fund | 8,396,019 |
| Scudder Stable Value Fund | 49,980,615 |

All of the Plan's investments are held by a party-in-interest to the Plan.

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Notes to the Financial Statements (continued)

December 31, 2002

(5) Income Tax Status

The Plan sponsor is currently in the process of filing for a tax determination letter. The administrative committee of the Plan is not aware of any course of action or series of events that might adversely affect the Plan's qualification under Section 401(a) of the Internal Revenue Code, and under which the Plan would be subject to tax under present income tax law.

(6) Plan Termination

While it is the Company's intention to continue the Plan indefinitely, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA and the Plan agreement. In the event of Plan termination, participants will become 100% vested in their accounts.

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II

Schedule H, Line 4i-Schedule of Assets (Held at End of Year)

December 31, 2002

| Identity of the issue | Description of investments | | Current value |
|---|----------------------------|------------------------|----------------|
| Mutual funds: | | | |
| PIMCO Total Return Fund | 653,129 | Mutual fund units | \$ 6,968,885 |
| *Scudder Balanced Fund | 582,706 | Mutual fund units | 8,455,062 |
| *Scudder International Fund | 77,909 | Mutual fund units | 2,365,332 |
| *Kemper-Dreman High-Return Equity Fund | 983,902 | Mutual fund units | 29,103,817 |
| Baron Asset Fund | 68,020 | Mutual fund units | 2,341,231 |
| AIM Value Fund | 148,746 | Mutual fund units | 1,117,083 |
| Transamerica Premier Equity Fund | 288,374 | Mutual fund units | 3,728,671 |
| *Scudder 21st Century Growth Fund | 127,298 | Mutual fund units | 1,258,976 |
| *Mohawk Industries, Inc. - common stock | 442,215 | Shares of common stock | 25,184,168 |
| Common Collective funds: | | | |
| *Scudder Stable Value Fund | 49,980,615 | Money Market Fund | 49,980,615 |
| *Scudder Stock Index Fund | 330,292 | Collective fund units | 8,396,019 |
| Loans to participants | (1) | | 6,623,483 |
| Total | | | \$ 145,523,342 |

*Scudder Kemper Investments, Trustee, and Mohawk Industries, Inc. are parties-in-interest to the Plan.

- Loans are consummated at a fixed rate (then current prime rate plus 1%) for terms up to four years. Interest rates range from 5.25% to 10% on loans outstanding.

See accompanying independent auditors' report.

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Plan Administrator has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Mohawk Carpet Corporation Retirement Savings Plan II
(Full Title of the Plan)

Dated: June 20, 2003

By: /s/ Jerry L. Melton
Jerry L. Melton,
Vice President, Human
Resources