

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

FORM 10-K

[Mark One]

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

For the fiscal year ended December 31, 2002

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

(State or other jurisdiction of incorporation or organization)

52-1604305

(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
Common Stock, \$.01 par value

Name of Each Exchange on Which Registered
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 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 this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant (45,299,684 shares) on June 28, 2002 (The last business day of the Registrant's most recently completed fiscal second quarter) was \$2,787,289,557. 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 February 24, 2003: 66,404,394 shares of Common Stock, \$.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2003 Annual Meeting of Stockholders-Part III.

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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 acquisition of Dal-Tile as if it had occurred on January 1, 2002, the Company had annual net sales in 2002 of approximately \$4.8 billion.

Through the Company's Mohawk segment, 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 also markets and distributes hardwood, laminate, vinyl and ceramic tile under its hardsurface line. 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 Commercial," "Custom Weave," "Durkan Commercial," "Durkan Patterned Carpets," "Goodwin Weavers," "Helios," "Horizon," "Karastan," "Karastan Contract," "ColorCenter," "Mohawk Commercial," "Floorscapes," "Newmark Rug," "World" and "WundaWeve." The Company markets and distributes its carpet and rug products through over 35,000 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 Dal-Tile segment, the Company 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 "Dal-Tile" and "American Olean" brand names. The Company's ceramic tile business is organized into three strategic business channels: contractors and retailers, independent distributors and home center retailers. The Company maintains over 220 sales 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 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.

The Dal-Tile Acquisition

On March 20, 2002, the Company acquired all of the outstanding capital stock of Dal-Tile, a leading manufacturer and distributor of ceramic tile in the United States for approximately \$1,469 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 \$718 million in cash. The Company's common stock and options were valued at \$751 million based on the measurement date stock price of \$55.04 per share (\$710.4 million) and the estimated fair value of options using the Black-Scholes option-pricing model (\$40.3 million). The transaction has been accounted for using the purchase method of accounting and, accordingly, the results of operations of Dal-Tile have been included in the Company's consolidated financial statements from March 20, 2002. The purchase price was allocated to the assets acquired and liabilities assumed based upon estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the net identifiable assets acquired of approximately \$1,168.3 million was recorded as goodwill. The primary reasons for the acquisition included:

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

As a result of the Dal-Tile acquisition, the Company has determined that it has two operating segments, the Mohawk segment and the Dal-Tile segment. The Mohawk segment is comprised of all the product lines and operations that were the Company's prior to the Dal-Tile acquisition. The Dal-Tile segment is comprised of the Dal-Tile product lines and operations. Selected financial information for the Mohawk and Dal-Tile segments is set forth in Note 17 to the Consolidated Financial Statements.

Industry

The floorcovering industry has grown from \$12.4 billion in sales in 1992 to \$20.2 billion in 2001. In 2001, the primary categories of the United States floorcovering industry were carpet and rugs (65%), ceramic tile (10%), vinyl and rubber (12%), hardwood (9%) 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 33% 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 2001, with the exception of the vinyl and rubber category, have exceeded the growth rate for both the gross domestic product of the United States and housing starts over the same period. During this period, the compound average growth rate was 4.5% for carpet and rugs, 9.6% for ceramic tile, 3.1% for vinyl and rubber and 8.1% for hardwood. Laminate, which is a relatively new product, experienced a compound average growth rate of 33.6% from 1996 through 2001.

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 1.9 billion square yards in 2001. 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 78% of the amounts shipped by the industry in 2001. Tufted broadloom carpet, a category that refers to the manner of construction in addition to size, represented 84.2% of the broadloom industry volume shipped in 2001. The broadloom carpet industry has two primary markets, residential and commercial, with the residential market making up approximately 71% of industry amounts shipped in 2001 and the commercial market comprising approximately 29%. An estimated 48% 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 2001. The compound average growth rate of dollar shipments was 7.1% from 1992 through 2001 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.

The ceramic tile industry's two primary markets, residential applications and commercial applications, represent 61.8% and 36.1% of the industry total, respectively. Of the total residential market, 67% of the dollar shipments are for new construction.

Sales and Distribution

Mohawk Segment.

The Company designs, manufactures and markets hundreds of styles of carpet and rugs in a broad range of colors, textures and patterns. In addition, the Mohawk segment markets and distributes ceramic tile, laminate, hardwood and vinyl floor covering. The Mohawk segment positions its products in all price ranges and emphasizes quality, style, performance and service. The Company markets and distributes carpet and rugs through over 35,000 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's customers include independent retailers, department stores, mass merchandisers, retail groups and contractors.

The Company has positioned its premier residential carpet and rug brand names across all price ranges. "Mohawk," "Custom Weave," "WundaWeve," "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," and "Mohawk" 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 marketing and advertising support through dealer programs like Karastan Gallery, ColorCenter and 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 sales forces are generally organized based on product type and sales channels in order to best serve each type of customer. A hub-and-spoke distribution network accomplishes the product distribution on a regional level. In this system, the Company's trucks generally deliver product from manufacturing and central distribution sites to regional warehouses. From there, it is shipped to retailers or to local distribution warehouses, then to retailers.

The commercial customer base is divided into several channels: 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 channel.

The Company's "Aladdin" commercial brand is sold primarily through retail dealers to customers in the retail space, corporate office and other channels. These customers are more price conscious in their purchase decisions. The "Bigelow Commercial" brand is sold primarily to commercial office and retail channels through commercial flooring contractors. The "Karastan Contract" and "Durkan Commercial" brands are positioned primarily to service the medium to high-end fashion conscious customer in both the retail and corporate office channels. The "Mohawk Commercial" brand is marketed to customers in the educational institutional and health care facility channels that are performance oriented. The "Durkan Hospitality" brand specializes in carpet sold through the hospitality channel to hotels, resorts and casinos.

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, provides unique characteristics that delivers a better value to the customer and the Company. 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 Mohawk Home Division is the largest textile and machine made rug manufacturer in the United States. Mohawk Home's affordable price points strategy for the mainstream retailers and home centers is directed at the mid and lower retail price ranges. Product categories are diverse, including polypropylene woven and tufted rugs, printed and woven nylon rugs, doormats and washable bath rugs. The flooring products are marketed under the Mohawk Home label and private labels of key retailers. Mohawk Home is the largest manufacturer of washable bath rugs offering synthetic and cotton fibers constructed using hand guided and machine made technology. Mohawk Home has set up relationships sourcing some of its domestic lines from countries in the far east.

Mohawk Home has expanded its market position to include decorative throws and pillows, woven bedspreads, textile wall hangings and blankets. These products are sold under the Mohawk Home label to large retailers as well as catalog houses, private label programs, and the gift trade.

The Karastan brand of area rugs was repositioned under Mohawk Home during the fourth quarter of 2002 as the division's premier high-end brand. The addition of Karastan to Mohawk Home will enable it to leverage channels of distribution and brand recognition and maximize market penetration to, retailers and gift storeowners. The Karastan and Mohawk Home brand names enable Mohawk Home to differentiate its product lines and market its product lines through various price points.

Dal-Tile Segment.

The Dal-Tile segment's ceramic tile and natural stone products are distributed through three separate distribution channels consisting of company-operated sales service 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. A dedicated sales force supports each strategic business unit.

The Company has four regional distribution centers strategically located in California, Maryland, Texas and Florida. 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. These distribution centers also enhance the Company's ability to plan and schedule production and manage inventory requirements.

Sales Service Centers. The Company's network of over 220 sales service centers located in the United States, Canada and Puerto Rico distributes primarily the Dal-Tile brand product, serving customers in all 50 states and portions of Canada and Puerto Rico.

The Company serves 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 Company carries a selection of products purchased from other manufacturers to provide customers with a broader product line.

Independent Distributors. The independent distributor channel is serviced through a dedicated business unit to serve the particular requirements of its distributors. Currently, the American Olean brand is distributed through approximately 200 independent distributor locations 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 segment 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. 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-Dal-Tile and American Olean. The roots of the Dal-Tile and American Olean brand names date back approximately fifty and seventy-five years, respectively.

The Company's sales service centers primarily distribute the Dal-Tile brand, with a fully integrated marketing program, emphasizing a focus on fashion. The broad product offering satisfies the needs of its residential, commercial and builder customers, which include retailers, professional installers, designers, architects and builders.

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 brands through national advertising in both television and print media as well as in the form of cooperative 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 recognition of its product lines. The cost of producing display samples, a significant promotional expense, is partially offset by sales of samples and support from 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. Over the past three years, the Dal-Tile segment 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. In addition, the Company is adding a porcelain tile manufacturing plant, which will significantly expand its production capacity in 2003 and 2004.

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 produces ceramic tile frit (ground glass) and 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.

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. In January 2003, Honeywell announced plans to purchase BASF's nylon fiber business. 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. The Company has entered into a long-term supply agreement for most of its talc requirements with one supplier.

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 has a single source supplier for its impure nepheline syenite and pure nepheline syenite requirement. If there were a supply interruption other suppliers of these raw materials should be available.

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 43% 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 2001 had worldwide sales in excess of \$13.3 billion, and the top 20 manufacturers in 1990 had sales in excess of \$6 billion. In 2001, the top five manufacturers had worldwide sales in excess of \$9.8 billion. With 2002 carpet and rug net sales of approximately \$3.2 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®," "Bigelow Commercial," "Custom Weave" "Dal-Tile®," "Durkan Commercial," "Durkan Patterned Carpets," "Goodwin Weavers," "Helios®," "Home Source," "Horizon®," "Karastan®," "Karastan Contract," "Mohawk®," "Mohawk ColorCenter®," "Mohawk Commercial," "Mohawk Floorscape," "Mohawk Home," "Tommy Mohawk®," "World®" and "WundaWeve®."

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 2002, 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 February 24, 2003, the Company employed approximately 31,780 persons, of which approximately 570 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.

Available Information

The Company's Internet address is <http://mohawkind.com>. The Company makes the following reports filed by it available, free of charge, on its website under the heading "Investor Information:"

- annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K; and
- amendments to the foregoing reports.

The foregoing reports are made available on the Company's website as soon as practicable after they are filed with the Securities and Exchange Commission ("SEC").

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	Manufacturing and warehousing	2,089,000	(a)
Monterrey, Mexico	Manufacturing, distribution and office	1,464,597	(b)
Dalton, GA	Manufacturing, distribution and offices	1,103,200	(a)
Dalton, GA	Manufacturing	1,101,600	(a)
Dublin, GA	Manufacturing, warehousing and offices	831,000	(a)
Lyerly, GA	Manufacturing and warehousing	820,000	(a)
Chatsworth, GA	Distribution center	812,075	(a)
Calhoun, GA	Manufacturing and distribution center	792,000	(a)
Chatsworth, GA	Manufacturing, warehousing and offices	787,800	(a)
Eden, NC	Manufacturing	784,200	(a)
Dallas, TX	Manufacturing, distribution and office	733,846	(b)
Jackson, TN	Manufacturing	655,211	(b)
Summerville, GA	Manufacturing	579,000	(b)
Eton, GA	Manufacturing	577,205	(a)
Shannon, GA	Distribution center	567,000	(a)
Sugar Valley, GA	Manufacturing, warehousing and offices	472,500	(a)
Calhoun Falls, SC	Manufacturing	425,000	(a)
Bennettsville, SC	Manufacturing	412,000	(a)
Dalton, GA	Manufacturing, distribution and offices	396,900	(a)
Dahlonega, GA	Manufacturing	380,000	(a)
El Paso, TX	Manufacturing	380,000	(b)
Landrum, SC	Manufacturing	350,000	(a)
Dalton, GA	Manufacturing	342,000	(a)
Calhoun, GA	Distribution center	300,248	(a)
Chatsworth, GA	Manufacturing	291,800	(a)
Calhoun, GA	Manufacturing	287,688	(a)
Olean, NY	Manufacturing	278,417	(b)
Fayette, AL	Manufacturing	276,467	(b)
Lewisport, KY	Manufacturing	270,836	(b)
Dalton, GA	Manufacturing	259,000	(a)
Chatsworth, GA	Manufacturing	257,800	(a)
Calhoun, GA	Manufacturing and warehousing	250,000	(a)
Summerville, GA	Manufacturing and distribution	235,000	(a)
Gettysburg, PA	Manufacturing	218,609	(a)
Dalton, GA	Manufacturing	216,000	(a)
Conroe, TX	Manufacturing	208,059	(b)
Calhoun, GA	Manufacturing, distribution and offices	207,432	(a)
Eden, NC	Manufacturing	194,000	(a)
Calhoun, GA	Manufacturing and warehouse	164,400	(a)
Dalton, GA	Manufacturing, distribution and offices	123,000	(a)
Chatsworth, GA	Manufacturing and warehousing	112,121	(a)
Greenville, NC	Manufacturing	103,000	(a)

(a) Mohawk segment.

(b) Dal-Tile segment.

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 (c)
Dallas, TX	Distribution warehouse	472,500	Mar-2014(b)
Los Angeles, CA	Distribution warehouse	410,515	Mar-2007(b)
Baltimore, MD	Distribution warehouse	356,400	Feb-2007(b)
Coppell, TX	Distribution warehouse	300,000	Jun-2012(a)
Kensington, GA	Warehouse	277,484	May-2003(a)
Pembroke Park, FL	Distribution warehouse	258,270	Jul-2020(a)
La Mirada, CA	Distribution warehouse	220,000	Jan-2011(a)
Bowlingbrook, IL	Distribution warehouse	201,959	Nov-2019(a)
Glen Burnie, MD	Distribution warehouse	187,200	Mar-2012(a)
Chatsworth, GA	Sample warehouse	175,000	Dec-2004(a)
Calhoun, GA	Rug warehouse	169,500	Jun-2006(a)
Pompton Plains, NJ	Distribution warehouse	164,437	Jul-2011(a)
Calhoun, GA	Rug warehouse	140,000	Dec-2003(a)
Columbus, OH	Distribution warehouse	135,000	Sep-2004(a)
Kent, WA	Distribution warehouse	120,950	Nov-2020(a)
Calhoun, GA	Rug warehouse	111,000	Jun-2006(a)
Romeoville, IL	Distribution warehouse	108,000	Sep-2004(a)
Lathrop, CA	Distribution warehouse	101,112	Jan-2007(a)
La Mirada, CA	Distribution warehouse	100,000	Jan-2011(a)

(a) Mohawk segment.

(b) Dal-Tile segment.

(c) Includes 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.

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.

Three sites near Mohawk's Dallas facility in its Dal-Tile segment are involved in environmental cleanup projects relating principally to the disposal or alleged disposal by Dal-Tile of waste materials containing lead compounds. Dal-Tile's approved closure plans have been implemented and each site is now undergoing post-closure care. 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 for the disposal of certain hazardous substances at various other sites in the United States. The Company does not believe that any future costs for these sites will 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, 2002.

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
<u>2001</u>		
First quarter	\$ 32.60	25.50
Second quarter	35.85	27.91
Third quarter	47.13	29.85
Fourth quarter	55.55	35.90
<u>2002</u>		
First quarter	\$ 68.10	50.50
Second quarter	70.60	57.25
Third quarter	62.24	40.25
Fourth quarter	63.40	43.75
<u>2003</u>		
First quarter (through February 20, 2003)	\$ 59.38	46.64

As of February 20, 2003, there were approximately 421 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.

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 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. On March 20, 2002, the Company acquired all the outstanding capital stock of Dal-Tile International Inc. ("Dal-Tile") in exchange for approximately \$1,469 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 \$718 million in cash. The acquisition was accounted for using the purchase method of accounting. All financial data has 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,				
	2002 (e)	2001	2000	1999	1998
	(In thousands, except per share data)				
Statement of earnings data:					
Net sales	\$ 4,522,336	3,445,945	3,404,034	3,211,575	2,848,810
Cost of sales	3,285,222	2,613,043	2,581,185	2,434,716	2,167,523
Gross profit	1,237,114	832,902	822,849	776,859	681,287
Selling, general and administrative expenses	718,002	505,745	505,734	482,062	432,191
Carrying value reduction of property, plant and equipment and other assets (a)	-	-	-	-	2,900
Class action legal settlement (b)	-	-	7,000	-	-
Operating income	519,112	327,157	310,115	294,797	246,196
Interest expense (c)	68,972	29,787	38,044	32,632	31,023
Acquisition costs - World Merger (d)	-	-	-	-	17,700
Other expense, net	6,511	5,954	4,442	2,266	2,667
	75,483	35,741	42,486	34,898	51,390
Earnings before income taxes	443,629	291,416	267,629	259,899	194,806
Income taxes	159,140	102,824	105,030	102,660	79,552
Net earnings	\$ 284,489	188,592	162,599	157,239	115,254
Basic earnings per share	\$ 4.46	3.60	3.02	2.63	1.91
Weighted-average common shares outstanding	63,723	52,418	53,769	59,730	60,393
Diluted earnings per share	\$ 4.39	3.55	3.00	2.61	1.89
Weighted-average common and dilutive potential common shares outstanding	64,861	53,141	54,255	60,349	61,134
Balance sheet data:					
Working capital	\$ 681,869	449,361	427,192	560,057	438,474
Total assets	3,596,743	1,768,485	1,795,378	1,682,873	1,405,486
Long-term debt (including current portion)	820,427	308,433	589,828	596,065	377,089
Stockholders' equity	1,982,879	948,551	754,360	692,546	611,059

- a. 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. In December 2002, the Company discontinued hedge accounting for its interest rate swap. The impact of discontinuing the hedge was to increase interest expense by approximately \$10.7 million.
- d. The Company recorded a one-time charge of \$17.7 million in 1998 for transaction expenses related to the World merger.
- e. In 2002, the Company adopted the provisions of Financial Accounting Standards Board SFAS No. 142 "Goodwill and Other Intangible Assets" which required the Company to cease amortizing goodwill and evaluate such goodwill and indefinite intangibles for impairment.

Item 7.

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

General

During the three-year period ended December 31, 2002, the Company continued to experience growth both internally and through acquisitions.

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, a leading manufacturer and distributor of ceramic tile in the United States, for approximately \$1,469 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 \$718 million in cash. The Company's common stock and options were valued at \$751 million based on the measurement date stock price of \$55.04 per share (\$710.4 million) and the estimated fair value of options using the Black-Scholes option-pricing model (\$40.3 million). The transaction will be accounted for using the purchase method of accounting and, accordingly, the results of operations of Dal-Tile have been included in the Company's consolidated financial statements from March 20, 2002. The purchase price was allocated to the assets acquired and liabilities assumed based upon estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the net identifiable assets acquired of approximately \$1,168.3 million was recorded as goodwill. The primary reasons for the acquisition included:

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

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 was the final step, which gave the Company access to a complete line of soft and hard floor covering products to supply to customers throughout the United States.

The primary categories of the floorcovering industry include carpet and rugs (65%), ceramic tile (10%), vinyl and rubber (12%), hardwood (9%) and laminate (4%). Compound average growth rates in units sold (measured in square yards) for all categories, except the vinyl and rubber category, for the period from 1992 through 2001 have exceeded the growth rate for both the gross domestic product of the United States and housing starts over the same period. During this period, the compound average growth rate was 4.5% for carpet and rugs, 9.6% for ceramic tile, 3.1% for vinyl and rubber and 8.1% for hardwood. Laminate, which is a relatively new product, experienced a compound average growth rate of 33.6% from 1996 through 2001. 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.

As a result of the Dal-Tile acquisition, the Company has determined that it has two operating segments, the Mohawk segment and the Dal-Tile segment. The Mohawk segment is comprised of all the product lines and operations that were the Company's prior to the Dal-Tile acquisition. The Dal-Tile segment is comprised of the Dal-Tile product lines and operations.

Critical Accounting Policies

The Company's discussion and analysis of financial condition and results of operations are based on its consolidated financial statements that were prepared in accordance with accounting principles generally accepted in the United States of America.

The Company makes estimates and assumptions when preparing financial statements. These estimates and assumptions affect various matters, including:

- reported amounts of assets and liabilities in the Company's Consolidated Balance Sheets at the dates of the financial statements,
- disclosure of contingent assets and liabilities at the dates of the financial statements, and
- reported amounts of expenses in the Company's Consolidated Statements of Earnings during the reporting periods. These estimates involve judgments with respect to, among other things, future economic factors that are difficult to predict and are beyond management's control. As a result, actual amounts could differ from these estimates.

The SEC issued disclosure guidance for accounting policies that management believes are most "critical." The SEC defines these critical accounting policies as those that are both most important to the portrayal of a company's financial condition and results and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company believes the following accounting policies require it to use more significant judgments and estimates in preparing its consolidated financial statements and could represent critical accounting policies as defined by the SEC. The Company discusses its significant accounting policies, including those that do not require management to make difficult, subjective, or complex judgments or estimates, in Note 1 to the Consolidated Financial Statements.

- Accounts receivable and revenue recognition. Revenues are recognized when goods are shipped, which is when 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. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.
- Inventories are stated at the lower of cost or market (net realizable value). Cost is determined using the last-in, first-out method (LIFO) predominantly within the Mohawk segment, which matches current costs with current revenues, and the first-in, first-out method (FIFO), which is used to value inventory within the Dal-Tile segment. Inventories on hand are compared against anticipated future usage, which is a function of historical usage, in order to evaluate obsolescence and excessive quantities. Actual results could differ from assumptions used to value obsolete or excessive inventory and additional reserves may be required.
- Goodwill and intangible assets are subject to annual impairment testing. The impairment tests are based on determining the fair value of the specified reporting units based on management judgments and assumptions using estimated future cash flows. These judgments and assumptions could materially change the value of the specified reporting units and, therefore, could materially impact the Company's consolidated financial statements.
- Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in earnings in the period that includes the enactment date. Additionally, taxing jurisdictions could retroactively disagree with the Company's tax treatment of certain items, and some historical transactions have income tax effects going forward. Accounting rules require these future effects to be evaluated using current laws, rules and regulations, each of which can change at any time and in an unpredictable manner.

Results of Operations

Year Ended December 31, 2002, as Compared with Year Ended December 31, 2001

Net sales for the year ended December 31, 2002, were \$4,522.3 million, reflecting an increase of \$1,076.4 million, or approximately 31.2%, over the \$3,445.9 million reported in the year ended December 31, 2001. The increased net sales were attributable to the Dal-Tile acquisition and internal growth of the Mohawk segment product lines. The Mohawk segment recorded net sales of \$3,624.2 million in 2002 compared to \$3,445.9 million in 2001, representing an increase of \$178.2 million or approximately 5.2%. The growth was attributable to all segment product lines. Since the completion of the Dal-Tile acquisition, the Dal-Tile segment recorded net sales of \$898.2 million in 2002. A comparison of net sales for the Dal-Tile segment for 2002 and 2001, in each case including Dal-Tile's net sales (after reclassifications to conform to Mohawk's presentation) prior to the acquisition, shows an increase of \$97.4 million, or approximately 9.4%, from \$1,036.8 million to \$1,134.2 million.

Quarterly net sales and the percentage changes in net sales by quarter for 2002 versus 2001 were as follows (dollars in thousands):

	<u>2002</u>	<u>2001</u>	<u>Change</u>
First quarter	\$ 866,710	777,339	11.5%
Second quarter	1,227,747	864,958	41.9
Third quarter	1,224,403	907,850	34.9
Fourth quarter	1,203,476	895,798	34.3
Total year	\$ 4,522,336	3,445,945	31.2%

Gross profit was \$1,237.1 million (27.4% of net sales) for 2002 and \$832.9 million (24.2% of net sales) for 2001. Gross profit as a percentage of net sales in 2002 was favorably impacted when compared to 2001 by Dal-Tile's higher gross profit percentage and improved manufacturing efficiencies within the Mohawk segment.

Selling, general and administrative expenses for 2002 were \$718.0 million (15.9% of net sales) compared to \$505.7 million (14.7% of net sales) for 2001. The increased percentage was attributable to the Dal-Tile segment which has higher selling, general and administrative expenses but also has higher gross profit as a percentage of net sales. The Mohawk and Dal-Tile (including selling, general and administrative costs prior to the acquisition of Dal-Tile) segments selling, general and administrative expenses reflected improvements over 2001, when compared to 2002. The improvements were due to better control of operating costs as net sales increased.

Operating income for 2002 was \$519.1 million (11.5% of net sales) compared to \$327.2 million (9.5% of net sales) in 2001. Operating income attributable to the Mohawk segment was \$388.4 million (10.7% of segment net sales) in 2002 compared to \$336.7 million (9.8% of segment net sales) in 2001. Operating income attributable to the Dal-Tile segment was \$139.9 million (15.6% of segment net sales) in 2002. A comparison of operating income for the Dal-Tile segment's 2002 and 2001, in each case including Dal-Tile's operating income (after reclassifications to conform to Mohawk's presentation) prior to the acquisition, shows an increase of \$17.1 million, or approximately 11.1%, from \$154.6 million (14.9% of segment net sales) to \$171.7 million (15.1% of segment net sales).

Interest expense for 2002 was \$69.0 million compared to \$29.8 million in 2001. The increase in interest expense was attributable to additional debt incurred in March 2002 to finance the acquisition of Dal-Tile, the write-off of approximately \$10.7 million relating to an interest rate swap previously accounted for as a cash flow hedge and an increase in the average borrowing rate due to a change in the mix of fixed rate and variable rate debt, when compared to 2001.

Income tax expense was \$159.1 million, or 35.9% of earnings before income taxes for 2002 compared to \$102.8 million, or 35.3% of earnings before income taxes for 2001.

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):

	<u>2001</u>	<u>2000</u>	<u>Change</u>
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. Favorable material and fuel costs and an improved product mix impacted gross profit dollars for 2001.

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.

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 \$404.9 million at the beginning of 2002 to \$501.1 million at December 31, 2002. The \$96.2 million increase was primarily attributable to the acquisition of Dal-Tile. Inventories increased from \$531.4 million at the beginning of 2002 to \$678.0 million at December 31, 2002, due primarily to the Dal-Tile acquisition.

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

Excluding the acquisition of Dal-Tile, capital expenditures totaled \$111.9 million during 2002. The capital expenditures made during 2002 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 \$754.5 million for acquisitions, have totaled \$992.8 million over the past three years. The Company's capital spending during 2003, excluding acquisitions, is expected to range from \$120 million to \$140 million, and will be used primarily to purchase equipment to increase production capacity and productivity.

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, 2002, the Company had credit facilities of \$450 million under its revolving credit line and \$55 million under various short-term uncommitted credit lines. At December 31, 2002, a total of \$462.5 million 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.

In connection with the Dal-Tile acquisition, the Company entered into a 364-day term loan facility (the "Bridge Facility") on March 20, 2002, to finance a portion of the acquisition. On April 2, 2002, the Company sold \$300 million of its 6.50% senior notes due 2007, Series A and \$400 million of its 7.20% senior notes due 2012, Series B through institutional private placements and used the proceeds to repay outstanding indebtedness of approximately \$601 million under the Bridge Facility and approximately \$0.9 million under the Company's revolving credit facility. On June 13, 2002, the Company exchanged approximately \$295 million of its registered 6.50% notes due 2007, Series C for an equal amount of its Series A senior notes and approximately \$397.8 million of its registered 7.20% senior notes due 2012, Series D for an equal amount of its Series B senior notes. Interest on each series is payable semiannually.

The Company has two trade accounts receivable securitization agreements with bank agents for asset-backed commercial paper conduits. These facilities enable the Company to borrow up to \$205 million through the Mohawk segment and up to \$75 million through its Dal-Tile segment. Each securitization is secured by the respective segment trade receivables and is subject to annual renewal. At December 31, 2002, the Company had no amounts outstanding under either securitization facility, both of which were available up to their respective facility limits. At December 31, 2001, the Mohawk segment had \$125 million outstanding secured by approximately \$461.1 million of receivables.

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 1.28% up to 8.46%. The industrial revenue bonds mature beginning in 2006 through 2019 and the term and senior notes mature through 2012. 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 \$815.2 million at December 31, 2002.

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. During December 2002, the Company determined, based on future cash flow projections, that the cash flow hedge would more than likely become ineffective as strong cash flow has allowed the Company to significantly reduce its outstanding LIBOR based variable rate debt below the \$100 million hedged notional amount. The unrealized loss on the interest rate swap previously included in other comprehensive income has been recorded as a realized loss in interest expense in the fourth quarter of 2002. The amount recorded in interest expense was \$10.7 million. The Company continues to carry the liability on the consolidated balance sheets at its fair value and the interest rate swap will be marked to market in future reporting periods with any changes being recorded in interest expense.

The Company's Board of Directors has authorized the repurchase of up to 15 million shares of its outstanding common stock. For the year ended December 31, 2002, a total of approximately 1.4 million shares of the Company's common stock were purchased at an aggregate cost of approximately \$64.0 million. Since the inception of the program, a total of approximately 10.4 million shares have been repurchased at an aggregate cost of approximately \$265.3 million. All of these repurchases have been financed through the Company's operations and banking arrangements.

The following is a summary of the Company's future minimum payments under contractual obligations as of December 31, 2002 (in thousands):

	Payments due by period						Total
	2003	2004	2005	2006	2007	Thereafter	
Long-term debt	\$ 26,663	29,380	9,448	6,500	300,000	447,672	819,663
Capital leases	764	-	-	-	-	-	764
Operating leases	60,936	49,346	37,248	27,754	16,944	26,235	218,463
Purchase commitments (1)	50,040	10,712	3,628	-	-	-	64,380
	\$ 138,403	89,438	50,324	34,254	316,944	473,907	1,103,270

(1) Includes commitments for natural gas and foreign currency purchases.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143 "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). 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. The Company adopted SFAS No. 143 on January 1, 2003 and it is not expected to materially impact the Company's consolidated financial statements.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 recognizes that the use of debt extinguishment can be a part of the risk management strategy of a company and hence, the classification of all early extinguishment of debt as an extraordinary item may no longer be appropriate. In addition, the Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Provisions of this Statement, as they relate to Statement No. 13, are to be effective for transactions occurring after May 15, 2002. Provisions, which relate to Statement No. 4, are effective for fiscal years beginning after May 15, 2002. The Company adopted SFAS No. 145 on January 1, 2003, and it is not expected to materially impact the Company's consolidated financial statements.

In November 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for the Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002, and requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Effective January 1, 2003, the Company adopted SFAS No. 146 and it is not expected to materially impact the Company's consolidated financial statements.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("Fin 45"). Fin 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantee. Fin 45 also requires additional disclosure about the guarantor's obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective after December 15, 2002, and are included in footnote 10 to the consolidated financial statements.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure an amendment of FASB Statement No. 123" ("SFAS No. 148").

This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. Effective January 1, 2003, the Company adopted the disclosure requirements of SFAS No. 148 regarding disclosure requirements for condensed consolidated financial statements for interim periods. The Company has not determined whether it will voluntarily change to the fair value based method of accounting for stock-based employee compensation.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "*Consolidation of Variable Interest Entities and Interpretation of ARB No. 51*" ("Fin 46"). Fin 46 establishes the criteria for consolidating variable interest entities. The Company is evaluating Fin 46, which is effective for fiscal years or interim periods beginning after June 15, 2003, to variable entities that were acquired before February 1, 2003. The Company does not expect Fin 46 to materially impact the Company's consolidated financial statements.

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 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 faces 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; 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;
- business expenditures;
- 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 has a single source supplier for all of its impure nepheline syenite and pure nepheline syenite requirements. 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.

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 Monterrey, Mexico manufacturing facility represents a significant portion of the Company's total manufacturing capacity for ceramic tile. Accordingly, an event that has a material adverse impact on the Company's Mexican operations could have a material adverse effect on the tile 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.

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 12%, 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 applicable 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

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

Interest Rate Risk Management

The Company used an interest rate swap contract to adjust the proportion of total debt that was subject to variable interest rates as compared to fixed interest rates. Under the interest rate swap contract, the Company agreed to pay an amount equal to a fixed-rate of interest times a notional principal amount of \$100 million, and to receive in return an amount equal to a specified variable-rate of interest times the same notional principal amount. The notional amounts of the contracts are not exchanged, and no other cash payments are made. The contract fair value is reflected on the consolidated balance sheets and related gains or losses were 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 earnings. During December 2002, the Company determined, based on future cash flow projections, that the cash flow hedge would more than likely become ineffective as strong cash flow has allowed the Company to significantly reduce its outstanding LIBOR based variable rate debt below the \$100 million hedged notional amount. The unrealized loss on the interest rate swap previously included in other comprehensive income has been recorded as a realized loss in interest expense in the fourth quarter of 2002. The amount recorded in interest expense was \$10.7 million. The Company continues to carry the liability on its consolidated balance sheets at its fair value and the interest rate swap will be marked to market in future reporting periods with any changes being recorded in interest expense. The floating interest rate at which the hedge was deemed ineffective was 1.42%. A 50 basis point change in interest rates would reduce/increase interest expense by approximately \$1.5 million.

Natural Gas Risk Management

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

The Company has designated the natural gas futures contracts as cash flow hedges. The outstanding contracts are valued at market with the offset going to other comprehensive income, net of applicable income taxes and any hedge ineffectiveness. Any gain or loss is recognized in cost of goods sold in the same period or periods during which the hedged transaction affects earnings. At December 31, 2002, the Company had natural gas contracts outstanding with an aggregate notional amount of approximately 1.5 million MMBTU's. The fair value of these contracts, which mature from January 2003 to December 2004, was an asset of \$1.9 million, with the offset recorded in other comprehensive income, net of applicable income taxes.

The long-term supply agreements are accounted for under the normal purchases provision within SFAS No. 133 and its amendments. At December 31, 2002, the Company has normal purchase commitments of approximately 4.6 million MMBTU's for periods maturing from January 2003 through August 2005. The contracted value of these commitments was approximately \$17.4 million and the fair value of these commitments was approximately \$19.7 million, at December 31, 2002.

Foreign Currency Rate Management

The Company enters into foreign exchange forward contracts to hedge costs associated with its operations in Mexico. The objective of these transactions is to reduce volatility of exchange rates where these operations are located by fixing a portion of their costs in US currency. Gains and losses are recognized in

cost of goods sold in the same period or periods during which the hedged transaction affects earnings. Accordingly, these contracts have been designated as cash flow hedges. At December 31, 2002, the Company had forward contracts maturing from January 2003 through December 2003, to purchase approximately 357.5 million Mexican pesos. The aggregate U.S. Dollar value of these contracts at December 31, 2002 was approximately \$34.6 million. The contracts are marked to market in other current liabilities with the offset to other comprehensive income, net of applicable income taxes. Unrealized losses at December 31, 2002, were not material.

Item 8.

Consolidated Financial Statements and Supplementary Data

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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 15(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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, 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.

As discussed in notes 1 and 5 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002.

/s/ KPMG LLP
KPMG LLP

Atlanta, Georgia
February 6, 2003

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

**Consolidated Balance Sheets
December 31, 2002 and 2001**

(In thousands, except per share data)

ASSETS	2002	2001
Current assets:		
Receivables	\$ 501,129	404,875
Inventories	678,008	531,405
Prepaid expenses	37,368	24,884
Deferred income taxes	82,074	70,058
Total current assets	1,298,579	1,031,222
Property, plant and equipment, net	855,324	619,703
Goodwill	1,277,453	109,167
Other intangible assets	146,700	-
Other assets	18,687	8,393
	\$ 3,596,743	1,768,485
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 27,427	158,366
Accounts payable and accrued expenses	589,283	423,495
Total current liabilities	616,710	581,861
Deferred income taxes	186,996	84,955
Long-term debt, less current portion	793,000	150,067
Other long-term liabilities	17,158	3,051
Total liabilities	1,613,864	819,934
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued	-	-
Common stock, \$.01 par value; 150,000 shares authorized; 76,371 and 61,408 shares issued in 2002 and 2001, respectively	763	614
Additional paid-in capital	1,006,550	197,247
Retained earnings	1,231,612	947,123
Accumulated other comprehensive income (loss)	1,126	(2,837)
	2,240,051	1,142,147
Less treasury stock at cost; 10,006 and 8,715 shares in 2002 and 2001, respectively	257,172	193,596
Total stockholders' equity	1,982,879	948,551
Commitments and contingencies (Note 14)		
	\$ 3,596,743	1,768,485

See accompanying notes to consolidated financial statements.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

**Consolidated Statements of Earnings
Years Ended December 31, 2002, 2001 and 2000**

(In thousands, except per share data)

	2002	2001	2000
Net sales	\$ 4,522,336	3,445,945	3,404,034
Cost of sales	3,285,222	2,613,043	2,581,185
Gross profit	1,237,114	832,902	822,849
Selling, general and administrative expenses	718,002	505,745	505,734
Class action legal settlement	-	-	7,000
Operating income	519,112	327,157	310,115
Other expense (income):			
Interest expense	68,972	29,787	38,044
Other expense	12,425	7,780	5,660
Other income	(5,914)	(1,826)	(1,218)
	75,483	35,741	42,486
Earnings before income taxes	443,629	291,416	267,629
Income taxes	159,140	102,824	105,030
Net earnings	\$ 284,489	188,592	162,599
Basic earnings per share	\$ 4.46	3.60	3.02
Weighted-average common shares outstanding	63,723	52,418	53,769
Diluted earnings per share	\$ 4.39	3.55	3.00
Weighted-average common and dilutive potential common shares outstanding	64,861	53,141	54,255

See accompanying notes to consolidated financial statements.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

**Consolidated Statements of Stockholders' Equity and Comprehensive Income
Years Ended December 31, 2002, 2001 and 2000**

(In thousands)

	Common stock		Additional	Retained	Accumulated other	Treasury	Total
	Shares	Amount	paid-in capital	earnings	comprehensive income (loss)	stock	stockholders' equity
Balances at December 31, 1999	60,657	\$ 607	179,993	595,932	-	(83,986)	692,546
Stock options exercised	181	1	2,396	-	-	-	2,397
Purchase of treasury stock	-	-	-	-	-	(106,689)	(106,689)
Grant to employee profit sharing plan	-	-	-	-	-	2,593	2,593
Tax benefit from exercise of stock options	-	-	914	-	-	-	914
Net earnings	-	-	-	162,599	-	-	162,599
Balances at December 31, 2000	60,838	608	183,303	758,531	-	(188,082)	754,360
Stock options exercised	570	6	9,097	-	-	-	9,103
Purchase of treasury stock	-	-	-	-	-	(8,159)	(8,159)
Grant to employee profit sharing plan	-	-	-	-	-	2,500	2,500
Grant for executive incentive program	-	-	-	-	-	145	145
Tax benefit from exercise of stock options	-	-	4,847	-	-	-	4,847
Comprehensive Income:							
Unrealized loss on hedge instruments	-	-	-	-	(2,837)	-	(2,837)
Net earnings	-	-	-	188,592	-	-	188,592
Total Comprehensive income							185,755
Balances at December 31, 2001	61,408	614	197,247	947,123	(2,837)	(193,596)	948,551
Stock options exercised	2,056	20	50,165	-	-	-	50,185
Purchase of Dal-Tile	12,907	129	750,558	-	-	-	750,687
Purchase of treasury stock	-	-	-	-	-	(64,034)	(64,034)
Grant to employee profit sharing plan	-	-	3,040	-	-	282	3,322
Grant for executive incentive program	-	-	77	-	-	176	253
Tax benefit from exercise of stock options	-	-	5,463	-	-	-	5,463
Comprehensive Income:							
Discontinued hedge on interest rate swap	-	-	-	-	6,768	-	6,768
Unrealized loss on hedge instruments	-	-	-	-	(2,805)	-	(2,805)
Net earnings	-	-	-	284,489	-	-	284,489
Total Comprehensive income							288,452
Balances at December 31, 2002	76,371	\$ 763	1,006,550	1,231,612	1,126	(257,172)	1,982,879

See accompanying notes to consolidated financial statements.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flow

s

Years Ended December 31, 2002, 2001 and 2000

(In thousands)

	2002	2001	2000
Cash flows from operating activities:			
Net earnings	\$ 284,489	188,592	162,599
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	101,942	84,167	82,346
Deferred income taxes	33,712	5,563	32,179
Tax benefit on stock options exercised	5,463	4,847	914
Loss on sale of property, plant and equipment	2,762	2,910	205
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	34,657	(46,066)	(18,248)
Inventories	(15,215)	43,190	(70,209)
Accounts payable and accrued expenses	105,464	48,754	33,770
Other assets and prepaid expenses	(13,111)	(811)	(3,257)
Other liabilities	9,347	101	27
Net cash provided by operating activities	549,510	331,247	220,326
Cash flows from investing activities:			
Additions to property, plant and equipment	(111,934)	(52,913)	(73,475)
Acquisitions	(717,638)	-	(36,844)
Net cash used in investing activities	(829,572)	(52,913)	(110,319)
Cash flows from financing activities:			
Net change in revolving line of credit	(29,491)	(181,964)	(168,595)
Proceeds from issuance of senior notes	700,000	-	-
Proceeds from bridge credit facility	600,000	-	-
Repayment of bridge credit facility	(600,000)	-	-
Net change in asset securitizations	(125,000)	(66,104)	191,104
Payments on term loans	(32,208)	(32,212)	(32,226)
Redemption of acquisition indebtedness	(202,564)	-	-
Industrial revenue bonds and other, net of payments	(1,307)	(1,115)	3,480
Change in outstanding checks in excess of cash	(15,519)	2,117	522
Acquisition of treasury stock	(64,034)	(8,159)	(106,689)
Common stock transactions	50,185	9,103	2,397
Net cash provided by (used in) financing activities	280,062	(278,334)	(110,007)
Net change in cash	-	-	-
Cash, beginning of year	-	-	-
Cash, end of year	\$ -	-	-

See accompanying notes to consolidated financial statements.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2002, 2001 and 2000
(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.

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, rug and ceramic tile manufacturer and sells carpet, rugs, ceramic tile and other floorcovering materials throughout the United States principally for residential and commercial use. The Company grants credit to customers, most of whom are retail-flooring dealers and commercial end users, under credit terms that 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 within the Mohawk segment and the first-in, first-out (FIFO) method for the Dal-Tile segment 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) Goodwill and Other Intangible Assets

In accordance with the provisions of SFAS No. 142, the Company tests goodwill and other intangible assets with indefinite lives for impairment on an annual basis (or on an interim basis if an event occurs that might reduce the fair value of the reporting unit below its carrying value). The Company conducts testing for impairment during the fourth quarter of its fiscal year.

(f) 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

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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.

(g) *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, 2002 and 2001 was \$894,462 and \$311,617, compared to a carrying amount of \$820,427 and \$308,433, respectively.

(h) *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 consolidated balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. 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, exchange rates and changes in natural gas prices. Financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of the interest rate, exchange rate and natural gas markets 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 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 consolidated balance sheet or to forecasted transactions. The Company also formally assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items. When it is determined that a derivative is not highly effective, the derivative expires, or is sold, terminated, or exercised, or the derivative is discontinued because it is unlikely that a forecasted transaction will occur, the Company discontinues hedge accounting for that specific hedge instrument.

(i) *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.

(j) *Advertising Costs and Vendor Consideration*

Advertising and promotion expenses are charged to earnings during the period in which they are incurred. Advertising and promotion expenses included in selling, administrative and general expenses were \$31,829 in 2002, \$28,845 in 2001 and \$25,526 in 2000.

In 2001, the EITF reached consensus on Issue No. 01-09 "*Accounting for Consideration Given by a Vendor to a Customer*" ("EITF 01-09"). 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

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

classified as a reduction of net sales, unless specific criteria are met regarding goods or services that the vendor may receive in return for this consideration. The Company makes various payments to customers, including slotting fees, advertising allowances, buy-downs and co-op advertising. All of these payments reduce gross sales with the exception of co-op advertising. Co-op advertising is classified as a selling, general and administrative expense. Co-op advertising expenses were \$14,090 in 2002, \$11,803 in 2001 and \$11,570 in 2000.

(k) Impairment of Long-Lived Assets

In 2002, the Company adopted Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "*Accounting for the Impairment or Disposal of Long-Lived Assets*." SFAS No. 144 replaced SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets to Be Disposed Of*." SFAS No. 144 establishes a single accounting model for the impairment or disposal of long-lived assets including discontinued operations. On determining that assets have been impaired or are to be disposed of, including discontinued operations, the Company measures the lower of the carrying value or fair value less costs to sell, whether reported in continuing operations or discontinued operations. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity.

(l) Earnings per Share ("EPS")

The Company applies the provisions of Financial Accounting Standards Board SFAS 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.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

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

	Years Ended December 31,		
	2002	2001	2000
(In thousands, except per share data)			
Net earnings	\$ 284,489	188,592	162,599
Weighted-average common and dilutive potential common shares outstanding:			
Weighted-average common shares outstanding	63,723	52,418	53,769
Add weighted-average dilutive potential common shares - options to purchase common shares, net .	1,138	723	486
Weighted-average common and dilutive potential common shares outstanding	64,861	53,141	54,255
Basic earnings per share	\$ 4.46	3.60	3.02
Diluted earnings per share	\$ 4.39	3.55	3.00

(m) Effect of New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). 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. The Company adopted SFAS No. 143 on January 1, 2003, and it is not expected to materially impact the Company's consolidated financial statements.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of Financial Accounting Standards Board Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Statement rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." SFAS No. 145 recognizes that the use of debt extinguishment can be a part of the risk management strategy of a company and hence, the classification of all early extinguishment of debt as an extraordinary item may no longer be appropriate. In addition, the Statement amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Provisions of this Statement, as they relate to Statement No. 13, are to be effective for transactions occurring after May 15, 2002. Provisions, which relate to Statement No. 4, are effective for fiscal years beginning after May 15, 2002. The Company adopted SFAS No. 145 on January 1, 2003 and it is not expected to materially impact the Company's consolidated financial statements.

In November 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for the Costs Associated with Exit or Disposal Activities," ("SFAS No. 146"). SFAS No. 146 is effective for exit or

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

disposal activities initiated after December 31, 2002 and requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Effective January 1, 2003, the Company adopted SFAS No. 146 and it is not expected to materially impact the Company's consolidated financial statements.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*" ("Fin 45"). Fin 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantee. Fin 45 also requires additional disclosure about the guarantor's obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective after December 15, 2002 and are included in footnote 10 to the consolidated financial statements.

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "*Accounting for Stock-Based Compensation-Transition and Disclosure an amendment of FASB Statement No. 123*" ("SFAS No. 148"). This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. Effective January 1, 2003, the Company adopted the disclosure requirements of SFAS No. 148 regarding disclosure requirements for condensed consolidated financial statements for interim periods. The Company has not yet determined whether it will voluntarily change to the fair value based method of accounting for stock-based employee compensation.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "*Consolidation of Variable Interest Entities and Interpretation of ARB No. 51*" ("Fin 46"). Fin 46 establishes the criteria for consolidating variable interest entities. The Company is evaluating Fin 46, which is effective for fiscal years or interim periods beginning after June 15, 2003, to variable entities that were acquired before February 1, 2003. The Company does not expect Fin 46 to materially impact the Company's consolidated financial statements.

(2) Acquisitions

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. ("Dal-Tile"), a leading manufacturer and distributor of ceramic tile in the United States, for approximately \$1,468,325, 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 approximately \$717,638 in cash, including direct acquisition costs. The Company's common stock and options were valued at approximately \$750,687 based on the measurement date stock price of \$55.04 per share (\$710,420) and the estimated fair value of the options using the Black-Scholes option-pricing model (\$40,267). The acquisition was accounted for by the purchase method and, accordingly, the results of operations of Dal-Tile have been included in the Company's consolidated financial statements from March 20, 2002. The purchase price was allocated to the assets acquired and liabilities assumed based upon the estimated fair values at the date of acquisition. The trademark value was established based upon an independent appraisal. The excess of the purchase price over the fair value of the net identifiable assets acquired of approximately \$1,168,286 was recorded as goodwill. None of the goodwill is expected to be deductible for income tax purposes. The primary reasons for the acquisition included:

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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

Mohawk considered whether identifiable intangible assets, such as customer relationships, patents, covenants not to compete, software, production backlog, marketing agreements, unpatented technology and trade secrets, might exist and none were identified other than trademarks, during the purchase price negotiations and during the subsequent purchase price allocation evaluation. Accordingly, the valuation resulted in the recognition of goodwill and trademarks.

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill recorded in the Dal-Tile acquisition will not be amortized. Additionally, the Company determined that the trademark intangible assets have indefinite useful lives because they are expected to generate cash flows indefinitely. Goodwill and the trademark intangible assets are subject to annual impairment testing.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	\$ 322,042
Property, plant and equipment	223,267
Goodwill	1,168,286
Intangible assets-trademarks	146,700
Other assets	4,930
Total assets acquired	1,865,225
Current liabilities	132,124
Long-term debt	181,300
Other liabilities	83,476
Total liabilities assumed	396,900
Net assets acquired	\$ 1,468,325

The following unaudited pro forma financial information presents the combined results of operations of Mohawk and Dal-Tile as if the acquisition had occurred at the beginning of 2001, after giving effect to certain adjustments, including increased interest expense on debt related to the acquisition, the elimination of goodwill amortization and related income tax effects. The pro forma information does not necessarily reflect the results of operations that would have occurred had Mohawk and Dal-Tile constituted a single entity during such periods. The following table discloses the results for the fiscal years ended December 31:

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

	2002	2001
Net sales	\$ 4,758,380	4,482,741
Net earnings	294,846	242,601
Basic earnings per share	4.39	3.63
Diluted earnings per share	4.32	3.58

(3) Receivables

Receivables are as follows:		
	2002	2001
Customers, trade	\$ 578,429	479,219
Other	7,373	5,037
	585,802	484,256
Less allowance for discounts, returns, claims and doubtful accounts	84,673	79,381
Net receivables	\$ 501,129	404,875

(4) Inventories

The components of inventories are as follows:		
	2002	2001
Finished goods	\$ 436,080	287,525
Work in process	67,907	68,088
Raw materials	174,021	175,792
Total inventories	\$ 678,008	531,405

(5) Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, which requires the Company to evaluate its goodwill on an annual basis for impairment. Furthermore, any goodwill that was acquired in a purchase business combination completed after June 30, 2001 will not be amortized. Goodwill that was acquired in business combinations completed before July 1, 2001 is no longer being amortized. The Company has two reportable units, the Mohawk unit and the Dal-Tile unit, and accordingly, has assigned the acquired goodwill to the respective reporting units. The amount assigned to the Mohawk unit was \$109,167 and \$1,168,286 to the Dal-Tile unit. During the fourth quarter of 2002, the Company evaluated both reporting units using the discounted cash flow approach and determined that there was no impairment for either reportable unit.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

The following table discloses the Company's earnings, assuming the exclusion of goodwill amortization for the fiscal years ended December 31:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net earnings	\$ 284,489	188,592	162,599
Add back: Goodwill amortization, net of income taxes	-	2,022	2,006
Adjusted net earnings	<u>\$ 284,489</u>	<u>190,614</u>	<u>164,605</u>
Basic earnings per share	\$ 4.46	3.60	3.02
Add back: Goodwill amortization, net of income taxes	-	0.04	0.04
Adjusted net earnings	<u>\$ 4.46</u>	<u>3.64</u>	<u>3.06</u>
Diluted earnings per share	\$ 4.39	3.55	3.00
Add back: Goodwill amortization, net of income taxes	-	0.04	0.03
Adjusted net earnings	<u>\$ 4.39</u>	<u>3.59</u>	<u>3.03</u>

(6) Property, Plant and Equipment

	<u>2002</u>	<u>2001</u>
Following is a summary of property, plant and equipment:		
Land	\$ 56,671	24,355
Buildings and improvements	339,630	275,174
Machinery and equipment	1,052,567	910,454
Furniture and fixtures	42,421	34,677
Leasehold improvements	16,354	6,405
Construction in progress	77,468	26,654
	<u>1,585,111</u>	<u>1,277,719</u>
Less accumulated depreciation and amortization	729,787	658,016
Net property, plant and equipment	<u>\$ 855,324</u>	<u>619,703</u>

Property, plant and equipment includes capitalized interest of \$2,126, \$1,855 and \$3,097 in 2002, 2001 and 2000, 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 2000 by approximately \$14,600, or \$0.27 per share.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(7) 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, 2002, the Company had credit facilities of \$450,000 under its revolving credit line and \$55,000 under various short-term uncommitted credit lines. At December 31, 2002, a total of \$462,501 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.

In connection with the Dal-Tile acquisition, the Company entered into a 364-day term loan facility (the "Bridge Facility") on March 20, 2002 to finance a portion of the acquisition. On April 2, 2002, the Company sold \$300,000 of its 6.50% senior notes due 2007, Series A and \$400,000 of its 7.20% senior notes due 2012, Series B through institutional private placements and used the proceeds to repay outstanding indebtedness of approximately \$601,000 under the Bridge Facility and approximately \$90,000 under the Company's revolving credit facility. On June 13, 2002, the Company exchanged \$294,965 of its registered 6.50% notes due 2007, Series C for an equal amount of its Series A senior notes and \$397,800 of its registered 7.20% senior notes due 2012, Series D for an equal amount of its Series B senior notes. Interest on each series is payable semiannually.

The Company has two trade accounts receivable securitization agreements with bank agents for asset-backed commercial paper conduits. These facilities enable the Company to borrow up to \$205,000 through the Mohawk segment and up to \$75,000 through its Dal-Tile segment. Each securitization is secured by the respective segment trade receivables and is subject to annual renewal. At December 31, 2002, the Company had no amounts outstanding under either securitization facility, both of which were available up to their respective facility limits. At December 31, 2001, the Mohawk segment had \$125,000 outstanding secured by approximately \$461,072 of receivables.

The Company guarantees the Industrial Revenue Bonds with various standby letters of credit, which were in aggregate \$55,200 at December 31, 2002 and 2001.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

Long-term debt consists of the following:	2002	2001
Revolving line of credit, due January 28, 2004	\$ 4,402	33,893
Asset securitization, due October 24, 2003	-	125,000
6.50% senior notes, payable April 15, 2007 interest payable semiannually	300,000	-
7.20% senior notes, payable April 15, 2012 interest payable semiannually	400,000	-
8.46% senior notes, payable in annual principal installments beginning in 1998, due September 16, 2004, interest payable quarterly	28,571	42,857
7.14%-7.23% senior notes, payable in annual principal installments beginning in 1997, due September 1, 2005, interest payable semiannually	28,333	37,778
8.48% term loans, payable in annual principal installments, due October 26, 2002, interest payable quarterly	-	5,714
7.58% senior notes, payable in annual principal installments beginning in 1997, due July 30, 2003, interest payable semiannually	1,428	2,857
6% term note, payable in annual principal and interest installments beginning in 1998, due July 23, 2004	2,671	4,007
Industrial revenue bonds and other	55,022	56,327
Total long-term debt	820,427	308,433
Less current portion	27,427	158,366
Long-term debt, excluding current portion	\$ 793,000	150,067
The aggregate maturities of long-term debt as of December 31, 2002 are as follows:		
2003	\$ 27,427	
2004	29,380	
2005	9,448	
2006	6,500	
2007	300,000	
Thereafter	447,672	
	\$ 820,427	

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

(8) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses are as follows:	2002	2001
Outstanding checks in excess of cash	\$ 23,504	45,012
Accounts payable, trade	236,272	171,620
Accrued expenses	222,868	132,944
Accrued compensation	106,639	73,919
Total accounts payable and accrued expenses	\$ 589,283	423,495

(9) Derivative Financial Instruments

Interest Rate Risk Management

The Company used an interest rate swap contract to adjust the proportion of total debt that was subject to variable interest rates as compared to fixed interest rates. Under the interest rate swap contract, the Company agreed to pay an amount equal to a fixed-rate of interest times a notional principal amount of \$100,000, and to receive in return an amount equal to a specified variable-rate of interest times the same notional principal amount. The notional amounts of the contracts are not exchanged, and no other cash payments are made. The contract fair value is reflected on the consolidated balance sheets and related gains or losses were 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 earnings. During December 2002, the Company determined, based on future cash flow projections, that the cash flow hedge would more than likely become ineffective as strong cash flow has allowed the Company to significantly reduce its outstanding LIBOR based variable rate debt below the \$100,000 hedged notional amount. The unrealized loss on the interest rate swap previously included in other comprehensive income has been recorded in interest expense in the fourth quarter of 2002. The amount recorded in interest expense was \$10,700. The Company continues to carry the liability on the consolidated balance sheets at its fair value and it will be marked to market in future reporting periods with any changes being recorded in interest expense.

Natural Gas Risk Management

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

The Company has designated the natural gas futures contracts as cash flow hedges. The outstanding contracts are valued at market with the offset going to other comprehensive income, net of applicable income taxes and any hedge ineffectiveness. Any gain or loss is recognized in cost of goods sold in the same period or periods during which the hedged transaction affects earnings. At December 31, 2002, the Company had natural gas contracts outstanding with an aggregate notional amount of approximately 1,450 MMBTU's. The fair value of these contracts, which mature from January 2003 to December 2004, was an asset of \$1,911, with the offset recorded in other comprehensive income, net of applicable income taxes.

The long-term supply agreements are accounted for under the normal purchases provision within SFAS No. 133 and its amendments. At December 31, 2002, the Company has normal purchase commitments of approximately 4,560 MMBTU's for periods maturing from January 2003 through August 2005. The contracted

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

value of these commitments was approximately \$17,441 and the fair value of these commitments was approximately \$19,694, at December 31, 2002.

Foreign Currency Rate Management

The Company enters into foreign exchange forward contracts to hedge costs associated with its operations in Mexico. The objective of these transactions is to reduce volatility of exchange rates where these operations are located by fixing a portion of their costs in US currency. Gains and losses are recognized in cost of goods sold in the same period or periods during which the hedged transaction affects earnings. Accordingly, these contracts have been designated as cash flow hedges. At December 31, 2002, the Company had forward contracts maturing from January 2003 through December 2003, to purchase approximately 357,522 Mexican pesos. The aggregate U.S. Dollar value of these contracts at December 31, 2002 was approximately \$34,581. The contracts are marked to market in other current liabilities with the offset to other comprehensive income, net of applicable income taxes. Unrealized losses at December 31, 2002, were not material.

(10) Product warranties

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

Product warranties are as follows:	2002	2001	2000
Balance at beginning of year	\$ 7,021	6,506	6,532
Warranty claims	(61,718)	(52,125)	(49,426)
Warranty expense	61,881	52,640	49,400
Balance at end of year	\$ 7,184	7,021	6,506

(11) Stock Options, Stock Compensation and Treasury Stock

Under the 2002 Long-Term Incentive Plan, options may be granted to directors and key employees through 2012 to purchase a maximum of 3,200 shares of common stock. Under the 2002 plan, options that were not issued from the 1992, 1993 and 1997 plans were cancelled. During 2002, 2001, and 2000 options to purchase 731, 704, and 181 shares, respectively, were granted under the 1992, 1993, 1997 and 2002 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. In connection with the acquisition of Dal-Tile, the Company issued 2,096 options to employees of Dal-Tile in exchange for their respective options.

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 2002, 2001, and 2000 a total of two, two, and four shares, respectively, were awarded to the non-employee directors under the plan.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

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

	2002	2001	2000
Options outstanding at beginning of year	1,916	1,868	2,043
Options granted for Dal-Tile acquisition	2,096	-	-
Options granted	731	704	184
Options exercised	(2,056)	(570)	(181)
Options canceled	(283)	(86)	(178)
Options outstanding at end of year	2,404	1,916	1,868
Options exercisable at end of year	796	599	931
Option prices per share:			
Options granted during the year	\$ 38.73-65.02	23.33-53.01	20.13-26.26
Options exercised during the year	\$ 5.67-49.09	5.67-35.13	5.67-19.70
Options canceled during the year	\$ 9.58-63.14	5.67-42.86	6.67-35.14
Options outstanding at end of year	\$ 6.67-65.02	5.61-53.01	5.61-35.13
Options exercisable at end of year	\$ 6.67-53.01	5.61-35.13	5.61-35.13

As allowed under SFAS No. 123, "Accounting for Stock Based Compensation", the Company accounts for stock options granted as prescribed under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," which recognizes compensation cost based upon the intrinsic value of the award. Accordingly, no compensation expense has been recognized in the consolidated statements of earnings for any stock options granted in 2002, 2001 and 2000. The following table represents pro forma net earnings and pro forma earnings per share had the Company elected to account for stock option grants using the fair value based method.

	2002	2001	2000
Net earnings as reported	\$ 284,489	188,592	162,599
Deduct: Stock-based employee compensation expense determined under fair value based method for all options, net of related tax effects	(4,972)	(3,198)	(2,286)
Pro forma net earnings	\$ 279,517	185,394	160,313
Net earnings per common share (basic)			
As reported	\$ 4.46	3.60	3.02
Pro forma	\$ 4.39	3.54	2.98
Net earnings per common share (diluted)			
As reported	\$ 4.39	3.55	3.00
Pro forma	\$ 4.31	3.49	2.95

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 2002, 2001 and 2000 was \$26.72, \$15.27 and \$13.00, respectively. This fair value was estimated using the Black-Scholes option pricing model based on a weighted-average market price at grant date of \$62.11 in 2002, \$31.91 in 2001 and \$22.69 in 2000 and the following weighted-average assumptions:

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

	2002	2001	2000
Dividend yield	-	-	-
Risk-free interest rate	3.0%	4.1%	5.1%
Volatility	39.7%	43.3%	48.1%
Expected life (years)	6	6	7

Summarized information about stock options outstanding and exercisable at December 31, 2002, is as follows:

Exercise price range	Outstanding			Exercisable	
	Number of Shares	Average Life (1)	Average Price (2)	Number of Shares	Average Price (2)
Under \$19.69	575	4.42	\$ 15.46	467	\$ 14.49
\$19.93-30.50	249	7.08	22.77	105	23.19
\$30.53-30.53	499	8.16	30.53	68	30.53
\$30.69-53.53	425	7.34	37.45	156	34.56
\$58.00-58.00	42	9.95	58.00	-	-
\$63.14-65.20	614	9.18	63.37	-	-
Total	2,404			796	

- 1) Weighted average contractual life remaining in years.
2) Weighted average exercise price.

The Company's Board of Directors has authorized the repurchase of up to 15,000 shares of its outstanding common stock. For the year ended December 31, 2002, a total of approximately 1,371 shares of the Company's common stock were purchased at an aggregate cost of approximately \$64,034. Since the inception of the program, a total of approximately 10,364 shares have been repurchased at an aggregate cost of approximately \$265,291. All of these repurchases have been financed through the Company's operations and banking arrangements.

(12) Employee Benefit Plans

The Company has a 401(k) retirement savings plan (the "Mohawk Plan") open to substantially all of its employees who have completed 90 days 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 and 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 Mohawk Plan were \$20,237 and \$7,359 in 2002, \$18,322 and \$6,521 in 2001, and \$16,926 and \$6,055 in 2000, respectively. The Company also made a discretionary contribution to the Mohawk Plan of approximately \$3,797, \$2,500 and \$2,500 in 2002, 2001 and 2000, respectively.

The Dal-Tile International Inc. Employees' Retirement Savings Plan (the "Dal-Tile Plan") is a defined contribution 401(k) plan covering substantially all Dal-Tile employees. Employees were eligible to participate after completion of 60 days of service. Under the terms of the Dal-Tile Plan, Dal-Tile contributes \$.50 for every \$1.00 of employee contributions up to a maximum of 6% of the employee's salary and employees are vested in the contributions based on years of credited service. Employee and employer contributions to the Dal-Tile Plan were \$5,026 and \$2,103 in 2002, respectively. The Dal-Tile Plan was merged into the Mohawk Plan effective January 1, 2003. Dal-Tile also maintains a performance based profit sharing plan in which the Company contributed approximately \$1,588 in 2002.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

(13) Income Taxes

Income tax expense attributable to earnings before income taxes for the years ended December 31, 2002, 2001 and 2000, consists of the following:

	Current	Deferred	Total
2002:			
U.S. federal	\$ 133,914	9,859	143,773
State, local and other	3,089	12,278	15,367
	<u>\$ 137,003</u>	<u>22,137</u>	<u>159,140</u>
2001:			
U.S. federal	\$ 82,246	5,728	87,974
State, local and other	15,015	(165)	14,850
	<u>\$ 97,261</u>	<u>5,563</u>	<u>102,824</u>
2000:			
U.S. federal	\$ 64,444	28,466	92,910
State, local and other	8,407	3,713	12,120
	<u>\$ 72,851</u>	<u>32,179</u>	<u>105,030</u>

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:

	2002	2001	2000
Computed "expected" tax expense	\$ 155,270	101,996	93,670
State and local income taxes, net of federal income tax benefit	9,989	9,652	7,878
Amortization of goodwill	-	709	700
Tax credits	(5,000)	(5,000)	-
Other, net	(1,119)	(4,533)	2,782
	<u>\$ 159,140</u>	<u>102,824</u>	<u>105,030</u>

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001, are presented below:

	2002	2001
Deferred tax assets:		
Accounts receivable	\$ -	3,286
Inventories	16,526	19,089
Prepaid expenses	655	-
Accrued expenses	67,706	49,030
	<u>84,887</u>	<u>71,405</u>
Gross deferred tax assets		
Deferred tax liabilities:		
Plant and equipment	(105,443)	(72,934)
Trademarks	(57,929)	-
Prepaid expenses	-	(1,347)
Other	(26,437)	(12,021)
	<u>(189,809)</u>	<u>(86,302)</u>
Gross deferred tax liabilities		
Net deferred tax liability	<u>\$ (104,922)</u>	<u>(14,897)</u>

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, 2002.

(14) Commitments and Contingencies

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

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

	Capital Leases	Operating Leases	Total Future Payments
2003	\$ 798	60,936	61,734
2004	-	49,346	49,346
2005	-	37,248	37,248
2006	-	27,754	27,754
2007	-	16,944	16,944
Thereafter	-	26,235	26,235
	<u>\$ 798</u>	<u>218,463</u>	<u>219,261</u>
Total payments			
Less amount representing interest	34		
Present value of capitalized lease payments with a weighted interest rate of 7.60%	<u>\$ 764</u>		

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

The Company assumed several capitalized leases from recent acquisitions for machinery and equipment, at a cost of \$5,010 as of December 31, 2002 and 2001. The amortization of these capital leases is included in depreciation expense. Accumulated amortization was \$4,245 and \$2,038 as of December 31, 2002 and 2001.

Rental expense under operating leases was \$62,066, \$39,072 and \$36,392 in 2002, 2001 and 2000, respectively.

The Company has approximately \$19,600 in standby letters of credit for various insurance contracts and commitments to foreign vendors that expire within two years.

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 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.

Three sites near Mohawk's Dallas facility in its Dal-Tile segment are involved in environmental cleanup projects relating principally to the disposal or alleged disposal by Dal-Tile of waste materials containing lead compounds. Dal-Tile's approved closure plans have been implemented and each site is now undergoing post-closure care. 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 for the disposal of certain hazardous substances at various other sites in the United States. The Company does not believe that any future costs for these sites will have a material adverse effect on it.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

(15) Consolidated Statements of Cash Flows Information

Supplemental disclosures of cash flow information are as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net cash paid during the year for:			
Interest	\$ 43,866	31,789	39,866
Income taxes	\$ 59,931	73,498	74,592
Supplemental schedule of non-cash investing and financing activities:			
Fair value of assets acquired in acquisition	\$ 1,865,225	-	37,284
Liabilities assumed in acquisition	(396,900)	-	(440)
Issuance of common stock and options in acquisition	(750,687)	-	-
	\$ 717,638	-	36,844

(16) Other Income and Expense

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Other income and expense are as follows:			
Miscellaneous income	\$ 5,914	1,826	1,218
Miscellaneous expense	\$ 12,425	3,966	2,010
Amortization expense	-	3,814	3,650
	\$ 12,425	7,780	5,660

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

(17) Segment Reporting

The Company has two reportable segments, the Mohawk segment and the Dal-Tile segment. The Mohawk segment is comprised of all the product lines and operations that were the Company's prior to the Dal-Tile acquisition. The Dal-Tile segment is comprised of the Dal-Tile product lines and operations. Amounts disclosed for each segment are prior to any elimination or consolidation entries. Corporate general and administrative expenses amounts attributable to each segment are estimated and allocated accordingly.

Segment information is as follows:	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net sales:			
Mohawk	\$ 3,624,156	3,445,945	3,404,034
Dal-Tile	898,180	-	-
	<u>\$ 4,522,336</u>	<u>3,445,945</u>	<u>3,404,034</u>
Operating income:			
Mohawk	\$ 388,422	336,672	327,540
Dal-Tile	139,888	-	-
Corporate and eliminations (a)	(9,198)	(9,515)	(17,425)
	<u>\$ 519,112</u>	<u>327,157</u>	<u>310,115</u>
Depreciation and amortization:			
Mohawk	\$ 83,676	84,167	82,346
Dal-Tile	18,266	-	-
	<u>\$ 101,942</u>	<u>84,167</u>	<u>82,346</u>
Capital expenditures (excluding acquisitions):			
Mohawk	\$ 80,623	52,913	73,475
Dal-Tile	31,311	-	-
	<u>\$ 111,934</u>	<u>52,913</u>	<u>73,475</u>
Assets:			
Mohawk	\$ 1,638,336	1,656,813	1,692,020
Dal-Tile	1,832,701	-	-
Corporate and eliminations	125,706	111,672	103,358
	<u>\$ 3,596,743</u>	<u>1,768,485</u>	<u>1,795,378</u>

(a) Includes one-time charge in 2000 of \$7,000 for two class action legal settlements.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)

(18) Quarterly Financial Data (Unaudited)

The supplemental quarterly financial data are as follows:

	Quarters Ended			
	March 30, 2002	June 29, 2002	September 28, 2002	December 31, 2002
Net sales	\$ 866,710	1,227,747	1,224,403	1,203,476
Gross profit	214,595	339,186	340,657	342,676
Net earnings	43,210	75,518	81,560	84,201
Basic earnings per share	0.80	1.12	1.22	1.27
Diluted earnings per share	0.77	1.10	1.21	1.25
	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

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 information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders under the following headings: "Election of Directors-Director, Director Nominee and Executive Officer Information"; "-Nominees for Director"; "-Continuing Directors"; "-Executive Officers;" and "-Section 16a Beneficial Ownership Reporting Compliance."

Item 11.
Executive Compensation

The information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders under the following headings: "Executive Compensation and Other Information-Summary of Cash and Certain Other Compensation"; "-Option Grants"; "-Option Exercises and Holdings"; "-Pension Plans"; "-Certain Relationships and Related Transactions", "-Equity Compensation Plan Information;" and "Election of Directors-Meetings and Committees of the Board of Directors."

Item 12.
Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders under the following heading: "Executive Compensation and Other Information-Principal Stockholders of the Company."

Item 13.
Certain Relationships and Related Transactions

The information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders under the following heading: "Executive Compensation and Other Information-Certain Relationships and Related Transactions."

Item 14.
Controls and Procedures

Within ninety (90) days prior to the date of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective in bringing to their attention material information relating to the Company required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the most recent evaluation conducted by the CEO and CFO.

Item 15.
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

Schedule I-Condensed Financial Information of Registrant	62
Schedule II-Consolidated Valuation and Qualifying Accounts	67

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 2.1(a) in Mohawk's Registration Statement on Form S-4, Registration No. 333-74220.)
- *2.2 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.)
- *2.3 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 Restated Bylaws of Mohawk, as amended.
- *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 Restated Bylaws of Mohawk, as amended. (Filed as exhibit 3.2)
- *4.3 Indenture, dated as of April 2, 2002 between Mohawk Industries, Inc. and Wachovia Bank, National Association, as Trustee (Incorporated herein by reference to Exhibit 4.1 in Mohawk's Registration Statement on Form S-4, Registration No. 333-86734, as filed April 22, 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. (Incorporated herein by reference to Exhibit 10.15 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.)
- *10.16 Lease dated June 27, 2001 between Dal Tile Corporation and Merritt Eli, L.L.C. concerning a warehouse in Baltimore, Maryland. (Incorporated herein by reference to Exhibit 10.16 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.)
- *10.17 Sublease dated February 3, 1997 between Dal Tile Corporation and KMART Corporation concerning a warehouse in Dallas, Texas. (Incorporated herein by reference to Exhibit 10.17 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.)
- *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. (Incorporated herein by reference to Exhibit 10.18 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.)
- *10.19 Lease dated September 30, 1996 between Dal Tile Corporation and Ontario industrial Partners concerning a warehouse in Los Angeles, California. (Incorporated herein by reference to Exhibit 10.19 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.)
- 10.20 Lease dated September 30, 2002 between Aladdin Manufacturing Corporation and SHP, L.L.C. concerning a warehouse in Whitfield County, Georgia.
- 10.21 Lease dated July 1, 2002 between Aladdin Manufacturing Corporation and DMK Holdings, L.L.C. concerning a warehouse in Gordon County, Georgia.
- 10.22 Lease dated July 1, 2002 between Aladdin Manufacturing Corporation and DMK Holdings LLC and Oothcalooga L.L.P. concerning a warehouse in Gordon County, Georgia.

- 10.23 Lease dated March 12, 2002 between Aladdin Manufacturing Corporation and CP-Coppell Industrial LTD concerning a warehouse in Dallas, Texas.
- *10.24 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.)
- *10.25 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.)
- *10.26 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.)

- *10.27 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.)
- *10.28 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.)
- *10.29 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.)
- *10.30 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.)
- *10.31 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)
- 10.32 Amendment No. 1 to the Receivables Purchase and Sale Agreement dated as of December 28, 2001, by and among Mohawk Carpet Corporation, Mohawk Commercial, Inc., and Durkan Patterned Carpets, Inc. and Mohawk Factoring, Inc., as of October 25, 2000.
- 10.33 Amendment No. 2 to the Receivables Purchase and Sale Agreement dated as of July 19, 2002, by and among Mohawk Carpet Corporation, Mohawk Commercial, Inc., and Durkan Patterned Carpets, Inc. and Mohawk Factoring, Inc., as of October 25, 2000.
- 10.34 Amendment No. 3 and Joinder to the Receivables Purchase and Sale Agreement dated as of December 31, 2002, by and among Mohawk Carpet Corporation, Mohawk Commercial, Inc., and Durkan Patterned Carpets, Inc. and Mohawk Factoring, Inc., as of October 25, 2000.
- *10.35 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)
- 10.36 Amendment No. 1 dated as of October 24, 2001, to the Credit and Security Agreement 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 dated as of October 25, 2000.
- 10.37 Amendment No. 2 dated as of July 19, 2002, to the Credit and Security Agreement 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 dated as of October 25, 2000.

- 10.38 Amendment No. 3 dated as of October 23, 2002, to the Credit and Security Agreement 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 dated as of October 25, 2000..
- 10.39 Amendment No. 4 dated as of December 31, 2002, to the Credit and Security Agreement 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 dated as of October 25, 2000.

- 10.40 Second Amendment to the Liquidity Asset Purchase Agreement dated as of October 23, 2002 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 dated as of October 25, 2000.
- *10.41 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)

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

- *10.42 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.)
- *10.43 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.)
- *10.44 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.)
- *10.45 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.)
- *10.46 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.)
- *10.47 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.)
- *10.48 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.)
- *10.49 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.)
- *10.50 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.)
- *10.51 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.)
- *10.52 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.)
- *10.53 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.)

- *10.54 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.)
- *10.55 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.)
- *10.56 1997 Non-Employee Director Stock Compensation Plan. (Incorporated herein by reference to Exhibit 10.79 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)
- *10.57 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.)
- *10.58 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.)
- *10.59 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.)
- *10.60 Employment Agreement between Mohawk Industries, Inc., Dal-Tile International Inc., and W. Christopher Wellborn dated March 20, 2002. (Incorporated herein by reference to Exhibit 10.56 of Mohawk's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.)
- *10.61 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)
- *10.62 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.

99.1 906 Certification

99.2 906 Certification

* 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 14, 2002.

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: February 25, 2003

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: February 25, 2003

/s/ JEFFREY S. LORBERBAUM
Jeffrey S. Lorberbaum,
President and Chief Executive Officer
(principal executive officer)

Dated: February 25, 2003

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

Dated: February 25, 2003

/s/ DAVID L. KOLB
David L. Kolb,
Chairman of the Board

Dated: February 25, 2003

/s/ LEO BENATAR
Leo Benatar,
Director

Dated: February 25, 2003

/s/ JOHN F. FIEDLER
John F. Fiedler,
Director

Dated: February 25, 2003

/s/ S. H. SHARPE
S. H. Sharpe,
Director

Dated: February 25, 2003

/s/ LARRY W. MCCURDY
Larry W. McCurdy,
Director

Dated: February 25, 2003

/s/ ROBERT N. POKELWALDT
Robert N. Pokelwaldt,
Director

Dated: February 25, 2003

/s/ W. CHRISTOPHER WELLBORN
W. Christopher Wellborn,
Director

CERTIFICATIONS

I, Jeffrey S. Lorberbaum, certify that:

1. I have reviewed this annual report on Form 10-K of Mohawk Industries, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 25, 2003

/s/ Jeffrey S. Lorberbaum
Jeffrey S. Lorberbaum
President and Chief Executive Officer

I, John D. Swift, certify that:

1. I have reviewed this annual report on Form 10-K of Mohawk Industries, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 25, 2003

/s/ John D. Swift
John D. Swift
Chief Financial Officer

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

Balance Sheets

December 31, 2002 and 2001

(In thousands, except per share data)

ASSETS	2002	2001
Current assets - intercompany receivable	\$ 1,389,369	-
Investment in subsidiaries	1,356,244	1,071,755
	<u>\$ 2,745,613</u>	<u>1,071,755</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Intercompany payable	\$ -	105
Current portion of long-term debt	25,157	30,873
Long-term debt, less current portion	737,577	92,226
	<u>762,734</u>	<u>123,204</u>
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized no shares issued	-	-
Common stock, \$.01 par value; 150,000 shares authorized; 76,371 and 61,408 shares issued in 2002 and 2001, respectively	763	614
Additional paid-in capital	1,006,550	197,247
Retained earnings	1,231,612	947,123
Accumulated other comprehensive income (loss)	1,126	(2,837)
	<u>2,240,051</u>	<u>1,142,147</u>
Less treasury stock at cost; 10,006 and 8,715 shares in 2002 and 2001, respectively	257,172	193,596
	<u>1,982,879</u>	<u>948,551</u>
	<u>\$ 2,745,613</u>	<u>1,071,755</u>

See accompanying notes to condensed financial information of registrant.

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

Statements of Earnings

Years Ended December 31, 2002, 2001 and 2000

(In thousands)

	2002	2001	2000
Equity income from subsidiaries	\$ 350,875	208,250	200,155
Interest expense	66,386	19,658	37,556
Net earnings	\$ 284,489	188,592	162,599

See accompanying notes to condensed financial information of registrant.

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

Statements of Cash Flows

Years Ended December 31, 2002, 2001 and 2000

(In thousands)

	2002	2001	2000
Cash flows from operating activities:			
Net earnings	\$ 284,489	188,592	162,599
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:			
Equity in earnings of subsidiaries	(284,489)	(188,592)	(162,599)
Tax benefit from exercise of stock options	5,463	4,847	914
Decrease (increase) in intercompany receivable receivable/payable	(631,378)	207,047	302,845
Net cash (used in) provided by operating activities	(625,915)	211,894	303,759
Cash flows from financing activities:			
Net change in revolving line of credit	(29,491)	(181,964)	(168,595)
Proceeds from issuance of senior notes	700,000	-	-
Net payments from term loans	(30,874)	(30,874)	(30,872)
Stock options exercised	50,314	9,103	2,397
Purchase of treasury stock	(64,034)	(8,159)	(106,689)
Net cash provided by (used in) financing activities	625,915	(211,894)	(303,759)
Net change in cash	-	-	-
Cash, beginning of year	-	-	-
Cash, at end of year	\$ -	-	-
Supplemental schedule of non-cash financing activities:			
Issuance of common stock and options in connection with the Dal-Tile acquisition	\$ 750,687		

See accompanying notes to condensed financial information of registrant.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Information Of Registrant

December 31, 2002, 2001 and 2000
(In thousands, except per share data)

(1) 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, 2002, the Company had credit facilities of \$450,000 under its revolving credit line and \$55,000 under various short-term uncommitted credit lines. At December 31, 2002, a total of \$462,501 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.

In connection with the Dal-Tile acquisition, the Company entered into a 364-day term loan facility (the "Bridge Facility") on March 20, 2002 to finance a portion of the acquisition. On April 2, 2002, the Company sold \$300,000 of its 6.50% senior notes due 2007, Series A and \$400,000 of its 7.20% senior notes due 2012, Series B through institutional private placements and used the proceeds to repay outstanding indebtedness of approximately \$601,000 under the Bridge Facility and approximately \$90,000 under the Company's revolving credit facility. On June 13, 2002, the Company exchanged \$294,965 of its registered 6.50% notes due 2007, Series C for an equal amount of its Series A senior notes and \$397,800 of its registered 7.20% senior notes due 2012, Series D for an equal amount of its Series B senior notes. Interest on each series is payable semiannually.

The Company used an interest rate swap contract to adjust the proportion of total debt that was subject to variable interest rates as compared to fixed interest rates. Under an interest rate swap contract, the Company agreed 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 consolidated balance sheets and related gains or losses are deferred in other comprehensive income. These deferred gains and losses were 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 earnings. During December 2002, the Company determined, based on future cash flow projections, that the cash flow hedge would more than likely become ineffective as strong cash flow has allowed the Company to significantly reduce its outstanding LIBOR based variable rate debt below the \$100,000 hedged notional amount. The unrealized loss on the interest rate swap previously included in other comprehensive income has been recorded in interest expense in the fourth quarter of 2002. The amount recorded in interest expense was \$10,700. The Company continues to carry the liability on the balance sheet at its fair value and it will be marked to market in future reporting periods with any changes being recorded in interest expense.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Information Of Registrant (continued)

Long-term debt consists of the following:	2002	2001
Revolving line of credit, due January 28, 2004	\$ 4,402	33,893
6.50% senior notes, payable April 15, 2007 interest payable semiannually	300,000	-
7.20% senior notes, payable April 15, 2012 interest payable semiannually	400,000	-
8.46% senior notes, payable in annual principal installments beginning in 1998, due September 16, 2004, interest payable quarterly	28,571	42,857
7.14%-7.23% senior notes, payable in annual principal installments beginning in 1997, due September 1, 2005, interest payable semiannually	28,333	37,778
8.48% term loans, payable in annual principal installments, due October 26, 2002, interest payable quarterly	-	5,714
7.58% senior notes, payable in annual principal installments beginning in 1997, due July 30, 2003, interest payable semiannually	1,428	2,857
Total long-term debt	762,734	123,099
Less current portion	25,157	30,873
Long-term debt, excluding current portion	\$ 737,577	92,226
The aggregate maturities of long-term debt as of December 31, 2002 are as follows:		
2003	\$ 25,157	
2004	28,133	
2005	9,444	
2006	-	
2007	300,000	
Thereafter	400,000	
	\$ 762,734	

(2) Equity distributions

The equity distributions to Mohawk by its consolidated subsidiaries were \$350,875, \$208,250 and \$200,155 for 2002, 2001 and 2000, respectively.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Valuation and Qualifying Accounts

Years Ended December 31, 2002, 2001 and 2000
(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, 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	147,188	148,486	26,014
Total	\$ 78,358	239,381	238,358	79,381
Year ended December 31, 2002:				
Allowance for doubtful accounts - trade	\$ 41,293	17,667	7,892	51,068
Provision for cash discounts	12,074	82,559	86,598	8,035
Provision for claims and allowances	26,014	174,528	174,972	25,570
Total	\$ 79,381	274,754	269,462	84,673

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

MOHAWK INDUSTRIES, INC.

RESTATED

BY-LAWS

ARTICLE I

Offices

The Corporation shall at all times maintain a registered office in the State of Delaware and a registered agent at that address but may have other offices located in or outside of the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

Stockholders' Meetings

2.1 Places of Meetings. All meetings of stockholders shall be held at such place or places in or outside of the State of Delaware as the Board of Directors may from time to time determine or as may be designated in the notice of meeting or waiver of notice thereof, subject to any provisions of the laws of the State of Delaware.

2.2 Annual Meetings. The annual meeting of stockholders for the election of directors and the transaction of such other business as may properly come before the meeting shall be held on such date and at such time as may be designated from time to time by the Board of Directors. If the annual meeting is not held on the date designated, it may be held as soon thereafter as convenient and shall be called the annual meeting. Written notice of the time and place of the annual meeting shall be given by mail to each stockholder entitled to vote thereat at his address as it appears on the records of the Corporation not less than ten (10) nor more than sixty (60) days prior to the scheduled date thereof, unless such notice is waived as provided by Article IX of these By-laws.

2.3 Special Meetings. Special meetings of stockholders may be called at any time only by the Board of Directors or the Chairman of the Board of Directors stating the specific purpose or purposes thereof. Written notice of the time, place and specific purposes of such meeting shall be given by mail to each stockholder entitled to vote thereat at his address as it appears on the records of the Corporation not less than ten (10) nor more than sixty (60) days prior to the scheduled date thereof, unless such notice is waived as provided in Article IX of these By-laws. The only business which may be conducted at a special meeting, other than procedural matters and matters relating to the conduct of the meeting, shall be the matter or matters described in the notice of the meeting.

2.4 Voting. Unless otherwise provided in a resolution or resolutions providing for any class or series of Preferred Stock pursuant to Article 4 of the Certificate of Incorporation or by the Delaware General Corporation Law, at all meetings of stockholders, each stockholder entitled to vote on the record date as determined under Article VI, Section 6.3 of these By-laws or, if not so determined, as prescribed under the laws of the State of Delaware, shall be entitled to one vote in person or by written proxy, for each share of stock standing of record in his name, subject to any restrictions or qualifications set forth in the Certificate of Incorporation or any amendment thereto. All elections for the Board of Directors shall be decided by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors and all other questions shall be decided by the affirmative vote of the majority of votes cast, in person or by proxy, at the meeting and entitled to vote on the subject matter, in each case except as otherwise required by the Delaware General Corporation Law or as provided for in the Certificate of Incorporation or these By-laws. Proxies shall be in such form as permitted by the Delaware General Corporation Law.

2.5 Quorum. At any meeting of stockholders, a majority of the number of shares of stock outstanding and entitled to vote thereat, present in person or by proxy, shall constitute a quorum, but a smaller interest may adjourn any meeting from time to time, and the meeting may be held as adjourned without further notice, subject to such limitation as may be imposed under the laws of the State of Delaware.

2.6 List of Stockholders. At least ten (10) days before every meeting, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of and the number of shares registered in the name of each stockholder, shall be prepared by the Secretary or the transfer agent in charge of the stock ledger of the Corporation. Such list shall be open for examination by any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine such list or the books of the Corporation or to vote in person or by proxy at such meeting.

2.7 Organization and Procedure. (a) The Chairman of the Board, or, in the absence of the Chairman of the Board, the Vice Chairman, or, in the absence of the Vice Chairman, any other person designated by the Board of Directors, shall preside at meetings of stockholders. The Secretary of the Corporation shall act as secretary, but in the absence of the Secretary, the presiding officer may appoint a secretary.

(b) At each meeting of stockholders, the chairman of the meeting shall fix and announce the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting and shall determine the order of business and all other matters of procedure. Except to the extent inconsistent with any such rules and regulations as adopted by the Board of Directors, the chairman of the meeting may establish rules, which need not be in writing, to maintain order for the conduct of the meeting, including, without limitation, restricting attendance to bona fide stockholders of record and their proxies and other persons in attendance at the invitation of the chairman and making rules governing speeches and debates. The chairman of the meeting acts in his or her absolute discretion and his or her rulings are not subject to appeal.

2.8 Stockholder Proposals and Nominations. (a) No proposal for a stockholder vote (other than a proposal that appears in the Corporation's proxy statement after compliance with the procedures set forth in Securities and Exchange Commission Rule 14a-8 or any successor provision) shall be submitted by a stockholder (a "Stockholder Proposal") to the Corporation's stockholders unless the stockholder submitting such proposal (the "Proponent") shall have filed a written notice setting forth with particularity (i) the names and business addresses of

the Proponent and all natural persons, corporations, partnerships, trusts or any other type of legal entity or recognized ownership vehicle (collectively, a "Person") acting in concert with the Proponent; (ii) the name and address of the Proponent and the Persons identified in clause (i), as they appear on the Corporation's books (if they so appear); (iii) the class and number of shares of the Corporation beneficially owned by the Proponent and by each Person identified in clause (i); (iv) a description of the Stockholder Proposal containing all material information relating thereto; and (v) such other information as the Board of Directors reasonably determines is necessary or appropriate to enable the Board of Directors and stockholders of the Corporation to consider the Stockholder Proposal. The presiding officer at any stockholders' meeting may determine that any Stockholder Proposal was not made in accordance with the procedures prescribed in these Bylaws or is otherwise not in accordance with law, and if it is so determined, such officer shall so declare at the meeting and the Stockholder Proposal shall be disregarded.

(b) Only persons who are selected and recommended by the Board of Directors or the committee of the Board of Directors designated to make nominations, or who are nominated by stockholders in accordance with the procedures set forth in this Section 2.8, shall be eligible for election, or qualified to serve, as directors. Nominations of individuals for election to the Board of Directors of the Corporation at any annual meeting or any special meeting of stockholders at which directors are to be elected may be made by any stockholder of the Corporation entitled to vote for the election of directors at that meeting by compliance with the procedures set forth in this Section 2.8. Nominations by stockholders shall be made by written notice (a "Nomination Notice"), which shall set forth (i) as to each individual nominated, (A) the name, date of birth, business address and residence address of such individual; (B) the business experience during the past five years of such nominee, including his or her principal occupations and employment during such period, the name and principal business of any corporation or other organization in which such occupations and employment were carried on, and such other information as to the nature of his or her responsibilities and level of professional competence as may be sufficient to permit assessment of his or her prior business experience; (C) whether the nominee is or has ever been at any time a director, officer or owner of five percent or more of any class of capital stock, partnership interests or other equity interest of any corporation, partnership or other entity; (D) any directorships held by such nominee in any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or subject to the requirements of Section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940, as amended; and (E) whether, in the last five years, such nominee has been convicted in a criminal proceeding or has been subject to a judgment, order, finding or decree of any federal, state or other governmental entity, concerning any violation of federal, state or other law, or any proceeding in bankruptcy, which conviction, order, finding, decree or proceeding may be material to an evaluation of the ability or integrity of the nominee; and (ii) as to the Person submitting the Nomination Notice and any Person acting in concert with such Person, (x) the name and business address of such Person, (y) the name and address of such Person as they appear on the Corporation's books (if they so appear), and (z) the class and number of shares of the Corporation that are beneficially owned by such Person. A written consent to being named in a proxy statement as a nominee, and to serve as a director if elected, signed by the nominee, shall be filed with any Nomination Notice. If the presiding officer at any stockholders' meeting determines that a nomination was not made in accordance with the procedures prescribed by these By-laws, he shall so declare to the meeting and the defective nomination shall be disregarded.

(c) If a Stockholder Proposal or Nomination Notice is to be submitted at an annual stockholders' meeting, it shall be delivered to the Secretary of the Corporation at the principal executive office of the Corporation within the time period specified in Securities and Exchange Commission Rule 14a-8(a)(3)(i) or any successor provision. Subject to Section 2.3 as to matters that may be acted upon at a special meeting of the stockholders, if a Stockholder Proposal or Nomination Notice is to be submitted at a special meeting of the stockholders, it shall be delivered to the Secretary of the Corporation at the principal executive office of the Corporation no later than the close of business on the earlier of (i) the 30th day following the public announcement that a matter will be submitted to a vote of the stockholders at a special meeting, or (ii) the 15th day following the day on which notice of the special meeting was given.

ARTICLE III

Board of Directors

3.1 Powers. The business and affairs of the Corporation shall be carried on by or under the direction of the Board of Directors, which shall have all the powers authorized by the laws of the State of Delaware, subject to such limitations as may be provided by the Certificate of Incorporation or these By-laws.

3.2 Number and Qualification. The number of directors shall be determined in the manner set forth in the Certificate of Incorporation. The members of the Board of Directors shall be divided into classes if and as provided in the Certificate of Incorporation. Each director shall serve until the election and qualification of his successor or until his earlier death, resignation or removal as provided in the Certificate of Incorporation or these By-laws. In case of an increase in the number of directors between elections by the stockholders, the additional directorships shall be considered vacancies and shall be filled in the manner prescribed in the Certificate of Incorporation. Directors need not be stockholders.

3.3 Compensation. The Board of Directors, or a committee thereof, may from time to time by resolution authorize the payment of fees or other compensation to the directors for services as such to the Corporation, including, but not limited to, fees for attendance at all meetings of the Board of Directors or any committee thereof, and determine the amount of such fees and compensation.

3.4 Meetings and Quorum. Meetings of the Board of Directors may be held either in or outside of the State of Delaware. A quorum shall be one-third (1/3) of the then authorized number of directors. The vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

The Board of Directors shall, at the close of each annual meeting of stockholders and without further notice other than these By-laws, if a quorum of directors is then present or as soon thereafter as may be convenient, hold a regular meeting for the election of officers and the transaction of any other business.

The Board of Directors may from time to time provide for the holding of regular meetings with or without notice and may fix the times and places at which such meetings are to be held. Meetings other than regular meetings may be called at any time by the Chairman of the Board of Directors or the President and must be called by the Secretary or an Assistant Secretary upon the request of a majority of the members of the Board of Directors.

Notice of each meeting, other than a regular meeting (unless required by the Board of Directors), shall be given to each director (i) by mailing the same to each director at his residence or business address at least five (5) business days before the meeting; (ii) by sending the same by overnight courier to each director at his residence or business address at least three (3) business days before the meeting; (iii) by facsimile transmission at his business facsimile number and telephonic confirmation of receipt at least two (2) business days before the meeting; or (iv) by delivering the same to him personally or by telephone or telegraph at least two (2) business days before the meeting. In case of exigency, the

Chairman of the Board of Directors, the President or the Secretary shall prescribe a shorter notice to be given personally or by telephone, telegraph, cable, facsimile transmission or wireless to all or any one or more of the directors at their respective residences or places of business.

Notice of any meeting shall state the time and place of such meeting, but need not state the purposes thereof unless otherwise required by the laws of the State of Delaware, the Certificate of Incorporation or the Board of Directors.

3.5 Committees. The Board of Directors may, by resolution adopted by a majority of the whole Board of Directors, provide for committees of two or more directors and shall elect the members thereof to serve at the pleasure of the Board of Directors and may designate one of such members to act as chairman. The Board of Directors may at any time change the membership of each committee, fill vacancies in it, authorize the committee to fill vacancies in such committee, designate alternate members to replace any absent or disqualified members at any meeting of such committee, or dissolve it. Each such committee shall have the powers and perform such duties, not inconsistent with law, as may be assigned to it by the Board of Directors. Each committee may determine its rules of procedure and the notice to be given of its meeting. A majority of the members of each committee shall constitute a quorum.

3.6 Conference Telephone Meetings. Any one or more members of the Board of Directors or any committee thereof may participate in a meeting by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

3.7 Action Without Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmissions, and the writing or writings or the electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

ARTICLE IV

Officers

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4.1 Titles and Election. The officers of the Corporation shall be the President, one or more Vice Presidents, the Secretary and the Treasurer. The officers of the Corporation shall be elected at the first meeting of the Board of Directors following each annual meeting of stockholders. Each officer shall hold office at the pleasure of the Board of Directors except as may otherwise be approved by the Board of Directors, or until his earlier resignation, removal under these By-laws or other termination of his employment. Any person may hold more than one office if the duties can be consistently performed by the same person.

The Board of Directors, in its discretion, may also at any time elect or appoint a Chairman of the Board of Directors, who shall be a director but need not be an employee of the Corporation and shall be an officer of the Corporation only if so designated by the Board of Directors, and one or more Senior Vice Presidents, Executive Vice Presidents, Assistant Vice Presidents, Assistant Secretaries and Assistant Treasurers and such other officers as it may deem advisable, each of whom shall hold office at the pleasure of the Board of Directors, except as may otherwise be approved by the Board of Directors, or until his earlier resignation, removal or other termination of employment, and shall have such authority and shall perform such duties as may be prescribed or determined from time to time by the Board of Directors or, in case of officers other than the Chairman of the Board of Directors, if not prescribed or determined by the Board of Directors, as the President or the then senior executive officer may prescribe or determine.

4.2 Duties. Subject to such extension, limitations, and other provisions as the Board of Directors may from time to time prescribe or determine, the following officers shall have the following powers and duties:

(a) Chairman of the Board of Directors. The Chairman of the Board of Directors, if one is elected, shall be a director and, when present, shall preside at all meetings of the stockholders and of the Board of Directors and shall have such powers and perform such duties as the Board of Directors may prescribe from time to time.

(b) President. The President shall exercise the powers and authority and perform all of the duties commonly incident to his office, shall in the absence of the Chairman of the Board of Directors preside at all meetings of the stockholders and of the Board of Directors if he is a director, and shall perform such other duties as the Board of Directors shall specify from time to time. The President or a Vice President, or any officer specifically authorized by the Board of Directors, shall sign all certificates for shares, bonds, debentures, promissory notes, deeds and contracts of the Corporation.

(c) Chief Executive Officer. The Chief Executive Officer shall be charged with general supervision of the management and policy of the Corporation, shall have general and active management power and authority over the business of the Corporation, shall see that all orders and resolutions of the Board of Directors are carried into effect and shall perform any and all other duties prescribed by the Board of Directors. Either the President or the Chairman of the Board of Directors may be Chief Executive Officer. In the absence of a resolution by the Board of Directors that the Chairman of the Board of Directors shall be the Chief Executive Officer, the President shall be the Chief Executive Officer.

(d) Senior Vice Presidents. The Senior Vice Presidents shall perform such duties as may be assigned to them from time to time by the Board of Directors or by the President if the Board of Directors does not do so. In the absence or disability of the President, the Senior Vice Presidents, in order of seniority unless otherwise determined by the Board of Directors, may exercise the powers and perform the duties pertaining to the office of President.

(e) Vice Presidents. The Vice Presidents shall perform such duties as may be assigned to them from time to time by the Board of Directors or by the President if the Board of Directors does not do so. In the absence or disability of any Senior Vice President, the Vice Presidents may, in order of seniority unless otherwise determined by the Board of Directors, exercise the powers and perform the duties pertaining to the office of Senior Vice President.

(f) Secretary. The Secretary, or in his absence an Assistant Secretary, shall keep the minutes of all meetings of stockholders and of the Board of Directors and any committee thereof, give and serve all notices, attend to such correspondence as may be assigned to him, keep in safe custody the seal of the Corporation, and affix such seal to all such instruments properly executed as may require it, and shall perform all of the

duties commonly incident to his office and shall have such other duties and powers as may be prescribed or determined from time to time by the Board of Directors or by the President if the Board of Directors does not do so.

(g) Treasurer. The Treasurer, subject to the order of the Board of Directors, shall have the care and custody of the monies, funds, and securities of the Corporation (other than his own bond, if any, which shall be in the custody of the President), shall maintain the general accounting books/accounting records and forms of the Corporation and shall have, under the supervision of the Board of Directors, all the powers and duties commonly incident to his office. In addition to the foregoing, the Treasurer shall have such duties as may be prescribed or determined from time to time by the Board of Directors or by the President if the Board of Directors does not do so.

4.3 Delegation of Authority. The Board of Directors may at any time delegate the powers and duties of any officer for the time being to any other officer, director or employee.

4.4 Compensation. The compensation of the officers of the Corporation shall be fixed by the Board of Directors or a committee thereof, and the fact that any officer is a director shall not preclude him from receiving compensation or from voting upon the resolution providing the same.

ARTICLE V

Resignations, Vacancies and Removals

5.1 Resignations. Any director or officer may resign at any time by giving written notice thereof to the Board of Directors, the President or the Secretary. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof, and unless otherwise specified therein, the acceptance of any resignation shall not be necessary to make it effective.

5.2 Vacancies.

(a) Directors. Any vacancy in the Board of Directors shall be filled in the manner prescribed in the Certificate of Incorporation.

(b) Officers. The Board of Directors may at any time or from time to time fill any vacancy among the officers of the Corporation.

5.3 Removals.

(a) Directors. The entire Board of Directors, or any individual member thereof, may be removed only as provided by the laws of the State of Delaware.

(b) Officers. Subject to the provisions of any validly existing agreement, the Board of Directors may at any meeting remove from office any officer, with or without cause, and may appoint a successor.

ARTICLE VI

Capital Stock

6.1 Certificates of Stock. Every stockholder shall be entitled to a certificate or certificates for shares of the capital stock of the Corporation in such form as may be prescribed or authorized by the Board of Directors, duly numbered and setting forth the number and kind of shares represented thereby. Such certificates shall be signed by the Chairman of the Board of Directors, or by the President or a Vice President and by the Treasurer or an Assistant Treasurer or by the Secretary or an Assistant Secretary. Any or all of such signatures may be in facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on a certificate has ceased to be such officer, transfer agent or registrar before the certificate has been issued, such certificate may nevertheless be issued and delivered by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

6.2 Transfer of Stock. Shares of the capital stock of the Corporation shall be transferable only upon the books of the Corporation upon the surrender of the certificate or certificates properly assigned and endorsed for transfer. If the Corporation has a transfer agent or registrar acting on its behalf, the signature of any officer or representative thereof may be in facsimile.

The Board of Directors may appoint a transfer agent and one or more co-transfer agents and a registrar and one or more co-registrars and may make or authorize such agents to make all such rules and regulations deemed expedient concerning the issuance, transfer and registration of shares of stock.

6.3 Record Dates. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix in advance a record date which, in the case of a meeting, shall not be less than ten (10) nor more than sixty (60) days prior to the scheduled date of such meeting and which, in the case of any other action, shall be not more than sixty (60) days prior to any such action permitted by the laws of the State of Delaware. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

6.4 Lost Certificates. In case of loss or mutilation or destruction of a stock certificate, a duplicate certificate may be issued upon such terms as may be determined or authorized by the Board of Directors or by the chairman of the Board of Directors, the President or the Chief Executive Officer if the Board of Directors does not do so.

ARTICLE VII

Fiscal Year, Bank Deposits, Checks, Etc.

7.1 Fiscal Year. The fiscal year of the Corporation shall be the calendar year unless otherwise fixed by resolution of the Board of Directors.

7.2 Bank Deposit, Checks, Etc. The funds of the Corporation shall be deposited in the name of the Corporation or of any division thereof in such banks or trust companies in the United States or elsewhere as may be designated from time to time by the Board of Directors, or by such

officer or officers as the Board of Directors may authorize to make such designations.

All checks, drafts or other orders for the withdrawal of funds from any bank account shall be signed by such person or persons as may be designated from time to time by the Board of Directors. The signatures on checks, drafts or other orders for the withdrawal of funds may be in facsimile if authorized in the designation.

7.3 Venue in Jurisdiction of Corporate Headquarters. Subordinate to, but to the full extent allowable under, all requirements of State and Federal law, any action at law or in equity filed on behalf of the Corporation by a stockholder shall be confined to the courts of the State or Federal jurisdiction, as appropriate to the particular action, within which this Corporation's corporate headquarters are situated. It is the preferred intent of this bylaw that this selection of venue be mandatory and enforceable in any court. Should, however, this bylaw be held unenforceable to the extent it is intended to be mandatory, the Corporation would nonetheless desire for this bylaw to be viewed by the Court as a strong preference that any action brought on its behalf by a stockholder be filed in this jurisdiction to reduce the Corporation's and its stockholders' litigation expenses and to minimize the disruptive effect of litigation on the Corporation's business interests.

ARTICLE VIII

Books and Records

8.1 Place of Keeping Books. The books and records of the Corporation may be kept outside of the State of Delaware.

8.2 Examination of Books. Except as may otherwise be provided by the laws of the State of Delaware, the Certificate of Incorporation or these By-laws, the Board of Directors shall have the power to determine from time to time whether and to what extent and at what times and places and under what conditions any of the accounts, records and books of the Corporation are to be open to the inspection of any stockholder. No stockholder shall have any right to inspect any account or book or document of the Corporation except as prescribed by law or authorized by express resolution of the stockholders or of the Board of Directors.

ARTICLE IX

Notices

9.1 Requirements of Notice. Whenever notice is required to be given by statute, the Certificate of Incorporation or these By-laws, it shall not mean personal notice unless so specified, but such notice may be given in writing by depositing the same in a post office, letter box, or mail chute postage prepaid and addressed to the person to whom such notice is directed at the address of such person on the records of the Corporation, and such notice shall be deemed given at the time when the same shall be thus mailed.

9.2 Waivers. Any stockholder, director or officer may, in writing or by telegram or cable, at any time waive any notice or other formality required by statute, the Certificate of Incorporation or these By-laws. Such waiver of notice, whether given before or after any meeting or action, shall be deemed equivalent to notice. Presence of a stockholder either in person or by proxy at any meeting of stockholders and presence of any director at any meeting of the Board of Directors shall constitute a waiver of such notice as may be required by any statute, the Certificate of Incorporation or these By-laws unless such presence is solely for the purpose of objecting to the lack of notice and such objection is stated at the commencement of the meeting.

ARTICLE X

Seal

The corporate seal of the Corporation shall be in such form as the Board of Directors shall determine from time to time and may consist of a facsimile thereof or the words "Corporate Seal" or "Seal" enclosed in parentheses or brackets.

ARTICLE XI

Powers of Attorney

The Board of Directors may authorize one or more of the officers of the Corporation to execute powers of attorney delegating to named representatives or agents power to represent or act on behalf of the Corporation, with or without power of substitution.

In the absence of any action by the Board of Directors, any officer of the Corporation may execute for and on behalf of the Corporation waivers of notice of meetings of stockholders and proxies for such meetings of any company in which the Corporation may hold voting securities.

ARTICLE XII

Indemnification

12.1 Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, and whether formal or informal (hereinafter a "proceeding"), by reason of the fact:

(i) that he or she is or was a director or an officer of the Corporation, or

(ii) that he or she is or was serving at the request of the Corporation as a director or officer of another corporation or of a partnership, limited liability company, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (collectively, "another enterprise" or "other enterprise"),

whether either in case (i) or in case (ii), the basis of such proceeding is alleged action or inaction:

(x) in an official capacity as a director or officer of the Corporation, or as a director, trustee, officer, employee or agent of such other enterprise, or

(y) in any other capacity related to the Corporation or such other enterprise while so serving as a director, trustee, officer, employee or agent,

shall be indemnified and held harmless by the Corporation to the fullest extent permitted by Section 145 (or any successor provision or provisions) of the General Corporation Law of the State of Delaware ("DGCL") as the same exists or may hereafter be amended (but, in the case of any such amendment, with respect to alleged action or inaction occurring prior to such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior thereto), against all expense, liability and loss (including without limitation attorneys' fees and expenses, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) actually and reasonably incurred by such person in connection therewith. The persons indemnified by this Article XII are hereinafter referred to as "indemnitees."

Such indemnification as to such alleged action or inaction shall continue as to an indemnitee who has after such alleged action or inaction ceased to be a director or officer of the Corporation, or director, trustee, officer, employee or agent of such other enterprise; and shall inure to the benefit of the indemnitee's heirs, executors and administrators.

Notwithstanding the foregoing, except as may be provided by the Board of Directors, the Corporation shall not indemnify any such indemnitee in connection with a proceeding (or portion thereof) initiated by such indemnitee unless such proceeding (or portion thereof) was authorized by the Board of Directors (but this prohibition shall not apply to a counterclaim, cross-claim or third-party claim brought by the indemnitee in any proceeding).

The right to indemnification conferred in this Article XII: (i) shall be a contract right; (ii) shall not be affected adversely to any indemnitee by any amendment of these Bylaws with respect to any alleged action or inaction occurring prior to such amendment; and (iii) shall, subject to any requirements imposed by law and these By-laws, include the right to be paid by the Corporation the expenses (including attorneys' fees) incurred in defending any such proceeding in advance of its final disposition.

12.2 Undertakings for Advances of Expenses. If and to the extent the DGCL requires, an advancement by the Corporation of expenses incurred by an indemnitee pursuant to clause (iii) of the last sentence of Section 12.1 hereof (hereinafter an "advancement of expenses") shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Article XII or otherwise.

12.3 Claims for Indemnification. If a claim for indemnification under Section 12.1 is not paid in full by the Corporation within 60 days after it has been received in writing by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If the indemnitee is successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and in any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking the Corporation shall be entitled to recover such expenses only upon a final adjudication that, the indemnitee has not met the applicable standard of conduct set forth in Section 145 of the DGCL (or any successor provision or provisions). Neither the failure of the Corporation (including the Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in Section 145 of the DGCL (or any successor provision or provisions), nor an actual determination by the Corporation (including the Board of Directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to have or retain such advancement of expenses, under this Article XII or otherwise, shall be on the Corporation.

12.4 Relationship to Other Rights and Provisions Concerning Indemnification. The rights to indemnification and to the advancement of expenses conferred in this Article XII shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Amended and Restated Certificate of Incorporation of the Company, any bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

12.5 Other Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to the advancement of expenses, to any other employee or agent of the Corporation (or any person serving at the Corporation's request as a trustee, employee or agent of another enterprise) or to any person who is or was a director, officer, employee or agent of any of the Corporation's affiliates, predecessor or subsidiary corporations or of a constituent corporation absorbed by the Corporation in a consolidation or merger or who is or was serving at the request of such affiliate, predecessor or subsidiary corporation or of such constituent corporation as a director, officer, employee or agent of another enterprise, in each case as determined by the Board of Directors to the fullest extent of the provisions of this Article XII in cases of the indemnification and advancement of expenses of directors and officers of the Corporation, or to any lesser extent (or greater extent, if permitted by law) determined by the Board of Directors. If so indemnified, such person shall be included in the term "indemnitee" or "indemnitees" as used in this Article XII.

12.6 Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, trustee, officer, employee or agent of the Corporation or another enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

12.7 Severability. In the event that any of the provisions of this Article XII (including any provision within a single section, paragraph or sentence) is held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, the remaining provisions are severable and shall remain enforceable to the full extent permitted by law.

12.8 Indemnity Fund. Upon resolution adopted by the Board of Directors, the Corporation may establish a trust or other designated account, grant a security interest or use other means (including, without limitation, a letter of credit), to ensure the payment of certain of its obligations arising under this Article XII and/or agreements which may be entered into between the Corporation and its officers, directors or agents from time to time.

ARTICLE XIII

Amendments

These By-laws may be amended or repealed either:

- (a) at any meeting of stockholders at which a quorum is present by vote of a majority of the number of shares of stock entitled to vote present in person or by proxy at such meeting, or
- (b) at any meeting of the Board of Directors by a majority vote of the directors then in office;

provided that the notice of such meeting of stockholders or directors or waiver of notice thereof contains a statement of the substance of the proposed amendment or repeal.

LEASE AGREEMENT

GEORGIA, WHITFIELD COUNTY

THIS LEASE AGREEMENT (this "Lease") made and entered into this day 30 day of Sept, 2002 between SHP, LLC, of the County of Whitfield Georgia, hereinafter referred to as "Lessor" and Aladdin Manufacturing, Corporation, a Delaware Corporation, hereinafter referred to as "Lessee".

WHEREAS, Lessor is the owner of a certain tract or parcel of land and being Land Lot No. 157 of the 9th District and 3rd Section of Murray County, Georgia, on which property is a building containing approximately 175,000 square feet (now or formerly known as the ALTRON Building). The ALTRON Building, together with the parking lot adjoining same is hereinafter referred to as the "Premises".

WHEREAS, it is the desire of Lessee to enter into this Lease for the lease of the Premises by Lessee from Lessor:

NOW, THEREFORE, for and in consideration of the acts to be performed by the parties hereto, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties do hereby agree each with the other as follows:

1. PREMISES LEASED: RIGHT OF ACCESS RESERVED:

(a) Lessor does hereby agree to lease to Lessee, and Lessee does hereby agree to hire from Lessor, at the rent and upon the terms and conditions hereinafter set forth, the Premises during the term hereof.

(b) Lessor does hereby reserve the right for himself and his agents and employees to go over and about parking lot which comprises part of the Premises for purposes of ingress and egress to and from the other property of Lessor adjacent to the Premises.

2. PURPOSE. The Premises shall be used and occupied by Lessee solely in connection with its business of the manufacture and sale of carpet, matting products and samples.

3. TERM: The term of this Lease shall commence on September 15, 2002 and shall terminate the last day of December, 2003, at midnight, unless sooner terminated by breach of the terms and conditions of this Lease by Lessee, or by abandonment of the Premises by Lessee. Provided Lessee is not then in default hereunder, Lessee shall have the right to extend this lease for an additional period of Two (2) years. The extended monthly rental will be \$26,250.00 per month.

4. RENT. Lessee agrees to pay to Lessor as rental for the use of the Premises beginning September 15, 2002 through November 30, 2002 the sum of \$16,800.00 per month; then beginning December 1, 2002 through; December 31, 2003 the monthly rental will be \$24,500 payable in advance on the 1st day of each month and continuing through the term of the lease.

5. ADDITIONAL RENT. Lessee agrees to pay as rent, in addition to the minimum rental reserved in Paragraph 4 hereinabove, the following:

(a) Any and all reasonable sums which may become due by reason of the failure of Lessee to comply with any or all covenants of this Lease, Lessee agreeing to pay any and all damages, costs or expenses which Lessor may suffer or incur by reason of (i) any default of Lessee or failure on its part to comply with the covenants of this Lease: and (ii) any and all damages to the premises caused by any intentional or negligent act of neglect of Lessee or Lessee's agents or invitees;

(b) All charges for water, electricity, gas and any other utility services consumed upon the Premises and all charges for repairs to the meter or meters on premises, whether such repairs are made necessary by ordinary wear and tear, freezing, hot water, accident or other causes, immediately when the same become due; Lessee shall indemnify and hold Lessor harmless from any liability for payment of such services;

6. LESSEE'S RIGHT TO ALTER AND IMPROVE. Lessee shall have the right, at its sole expense, to modify the Premises and to make such alterations as it deems appropriate to improve the usefulness of the Premises: provided, however, any such modifications or improvements shall not be begun until Lessor has been presented with the plans for such modifications and has approved them. Further, Lessee shall obtain the Lessor's consent prior to painting or placing any sign on the Premises, which consent shall not be unreasonably withheld by Lessor. Any modification of the Premises by Lessee under the terms of this Lease shall comply with all federal, state and local regulations and ordinances applicable thereto. Any improvements to which Lessor consents shall be made in a good and workmanlike manner and upon the termination of this Lease, such improvements shall be the property of the Lessor. Lessee shall indemnify and hold Lessor harmless from any liability for the cost of said improvements, and shall immediately discharge any and all liens placed against the Premises as a consequence of such improvements.

7. INSURANCE. Lessor shall procure and maintain during the term hereof, insurance against Loss by fire or other casualty to the Premises in such amounts as Lessor may determine in his sole discretion. Lessee shall be responsible for obtaining and maintaining such insurance against loss to its property or against liability as Lessee may elect.

8. AFFIRMATIVE COVENANTS AND RESPONSIBILITIES OF LESSEE. Lessee covenants and agrees that Lessee will, without demand:

(a) Keep the Premises reasonably clean and free from all rubbish, ashes, dirt and other matter,

(b) Except as provided to the contrary here in below, at Lessee's own expense, maintain the Premises in good repair, and in at least as good condition as that in which they were delivered, allowing for ordinary wear and tear;

(c) Make all necessary repairs, interior and exterior, including repairs to the air conditioning and plumbing system in and about the Premises at its own expense, provided, however, that Lessee shall not be required to make any repairs to the walls or roof of Premises, except for such repairs as are necessitated by the actions of Lessee and/or its agents, employees, licensees or invitees;

(d) Comply with any requirements of any of the constituted public authorities, and with the terms of any Federal or State Statutes or Local

Ordinances or Regulations applicable to Lessee to or for Lessee's use of the Premises and save Lessor harmless from penalties, fines, costs or damages resulting from the failure to do so;

(e) Give to Lessor prompt written notice of any accident involving persons other than agents or employees of Lessee, fire or damage occurring on or to me Premises;

(f) At the termination of this Lease, remove any signs, improvements of a non-permanent nature, projections or devices placed upon the premises at or prior to the expiration of this Lease. In case of breach of this covenant, in addition to all other remedies given to Lessor in case of breach of any condition or covenant of this Lease, Lessor shall have the privilege of removing said improvements, signs, projections, or devices and Lessee, at Lessor's option, shall be liable to Lessor for any and all reasonable expenses so incurred by Lessor;

(g) Indemnify Lessor against all expenses, liabilities and claims of any kind, including reasonable attorney's fees, by or on behalf of any person or entity arising out of either (i) a failure by Lessee to perform any of the terms or conditions of this Lease, (ii) any injury or damage happening on or about the Premises, except to the extent caused or contributed to by the willful misconduct or gross negligence of Lessor, its agents, employees or representatives; (iii) failure to comply with any law of any governmental authority, arising out of or attributable solely to Lessee's use and/or occupancy of the Premises; (iv) any mechanic's lien or security interest filed against the Premises; and (v) all claims, damages, expenses, liabilities, actions or causes of action of any kind or nature arising from breaches of Lessee's representations, warranties or covenants hereunder or from acts or failures to act occurring, or conditions existing, during Lessee's occupancy of the Premises, except to the extent caused or contributed to by the willful misconduct or gross negligence of Lessor, its agents, employees or representatives; and

(h) Secure any and all permits for such use as Lessee intends to make of the Premises prior to the effective date of this Lease, and upon obtaining such permit Lessee shall not use the demised premises in any manner not inconsistent with or in violation of such permit.

9. NEGATIVE COVENANTS OF LESSEE. Lessee covenants and agrees that it will do none of the following Things without the consent in writing of Lessor first had and obtained, which consent shall not be unreasonably withheld:

(a) Occupy the Premises in any other manner or for any other purpose than set forth herein; or

(b) Assign, mortgage or pledge, or sublease this Lease; nor shall any assignee assign, mortgage, pledge or sublease this Lease without the written consent by the Lessor and without such consent no such assignment, mortgage, pledge or sublease shall be valid, provided Lessor will not unreasonably withhold such consent; or

(c) Use the Premises for the "treatment", "storage", or "disposal" of any "hazardous waste", as such terms are defined in the Resource Conservation and Recovery Act, as amended 42 U.S.C. 6901 et seq.; or

(d) Release on the Premises a "hazardous substance", as such terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act, as amended 42 U.S.C. 9601 et seq.; or

(e) Install or maintain an underground storage tank, as such term is defined in RCRA; or

(f) Do or permit any of its permitted subleases or other persons to do anything on the Premises, or any part thereof, or bring or permit anything to be brought on or kept in the Premises, or permit the use of the Premises for any business or purpose that would:

1. cause an increase in the rate of any insurance on the Premises; or

2. cause a violation of any requirements of any of the constituted public authorities, and with the terms of any Federal or State Statutes or Local Ordinances or Regulations applicable to Lessee to or for Lessee's use of the Premises.

10. NO REPRESENTATIONS BY LESSOR. Neither Lessor or Lessor's agents have made any representations or promises with respect to the Premises, except as expressly set forth herein. The taking of possession of the Premises by Lessee shall be conclusive evidence against Lessee, and Lessee accepts the Premises as is, and that the Premises, and any portion thereof occupied by Lessee, were in good and satisfactory condition at the time possession of the same was so taken.

11. ADDITIONAL CONVENANTS.

(a) If the Premises are totally destroyed by storm, fire, lightning, earthquake or other casualty, this Lease, and all rights and obligations arising hereunder, shall terminate as of the date of such destruction, and rental shall be accounted for as between Lessor and Lessee as of that date. If the Premises are damaged but not totally destroyed by any of such casualty, rent shall abate in such proportion as use of the premises has been destroyed, and Lessor shall restore the Premises to substantially the same condition as before such damage, whereupon full rental shall resume. For purposes of this section, damage to the Premises to the extent that the Premises are wholly untenable, or damage to the extent that full repairs cannot be made solely from the proceeds of insurance maintained on the Premises as provided in this Lease, shall be deemed to be a total destruction of the Premises.

(b) Lessor shall not be liable for any damage, compensation or claim by reason of inconvenience arising from the necessity of repairing any portion of the building, the interruption of the use of the Premises, or the termination of this Lease by reason of the destruction of the Premises.

(c) It is understood and agreed that the Lessor hereof does not warrant or undertake that the Lessee shall be able to obtain a permit under any zoning ordinance or regulation for such use as Lessee intends to make of the Premises, and nothing in this Lease contained shall obligate Lessor to assist in obtaining said permit

(d) It is hereby covenanted and agreed by and between the parties that any law, usage or custom to the contrary notwithstanding, Lessor shall have the right at all times to enforce the covenants and provisions of this Lease in strict accordance with the terms hereof, notwithstanding any conduct or custom on the part of Lessor in refraining from so doing at any time or times, and further, that the failure of Lessor at any time or times to enforce Lessor's right under said covenants and provisions strictly in accordance with the same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions or covenants of this Lease, or as having in any way or manner modified the same.

(e) Lessor will maintain the roof, the exterior walls and floor of the Premises. Water leaks through the roof will be repaired by Lessor without

undue delay.

(f) Lessee agrees to grant to the Lessor full and free access to the Premises during reasonable business hours to examine or exhibit the same or to make any necessary repairs or alterations to the Premises.

12. EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "Event of Default" hereunder:

(a) Any part, portion or component of the rent, or any other sums payable under this Lease are not paid within five (5) days after receipt of Lessor's notice that same is past due;

(b) Any petition that is filed by or against Lessee under any section or chapter of the Federal Bankruptcy Code, and, in the case of a petition filed against Lessee, such petition is not dismissed within thirty (30) days after the date of such filing;

(c) Lessee becomes insolvent or transfers property in fraud of creditors;

(d) Lessee makes an assignment for the benefit of creditors;

(e) A receiver is appointed for any of the Lessee's assets; or

(f) Lessee breaches or fails to comply with any term, provision, condition or covenant of this Lease, other than the payment of rent, which breach is not cured within thirty (30) days after written notice by Lessor of such default is received by Lessee.

13. REMEDIES- Upon the occurrence of an Event of Default, Lessor may do or perform any one or more of the following in addition to, and not in limitation of any other remedy or right permitted it by law or by this Lease;

(a) Lessor may terminate this Lease, in which event Lessee shall immediately surrender the Premises to Lessor. If Lessee fails to do so, Lessor may, without prejudice to any other remedy Lessor may have either by law or by this Lease, enter upon the Premises and expel or remove Lessee and Lessor's personal property with or without force and without being Liable to Lessee in any manner whatsoever for damages therefor. Lessee shall be liable to Lessor for and shall indemnify and hold Lessor harmless from and against all cost, loss, or damage which Lessor may suffer by reason of such termination of this Lease, whether through inability to relet the Premises, through a decrease in rent received, by damage to the Premises or otherwise; or

(b) Lessor may enter the Premises and remove the Lessee and its personal property and may relet the Premises as the agent and receive such rent therefor. In such event Lessee shall be liable to Lessor for any deficiency which may arise by reason of such reletting during the remainder of the Lease Term. Lessor may include, without limitation, brokerage commissions and attorney's fees incurred in reletting the Premises and any and all costs and expenses incurred in renovating or altering space to make it suitable for reletting in computing Lessor's costs, losses or damages for which Lessee is liable as set forth above, and the proceeds of such reletting shall be first applied to such costs and expense, then to the payment of Rent and all other indebtedness of Lessee to Lessor hereunder, with the balance, if any to be held by Lessor to be applied in payment of future Rent and all other such indebtedness as same becomes due and payable throughout the Lease Term.

14. REMEDIES-CUMULATIVE. All of the remedies hereinbefore given to Lessor and all rights and remedies given by law or in equity to Lessor shall be cumulative and concurrent. No termination of this Lease or the taking or recovering of the Premises shall deprive Lessor of any of its remedies or actions against the Lessee for rent due at the time of which under the terms hereof would in the future become due as if there had been no termination, or for any and all sums due at the time, or which under the terms hereof would in the future become due as if there had been no termination, nor shall bringing of any action for rent or breach of covenant, or the resort to any other remedy herein provided for the recovery of rent be construed as a waiver of Lessor's right to obtain possession of the Premises.

15. LEASE CONTAINS ALL AGREEMENTS. It is expressly understood and agreed by and between any parties hereto that this Lease and the Exhibits attached hereto and forming a part hereof, set forth all of the promises, agreements, conditions and understandings between Lessor, or Lessor's agents, and Lessee relative to the demised premises, and that there are no promises, agreements, conditions or understandings, either oral or written, between them other than as set forth herein. All prior leases between Lessor and Lessee respecting the Premises or any portion thereof shall be terminated as of the effective date of this Lease, whereupon the terms and conditions of this Lease shall govern all rights and obligations of the parties with respect to the Premises. It is further understood and agreed that, except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Lessor or Lessee unless reduced to writing and signed by them.

16. PARTIES BOUND. All rights and liabilities herein given to, or imposed upon, the respective parties hereto shall extend to and bind the several and respective heirs, executors, administrators, successors and assigns of said parties, and if there shall be more than one Lessee, they shall be bound jointly and severally by the terms, covenants and agreements herein, and the word "Lessee" shall be deemed to and taken to mean each and every person or party mentioned as Lessee herein, be the same one or more; and if there shall be more than one Lessee, any notice required or permitted by the terms of this Lease shall be given by or to anyone thereof, and shall ever have the same force and effect as if given by or all thereof. The word "his" and "him" and "her", wherever stated herein shall be deemed to refer to the "Lessor" and "Lessee" whether such Lessor and Lessee be singular or plural and irrespective of gender. No rights, however, shall inure to the benefit of any assignee of Lessee unless the assignment to such assignee has been approved by Lessor in writing as herein provided.

17. SUBORDINATION. This Lease and all rights of Lessee hereunder shall be subject and subordinate to the lieu of any mortgage of Lessor, provided that such subordination shall be upon the express condition that this Lease shall be recognized by the mortgagee and that the rights of Lessee shall remain in full force and effect during the term of this Lease so long as Lessee shall continue to perform all of the covenants of this Lease. While this paragraph is self-operative, and no further instrument of subordination shall be necessary, Lessee shall, in confirmation of such subordination, upon demand at any time or times, execute, acknowledge and deliver to Lessor or any Mortgagor of Lessor any and all instruments requested by either of them to evidence such subordination- Lessee shall execute, acknowledge and deliver to Lessor or any Mortgagor of Lessor, without expense, any and all instruments that may be necessary to make this Lease superior to the lien of any Mortgagor of Lessor. If a holder of any mortgage of Lessor shall hereafter succeed to the rights of Lessor under his Lease, Lessee shall, at the option of such holder, attorn to and recognize such successor as Lessee's landlord under this Lease and shall promptly execute and deliver any instrument that may be necessary to evidence such attornment. Upon such attornment, this Lease shall continue in full force and effect as a direct Lease between each successor Lessor and Lessee, subject to all of the terms, covenants and conditions of this Lease. If Lessee fails at any time to execute, acknowledge and deliver any of the instruments provided for by this Paragraph within fifteen (15) days after receipt of Lessor's notice so to do,

Lessor, in addition to the remedies allowed by this Lease may execute, acknowledge and deliver any and all of such instruments as the attorney-in-fact of Lessee and in its name, place and stead, and Lessee hereby irrevocably appoints Lessor, its successors and assigns as such attorney-in-fact.

18. CONDEMNATION. If the whole of the Leased 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 purpose, then in either of said events the term hereby granted shall cease from the time when possession thereof is taken by public authorities, and rental shall be accounted for as between Lessor and Lessee as of that date. Such termination, however, shall be without prejudice to the rights of either Lessor or Lessee to recover compensation and damage caused by condemnation from the condemner. It is further understood and agreed that neither the Lessee or Lessor shall have any rights in any award made to the other by any condemnation authority,

19. NOTICES. Except for legal process which may also be served as by law provided, all notices required or desired to be given with respect to this Lease shall be in writing and shall be deemed to have been given when had delivered or three (3) days after deposited, postage prepaid, with the United States Postal Service (or its official successor), certified, return receipt requested, properly addressed as follows:

To Lessor:

SHP, LLC
P. O. Box 2343
Dalton, Georgia 30722-2343

To Lessee:

Mohawk Industries, Inc.
P.O. Box 12069
Calhoun, Georgia 30703-7002

Such address may be changed from time to time by either party by notice to the other.

20. HOLDING OVER- In no event shall there be any renewal of this Lease by operation of law, and if Lessee remains in possession of the Premises after the termination of this Lease and without execution of a new Lease, Lessee shall be deemed to be occupying the Premises as a tenant at will at an amount equal to one hundred fifty (150%) of the Rent and otherwise subject to all the covenants and provisions of this Lease insofar as the same are applicable to a month-to-month tenancy.

21. BROKERS. Lessor and Lessee each represents and warrants to the other that no broker, agent, commission salesman or other person has represented the warranting party in the negotiations for and procurement of this Lease and of the Premises, that no commissions, fees or compensation of any kind are due and payable in connection herewith to any such person or entity. Each party further warrants that any compensation arrangement with the parties excepted from the foregoing warranty has been reduced to writing in its entirety in a separate agreement signed simultaneously with or before this Lease by the party against whom the commission or compensation is charged

22. ATTORNEYS' FEES AND EXEMPTION. Lessee hereby waives and renounces all homestead or exemption rights which Lessee may have under or by virtue of the Constitution and Laws of the United States, Georgia, or any other State, as against any debt Lessee may owe Lessee under this Lease, and hereby transfers, conveys, and assigns to Lessor all homestead or exemption rights which may be allowed or set apart to Lessee, including such as may be set apart in any bankruptcy proceeding, to pay any debt owing by Lessee to Lessor hereunder. If any rent or other debt owing by Lessee to Lessor hereunder is collected by or through an attorney at law, Lessee agrees to pay an additional amount equal to fifteen percent (15%) of sum as attorneys' fees.

23. NO ESTATE IN LAND. This Lease creates the relationship of landlord and tenant between Lessor and Lessee. No estate shall pass out of Lessor, and Lessee has only usufruct which is not subject to levy and sale.

24. ESTOPPEL CERTIFICATE. At any time and from time to time, Lessee, on or before the date specified in a request therefor made by Lessor, which date shall not be earlier than fifteen (15) days from the receipt of such request, shall execute, acknowledge and deliver to Lessor a certificate evidencing (a) whether or not this Lease is in full force and effect, (b) whether or not this lease has been amended in any way, (c) whether or not there are any existing defaults on the part of Lessor hereunder to the knowledge of Lessee and specifying the nature of such defaults, if any, and (d) the date to which rent, and other amounts due hereunder, if any, have been paid. Each certificate delivered pursuant to this Paragraph may be relied on by any prospective purchaser or transferee of Lessor's interest hereunder or of any part of Lessor's property or by any holder or prospective holder of any mortgage of Lessor, or a mortgage or prospective mortgage of any part of Lessor's other property

25. SEVERABILITY. If any clause or provision of this Lease is or becomes illegal, invalid, or unenforceable because of present or future laws or any rule or regulation of any governmental body or entity, effective during its term, the intention of the parties hereto is that the remaining parts of this Lease shall not be affected thereby, unless the amount of Rent payable hereunder is thereby decreased, in which event Lessor may terminate this Lease.

26. CAPTIONS. The captions used in this Lease are for convenience only and do not in any way limit or amplify the terms and provisions hereof.

27. SUCCESSORS AND ASSIGNS. The provisions of this lease shall inure to the benefit of and be binding upon Lessor and Lessee, and their respective permitted successors, heirs, legal representatives and assigns.

28. STATE LAW. The laws of the State of Georgia shall govern the interpretation, validity, performance and enforcement of this Lease.

29. TIME IS OF THE ESSENCE- Except as otherwise specifically provided herein, time is of the essence of this Lease,

30. EXECUTION. This Lease may be executed in any number of counterparts, each of which shall be deemed an original and any of which shall be deemed to be complete in itself and be admissible into evidence or used for any purpose without the production of the other counterparts.

31. FORCE MAJEURE. Either party hereto shall be excused from the performance of any of its obligations for the period of any delay resulting from any cause beyond its control, including, without limitation all labor disputes, governmental regulations or controls, fires or other casualties, inability to obtain any material or services, or acts of God.

32. PEACEFUL POSSESSION. So long as Lessee observes and performs the covenants and agreements contained herein, it shall at all times during the Lease Term peacefully and quietly have and enjoy possession of the Premises, but always subject to the terms hereof.

IN WITNESS WHEREOF, the parties hereto have executed these presents the day and year first above written.

LESSOR:

SHP, LLC

BY: _____

LESSEE:

Aladdin Manufacturing Corp

BY: /s/: Salvatore J. Perillo

NAME: Salvatore J. Perillo

TITLE: General Council

ATTEST:

CORPORATE SEAL

Rider to SHP, LLC. Lease

Lessee is Aladdin Manufacturing Corporation, a Delaware Corporation

1. Premises Leased:

In section (b) Please add ("Such ingress and egress shall not interfere with the operation of Lessee.

2. Purpose: Please add (" and any other floor covering products that the Lessee utilizes in it operation").

5. Additional Rent:

(a). Please add after (i)("unless such default is due to the negligence of Lessor").

(b) Please add (" unless such damage is due to the negligence of Lessor").

11. Additional Covenants:

(c) Please delete and insert Lessor warrants that the leased premises is zoned for the intended use of the Premises.

Agreed to the above

/s/: Salvatore J. Perillo

9-30-02

Lease for Aladdin Manufacturing Corporation

J6, J8, J11, J12

Revised to add buildings and decrease rent July 1, 2002

Summary

Lessor: DMK Holdings LLC, Diana O. Layson, Manager

Lessee: Aladdin Manufacturing Corporation

Term: Two years

Rent: \$ 23,730.00 per month, see note below

Begin: July 1, 2002

End: June 30, 2004

Option:

Yes, Two Year Option

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Notes:

Reduced Rate is based on \$ 0.14{5er SF as agreed when adding other buildings.

J6 68,715 sf

J8 31,000sf

J1 1 35,250 sf (includes 2,500 sf added for connection to J6)

J12 34,500 sf

Total of Approximately 169,500 sf

Names and Phone Numbers for Aladdin Manufacturing Corporation

Mr. Bob Livingston 602-3066

David Owens Phone: 706-625-0531

Butch Layson Phone: 706-629-4120

All rental checks to be made to: JSO, Inc.

320 Trammell St.

Calhoun, GA 30701

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GEORGIA, GORDON COUNTY:

THIS LEASE, made this 1st day of July 2002, by and between DMK Holdings, LLC, Diana O. Layson, Manager ("Lessor"), and Aladdin Manufacturing Corporation ("Lessee").

WITNESSETH:

The Lessor, for and in consideration of the rents, covenants, agreements and stipulations hereinafter mentioned, reserved and contained, to be kept and performed by the Lessee, have leased and rented and by these present do lease and rent unto the said Lessee and the said Lessee hereby agrees to lease and take upon terms and conditions which hereinafter appear, the following described property, along with all improvements thereon ("Premises"):

Those certain Warehouses containing approximately 169,500 square feet, and being part of the "Harbinger" complex known as J-6, J8 located on S. River Street, and J11, J12 located on Oak Street, Calhoun Georgia.

(1) Authority

Lessors represent and covenant that they have good and marketable title to the Premises and that they have full right, title and authority to enter into this lease.

(2) Term

TO HAVE AND TO HOLD the Premises, commencing July 1, 2002 and continuing thereafter for a period of Two (2) Years, ending June 30, 2004.

(3) Rent

Lessee agrees to pay Lessor monthly installments of Twenty-Three Thousand, Seven Hundred and Thirty Dollars (\$23,730.00) in advance on the first day of each month. Plus the cost of utilities which will be invoiced as soon as practical after each month.

(4) Use

It is intended that the Premises shall be used for manufacturing or storage, but no strict limitation is hereby imposed. The Premises shall not be used for any illegal purposes nor in any manner so as to increase the rate of insurance thereon. The Lessee agrees to pay any increase caused in the Lessor's insurance rates by virtue of a change in the type of business that Lessee is conducting.

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(5)

Lessee agrees not to abandon or vacate the Premises during the term hereof.

(6) Utilities

Lessee shall pay water, gas, electricity, fuel, light, heat and power bills for the Premises, or used by the Lessee in connection therewith.

(7) Taxes

Lessor shall pay state, county and municipal ad valorem taxes assessed against the Premises during the term of this lease. However, it is further provided between the parties hereto that the Lessee will pay to the Lessor as additional rental any increase in ad valorem taxes, city and county, charged against the lease premises over and above the amount of ad valorem taxes for the year of 2001 with said payment to be made by the Lessee to Lessor within 30 days upon written notice by the Lessor to the Lessee of said increase in taxes, if any. All tax bills delivered to Lessor by the taxing authority shall be sufficient evidence of the tax established for each year during the term. Lessee reserves the right to reasonably contest any proposed increase in assessments or taxes and for this purpose Lessor agrees to give Lessee prompt notice of any proposed increase in assessments by the taxing authority and to cooperate with Lessee in formally protesting unreasonable increases in assessments.

(8) Repairs

Lessor shall make all structural steel and exterior wall repairs, and shall maintain the roof exterior and repair roof leaks. Lessee shall keep and maintain the Premises and appurtenances and every part thereof in good order and repair, except for the exterior roof of the building. Lessee agrees to keep all internal steel painted to prevent corrosion. Lessee agrees to keep all systems and fixtures pertaining to heating, air conditioning, water, sewer, electrical and sprinkler systems, if any, in good order and repair. Lessee agrees to be liable for any damage to the Premises and its fixtures, appurtenances and systems, if such damage is due to the negligence of Lessee, but only in the event such damage is a casualty not covered by a policy of hazard insurance required to be carried by Lessor under this Lease Agreement.

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(9) Destruction of Premises

If the Premises are totally destroyed by storm, fire, lightning, earthquake or other casualty, this lease shall terminate as of the date of such destruction, and Lessee shall not be liable for any rent beyond that date and rental shall be accounted for as between Lessor and Lessee as of that date. If the Premises are damaged but not wholly destroyed by and of such casualties, rental shall abate in such proportion as use of Premises has been destroyed and Lessor shall restore Premises to substantially the same condition as before the damage as speedily as practicable, whereupon full rental shall commence.

If the Premises cannot be restored to substantially the same condition they were in prior to the casualty within a period of One Hundred Twenty (120) days from the occurrence of the damage, then Lessee shall have an option to terminate this lease upon the giving of notice of termination to Lessor within seven (7) days after Lessor notifies Lessee of their inability to repair the Premises within the required time, or within seven (7) days after Lessor's inability to do so has been apparent, and this Lease shall terminate upon the giving of such notices.

(10)

Lessee agrees to indemnify and save harmless the Lessor against all claim for damage to persons or property by reason of Lessee's use or occupancy of the Premises and all expenses reasonably incurred by Lessor as a result thereof, including attorney's fees and court costs. Lessee agrees to maintain throughout the term, at its sole expense, liability insurance adequate to protect Lessor and Lessee against any claims arising by the use and occupancy of the Premises by Lessee.

Lessor agrees to maintain fire and extended coverage insurance policies upon the building located upon the Premises during the term in amounts adequate to afford the restoration of said building in the event of damage by fire and other similar insurance casualty. Lessee agrees to pay to Lessor in additional rental, any increase in insurance premiums over and above the amount of premium paid for fire and extended coverage on the premises for the year 2001. Said additional rental shall be due and payable upon renewal of said insurance coverage. Lessee agrees to maintain adequate fire and extended coverage policies upon its contents located upon said Premises during the term thereof. Parties agree to afford the other evidence that proper insurance is maintained at all times.

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(11) Recovery

Lessor and Lessee each hereby waive any and all rights of recovery against the other, or against the officer, employees, agents and representatives of the other, for loss of or damage to such waiving party or its or their property of the property of others under its or their control to the extent that such loss or damage is insured against under any insurance policy in force at the time of such loss or damage, and each shall upon obtaining the policy of insurance required by the term of this lease, give notice to the respective insurance carriers that the foregoing mutual waiver of subrogation is contained in this lease.

(12)

Lessee shall not, without the consent of Lessor, endorsed hereon, assign this lease or any interest herein, or sublet the Premises by any party other than Lessee.

However, upon express written consent of Lessor, which consent shall not be unreasonably withheld, Lessee shall have the right to sublet or assign the premises, the Parties determining at that time whether Lessee shall be released from the terms hereof entirely, and assignee or sublessee to become fully liable. The use or occupancy of the Premises by an affiliate or a wholly owned subsidiary of Lessee shall not constitute assignment and subletting, which shall require the consent of Lessor

(13) Default

Part 1

The occurrence of any one or more of the following events shall constitute default of this Lease by Lessee:

- (a) The vacating or abandonment of the Premises by Lessee.
- (b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, when such condition continues for ten (10) days after receipt of written notice from Lessor to make such payment.
- (c) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of the Lease to be observed or performed by Lessee, other than described in Part 1.(b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee, unless the failure cannot be reasonably corrected within such thirty (30) day period, if Lessee commences in good faith to cure such failure diligently.
- (d) (i) The making by Lessee of any general assignment, or general arrangement for the benefit of creditors; Page 5 of 11

page 6 Lease for Aladdin Manufacturing Corporation

- (ii) The filing by or against Lessee of a petition to have Lessee adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (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 the 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.

Part 2.

In the event of any such default of Lessee, Lessor may at any time thereafter, with or without further notice of further demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default or breach:

(a) 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 such event, Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to: any deficiency between Lessee's rent hereunder and the price obtained by Lessor of reletting, the cost of recovering possession of the Premises, expense of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth, at the time of award by the court having jurisdiction thereof, of the amount by which the unpaid rent for the balance of the term exceeds the amount of such rental loss for the same period that Lessee proves could be reasonable avoided; and any leasing commission paid by Lessor applicable to the unexpired term of this lease. Unpaid installments of rent and other sums shall bear interest from ten (10) days after the due date at the rate of twelve percent (12%) per annum, but in no case shall said interest exceed the lawful maximum. In the event Lessee shall have abandoned the Premises, Lessor shall have the option of (1) retaking possession of the premises and recovering from Lessee the amount specified in this Part 2.(a), or (ii) proceeding under Part2.(b).

(b) maintain Lessee's right to possession in which case this lease shall continue in effect whether or not Lessee shall have abandoned the Premises. In such event

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Page 7 Lease for Aladdin Manufacturing Corporation

Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) pursue any other remedy now or hereinafter available to Lessor under the laws or judicial decisions of the State of Georgia. (14)

Lessee shall give prompt notice to Lessor of any condition or requirement to be met or fulfilled by Lessor under the terms of this Lease, and Lessor shall within thirty (30) days after written notice cure such default, provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance, then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecute same to completion.

(15)

Time is of the essence in the performance of any obligation under this Lease agreement.

(16)

This Lease contains all agreements of the parties with respect to the subject matter of this Lease. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification.

(17) Address of Notice

Any notice provided for in this Lease shall be in writing and shall be sent by

Certified Mail, addressed as follows:

To Lessor: DMK Holdings.LLC

320 Trammell Street

Calhoun, GA 30701

To Lessee: Aladdin Manufacturing Corporation

Attn: Mr. Bob Livingston

965 North Wall Street

Calhoun, Georgia 30701

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Page 8 Lease for Aladdin Manufacturing Corporation

(18)

If Lessee remains in possession of the Premises or any part thereof after the expiration of the term hereof without the express written consent of Lessor, such occupancy shall be a tenancy from month to month at a rental rate of \$ 27,120.00 per month plus all other charges payable hereunder and upon all terms hereof applicable to a month to month tenancy. Nothing contained herein shall be construed to constitute permission by the Lessor to the Lessee to remain in possession after the expiration of the term hereof.

(19)

If either party bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in such action, on trial or appeal, shall be entitled to his attorney's fees to be paid by the losing party as fixed by the court.

(20)

Lessor shall have the right to enter the Premises at reasonable times for the purpose of inspecting same and showing same to prospective purchasers or lenders, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are a part as Lessors may deem necessary or desirable. During the last sixty (60) days of the term hereof Lessor may place on or about the Premises any ordinary "for lease" or "for sale" sign.

(21) Renewal Option

Lessor hereby grants unto Lessee the option to extend the term of this Lease for one, Two (2) year Period commencing July 1, 2004, and ending June 30, 2006, at midnight. Said option shall be exercised by Lessee giving Lessor written notice of exercise, which notice must be sent by Lessee not less than ninety (90) days before the end of the initial term, which notice date shall be as follows:

Last day for lessee's notice of renewal of lease: April 1, 2004.

All terms of this lease shall remain the same for the renewal term, save the

rental amount which shall be \$ 27,120.00 per month

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(22)

This contract shall create the relationship of landlord and tenant between Lessor and Lessee; no estate shall pass out of Lessor, Lessee has only a usufruct, not subject to levy and sale, and not assignable by Lessee except as provided in paragraph (12) above.

(23) Insurance

Insurance. Landlord shall, at its cost and expense, provide and keep in force the following insurance coverage without lapse at any time and for any reason during the term of this Lease:

(i) Insurance covering the premises against loss or damage by fire and lighting and such risks as are included in "Special Form" or All Risk coverage endorsements to policies covering property similar to the premises in an amount equal to 100% of the full replacement value thereof (excluding foundations and excavation costs), which names Tenant as an additional insured and which includes an endorsement waiving the right of subrogation. Notwithstanding anything contained in this lease to the contrary, regardless of whether or not Landlord provides and keeps in force the required insurance covering losses for such causes and regardless of whether or not Tenant, its agents, employees, contractors or others under the control of Tenant cause such damages to the premises caused by fire and lightning and such risks as are customarily included in "Special Form" or All Risk coverage endorsements to policies covering property similar to the premises.

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Page 10 Lease for Aladdin Manufacturing Corporation

(ii) Commercial General Liability coverage on an "Occurrence Form" basis with limits of at least \$1,000,000, Each Occurrence, and \$2,000,000 General Aggregate for all claims disaster, and such damage cannot reasonably be repaired within thirty (30) days of the date of such damage so as to cause the same to be restored to its prior existing condition, this lease shall terminate and Landlord shall retain all funds paid by any insurer as a result of such casualty. In the event that the building on the demised premises is partially damaged by fire, casualty or other disaster, and such damage can reasonably be repaired within thirty (30) days of the date of such damage so as to cause the same to be restored to its prior existing condition, the Landlord shall proceed to restore said demised premises and during the period of restoration, the rent shall be reduced proportionately according to the percentage of square feet of usable area remaining in the portion of the building leased to Tenant. In the event the demised premises are untenable as a result of such damage, rent shall abate during the period of time of restoration.

(24) Environmental

Environmental Compliance; To the best of the lessor's knowledge and belief, there are no existing violations of any federal, state or local environmental laws and regulations and any amendments thereto including, but not limited to, the Comprehensive Environmental Response Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, and the Resource Conservation Recovery Act of 1976. Landlord shall indemnify and hold tenant harmless from and against any and all damages, penalties, fines, claims liens, suits liabilities, cost (including clean-up cost), judgments and expenses (including, but not limited to, attorneys', consultants' and experts' fees and expenses) of any kind and nature suffered or asserted against Lessee as a direct or indirect result of any preexisting condition prior to the occupancy of said premises by lessee or as a direct or indirect result of any condition or violation taking place after the termination of the lease term or lessee's occupancy of the property. The foregoing indemnification shall survive the expiration or termination of the lease term. The Lessee in the same manner as described above agrees to hold lessor harmless should any violation as described above be caused or allowed to be caused by the lessee or its agents, servants, employees, contractors or vendors.

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Lease for Aladdin Manufacturing Corporation

(25) Signatures

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

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and affixed their seals in duplicate, each copy being considered an original, and day and year first above written.

Signed, sealed and delivered as to:

"LESSEE"

Notary Public, My Commission Expires

Aladdin Manufacturing Corporation

Signed, sealed and delivered as to:

"LESSOR1"

B.

DMK Holdings, LLC

Diana O. Layson, Manager

Notary Public, My Commission Expires

Lease for Aladdin Manufacturing Corporation

OK 1,2, 3, 4

Revised to add buildings and decrease rent July 1, 2002

Summary

Lessor: DMK Holdings LLC, and Oothcalooga, LLP

Lessee: Aladdin Manufacturing Corporation

Term: Two years

Rent: \$ 15,500.00 per month, see note below

Begin: July 1,2002

End: June 30, 2004

Option:

Yes, One Two-Year Option

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Notes:

Reduced Rate is based on \$ 0.14 per SF as agreed when adding other buildings.

OK 1&2-66,000 sq.ft.

OK 3&3-44,700 sq.ft.

Total Approximately 111,000 Sq. Ft. Rental rounded to \$ 15,500.00

Names and Phone Numbers for Aladdin Manufacturing Corporation

Jeff Briggs - 624-4746

Bob Livingston - 602-3066

David Owens Phone: 706-625-0531

Butch Layson Phone: 706-629-4120, Fax 629-0523

All rental checks to be made to: JSO, Inc.

320 Trammell St.

Calhoun, GA 30701

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THIS LEASE, made this 1st day of July, 2002, by and between DMK Holdings, LLC and Oothcalooga, LLP ("Lessor"), and Aladdin Manufacturing Corporation ("Lessee").

WITNESSETH:

The Lessor, for and in consideration of the rents, covenants, agreements and stipulations hereinafter mentioned, reserved and contained, to be kept and performed by the Lessee, have leased and rented and by these present do lease and rent unto the said Lessee and the said Lessee hereby agrees to lease and take upon terms and conditions which hereinafter appear, the following described property, along with all improvements thereon ("Premises"):

That certain Warehouse containing approximately 111,000 square feet, and being part of the "Harbinger" complex known as OK 1&2 and OK 3&4, located at 717 River Street, Calhoun Georgia.

(1) Authority

Lessors represent and covenant that they have good and marketable title to the Premises and that they have full right, title and authority to enter into this lease.

(2) Term

TO HAVE AND TO HOLD the Premises, commencing July 1, 2002 and continuing thereafter for a period of Two (2) Years, ending June 30, 2004.

(3) Rent

Lessee agrees to pay Lessor monthly installments of Fifteen Thousand and Five

Hundred Dollars (\$15,500.00) in advance on the first day of each month

(4) Use

It is intended that the Premises shall be used for manufacturing or storage, but no strict limitation is hereby imposed. The Premises shall not be used for any illegal purposes nor in any manner so as to increase the rate of insurance thereon. The Lessee agrees to pay any increase caused in the Lessor's insurance rates by virtue of a change in the type of business that Lessee is conducting.

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page 3 Lease for Aladdin Manufacturing Corporation

(5)

Lessee agrees not to abandon or vacate the Premises during the term hereof.

(6) Utilities

Lessee shall pay water, gas, electricity, fuel, light, heat and power bills for the Premises, or used by the Lessee in connection therewith. These will be invoiced as soon as practical by the lessor each month if not in Lessee's name.

(7) Taxes

Lessor shall pay state, county and municipal ad valorem taxes assessed against the Premises during the term of this lease. However, it is further provided between the parties hereto that the Lessee will pay to the Lessor as additional rental any increase in ad valorem taxes, city and county, charged against the lease premises over and above the amount of ad valorem taxes for the year of 2001 with said payment to be made by the Lessee to Lessor within 30 days upon written notice by the Lessor to the Lessee of said increase in taxes, if any. All tax bills delivered to Lessor by the taxing authority shall be sufficient evidence of the tax established for each year during the term.

Lessee reserves the right to reasonably contest any proposed increase in assessments

or taxes and for this purpose Lessor agrees to give Lessee prompt notice of any proposed increase in assessments by the taxing authority and to cooperate with Lessee in formally protesting unreasonable increases in assessments.

(8) Repairs

Lessor shall make all structural steel and exterior wall repairs, and shall maintain the roof exterior and repair roof leaks. Lessee shall keep and maintain the Premises and appurtenances and every part thereof in good order and repair, except for the exterior roof of the building. Lessee agrees to keep all internal steel painted to prevent corrosion. Lessee agrees to keep all systems and fixtures pertaining to heating, air conditioning, water, sewer, electrical and sprinkler systems, if any, in good order and repair. Lessee agrees to be liable for any damage to the Premises and its fixtures, appurtenances and systems, if such damage is due to the negligence of Lessee, but

only in the event such damage is a casualty not covered by a policy of hazard insurance required to be carried by Lessor under this Lease Agreement.

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page 4 Lease for Aladdin Manufacturing Corporation

(9) Destruction of Premises

If the Premises are totally destroyed by storm, fire, lightning, earthquake or other casualty, this lease shall terminate as of the date of such destruction, and Lessee shall not be liable for any rent beyond that date and rental shall be accounted for as between Lessor and Lessee as of that date. If the Premises are damaged but not wholly destroyed by and of such casualties, rental shall abate in such proportion as use of Premises has been destroyed and Lessor shall restore Premises to substantially the same condition as before the damage as speedily as practicable, whereupon full rental shall commence.

If the Premises cannot be restored to substantially the same condition they were in prior to the casualty within a period of One Hundred Twenty (120) days from the occurrence of the damage, then Lessee shall have an option to terminate this lease upon the giving of notice of termination to Lessor within seven (7) days after Lessor notifies Lessee of their inability to repair the Premises within the required time, or within seven (7) days after Lessor's inability to do so has been apparent, and this Lease shall terminate upon the giving of such notices.

(10)

Lessee agrees to indemnify and save harmless the Lessor against all claim for damage to persons or property by reason of Lessee's use or occupancy of the Premises and all expenses reasonably incurred by Lessor as a result thereof, including attorney's fees and court costs. Lessee agrees to maintain throughout the term, at its sole expense, liability insurance adequate to protect Lessor and Lessee against any claims arising by the use and occupancy of the Premises by Lessee.

Lessor agrees to maintain fire and extended coverage insurance policies upon the building located upon the Premises during the term in amounts adequate to afford the restoration of said building in the event of damage by fire and other similar insurance casualty. Lessee agrees to pay to Lessor in additional rental, any increase in insurance premiums over and above the amount of premium paid for fire and extended coverage on the premises for the year 2001. Said additional rental shall be due and payable upon renewal of said insurance coverage. Lessee agrees to maintain adequate fire and extended coverage policies upon its contents located upon said Premises during the term thereof. Parties agree to afford the other evidence that proper insurance is maintained at all times.

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page 5 Lease for Aladdin Manufacturing Corporation

(11) Recovery

Lessor and Lessee each hereby waive any and all rights of recovery against the other, or against the officer, employees, agents and representatives of the other, for loss of or damage to such waiving party or its or their property of the property of others under its or their control to the extent that such loss or damage is insured against under any insurance policy in force at the time of such loss or damage, and each shall upon obtaining the policy of insurance required by the term of this lease, give notice to the respective insurance carriers that the foregoing mutual waiver of subrogation is contained in this lease. (12)

Lessee shall not, without the consent of Lessor, endorsed hereon, assign this lease or any interest herein, or sublet the Premises by any party other than Lessee. However, upon express written consent of Lessor, which consent shall not be unreasonably withheld, Lessee shall have the right to sublet or assign the premises, the Parties determining at that time whether Lessee shall be released from the terms hereof entirely, and assignee or sublessee to become fully liable. The use or occupancy of the Premises by an affiliate or a wholly owned subsidiary of Lessee shall not constitute assignment and subletting, which shall require the consent of Lessor.

(13) Default

Part 1

The occurrence of any one or more of the following events shall constitute default of this Lease by Lessee:

- (a) The vacating or abandonment of the Premises by Lessee.
- (b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, when such condition continues for ten (10) days after receipt of written notice from Lessor to make such payment.
- (c) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of the Lease to be observed or performed by Lessee, other than described in Part 1 .(b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee, unless the failure cannot be reasonably corrected within such thirty (30) day period, if Lessee commences in good faith to cure such failure diligently.
- (d) (i) The making by Lessee of any general assignment, or general arrangement for the benefit of creditors;

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- (ii) The filing by or against Lessee of a petition to have Lessee adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (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 the 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.

Part 2.

In the event of any such default of Lessee, Lessor may at any time thereafter, with or without further notice of further demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default or breach:

(a) 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 such event, Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to: any deficiency between Lessee's rent hereunder and the price obtained by Lessor of reletting, the cost of recovering possession of the Premises, expense of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth, at the time of award by the court having jurisdiction thereof, of the amount by which the unpaid rent for the balance of the term exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; and any leasing commission paid by Lessor applicable to the unexpired term of this lease. Unpaid installments of rent and other sums shall bear interest from ten (10) days after the due date at the rate of twelve percent (12%) per annum, but in no case shall said interest exceed the lawful maximum. In the event Lessee shall have abandoned the Premises, Lessor shall have the option of (1) retaking possession of the premises

and recovering from Lessee the amount specified in this Part 2.(a), or (ii) proceeding under Part2.(b).

(b) maintain Lessee's right to possession in which case this lease shall continue in effect whether or not Lessee shall have abandoned the Premises. In such event

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Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) pursue any other remedy now or hereinafter available to Lessor under the laws or judicial decisions of the State of Georgia. (14)

Lessee shall give prompt notice to Lessor of any condition or requirement to be met or fulfilled by Lessor under the terms of this Lease, and Lessor shall within thirty (30) days after written notice cure such default, provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance, then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecute same to completion.

(15)

Time is of the essence in the performance of any obligation under this Lease agreement.

(16)

This Lease contains all agreements of the parties with respect to the subject matter of this Lease. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification.

(17) Address of Notice

Any notice provided for in this Lease shall be in writing and shall be sent by Certified Mail, addressed as follows:

To Lessor: DMK Holdings.LLC and Oothcalooga, LLP

320 Trammell Street

Calhoun, GA 30701

To Lessee: Aladdin Manufacturing Corporation

Attn: Bob Livingston

965 North Wall Street

Calhoun, Georgia 30701

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(18)

If Lessee remains in possession of the Premises or any part thereof after the expiration of the term hereof without the express written consent of Lessor, such occupancy shall be a tenancy from month to month at a rental rate of \$17,700.00 per month plus all other charges payable hereunder and upon all terms hereof applicable to a month to month tenancy. Nothing contained herein shall be construed to constitute permission by the Lessor to the Lessee to remain in possession after the expiration of the term hereof.

(19)

If either party bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in such action, on trial or appeal, shall be entitled to his attorney's fees to be paid by the losing party as fixed by the court.

(20)

Lessor shall have the right to enter the Premises at reasonable times for the purpose of inspecting same and showing same to prospective purchasers or lenders, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are a part as Lessors may deem necessary or desirable. During the last sixty (60) days of the term hereof Lessor may place on or about the Premises any ordinary "for lease" or "for sale" sign.

(21) Renewal Option

Lessor hereby grants unto Lessee the option to extend the term of this Lease for one, Two (2) year Period commencing July 1, 2004, and ending June 30, 2006, at midnight. Said option shall be exercised by Lessee giving Lessor written notice of exercise, which notice must be sent by Lessee not less than ninety (90) days before the end of the initial term, which notice date shall be as follows:

Last day for lessee's notice of renewal of lease: April 1, 2004

All terms of this lease shall remain the same for the renewal term, save the rental amount. The Rental rate for the additional two year option shall be at the normal rate of \$ 17,700.00 per month.

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(22)

This contract shall create the relationship of landlord and tenant between Lessor and Lessee; no estate shall pass out of Lessor, Lessee has only a usufruct, not subject to levy and sale, and not assignable by Lessee except as provided in paragraph (12) above.

(23) Insurance

Insurance. Landlord shall, at its cost and expense, provide and keep in force the following insurance coverage without lapse at any time and for any reason during the term of this Lease:

(i) Insurance covering the premises against loss or damage by fire and lightning and such risks as are included in "Special Form" or All Risk coverage endorsements to policies covering property similar to the premises in an amount equal to 100% of the full replacement value thereof (excluding foundations and excavation costs), which names Tenant as an additional insured and which includes an endorsement waiving the right of subrogation. Notwithstanding anything contained in this lease to the contrary, regardless of whether or not Landlord provides and keeps in force the required insurance covering losses for such causes and regardless of whether or not Tenant, its agents, employees, contractors or others under the control of Tenant cause such damages to the premises caused by fire and lightning and such risks as are customarily included in "Special Form" or All Risk coverage endorsements to policies covering property similar to the premises.

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(ii) Commercial General Liability coverage on an "Occurrence Form" basis with limits of at least \$1,000,000, Each Occurrence, and \$2,000,000 General Aggregate for all claims disaster, and such damage cannot reasonably be repaired within thirty (30) days of the date of such damage so as to cause the same to be restored to its prior existing condition, this lease shall terminate and Landlord shall retain all funds paid by any insurer as a result of such casualty. In the event that the building on the demised premises is partially damaged by fire, casualty or other disaster, and such damage can reasonably be repaired within thirty (30) days of the date of such damage so as to cause the same to be restored to its prior existing condition, the Landlord shall proceed to restore said demised premises and during the period of restoration, the rent shall be reduced proportionately according to the percentage of square feet of usable area remaining in the portion of the building leased to Tenant. In the event the demised premises are untenable as a result of such damage, rent shall abate during the period of time of restoration.

(24) Environmental

Environmental Compliance; To the best of the lessor's knowledge and belief, there are no existing violations of any federal, state or local environmental laws and regulations and any amendments thereto including, but not limited to, the Comprehensive Environmental Response Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, and the Resource Conservation Recovery Act of 1976. Landlord shall indemnify and hold tenant harmless from and against any and all damages, penalties, fines, claims liens, suits liabilities, cost (including clean-up cost), judgments and expenses (including, but not limited to, attorneys', consultants' and experts' fees and

expenses) of any kind and nature suffered or asserted against Lessee as a direct or indirect result of any preexisting condition prior to the occupancy of said premises by lessee or as a direct or indirect result of any condition or violation taking place after the termination of the lease term or lessee's occupancy of the property. The foregoing indemnification shall survive the expiration or termination of the lease term. The Lessee in the same manner as described above agrees to hold lessor harmless should any violation as described above be caused or allowed to be caused by the lessee or it's agents, servants, employees, contractors or vendors.

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Lease for Aladdin Manufacturing Corporation

(25) Signatures

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

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and affixed their seals in duplicate, each copy being considered an original, and day and year first above written.

Signed, sealed and delivered as to:

"LESSEE"

Aladdin Manufacturing Corporation

BY: /s/Salvatore Perillo

"LESSOR"

By:/s/:Dianna O. Layson

DMK Holdings, LLC

Diana O. Layson, Manager

Oothcalooga, LLP

Notary Public, My Commission Expires Signed, sealed and delivered as to:

Notary Public, My Commission Expires 12/2/04

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INDUSTRIAL LEASE AGREEMENT

Date: March 13,2002

between

CP-COPPELL INDUSTRIAL, LTD.,

a Texas Limited Partnership

and

ALADDIN MANUFACTURING CORPORATION,

a Delaware corporation

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INDUSTRIAL LEASE AGREEMENT

THIS INDUSTRIAL LEASE AGREEMENT (the "Lease") is made and entered into by and between the Landlord and Tenant hereinafter named.

ARTICLE I

DEFINITIONS

The following definitions and basic provisions shall be used in conjunction with and limited by the reference thereto in the provisions of this Lease:

- (a) "Landlord": CP-COPPELL INDUSTRIAL, LTD., a Texas limited partnership.
- (b) "Tenant": ALADDIN MANUFACTURING CORPORATION., a Delaware corporation.
- (c) "Premises": That approximately 200,000 square foot portion of the approximately 600,000 square foot Building (herein so called) identified on Exhibit "A-1" attached hereto and made a part hereof, which Building is situated on that certain real property described on Exhibit "A" attached hereto and made a part hereof (the "Land"). The Building and the Land are hereinafter collectively referred to as the "Property". The Building is

situated upon a portion of the Land, as reflected on Exhibit "A-1", and it is contemplated that another building (the "Adjacent Building") may be built upon the western portion of the Land.

- (d) "Lease Term": A period commencing on May 1, 2002 (the "Commencement Date") and ending August 31, 2007 (the "Expiration Date").
- (e) "Basic Rental": \$56,666.67 per month.
- (f) "Permitted Use": Warehousing, cutting and distribution of carpet and related items (herein, the "Primary Use") and all other lawful uses permitted by applicable zoning.
- (g) "Maximum Rate": The lesser of (i) the maximum rate of interest permitted by applicable law or (ii) two percent (2%) above the "prime rate" of interest, as announced from time to time in the Money Section of The Wall Street Journal or should The Wall Street Journal cease to be published or should The Wall Street Journal cease to publish a "prime rate", then the "prime rate" as charged from time to time by Chase Bank, N.A., or its successor.
- (h) "Additional Rent": All sums of money, other than Basic Rental, which become due under Article V, Section 8.7 or Article XV this Lease, or are otherwise specified to be "Additional Rent" under this Lease. Basic Rental and Additional Rent shall collectively constitute the "Rent" or "Rentals" due or to become due under this Lease and are herein so called.
- (i) "Common Area": All areas and facilities that may exist, from time to time, outside the Building and the Adjacent Building and within the perimeter boundary line of the Property for the general, non-exclusive use of the Landlord, the Tenant and other tenants within the Building and their respective employees, suppliers, shippers, customers and invitees, including (without limitation, however) parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, alleys and landscaped areas. Tenant acknowledges that the Common Area may include a common driveway running between the Building and the Adjacent Building, together with landscaping incidental thereto.
- (j) "Tenant's Share": A fraction, the numerator of which is the total number of square feet of space contained within the Premises and the denominator of which is the total number of square feet of space contained within the Building and all other buildings, if any, which may hereafter exist on the Property. Tenant's Share shall not exceed 33.33%.

ARTICLE n

LEASE GRANT

Section 2.1 Premises. Landlord, in consideration of the Basic Rental to be paid and the other covenants and agreements to be performed by Tenant and upon the terms and conditions hereinafter stated, does hereby lease, demise and let unto Tenant the Premises commencing on the Commencement Date (as defined in Article I(d) hereof), or as adjusted as hereinafter provided) and ending on the last day of the Lease Term, unless sooner terminated as herein provided. Provided all plans and specifications are prepared, reviewed and approved in a manner so as not to delay Landlord's completion of the Leasehold Improvements (as defined in Section 3.2 hereof), Landlord anticipates that the Premises will be available and ready for occupancy on or about May 1, 2002. If the Premises are not available and ready for occupancy by May 1, 2002, then Landlord shall not be deemed to be in default hereunder, and Tenant agrees to accept possession of the Premises at such time as the Premises are available and ready for occupancy and such date shall be deemed to be the Commencement Date. If the Leasehold Improvements have not been substantially completed by June 15, 2002 (the "Outside Completion Date"), then, as Tenant's sole recourse, the Abatement Period (as defined in Section 4.1 hereof) shall be extended one (1) day for each day beyond the Outside Completion Date that the Leasehold Improvements have not been substantially completed; provided, however, if delay is caused or contributed to by act or neglect of Tenant or those acting for or under Tenant (hereinafter referred to as a "Tenant Delay"), labor disputes, casualties, acts of God or the public enemy, governmental embargo restrictions, shortages of fuel, labor, or building materials, action or non-action of public utilities, of local, state or federal governments affecting the work, or other causes beyond Landlord's reasonable control, then the Outside Completion Date shall be extended for the additional time caused by such delay. Such delays are each hereinafter referred to as an "Excused Delay." In order for Landlord to claim an Excused Delay, Landlord must provide Tenant written notice of such claim within ten (10) days after Landlord becomes aware of such delay. Landlord hereby waives payment of Basic Rental and other payments to be made by Tenant hereunder covering any period prior to the date the Premises are available and ready for occupancy, all of which shall only commence upon the Commencement Date; however, should Tenant occupy the Premises prior to the Commencement Date specified in Article I(d) hereof; the Commencement Date and Lease Term shall be altered to coincide with said occupancy with the Expiration Date of this Lease remaining unchanged. For the purpose hereof, the Premises shall be deemed "available and ready for occupancy" at such time as Landlord has substantially completed the construction or installation of any Leasehold Improvements (as defined in Section 3.2 hereof), if any, required to be completed by Landlord pursuant to Section 3.2 of this Lease to the extent reasonably necessary so as to allow Tenant to occupy the Premises and commence operations of its business therein, notwithstanding the fact that there may remain as incomplete certain minor, "punchlist" items which do not materially interfere with Tenant's intended use of the Premises; Landlord agrees to promptly attend to and complete the punchlist items in a good and workmanlike manner. The Leasehold Improvements shall be deemed to have been substantially completed when the following having occurred: (i) the issuance of a certificate of occupancy permitting Tenant to occupy the Premises (or the taking of such other action as may be customary to permit occupancy or use thereof); and (ii) the issuance of a certificate of substantial completion by Landlord's architect respecting the Leasehold Improvements; provided, however, if the failure to secure such certificates or of taking such other action is caused by the act, failure to act or neglect of Tenant, then the Leasehold Improvements shall be deemed substantially completed and available and ready for occupancy on the day when such certificates may have been issued or such other action may have been taken had it not been the act, failure to act or neglect of Tenant. By occupying the Premises, Tenant shall be deemed to have accepted the Leasehold Improvements as substantially completed, except for minor "punchlist" items. Tenant shall endeavor to provide Landlord with a list of deficiencies in the construction of the Leasehold Improvements within thirty (30) days after it has taken possession of the Premises with all Leasehold Improvements substantially completed; provided, further that nothing herein shall reduce or impair Landlord's Construction Guaranty set forth in Section 3.3 below. After the Commencement Date of this Lease, Tenant shall, upon request from Landlord, execute and deliver to Landlord a letter of acceptance of delivery of the Premises, which letter shall describe any deficiencies with respect to the Leasehold Improvements of which Tenant has actual knowledge and shall also state the Commencement Date and Expiration Date; provided, however, that Landlord also confirms to Tenant the Commencement and Expiration Dates.

Tenant shall be allowed, no earlier than April 1, 2002 (without the requirement to pay Rent), and following two (2) days prior written notice to Landlord and subject to Landlord's reasonable approval, to install Tenant's equipment and racking system within the Premises provided that (i) Tenant has furnished to Landlord certificates of insurance evidencing the issuance of insurance as required by Tenant under Article XV hereof; and (ii) Tenant does not thereby interfere with the completion of construction of the Leasehold Improvements as a result of such installations. Tenant

does hereby assume all risk of loss or damage to such machinery, equipment, fixtures and other personal property, and to indemnify, defend and hold harmless Landlord from any loss or damage to such machinery, equipment, fixtures and personal property, and all liability, loss or damage arising from any injury to the property of Landlord, or its contractors, subcontractors or materialmen, and any death or personal injury to any person or persons to the extent arising out of such installations. Any such use of the Premises is also subject to, and Tenant must comply with and observe, all applicable laws and all other terms and conditions of this Lease. In no event may Tenant conduct business in the Premises during such early access period.

Section 2.2 Permitted Encumbrances. The Premises are subject to, and Tenant covenants and agrees to comply with, the easements, restrictions, reservations and other matters set forth in Exhibit "B" attached hereto and made a part hereof (collectively, the "Permitted Encumbrances"). Landlord represents to Tenant that none of the Permitted Encumbrances will materially interfere with or preclude Tenant's occupancy of the Premises for the Primary Use identified in Article I (f) above.

ARTICLE III

CONSTRUCTION OF LEASEHOLD IMPROVEMENTS

Section 3.1 Design Criteria Unless otherwise agreed to by Tenant in its sole and absolute discretion, the "Leasehold Improvements" (as defined in Section 3.2 below) shall include (and the plans and specification for the Leasehold Improvements shall incorporate) the Design Criteria set forth on Exhibit "C" attached hereto and made a part hereof.

Section 3.2 Leasehold Improvements. Any improvements to be made to the Premises are herein referred to as the "Leasehold Improvements". Except for any "Change Cost" (as such term is defined below), Landlord shall construct the Leasehold Improvements at its sole cost and expense (including, without limitation, the cost of preparing preliminary and final plans and specifications. Immediately after the execution hereof Landlord and Tenant will cooperate with one another to prepare final plans and specifications (the "Plans and Specifications") for the construction and installation of the Leasehold Improvements. The Plans and Specifications shall be consistent with the preliminary plans attached hereto as Exhibit "D" (subject to the approval thereof by Landlord and Tenant), and when approved in writing by Landlord and Tenant, shall be attached to this Lease as Exhibit "D-1" and shall become a part hereof. No failure or refusal on the part of Tenant to approve the Plans and Specifications within a reasonable time after the execution hereof shall render this Lease void or voidable nor shall it delay the Commencement Date set forth in Article I(d) hereof. No delay caused by Tenant during the construction or installation of the Leasehold Improvements shall delay the Commencement Date of this Lease from what it would have been had such delay not occurred. Landlord shall not be entitled to claim a delay by Tenant if Landlord was aware of such delay and did not provide Tenant written notice of such delay within ten (10) days following the date Landlord became aware thereof.

All changes in the Leasehold Improvements from that contemplated by the Plans and Specifications, whether or not such change gives rise to a "Change Cost" (as hereinafter defined) must be evidenced by a written Change Order (so called herein) executed by both Landlord and Tenant. In that regard, with respect to any Change Order requested by Tenant, Tenant shall submit to Landlord such information as Landlord may reasonably request. After receipt of the requested Change Order, together with such information as Landlord may request with respect thereto, Landlord shall return to Tenant either the executed Change Order, which will evidence Landlord's approval thereof, or Landlord's suggested modifications thereto. If any Change Order requested by Tenant is not ultimately effected, Tenant will reimburse Landlord for all out-of-pocket expenses incurred, including but not limited to, architectural and engineering fees.

For the purposes hereof, the term "Change Cost" shall mean all costs and expenses attributable to any Change Order requested by Tenant, including but not limited to, (i) the cost of any materials or labor, (ii) any cost caused by the direction to Tenant to omit any item of Leasehold Improvements, (iii) any additional architectural or engineering services, (iv) any changes to materials in the process of fabrication, (v) the cancellation or modification of supply or fabricating contracts, (vi) the removal or alteration of any of Leasehold Improvements or plans completed or in the process, (vii) delays affecting the schedule of the Leasehold Improvements or the Commencement Date and (viii) a construction management fee equal to five percent (5%) of all Change Costs. Prior to the Commencement Date (or if not determinable at that time, then, as soon thereafter as possible) the Landlord and Tenant shall have a final accounting of all Change Costs. If, as a result of such accounting, there exists a net sum due by Tenant to Landlord, then that amount (together with interest thereon, at the rate of Chase Manhattan Bank prime plus 2%, accruing from the date Landlord notifies Tenant of the sum due through and until the date of the payment thereof to Landlord) shall be paid by Tenant to Landlord within thirty (30) days following the date such final accounting occurs.

In case of any disagreement between Landlord and Tenant with respect to any alleged Tenant Delay, Excused Delay, Change Cost or the scope of the Leasehold Improvements that cannot be resolved by the parties, the issue shall be resolved by binding arbitration undertaken on an expedited basis pursuant to the applicable procedures of the American Arbitration Association.

Section 3.3 Construction Guaranty. Landlord guarantees, for a period of one (1) year following the Commencement Date, (i) the Leasehold Improvements against defective workmanship and/or materials or non-compliance with the final plans and specifications for the Leasehold Improvements and (ii) that the Common Areas and the Building, including the roof, floors, walls, doors, dock doors, parking lot and all other mechanical systems are and shall be in good, operable condition. Landlord agrees, during said one-year period at its sole cost and expense, to (i) repair or replace any defective item occasioned by poor workmanship and/or materials or non-compliance with the final plans and specifications for the Leasehold Improvements and (ii) make all necessary repairs to keep the Common Areas and the Building, including the roof, floors, walls, doors, dock doors, parking lot and all other mechanical systems in good, operable condition. In no event shall Landlord's guarantee herein extend to any repairs or replacements caused by the acts or omissions of Tenant, or Tenant's agents, contractors or employees, including failure to maintain and service any equipment in accordance with manufacturer's specifications or recommendations. Except as otherwise expressly set forth in this Lease, Landlord's sole and exclusive obligation with respect to defective workmanship and/or materials, and Tenant's rights to enforce such one-year guaranty shall be Tenant's sole and exclusive remedy with respect to such defective workmanship and/or materials in limitation of any contract, warranty or other rights, whether express or implied, that Tenant may otherwise have under applicable law. From and after the expiration of the one year guaranty of Landlord against defective workmanship and materials, Landlord agrees to cooperate with Tenant in the enforcement by Tenant, at Tenant's sole cost and expense, of any express warranties or guaranties of workmanship or materials given by subcontractors or materialmen that guarantee or warrant against defective workmanship or materials for a period of time in excess of the one-year period described above and to cooperate with Tenant in the enforcement by Tenant, at Tenant's sole cost and expense, of any service contracts that provide service, repair or maintenance to any item incorporated in the Building for a period of time in excess of such one-year period.

ARTICLE IV

RENT

Section 4.1 Payment of Rent. In consideration of this Lease, Tenant promises and agrees to pay Landlord the Basic Rental, without deduction or set off, except for any set off explicitly provided for herein, for each and every month of the Lease Term and further promises and agrees to pay all Additional Rent which becomes due hereunder. The nonpayment of any Additional Rent or any other sums due by Tenant to Landlord under this Lease shall afford Landlord all the rights and remedies as are herein provided in the case of nonpayment of the Basic Rental. Any term or provision of this Lease to the contrary notwithstanding, the covenant and obligation of Tenant to pay Rent hereunder shall be independent from any obligations, warranties, representations, express or implied, if any, of Landlord herein contained.

Tenant's obligation to pay the Basic Rental and any Additional Rent under Section 4.2, Article V, Section 8.7 and Article XV of this Lease shall abate for a period commencing on the Commencement Date and continuing through and until, and including, August 31, 2002 (the "Abatement Period").

Section 4.2 Periodic Payment of Reimbursable Expenses; Adjustments. Landlord may estimate in advance the amount of any taxes, reimbursable maintenance expenses and insurance premiums due from Tenant under this Lease (the "Reimbursable Expenses") for each calendar year during the lease Term, and the same shall be payable during each twelve (12) month period of the Lease Term on the same day as Basic Rental is due hereunder with an adjustment to be made between the parties at a later date as hereinafter provided. As soon as practicable following the end of each calendar year, but no later than the first day of May, beginning with the end of the first calendar year, Landlord shall submit to Tenant a statement setting forth the exact amount of the Reimbursable Expenses for the calendar year just completed. Further, Landlord shall notify Tenant of the difference, if any, between the actual amount of the Reimbursable Expenses for the calendar year just completed and the estimated amount of the Reimbursable Expenses (which was paid in accordance with this paragraph) for such year. Such statement shall also set forth the amount of the estimated Reimbursable Expenses for the new calendar year computed in accordance with the foregoing provisions. To the extent that the actual Reimbursable Expenses for any period covered by such statement is greater than the estimated amounts which Tenant previously paid during the calendar year just completed, Tenant shall pay to Landlord the difference within ten (10) days following receipt of said statement from Landlord. To the extent that the actual Reimbursable Expenses for the period covered by the statement is less than the estimated payment previously paid by Tenant during the calendar year just completed, Landlord shall credit the difference against the Tenant's estimated payment of Reimbursable Expenses for the current calendar year and such credit will be applied to the next payment or payments due from Tenant to Landlord. In addition, until Tenant receives such statement, Tenant's payment of the Reimbursable Expenses for the new calendar year shall continue to be paid at the rate for the previous calendar year, but Tenant shall commence payment to Landlord of the quarterly installments of Reimbursable Expenses on the basis of the new statement beginning on the first installment date following the date upon which Tenant receives such statement. If the statement reflects a change in the reimbursement amount, such difference shall be adjusted by increasing or decreasing the first reimbursement payment after the statement is given in order to bring the reimbursement amount for the new calendar year current as of such date.

Landlord shall retain its records relating to the taxes, insurance and other reimbursable expenses at Landlord's principal office (or such other office as Landlord may designate in writing to Tenant), and upon reasonable prior notice to Landlord, Tenant shall have the right to inspect all of Landlord's records relating to such costs. Appropriate adjustments shall be made for errors in the computation of such costs revealed by such audit or inspection. If any audit by Tenant indicates an overcharge in the amount of Tenant's Share by more than five percent (5%), the reasonable cost of such audit (up to a maximum of \$1,500.00) shall be paid on demand by Landlord to Tenant. Landlord shall retain said records for at least twenty-four (24) months.

Section 4.3 Rent Adjustment. The Basic Rental installment for the first month of the Lease Term shall be due and payable by Tenant to Landlord contemporaneously with the execution hereof, and a like monthly installment shall be due and payable, without demand, on or before the first day of each calendar month during the Lease Term. Basic Rental for any fractional month at the beginning or end of the Lease Term shall be prorated. Should a prorated payment of Basic Rental be owing for a fractional month at the beginning of the Lease Term, Tenant shall pay such amount to Landlord within ten (10) days following receipt of Landlord's invoice therefor.

Section 4.4 [INTENTIONALLY OMITTED]

Section 4.5 Survival of Obligations. Notwithstanding any expiration or earlier termination of this Lease, Tenant's obligation to pay any and all Additional Rent and other sums due by Tenant to Landlord under this Lease shall continue and shall cover all periods up to the date this Lease expires or is terminated. Tenant's obligation to pay any and all Additional Rent and other sums under this Lease and Landlord's and Tenant's obligation to make the adjustments referred to in this Lease shall survive any expiration or termination of this Lease.

Section 4.6 Delinquent Payments. If any Basic Rental payment required to be paid or which becomes due under this Lease is not paid by the tenth (10th) day following the day on which it is due, a service charge of five percent (5%) of such amounts due shall become due and payable in addition to the amounts due. Said service charge is for the purpose of reimbursing Landlord for the extra costs and expenses in connection with the handling and processing of late payments. In addition to such service charge, if any Basic Rental payment is not paid by the tenth (10th) day following the day on which it becomes due, Tenant shall pay to Landlord, in addition to such Basic Rental payment and the service charge, interest on such Basic Rental payment calculated at the Maximum Rate from the date such Basic Rental payment was due until paid by Tenant. If any Additional Rent required to be paid or which becomes due under this Lease is not paid when due, Tenant shall pay to Landlord, in addition to such amounts, interest on such amounts at the Maximum Rate from the date such amounts were due until paid by Tenant.

Section 4.7 Independent Obligations. Any term or provision of this Lease to the contrary notwithstanding, except as explicitly set forth herein, the covenants and obligations of Tenant to pay Basic Rental and Additional Rent hereunder shall be independent from any obligations, warranties or representations, express or implied, if any, of Landlord herein contained.

ARTICLE V

OTHER ASSESSMENTS

Section 5.1 Payment of Impositions. Tenant covenants and agrees to pay during the term of this Lease, as Additional Rent within thirty (30) days of invoice therefor, Tenant's Share of all real estate taxes and special assessments (all of which are sometimes herein referred to as "Impositions"), which at any time during the term may have been or may be assessed, levied, confirmed, imposed upon, or become a lien on the Property, or any portion thereof, or any appurtenance thereto. Tenant shall pay Tenant's Share of all special (or similar) assessments for public improvements or benefits which, during the term of this Lease shall be laid, assessed, levied or imposed upon or become payable or become a lien upon the Property, or any portion thereof; provided, however, that if by law any special assessment is payable (without default) or, at the option of Landlord, may be paid (without default) in installments (whether or not interest shall accrue on the unpaid balance of such special

assessment), Tenant may pay the same, together with any interest accrued on the unpaid balance of such special assessment in installments as the same respectively become payable and before any fine, penalty, interest or cost may be added thereto for the nonpayment of any such installment and the interest thereon. Landlord represents to Tenant that as of the date of this Lease, Landlord has no knowledge of and has not received any written notice of any special assessments payable, levied or assessed with respect to the Property. Tenant shall pay Tenant's Share of all special assessments or installments thereof (including interest accrued thereon), whether heretofore or hereafter laid, assessed, levied or imposed upon the Property, or any portion thereof; which are due and payable during the term of this Lease. Landlord shall pay all installments of special assessments (including interest accrued on the unpaid balance) which are payable prior to the commencement and after the termination date of the term of this Lease. Tenant shall pay all real estate taxes, whether heretofore or hereafter levied or assessed upon the Property, or any portion thereof which are due and payable during the term of this Lease. Landlord shall pay all real estate taxes and special assessments which are payable prior to the commencement of the term of this Lease. Provisions herein to the contrary notwithstanding, Landlord shall pay that portion of the real estate taxes and installments of special assessments due and payable in respect to the Property during the year the term commences and the year in which the term ends which the number of days in said year not within the term of this Lease bears to 365, and Tenant shall pay Tenant's Share of the balance of said real estate taxes and installments of special assessments during said years. Notwithstanding anything to the contrary, Tenant shall not be obligated to pay any assessment arising from or related to the original construction of the Building and/or development of the Property. Further, in the event the tax parcel within which the Building is situated contains undeveloped land, then Landlord shall make a fair and reasonable adjustment to the real estate taxes so that no undeveloped portion of land not associated with the Building is included in the real estate taxes being allocated to the Building.

Section 5.2 Other Impositions. If at any time during the term of this Lease, the present method of taxation shall be changed so that in lieu of the whole or any part of any taxes, assessments or governmental charges levied, assessed or imposed on real estate and the improvements thereon, there shall be levied, assessed or imposed on Landlord a capital levy or other tax directly on the Basic Rentals received therefrom and/or a franchise tax assessment, levy or charge measured by or based, in whole or in part, upon such Basic Rentals for the present or any future building or buildings on the Land, then all such taxes, assessments, levies or charges, or the part thereof so measured or based, shall be deemed to be included within the term "Impositions" for the purposes hereof.

Section 5.3 Landlord Right to Contest. The Landlord shall have the right to employ a tax consulting firm to attempt to assure a fair tax burden on the Premises within the applicable taxing jurisdiction. If Landlord has not elected to contest any taxes and Tenant has requested, in writing, that Landlord contest taxes, Landlord shall proceed with such appropriate proceedings as are commercially reasonable to contest the amount or validity of the taxes. Tenant shall pay to Landlord, within thirty (30) days of invoice therefor, as Additional Rent, Tenant's Share of the reasonable cost of such service.

Section 5.4 Landlord's Covenants. Landlord shall provide Tenant with a copy of all bills for Impositions promptly upon receipt thereof and in sufficient time for Tenant to examine same and determine whether Tenant desires to have Landlord contest the amount or validity of same. Landlord shall pay all Impositions that are levied or assessed by any lawful authority on the Premises and Landlord's other real property within the same tax parcel prior to the date same become overdue and Tenant shall reimburse Landlord for Tenant's Share thereof as provided for in this Article V. As used in this Article V, the term "Tenant's Share" shall mean a fraction, the numerator of which shall be the gross leaseable area of the square footage of Premises and the denominator of which shall be equal to the aggregate of the gross leaseable area of the square footage of all buildings on the tax parcel on which the Building is located. If Landlord is permitted to pay Impositions in installments, then, whether or not Landlord elects to pay the Impositions in installments, Tenant's Share of such Impositions shall be determined based upon the installments which would have been payable (including interest which would accrue thereon) had the installment method been elected. Landlord shall use commercially reasonable efforts to obtain and maintain in effect any available tax abatements, exemptions, refunds, rebates or credits that may reduce Impositions for the Premises, and the Impositions for any tax year shall mean such amounts as shall be finally determined to be the Impositions payable during such tax year less any abatements, exemptions, refunds, rebates or credits made thereof, plus any costs and expenses actually incurred by Landlord in achieving or effecting any abatements, exemptions, refunds, rebates or credits. The parties shall make appropriate adjustments to previous reimbursements from Tenant to Landlord on account of any abatements, refunds, rebates or credits immediately following the determination of the amount of such abatements, refunds, rebates or credits. Landlord covenants and agrees to pay all Impositions prior to the last date that the same may be paid without penalty or interest, or if a discount shall be available for early payment, prior to the last day that such discount is available. Without cost to Tenant, Landlord shall bear all costs, including without limitation, interest, penalties, late charges and lost discount amounts, that are incurred as a result of (i) Landlord's failure to timely pay any installment of Impositions, or (ii) keep any existing abatement, exemption, refund, rebate or credit of Impositions in effect.

ARTICLE VI

UTILITIES

Landlord agrees to provide water, gas, sewer, electricity, and telephone service connections to the Premises; but Tenant shall pay for all water, gas, heat, light, power, telephone, sewer, fire sprinkler, lawn sprinkler charges and other utilities and services used on or from the Premises, together with any taxes penalties surcharges or the like pertaining thereto and any maintenance charges for utilities and shall furnish all electric light bulbs and tubes Landlord shall in no event be liable for any interruption or failure of utility services on the Premises not caused by or attributable to the negligent acts or omissions of Landlord, its employees, agents, invitees or contractors. Prior to the Commencement Date, Tenant shall pay for all utilities or services at the Premises used by it or its agents, employees or contractors. Subject to the provisions of Section 8.7 and Tenant's responsibility for the payment of Tenant's Share of Common Area expenses, Landlord agrees to maintain all utilities and utility lines within the Common Area not maintained by public utilities, and the expenses relating to such maintenance shall be Common Area expenses.

ARTICLE VII

USE; COMPLIANCE WITH LAWS

Section 7.1 Permitted Use. Tenant shall use the Premises only for the Permitted Use (as defined in Article I(f) hereof). Tenant will not occupy or use the Premises, or permit any portion of the Premises to be occupied or used, for any business or purpose other than the Permitted Use without Landlord's prior written consent or for any use or purpose which is unlawful in part or in whole or deemed to be disreputable in any manner or extrahazardous on account of fire, nor permit anything to be done which will in any way increase the rate of fire insurance on the Building or contents; and in the event that, by reason of acts of Tenant, there shall be any increase in the rate of insurance on the Building or contents created by Tenant's acts or conduct of business then such acts of Tenant shall be deemed to be an event of default hereunder, unless Tenant hereby agrees to pay to Landlord the amount of such increase on demand and acceptance of such payment shall not constitute a waiver of any of Landlord's other rights provided herein. Tenant will conduct its business and control its agents, employees and invitees in such a manner as not to

create any nuisance, nor interfere with, annoy or disturb other tenants or Landlord in management of the project of which the Premises form a part. Landlord agrees to include a provision substantially similar to the preceding sentence within other tenant leases respecting the Building. Tenant will maintain the Premises in a clean, healthful and safe condition and will comply with all laws, ordinances, orders, rules and regulations (state, federal, municipal and other agencies or bodies having any jurisdiction thereof) as provided for in Section 7.3 below. Tenant will not, without the prior written consent of Landlord, paint, install lighting or decoration, or install any signs, window or door lettering or advertising media of any type on or about the Premises or any part thereof. Should Landlord agree in writing to any of the items in the preceding sentence, Tenant will maintain such permitted item in good condition and repair at all times. Outside storage, including but not limited to trucks or other vehicles, is also prohibited without Landlord's prior written consent.

Section 7.2 Hazardous Materials.

(a) As used in this Lease, the term "Hazardous Material" means any flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials, including any substances defined as or included in the definition of "hazardous substances", "hazardous wastes", "infectious wastes", "hazardous materials" or "toxic substances" now or subsequently regulated under any applicable federal, state or local laws or regulations including, without limitation, oil, petroleum-based products, paints, solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, PCBs and similar compounds, and including any different products and materials which are subsequently found to have adverse effects on the environment or the health and safety of persons.

(b) As used in this Lease, the term "Hazardous Materials Laws" shall mean all federal, state and local laws, ordinances and regulations relating to industrial hygiene, environmental protection or the use, analysis, generation, manufacture, storage, presence, disposal or transportation of any Hazardous Materials.

(c) Tenant shall not cause or permit any Hazardous Material to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Premises or the Property, by Tenant, its agents, employees, licensees, invitees, business associates, sublessees, assigns, contractors, subcontractors or others acting for or on behalf of Tenant (collectively, "Tenant Related Party") without the prior written consent of Landlord. Landlord shall be entitled to take into account such other factors or facts as Landlord may in its good faith business judgment determine to be relevant in determining whether to grant, condition or withhold consent to Tenant's proposed activity with respect to Hazardous Material. Landlord acknowledges that incidental to Tenant's business operations, Tenant plans to store carpet and adhesives which may contain Hazardous Materials, office supplies, cleaning materials and other similar substances of the type and quantities typically associated with the operation and maintenance of a warehouse operation (the "Permitted Substances"). Tenant may store and utilize the Permitted Substances as long as Tenant complies with all Hazardous Materials Laws and obtains all permits and approvals relating to the use, treatment and disposal thereof and (except for office supplies, cleaning materials and similar substances) so long as all such Permitted Substances remain, at all times, in their original container and are not used for any purposes in or about the Premises or the Property. Tenant shall indemnify, defend and hold Landlord and each of Landlord's partners, shareholders, officers, directors, employees, agents, attorneys, investment advisors, portfolio managers, trustees, ancillary trustees, and their affiliates, successors and assigns and their respective partners, shareholders, officers, directors and employees (collectively, "Indemnitees") free and harmless from any and all actions (including, without limitation, remedial or enforcement actions of any kind, administrative or judicial proceedings, and orders or judgments arising out of or resulting therefrom), costs, claims, damages (including, without limitation, punitive damages), expenses (including, without limitation, attorneys', consultants' and experts' fees, court costs and amounts paid in settlement of any claims or actions), fines, forfeitures or other civil, administrative or criminal penalties, injunctive or other relief (whether or not based upon personal injury, property damage, contamination of, or adverse effects upon, the environment, water tables or natural resources), liabilities or losses (economic or other) (collectively, the "Claims") arising from a breach of this prohibition by Tenant or any Tenant Related Party or arising from the use, storage, treatment or disposal of any Permitted Substances. In no event, however, shall Landlord be required to consent to the installation or use of any storage tanks in, on or under the Premises or the Property. If Landlord consents to the generation, production, use, storage, treatment or disposal of Hazardous Materials (including, but not limited to the Permitted Substances) in or about the Premises by Tenant or any Tenant Related Party, then, in addition to any other requirements or conditions that Landlord may impose in connection with such consent, (1) Tenant promptly shall deliver to Landlord copies of all permits, approvals, filings, reports and hazardous waste manifests reflecting the legal and proper generation, production, use, storage, treatment or disposal of all Hazardous Materials generated, used* stored, treated or removed from the Premises and the Property and, upon Landlord's request, copies of all hazardous waste manifests relating thereto, and (2) upon expiration or earlier termination of this Lease, Tenant shall cause all Hazardous Materials arising out of or related to the use or occupancy of the Premises and the Property by Tenant or any Tenant Related Party to be removed from the Premises and transported for use, storage or disposal in accordance with all applicable laws, regulations and ordinances, and Tenant shall provide Landlord with evidence reasonably satisfactory to Landlord of compliance with all applicable laws, regulations and ordinances.

(d) In the event that Hazardous Materials are discovered upon, in, or under the Premises, and the applicable governmental agency or entity having jurisdiction over the Premises requires the removal of such Hazardous Materials, Tenant shall be responsible for removing those Hazardous Materials arising out of or related to the use or occupancy of the Premises by Tenant or any Tenant Related Party. Landlord warrants and represents to Tenant that, to Landlord's actual knowledge, no Hazardous Materials are located on, in or under the Property that would interfere with Tenant's use or occupancy of the Premises or would cause Tenant any liability, cost or expense. Notwithstanding the foregoing, Tenant shall not take any remedial action in or about the Premises or the Property, nor enter into any settlement agreement, consent decree or other compromise with respect to any claims relating to any Hazardous Material in any way connected with the Premises or the Property without first notifying Landlord of Tenant's intention to do so and affording Landlord the opportunity to appear, intervene or otherwise appropriately assert and protect Landlord's interest with respect thereto. Tenant immediately shall notify Landlord in writing of: (1) any spill, release, discharge or disposal of any Hazardous Material in, on or under the Premises or the Property or any portion thereof, (2) any enforcement, cleanup, removal or other governmental or regulatory action instituted, contemplated or threatened pursuant to any Hazardous Materials Laws; (3) any claim made or threatened by any person against Tenant or the Premises or the Property relating to damage, contribution, cost recovery, compensation, loss or injury resulting from or claimed to result from any Hazardous Materials; and (4) any reports made to any environmental agency arising out of or in connection with any Hazardous Materials in, on or removed from the Premises or the Property, including any complaints, notices, warnings, reports or asserted violations in connection therewith. Tenant also shall supply to Landlord as promptly as possible, and in any event within five (5) business days after Tenant first receives or sends the same, copies of all claims, reports, complaints, notices, warnings or asserted violations relating in any way to the Premises, the Property or Tenant's use thereof.

(e) In the event (i) Hazardous Materials are discovered upon, in or under the Premises or the Property and (ii) Landlord has been given written notice of the discovery of such Hazardous Materials, then and in that event Landlord may voluntarily, but shall not be obligated to (unless the existence of such Hazardous Materials has resulted from the acts of Landlord), take all necessary action to bring the Premises and the Property into compliance with Hazardous Materials Laws at Landlord's sole cost ("Landlord's Remediation Activities"). Tenant agrees not to interfere unreasonably with Landlord's Remediation Activities, and should Landlord elect to pursue Landlord's Remediation Activities, Landlord

agrees to perform such activities so as not to interfere unreasonably with Tenant's occupancy and operations of the Premises.

(f) The respective rights and obligations of Landlord and Tenant under this Section 12 shall survive the expiration or earlier termination of this Lease.

Section 7.3 Compliance with Laws and Ordinances. Tenant shall, throughout the term of this Lease, and at Tenant's sole cost and expense, promptly comply or cause compliance with or remove or cure any violation of any and all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state, municipal and other governmental bodies having jurisdiction over the Premises and the appropriate departments, commissions, boards and officers thereof and the orders, rules and regulations of any other body now or hereafter constituted exercising lawful or valid authority over the Premises, or any portion thereof; or the sidewalks, curbs, roadways, alleys, entrances or railroad track facilities adjacent or appurtenant thereto, or exercising authority with respect to the use or manner of use of the Premises, or such adjacent or appurtenant facilities, and whether die compliance, curing or removal of any such violation and the costs and expenses necessitated thereby shall have been foreseen or unforeseen, ordinary or extraordinary, and whether or not the same shall be presently within the contemplation of Landlord or Tenant or shall involve any change of governmental policy, or require structural or extraordinary repairs, alterations or additions by Tenant and irrespective of the costs thereof. Landlord represents to Tenant that as of the date of this Lease, Landlord has received no notice of the Property or any portion thereof failing to comply with any applicable laws, ordinances, orders, rules, regulations or requirements of any federal, state, municipal and other governmental bodies having jurisdiction over the Premises (collectively, "Governmental Requirements"). Notwithstanding anything herein to the contrary, Tenant shall have no obligation to comply with or pay or contribute to the cost of any compliance with (i) any future Governmental Requirements that would require any alterations to the structure or foundation of the Building and which apply generally to all occupants of buildings and are not specifically occasioned by Tenant's Permitted Use (as opposed to the general use of the Premises by any lessee); provided, however, that, if any alteration to the Building is required to comply with Tenant's particular use of the Premises, then Tenant shall be responsible for such compliance and (ii) any Governmental Requirements in effect and as interpreted as of the Commencement Date regarding the Leasehold Improvements; the Premises, the Building and the Common Areas (specifically excluding, however, ongoing routine maintenance thereof which is otherwise addressed in this Lease; any work done by Tenant or on Tenant's behalf other than by Landlord; and die day to day operation of Tenant's business within the Premises). As to any law, regulation or ordinance the compliance of which is Tenant's responsibility under this Section 7.3, Tenant shall have the right to contest the application or enforcement thereof so long as such contest is conducted in good faith and at no cost or expense to Landlord and would not result in any liability to Landlord.

Section 7.4 Compliance with Permitted Encumbrances. Tenant, at its sole cost and expense, shall comply with all agreements, contracts, easements, restrictions, reservations or covenants, if any, set forth in Exhibit "B" attached, or hereafter created by Tenant or consented to, in writing, by Tenant or requested, in writing, by Tenant. Tenant shall also comply with, observe and perform all provisions and requirements of all policies of insurance at any time hi force with respect to the Premises and required to be obtained and maintained under the terms of Article XV hereof.

ARTICLE VIII

REPAIRS AND MAINTENANCE

Section 8.1 By Landlord. Landlord shall at its expense maintain (except in the event of casualty or other damage contemplated in Article XVI hereof, in which event the terms of that Article will control) only the root foundation and the structural soundness of the exterior walls of the Building (excluding all windows, window glass, plate glass, and all doors) in good repair and condition, except for reasonable wear and tear. Tenant shall give prompt written notice to Landlord of the need for repairs or corrections and Landlord shall proceed within a reasonable time after receiving such notice to make such repairs or corrections. Except as otherwise expressly provided in Article XXXI hereof, Landlord's liability hereunder shall be limited to the cost of such repairs or corrections. Tenant shall repair and pay for any damage caused by the negligence or default hereunder of or by Tenant, its employees, agents or invitees; the cost of any such damage which is paid by Landlord shall be deemed Additional Rent which is immediately due and owing from Tenant within ten (10) days after written demand therefor by Landlord.

Section 8.2 By Tenant. Tenant shall at its own cost and expense keep and maintain all parts of the Premises (except those for which Landlord is expressly responsible under the terms of this Lease) in good condition, reasonable wear and tear excepted, promptly making all necessary repairs and replacements, including but not limited to, windows, glass and plate glass, doors, and special office entries, interior walls and finish work, floors and floor coverings (other than normal wear and tear), downspouts, gutters, heating, air conditioning and ventilation systems, dock boards, truck doors, dock bumpers, plumbing work and fixtures, pest extermination, regular removal of trash and debris, keeping the whole of the Premises in a clean and sanitary condition. Tenant shall not be obligated to repair any damage caused by fire, tornado or other casualty covered by the insurance to be maintained by Landlord pursuant to the provision* of this Lease, except that Tenant shall be obligated to repair all wind damage to glass not coveted by the insurance Landlord is required to maintain hereunder (or actually covered by any of Landlord's insurance) except with respect to tornado or hurricane damage and with respect to any damage required to be covered by Landlord's insurance, as provided for in Article XV below, or is actually covered by insurance carried by Landlord.

Section 8.3 Prohibition Against Waste. Tenant shall not do or suffer any waste or damage, disfigurement or injury to the Premises, or any improvements hereafter erected thereon, or to the fixtures or equipment therein, or permit or suffer any overloading of the floors or other use of the Building or the Premises that would place an undue stress on the same or any portion thereof beyond that for which the same was designed.

Section 8.4 Landlord's Right to Effect Repairs. If Tenant should fail to perform any of its obligations under this Article VIII, then Landlord may, if it so elects, in addition to any other remedies provided herein, effect such repairs and maintenance. Any sums expended by Landlord in effecting such repairs and maintenance shall be due and payable, on demand, together with interest thereon at the Maximum Rate from the date of each such expenditure by Landlord to the date of repayment by Tenant prior to effecting such repairs on behalf of Tenant, Landlord shall provide Tenant with the opportunity to cure provided for in subparagraph (b) of Article XX (except, however, in case of emergencies or in order to mitigate Landlord's damages, in which case, such notice as is reasonable shall be given). **Section 8.5 Misuse or Neglect.** Tenant shall be responsible for all repairs to the Building which are made necessary by any misuse or neglect by: (i) Tenant or any of its officers, agents, employees, contractors, licensees, or subtenants; or (ii) any visitors, patrons, guests, or invitees of Tenant or its subtenant while in or upon the Premises. Landlord shall be responsible for all repairs to the Building arising after the Commencement Date caused by the negligence or default hereunder of or by Landlord or any of its employees or agents.

Section 8.6 Maintenance/Service Contracts. Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a reputable maintenance contractor for servicing all heating, ventilation and air conditioning systems within or serving the Premises. Tlic service contract must include all services suggested by the equipment manufacturer within the operation/maintenance

manual and must become effective (and a copy thereof delivered to Landlord) within thirty (30) days of the date Tenant takes possession of the Premises.

Section 8.7 Common Area.

(a) Landlord hereby grants to Tenant for the term of this Lease (including all extensions and renewals thereof) the non-exclusive easement and right to use the Common Areas in common with Landlord and the other tenants of the Property for parking, ingress and egress, loading and unloading and other Common Area purposes. Landlord shall be responsible for the operation, maintenance and management of the Common Area and the facilities located therein, the manner of maintenance and the expenditures therefor to be in the discretion of Landlord, but shall in all events keep the Common Areas in good condition and repair so as not to materially interfere with Tenant's use and occupancy of the Premises for its Permitted Use. In this regard, Landlord shall perform or have performed the paving (including striping and bumpers), landscape maintenance, landscape replacement, exterior painting, maintenance of exterior lighting fixtures, maintenance of tenant directories and the maintenance of the irrigation systems and common sewerage line plumbing.

(b) Tenant shall be liable to Landlord for Tenant's Share of all the costs and expenses relating to the maintenance and operation of the Common Area, including but not limited to, the cost for mowing of grass; care of shrubs; landscape replacement; general landscaping; maintenance of parking areas, parking lot improvements, driveways and alleys; exterior repainting, maintenance of the exterior lighting fixtures; maintenance of tenant directories; the maintenance of the irrigation systems and common sewerage line plumbing; the cost of insurance and a management fee (the "Management Fee") equal to one and one-half percent (1.5%) of the Basic Rental under this Lease. Additionally included within the costs and expenses relating to the operation and maintenance of the Common Area are any costs incurred in complying with or removing or curing any violation of all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state, municipal and other governmental bodies having jurisdiction over the Property or any portion thereof. Following calendar year 2003, Tenant's Share of "controllable Common Area expenses" shall not be increased by more than five percent (5%) over Tenant's Share of "controllable Common Area expenses" for the previous calendar year. For the purposes hereof, the term "controllable Common Area expenses" shall be limited to those expenses relating to the Common Area which are within the direct control and discretion of Landlord, but shall not include, without limitation, utility charges, insurance premiums, Impositions, the cost of effecting compliance with any applicable laws and the Management Fee. If Tenant is identified as being responsible for any damage to the Common Area or any facilities located therein (including, without limitation obstructions or stoppage of the common sanitary sewerage line), then Tenant shall pay the entire cost of repairing same upon demand by Landlord. Tenant's Share of all Common Area costs and expenses shall be payable by Tenant to Landlord within ten (10) days after a statement of actual expenses is presented to Tenant, and shall be subject to periodic estimated payments as provided in Section 4.2 hereof.

Common Area costs and expenses to be shared by Tenant shall not include (i) expenses incurred in leasing space, such as legal expense, brokerage commissions or advertising or promotional expenses, (ii) interest and amortization under mortgages or any other secured or unsecured loan payable by Landlord, (iii) expenses separately reimbursed by any other tenants of the Property other than pursuant to the proportionate Common Area costs and expenses provisions in their respective leases, (iv) financing and refinancing costs, including fees paid by Landlord to obtain financing or refinancing such as origination fees and brokerage commissions, (v) non-cash depreciation, (vi) costs incurred in connection with the enforcement of leases, including attorneys' fees or other costs and expenses incurred in connection with summary proceedings to dispossess any other tenant, (vii) costs for repaving and restriping of the entirety of the parking area to the extent such costs exceed the reasonable costs for such paving and striping, but Common Area costs and expenses may include repaving and restriping performed not more often than once every ten (10) years for paving and more often than once every four (4) years for striping, and shall also include any patching or repairs of paved areas, (viii) any expenses associated with any special requirements of a particular tenant in connection with the Common Areas or the maintenance thereof, (ix) any insurance premium increase caused by the use of its premises by Landlord or any tenant other than Tenant or any such increase in premium attributable to vacant space and (x) costs incurred by Landlord to modify and/or expand the Common Area in connection with the construction of the Adjacent Building.

(c) Landlord or such other person as Landlord may appoint shall have the exclusive control and management of the Common Area and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Tenant agrees to abide by and conform to all such rules and regulations and to cause its employees, suppliers, shippers, customers and invitees to so abide and conform. Landlord shall not be responsible to Tenant for the non-compliance with said rules and regulations by any other tenants within the Building. Notwithstanding anything herein to the contrary, no rule or regulation not contained herein or attached as an exhibit hereto shall be binding upon Tenant unless same is reasonable in nature, does not unreasonably interfere with Tenant's use of the Premises for the Permitted Use, is applicable to all other tenants and occupants of the Property and is administered by Landlord in a reasonable manner for the beneficial operation of the Property by all tenants thereof.

(d) Under no circumstances shall the Tenant have the right to store any property, temporarily or permanently, within the Common Area. Any such storage shall be permitted only with the prior written consent by Landlord or Landlord's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Landlord shall have the right, with the notice provided for in subparagraph (b) of Article XX (or earlier in the case of emergencies or to mitigate Landlord's damages), in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable within ten (10) days after invoice therefor by Landlord. Landlord acknowledges that trucks will be loading and unloading Tenant's inventories in the loading areas adjacent to the Premises and that same may be parked only on that portion of the Common Areas along the west side of the Building designated "Trailer Parking Area" on Exhibit "A-I".

(e) Landlord shall have the right, at Landlord's sole discretion and from time to time to (i) make changes to the Common Area, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (ii) close temporarily any portion of the Common Area for maintenance purposes so long as reasonable access to the Premises remains available; (iii) designate other land outside the boundaries of the Property to be a part of the Common Area; (iv) add additional buildings and improvements to the Common Area; (v) use the Common Area while engaged in making additional improvements or alterations to the Building, the Property, or any portions thereof; and (vi) do and perform such other acts and make such other changes in, to or with respect to the Common Area and the Property as Landlord may, in its discretion, deem to be appropriate, as long as none of the foregoing materially and unreasonably interferes with Tenant's use of the Premises or Common Areas as to parking, access or loading, unloading or shipping articles contained in the Premises. Additionally, no material change to the Common Areas shall be made that would materially affect Tenant without Tenant's prior written consent, such consent not to be unreasonably withheld or delayed and which consent shall be deemed granted unless expressly denied in writing within thirty (30) days following Landlord's request therefor.

ARTICLE IX

ALTERATIONS AND IMPROVEMENTS

At the expiration or earlier termination of this Lease, Tenant shall deliver up the Premises with all improvements located thereon (including all mechanical, plumbing and HVAC systems) in good repair and condition, reasonable wear and tear excepted and also excepting any casualty to the extent Landlord is adequately and sufficiently compensated therefor by means of available insurance proceeds, and shall deliver to Landlord all keys to the Premises. Tenant shall also remove all trash and debris from the Premises and leave same in a "broom clean" condition. The cost and expense repairs necessary to restore the condition of the Premises to the condition in which they are to be delivered to Landlord according to the immediately preceding sentence shall be borne by Tenant. Tenant will not make or allow to be made any alterations or physical additions in or to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld as to interior, cosmetic, non-structural alterations. All alterations, additions or improvements (whether temporary or permanent in character) made in or upon the Premises, either by Landlord or Tenant, shall be Landlord's property on expiration or earlier termination of this Lease and shall remain on the Premises without compensation to Tenant. All furniture, movable trade fixtures and equipment installed by Tenant may be removed by Tenant at the expiration or earlier termination of this Lease if Tenant so elects, and shall be so removed if required by Landlord, or if not so removed shall, at the option of Landlord, become the property of Landlord. All such installations, removals and restoration shall be accomplished in a good, workmanlike manner so as not to damage the Premises or the primary structure or structural qualities of the Building, the other improvements or the plumbing, electrical lines or other utilities.

ARTICLE X

INDEPENDENT OBLIGATIONS

All Basic Rental and Additional Rent shall be paid by Tenant to Landlord without abatement, deduction, diminution, deferment, suspension, reduction or setoff, except as otherwise explicitly provided for herein, and the obligations of Tenant shall not be affected by reason of damage to or destruction of the Premises from whatever cause; nor shall the obligations of Tenant be affected by reason of any condemnation, eminent domain or like takings (except as provided in Articles XVI and XVII hereof). It is the further express intent of Landlord and Tenant that (a) the obligations of Landlord and Tenant hereunder shall be separate and independent covenants and agreements and that the Basic Rental and Additional Rent, and all other charges and sums payable by Tenant hereunder, shall commence at the times provided herein and shall continue to be payable in all events unless the obligations to pay the same shall be terminated or modified pursuant to an express provision in this Lease; (b) all Impositions, insurance premiums, utility expense, repair and maintenance expense (except as expressly stated to be otherwise herein), and all other costs, fees, interest, charges, expenses, reimbursements and obligations of every kind and nature whatsoever relating to the Premises, or any portion thereof, which Tenant has agreed to pay pursuant to this Lease during the term of this Lease, or any extension or renewal thereof; shall be paid or discharged by Tenant as Additional Rent

ARTICLE XI

ASSIGNMENT AND SUBLETTING

Tenant shall not assign this Lease, or allow it to be assigned, in whole or in part, by operation of law or otherwise or mortgage or pledge the same, or sublet the Premises, or any part thereof; without the prior written consent of Landlord and in no event shall any such assignment or sublease ever release Tenant from any obligation or liability hereunder. No assignee or sublessee of the Premises or any portion thereof may assign or sublet the Premises or any portion thereof.

If the Tenant desires to assign or sublet all or any part of the Premises, it shall so notify Landlord at least thirty (30) days in advance of the date on which Tenant desires to make such assignment or sublease. Tenant shall provide Landlord with a copy of the proposed assignment or sublease, and such information as Landlord might request concerning the proposed assignee or subtenants) to allow Landlord to make informed judgments as to the financial condition, reputation, operations and general desirability of the proposed assignee or subtenants). Landlord shall request said information no later than fifteen (15) days after it has received Tenant's proposed assignment or sublease. Within fifteen (15) days after Landlord's actual receipt of Tenant's proposed assignment or sublease, and all required information concerning the proposed assignee or subtenants), Landlord shall have the option to:

- (a) Consent to the proposed assignment or sublease; or
- (b) Withhold (but not unreasonably) its consent to the proposed assignment or sublease, but allow Tenant to continue in the search for an assignee or sublessee that may be acceptable to Landlord.

Notwithstanding any permitted assignment or subletting, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of the Rent herein specified and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Upon the occurrence of an "event of default" as hereinafter defined, if the Premises or any part thereof are then assigned or sublet, Landlord, in addition to any other remedies herein provided, or provided by law, may at its option collect directly from such assignee or subtenant all rents becoming due to Tenant under such assignment or sublease and apply such rents against any sums due to Landlord from Tenant hereunder, and no such collection shall be construed to constitute a novation or a release of Tenant from the further performance of Tenant's obligations hereunder. In the event of the transfer and assignment by Landlord of its interest in this Lease and the Premises, and the assumption of Landlord's future obligations hereunder by the transferee, Landlord shall thereby be released from any further obligations hereunder, and Tenant agrees to look solely to such successor in interest of the Landlord for performance of such obligations occurring after the date of such transfer.

If Landlord consents to Tenant assigning its interest under this Lease or subletting all or any portion of the Premises, Tenant shall pay to Landlord (in addition to the Basic Rental and all other amounts payable by Tenant under this Lease) fifty percent (50%) of all "Net Profit" (as hereinafter defined) within ten (10) days following receipt thereof by Tenant. For the purpose hereof, the term "Net Profit" shall mean the total consideration received by Tenant from an assignee or sublessee (including any bonus payments and payments for operating expenses) incidental to an assignment or sublease less the actual costs incurred by Tenant in performing alterations or leasehold improvement for the assignee or sublessee, Tenant's legal fees and all leasing commissions paid by Tenant incidental to such assignment or sublease. In no event will the Basic Rental be reduced as a result of the sum of all assignment and sublease rents and consideration being less than the Basic Rental. Said additional amount shall be paid to Landlord immediately upon receipt by Tenant of such rent or other considerations from the assignee or subtenant.

Notwithstanding anything in this Lease to the contrary, no consents from Landlord shall be required with respect to an assignment of this Lease or a sublease of all or any portion of the Premises to any party that controls, is controlled by or is under common control with Tenant or any guarantor of this Lease or an assignment of this Lease incidental to the sale of all or substantially all of Aladdin Manufacturing Corporation's assets in the

State of Texas; provided, however, that any assignee assumes the obligations of Tenant relating to this Lease. Tenant shall promptly provide Landlord with written notice of such assignment or subletting.

ARTICLE XII

LIABILITY

Landlord shall not be liable to Tenant or Tenant's employees, agents, patrons or visitors, or to any other person whomsoever, for any injury to person or damage to property on or about the Premises, resulting from, and/or caused in part or whole by the negligence or misconduct of Tenant, its agents, servants or employees, or of any other person entering upon the Premises, or caused by the Building or other improvements becoming out of repair, or caused by leakage of gas, oil, water or steam or by electricity emanating from the Premises, or due to any cause whatsoever, except injury to persons or damage to property the sole cause of which is the negligence or willful misconduct of Landlord, and Tenant hereby covenants and agrees that it will at all times indemnify and hold safe and harmless the Premises, the Landlord, Landlord's agents and employees from any loss, liability, claims, suits, costs, expenses, including without limitation attorney's fees and damages, both real and alleged, arising out of any such damage or injury or out of breach or default by Tenant hereunder. The provisions of this paragraph shall survive the expiration or earlier termination of this Lease. Landlord agrees to indemnify and hold Tenant harmless from and against any and all liabilities, costs, expenses, claims, damages or causes of action for damages (including without limitation reasonable attorneys' fees and other costs of legal representation) arising from or attributable to Landlord's gross negligence or willful misconduct or Landlord's breach or default of its obligations under this Lease following the expiration of the applicable period for the cure thereof.

ARTICLE XIII

MORTGAGES

Tenant accepts this Lease subject to any deeds of trust, security interests or mortgages which might now or hereafter constitute a lien upon the Premises and to deed restrictions, zoning ordinances and other building and fire ordinances and governmental regulations relating to the use of the Premises. Tenant shall at any time hereafter, on demand, execute any instruments, releases or other documents that may be reasonably required by any mortgagee for the purpose of subjecting and subordinating this Lease to the lien of any such deed of trust, security interest or mortgage. Tenant agrees to attorn to any mortgagee, trustee under a deed of trust or purchaser at a foreclosure sale or trustee's sale as Landlord under this Lease. With respect to any deed of trust, security interest or mortgage hereafter constituting a lien on the Premises, Landlord, at its sole option, shall have the right to waive the applicability of this paragraph so that this lease will not be subject and subordinate to any such deed of trust, security interest or mortgage. Tenant shall upon request by Landlord, execute and deliver from time to time, one or more instruments certifying that this Lease is in full force and unmodified (or if modified stating the date and nature of each modification), the date through which the Basic Rental has been paid, the unexpired term of this Lease, and such other matters pertaining to this Lease as may be requested by Landlord. Notwithstanding the foregoing, this Lease shall not be subordinate to mortgages or deeds or trust hereafter arising unless and until Landlord has provided Tenant with an agreement (herein, "Non-Disturbance Agreement") from the holder of such lien confirming that so long as Tenant is not in default in the performance of any covenants, conditions, terms or provisions of this Lease, Tenant's right of occupancy under this Lease shall not be disturbed. Landlord shall provide Tenant with a Non-Disturbance Agreement for any mortgage now affecting the Premises prior to the Commencement Date.

ARTICLE XIV

INSPECTION

Landlord and Landlord's agents and representatives shall have the right to enter upon and inspect the Premises at any reasonable time during business hours, for the purpose of ascertaining the condition of the Premises or in order to make such repairs as may be required or permitted to be made by Landlord, and Landlord's agents and representatives shall have the right to enter upon the Premises at any reasonable time during business hours for the purpose of showing the Premises and shall have the right to erect on the Premises a suitable sign indicating the Premises are available for lease or for sale.

ARTICLE XV

INSURANCE; WAIVER OF SUBROGATION

Landlord agrees to maintain an "all risk" insurance policy covering the Building in an amount equal to the "replacement cost" thereof, insuring against the perils of fire, lightning, vandalism, malicious mischief and loss of rent and all other risks of direct physical loss. Subject to the provisions of this Lease, such insurance for the Building shall be for the sole benefit of Landlord and under its sole control. Tenant agrees to pay to Landlord, as Additional Rent, Tenant's Share of Landlord's cost of maintaining such insurance, together with such other insurance as Landlord deems reasonable and prudent. Said payments shall be made to Landlord immediately upon presentation to Tenant of Landlord's statement setting forth the amount due, which statement shall be accompanied by a copy of the premium notice received by Landlord. In the event any such amount is not paid within twenty (20) days after the presentation to Tenant of the amount so due, the unpaid amount shall bear interest at the Maximum Rate from the date of such presentation until paid by Tenant. Any payment to be made pursuant to this paragraph with respect to the year in which this Lease commences, expires or otherwise terminates shall bear the same ratio to the payment which would be required to be made for the full year as the part of such year covered by the term of this Lease bears to a full year.

Tenant shall procure and maintain throughout the term of this Lease a policy or policies of general commercial liability insurance, at its sole cost and expense, naming as additional insureds Landlord, and Landlord's managing agent and Tenant against all claims, demands or actions arising out of or in connection with: (i) the Premises; (ii) the condition of the Premises; (iii) Tenant's operations in and maintenance and use of the Premises; and (iv) Tenant's liability assumed under this Lease, the limits of such policy or policies to be in the amount of not less than \$2,000,000.00 combined single limited/aggregate coverage. All such policies shall be procured by Tenant from responsible insurance companies satisfactory to Landlord, and any such coverage shall be deemed primary and non-contributory to any liability coverage secured by Landlord. Certificates evidencing such coverage, together with receipts evidencing payment of premiums therefor, shall be delivered to Landlord prior to the Commencement Date of this Lease. Not less than fifteen (15) days prior to the expiration date of such coverage, certificates evidencing the renewal thereof shall be delivered to Landlord. Such certificates shall further provide that not less than thirty (30) days written notice shall be given to Landlord before such coverage may be canceled or changed.

Anything in this Lease to the contrary notwithstanding, the parties hereto waive any and all rights of recovery claim, action or cause of action

against each other, their agents, partners, officers, and employees, for any loss or damage that may occur to the Premises hereby demised, or any improvements thereto, or the Building, or any improvements thereto, by reason of fire, the elements, or any other cause which could be insured against under the terms of "all-risk" insurance policies, regardless of cause or origin, including negligence of the parties hereto, their agents, partners, officers, and employees. Each party shall cause any policy of insurance carried by it to include a waiver of subrogation in favor of the other party affecting the waiver of claims set forth in the immediately preceding sentence.

ARTICLE XVI

DESTRUCTION AND RESTORATION

If the Building should be damaged or destroyed by fire, tornado or other casualty, Tenant shall give prompt written notice thereof to Landlord.

If the Building should be totally destroyed by fire, tornado or other casualty, or if it should be so damaged thereby that rebuilding or repairs cannot in Landlord's estimation be completed within one hundred eighty (180) days after the date upon which Landlord is notified by Tenant of such damage, this Lease shall terminate and the Rent shall be abated during the unexpired portion of this Lease, effective upon the date of occurrence of such damage. Landlord shall notify Tenant in writing within forty-five (45) days after such damage or destruction, whether Landlord shall rebuild the Building within one hundred eighty (180) days. If Landlord does not so notify Tenant, Tenant shall be at liberty to terminate this Lease by written notice to Landlord given after said forty-five (45) day period but prior to the date that Landlord has notified Tenant that it shall rebuild the Premises. If the Building should be damaged by any peril covered by the insurance to be provided by Landlord pursuant to the provisions of this paragraph, but only to such extent that rebuilding or repairs can in Landlord's estimation be completed within one hundred eighty (180) days after the date upon which Landlord is notified by Tenant of such damage, this Lease shall not terminate, and Landlord shall at its sole cost and expense thereupon proceed with reasonable diligence to rebuild and repair the Building to substantially the condition in which it existed prior to such damage, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, additions and other improvements (other than the Leasehold Improvements described in Section 3.2 hereof) which may have been placed in, on or about the Premises by Tenant and except that Tenant shall pay to Landlord, upon demand, Tenant's Share of any applicable deductible amount specified under Landlord's insurance (which, during the primary term of this Lease only, shall be limited to a maximum of \$10,000.00 for Tenant's Share). The Rent payable hereunder, shall abate by reason of damage or destruction to the extent that the Premises are rendered unusable by Tenant by a peril for which the Landlord is required to insure pursuant to the terms of this Lease. In the event that Landlord should fail to commence such repairs and rebuilding with ninety (90) days or to complete such repairs and rebuilding within one hundred eighty (180) days after the date upon which Landlord is notified by Tenant of such damage, Tenant may at its option terminate this Lease by delivering written notice of termination to Landlord as Tenant's exclusive remedy, whereupon all rights and obligations hereunder (other than those which survive the termination of this Lease) shall cease and terminate.

Notwithstanding anything herein to the contrary, in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Building or the Premises requires that the insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made by any such holder, whereupon all rights and obligations hereunder (other than those which survive the termination of this Lease) shall cease and terminate, subject, however, to in terms of the Non-Disturbance Agreement.

ARTICLE XVII

CONDEMNATION

If the whole or any substantial part of the Premises should be taken for any public or quasi-public use under governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof and the taking would prevent or materially interfere with the use of the Premises for the purposes contemplated by the Permitted Use, this Lease shall terminate and the Basic Rental shall be abated during the unexpired portion of this Lease, effective when the physical taking of said Premises shall occur. If part of the Premises shall be taken for any public or quasi-public use under any governmental law, ordinance or by right of eminent domain, or by private purchase in lieu thereof; and this Lease is not terminated as provided in this paragraph, this Lease shall not terminate but the Basic Rental payable hereunder during the unexpired portion of this Lease shall be reduced to such extent as may be fair and reasonable under all of the circumstances.

In the event of any such taking or private purchase in lieu thereof, Landlord shall be entitled to receive the entire price or award from any such taking or private purchase in lieu thereof without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award. Landlord shall have full power and authority to negotiate with any public authority and to direct and control any legal proceedings involving or related to any such taking or private purchase in lieu thereof. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for loss of business or good will or for the taking of Tenant's trade fixtures, if a separate award for such items is made to Tenant.

ARTICLE XVIII

HOLDING OVER

Should Tenant, or any of its successors in interest, hold over the Premises, or any part thereof; after the expiration of the Lease Term, unless otherwise agreed in writing, such holding over shall constitute and be construed as tenancy from month to month only, at a Basic Rental equal to the Basic Rental payable for the last month of the term of this Lease plus fifty percent (50%) of such amount. The holding over by Tenant, or any of its successors, for any part of a month shall entitle Landlord to collect the Rent called for under this paragraph for the entirety of such month. The provisions of this paragraph shall not be construed as Landlord's consent for the Tenant to hold over.

ARTICLE XIX

TAXES ON TENANTS PROPERTY

Tenant shall be liable for all taxes levied or assessed against personal property, furniture or fixtures placed by Tenant in the Premises. If any such taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and if Landlord elects to pay the same or if the assessed value of Landlord's property is increased by inclusion of personal property, furniture or fixtures placed by Tenant in the Premises, and Landlord elects to pay the taxes based on such increase, Tenant shall pay to Landlord upon demand that part of such taxes for which Tenant is

primarily liable hereunder.

ARTICLE XX

EVENTS OF DEFAULT

The following events shall be deemed to be events of default by Tenant under this Lease:

(a) Tenant shall fail to pay any of the Basic Rental, Additional Rent or any other sums due by Tenant to Landlord under this Lease, and such failure shall continue for a period often (10) days after written notice thereof to Tenant; provided, however, that if Landlord has given Tenant two (2) or more such notices in any twelve (12) month period, no further notice need be given for the 12-month period following the second notice, and Tenant shall be in default under flu's Lease if Tenant fails to make any such payments within ten (10) days after same is due.

(b) Tenant shall fail to comply with any term, provision or covenant of this Lease, other man the payment of Rent, and shall not cure such failure within thirty (30) days after written notice thereof to Tenant (or such longer time as may be reasonable if Tenant commences the cure of such default or breach within said thirty (30) day period diligently pursues the cure thereafter).

(c) Tenant shall make an assignment for the benefit of creditors.

(d) Tenant shall file a petition under any section or chapter of the United States Bankruptcy

Code, as amended, or under any similar law or statute of the United States or any State thereof; or Tenant shall be adjudged bankrupt or insolvent in proceedings filed against Tenant thereunder and such adjudication shall not be vacated or set aside within sixty (60) days.

(e) A receiver or trustee shall be appointed for all or substantially all of the assets of Tenant and such receivership shall not be terminated or stayed within sixty (60) days.

(f) Tenant shall desert or vacate any substantial portion of the Premises for a period often (10) or more days; provided, however, vacation of the Premises shall not constitute an event of default hereunder if, and so long as, (i) Tenant provides Landlord at least sixty (60) days prior written notice of Tenants intent to vacate, (ii) Tenant pays any additional insurance premiums which may result from such vacation, (iii) Tenant takes such action as Landlord may reasonably request to protect the Premises and Building from vandalism and trespass, and (iv) Tenant otherwise continues to observe and perform all Tenant's obligations and covenants contained in this Lease.

(g) If Tenant or a party mat controls, is controlled by or is under common control with Tenant or any guarantor of this Lease is in possession of all or any portion of the premises described in mat certain Industrial Lease Agreement (the "Other Lease") between Landlord and Tenant respecting certain premises lying within the Building and adjacent to the Premises and is in default under the terms of the Other Lease beyond any applicable notice and/or cure period.

ARTICLE XXI

LANDLORD'S REMEDIES

Upon the occurrence of any event of default specified in Article XX hereof; Landlord shall have the option to pursue any one or more of the following remedies without any further notice or demand whatsoever:

(a) Terminate this Lease, in which event Tenant shall immediately surrender me Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in Rent, enter upon and take possession and expel or remove Tenant and any other person who may be occupying said Premises or any part thereof, without being liable for prosecution or any claim for damages thereof; and Tenant agrees to pay to Landlord on demand the amount of all loss and damage which Landlord may suffer by reason of such termination, whether through inability to relet the Premises on satisfactory terms or otherwise, including the loss of Rent for the remainder of the Lease Term.

(b) Enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim for damages therefor, and if Landlord so elects, relet the Premises on such terms as Landlord shall deem advisable and receive the Basic Rental thereof; and Tenant agrees to pay to Landlord on demand any deficiency that may arise by reason of such reletting for the remainder of the Lease Term. The deficiency to be paid by Tenant to Landlord shall be the equivalent of the amount of the Basic Rental and Additional Rent which would be payable under this Lease by Tenant, less the net proceeds of any reletting effected pursuant to this subsection (b) after deducting all of Landlord's reasonable expenses in connection with such reletting, including, without limitation, all repossession costs, brokerage commissions, legal expenses, attorneys' fees, alteration costs and expenses of preparation of the Premises or any portion thereof, for such reletting. Landlord need not give Tenant any written notice whatsoever, other than that which is required by Article XX above, of Landlord's intent to take possession of the Premises and expel or remove Tenant.

(c) Enter upon die Premises, without being liable for prosecution or any claim for damages therefor, 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 thus 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.

(d) At any time after an event of default, whether or not Landlord shall have collected any monthly deficiency as set forth in subsection (b) above, Landlord shall be entitled to recover from Tenant, and Tenant shall pay to Landlord, on demand, as and for final damages for Tenant's default, an amount equal to the difference between the then present worth of the aggregate of the Basic Rental and Additional Rent and any other charges to be paid by Tenant hereunder for the unexpired portion of the Lease Term (assuming this Lease had not been terminated), and the men present worth of the then aggregate reasonable fair market rent of the Premises for the same period. In computation of present worth, a discount at the rate of 6% per annum shall be employed.

No re-entry or taking possession of the Premises by Landlord shall be construed as an election on its part to terminate this Lease, unless a written notice of such intention be given to Tenant Notwithstanding any such reletting or re-entry or taking possession, Landlord may at any time thereafter elect to terminate this Lease for a previous default Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any other remedies provided by law, nor shall pursuit of any remedy herein provided constitute & forfeiture or waiver of

any Rent due to Landlord hereunder or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants herein contained. Landlord's acceptance of Rent following an event of default hereunder shall not be construed as Landlord's waiver of such event of default. No waiver by Landlord of any violation or breach of any of the terms, provisions, and covenants herein contained shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions, and covenants herein contained. 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 any other violation or default. The loss or damage that Landlord may suffer by reason of termination of this Lease or the deficiency from any reletting as provided for above shall include the expense of repossession and any repairs or remodeling undertaken by Landlord following possession. Should Landlord at any time terminate this Lease for any default, in addition to any other remedy Landlord may have, Landlord may recover from Tenant all damages Landlord may incur by reason of such default, including the cost of recovering the Premises and the loss of Rent for the remainder of the Lease Term. In case of Tenant's dispossession from the Premises, Landlord shall use commercially reasonable efforts to relet the Premises and to mitigate damages.

ARTICLE XXII

SURRENDER OF PREMISES

No act or thing done by the Landlord or its agents during the term hereby granted shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless the same be made in writing and subscribed by the Landlord.

ARTICLE XXIII

ATTORNEYS' FEES

If on account of any breach or default by either party of its respective obligations under this Lease it should be necessary or appropriate for the non-defaulting party to bring any action under this Lease or to enforce or defend any of the non-defaulting party's rights hereunder, then the defaulting party agrees in each and any such case to pay to the non-defaulting party a reasonable attorneys' fee.

ARTICLE XXIV

RESERVED PARKING

Landlord shall reserve for the exclusive use of Tenant and its employees, agents and contractors (i) one hundred twenty-three (123) surface parking spaces in the areas depicted as the "Reserved Parking Area" on Exhibit "A-I", and (ii) twenty (20) trailer parking spaces in the area depicted as the "Trailer Parking Area" on Exhibit "A-I". Landlord shall not be liable to Tenant for the failure of any of other tenants of the Building, or such tenant's invitees, employees, agents or customers or other third parties to comply with the designation of Reserved Parking Area and the Trailer Parking Area, but shall upon request by Tenant use diligent, good faith efforts to cause such tenants, invitees, employees, agents, customers or other third parties to comply with same. It is understood that Landlord and its agents and employees shall not be liable for loss or damage to any vehicle parked by Tenant or under Tenant's rights herein and/or to the contents thereof, and Tenant waives any claim against Landlord for and in respect thereto, unless such loss or damage is caused by the acts or omissions of Landlord or Landlord's agents, contractors, invitees or employees.

Landlord shall have the right to close any portion of the parking facilities at the Property and deny access thereto in connection with any repairs as may reasonably be required, without liability, cost or abatement. Except in the case of emergency repairs (or repairs which Landlord reasonably perceives to be an emergency), Landlord shall perform any scheduled repairs or replacements of the parking facilities in such a manner and at such dates and times so as to minimize any interference with Tenant's business operations in the Premises, and shall give Tenant not less than ten days prior written notice thereof.

ARTICLE XXV

MECHANICS LIEN

Tenant shall have no authority, express or implied, to create, place or allow any lien or encumbrance of any kind or nature whatsoever upon, or in any manner to bind, the interest of Landlord in the Premises or to charge the Rent payable hereunder for any claim in favor of any person dealing with Tenant, including those who may furnish materials or perform labor for any construction or repairs, and each such claim shall attach to, if at all, only the leasehold interest granted to Tenant by this instrument. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises on which any lien is or can be validly and legally asserted against its leasehold interest in the Premises or the improvements thereon and that it will save and hold Landlord harmless from any and all loss, cost or expense based on or arising out of asserted claims or liens against the leasehold estate or against the right, title and interest of the Landlord in the Premises or under the terms of this Lease.

ARTICLE XXVI

SIGNS

Tenant shall have the right to install signs upon the Premises only when first approved in writing by Landlord and subject to any applicable governmental laws, ordinances, restrictions, regulations and other requirements. Tenant shall remove all such signs upon the expiration or other termination of this Lease. Such installations and removals shall be made in such manner as to avoid injury to or defacement of any buildings or other improvements on the Premises, and Tenant shall repair any injury or defacement including without limitation discoloration, caused by such installation or removal.

ARTICLE XXVII

NOTICES

Each provision of this Lease, or of any applicable governmental laws, ordinances, regulations, and other requirements with reference to the sending, mailing or delivery of any notice, or with reference to the making of any payment by Tenant to Landlord, shall be deemed to be complied with when and if the following steps are taken:

(a) All Rent and other payments required to be made by Tenant to Landlord hereunder shall be payable to Landlord in Dallas County, Texas, at 15601 Dallas Parkway, Suite 100, Addison, Texas 75001, or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith.

(b) Except as otherwise specifically set forth herein, any notice or document required to be delivered hereunder shall be in writing and shall be deemed received when delivered if sent by a recognized, commercial courier for same day delivery and shall be deemed received on the next business day if sent by a nationally recognized overnight courier (such as Federal Express or Purolator) with delivery specified for the next business day or two (2) business days after being deposited in the United States mail, postage prepaid, certified or registered mail, return receipt requested, addressed to the parties hereto at the respective addresses set out opposite their names below, or at such other address as they have theretofore specified by written notice delivered in accordance herewith:

LANDLORD: CP-Coppell Industrial, Ltd.

15601 Dallas Parkway, Suite 100

Dallas, Texas 75001

WITH COPY TO: Stanley K. Barth

Andrews & Barth, P.C.

8235 Douglas Avenue, Suite 1120

Dallas, Texas 75225

WITH COPY TO: The Chase Manhattan Bank

2200 Ross Avenue, Third Floor

Dallas, Texas 75201

TENANT: Aladdin Manufacturing Corporation

160 South Industrial Boulevard

Calhoun, Georgia 30701

Attention: Salvatore J. Perillo, Esquire

ARTICLE XXVIII

SEPARABILITY

If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid, or unenforceable, there be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

ARTICLE XXIX

QUIET ENJOYMENT

Provided Tenant has performed all of the terms, covenants, agreements and conditions of this Lease, including the payment of Rent, to be performed by Tenant, Tenant shall peaceably and quietly hold and enjoy the Premises for the term hereof, without hindrance from Landlord, subject to the Permitted Encumbrances and the terms and conditions of this Lease. Landlord covenants and warrants that Landlord is the true and lawful owner of the Premises (including, without limitation, the Common Areas), subject only to the Permitted Encumbrances and has good right and full power to let and lease the same.

ARTICLEXXX

EXISTENCE OF BROKER

Tenant represents and warrants that it has not contacted or dealt with any real estate broker or agent in connection with the execution of this Lease other than Jackson & Cooksey (the "Agent") and Alliance Partners, Inc.

Landlord will be responsible for the payment of a commission to the Agent pursuant to a separate written agreement

Agent has acted in cooperation with Alliance Partners, Inc., and Agent shall pay Alliance Partners, Inc. a portion of

the commission pursuant to a separate agreement between Agent and Alliance Partners, Inc. Landlord shall have

fully discharged its obligations hereunder upon payment of a commission to Agent

Tenant agrees to indemnify and hold harmless Landlord against all liabilities and costs (including but not limited to attorney's fees) incurred by Landlord as a result of Tenant's breach of any covenant, agreement, warranty or representation contained in this Article XXX. Landlord warrants and represents to Tenant that except for fee commission to be paid to Agent by Landlord, Landlord has not dealt with any other real estate broker or agent in connection with the execution of this Lease. Landlord hereby agrees to indemnify and hold Tenant harmless from and against any and all costs, expenses (including attorneys' fees) incurred by Tenant as a result of Landlord's breach of any covenant, agreement, warranty or representation contained in this Article XXX.

ARTICLE XXXI

TENANTS REMEDIES

In the event Landlord defaults in the performance of any of its obligations to Tenant hereunder, or breaches any warranty or representation, express or implied, to Tenant in connection with this Lease or the Premises, and such default or breach continues for a period of thirty (30) days following written notice thereof from Tenant to Landlord (or such longer time as may be reasonable if Landlord commences the cure of such default or breach within said 30 day period and diligently pursues the cure thereafter), then Tenant may, as its sole remedies (i) if the default relates to the Landlord's obligations (A) to complete "punchlist items pursuant to Article H, (B) as to the construction guaranty contained in Section 3.3 hereof; (C) under Section 8.1 hereof; or (D) to maintain the Common Area under Section 8.7 hereof, Tenant may take such action as is reasonably necessary to cure Landlord's default if Tenant includes in its written notice to Landlord a provision that Tenant will or may take such action,, (ii) bring suit against Landlord for damages or (iii) bring suit to specifically enforce Landlord's obligations under this Lease. Further, if the default relates to Landlord's obligations under Section 8.1, Landlord shall pay the amount of Tenant's deductible (up to a maximum amount of \$1,000.00) relating to Tenant's insurance claim for any damage to Tenant's contents. In the event Tenant cures such default by Landlord as provided in item (i), then Landlord will reimburse Tenant all reasonable costs and expenses incurred by Tenant in curing Landlord's default. Notwithstanding the foregoing provisions, if Landlord has failed to maintain the roof as required by Section 8.1 and the contents of the Premises are in imminent danger of damage due to water leaking or other elements, then Tenant may cure Landlord's obligations if Landlord fails to commence the cure thereof within twenty-four (24) hours following Tenant's notice to Landlord. Except as otherwise expressly provided for herein, Tenant shall have no right of set-off against payments due to Landlord hereunder and shall have no right to terminate this Lease, and Tenant hereby waives such remedies. It is expressly agreed that the obligations of Landlord hereunder are independent of Tenant's obligations. Landlord shall have no personal liability to Tenant for any such default or breach by Landlord, and have no personal liability to Tenant for any such default or breach by Landlord, and Tenant specifically agrees to look solely to Landlord's interest in the Building and the Land situated thereunder for payment of any damages suffered by Tenant Pending resolution of any controversy hereunder (as evidenced by a final, nonappealable order issued by a court of competent jurisdiction), Tenant shall continue to pay to Landlord all sums which are and become due to Landlord hereunder, without deduction or set-off. Following a final, nonappealable order issued by a court of competent jurisdiction evidencing a monetary sum owed by Landlord to Tenant, Tenant may offset the amount owed by Landlord from the Basic Rental owed by Tenant to Landlord; provided, however, the amount of offset each month shall in no event exceed twenty percent (20%) of the installment of Basic Rental due that month, unless the aggregate amount to be offset exceeds the total Basic Rental to accrue for the remainder of the Lease Term, in which event the monthly limitation as to the amount which may be offset shall be limited to the total amount owing by Landlord to Tenant divided by the number of months remaining during the Lease Term. Any sums owed by Landlord to Tenant shall bear interest at the Maximum Rate. Subject to the limitations contained in the following paragraph of this Article XXXI, Tenant shall at all times have the right of levy with respect to any judgment it obtains against Landlord. Tenant hereby expressly waives and disclaims any Hen or claim which Tenant has or may have in and to any property belonging to the Landlord or on the Rent due to the Landlord under this Lease/ The term "Landlord," as used in this Lease so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners at the time in question of the fee of the Premises, and in the event of any transfer or transfers or conveyance of the Premises and this Lease and the assumption by the transferee of Landlord's obligations hereunder, the then grantor shall be automatically freed and relieved from and after the date of such transfer or conveyance of all liability as respects the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed (but not as to matters theretofore occurring), provided that any funds in the hands of such landlord or the then grantor at the time of such transfer, in which Tenant has an interest, shall be turned over to the grantee, and any amount then due and payable to Tenant by Landlord or the then grantor under any provision of this Lease shall be paid to Tenant The covenants and obligations contained in this Lease on the part of Landlord shall, subject to the aforesaid, be binding on Landlord's successors and assigns, during and in respect of their respective successive periods of ownership. If Landlord fails to perform any of its obligations under this Lease and Tenant recovers a money judgment against Landlord, such judgment may be satisfied only out of (i) proceeds produced upon execution of such judgment and levy thereon against Landlord's interest in the Property and improvements thereon, (ii) the rents or other income from the Property receivable by Landlord, and (iii) if Landlord's failure of performance is in respect of any covenant or obligation under Articles XVI or XVII, Landlord's share of any condemnation award and the proceeds of any casualty insurance maintained by Landlord in respect of the Property. The foregoing provisions shall not relieve Landlord from the performance of any of Landlord's obligations under this Lease, but only to limit Landlord's liability in the case of the recovery of a monetary judgment against it, nor shall the foregoing provisions limit or otherwise affect Tenant's right to obtain injunctive relief or specific performance or avail itself of any other right or remedy that this Lease or the law may accord Tenant.

ARTICLE XXXII

ESTOPPEL CERTIFICATES

Landlord and Tenant agree to furnish from time to time when requested by the other, a signed certificate confirming and containing such factual certifications and representations reasonably deemed appropriate by the party requesting such certificate, and shall, within thirty (30) days following receipt of said proposed certificate and request for execution, return a fully executed copy of said certificate to the requesting party. In the event the party being requested to execute such certificate shall fail to return a fully executed copy of such certificate to the other party within the foregoing thirty (30) day period, then the party being requested to execute such certificate shall be deemed to have approved and confirmed all of the terms, certifications and representations contained in such certificate.

ARTICLE XXXIII

NOTICE TO LENDER

If the Premises or the Building or any part thereof are at any time subject to a first mortgage or a first deed of trust or other similar instrument and this Lease or the rentals are assigned to a mortgagee, trustee or beneficiary and the Tenant is given written notice thereof, including the post office

address of such assignee, then the Tenant shall not take any action on account of any default on the part of the Landlord that would bind or affect said assignee without first giving written notice by certified or registered mail, return receipt requested, or by personal or courier delivery or as otherwise provided for in the Non-Disturbance Agreement, to such assignee, specifying the default in reasonable detail, and affording such assignee a reasonable opportunity to perform, at its election, for and on behalf of the Landlord.

ARTICLE XXXIV

LANDLORD APPROVALS

Any approval by Landlord or Landlord's architects and/or engineers of any of Tenant's drawings, plans and specifications which are prepared in connection with any construction of improvements in the Premises shall not in any way be construed or operate to bind Landlord or to constitute a representation or warranty of Landlord as to the adequacy or sufficiency of such drawings, plans and specifications, or the improvements to which they relate, for any use, purpose, or condition, but such approval shall merely be the consent of Landlord as may be required hereunder in connection with Tenant's construction of improvements in the Premises in accordance with such drawings, plans and specifications. Landlord shall be responsible for the payment of any drawings, plans and specifications which are prepared by or on behalf of Landlord.

ARTICLE XXXV

JOINT AND SEVERAL LIABILITY

If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several. If there be a guarantor of Tenant's obligations hereunder, the obligations hereunder imposed upon Tenant shall be the joint and several obligations of Tenant and such guarantor and Landlord need not first proceed against the Tenant hereunder before proceeding against such guarantor, nor shall any such guarantor be released from its guaranty for any reason whatsoever, including without limitation, in case of any amendments hereto, waivers hereof or failure to give such guarantor any notices hereunder.

ARTICLE XXXVI

GENDER

Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires.

ARTICLE XXXVII

CAPTIONS

The captions contained in this Lease are for convenience of reference only, and in no way limit or enlarge the terms and conditions of this Lease.

ARTICLE XXXVIII

ENTIRE AGREEMENT; AMENDMENTS; BINDING EFFECT

Neither party to this Lease has made or relied on any representations, warranties, covenants or agreements

with respect to the Premises or any other matters affecting or relating to this Lease except as contained herein and this Lease supersedes and replaces any prior representations, warranties, covenants or agreements, whether written or oral, which may have been made by either party with respect to the Premises or other matters contained in this Lease. This Lease contains the entire agreement between the parties hereto with respect to the Premises and all other matters contained in this Lease and this Lease may not be altered, changed or amended, except by instrument in writing signed by both parties hereto. No provision of this Lease shall be deemed to have been waived by Landlord unless such waiver be in writing signed by Landlord and addressed to Tenant, nor shall any custom or practice which may grow up between the parties in the administration of the terms hereof be construed to waive or lessen the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms hereof. The terms, provisions, covenants and conditions contained in this Lease shall apply to, inure to the benefit of and be binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided.

ARTICLE XXXIX

GOVERNING LAW AND PLACE OF PERFORMANCE

This Lease shall be governed by the laws of the State wherein the Land is located. Tenant shall perform all covenants, conditions and agreements contained herein, including but not limited to payment of Rent, in Dallas County, Texas.

ARTICLE XL

GOOD STANDING/DUE AUTHORIZATION

Contemporaneous with the execution of this Lease, Tenant shall provide to Landlord the following:

- (a) A copy of Tenant's Good Standing, or similar certificate, issued by the Secretary of State of the state of Tenant's incorporation;
- and
- (b) A copy of the appropriate corporate resolutions, certified by the secretary or the assistant secretary of the Tenant, evidencing the authorization of the Tenant to execute this Lease.

In the event a guaranty agreement is executed with respect to this Lease, Tenant shall additionally provide to Landlord, contemporaneous with the execution of this Lease, the items listed above for the guarantor.

ARTICLE XLI

FINANCIAL STATEMENTS

Within fifteen (15) days following Landlord's written request, Tenant will provide to Landlord the most current annual report (including financial statements) of Mohawk Industries, Inc. Landlord may disclose and share such annual reports (including financial statements) (i) with Landlord's advisors; attorneys; consultants; and lenders, investors and purchasers (as well as prospective lenders, investors and purchasers) and (ii) as required by any applicable law, rule, regulation or order.

ARTICLE XLII

MEMORANDUM OF LEASE

Upon not less than ten (10) days prior written request by either party, the parties hereto agree to execute and deliver to each other a Memorandum of Lease, in recordable form, setting forth the following:

- (a) The date of this Lease;
- (b) The parties of this Lease;
- (c) The term of this Lease;
- (d) The legal description of the Land; and
- (e) Such other matters reasonably requested by Landlord to be stated therein.

ARTICLE XLIII

RENEWAL OPTION

Landlord hereby grants Tenant (but no assignee or subtenant) one (1) option to renew this Lease for a period of sixty (60) months. The renewal option shall be exercised by Tenant notifying Landlord thereof in writing not less than two hundred forty (240) days prior to the expiration of the then current lease term, as the case may be. Such renewal shall be subject to all of the terms and conditions of this Lease except that (i) the rentals payable during each renewal term shall be as set forth below and (ii) no further renewal option shall exist during the renewal term. It shall be a condition to Tenant's exercising the renewal option herein granted that Tenant not be then in default under this Lease beyond any applicable notice and cure period.

The Basic Rental for each renewal term shall be based on the then prevailing rental rates for properties of equivalent quality, size, utility and location in the Dallas/Forth Worth market, with the length of the lease term and the creditworthiness of the Tenant taken into account; provided, however, that in no event shall the Basic Rental in any renewal period be less than the Basic Rental for the last month immediately preceding said renewal period. Upon notification from Tenant of its intent to exercise each renewal option, Landlord shall, within fifteen (15) days thereafter, notify Tenant in writing of the Basic Rental for the applicable renewal term; Tenant shall, within fifteen (15) days following receipt of same, notify Landlord in writing of the acceptance or rejection of the proposed Basic Rental. In the event of rejection by Tenant, the Basic Rental for the applicable renewal term shall be determined as follows:

- (a) Within fifteen (15) days following notification of rejection, Landlord and Tenant shall each select an arbitrator who shall be a Licensed Texas real estate broker having a minimum of five (5) years experience in leasing industrial space and being a member of the North Chapter of the Texas Society of Office and Industrial Realtors (or its successor organization). Notice shall be given to the other party of the name of the arbitrator selected. If either Landlord or Tenant fails to appoint such an arbitrator within the allocated time, the arbitrator appointed by the other party shall make the determination of the Basic Rental and this determination shall be final and binding on both parties.
- (b) If both Landlord and Tenant appoint an arbitrator in accordance with the provisions above and the two arbitrators cannot agree upon a Basic Rental for the renewal term within thirty (30) days following their appointment, the two arbitrators shall forthwith select a third disinterested and qualified arbitrator having like qualifications and each of the original arbitrators will immediately submit his or her judgment as to the appropriate Basic Rental in writing to the third arbitrator. Within ten (10) days after such submittal, the third arbitrator shall make the determination of the Basic Rental for such renewal period and the determination of the third arbitrator shall be final and binding on both parties. In the event the two arbitrators appointed by the Tenant and Landlord cannot agree upon a third arbitrator, then the third arbitrator shall be appointed by the then President of the North Chapter of the Texas Society of Office and Industrial Realtors (or its successor organization). The Basic Rental agreed to by the two appointed arbitrators or, if applicable, the Basic Rental determined by the third arbitrator shall be final and binding upon the parties hereto. Landlord and Tenant shall each bear the expense of their arbitrator and the expense of a third arbitrator, if needed, shall be shared equally by both parties.

ARTICLE XLIV

GENERAL PROVISION

- (a) Landlord shall be responsible for and shall pay according to law any transfer or conveyance taxes or for any documentary stamps, if any, required to be paid in connection with the making of this Lease or the recordation of a memorandum hereof.
- (b) Whenever a period of time is herein prescribed for action to be taken by Landlord or Tenant, there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions or any other causes of any land whatsoever which are beyond the control of the party required to take such action; however, there shall be no extension for the payment of any monetary sums, nor shall any such matter extend any of the time periods provided in Article XLIII hereof.
- (c) Except as otherwise expressly provided in this Lease to the contrary, any consent or approval required to be given or obtained hereunder by either party shall not be unreasonably withheld, delayed or conditioned by either party hereto, and any exercise of discretion to be made hereunder by either party shall be reasonably made without undue delay. Any matter that is described herein to be to a party's satisfaction shall be to such party's reasonable satisfaction.

(Signatures on following page]

Executed by Landlord to be effective as of the 13th day of March, 2002.

LANDLORD:

CP-COPPELL INDUSTRIAL, LTD.,

a Texas limited partnership

By: Champion-Coppell Industrial, Ltd.,

a Texas limited partnership,

its General Partner

By: Coppell-Champion, Inc.,

a Texas corporation,

its General Partner Jeffrey L Swope, President

Executed by Tenant to be effective as of the 12th day of March, 2002.

TENANT:

ALADDIN MANUFACTURING CORPORATION,

a Delaware corporation

By: _____

Printed name: Salvatore J Perillo

Title: ASST. Secretary

EXHIBIT "A"

LAND

LEGAL DESCRIPTION

Being a 100.0 acre tract of land out of the S.A. and M.G. R.J.L survey, Abstract No. 1439, in Dallas, Texas and also being the same tract of land described in a Deed to Coppell Industrial N.V., a Netherlands Antilles corporation and recorded in Volume 82071, Page 1061, Deed Records, Dallas County, Texas and being more particularly described by metes and bounds as follows:

Beginning at a fence post found for the Northeast corner of the herein described tract also being the Southeast corner of a tract of land described in a Deed of Sunbelt Business Center and recorded in Volume 80151, Page 892, said Deed Records, Said fence post is in the West right-of-way of an abandoned Cotton Belt Railroad Spur;

Thence S 00 04'53" W, with the abandoned railroad spur right-of-way, at 1,716.43 feet pass a fence corner and continue generally with the fence a total distance of 1,887.36 feet to a capped 5/8 inch iron found;

Thence S 11 37'29" E, 151.76 feet continuing with the abandoned spur right-of-way and generally along fence to a capped 5/8 inch iron found;

Thence S 00°13'29" E, 193.47 feet continuing with the abandoned spur right-of-way and generally along fence to a capped 5/8 inch iron found in the Northerly right-of-way line of Bethel School Road (County Road No. 23);

Thence along the Northerly right-of-way line of Bethel School Road and generally along a fence the following courses and distances:

N 88 06'36" W, 97.63 feet to a capped 5/8 inch iron found;

N 83 45'02" W, 119.01 feet to a capped 5/8 inch iron found;

N 81 34'41" W, 417.48 feet to a capped 5/8 inch iron found;

S 89 26'52" W, 1,406.39 feet to a capped 5/8 inch iron found for the Southwest corner of this tract and the Southeast corner of 236.956 acre tract described in a Deed to Ward Hunt and recorded in Volume 82071, Page 1167, said Deed Records;

Thence N 00 35'58" W, 2,139.20 feet leaving the right-of-way line of Bethel School Road and with the Easterly line of said Hunt tract to a 5/8 inch iron pin with cap stamped "Carter & Burgess", set in an old fence line and in the Southerly line of said Sunbelt Business Center tract;

Thence N 89 14'54" E, 2,029.08 feet with the Southerly line of said Sunbelt Business Center tract to the point of beginning and containing 100.0 acres of land.

EXHIBIT "B"

PERMITTED ENCUMBRANCES

1. Deed of Trust from CP-COPPELL INDUSTRIAL, LTD., a Texas limited partnership to DAVID MENDEZ, Trustee, dated 10/13/2000, filed 10/18/2000, in Volume 2000203, Page 5383, Deed Records, Dallas County, Texas, securing two (2) notes in the principal sums of \$13,075,000.00, and \$2,200,000.00, payable to THE CHASE MANHATTAN BANK, and securing other indebtedness as described therein.
2. Financing statement executed by CP-COPPELL INDUSTRIAL, LTD. as debtor, in favor of THE CHASE MANHATTAN BANK as secured party, filed 10/18/2000, in Volume 2000203, Page 5396, Deed Records, Dallas County, Texas.
3. 30* building line, 24* fire lane, 10* landscape areas, 10* gas easement, 15* electric easement, 15' gas and electric easement, 20* x 20* water easements and 20* common access and private utility easement as shown on the plat recorded in Volume 2000200, Page 00669, Map Records of Dallas County, Texas, and as shown on survey of Charles F. Stark, R.P.L.S. 5084, dated 08/28/2000.
4. Easement Agreement dated January 1, 2001, granting to the City of Coppell easements for construction, access and construction recorded in Volume 2001026, Page 03950, Deed Records, Dallas County, Texas.
5. Drainage Easement Agreement dated January 1, 2001, in Volume 2001026, Page 03904, Deed Records, Dallas County, Texas
6. Easement and Right of Way in favor of TXU Gas Company, dated August 31, 2001, in Volume 2001209, Page 03308, Deed Records, Dallas County, Texas

EXHIBIT "C"

DESIGN CRITERIA

Initial Lease Premises
Dimension: 200,000 square feet - 250' x 800'
Office Area: 13,000 square feet in layout to be mutually agreed upon based on a \$30 per square foot allowance. A payment will be made to Mohawk for the flooring for the office area that will be provided

Automobile Parking: by Mohawk.
The lease premises will be provided with a total of 123 automobile spaces comprised of 65 existing spaces, 58 new spaces.

Trailer Storage: Onsite storage for a minimum of 20 trailers shall be provided along the dock side of the building where the current landscaped yard will be removed and paved.

Paving Modification: To facilitate ease of trailer maneuvering and provide additional parking, two areas of the existing 130' deep truck court will be increased:

Area 1 a depth of 190* by the addition of an area 60* deep by a length of 290 feet and Area II a depth of 160' by the addition of an area 30* deep by a length of 210'feet.

Dock Configuration: Single sided dock with total of twenty-six (26) overhead doors comprised of eighteen (18) existing and eight (8) new. 48" Dock height with a general truck court depth of 160'.

One (1) drive in 14' x 14' truck door with ramp

Two (2) 24" dock height doors with ramp

Twenty-three (23) typical overhead doors

The truck doors shall be typically non-insulated 9' x 10', 20- gauge, sectioned vertical lift doors as manufactured by Windsor Company.

Dock Equipment: Ten (10) Doors w/30,000 lb. levelers, Rite Kite or Tenant approved equal; Phoenix dock light at each door, dock bollards at each door. Nine (9) edge of dock plates will be provided in the 200,000 square foot space, location to be mutually agreed upon.

Existing Sprinkler System: 75 psi minimum ESFR system without in-rack sprinkler system.

Battery Charging: Twenty (20) battery charging connections and other requirements per code.

Electrical: Provide one (1) 480v/100a disconnect for cutting tables within I SO1 of main electrical service entrance.

Existing Roof: Roofing is a Carlisle 10-year bondable, single ply 45 mechanically fastened EPDM membrane system.

Existing Smoke/Heat Evacuation: Three air changes per hour.

Lighting: Provide one (1) 1,000 watt, metal halide fixtures per 1,500 square feet of warehouse area. Premium for 30 footcandles average with minimum of 20 footcandles at 36 above floor level lighting to be designed around storage and rack plan submitted by Mohawk to be paid by Mohawk.

Security: Complete fire alarm system as required by code.

Walls: Interior demising wall shall be two hour rated gypsum board assembly on steel stud framing. Joints shall be fire taped. Tilt up wall shall be caulked on both sides. The exterior side of the panels have been painted.

Existing Exterior Lighting: The dock sides of the building have been provided with 400 watt, metal halide wall pak fixtures on 100' centers at 24' above dock paving.

Signage: Landlord will provide tenant a \$5,000 allowance for signage.

Warehouse Floor: Warehouse floor is sealed with Lapidolith sealer and shall be cleaned. Expansion joints have been sealed.

EXHIBIT "D"

PRELIMINARY PLANS

EXHIBIT "D-I"

FINAL PLANS AND SPECIFICATIONS

GUARANTEE

This is 3 guarantee of an Industrial Lease Agreement dated as of March 13th 2002 (the "Lease"), by and between CP-COPPELL INDUSTRIAL, LTD., s Texas limited partnership, hereinafter called "Landlord", and ALADDIN MANUFACTURING CORPORATION, a Delaware corporation, hereinafter called "Tenant", respecting approximately 200,000 square feet of space within a certain building situated in Dallas County, Texas, FOR VALUE RECEIVED, and in consideration for, and as an inducement to Landlord to enter into the foregoing Lease, the undersigned hereby jointly and severally (if more than one) guarantee to Landlord and its successors and assigns the payment of all rentals specified thereunder and all other payments to be made by Tenant under the Lease, and the full performance and observance by Tenant of all the terms, covenants, conditions and agreements therein provided to be performed and observed by Tenant for which each of the undersigned shall be jointly and severally liable with Tenant, without requiring any notice of nonpayment, nonperformance or nonobservance, or proof of notice or demand, whereby to charge the undersigned, all of which each of the undersigned does hereby expressly waive, and each of the undersigned expressly agrees that the Landlord and its successors and assigns may proceed against the undersigned separately or jointly, before, after or simultaneously with the proceedings against Tenant for default, and that this Guarantee shall not be terminated, affected or impaired in any way or manner whatsoever by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord pursuant to the provisions of the Lease, or by reason of summary of other proceedings against Tenant, or by the omission of Landlord to enforce any of its rights against Tenant or by reason of any extensions of time or indulgences granted by Landlord to Tenant. Each of the undersigned further covenants and agrees (i) that the undersigned will be bound by all of the provisions, terms, conditions, restrictions and limitations contained in the Lease, the same as though the undersigned was named therein as Tenant; and (ii) that this Guarantee shall be absolute and unconditional and shall remain and continue in full force- and effect as to any renewal, extension, amendment, addition, assignment sublease, transfer or other modification of fee Lease, whether or not the undersigned shall have any knowledge or have been notified of or agreed or consented to any such renewal, extension, amendment, addition, assignment, sublease, transfer or other modification of the Lease; however, the undersigned shall not be bound by any and all modifications to the Lease which are not consented to in writing by the undersigned, If Landlord at any time is compelled to take any action or proceeding in court or otherwise to enforce or compel compliance with the terms of this Guarantee, each of the undersigned shall, in addition to any other rights and remedies to which the Landlord may be entitled hereunder or as a matter of law or in equity, be obligated to pay all costs, including attorneys' fees, incurred or expended by Landlord in connection with any enforcement by Landlord if Landlord is successful in enforcing or compelling compliance of any of the terms of this Guarantee. Further, each of the undersigned hereby covenants and agrees to assume the Lease and to perform all of the terms and conditions thereunder for the balance of the original term should the Lease be disaffirmed by any Trustee in Bankruptcy for Tenant All obligations and liabilities of the undersigned pursuant to this Guarantee shall be binding upon the heirs, legal representatives, successors and assigns of each of the undersigned, and each of the undersigned and its heirs, legal representatives, successors and assigns shall remain fully liable under the Lease and this Guarantee regardless of any merger, corporate reorganization or restructuring involving Tenant regardless of the resulting organization, structure or ownership of Tenant. This Guarantee shall be governed by and construed in accordance with the laws of the State of Texas.

Each of the undersigned hereby unconditionally consents and agrees that any legal action brought under this Guarantee may be brought in any State Court of the State of Texas, or in a Federal United States Court in Texas and each of the undersigned hereby unconditionally consents to the jurisdiction of such courts in connection with any cause of action brought by or against Tenant and/or Guarantors) in any way directly or indirectly related to the Lease or this Guarantee.

This Guarantee shall be enforceable against each person signing this Guarantee, even if only one person signs and regardless of any failure of other persons to sign this Guarantee. If there be more than one signer, all agreements and promises herein shall be construed to be, and are hereby declared to be, joist and several, in each and every particular and shall be folly binding upon sad enforceable against either, any or all of fee undersigned. Further, the liability of each of the undersigned shall not be affected or impaired by any roll or partial release of, settlement with, or agreement not to sue, Tenant or any other guarantor or other person liable in respect of the Lease, which Landlord is expressly authorized to do, omit or suffer from time to tune, without notice to or approval by any of the undersigned. The singular herein shall include the plural and the plural shall include the singular when referring to &e undersigned.

At any time that Tenant is required to furnish a certificate pursuant to the Lease, each of the undersigned, by guarantying the terms and conditions of the Lease, agree that such Guarantor, upon thirty (30) days prior written request to Tenant, shall certify (by written instrument, duly executed, acknowledged and delivered to Landlord and to any third person designated by Landlord in such request) whether such person concurs with the statements set forth in said certificate by Tenant (and, if not, identifying specifically the items or matters to which such Guarantor does not concur) and that the guarantee of such person remains in full force and effect as to all obligations of Tenant under the Lease. Failure to deliver such certificate to Landlord (and any such designated third party) within such thirty (30) day period shall constitute automatic approval of the requested certificate as though such certificate had been fully executed and delivered by such Guarantor to Landlord and such designated third party.

Within fifteen (15) days following Landlord's written request, Guarantor will provide to Landlord Guarantor's most current annual report (including financial statements). Landlord may disclose and share such annual reports (including financial statements) (i) with Landlord's advisors; attorneys; consultants; and lenders, investors and purchasers (as well as prospective lenders, investors and purchasers) and (ii) as required by any applicable law, rule, regulation or order.

IN WITNESS WHEREOF, the undersigned have set their hands to four (4) original counterparts of this Guarantee as of the 13th day of March, 2002.

GUARANTOR:

MOHAWK INDUSTRIES, INC.,

a Delaware corporation

Printed Name:Salvatore J. Perillo

Title:Asst. Secretary

INDUSTRIAL LEASE AGREEMENT

Date: March 13 2002 between CP-COPPELL INDUSTRIAL, LTD., a Texas Limited Partnership and ALADDIN MANUFACTURING CORPORATION, a Delaware corporation

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INDUSTRIAL LEASE AGREEMENT

THIS INDUSTRIAL LEASE AGREEMENT (the "Lease ") is made and entered into by and between the Landlord and Tenant hereinafter named.

ARTICLE I

DEFINITIONS

The following definitions and basic provisions shall be used in conjunction with and limited by the reference thereto in the provisions of this Lease:

- (a) "Landlord ": CP-COPPELL INDUSTRIAL, LTD., a Texas limited partnership.
- (b) "Tenant ": ALADDIN MANUFACTURING CORPORATION., a Delaware corporation.
- (c) "Premises ": That approximately 100,000 square foot portion of the approximately 600 000 square foot Building (herein so called) identified on Exhibit "A-I " attached hereto and made a part hereof, which Building is situated on that certain real property described on Exhibit "A " attached hereto and made a part hereof (the "Land "). The Building and roe Land are hereinafter collectively referred to as the "Property ". The Building is situated upon a portion of the Land, as reflected on Exhibit "A-I ", and it is contemplated that another building (the "Adjacent Building ") may be built upon the western portion of the Land.
- (d) "Lease Term ": A period commencing on May 1, 2002 (the "Commencement Date ") and ending December 31,2004 (the "Expiration Date ").
- (e) "Basic Rental ": \$26,250.00 per month.
- (f) "Permitted Use ": Warehousing, cutting and distribution of carpet and related items (herein, the "Primary Use ") and all other lawful uses permitted by applicable zoning.
- (g) "Maximum Rate ": The lesser of (i) the maximum rate of interest permitted by applicable law or (ii) two percent (2%) above the "prime rate " of interest, as announced from time to time in the Money Section of The Wall Street Journal or should The Wall Street Journal cease to be published or should The Wall Street Journal cease to publish a "prime rate ", then the "prime rate " as charged from time to time by Chase Bank, N.A., or its successor.
- (h) "Additional Rent ": All sums of money, other than Basic Rental, which become due under Article V, Section 8.7 or Article XV this Lease, or are otherwise specified to be "Additional Rent " under this Lease. Basic Rental and Additional Rent shall collectively constitute the "Rent " or "Rentals " due or to become due under this Lease and are herein so called.
- (i) "Common Area ": All areas and facilities that may exist, from time to time, outside the Building and the Adjacent Building and within the perimeter boundary line of the Property for the general, non-exclusive use of the Landlord, the Tenant and other tenants within the Building and their respective employees, suppliers, shippers, customers and invitees, including (without limitation, however) parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, alleys and landscaped areas. Tenant acknowledges that the Common Area may include a common driveway running between the Building and the Adjacent Building, together with landscaping incidental thereto.
- (j) "Tenant's Share ": A fraction, the numerator of which is the total number of square feet of space contained within the Premises and the denominator of which is the total number of square feet of space contained within the Building and all other buildings, if any, which may hereafter exist on the Property. Tenant's Share shall not exceed 16.67%,

ARTICLE II

LEASE GRANT

Section 2.1 Premises, Landlord, in consideration of the Basic Rental to be paid and the other covenants and agreements to be performed by Tenant and upon the terms and conditions hereinafter stated, does hereby lease, demise and let unto Tenant the Premises commencing on the Commencement Date (as defined in Article I(d) hereof), or as adjusted as hereinafter provided) and ending on the last day of the Lease Term, unless sooner terminated as herein provided. Provided all plans and specifications are prepared, reviewed and approved in a manner so as not to delay Landlord's completion of the Leasehold Improvements (as defined in Section 3.2 hereof), Landlord anticipates that the Premises will be available and ready for occupancy on or about May 1, 2002. If the Premises are not available and ready for occupancy by May 1, 2002, then Landlord shall not be deemed to be in default hereunder, and Tenant agrees to accept possession of the Premises at such time as the Premises are available and ready for occupancy and such date shall be deemed to be the Commencement Date. If the Leasehold Improvements have not been substantially completed by June 15, 2002 (the "Outside Completion Date "), then, as Tenant's sole recourse, the Abatement Period (as defined in Section 4.1 hereof) shall be extended one (1) day foreach day beyond the Outside Completion Date that the Leasehold Improvements

have not been substantially completed; provided, however, if delay is caused or contributed to by act or neglect of Tenant or those acting for or under Tenant (hereinafter referred to as a "Tenant Delay"), labor disputes, casualties, acts of God or the public enemy, governmental embargo restrictions, shortages of fuel, labor, or building materials, action or non-action of public utilities, or of local, state or federal governments affecting the work, or other causes beyond Landlord's reasonable control, then the Outside Completion Date shall be extended for the additional time caused by such delay. Such delays are each hereinafter referred to as an "Excused Delay." In order for Landlord to claim an Excused Delay, Landlord must provide Tenant written notice of such claim within ten (10) days after Landlord becomes aware of such delay. Landlord hereby waives payment of Basic Rental and other payments to be made by Tenant hereunder covering any period prior to the date the Premises are available and ready for occupancy, all of which shall only commence upon the Commencement Date; however, should Tenant occupy the Premises prior to the Commencement Date specified in Article I(d) hereof, the Commencement Date and Lease Term shall be altered to coincide with said occupancy with the Expiration Date of this Lease remaining unchanged. For the purpose hereof, the Premises shall be deemed "available and ready for occupancy" at such time as Landlord has substantially completed the construction or installation of any Leasehold Improvements (as defined in Section 3.2 hereof), if any, required to be completed by Landlord pursuant to Section 3.2 of this Lease to the extent reasonably necessary so as to allow Tenant to occupy the Premises and commence operations of its business therein, notwithstanding the fact that there may remain as incomplete certain minor, "punchlist" items which do not materially interfere with Tenant's intended use of the Premises; Landlord agrees to promptly attend to and complete the punchlist items in a good and workmanlike manner. The Leasehold Improvements shall be deemed to have been substantially completed when the following having occurred: (i) the issuance of a certificate of occupancy permitting Tenant to occupy the Premises (or the taking of such other action as may be customary to permit occupancy or use thereof); and (ii) the issuance of a certificate of substantial completion by Landlord's architect respecting the Leasehold Improvements; provided, however, if the failure to secure such certificates or of taking such other action is caused by the act, failure to act or neglect of Tenant, then the Leasehold Improvements shall be deemed substantially completed and available and ready for occupancy on the day when such certificates may have been issued or such other action may have been taken had it not been the act, failure to act or neglect of Tenant. By occupying the Premises, Tenant shall be deemed to have accepted the Leasehold Improvements as substantially completed, except for minor "punchlist" items. Tenant shall endeavor to provide Landlord with a list of deficiencies in the construction of the Leasehold Improvements within thirty (30) days after it has taken possession of the Premises with all Leasehold Improvements substantially completed; provided, further that nothing herein shall reduce or impair Landlord's Construction Guaranty set forth in Section 3.3 below. After the Commencement Date of this Lease, Tenant shall, upon request from Landlord, execute and deliver to Landlord a letter of acceptance of delivery of the Premises, which letter shall describe any deficiencies with respect to the Leasehold Improvements of which Tenant has actual knowledge and shall also state the Commencement Date and Expiration Date; provided, however, that Landlord also confirms to Tenant the Commencement and Expiration Dates.

Tenant shall be allowed, no earlier than March 25, 2002 (without the requirement to pay Rent), and following two (2) days prior written notice to Landlord and subject to Landlord's reasonable approval, to store tile within the Premises provided that (i) Tenant has furnished to Landlord certificates of insurance evidencing the issuance of insurance as required by Tenant under Article XV hereof; and (ii) Tenant does not thereby interfere with the completion of construction of the Leasehold Improvements as a result of such installations. Tenant does hereby assume all risk of loss or damage to such machinery, equipment, fixtures and other personal property, and to indemnify, defend and hold harmless Landlord from any loss or damage to such machinery, equipment, fixtures and personal property, and all liability, loss or damage arising from any injury to the property of Landlord, or its contractors, subcontractors or materialmen, and any death or personal injury to any person or persons to the extent arising out of such installations. Any such use of the Premises is also subject to, and Tenant must comply with and observe, all applicable laws and all other terms and conditions of this Lease. In no event may Tenant conduct business in the Premises during such early access period.

Section 2.2 Permitted Encumbrances. The Premises are subject to, and Tenant covenants and agrees to comply with, the easements, restrictions, reservations and other matters set forth in Exhibit "B" attached hereto and made a part hereof (collectively, the "Permitted Encumbrances"). Landlord represents to Tenant that none of the Permitted Encumbrances will materially interfere with or preclude Tenant's occupancy of the Premises for the Primary Use identified in Article I(f) above.

ARTICLE III

CONSTRUCTION OF LEASEHOLD IMPROVEMENTS

Section 3.1 Design Criteria. Unless otherwise agreed to by Tenant in its sole and absolute discretion, the "Leasehold Improvements" (as defined in Section 3.2 below) shall include (and the plans and specification for the Leasehold Improvements shall incorporate) the Design Criteria set forth on Exhibit "C" attached hereto and made a part hereof.

Section 3.2 Leasehold Improvements. Any improvements to be made to the Premises are herein referred to as the "Leasehold Improvements". Except for any "Change Cost" (as such term is defined below), Landlord shall construct the Leasehold Improvements at its sole cost and expense (including, without limitation, the cost of preparing preliminary and final plans and specifications. Immediately after the execution hereof, Landlord and Tenant will cooperate with one another to prepare final plans and specifications (the "Plans and Specifications") for the construction and installation of the Leasehold Improvements. The Plans and Specifications shall be consistent with the preliminary plans attached hereto as Exhibit "D" (subject to the approval thereof by Landlord and Tenant), and when approved in writing by Landlord and Tenant, shall be attached to this Lease as Exhibit "D-1" and shall become a part hereof. No failure or refusal on the part of Tenant to approve the Plans and Specifications within a reasonable time after the execution hereof shall render this Lease void or voidable nor shall it delay the Commencement Date set forth in Article I(d) hereof. No delay caused by Tenant during the construction or installation of the Leasehold Improvements shall delay the Commencement Date of this Lease from what it would have been had such delay not occurred. Landlord shall not be entitled to claim a delay by Tenant if Landlord was aware of such delay and did not provide Tenant written notice of such delay within ten (10) days following the date Landlord became aware thereof.

All changes in the Leasehold Improvements from that contemplated by the Plans and Specifications, whether or not such change gives rise to a "Change Cost" (as hereinafter defined) must be evidenced by a written Change Order (so called herein) executed by both Landlord and Tenant. In that regard, with respect to any Change Order requested by Tenant, Tenant shall submit to Landlord such information as Landlord may reasonably request. After receipt of the requested Change Order, together with such information as Landlord may request with respect thereto, Landlord shall return to Tenant either the executed Change Order, which will evidence Landlord's approval thereof, or Landlord's suggested modifications thereto. If any Change Order requested by Tenant is not ultimately effected, Tenant will reimburse Landlord for all out-of-pocket expenses incurred, including but not limited to, architectural and engineering fees.

For the purposes hereof, the term "Change Cost" shall mean all costs and expenses attributable to any Change Order requested by Tenant, including but not limited to, (i) the cost of any materials or labor, (ii) any cost caused by the direction to Tenant to omit any item of Leasehold Improvements, (iii) any additional architectural or engineering services, (iv) any changes to materials in the process of fabrication, (v) the

cancellation or modification of supply or fabricating contracts, (vi) the removal or alteration of any of Leasehold Improvements or plans completed or in the process, (vii) delays affecting the schedule of the Leasehold Improvements or the Commencement Date and (viii) a construction management fee equal to five percent (5%) of all Change Costs. Prior to the Commencement Date (or if not determinable at that time, then, as soon thereafter as possible) the Landlord and Tenant shall have a final accounting of all Change Costs. If, as a result of such accounting, there exists a net sum due by Tenant to Landlord, then that amount (together with interest thereon, at the rate of Chase Manhattan Bank prime plus 2%, accruing from the date Landlord notifies Tenant of the sum due through and until the date of the payment thereof to Landlord) shall be paid by Tenant to Landlord within thirty (30) days following the date such final accounting occurs. Alternatively, and at Tenant's election to be made, if at all, within thirty (30) days following the date Landlord notifies Tenant determination of the sums due to Landlord by Tenant, any sums owing by Tenant to Landlord as a result of Change Costs may be paid by a reduction in the rental abatement provided in Section 4.1 of this Lease, with the balance to be paid by Tenant in cash; provided, however, in the event Tenant makes such election, the amount of such reduction shall be in no less increments than one (1) full month of Rent. For each such month that Tenant elects to reduce the abatement of Rent, the Expiration Date shall be adjusted to be one (1) month earlier.

In case of any disagreement between Landlord and Tenant with respect to any alleged Tenant Delay, Excused Delay, Change Cost or the scope of the Leasehold Improvements that cannot be resolved by the parties, the issue shall be resolved by binding arbitration undertaken on an expedited basis pursuant to the applicable procedures of the American Arbitration Association.

Section 3.3 Construction Guaranty. Landlord guarantees, for a period of one (1) year following the Commencement Date, (i) the Leasehold Improvements against defective workmanship and/or materials or non-compliance with the final plans and specifications for the Leasehold Improvements and (ii) that the Common Areas and the Building, including the roof, floors, walls, doors, dock doors, parking lot and all other mechanical systems are and shall be in good, operable condition. Landlord agrees, during said one-year period at its sole cost and expense, to (i) repair or replace any defective item occasioned by poor workmanship and/or materials or non-compliance with the final plans and specifications for the Leasehold Improvements and (ii) make all necessary repairs to keep the Common Areas and the Building, including the roof, floors, walls, doors, dock doors, parking lot and all other mechanical systems in good, operable condition. In no event shall Landlord's guarantee herein extend to any repairs or replacements caused by the acts of omissions of Tenant, or Tenant's agents, contractors or employees, including failure to maintain and service any equipment in accordance with manufacturer's specifications or recommendations. Except as otherwise expressly set forth in this Lease, Landlord's sole and exclusive obligation with respect to defective workmanship and/or materials, and Tenant's rights to enforce such one-year guaranty shall be Tenant's sole and exclusive remedy with respect to such defective workmanship and/or materials in limitation of any contract, warranty or other rights, whether express or implied, that Tenant may otherwise have under applicable law. From and after the expiration of the one year guaranty of Landlord against defective workmanship and materials, Landlord agrees to cooperate with Tenant in the enforcement by Tenant, at Tenant's sole cost and expense, of any express warranties or guaranties of workmanship or materials given by subcontractors or materialmen that guarantee or warrant against defective workmanship or materials for a period of time in excess of the one-year period described above and to cooperate with Tenant in the enforcement by Tenant, at Tenant's sole cost and expense, of any service contracts that provide service, repair or maintenance to any item incorporated in the Building for a period of time in excess of such one-year period.

ARTICLE IV

RENT

Section 4.1 Payment of Rent. In consideration of this Lease, Tenant promises and agrees to pay Landlord the Basic Rental, without deduction or set off, except for any set off explicitly provided for herein, for each and every month of the Lease Term and further promises and agrees to pay all Additional Rent which becomes due hereunder. The nonpayment of any Additional Rent or any other sums due by Tenant to Landlord under this Lease shall afford Landlord all the rights and remedies as are herein provided in the case of nonpayment of the Basic Rental. Any term or provision of this Lease to the contrary notwithstanding, the covenant and obligation of Tenant to pay Rent hereunder shall be independent from any obligations, warranties, representations, express or implied, if any, of Landlord herein contained.

Tenant's obligation to pay the Basic Rental and any Additional Rent under Section 4.2, Article V, Section 8.7 and Article XV of this Lease shall abate for a period commencing on the Commencement Date and continuing through and until, and including, June 30, 2002 (the "Abatement Period").

Section 4.2 Periodic Payment of Reimbursable Expenses; Adjustments. Landlord may estimate in advance the amount of any taxes, reimbursable maintenance expenses and insurance premiums due from Tenant under this Lease (the "Reimbursable Expenses") for each calendar year during the Lease Term, and the same shall be payable during each twelve (12) month period of the Lease Term on the same day as Basic Rental is due hereunder, with an adjustment to be made between the parties at a later date as hereinafter provided. As soon as practicable following the end of each calendar year, but no later than the first day of May, beginning with the end of the first calendar year, Landlord shall submit to Tenant a statement setting forth the exact amount of the Reimbursable Expenses for the calendar year just completed. Further, Landlord shall notify Tenant of the difference, if any, between the actual amount of the Reimbursable Expenses for the calendar year just completed and the estimated amount of the Reimbursable Expenses (which was paid in accordance with this paragraph) for such year. Such statement shall also set forth the amount of the estimated Reimbursable Expenses for the new calendar year computed in accordance with the foregoing provisions. To the extent that the actual Reimbursable Expenses for any period covered by such statement is greater than the estimated amounts which Tenant previously paid during the calendar year just completed, Tenant shall pay to Landlord the difference within ten (10) days following receipt of said statement from Landlord. To the extent that the actual Reimbursable Expenses for the period covered by the statement is less than the estimated payment previously paid by Tenant during the calendar year just completed, Landlord shall credit the difference against the Tenant's estimated payment of Reimbursable Expenses for the current calendar year and such credit will be applied to the next payment or payments due from Tenant to Landlord. In addition, until Tenant receives such statement, Tenant's payment of the Reimbursable Expenses for the new calendar year shall continue to be paid at the rate for the previous calendar year, but Tenant shall commence payment to Landlord of the quarterly installments of Reimbursable Expenses on the basis of the new statement beginning on the first installment date following the date upon which Tenant receives such statement. If the statement reflects a change in the reimbursement amount, such difference shall be adjusted by increasing or decreasing the first reimbursement payment after the statement is given in order to bring the reimbursement amount for the new calendar year current as of such date.

Landlord shall retain its records relating to the taxes, insurance and other reimbursable expenses at Landlord's principal office (or such other office as Landlord may designate in writing to Tenant), and upon reasonable prior notice to Landlord, Tenant shall have the right to inspect all of Landlord's records relating to such costs. Appropriate adjustments shall be made for errors in the computation of such costs revealed by such

audit or inspection. If any audit by Tenant indicates an overcharge in the amount of Tenant's Share by more than five percent (5%), the reasonable cost of such audit (up to a maximum of \$1,500.00) shall be paid on demand by Landlord to Tenant. Landlord shall retain said records for at least twenty-four (24) months.

Section 4.3 Rent Adjustment. The Basic Rental installment for the first month of the Lease Term shall be due and payable by Tenant to Landlord contemporaneously with the execution hereof, and a like monthly installment shall be due and payable, without demand, on or before the first day of each calendar month during the Lease Term. Basic Rental for any fractional month at the beginning or end of the Lease Term shall be prorated. Should a prorated payment of Basic Rental be owing for a fractional month at the beginning of the Lease Term, Tenant shall pay such amount to Landlord within ten (10) days following receipt of Landlord's invoice therefor.

Section 4.4 [INTENTIONALLY OMITTED]

Section 4.5 Survival of Obligations. Notwithstanding any expiration or earlier termination of this Lease., Tenant's obligation to pay any and all Additional Rent and other sums due by Tenant to Landlord under this Lease shall continue and shall cover all periods up to the date this Lease expires or is terminated. Tenant's obligation to pay any and all Additional Rent and other sums under this Lease and Landlord's and Tenant's obligation to make the adjustments referred to in this Lease shall survive any expiration or termination of this Lease.

Section 4.6 Delinquent Payments. If any Basic Rental payment required to be paid or which becomes due under this Lease is not paid by the tenth (10th) day following the day on which it is due, a service charge of five percent (5%) of such amounts due shall become due and payable in addition to the amounts due. Said service charge is for the purpose of reimbursing Landlord for the extra costs and expenses in connection with the handling and processing of late payments. In addition to such service charge, if any Basic Rental payment is not paid by the tenth (10th) day following the day on which it becomes due, Tenant shall pay to Landlord, in addition to such Basic Rental payment and the service charge, interest on such Basic Rental payment calculated at the Maximum Rate from the date such Basic Rental payment was due until paid by Tenant. If any Additional Rent required to be paid or which becomes due under this Lease is not paid when due, Tenant shall pay to Landlord, in addition to such amounts, interest on such amounts at the Maximum Rate from the date such amounts were due until paid by Tenant.

Section 4.7 Independent Obligations. Any term or provision of this Lease to the contrary notwithstanding, except as explicitly set forth herein, the covenants and obligations of Tenant to pay Basic Rental and Additional Rent hereunder shall be independent from any obligations, warranties or representations, express or implied, if any, of Landlord herein contained.

ARTICLE V

OTHER ASSESSMENTS

Section 5.1 Payment of Impositions. Tenant covenants and agrees to pay during the term of this Lease, as Additional Rent within thirty (30) days of invoice therefor, Tenant's Share of all real estate taxes and special assessments (all of which are sometimes herein referred to as "Impositions"), which at any time during the term, may have been or may be assessed, levied, confirmed, imposed upon, or become a lien on the Property, or any portion thereof, or any appurtenance thereto. Tenant shall pay Tenant's Share of all special (or similar) assessments for public improvements or benefits which, during the term of this Lease shall be laid, assessed, levied or imposed upon or become payable or become a lien upon the Property, or any portion thereof; provided, however, that if by law any special assessment is payable (without default) or, at the option of Landlord, may be paid (without default) in installments (whether or not interest shall accrue on the unpaid balance of such special assessment), Tenant may pay the same, together with any interest accrued on the unpaid balance of such special assessment in installments as the same respectively become payable and before any fine, penalty, interest or cost may be added thereto for the nonpayment of any such installment and the interest thereon. Landlord represents to Tenant that as of the date of this Lease, Landlord has no knowledge of and has not received any written notice of any special assessments payable, levied or assessed with respect to the Property. Tenant shall pay Tenant's Share of all special assessments or installments thereof (including interest accrued thereon), whether heretofore or hereafter laid, assessed, levied or imposed upon the Property, or any portion thereof, which are due and payable during the term of this Lease. Landlord shall pay all installments of special assessments (including interest accrued on the unpaid balance), which are payable prior to the commencement and after the termination date of the term of this Lease. Tenant shall pay all real estate taxes, whether heretofore or hereafter levied or assessed upon the Property, or any portion thereof, which are due and payable during the term of this Lease. Landlord shall pay all real estate taxes and special assessments which are payable prior to the commencement of the term of this Lease. Provisions herein to the contrary notwithstanding, Landlord shall pay that portion of the real estate taxes and installments of special assessments due and payable in respect to the Property during the year the term commences and the year in which the term ends which the number of days in said year not within the term of this Lease bears to 365, and Tenant shall pay Tenant's Share of the balance of said real estate taxes and installments of special assessments during said years. Notwithstanding anything to the contrary, Tenant shall not be obligated to pay any assessment arising from or related to the original construction of the Building and/or development of the Property. Further, in the event the tax parcel within which the Building is situated contains undeveloped land, then Landlord shall make a fair and reasonable adjustment to the real estate taxes so that no undeveloped portion of land not associated with the Building is included in the real estate taxes being allocated to the Building.

Section 5.2 Other Impositions. If at any time during the term of this Lease, the present method of taxation shall be changed so that in lieu of the whole or any part of any taxes, assessments or governmental charges levied, assessed or imposed on real estate and the improvements thereon, there shall be levied, assessed or imposed on Landlord a capital levy or other tax directly on the Basic Rentals received therefrom and/or a franchise tax assessment, levy or charge measured by or based, in whole or in part, upon such Basic Rentals for the present or any future building or buildings on the Land, then all such taxes, assessments, levies or charges, or the part thereof so measured or based, shall be deemed to be included within the term "Impositions" for the purposes hereof.

Section 5.3 Landlord Right to Contest. The Landlord shall have the right to employ a tax consulting firm to attempt to assure a fair tax burden on the Premises within the applicable taxing jurisdiction. If Landlord has not elected to contest any taxes and Tenant has requested, in writing, that Landlord contest taxes, Landlord shall proceed with such appropriate proceedings as are commercially reasonable to contest the amount or validity of the taxes. Tenant shall pay to Landlord, within thirty (30) days of invoice therefor, as Additional Rent, Tenant's Share of the reasonable cost of such service.

Section 5.4 Landlord's Covenants. Landlord shall provide Tenant with a copy of all bills for Impositions promptly upon receipt thereof and in sufficient time for Tenant to examine same and determine whether Tenant desires to have Landlord contest the amount or validity of same. Landlord shall pay all Impositions that are levied or assessed by any lawful authority on the Premises and Landlord's other real property within the same tax parcel prior to the date same become overdue and Tenant shall reimburse Landlord for Tenant's Share thereof as provided for in this

Article V. As used in this Article V, the term "Tenant's Share " shall mean a fraction, the numerator of which shall be the gross leaseable area of the square footage of Premises and the denominator of which shall be equal to the aggregate of the gross leaseable area of the square footage of all buildings on the tax parcel on which the Building is located. If Landlord is permitted to pay Impositions in installments, then, whether or not Landlord elects to pay the Impositions in installments, Tenant's Share of such Impositions shall be determined based upon the installments which would have been payable (including interest which would accrue thereon) had the installment method been elected. Landlord shall use commercially reasonable efforts to obtain and maintain in effect any available tax abatements, exemptions, refunds, rebates or credits that may reduce Impositions for the Premises, and the Impositions for any tax year shall mean such amounts as shall be finally determined to be the Impositions payable during such tax year less any abatements, exemptions, refunds, rebates or credits made thereof, plus any costs and expenses actually incurred by Landlord in achieving or effecting any abatements, exemptions, refunds, rebates or credits. The parties shall make appropriate adjustments to previous reimbursements from Tenant to Landlord on account of any abatements, refunds, rebates or credits immediately following the determination of the amount of such abatements, refunds, rebates or credits. Landlord covenants and agrees to pay all Impositions prior to the last date that the same may be paid without penalty or interest, or if a discount shall be available for early payment, prior to the last day that such discount is available. Without cost to Tenant, Landlord shall bear all costs, including without limitation, interest, penalties, late charges and lost discount amounts, that are incurred as a result of (i) Landlord's failure to timely pay any installment of Impositions, or (ii) keep any existing abatement, exemption, refund, rebate or credit of Impositions in effect.

ARTICLE VI

UTILITIES

Landlord agrees to provide water, gas, sewer, electricity, and telephone service connections to the Premises; but Tenant shall pay for all water, gas, heat, light, power, telephone, sewer, fire sprinkler, lawn sprinkler charges and other utilities and services used on or from the Premises, together with any taxes, penalties, surcharges or the like pertaining thereto and any maintenance charges for utilities and shall furnish all electric light bulbs and tubes. Landlord shall in no event be liable for any interruption or failure of utility services on the Premises not caused by or attributable to the negligent acts or omissions of Landlord, its employees, agents, invitees or contractors. Prior to the Commencement Date, Tenant shall pay for all utilities or services at the Premises used by it or its agents, employees or contractors. Subject to the provisions of Section 8.7 and Tenant's responsibility for the payment of Tenant's Share of Common Area expenses, Landlord agrees to maintain all utilities and utility lines within the Common Area not maintained by public utilities, and the expenses relating to such maintenance shall be Common Area expenses.

ARTICLE VII

USE; COMPLIANCE WITH LAWS

Section 7.1 Permitted Use. Tenant shall use the Premises only for the Permitted Use (as defined in Article I(f) hereof). Tenant will not occupy or use the Premises, or permit any portion of the Premises to be occupied or used, for any business or purpose other than the Permitted Use without Landlord's prior written consent or for any use or purpose which is unlawful in part or in whole or deemed to be disreputable in any manner or extrahazardous on account of fire, nor permit anything to be done which will in any way increase the rate of fire insurance on the Building or contents; and in the event that, by reason of acts of Tenant, there shall be any increase in the rate of insurance on the Building or contents created by Tenant's acts or conduct of business men such acts of Tenant shall be deemed to be an event of default hereunder, unless Tenant hereby agrees to pay to Landlord the amount of such increase on demand and acceptance of such payment shall not constitute a waiver of any of Landlord's other rights provided herein. Tenant will conduct its business and control its agents, employees and invitees in such a manner as not to create any nuisance, nor interfere with, annoy or disturb other tenants or Landlord in management of the project of which the Premises form a part. Landlord agrees to include a provision substantially similar to the preceding sentence within other tenant leases respecting the Building. Tenant will maintain the Premises in a clean, healthful and safe condition and will comply with all laws, ordinances, orders, rules and regulations (state, federal, municipal and other agencies or bodies having any jurisdiction thereof) as provided for in Section 7.3 below. Tenant will not, without the prior written consent of Landlord, paint, install lighting or decoration, or install any signs, window or door lettering or advertising media of any type on or about the Premises or any part (hereof). Should Landlord agree in writing to any of the items in the preceding sentence, Tenant will maintain such permitted item in good condition and repair at all times. Outside storage, including but not limited to trucks or other vehicles, is also prohibited without Landlord's prior written consent.

Section 7.2 Hazardous Materials.

(a) As used in this Lease, the term "Hazardous Material " means any flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials, including any substances defined as or included in the definition of "hazardous substances ", "hazardous wastes ", "infectious wastes ", "hazardous materials " or "toxic substances " now or subsequently regulated under any applicable federal, state or local laws or regulations including, without limitation, oil, petroleum-based products, paints, solvents, lead, cyanide, DDT> printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, PCBs and similar compounds, and including any different products and materials which are subsequently found to have adverse effects on the environment or the health and safety of persons.

(b) As used in this Lease, the term "Hazardous Materials Laws " shall mean all federal, state and local laws, ordinances and regulations relating to industrial hygiene, environmental protection or the use, analysis, generation, manufacture, storage, presence, disposal or transportation of any Hazardous Materials.

(c) Tenant shall not cause or permit any Hazardous Material to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Premises or the Property, by Tenant, its agents, employees, licensees, invitees, business associates, sublessees, assigns, contractors, subcontractors or others acting for or on behalf of Tenant (collectively, "Tenant Related Party ") without the prior written consent of Landlord. Landlord shall be entitled to take into account such other factors or facts as Landlord may in its good faith business judgment determine to be relevant in determining whether to grant, condition or withhold consent to Tenant's proposed activity with respect to Hazardous Material. Landlord acknowledges that incidental to Tenant's business operations, Tenant plans to store carpet and adhesives which may contain Hazardous Materials, office supplies, cleaning materials and other similar substances of the type and quantities typically associated with the operation and maintenance of a warehouse operation (the "Permitted Substances "). Tenant may store and utilize the Permitted Substances as long as Tenant complies with all Hazardous Materials Laws and obtains all permits and approvals relating to the use, treatment and disposal thereof and (except for office supplies, cleaning materials and similar substances) so long as all such Permitted Substances remain, at all times, in their original container and are not used for any purposes in or about the Premises or the Property. Tenant shall indemnify, defend and hold Landlord and each of Landlord's partners, shareholders, officers, directors, employees, agents, attorneys, investment advisors, portfolio managers, trustees, ancillary

trustees, and their affiliates, successors and assigns and their respective partners, shareholders, officers, directors and employees (collectively, "Indemnitees ") free and harmless from any and all actions (including, without limitation, remedial or enforcement actions of any kind, administrative or judicial proceedings, and orders or judgments arising out of or resulting therefrom), costs, claims, damages (including, without limitation, punitive damages), expenses (including, without limitation, attorneys', consultants' and experts' fees, court costs and amounts paid in settlement of any claims or actions), fines, forfeitures or other civil, administrative or criminal penalties, injunctive or other relief (whether or not based upon personal injury, property damage, contamination of, or adverse effects upon, the environment, water tables or natural resources), liabilities or losses (economic or other) (collectively, the "Claims ") arising from a breach of this prohibition by Tenant or any Tenant Related Party or arising from the use, storage, treatment or disposal of any Permitted Substances. In no event, however, shall Landlord be required to consent to the installation or use of any storage tanks in, on or under the Premises or the Property. If Landlord consents to the generation, production, use, storage, treatment or disposal of Hazardous Materials (including, but not limited to the Permitted Substances) in or about the Premises by Tenant or any Tenant Related Party, then, in addition to any other requirements or conditions that Landlord may impose in connection with such consent, (1) Tenant promptly shall deliver to Landlord copies of all permits, approvals, filings, reports and hazardous waste manifests reflecting the legal and proper generation, production, use, storage, treatment or disposal of all Hazardous Materials generated, used, stored, treated or removed from the Premises and the Property and, upon Landlord's request, copies of all hazardous waste manifests relating (hereto, and (2) upon expiration or earlier termination of this Lease, Tenant shall cause all Hazardous Materials arising out of or related to the use or occupancy of the Premises and the Property by Tenant or any Tenant Related Party to be removed from the Premises and transported for use, storage or disposal in accordance with all applicable laws, regulations and ordinances, and Tenant shall provide Landlord with evidence reasonably satisfactory to Landlord of compliance with all applicable laws, regulations and ordinances.

(d) In the event that Hazardous Materials are discovered upon, in, or under the Premises, and the applicable governmental agency or entity having jurisdiction over the Premises requires the removal of such Hazardous Materials, Tenant shall be responsible for removing those Hazardous Materials arising out of or related to the use or occupancy of the Premises by Tenant or any Tenant Related Party. Landlord warrants and represents to Tenant that, to Landlord's actual knowledge, no Hazardous Materials are located on, in or under the Property that would interfere with Tenant's use or occupancy of the Premises or would cause Tenant any liability, cost or expense. Notwithstanding the foregoing, Tenant shall not take any remedial action in or about the Premises or the Property, nor enter into any settlement agreement, consent decree or other compromise with respect to any claims relating to any Hazardous Material in any way connected with the Premises or the Property without first notifying Landlord of Tenant's intention to do so and affording Landlord the opportunity to appear, intervene or otherwise appropriately assert and protect Landlord's interest with respect thereto. Tenant immediately shall notify Landlord in writing of: (1) any spill, release, discharge or disposal of any Hazardous Material in, on or under the Premises or the Property or any portion thereof, (2) any enforcement, cleanup, removal or other governmental or regulatory action instituted, contemplated or threatened pursuant to any Hazardous Materials Laws; (3) any claim made or threatened by any person against Tenant or the Premises or the Property relating to damage, contribution, cost recovery, compensation, loss or injury resulting from or claimed to result from any Hazardous Materials; and (4) any reports made to any environmental agency arising out of or in connection with any Hazardous Materials in, on or removed from the Premises or the Property, including any complaints, notices, warnings, reports or asserted violations in connection therewith. Tenant also shall supply to Landlord as promptly as possible, and in any event within five (5) business days after Tenant first receives or sends the same, copies of all claims, reports, complaints, notices, warnings or asserted violations relating in any way to the Premises, the Property or Tenant's use thereof.

(e) In the event (i) Hazardous Materials are discovered upon, in or under the Premises or the Property and (ii) Landlord has been given written notice of the discovery of such Hazardous Materials, then and in that event Landlord may voluntarily, but shall not be obligated to (unless the existence of such Hazardous Materials has resulted from the acts of Landlord), take all necessary action to bring the Premises and the Property into compliance with Hazardous Materials Laws at Landlord's sole cost ("Landlord's Remediation Activities "). Tenant agrees not to interfere unreasonably with Landlord's Remediation Activities, and should Landlord elect to pursue Landlord's Remediation Activities, Landlord agrees to perform such activities so as not to interfere unreasonably with Tenant's occupancy and operations of the Premises.

(f) (f) The respective rights and obligations of Landlord and Tenant under this Section 7.2 shall survive the expiration or earlier termination of this Lease.

Section 7.3 Compliance with Laws and Ordinances. Tenant shall, throughout the term of this Lease, and at Tenant's sole cost and expense, promptly comply or cause compliance with or remove or cure any violation of any and all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state, municipal and other governmental bodies having jurisdiction over the Premises and the appropriate departments, commissions, boards and officers thereof, and the orders, rules and regulations of any other body now or hereafter constituted exercising lawful or valid authority over the Premises, or any portion thereof, or the sidewalks, curbs, roadways, alleys, entrances or railroad track facilities adjacent or appurtenant thereto, or exercising authority with respect to the use or manner of use of the Premises, or such adjacent or appurtenant facilities, and whether the compliance, curing or removal of any such violation and the costs and expenses necessitated thereby shall have been foreseen or unforeseen, ordinary or extraordinary, and whether or not the same shall be presently within the contemplation of Landlord or Tenant or shall involve any change of governmental policy, or require structural or extraordinary repairs, alterations or additions by Tenant and irrespective of the costs thereof. Landlord represents to Tenant that as of the date of this Lease, Landlord has received no notice of the Property or any portion thereof failing to comply with any applicable laws, ordinances, orders, rules, regulations or requirements of any federal, state, municipal and other governmental bodies having jurisdiction over the Premises (collectively, "Governmental Requirements "). Notwithstanding anything herein to the contrary, Tenant shall have no obligation to comply with or pay or contribute to the cost of any compliance with (i) any future Governmental Requirements that would require any alterations to the structure or foundation of the Building and which apply generally to all occupants of buildings and are not specifically occasioned by Tenant's Permitted Use (as opposed to the general use of the Premises by any lessee); provided, however, that, if any alteration to the Building is required to comply with Tenant's particular use of the Premises, then Tenant shall be responsible for such compliance and (ii) any Governmental Requirements in effect and as interpreted as of the Commencement Date regarding the Leasehold Improvements; the Premises, the Building and the Common Areas (specifically excluding, however, ongoing routine maintenance thereof which is otherwise addressed in this Lease; any work done by Tenant or on Tenant's behalf other than by Landlord; and the day to day operation of Tenant's business within the Premises). As to any law, regulation or ordinance the compliance of which is Tenant's responsibility under this Section 7.3, Tenant shall have the right to contest the application or enforcement thereof so long as such contest is conducted in good faith and at no cost or expense to Landlord and would not result in any liability to Landlord.

Section 7.4 Compliance with Permitted Encumbrances. Tenant, at its sole cost and expense, shall comply with all agreements, contracts, easements, restrictions, reservations or covenants, if any, set forth in Exhibit "B " attached, or hereafter created by Tenant or consented to, in writing, by Tenant or requested, in writing, by Tenant. Tenant shall also comply with, observe and perform all provisions and requirements of all policies of insurance at any time in force with respect to the Premises and required to be obtained and maintained under the terms of Article XV hereof.

ARTICLE VIII

REPAIRS AND MAINTENANCE

Section 8.1 By Landlord. Landlord shall at its expense maintain (except in the event of casualty or other damage contemplated in Article XVI hereof, in which event the terms of that Article will control) only the roof, foundation and the structural soundness of the exterior walls of the Building (excluding all windows, window glass, plate glass, and all doors) in good repair and condition, except for reasonable wear and tear. Tenant shall give prompt written notice to Landlord of the need for repairs or corrections and Landlord shall proceed within a reasonable time after receiving such notice to make such repairs or corrections. Except as otherwise expressly provided in Article XXXI hereof, Landlord's liability hereunder shall be limited to the cost of such repairs or corrections. Tenant shall repair and pay for any damage caused by the negligence or default hereunder of or by Tenant, its employees, agents or invitees; the cost of any such damage which is paid by Landlord shall be deemed Additional Rent which is immediately due and owing from Tenant within ten (10) days after written demand therefor by Landlord.

Section 8.2 By Tenant. Tenant shall at its own cost and expense keep and maintain all parts of the Premises (except those for which Landlord is expressly responsible under the terms of this Lease) in good condition, reasonable wear and tear excepted, promptly making all necessary repairs and replacements, including but not limited to, windows, glass and plate glass, doors, and special office entries, interior walls and finish work, floors and floor coverings (other than normal wear and tear), downspouts, gutters, heating, air conditioning and ventilation systems, dock boards, truck doors, dock bumpers, plumbing work and fixtures, pest extermination, regular removal of trash and debris, keeping the whole of the Premises in a clean and sanitary condition. Tenant shall not be obligated to repair any damage caused by fire, tornado or other casualty covered by the insurance to be maintained by Landlord pursuant to the provisions of this Lease, except that Tenant shall be obligated to repair all wind damage to glass not covered by the insurance Landlord is required to maintain hereunder (or actually covered by any of Landlord's insurance) except with respect to tornado or hurricane damage and with respect to any damage required to be covered by Landlord's insurance, as provided for in Article XV below, or is actually covered by insurance carried by Landlord.

Section 8.3 Prohibition Against Waste. Tenant shall not do or suffer any waste or damage,

disfigurement or injury to the Premises, or any improvements hereafter erected thereon, or to the fixtures or equipment therein, or permit or suffer any overloading of the floors or other use of the Building or the Premises that would place an undue stress on the same or any portion thereof beyond that for which the same was designed.

Section 8.4 Landlord's Right to Effect Repairs. If Tenant should fail to perform any of its obligations under this Article VIII, then Landlord may, if it so elects, in addition to any other remedies provided herein, effect such repairs and maintenance. Any sums expended by Landlord in effecting such repairs and maintenance shall be due and payable, on demand, together with interest thereon at the Maximum Rate from the date of each such expenditure by Landlord to the date of repayment by Tenant prior to effecting such repairs on behalf of Tenant, Landlord shall provide Tenant with the opportunity to cure provided for in subparagraph (b) of Article XX (except, however, in case of emergencies or in order to mitigate Landlord's damages, in which case, such notice as is reasonable shall be given).

Section 8.5 Misuse or Neglect. Tenant shall be responsible for all repairs to the Building which are made necessary by any misuse or neglect by: (i) Tenant or any of its officers, agents, employees, contractors, licensees, or subtenants; or (ii) any visitors, patrons, guests, or invitees of Tenant or its subtenant while in or upon the Premises. Landlord shall be responsible for all repairs to the Building arising after the Commencement Date caused by the negligence or default hereunder of or by Landlord or any of its employees or agents.

Section 8.6 Maintenance/Service Contracts. Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a reputable maintenance contractor for servicing all heating, ventilation and air conditioning systems within or serving the Premises. The service contract must include all services suggested by the equipment manufacturer within the operation/maintenance manual and must become effective (and a copy thereof delivered to Landlord) within thirty (30) days of the date Tenant takes possession of the Premises.

Section 8.7 Common Area.

(a) Landlord hereby grants to Tenant for the term of this Lease (including all extensions and renewals thereof) the non-exclusive easement and right to use the Common Areas in common with Landlord and the other tenants of the Property for parking, ingress and egress, loading and unloading and other Common Area purposes. Landlord shall be responsible for the operation, maintenance and management of the Common Area and the facilities located therein, the manner of maintenance and the expenditures therefor to be in the discretion of Landlord, but shall in all events keep the Common Areas in good condition and repair so as not to materially interfere with Tenant's use and occupancy of the Premises for its Permitted Use. In this regard, Landlord shall perform or have performed the paving (including striping and bumpers), landscape maintenance, landscape replacement, exterior painting, maintenance of exterior lighting fixtures, maintenance of tenant directories and the maintenance of the irrigation systems and common sewerage line plumbing.

(b) Tenant shall be liable to Landlord for Tenant's Share of all the costs and expenses relating to the maintenance and operation of the Common Area, including but not limited to, the cost for mowing of grass; care of shrubs; landscape replacement; general landscaping; maintenance of parking areas, parking lot improvements, driveways and alleys; exterior repainting, maintenance of the exterior lighting fixtures; maintenance of tenant directories; the maintenance of the irrigation systems and common sewerage line plumbing; the cost of insurance and a management fee (the "Management Fee") equal to one and one-half percent (1.5%) of the Basic Rental under this Lease. Additionally included within the costs and expenses relating to the operation and maintenance of the Common Area are any costs incurred in complying with or removing or curing any violation of all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state, municipal and other governmental bodies having jurisdiction over the Property or any portion thereof. Following calendar year 2003, Tenant's Share of "controllable Common Area expenses" shall not be increased by more than five percent (5%) over Tenant's Share of "controllable Common Area expenses" for the previous calendar year. For the purposes hereof, the term "controllable Common Area expenses" shall be limited to those expenses relating to the Common Area which are within the direct control and discretion of Landlord, but shall not include, without limitation, utility charges, insurance premiums, Impositions, the cost of effecting compliance with any applicable laws and the Management Fee. If Tenant is identified as being responsible for any damage to the Common Area or any facilities located therein (including, without limitation obstructions or stoppage of the common sanitary sewerage line), then Tenant shall pay the entire cost of repairing same upon demand by Landlord. Tenant's Share of all Common Area costs and expenses shall be payable by Tenant to Landlord within ten (10) days after a statement of actual expenses is presented to Tenant, and shall be subject to periodic estimated payments as provided in Section 4.2 hereof.

Common Area costs and expenses to be shared by Tenant shall not include (i) expenses incurred in leasing space, such as legal expense, brokerage commissions or advertising or promotional expenses, (ii) interest and amortization under mortgages or any other secured or unsecured loan payable by Landlord, (iii) expenses separately reimbursed by any other tenants of the Property other than pursuant to the proportionate Common Area costs and expenses provisions in their respective leases, (iv) financing and refinancing costs, including fees paid by Landlord to obtain financing or refinancing such as origination fees and brokerage commissions, (v) non-cash depreciation, (vi) costs incurred in connection with the enforcement of leases, including attorneys' fees or other costs and expenses incurred in connection with summary proceedings to dispossess any other tenant, (vii) costs for repaving and restriping of the entirety of the parking area to the extent such costs exceed the reasonable costs for such paving and striping, but Common Area costs and expenses may include repaving and restriping performed not more often than once every ten (10) years for paving and more often than once every four (4) years for striping, and shall also include any patching or repairs of paved areas, (viii) any expenses associated with any special requirements of a particular tenant in connection with the Common Areas or the maintenance thereof, (ix) any insurance premium increase caused by the use of its premises by Landlord or any tenant other than Tenant or any such increase in premium attributable to vacant space and (x) costs incurred by Landlord to modify and/or expand the Common Area in connection with the construction of the Adjacent Building.

(c) Landlord or such other person as Landlord may appoint shall have the exclusive control and management of the Common Area and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Tenant agrees to abide by and conform to all such rules and regulations and to cause its employees, suppliers, shippers, customers and invitees to so abide and conform. Landlord shall not be responsible to Tenant for the non-compliance with said rules and regulations by any other tenants within the Building. Notwithstanding anything herein to the contrary, no rule or regulation not contained herein or attached as an exhibit hereto shall be binding upon Tenant unless same is reasonable in nature, does not unreasonably interfere with Tenant's use of the Premises for the Permitted Use, is applicable to all other tenants and occupants of the Property and is administered by Landlord in a reasonable manner for the beneficial operation of the Property by all tenants thereof.

(d) Under no circumstances shall the Tenant have the right to store any property, temporarily or permanently, within the Common Area. Any such storage shall be permitted only with the prior written consent by Landlord or Landlord's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Landlord shall have the right, with the notice provided for in subparagraph (b) of Article XX (or earlier in the case of emergencies or to mitigate Landlord's damages), in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Tenant, which cost shall be immediately payable within ten (10) days after invoice therefor by Landlord.

(e) Landlord shall have the right, at Landlord's sole discretion and from time to time to (i) make changes to the Common Area, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (ii) close temporarily any portion of the Common Area for maintenance purposes so long as reasonable access to the Premises remains available; (iii) designate other land outside the boundaries of the Property to be a part of the Common Area; (iv) add additional buildings and improvements to the Common Area; (v) use the Common Area while engaged in making additional improvements or alterations to the Building, the Property, or any portions thereof; and (vi) do and perform such other acts and make such other changes in, to or with respect to the Common Area and the Property as Landlord may, in its discretion, deem to be appropriate, as long as none of the foregoing materially and unreasonably interferes with Tenant's use of the Premises or Common Areas as to parking, access or loading, unloading or shipping articles contained in the Premises. Additionally, no material change to the Common Areas shall be made that would materially affect Tenant without Tenant's prior written consent, such consent not to be unreasonably withheld or delayed and which consent shall be deemed granted unless expressly denied in writing within thirty (30) days following Landlord's request therefor.

ARTICLE IX

ALTERATIONS AND IMPROVEMENTS

At the expiration or earlier termination of this Lease, Tenant shall deliver up the Premises with all improvements located thereon (including all mechanical, plumbing and HVAC systems) in good repair and condition, reasonable wear and tear excepted and also excepting any casualty to the extent Landlord is adequately and sufficiently compensated therefor by means of available insurance proceeds, and shall deliver to Landlord all keys to the Premises. Tenant shall also remove all trash and debris from the Premises and leave same in a "broom clean" condition. The cost and expense repairs necessary to restore the condition of the Premises to the condition in which they are to be delivered to Landlord according to the immediately preceding sentence shall be borne by Tenant. Tenant will not make or allow to be made any alterations or physical additions in or to the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld as to interior, cosmetic, non-structural alterations. All alterations, additions or improvements (whether temporary or permanent in character) made in or upon the Premises, either by Landlord or Tenant, shall be Landlord's property on expiration or earlier termination of this Lease and shall remain on the Premises without compensation to Tenant. All furniture, movable trade fixtures and equipment installed by Tenant may be removed by Tenant at the expiration or earlier termination of this Lease if Tenant so elects, and shall be so removed if required by Landlord, or if not so removed shall, at the option of Landlord, become the property of Landlord. All such installations, removals and restoration shall be accomplished in a good, workmanlike manner so as not to damage the Premises or the primary structure or structural qualities of the Building, the other improvements or the plumbing, electrical lines or other utilities.

ARTICLE X

INDEPENDENT OBLIGATIONS

All Basic Rental and Additional Rent shall be paid by Tenant to Landlord without abatement, deduction, diminution, deferment, suspension, reduction or setoff, except as otherwise explicitly provided for herein, and the obligations of Tenant shall not be affected by reason of damage to or destruction of the Premises from whatever cause; nor shall the obligations of Tenant be affected by reason of any condemnation, eminent domain or like takings (except as provided in Articles XVI and XVII hereof). It is the further express intent of Landlord and Tenant that (a) the obligations of Landlord and Tenant hereunder shall be separate and independent covenants and agreements and that the Basic Rental and Additional Rent, and all other charges and sums payable by Tenant hereunder, shall commence at the times provided herein and shall continue to be payable in all events unless the obligations to pay the same shall be terminated or modified pursuant to an express provision in this Lease; (b) all Impositions, insurance premiums, utility expense, repair and maintenance expense (except as expressly stated to be otherwise herein), and all other costs, fees, interest, charges, expenses, reimbursements and obligations of every kind and nature whatsoever relating to the Premises, or any portion

thereof; which Tenant has agreed to pay pursuant to this Lease during the term of this Lease, or any extension or renewal thereof, shall be paid or discharged by Tenant as Additional Rent.

ARTICLE XI

ASSIGNMENT AND SUBLETTING

Tenant shall not assign this Lease, or allow it to be assigned, in whole or in part, by operation of law or otherwise or mortgage or pledge the same, or sublet the Premises, or any part thereof, without the prior written consent of Landlord and in no event shall any such assignment or sublease ever release Tenant from any obligation or liability hereunder. No assignee or sublessee of the Premises or any portion thereof may assign or sublet the Premises or any portion thereof.

If the Tenant desires to assign or sublet all or any part of the Premises, it shall so notify Landlord at least thirty (30) days in advance of the date on which Tenant desires to make such assignment or sublease. Tenant shall provide Landlord with a copy of the proposed assignment or sublease, and such information as Landlord might request concerning the proposed assignee or subtenants) to allow Landlord to make informed judgments as to the financial condition, reputation, operations and general desirability of the proposed assignee or subtenants). Landlord shall request said information no later than fifteen (15) days after it has received Tenant's proposed assignment or sublease. Within fifteen (15) days after Landlord's actual receipt of Tenant's proposed assignment or sublease, and all required information concerning the proposed assignee or subtenants), Landlord shall have the option to:

(a) Consent to the proposed assignment or sublease; or

(b) Withhold (but not unreasonably) its consent to the proposed assignment or sublease, but allow Tenant to continue in the search for an assignee or sublessee that may be acceptable to Landlord. Notwithstanding any permitted assignment or subletting, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of the Rent herein specified and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Upon the occurrence of an "event of default" as hereinafter defined, if the Premises or any part thereof are then assigned or sublet, Landlord, in addition to any other remedies herein provided, or provided by law, may at its option collect directly from such assignee or subtenant all rents becoming due to Tenant under such assignment or sublease and apply such rents against any sums due to Landlord from Tenant hereunder, and no such collection shall be construed to constitute a novation or a release of Tenant from the further performance of Tenant's obligations hereunder. In the event of the transfer and assignment by Landlord of its interest in this Lease and the Premises, and the assumption of Landlord's future obligations hereunder by the transferee, Landlord shall thereby be released from any further obligations hereunder, and Tenant agrees to look solely to such successor in interest of the Landlord for performance of such obligations occurring after the date of such transfer.

If Landlord consents to Tenant assigning its interest under this Lease or subletting all or any portion of the Premises, Tenant shall pay to Landlord (in addition to the Basic Rental and all other amounts payable by Tenant under this Lease) fifty percent (50%) of all "Net Profit" (as hereinafter defined) within ten (10) days following receipt thereof by Tenant. For the purpose hereof, the term "Net Profit" shall mean the total consideration received by Tenant from an assignee or sublessee (including any bonus payments and payments for operating expenses) incidental to an assignment or sublease less the actual costs incurred by Tenant in performing alterations or leasehold improvement for the assignee or sublessee, Tenant's legal fees and all leasing commissions paid by Tenant incidental to such assignment or sublease. In no event will the Basic Rental be reduced as a result of the sum of all assignment and sublease rents and consideration being less than the Basic Rental. Said additional amount shall be paid to Landlord immediately upon receipt by Tenant of such rent or other considerations from the assignee or subtenant.

Notwithstanding anything in this Lease to the contrary, no consents from Landlord shall be required with respect to an assignment of this Lease or a sublease of all or any portion of the Premises to any party that controls, is controlled by or is under common control with Tenant or any guarantor of this Lease or an Assignment of this Lease incidental to the sale of all or substantially all of Aladdin Manufacturing Corporation's assets in the State of Texas; provided, however, that any assignee assumes the obligations of Tenant relating to this Lease. Tenant shall promptly provide Landlord with written notice of such assignment or subletting.

ARTICLE XII

LIABILITY

Landlord shall not be liable to Tenant or Tenant's employees, agents, patrons or visitors, or to any other person whomsoever, for any injury to person or damage to property on or about the Premises, resulting from and/or caused in part or whole by the negligence or misconduct of Tenant, its agents, servants or employees, or of any other person entering upon the Premises, or caused by the Building or other improvements becoming out of repair, or caused by leakage of gas, oil, water or steam or by electricity emanating from the Premises, or due to any cause whatsoever, except injury to persons or damage to property the sole cause of which is the negligence or willful misconduct of Landlord, and Tenant hereby covenants and agrees that it will at all times indemnify and hold safe and harmless the Premises, the Landlord, Landlord's agents and employees from any loss, liability, claims, suits, costs, expenses, including without limitation attorney's fees and damages, both real and alleged, arising out of any such damage or injury or out of breach or default by Tenant hereunder. The provisions of this paragraph shall survive the expiration or earlier termination of this Lease. Landlord agrees to indemnify and hold Tenant harmless from and against any and all liabilities, costs, expenses, claims, damages or causes of action for damages (including without limitation reasonable attorneys' fees and other costs of legal representation) arising from or attributable to Landlord's gross negligence or willful misconduct or Landlord's breach or default of its obligations under this Lease following the expiration of the applicable period for the cure thereof.

ARTICLE XIII

MORTGAGES

Tenant accepts this Lease subject to any deeds of trust, security interests or mortgages which might now or hereafter constitute a lien upon the Premises and to deed restrictions, zoning ordinances and other building and fire ordinances and governmental regulations relating to the use of the Premises. Tenant shall at any time hereafter, on demand, execute any instruments, releases or other documents that may be reasonably required by any mortgagee for the purpose of subjecting and subordinating this Lease to the lien of any such deed of trust, security interest or mortgage. Tenant agrees to attorn to any mortgagee, trustee under a deed of trust or purchaser at a foreclosure sale or trustee's sale as Landlord under this Lease. With respect to any deed of trust, security interest or mortgage hereafter constituting a lien on the Premises, Landlord, at its sole option, shall have the right to waive the applicability of this paragraph so that this Lease will not be subject and subordinate to any such deed of trust,

security interest or mortgage. Tenant shall upon request by Landlord, execute and deliver from time to time, one or more instruments certifying that this Lease is in full force and unmodified (or if modified stating the date and nature of each modification), the date through which the Basic Rent has been paid, the unexpired term of this Lease, and such other matters pertaining to this Lease as may be requested by Landlord. Notwithstanding the foregoing, this Lease shall not be subordinate to mortgages or deeds or trust hereafter arising unless and until Landlord has provided Tenant with an agreement (herein, "Non-Disturbance Agreement") from the holder of such lien confirming that so long as Tenant is not in default in the performance of any covenants, conditions, terms or provisions of this Lease, Tenant's right of occupancy under this Lease shall not be disturbed. Landlord shall provide Tenant with a Non-Disturbance Agreement for any mortgage now affecting the Premises prior to the Commencement Date.

ARTICLE XIV

INSPECTION

Landlord and Landlord's agents and representatives shall have the right to enter upon and inspect the Premises at any reasonable time during business hours, for the purpose of ascertaining the condition of the Premises or in order to make such repairs as may be required or permitted to be made by Landlord, and Landlord's agents and representatives shall have the right to enter upon the Premises at any reasonable time during business hours for the purpose of showing the Premises and shall have the right to erect on the Premises a suitable sign indicating the Premises are available for lease or for sale.

ARTICLE XV

INSURANCE; WAIVER OF SUBROGATION

Landlord agrees to maintain an "all risk" insurance policy covering the Building in an amount equal to the "replacement cost" thereof, insuring against the perils of fire, lightning, vandalism, malicious mischief and loss of rent and all other risks of direct physical loss. Subject to the provisions of this Lease, such insurance for the Building shall be for the sole benefit of Landlord and under its sole control. Tenant agrees to pay to Landlord, as Additional Rent, Tenant's Share of Landlord's cost of maintaining such insurance, together with such other insurance as Landlord deems reasonable and prudent. Said payments shall be made to Landlord immediately upon presentation to Tenant of Landlord's statement setting forth the amount due, which statement shall be accompanied by a copy of the premium notice received by Landlord. In the event any such amount is not paid within twenty (20) days after the presentation to Tenant of the amount so due, the unpaid amount shall bear interest at the Maximum Rate from the date of such presentation until paid by Tenant. Any payment to be made pursuant to this paragraph with respect to the year in which this Lease commences, expires or otherwise terminates shall bear the same ratio to the payment which would be required to be made for the full year as the part of such year covered by the term of this Lease bears to a full year.

Tenant shall procure and maintain throughout the term of this Lease a policy or policies of general commercial liability insurance, at its sole cost and expense, naming as additional insureds Landlord, and Landlord's managing agent and Tenant against all claims, demands or actions arising out of or in connection with: (i) the Premises; (ii) the condition of the Premises; (iii) Tenant's operations in and maintenance and use of the Premises; and (iv) Tenant's liability assumed under this Lease, the limits of such policy or policies to be in the amount of not less than \$2,000,000.00 combined single limited/aggregate coverage. All such policies shall be procured by Tenant from responsible insurance companies satisfactory to Landlord, and any such coverage shall be deemed primary and non-contributory to any liability coverage secured by Landlord. Certificates evidencing such coverage, together with receipts evidencing payment of premiums therefor, shall be delivered to Landlord prior to the Commencement Date of this Lease. Not less than fifteen (15) days prior to the expiration date of such coverage, certificates evidencing the renewal thereof shall be delivered to Landlord. Such certificates shall further provide that not less than thirty (30) days written notice shall be given to Landlord before such coverage may be canceled or changed.

Anything in this Lease to the contrary notwithstanding, the parties hereto waive any and all rights of recovery, claim, action or cause of action against each other, their agents, partners, officers, and employees, for any loss or damage that may occur to the Premises hereby demised, or any improvements thereto, or the Building, or any improvements thereto, by reason of fire, the elements, or any other cause which could be insured against under the terms of "all-risk" insurance policies, regardless of cause or origin, including negligence of the parties hereto, their agents, partners, officers, and employees. Each party shall cause any policy of insurance carried by it to include a waiver of subrogation in favor of the other party affecting the waiver of claims set forth in the immediately preceding sentence.

ARTICLE XVI

DESTRUCTION AND RESTORATION

If the Building should be damaged or destroyed by fire, tornado or other casualty, Tenant shall give prompt written notice thereof to Landlord.

If the Building should be totally destroyed by fire, tornado or other casualty, or if it should be so damaged thereby that rebuilding or repairs cannot in Landlord's estimation be completed within one hundred eighty (180) days after the date upon which Landlord is notified by Tenant of such damage, this Lease shall terminate and the Rent shall be abated during the unexpired portion of this Lease, effective upon the date of the occurrence of such damage. Landlord shall notify Tenant in writing within forty-five (45) days after such damage or destruction, whether Landlord shall rebuild the Building within one hundred eighty (180) days. If Landlord does not so notify Tenant, Tenant shall be at liberty to terminate this Lease by written notice to Landlord given after said forty-five (45) day period but prior to the date that Landlord has notified Tenant that it shall rebuild the Premises.

If the Building should be damaged by any peril covered by the insurance to be provided by Landlord pursuant to the provisions of this paragraph, but only to such extent that rebuilding or repairs can in Landlord's estimation be completed within one hundred eighty (180) days after the date upon which Landlord is notified by Tenant of such damage, this Lease shall not terminate, and Landlord shall at its sole cost and expense thereupon proceed with reasonable diligence to rebuild and repair the Building to substantially the condition in which it existed prior to such damage, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, additions and other improvements (other than the Leasehold Improvements described in Section 3.2 hereof) which may have been placed in, on or about the Premises by Tenant and except that Tenant shall pay to Landlord, upon demand, Tenant's Share of any applicable deductible amount specified under Landlord's insurance (which, during the primary term of this Lease only, shall be limited to a maximum of \$10,000.00 for Tenant's Share). The Rent payable hereunder, shall abate by reason of damage or destruction to the extent that the Premises are rendered unusable by Tenant by peril for which the Landlord is required to insure pursuant to the terms of this Lease. In the event that Landlord should fail to commence such repairs and rebuilding within ninety (90) days or to complete such repairs and rebuilding within one hundred eighty (180) days after the date upon which Landlord

is notified by Tenant of such damage. Tenant may at its option terminate this Lease by delivering written notice of termination to Landlord as Tenant's exclusive remedy, whereupon all rights and obligations hereunder (other than those which survive the termination of this Lease) shall cease and terminate.

Notwithstanding anything herein to the contrary, in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Building or the Premises requires that the insurance proceeds be applied to such indebtedness, then Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such requirement is made by any such holder, whereupon all rights and obligations hereunder (other than those which survive the termination of this Lease) shall cease and terminate, subject, however, to in terms of the Non-Disturbance Agreement.

ARTICLE XVII

CONDEMNATION

If the whole or any substantial part of the Premises should be taken for any public or quasi-public use under governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof and the taking would prevent or materially interfere with the use of the Premises for the purposes contemplated by the Permitted Use, this Lease shall terminate and the Basic Rental shall be abated during the unexpired portion of this Lease, effective when the physical taking of said Premises shall occur. If part of the Premises shall be taken for any public or quasi-public use under any governmental law, ordinance or by right of eminent domain, or by private purchase in lieu thereof, and this Lease is not terminated as provided in this paragraph, this Lease shall not terminate but the Basic Rental payable hereunder during the unexpired portion of this Lease shall be reduced to such extent as may be fair and reasonable under all of the circumstances.

In the event of any such taking or private purchase in lieu thereof, Landlord shall be entitled to receive the entire price or award from any such taking or private purchase in lieu thereof without any payment to Tenant, and Tenant hereby assigns to Landlord Tenant's interest, if any, in such award. Landlord shall have full power and authority to negotiate with any public authority and to direct and control any legal proceedings involving or related to any such taking or private purchase in lieu thereof. Tenant shall have the right, to the extent that same shall not diminish Landlord's award, to make a separate claim against the condemning authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant for loss of business or good will or for the taking of Tenant's trade fixtures, if a separate award for such items is made to Tenant.

ARTICLE XVIII

HOLDING OVER

Should Tenant, or any of its successors in interest, hold over the Premises, or any part thereof after the expiration of the Lease Term, unless otherwise agreed in writing, such holding over shall constitute and be construed as tenancy from month to month only, at a Basic Rental equal to the Basic Rental payable for the last month of the term of this Lease plus fifty percent (50%) of such amount. The holding over by Tenant, or any of its successors, for any part of a month shall entitle Landlord to collect the Rent called for under this paragraph for the entirety of such month. The provisions of this paragraph shall not be construed as Landlord's consent for the Tenant to hold over.

ARTICLE XIX

TAXES ON TENANTS PROPERTY

Tenant shall be liable for all taxes levied or assessed against personal property, furniture or fixtures placed by Tenant in the Premises. If any such taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and if Landlord elects to pay the same or if the assessed value of Landlord's property is increased by inclusion of personal property, furniture or fixtures placed by Tenant in the Premises, and Landlord elects to pay the taxes based on such increase, Tenant shall pay to Landlord upon demand that part of such taxes for which Tenant is primarily liable hereunder.

ARTICLE XX

EVENTS OF DEFAULT

The following events shall be deemed to be events of default by Tenant under this Lease:

- (a) Tenant shall fail to pay any of the Basic Rental, Additional Rent or any other sums due by Tenant to Landlord under this Lease, and such failure shall continue for a period of ten (10) days after written notice thereof to Tenant; provided, however, that if Landlord has given Tenant two (2) or more such notices in any twelve (12) month period, no further notice need be given for the 12-month period following the second notice, and Tenant shall be in default under this Lease if Tenant fails to make any such payments within ten (10) days after same is due.
- (b) Tenant shall fail to comply with any term, provision or covenant of this Lease, other than the payment of Rent, and shall not cure such failure within thirty (30) days after written notice thereof to Tenant (or such longer time as may be reasonable if Tenant commences the cure of such default or breach within said thirty (30) day period diligently pursues the cure thereafter).
- (c) Tenant shall make an assignment for the benefit of creditors.
- (d) Tenant shall file a petition under any section or chapter of the United States Bankruptcy Code, as amended, or under any similar law or statute of the United States or any State thereof; or Tenant shall be adjudged bankrupt or insolvent in proceedings filed against Tenant thereunder and such adjudication shall not be vacated or set aside within sixty (60) days.

Code, as amended, or under any similar law or statute of the United States or any State thereof; or Tenant shall be adjudged bankrupt or insolvent in proceedings filed against Tenant thereunder and such adjudication shall not be vacated or set aside within sixty (60) days.

- (e) A receiver or trustee shall be appointed for all or substantially all of the assets of Tenant and such receivership shall not be terminated or stayed within sixty (60) days.

(f) Tenant shall desert or vacate any substantial portion of the Premises for a period of ten (10) or more days; provided, however, vacation of the Premises shall not constitute an event of default hereunder if, and so long as, (i) Tenant provides Landlord at least sixty (60) days prior written notice of Tenant's intent to vacate, (ii) Tenant pays any additional insurance premiums which may result from such vacation, (iii) Tenant takes such action as Landlord may reasonably request to protect the Premises and Building from vandalism and trespass, and (iv) Tenant otherwise continues to observe and perform all Tenants obligations and covenants contained in this Lease.

(g) If Tenant or a party that controls, is controlled by or is under common control with Tenant or any guarantor of this Lease is in possession of all or any portion of the premises described in that certain Industrial Lease Agreement (the "Other Lease ") between Landlord and Tenant respecting certain premises lying within the Building and adjacent to the Premises and is in default under the terms of the Other Lease beyond any applicable notice and/or cure period.

ARTICLE XXI

LANDLORD'S REMEDIES

Upon the occurrence of any event of default specified in Article XX hereof, Landlord shall have the option to pursue any one or more of the following remedies without any further notice or demand whatsoever:

(a) Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in Rent, enter upon and take possession and expel or remove Tenant and any other person who may be occupying said Premises or any part thereof, without being liable for prosecution or any claim for damages thereof; and Tenant agrees to pay to Landlord on demand the amount of all loss and damage which Landlord may suffer by reason of such termination, whether through inability to relet the Premises on satisfactory terms or otherwise, including the loss of Rent for the remainder of the Lease Term.

(b) Enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim for damages therefor, and if Landlord so elects, relet the Premises on such terms as Landlord shall deem advisable and receive the Basic Rental thereof; and Tenant agrees to pay to Landlord on demand any deficiency that may arise by reason of such reletting for the remainder of the Lease Term. The deficiency to be paid by Tenant to Landlord shall be the equivalent of the amount of the Basic Rental and Additional Rent which would be payable under this Lease by Tenant, less the net proceeds of any reletting effected pursuant to this subsection (b) after deducting all of Landlord's reasonable expenses in connection with such reletting, including, without limitation, all repossession costs, brokerage commissions, legal expenses, attorneys' fees, alteration costs and expenses of preparation of the Premises or any portion thereof, for such reletting. Landlord need not give Tenant any written notice whatsoever, other than that which is required by Article XX above, of Landlord's intent to take possession of the Premises and expel or remove Tenant.

(c) Enter upon the Premises, without being liable for prosecution or any claim for damages therefor, 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 thus 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.

(d) At any time after an event of default, whether or not Landlord shall have collected any monthly deficiency as set forth in subsection (b) above, Landlord shall be entitled to recover from. Tenant and Tenant shall pay to Landlord, on demand, as and for final damages for Tenant's default, an amount equal to the difference between the then present worth of the aggregate of the Basic Rental and Additional Rent and any other charges to be paid by Tenant hereunder for the unexpired portion of the Lease Term (assuming this Lease had not been terminated), and the then present worth of the then aggregate reasonable fair market rent of the Premises for the same period. In computation of present worth, a discount at the rate of 6% per annum shall be employed.

No re-entry or taking possession of the Premises by Landlord shall be construed as an election on its part to terminate this Lease, unless a written notice of such intention be given to Tenant Notwithstanding any such reletting or re-entry or taking possession, Landlord may at any time thereafter elect to terminate this Lease for a previous default Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any other remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any Rent due to Landlord hereunder or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants herein contained. Landlord's acceptance of Rent following an event of default hereunder shall not be construed as Landlord's waiver of such event of default. No waiver by Landlord of any violation or breach of any of the terms, provisions, and covenants herein contained shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions, and covenants herein contained. 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 any other violation or default The loss or damage that Landlord may suffer by reason of termination of this Lease or the deficiency from any reletting as provided for above shall include the expense of repossession and any repairs or remodeling undertaken by Landlord following possession. Should Landlord at any time terminate this Lease for any default in addition to any other remedy Landlord may have, Landlord may recover from Tenant all damages Landlord may incur by reason of such default including the cost of recovering the Premises and the loss of Rent for the remainder of the Lease Term. In case of Tenant's dispossession from the Premises, Landlord shall use commercially reasonable efforts to relet the Premises and to mitigate damages.

ARTICLE XXII

SURRENDER OF PREMISES

No act or thing done by the Landlord or its agents during the term hereby granted shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless the same be made in writing and subscribed by the Landlord.

ARTICLE XXIII

ATTORNEYS' FEES

If on account of any breach or default by either party of its respective obligations under this Lease it should be necessary or appropriate for the non-defaulting party to bring any action under this Lease or to enforce or defend any of the non-defaulting party's rights hereunder, then the defaulting party agrees hi each and any such case to pay to the non-defaulting party a reasonable attorneys' fee.

ARTICLE XXIV

RESERVED PARKING

Landlord shall reserve for the exclusive use of Tenant and its employees, agents and contractors seventeen (17) surface parking spaces in the areas depicted as the "Reserved Parking Area " on Exhibit "A-I ". Landlord shall not be liable to Tenant for the failure of any of other tenants of the Building, or such tenant's invitees, employees, agents or customers or other third parties to comply with the designation of Reserved Parking Area and the Trailer Parking Area, but shall upon request by Tenant use diligent, good faith efforts to cause such tenants, invitees, employees, agents, customers or other third parties to comply with same. It is understood that Landlord and its agents and employees shall not be liable for loss or damage to any vehicle parked by Tenant or under Tenant's rights herein and/or to the contents thereof, and Tenant waives any claim against Landlord for and in respect thereto, unless such loss or damage is caused by the acts or omissions of Landlord or Landlord's agents, contractors, invitees or employees.

Landlord shall have the right to close any portion of the parking facilities at the Property and deny access thereto in connection with any repairs as may reasonably be required, without liability, cost or abatement Except in the case of emergency repairs (or repairs which Landlord reasonably perceives to be an emergency), Landlord shall perform any scheduled repairs or replacements of the parking facilities in such a manner and at such dates and times so as to minimize any interference with Tenant's business operations in the Premises, and shall give Tenant not less than ten days prior written notice thereof.

ARTICLE XXV

MECHANICS LIEN

Tenant shall have no authority, express or implied, to create, place or allow any lien or encumbrance of any kind or nature whatsoever upon, or in any manner to bind, the interest of Landlord in the Premises or to charge the Rent payable hereunder for any claim in favor of any person dealing with Tenant including those who may furnish materials or perform labor for any construction or repairs, and each such claim shall attach to, if at all, only the leasehold interest granted to Tenant by this instrument. Tenant covenants and agrees that it will pay or cause to be paid all sums legally due and payable by it on account of any labor performed or materials furnished in connection with any work performed on the Premises on which any lien is or can be validly and legally asserted against its leasehold interest in the Premises or the improvements thereon and that it will save and hold Landlord harmless from any and all loss, cost or expense based on or arising out of asserted claims or liens against the leasehold estate or against the right title and interest of the Landlord in the Premises or under the terms of this Lease.

ARTICLE XXVI

SIGNS

Tenant shall have the right to install signs upon the Premises only when first approved in writing by Landlord and subject to any applicable governmental laws, ordinances, restrictions, regulations and other requirements. Tenant shall remove all such signs upon the expiration or other termination of this Lease. Such installations and removals shall be made in such manner as to avoid injury to or defacement of any buildings or other improvements on the Premises, and Tenant shall repair any injury or defacement including without limitation discoloration, caused by such installation or removal.

ARTICLE XXVII

NOTICES

Each provision of this Lease, or of any applicable governmental laws, ordinances, regulations, and other requirements with reference to the sending, mailing or delivery of any notice, or with reference to the making of any payment by Tenant to Landlord, shall be deemed to be complied with when and if the following steps are taken:

(a) All Rent and other payments required to be made by Tenant to Landlord hereunder shall be payable to Landlord in Dallas County, Texas, at 15601 Dallas Parkway, Suite 100, Addison, Texas 75001, or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith.

(b) Except as otherwise specifically set forth herein, any notice or document required to be delivered hereunder shall be in writing and shall be deemed received when delivered if sent by a recognized, commercial courier for same day delivery and shall be deemed received on the next business day if sent by a nationally recognized overnight courier (such as Federal Express or Purolator) with delivery specified for the next business day or two (2) business days after being deposited in the United States mail, postage prepaid, certified or registered mail, return receipt requested, addressed to the parties hereto at the respective addresses set out opposite their names below, or at such other address as they have theretofore specified by written notice delivered in accordance herewith:

LANDLORD: CP-Coppell Industrial, Ltd.

15601 Dallas Parkway, Suite 100

Dallas, Texas 75001

WITH COPY TO: Stanley K. Barth

Andrews & Barth, P.C.

8235 Douglas Avenue, Suite 1120

Dallas, Texas 75225

WITH COPY TO: The Chase Manhattan Bank

2200 Ross Avenue, Third Floor

Dallas, Texas 75201

TENANT: Aladdin Manufacturing Corporation

160 South Industrial Boulevard

Calhoun, Georgia 30701

Attention: Salvatore J. Perillo, Esquire

ARTICLE XXVIII

SEPARABILITY

If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws, then and in that event it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid, or unenforceable, there be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

ARTICLE XXIX

QUIET ENJOYMENT

Provided Tenant has performed all of the terms, covenants, agreements and conditions of this Lease, including the payment of Rent to be performed by Tenant, Tenant shall peaceably and quietly hold and enjoy the Premises for the term hereof, without hindrance from Landlord, subject to the Permitted Encumbrances and the terms and conditions of this Lease. Landlord covenants and warrants that Landlord is the true and lawful owner of the Premises (including, without limitation, the Common Areas), subject only to the Permitted Encumbrances and has good right and full power to let and lease the same.

ARTICLE XXX

EXISTENCE OF BROKER

Tenant represents and warrants that it has not contacted or dealt with any real estate broker or agent in connection with the execution of this Lease other than Jackson & Cooksey (the "Agent") and Alliance Partners, Inc. Landlord will be responsible for the payment of a commission to the Agent pursuant to a separate written agreement. Agent has acted in cooperation with Alliance Partners, Inc., and Agent shall pay Alliance Partners, Inc. a portion of the commission pursuant to a separate agreement between Agent and Alliance Partners, Inc. Landlord shall have fully discharged its obligations hereunder upon payment of a commission to Agent.

Tenant agrees to indemnify and hold harmless Landlord against all liabilities and costs (including but not limited to attorney's fees) incurred by Landlord as a result of Tenant's breach of any covenant agreement warranty or representation contained in this Article XXX. Landlord warrants and represents to Tenant that except for the commission to be paid to Agent by Landlord, Landlord has not dealt with any other real estate broker or agent in connection with the execution of this Lease. Landlord hereby agrees to indemnify and hold Tenant free from and against any and all costs, expenses (including attorneys' fees) incurred by Tenant as a result of Landlord's breach of any covenant agreement warranty or representation contained in this Article XXX.

ARTICLE XXXI

TENANTS REMEDIES

In the event Landlord defaults in the performance of any of its obligations to Tenant hereunder, or breaches any warranty or representation, express or implied, to Tenant in connection with this Lease or the Premises, and such default or breach continues for a period of thirty (30) days following written notice thereof from Tenant to Landlord (or such longer time as may be reasonable if Landlord commences the cure of such default or breach within said 30 day period and diligently pursues the cure thereafter), then Tenant may, as its sole remedies (i) if the default relates to the Landlord's obligations (A) to complete "punchlist" items pursuant to Article H, (B) as to the construction guaranty contained in Section 3.3 hereof, (C) under Section 8.1 hereof, or (D) to maintain the Common Area under Section 8.7 hereof, Tenant may take such action as is reasonably necessary to cure Landlord's default if Tenant includes in its written notice to Landlord a provision that Tenant will or may take such action,, (ii) bring suit against Landlord for damages or (iii) bring suit to specifically enforce Landlord's obligations under this Lease. Further, if the default relates to Landlord's obligations under Section 8.1, Landlord shall pay the amount of Tenant's deductible (up to a maximum amount of \$1,000.00) relating to Tenant's insurance claim for any damage to Tenant's contents. In the event Tenant cures such default by Landlord as provided in item (i), then Landlord will reimburse Tenant all reasonable costs and expenses incurred by Tenant in curing Landlord's default. Notwithstanding the foregoing provisions, if Landlord has failed to maintain the roof as required by Section 8.1 and the contents of the Premises are in imminent danger of damage due to water leaking or other elements, then Tenant may cure Landlord's obligations if Landlord fails to commence the cure thereof within twenty-four (24) hours following Tenant's notice to Landlord. Except as otherwise expressly provided for herein, Tenant shall have no right of set-off against payments due to Landlord hereunder and shall have no right to terminate this Lease, and Tenant hereby waives such remedies. It is expressly agreed that the obligations of Landlord hereunder are independent of Tenant's obligations. Landlord shall have no personal liability to Tenant for any such default or breach by Landlord, and have no personal liability to Tenant for any such default or breach by Landlord, and Tenant specifically agrees to look solely to Landlord's interest in the Building and the Land situated thereunder for payment of any damages suffered by Tenant. Pending resolution of any controversy hereunder (as evidenced by a final, nonappealable order issued by a court of competent jurisdiction), Tenant shall continue to pay to Landlord all sums which are and become due to Landlord hereunder, without deduction or set-off. Following a final, nonappealable order issued by a court of competent jurisdiction evidencing a monetary sum owed by Landlord to Tenant, Tenant may offset the amount owed by Landlord from the Basic Rental owed by Tenant to Landlord; provided, however, the amount of offset each month shall in no event exceed twenty percent (20%) of the installment of Basic Rental due that month, unless the aggregate amount to be offset exceeds the total Basic Rental to accrue for the remainder of the Lease Term, in which event the monthly limitation as to the amount which may be offset shall be limited to the total amount owing by Landlord to Tenant divided by the number of months remaining during the Lease Term. Any sums owed by Landlord to Tenant shall bear interest at the Maximum Rate. Subject to the limitations contained in the following paragraph of this Article XXXI, Tenant shall at all times have the right of levy with respect to any judgment it obtains against Landlord. Tenant hereby expressly

waives and disclaims any lien or claim which Tenant has or may have in and to any property belonging to the Landlord or on the Rent due to the Landlord under this Lease.

The term "Landlord," as used in this Lease so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners at the time in question of the fee of the Premises, and in the event of any transfer or transfers or conveyance of the Premises and this Lease and the assumption by the transferee of Landlord's obligations hereunder, the then grantor shall be automatically freed and relieved from and after the date of such transfer or conveyance of all liability as respects the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed (but not as to matters theretofore occurring), provided that any funds in the hands of such landlord or the then grantor at the time of such transfer, in which Tenant has an interest shall be turned over to the grantee, and any amount then due and payable to Tenant by Landlord or the then grantor under any provision of this Lease shall be paid to Tenant. The covenants and obligations contained in this Lease on the part of Landlord shall, subject to the aforesaid, be binding on Landlord's successors and assigns, during and in respect of their respective successive periods of ownership. If Landlord fails to perform any of its obligations under this Lease and Tenant recovers a money judgment against Landlord, such judgment may be satisfied only out of (i) proceeds produced upon execution of such judgment and levy thereon against Landlord's interest in the Property and improvements thereon, (ii) the rents or other income from the Property receivable by Landlord, and (iii) if Landlord's failure of performance is in respect of any covenant or obligation under Articles XVI or XVII, Landlord's share of any condemnation award and the proceeds of any casualty insurance maintained by Landlord in respect of the Property. The foregoing provisions shall not relieve Landlord from the performance of any of Landlord's obligations under this Lease, but only to limit Landlord's liability in the case of the recovery of a monetary judgment against it nor shall the foregoing provisions limit or otherwise affect Tenant's right to obtain injunctive relief or specific performance or avail itself of any other right or remedy that this Lease or the law may accord Tenant.

ARTICLE XXXII

ESTOPPEL CERTIFICATES

Landlord and Tenant agree to furnish from time to time when requested by the other, a signed certificate confirming and containing such factual certifications and representations reasonably deemed appropriate by the party requesting such certificate, and shall, within thirty (30) days following receipt of said proposed certificate and request for execution, return a fully executed copy of said certificate to the requesting party. In the event the party being requested to execute such certificate shall fail to return a fully executed copy of such certificate to the other party within the foregoing thirty (30) day period, then the party being requested to execute such certificate shall be deemed to have approved and confirmed all of the terms, certifications and representations contained in such certificate.

ARTICLE XXXIII

NOTICE TO LENDER

If the Premises or the Building or any part thereof are at any time subject to a first mortgage or a first deed of trust or other similar instrument and this Lease or the rentals are assigned to a mortgagee, trustee or beneficiary and the Tenant is given written notice thereof, including the post office address of such assignee, then the Tenant shall not take any action on account of any default on the part of the Landlord that would bind or affect said assignee without first giving written notice by certified or registered mail, return receipt requested, or by personal or courier delivery or as otherwise provided for in the Non-Disturbance Agreement to such assignee, specifying the default in reasonable detail, and affording such assignee a reasonable opportunity to perform, at its election, for and on behalf of the Landlord.

ARTICLE XXXIV

LANDLORD APPROVALS

Any approval by Landlord or Landlord's architects and/or engineers of any of Tenant's drawings, plans and specifications which are prepared in connection with any construction of improvements in the Premises shall not in any way be construed or operate to bind Landlord or to constitute a representation or warranty of Landlord as to the adequacy or sufficiency of such drawings, plans and specifications, or the improvements to which they relate, for any use, purpose, or condition, but such approval shall merely be the consent of Landlord as may be required hereunder in connection with Tenant's construction of improvements in the Premises in accordance with such drawings, plans and specifications. Landlord shall be responsible for the payment of any drawings, plans and specifications which are prepared by or on behalf of Landlord.

ARTICLE XXXV

JOINT AND SEVERAL LIABILITY

If there be more than one Tenant the obligations hereunder imposed upon Tenant shall be joint and several. If there be a guarantor of Tenant's obligations hereunder, the obligations hereunder imposed upon Tenant shall be the joint and several obligations of Tenant and such guarantor and Landlord need not first proceed against the Tenant hereunder before proceeding against such guarantor, nor shall any such guarantor be released from its guaranty for any reason whatsoever, including without limitation, in case of any amendments hereto, waivers hereof or failure to give such guarantor any notices hereunder.

ARTICLE XXXVI

GENDER

Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires.

ARTICLE XXXVII

CAPTIONS

The captions contained in this Lease are for convenience of reference only, and in no way limit or enlarge the terms and conditions of this Lease.

ARTICLE XXXVIII

ENTIRE AGREEMENT; AMENDMENTS; BINDING EFFECT

Neither party to this Lease has made or relied on any representations, warranties, covenants or agreements with respect to the Premises or any other matters affecting or relating to this Lease except as contained herein and this Lease supersedes and replaces any prior representations, warranties, covenants or agreements, whether written or oral, which may have been made by either party with respect to the Premises or other matters contained in this Lease. This Lease contains the entire agreement between the parties hereto with respect to the Premises and all other matters contained in this Lease and this Lease may not be altered, changed or amended, except by instrument in writing signed by both parties hereto. No provision of this Lease shall be deemed to have been waived by Landlord unless such waiver be in writing signed by Landlord and addressed to Tenant nor shall any custom or practice which may grow up between the parties in the administration of the terms hereof be construed to waive or lessen the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms hereof. The terms, provisions, covenants and conditions contained in this Lease shall apply to, inure to the benefit of, and be binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided.

ARTICLE XXXIX

GOVERNING LAW AND PLACE OF PERFORMANCE

This Lease shall be governed by the laws of the State wherein the Land is located. Tenant shall perform all covenants, conditions and agreements contained herein, including but not limited to payment of Rent in Dallas County, Texas.

ARTICLE XL

GOOD STANDING/DUE AUTHORIZATION

Contemporaneous with the execution of this Lease, Tenant shall provide to Landlord the following:

- (a) A copy of Tenant's Good Standing, or similar certificate, issued by the Secretary of State of the state of Tenant's incorporation; and
- (b) A copy of the appropriate corporate resolutions, certified by the secretary or the assistant secretary of the Tenant evidencing the authorization of the Tenant to execute this Lease.

In the event a guaranty agreement is executed with respect to this Lease, Tenant shall additionally provide to Landlord, contemporaneous with the execution of this Lease, the items listed above for the guarantor.

ARTICLE XLI

FINANCIAL STATEMENTS

Within fifteen (15) days following Landlord's written request Tenant will provide to Landlord the most current annual report (including financial statements) of Mohawk Industries, Inc. Landlord may disclose and share such annual reports (including financial statements) (i) with Landlord's advisors; attorneys; consultants; and lenders, investors and purchasers (as well as prospective lenders, investors and purchasers) and (ii) as required by any applicable law, rule, regulation or order.

ARTICLE XLII

MEMORANDUM OF LEASE

Upon not less than ten (10) days prior written request by either party, the parties hereto agree to execute and deliver to each other a Memorandum of Lease, in recordable form, setting forth the following:

- (a) The date of this Lease;
- (b) The parties of this Lease;
- (c) The term of this Lease;
- (d) The legal description of the Land; and
- (e) Such other matters reasonably requested by Landlord to be stated therein.

ARTICLE XLIII

RENEWAL OPTION

Landlord hereby grants Tenant (but no assignee or subtenant) one (1) option to renew this Lease for a period extending sixty-four (64) months following the Commencement Date. The renewal option shall be exercised by Tenant notifying Landlord thereof in writing not less than two hundred forty (240) days prior to the expiration of the then current lease term, as the case may be. Such renewal shall be subject to all of the terms and conditions of this Lease except that (i) the rentals payable during each renewal term shall be as set forth below and (ii) no further renewal option shall exist during the renewal term. It shall be a condition to Tenant's exercising the renewal option herein granted that Tenant not be then in default under this Lease beyond any applicable notice and cure period.

The Basic Rental for each renewal term shall be based on the then prevailing rental rates for properties of equivalent quality, size, utility and location in the Dallas/Forth Worth market with the length of the lease term and the creditworthiness of the Tenant taken into account; provided, however, that in no event shall the Basic Rental in any renewal period be less than the Basic Rental for the last month immediately preceding said renewal period.

. Upon notification from Tenant of its intent to exercise each renewal option, Landlord shall, within fifteen (15) days thereafter, notify Tenant in

writing of the Basic Rental for the applicable renewal term; Tenant shall, within fifteen (15) days following receipt of same, notify Landlord in writing of the acceptance or rejection of the proposed Basic Rental. In the event of rejection by Tenant the Basic Rental for the applicable renewal term shall be determined as follows:

(a) Within fifteen (15) days following notification of rejection, Landlord and Tenant shall each select an arbitrator who shall be a Licensed Texas real estate broker having a minimum of five (5) years experience in leasing industrial space and being a member of the North Chapter of the Texas Society of Office and Industrial Realtors (or its successor organization). Notice shall be given to the other party of the name of the arbitrator selected. If either Landlord or Tenant fails to appoint such an arbitrator within the allocated time, the arbitrator appointed by the other party shall make the determination of the Basic Rental and this determination shall be final and binding on both parties.

(b) If both Landlord and Tenant appoint an arbitrator in accordance with the provisions above and the two arbitrators cannot agree upon a Basic Rental for the renewal term within thirty (30) days following their appointment, the two arbitrators shall forthwith select a third disinterested and qualified arbitrator having like qualifications and each of the original arbitrators will immediately submit his or her judgment as to the appropriate Basic Rental in writing to the third arbitrator. Within ten (10) days after such submittal, the third arbitrator shall make the determination of the Basic Rental for such renewal period and the determination of the third arbitrator shall be final and binding on both parties. In the event the two arbitrators appointed by the Tenant and Landlord cannot agree upon a third arbitrator, then the third arbitrator shall be appointed by the then President of the North Chapter of the Texas Society of Office and Industrial Realtors (or its successor organization). The Basic Rental agreed to by the two appointed arbitrators or, if applicable, the Basic Rental determined by the third arbitrator shall be final and binding upon the parties hereto. Landlord and Tenant shall each bear the expense of their arbitrator and the expense of a third arbitrator, if needed, shall be shared equally by both parties.

In the event Tenant does not exercise the renewal option granted herein, Tenant will reimburse Landlord for all costs and expenses incurred by Landlord in closing all doorway openings and otherwise securing and completing the installation of the demising wall between the Premises and the leased premises which are the subject of the Other Lease.

ARTICLE XLIV

GENERAL PROVISION

(a) Landlord shall be responsible for and shall pay according to law any transfer or conveyance taxes or for any documentary stamps, if any, required to be paid in connection with the making of this Lease or the recordation of a memorandum hereof.

(b) Whenever a period of time is herein prescribed for action to be taken by Landlord or Tenant, there shall be excluded from, the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions or any other causes of any kind whatsoever which are beyond the control of the party required to take such action; however, there shall be no extension for the payment of any monetary sums, nor shall any such matter extend any of the time periods provided in Article XLIII hereof.

(c) Except as otherwise expressly provided in this Lease to the contrary, any consent or approval required to be given or obtained hereunder by either party shall not be unreasonably withheld, delayed or conditioned by either party hereto, and any exercise of discretion to be made hereunder by either party shall be reasonably made without undue delay. Any matter that is described herein to be to a party's satisfaction shall be to such party's reasonable satisfaction.

[Signatures on following page)

Executed by Landlord to be effective as of the 13th day of March, 2002.

LANDLORD:

CP-COPPELL INDUSTRIAL, LTD.,

a Texas limited partnership

By: Champion-Coppell Industrial, Ltd.,

a Texas limited partnership,

its General Partner

By: Coppell-Champion, Inc.,

a Texas corporation,

its General Partner By Jeffrey L. Swope, President

Executed by Tenant to be effective as of the 12th day of March, 2002.

TENANT:

ALADDIN MANUFACTURING CORPORATION,

a Delaware corporation

Printed Name: Salvatore J. Perillo_

Title: Asst Secretary

EXHIBIT "A "

LAND

LEGAL DESCRIPTION

Being a 100.0 acre tract of land out of the S.A. and M.G. R.R. survey, Abstract No. 1439, in Dallas, Texas and also being the same tract of land described in a Deed to Coppell Industrial N.V., a Netherlands Antilles corporation and recorded in Volume 82071, Page 1061, Deed Records, Dallas County, Texas and being more particularly described by metes and bounds as follows:

Beginning at a fence post found for the Northeast corner of the herein described tract also being the Southeast corner of a tract of land described in a Deed of Sunbelt Business Center and recorded in Volume 80151, Page 892, said Deed Records. Said fence post is in the West right-of-way of an abandoned Cotton Belt Railroad Spur;

Thence S 00 04'53 " W, with the abandoned railroad spur right-of-way, at 1,716.43 feet pass a fence corner and continue generally with the fence a total distance of 1,887.36 feet to a capped 5/8 inch iron found;

Thence S 11 37'29 " E, 151.76 feet continuing with the abandoned spur right-of-way and generally along fence to a capped 5/8 inch iron found;

Thence S 00 13'29 " E, 193.47 feet continuing with the abandoned spur right-of-way and generally along fence to a capped 5/8 inch iron found in the Northerly right-of-way line of Bethel School Road (County Road No. 23);

Thence along the Northerly right-of-way line of Bethel School Road and generally along a fence the following courses and distances:

N 88 06'36 " W, 97.63 feet to a capped 5/8 inch iron found;

N 83 45'02 " W, 119.01 feet to a capped 5/8 inch iron found;

N 81 34'41 " W, 417.48 feet to a capped 5/8 inch iron found;

S 89 26'52 " W, 1,406.39 feet to a capped 5/8 inch iron found for the Southwest corner of this tract and the Southeast corner of 236.956 acre tract described in a Deed to Ward Hunt and recorded in Volume 82071, Page 1167, said Deed Records;

Thence N QQ 35'58 " W, 2,139.20 feet leaving the right-of-way line of Bethel School Road and with the Easterly line of said Hunt tract to a 5/8 inch iron pin with cap stamped "Carter & Burgess ", set in an old fence line and in the Southerly line of said Sunbelt Business Center tract;

Thence N 89 14'54 " E, 2,029.08 feet with the Southerly line of said Sunbelt Business Center tract to the point of beginning and containing 100.0 acres of land.

EXHIBIT "A-I "

FLOORPLAN

RESERVED

PARKING

AREA

n

SITE PLAN

HOKTM

EXHIBIT "B "

PERMITTED ENCUMBRANCES

1. Deed of Trust from CP-COPPELL INDUSTRIAL, LTD., a Texas limited partnership to DAVID MENDEZ, Trustee, dated 10/13/2000, filed 10/18/2000, in Volume 2000203, Page 5383, Deed Records, Dallas County, Texas, securing two (2) notes in the principal sums of \$13,075,000.00, and \$2,200,000.00, payable to THE CHASE MANHATTAN BANK, and securing other indebtedness as described therein.
2. Financing statement executed by CP-COPPELL INDUSTRIAL, LTD. as debtor, in favor of THE CHASE MANHATTAN BANK as secured party, filed 10/18/2000, in Volume 2000203, Page 5396, Deed Records, Dallas County, Texas.
3. 30* building line, 24* fire lane, 10' landscape areas, 10' gas easement, 15' electric easement, 15' gas and electric easement, 20* x 20* water easements and 20' common access and private utility easement as shown on the plat recorded in Volume 2000200, Page 00669, Map Records of Dallas County, Texas, and as shown on survey of Charles F. Stark, R.P.L.S. 5084, dated 08/28/2000.
4. Easement Agreement dated January 1, 2001, granting to the City of Coppell easements for construction, access and construction recorded in Volume 2001026, Page 03950, Deed Records, Dallas County, Texas.

5. Drainage Easement Agreement dated January 1, 2001, in Volume 2001026, Page 03904, Deed Records, Dallas County, Texas

6. Easement and Right of Way in favor of TXU Gas Company, dated August 31, 2001, in Volume 2001209, Page 03308, Deed Records, Dallas County, Texas

EXHIBIT "C "

DESIGN CRITERIA

Initial Lease Premises Dimension: 100,000 square feet - 250' x 400'

Office Area: Provide new office storefront windows and entrance complete with stairs, handrails and men's and women's restrooms. Storefront windows shall be secured by temporary plywood covering.

Automobile Parking: Provide new parking area for 17 automobile spaces adjacent to new office entrance.

Trailer Storage: None provided

Dock Configuration: Single sided dock with total of twenty (20) existing overhead doors 48 " Dock height with a truck court depth of 130'.

Twenty (20) typical overhead doors

The truck doors shall be typically non-insulated 9' x 10', 20-

Dock Equipment: gauge, sectioned vertical lift doors as manufactured by Windsor Company. Five (5) overhead doors will be provided w/30,000 lb. Levelers, Rite Kite or Tenant approved equal and four (4) edge of dock plates (location to be mutually agreed upon). Dock lights with quadplex outlets and steel pipe bollards will be provided a each overhead door.

Existing Sprinkler System: 75 psi minimum ESFR system without in-rack sprinkler system.

Battery Charging: None provided.

Electrical: Provide a 277/480 v disconnect and meter to meet electrical requirements.

Existing Roof: Roofing is a Carlisle 10-year bondable, single ply 45 mil mechanically fastened EPDM membrane system.

Existing Smoke/Heat Evacuation: Three air changes per hour.

Lighting: Provide one 1,000 watt, metal halide fixture per 1,500 square feet of warehouse area. Premium for 25 footcandles average with a minimum of 20 footcandles at 36" above floor level lighting to be designed around storage and rack plan submitted by Mohawk to be paid by Mohawk.

Security: Complete fire alarm system as required by code.

Walls: Interior demising wall shall be two hour rated gypsum board assembly on steel stud framing. Joints shall be fire taped. Tilt up wall shall be caulked on both sides. The exterior side of the panels have been painted.

Existing Exterior Lighting: The dock side of the building has been provided with 400 watt, metal halide wall pak fixtures on 100' centers at 24' above dock paving.

Other Tenant Allowance: Mohawk will be provided an additional allowance of \$40,000 to be used as part of the finish-out to the space.

PLANS AND SPECIFICATIONS

GUARANTEE

This is a guarantee of an Industrial Lease Agreement dated as of March 13, 2002 (the "Lease"), by and between CP-COPPELL INDUSTRIAL, LTD., a Texas limited partnership, hereinafter called "Landlord", and ALADDIN MANUFACTURING CORPORATION, a Delaware corporation, hereinafter called "Tenant" respecting approximately 100,000 square feet of space within a certain building situated in Dallas County, Texas.

FOR VALUE RECEIVED, and in consideration for, and as an inducement to Landlord to enter into the foregoing Lease, the undersigned hereby jointly and severally (if more than one) guarantee to Landlord and its successors and assigns the payment of all rentals specified thereunder and all other payments to be made by Tenant under the Lease, and the full performance and observance by Tenant of all the terms, covenants, conditions and agreements therein provided to be performed and observed by Tenant for which each of the undersigned shall be jointly and severally liable with Tenant, without requiring any notice of nonpayment, nonperformance or nonobservance, or proof of notice or demand, whereby to charge the undersigned, all of which each of the undersigned does hereby expressly waive, and each of the undersigned expressly agrees that the Landlord and its successors and assigns may proceed against the undersigned separately or jointly, before, after or simultaneously with the proceedings against Tenant for default, and that this Guarantee shall not be terminated, affected or impaired in any way or manner whatsoever by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord pursuant to the provisions of the Lease, or by reason of summary or other proceedings against Tenant, or by the omission of Landlord to enforce any of its rights against Tenant or by reason of any extensions of time or indulgences granted by Landlord to Tenant. Each of the undersigned further covenants and agrees (i) that the undersigned will be bound by all of the provisions, terms, conditions, restrictions and limitations contained in the Lease, the same as though the undersigned was named therein as Tenant; and (ii) that this Guarantee shall be absolute and unconditional and shall remain and continue in full force and effect as to any renewal, extension, amendment, addition, assignment, sublease, transfer or other modification of the Lease, whether or not the undersigned shall have any knowledge or have been notified of or agreed or consented to any such renewal, extension, amendment,

addition, assignment, sublease, transfer or other modification of the Lease; however, the undersigned shall not be bound by any and all modifications to the Lease which are not consented to in writing by the undersigned. If Landlord at any time is compelled to take any action or proceeding in court or otherwise to enforce or compel compliance with the terms of this Guarantee, each of the undersigned shall, in addition to any other rights and remedies to which the Landlord may be entitled hereunder or as a matter of law or in equity, be obligated to pay all costs, including attorneys' fees, incurred or expended by Landlord in connection with any enforcement by Landlord if Landlord is successful in enforcing or compelling compliance of any of the terms of this Guarantee. Further, each of the undersigned hereby covenants and agrees to assume the Lease and to perform all of the terms and conditions thereunder for the balance of the original term should the Lease be disaffirmed by any Trustee in Bankruptcy for Tenant. All obligations and liabilities of the undersigned pursuant to this Guarantee shall be binding upon the heirs, legal representatives, successors and assigns of each of the undersigned, and each of the undersigned and its heirs, legal representatives, successors and assigns shall remain fully liable under the Lease and this Guarantee regardless of any merger, corporate reorganization or restructuring involving Tenant regardless of the resulting organization, structure or ownership of Tenant. This Guarantee shall be governed by and construed in accordance with the laws of the State of Texas.

Each of the undersigned hereby unconditionally consents and agrees that any legal action brought under this Guarantee may be brought in any State Court of the State of Texas, or in a Federal United States Court in Texas and each of the undersigned hereby unconditionally consents to the jurisdiction of such courts in connection with any cause of action brought by or against Tenant and/or Guarantors) in any way directly or indirectly related to the Lease or this Guarantee.

This Guarantee shall be enforceable against each person signing this Guarantee, even if only one person signs and regardless of any failure of other persons to sign this Guarantee. If there be more than one signer, all agreements and promises herein shall be construed to be, and are hereby declared to be, joint and several, in each and every particular and shall be fully binding upon and enforceable against either, any or all of the undersigned. Further, the liability of each of the undersigned shall not be affected or impaired by any full or partial release of, settlement with, or agreement not to sue, Tenant or any other guarantor or other person liable in respect of the Lease, which Landlord is expressly authorized to do, omit or suffer from time to time, without notice to or approval by any of the undersigned. The singular herein shall include the plural and the plural shall include the singular when referring to the undersigned.

At any time that Tenant is required to furnish a certificate pursuant to the Lease, each of the undersigned, by guaranteeing the terms and conditions of the Lease, agree that such Guarantor, upon thirty (30) days prior written request to Tenant, shall certify (by written instrument, duly executed, acknowledged and delivered to Landlord and to any third person designated by Landlord in such request) whether such person concurs with the statements set forth in said certificate by Tenant (and, if not, identifying specifically the items or matters to which such Guarantor does not concur) and that the guarantee of such person remains in full force and effect as to all obligations of Tenant under the Lease. Failure to deliver such certificate to Landlord (and any such designated third party) within such thirty (30) day period shall constitute automatic approval of the requested certificate as though such certificate had been fully executed and delivered by such Guarantor to Landlord and such designated third party.

Within fifteen (15) days following Landlord's written request, Guarantor will provide to Landlord Guarantor's most current annual report (including financial statements). Landlord may disclose and share such annual reports (including financial statements) (i) with Landlord's advisors; attorneys; consultants; and lenders, investors and purchasers (as well as prospective lenders, investors and purchasers) and (ii) as required by any applicable law, rule, regulation or order.

IN WITNESS WHEREOF, the undersigned have set their hands to four (4) original counterparts of this Guarantee as of the 13th day of March, 2002.

GUARANTOR:

MOHAWK INDUSTRIES, INC.,

A Delaware corporation

By: Salvatore Perillo

Printed Name:

Title: Asst. Secretary

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AMENDMENT #1 TO RECEIVABLES PURCHASE AND SALE AGREEMENT

THIS AMENDMENT #1 (this "**Amendment**") is entered into by the undersigned parties as of December 28, 2001 with respect to the Receivables Purchase and Sale Agreement dated as of October 25, 2000 (the "**Sale Agreement**"), by and among Mohawk Carpet Corporation, a Delaware corporation, Mohawk Commercial, Inc., a Delaware corporation, Durkan Patterned Carpets, Inc., a Georgia corporation, and Mohawk Factoring, Inc., a Delaware corporation. **Unless defined elsewhere herein, capitalized terms used in this Amendment shall have the meanings assigned to such terms in the Sale Agreement.**

PRELIMINARY STATEMENTS

On the terms and subject to the conditions hereinafter set forth, each of the parties wishes to amend the Sale Agreement to add Mohawk Carpet of Texas, L.P., a Delaware limited partnership of which Mohawk Carpet is the sole general partner, as an Originator thereunder.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. **Amendments.**

1.1. The Sale Agreement is hereby amended to add Mohawk Carpet of Texas, L.P., a Delaware limited partnership, as an Originator. By its signature below, Mohawk Carpet of Texas, L.P. hereby agrees to become an Originator under the Sale Agreement and to abide by each of the representations, covenants and other agreements of the Originators therein contained.

1.2. The definition of "**Initial Cutoff Date**" is hereby amended and restated in its entirety to read as follows:

"Initial Cutoff Date" means, as to each Originator, the close of business on the Business Day immediately prior to the date on which it became a party to this Agreement.

1.3. Exhibit II to the Sale Agreement is hereby amended and restated in its entirety to read as set forth in Annex A to this Amendment.

2. **Conditions Precedent to Effectiveness.** The effectiveness of this Amendment is subject to the conditions precedent that the Agent, as Buyer's assignee, shall have received (a) counterparts hereof duly executed by each of the parties to the Sale Agreement and Mohawk Carpet of Texas, L.P. and consented to by the Agent, and (b) a UCC-1 financing statement naming Mohawk Carpet of Texas, L.P., as debtor, Buyer, as original secured party, and the Agent, as Buyer's assignee, in form suitable for filing in the State of Delaware, reasonably describing the Receivables and Related Security to be conveyed by Mohawk Carpet of Texas, L.P. to Buyer under the Sale Agreement.

3. **Scope of Amendment.** Except as expressly amended hereby, the Sale Agreement remains in full force and effect in accordance with its terms and this Amendment to the Sale Agreement shall not by implication or otherwise alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Sale Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

4. **Governing Law.** This Amendment and the Sale Agreement as amended hereby shall be governed by and construed in accordance with the laws of the State of Georgia.

5. **Counterparts.** This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed an original, and all such counterparts shall together constitute but one and the same instrument.

<signature pages follow>

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date hereof .

Mohawk Carpet Corporation

By: _____

Name: Sidney J. Frost

Title: Vice President and Treasurer

Mohawk Commercial, Inc.

By: _____

Name: Sidney J. Frost

Title: Vice President and Treasurer

Durkan Patterned Carpets, Inc.

By: _____

Name: Sidney J. Frost

Title: Vice President, Treasurer and Secretary

mohawk carpet of texas, l.p.

By: Mohawk Carpet Corporation, its general partner

By: _____

Name: Sidney J. Frost

Title: Vice President and Treasurer

Address: 160 S. Industrial Blvd.

Calhoun, GA 30703

Attn: Sidney J. Frost

Phone: (706) 624-2239

Fax: (706) 625-3851

MOHAWK FACTORING, INC.

By: _____

Name: Linda Bubacz

Title: Assistant Treasurer and Secretary

The foregoing amendment is hereby consented to as of the date first above written:

WACHOVIA BANK, N.A., as Agent

By: _____

Name:

Title:

ANNEX A

-

Exhibit II

Places of Business; Locations of Collection Records;

Federal Employer Identification Number(s); Other Names

Places of Business:

Mohawk Carpet Corporation

Mohawk Carpet of Texas, L.P.

Durkan Patterned Carpets, Inc.

Mohawk Commercial, Inc.

Address for all:

160 S. Industrial Blvd.

Calhoun, GA 30703

Location of Collection Records:

Mohawk Servicing, Inc

235 Industrial Blvd.

Chatsworth, GA 30705

Mohawk Servicing, Inc.

160 S. Industrial Blvd.

Calhoun, GA 30703

Federal Employer Identification Numbers:

Mohawk Carpet Corporation

FEI # 58-2185429

Mohawk Commercial, Inc.

FEI# 58-2357716

Durkan Patterned Carpets, Inc.

FEI# 58-1729913

Mohawk Carpet of Texas, L.P.

FEI# n/a (same as Mohawk Carpet Corporation's, its general partner)

Legal, Trade and Assumed Names:

Alladin Mills

World Contract

Mohawk Commercial

IMAGE

Galaxy

Merit Hospitality

Custom Weave

Wunda Wave

Mohawk International

Karastan

Alliance Pad

Mohawk Non-Woven

Mohawk Carpet

World

Diamond

Durkan Patterned Carpet

Rug & Textile Group

Aladdin Rug

Townhouse

New Mark & James

J MAR

American Rug Craftsman

Horizon

Alexander Smith

Bigelow

Harbinger

Helios

Delaware Valley Wool Scouring

Greenville Yarn

Burton Rug

Insignia

Sunrise

Hamilton

Cyboney

Mohawk Rug & Textile

Ultra Weave

Durkan Commercial

American Weavers

AMENDMENT #2 TO RECEIVABLES PURCHASE AND SALE AGREEMENT

THIS AMENDMENT #2 (this "**Amendment**") is entered into by the undersigned parties as of July 19, 2002 with respect to the Receivables Purchase and Sale Agreement dated as of October 25, 2000 (as amended, the "**Sale Agreement**"), by and among Mohawk Carpet Corporation, a Delaware corporation, Mohawk Commercial, Inc., a Delaware corporation, Durkan Patterned Carpets, Inc., a Georgia corporation, Mohawk Carpet of Texas, L.P., a Delaware limited partnership and Mohawk Factoring, Inc., a Delaware corporation. **Unless defined elsewhere herein, capitalized terms used in this Amendment shall have the meanings assigned to such terms in the Sale Agreement.**

PRELIMINARY STATEMENTS

On the terms and subject to the conditions hereinafter set forth, each of the parties wishes to amend the Sale Agreement to amend the definition of Receivable.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment.

1.1. The Sale Agreement is hereby amended by amending the first proviso in the definition of "**Receivable**" to read "provided however, in no event shall the term "**Receivable**" include (i) any Receivables for which Kmart Corporation, Builders Square, Inc. or Sourcing & Technical Services, Inc. is the Obligor, (ii) any Factored Receivables or (iii) any Receivable coming into existence after the Termination Date."

1.2. The Sale Agreement is hereby amended by adding the following new subsection (f) immediately at the end of Section 4:

"(f) K-Mart Receivables. Such Originator will not sell any Receivables for which any of Kmart Corporation (including without limitation, Kmart Corporation d/b/a Kmart Fashions), Builders Square, Inc. or Sourcing & Technical Services, Inc., is the Obligor to The CIT Group/Commercial Services, Inc. or any of its affiliates ("CIT") on or before the date on which CIT and the Agent have entered into an intercreditor agreement in form and substance satisfactory to the Agent unless payments in respect of such Receivables will not be directed to a Collection Account or Lock-Box."

2. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the conditions precedent that the Agent, as Buyer's assignee, shall have received counterparts hereof duly executed by each of the parties to the Sale Agreement.

3. Scope of Amendment. Except as expressly amended hereby, the Sale Agreement remains in full force and effect in accordance with its terms and this Amendment to the Sale Agreement shall not by implication or otherwise alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Sale Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

4. Governing Law. This Amendment and the Sale Agreement as amended hereby shall be governed by and construed in accordance with the laws of the State of Georgia.

5. Counterparts. This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed an original, and all such counterparts shall together constitute but one and the same instrument.

6. No rating Agency Condition. By signing below, the Agent confirms that this Amendment will not require satisfaction of the Rating Agency Condition.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment #2 to Receivables Purchase and Sale Agreement to be executed and delivered by their duly authorized officers as of the date hereof .

Mohawk Carpet Corporation

By: _____

Name: _____

Title: _____

Mohawk Commercial, Inc.

By: _____

Name: _____

Title: _____

Durkan Patterned Carpets, Inc.

By: _____

Name: _____

Title: _____

Mohawk Carpet of Texas, LP.

By: Mohawk Carpet Corporation, its general partner

By: _____

Name: _____

Title: _____

MOHAWK FACTORING, INC.

By: _____

Name: _____

Title: _____

AMENDMENT NO. 3 AND JOINDER

to the

RECEIVABLES PURCHASE AND SALE AGREEMENT

Dated as of December 31, 2002

THIS AMENDMENT NO. 3 AND JOINDER (this "Amendment and Joinder") to the Receivables Purchase and Sale Agreement, dated as of October 25, 2000 (as amended and supplemented, the "Purchase and Sale Agreement"), is dated as of December 31, 2002, and is by and among MOHAWK CARPET CORPORATION, a Delaware corporation ("Mohawk Carpet"), MOHAWK CARPET OF TEXAS, L.P. a Delaware limited partnership ("Carpet LP"), MOHAWK CARPET DISTRIBUTION, L.P., a Delaware limited partnership ("Mohawk Distribution"), and MOHAWK FACTORING, INC., a Delaware corporation ("Mohawk Factoring" or "Buyer"). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Purchase and Sale Agreement.

WHEREAS, Mohawk Carpet, Mohawk Commercial, Inc. ("Commercial"), Durkan Patterned Carpets, Inc. ("Durkan") and Mohawk Factoring were parties to the Purchase and Sale Agreement whereby Mohawk Carpet, Mohawk Commercial and Durkan would sell and Mohawk Factoring, as Buyer, would purchase, from time to time, Receivables originated by each of Mohawk Carpet, Mohawk Commercial and Durkan (the "Initial Originators");

WHEREAS, pursuant to Amendment No. 1 to the Purchase and Sale Agreement, Carpet LP was added as an Originator under the Purchase and Sale Agreement;

WHEREAS, Durkan was merged into Mohawk Carpet, effective 2001, and, in accordance with Section 7.9 of the Purchase and Sale Agreement, Durkan's rights, obligations and interests thereunder were assigned by operation of law to the surviving Originator, Mohawk Carpet;

WHEREAS, Mohawk Commercial will be merged into Mohawk Carpet, effective December 31, 2002, and, in accordance with Section 7.9 of the Purchase and Sale Agreement, Mohawk Commercial's rights, obligations and interests thereunder will be assigned by operation of law to the surviving Originator, Mohawk Carpet;

WHEREAS, Mohawk Carpet and Carpet LP are each contributing all of their respective finished goods inventories to Mohawk Distribution and, upon and following the effective date of this Amendment and Joinder, will act only as sales agents for Mohawk Distribution, and Mohawk Distribution will sell inventory in the manner formerly sold by Mohawk Carpet and Carpet LP, thereby originating the Receivables arising from such sales;

WHEREAS, this Amendment and Joinder is being entered into by the parties hereto (collectively, the "Parties") to effect, among other things, the removal of Mohawk Carpet and Carpet LP as Originators under the Purchase and Sale Agreement, and the joinder of Mohawk Distribution as a new Originator under the Purchase and Sale Agreement (the "Joinder");

WHEREAS, the Parties have taken each and all of the actions required to properly amend the Purchase and Sale Agreement in accordance with its terms; and

NOW, THEREFORE, in consideration of the mutual promises contained herein and in the Purchase and Sale Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound hereby, hereto agree as follows:

Section 1. Amendments to the Purchase and Sale Agreement

1.1 The first paragraph of the preamble shall be amended in its entirety to read as follows:

"THIS RECEIVABLES PURCHASE AND SALE AGREEMENT, dated as of October 25, 2000, is by and among Mohawk Distribution LP, a Delaware limited partnership ("Mohawk Distribution," being hereinafter referred to as an "Originator"), and Mohawk Factoring, Inc., a Delaware corporation ("Buyer"), and replaces and supersedes the following agreements (each, an "Existing Agreement") in their entirety:"

1.2 All references to Mohawk Carpet and Carpet LP, as Originators, are hereby amended to refer to Mohawk Distribution, as Originator.

Section 2. Joinder

Upon and following the effectiveness of this Amendment and Joinder, Mohawk Distribution shall become a party to, and an Originator under, the Purchase and Sale Agreement, and shall have all obligations, duties, rights and interests as an Originator under the Purchase and Sale Agreement, and hereby agrees to abide by each of the representations, covenants and other agreements of an Originator under the Purchase and Sale Agreement and makes and adopts the Purchase and Sale Agreement as an agreement to which it is a party and by which it is bound.

Section 3. Representations and Warranties

(a) Each of the Parties hereby represents and warrants severally and not jointly that, with respect to each Party:

(i) Its execution, delivery and performance of this Amendment and Joinder are within its corporate powers, have been duly authorized by all necessary corporate action and do not require any consent or approval which has not been obtained.

(ii) This Amendment and Joinder is the legal, valid and binding obligation of it, enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally or by general equitable principles.

(b) Mohawk Distribution hereby further represents and warrants that:

(i) The Purchase and Sale Agreement as amended hereby is the legal, valid and binding obligation of it, enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally or by general equitable principles.

(c) Mohawk Factoring hereby further represents and warrants that, pursuant to Section 7.9 of the Purchase and Sale Agreement, it consents to the substitution of Mohawk Distribution for Mohawk Carpet and Carpet LP as Originator under the Purchase and Sale Agreement.

Section 4. Miscellaneous

(a) Applicability of the Purchase and Sale Agreement.

In all respects not inconsistent with the terms and provisions of this Amendment and Joinder, the provisions of the Purchase and Sale Agreement are hereby ratified, approved and confirmed, with the substitution of Mohawk Distribution for Mohawk Carpet and Carpet LP as Originator.

(b) Headings

The captions in this Amendment and Joinder are for convenience of reference only and shall not define or limit the provisions hereof.

(c) Counterparts

This Amendment and Joinder may be executed in counterparts by facsimile or otherwise, each of which shall constitute an original, but all of which, when taken together, shall constitute but one and the same instrument.

(d) Governing Law

THIS AMENDMENT AND JOINDER SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF GEORGIA, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

[Signatures on Next Page]

IN WITNESS WHEREOF, the Parties have caused this Amendment and Joinder to be duly executed and delivered by their respective officers thereunto duly authorized as of December 31, 2002.

MOHAWK CARPET CORPORATION,

as a former Originator

By: _____

Name:

Title:

MOHAWK CARPET OF TEXAS, L.P.

as a former Originator

By: _____

Name:

Title:

MOHAWK CARPET DISTRIBUTION, L.P.

as a new Originator

By: _____

Name:

Title:

MOHAWK FACTORING, INC.

as Buyer

By: _____

Name:

Title:

*The foregoing Amendment and Joinder is
hereby consented to as of the date first
written above:*

WACHOVIA BANK, NATIONAL ASSOCIATION,

as Agent

By: _____

Name:

Title:

AMENDMENT #1 TO CREDIT AND SECURITY AGREEMENT

THIS AMENDMENT #1 (this "**Amendment**") is entered into by the undersigned parties as of October 24, 2001 with respect to the CREDIT AND SECURITY Agreement dated as of October 25, 2000 (the "**Credit and Security Agreement**"), by and among Mohawk Factoring, Inc. a Delaware corporation ("**Borrower**"), Mohawk Servicing, Inc., a Delaware corporation, as initial Servicer, Blue Ridge Asset Funding Corporation, a Delaware corporation, and Wachovia Bank, N.A., individually as Agent. **Unless defined elsewhere herein, capitalized terms used in this Amendment shall have the meanings assigned to such terms in the Credit and Security Agreement.**

PRELIMINARY STATEMENTS

On the terms and subject to the conditions hereinafter set forth, each of the parties wishes to amend the Sale Agreement to add Mohawk Carpet of Texas, L.P., a Delaware limited partnership of which Mohawk Carpet is the sole general partner, as an Originator thereunder.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. **Amendments.**

1.1. The Sale Agreement is hereby amended to add Mohawk Carpet of Texas, L.P., a Delaware limited partnership, as an Originator. By its signature below, Mohawk Carpet of Texas, L.P. hereby agrees to become an Originator under the Sale Agreement and to abide by each of the representations, covenants and other agreements of the Originators therein contained.

1.2. The definition of "**Initial Cutoff Date**" is hereby amended and restated in its entirety to read as follows:

"Initial Cutoff Date" means, as to each Originator, the close of business on the Business Day immediately prior to the date on which it became a party to this Agreement.

1.3. Exhibit II to the Sale Agreement is hereby amended and restated in its entirety to read as set forth in Annex A to this Amendment.

2. **Conditions Precedent to Effectiveness.** The effectiveness of this Amendment is subject to the conditions precedent that the Agent shall have received (a) counterparts hereof duly executed by each of the parties to the Credit and Security Agreement and (b) an amendment to the UCC-1 financing statement filed by the Agent against the Borrower in the State of Delaware reflecting the foregoing change in the definition of "**Receivables**", reasonably describing the Receivables and Related Security to be conveyed by Mohawk Carpet of Texas, L.P. to Buyer under the Sale Agreement.

3. **Scope of Amendment.** Except as expressly amended hereby, the Credit and Security Agreement remains in full force and effect in accordance with its terms and this Amendment to the Credit and Security Agreement shall not by implication or otherwise alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit and Security Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

4. **Governing Law.** This Amendment and the Credit and Security Agreement as amended hereby shall be governed by and construed in accordance with the laws of the State of Georgia.

5. **Counterparts.** This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed an original, and all such counterparts shall together constitute but one and the same instrument.

<signature pages follow>

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date hereof .

Mohawk Carpet Corporation

By: _____

Name: Sidney J. Frost

Title: Vice President and Treasurer

Mohawk Commercial, Inc.

By: _____

Name: Sidney J. Frost

Title: Vice President and Treasurer

Durkan Patterned Carpets, Inc.

By: _____

Name: Sidney J. Frost

Title: Vice President, Treasurer and Secretary

mohawk carpet of texas, l.p.

By: Mohawk Carpet Corporation, its general partner

By: _____

Name: Sidney J. Frost

Title: Vice President and Treasurer

Address: 160 S. Industrial Blvd.

Calhoun, GA 30703

Attn: Sidney J. Frost

Phone: (706) 624-2239

Fax: (706) 625-3851

MOHAWK FACTORING, INC.

By: _____

Name: Linda Bubacz

Title: Assistant Treasurer and Secretary

The foregoing amendment is hereby consented to as of the date first above written:

WACHOVIA BANK, N.A., as Agent

By: _____

Name:

Title:

ANNEX A

Exhibit II

Places of Business; Locations of Collection Records;

Federal Employer Identification Number(s); Other Names

Places of Business:

Mohawk Carpet Corporation

Mohawk Carpet of Texas, L.P.

Durkan Patterned Carpets, Inc.

Mohawk Commercial, Inc.

Address for all:

160 S. Industrial Blvd.

Calhoun, GA 30703

Location of Collection Records:

Mohawk Servicing, Inc

235 Industrial Blvd.

Chatsworth, GA 30705

Mohawk Servicing, Inc.

160 S. Industrial Blvd.

Calhoun, GA 30703

Federal Employer Identification Numbers:

Mohawk Carpet Corporation

FEI # 58-2185429

Mohawk Commercial, Inc.

FEI# 58-2357716

Durkan Patterned Carpets, Inc.

FEI# 58-1729913

Mohawk Carpet of Texas, L.P.

FEI# n/a (same as Mohawk Carpet Corporation's, its general partner)

Legal, Trade and Assumed Names:

Alladin Mills

World Contract

Mohawk Commercial

IMAGE

Galaxy

Merit Hospitality

Custom Weave

Wunda Wave

Mohawk International

Karastan

Alliance Pad

Mohawk Non-Woven

Mohawk Carpet

World

Diamond

Durkan Patterned Carpet

Rug & Textile Group

Aladdin Rug

Townhouse

New Mark & James

J MAR

American Rug Craftsman

Horizon

Alexander Smith

Bigelow

Harbinger

Helios

Delaware Valley Wool Scouring

Greenville Yarn

Burton Rug

Insignia

Sunrise

Hamilton

Cyboney

Mohawk Rug & Textile

Ultra Weave

Durkan Commercial

American Weavers

AMENDMENT #2 TO CREDIT AND SECURITY AGREEMENT

THIS AMENDMENT #2 (this "Amendment") is entered into by the undersigned parties as of July 19, 2002 with respect to the Credit and Security Agreement dated as of October 25, 2000 (as amended, the "Credit and Security Agreement") by and among Mohawk Factoring, Inc., a Delaware corporation ("Borrower"), Mohawk Servicing, Inc., a Delaware corporation, as initial Servicer, Blue Ridge Asset Funding Corporation, a Delaware corporation, and Wachovia Bank, National Association, individually and as Agent. Unless defined elsewhere herein, capitalized terms used in this Amendment shall have the meanings assigned to such terms in the Credit and Security Agreement.

PRELIMINARY STATEMENT

On the terms and subject to the conditions hereinafter set forth, each of the parties wishes to amend the Credit and Security Agreement amend the definition of Receivable.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment. The definition of "Receivable" in the Credit and Security Agreement is hereby amended by amending the first proviso to read "provided, however, in no event shall the term "Receivable" include any Receivable for which any of Kmart Corporation (including without limitation, Kmart Corporation d/b/a Kmart Fashions), Builders Square, Inc. or Sourcing & Technical Services, Inc., is the Obligor or any Receivable coming into existence after the Facility Termination Date.
2. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the conditions precedent that the Agent shall have received counterparts hereof duly executed by each of the parties to the Credit and Security Agreement.
3. Scope of Amendment. Except as expressly amended hereby, the Credit and Security Agreement remains in full force and effect in accordance with its terms and this Amendment to the Credit and Security Agreement shall not by implication or otherwise alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit and Security Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect.
4. Governing Law. This Amendment and the Credit and Security Agreement as amended hereby shall be governed by and construed in accordance with the laws of the State of Georgia.
5. Counterparts. This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed an original, and all such counterparts shall together constitute but one and the same instrument.
6. No Rating Agency Condition. By signing below, the Agent confirms that this Amendment will not require satisfaction of the Rating Agency Condition.

<signature pages follow>

IN WITNESS WHEREOF, the parties hereto have caused this Amendment #2 to Credit and Security Agreement to be executed and delivered by their duly authorized officers as of the date hereof.

MOHAWK FACTORING, INC.

By: _____

Name: _____

Title: _____

MOHAWK SERVICING, INC.

By: _____

Name: _____

Title: _____

BLUE RIDGE ASSET FUNDING CORPORATION

BY: WACHOVIA BANK, NATIONAL ASSOCIATION, ITS ATTORNEY-IN-FACT

By: _____

Name:

Title:

WACHOVIA BANK, NATIONAL ASSOCIATION, as Sole Liquidity Bank and as Agent

By: _____

Name:

Title:

AMENDMENT #3 TO CREDIT AND SECURITY AGREEMENT

THIS AMENDMENT #3 (this "Amendment") is entered into by the undersigned parties as of October 23, 2002 with respect to the Credit and Security Agreement dated as of October 25, 2000 (as amended, the "Credit and Security Agreement") by and among Mohawk Factoring, Inc., a Delaware corporation ("Borrower"), Mohawk Servicing, Inc., a Delaware corporation, as initial Servicer, Blue Ridge Asset Funding Corporation, a Delaware corporation, and Wachovia Bank, National Association, individually and as Agent. Unless defined elsewhere herein, capitalized terms used in this Amendment shall have the meanings assigned to such terms in the Credit and Security Agreement.

PRELIMINARY STATEMENT

On the terms and subject to the conditions hereof, each of the parties wishes to amend the Credit and Security Agreement as hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

- 1. Amendments.
 - 1.1. Section 10.2 of the Credit and Security Agreement is hereby amended to delete the lead-in thereto (up to but not including the colon in the eighth line thereof) and to substitute in lieu thereof "If any Regulatory Change shall occur".
 - 1.2. The definition of "Regulatory Change" in the Credit and Security Agreement is hereby amended and restated in its entirety to read as follows:
 "Regulatory Change" means any change after October 26, 2000 in United States (federal, state or municipal) or foreign laws, regulations (including Regulation D) or accounting principles or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks (including the Liquidity Banks) of or under any United States (federal, state or municipal) or foreign laws, regulations (whether or not having the force of law) or accounting principles by any court, governmental or monetary authority, or accounting board or authority (whether or not part of government) charged with the establishment, interpretation or administration thereof. For the avoidance of doubt, any interpretation of Accounting Research Bulletin No. 51 by the Financial Accounting Standards Board shall constitute a Regulatory Change.
- 2. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the conditions precedent that the Agent shall have received counterparts hereof duly executed by each of the parties to the Credit and Security Agreement.
- 3. Scope of Amendment. Except as expressly amended hereby, the Credit and Security Agreement remains in full force and effect in accordance with its terms and this Amendment to the Credit and Security Agreement shall not by implication or otherwise alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit and Security Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect.
- 4. Governing Law. This Amendment and the Credit and Security Agreement as amended hereby shall be governed by and construed in accordance with the laws of the State of Georgia.
- 5. Counterparts. This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed an original, and all such counterparts shall together constitute but one and the same instrument.
- 6. No Rating Agency Condition. By signing below, the Agent confirms that this Amendment will not require satisfaction of the Rating Agency Condition.

<signature pages follow>

IN WITNESS WHEREOF, the parties hereto have caused this Amendment #3 to Credit and Security Agreement to be executed and delivered by their duly authorized officers as of the date hereof.

MOHAWK FACTORING, INC.

By: _____
Name: _____
Title: _____

MOHAWK SERVICING, INC.

By: _____
Name: _____
Title: _____

AMENDMENT NO. 4

to the

CREDIT AND SECURITY AGREEMENT

Dated as of December 31, 2002

THIS AMENDMENT NO. 4 (this "Amendment") to the Credit and Security Agreement, dated as of October 25, 2000 (as amended and supplemented, the "Credit and Security Agreement"), is dated as of December 31, 2002, and is by and among MOHAWK FACTORING, INC., a Delaware corporation ("Mohawk Factoring" or "Borrower"), BLUE RIDGE ASSET FUNDING CORPORATION, a Delaware Corporation ("Blue Ridge"), WACHOVIA BANK, NATIONAL ASSOCIATION (the "Agent") and MOHAWK CARPET DISTRIBUTION, L.P., a Delaware limited partnership ("Mohawk Distribution"). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Credit and Security Agreement.

WHEREAS, Mohawk Carpet Corporation ("Mohawk Carpet"), Mohawk Commercial, Inc. ("Mohawk Commercial"), Durkan Patterned Carpets, Inc. ("Durkan") and Mohawk Factoring were parties to the Receivables Purchase and Sale Agreement, dated as of October 25, 2000 ("Purchase and Sale Agreement"), whereby Mohawk Carpet, Mohawk Commercial and Durkan would sell and Mohawk Factoring, as Buyer, would purchase, from time to time, Receivables originated by each of Mohawk Carpet, Mohawk Commercial and Durkan (the "Initial Originators");

WHEREAS, pursuant to Amendment No. 1 to the Purchase and Sale Agreement, Mohawk Carpet of Texas, L.P. ("Carpet LP") was added as an Originator under the Purchase and Sale Agreement, and pursuant to Amendment No. 1 of the Credit and Security Agreement, the definition of, and all references to the term, "Originator" under the Credit and Security Agreement were amended to include Carpet LP;

WHEREAS, Durkan was merged into Mohawk Carpet, effective 2001, and, in accordance with Section 7.9 of the Purchase and Sale Agreement, Durkan's rights, obligations and interests thereunder were assigned by operation of law to the surviving Originator, Mohawk Carpet;

WHEREAS, Mohawk Commercial will be merged into Mohawk Carpet, effective December 31, 2002, and, in accordance with Section 7.9 of the Purchase and Sale Agreement, Mohawk Commercial's rights, obligations and interests thereunder will be assigned by operation of law to the surviving Originator, Mohawk Carpet;

WHEREAS, Mohawk Carpet and Carpet LP are each contributing all of their respective finished goods inventories to Mohawk Distribution and, upon and following the effective date of this Amendment, will act only as sales agents for Mohawk Distribution, and Mohawk Distribution will sell inventory in the manner formerly sold by Mohawk Carpet and Carpet LP, thereby originating the Receivables arising from such sales;

WHEREAS, pursuant to an Amendment and Joinder to the Purchase and Sale Agreement, references to Mohawk Carpet and Carpet LP as Originators under the Purchase and Sale Agreement were changed and removed, and Mohawk Distribution was joined as a new Originator under such Purchase and Sale Agreement;

WHEREAS, this Amendment is being entered into by the parties hereto (collectively, the "Parties") to change, among other things, any and all references to Mohawk Carpet and Carpet LP as Originators under the Credit and Security Agreement to Mohawk Distribution as a new Originator under the Purchase and Sale Agreement;

WHEREAS, the Parties have taken each and all of the actions required to properly amend the Credit and Security Agreement in accordance with its terms; and

NOW, THEREFORE, in consideration of the mutual promises contained herein and in the Credit and Security Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound hereby, hereto agree as follows:

Section 1. Amendments to the Credit and Security Agreement

- 1.1 All references to Mohawk Carpet and Carpet LP, as Originators, shall be amended to refer to Mohawk Distribution, as Originator.
- 1.2 The definition of "Originator" under Exhibit 1 of the Credit and Security Agreement is amended in its entirety to read as follows:

"Originator" means Mohawk Distribution LP, a Delaware limited partnership, in its capacity as a seller under the Receivables Sale Agreement."

Section 2. Representations and Warranties

Each of the Parties hereby represents and warrants severally and not jointly that, with respect to each Party:

- (i) Its execution, delivery and performance of this Amendment are within its corporate powers, have been duly authorized by all necessary corporate action and do not require any consent or approval which has not been obtained.
- (ii) This Amendment is the legal, valid and binding obligation of it, enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally or by general equitable principles.

Section 3. Conditions Precedent

This Amendment shall become effective as of its date, *provided that* all of the following conditions are first met:

- a. Mohawk Distribution shall have furnished the Agent and Blue Ridge with an Opinion of Counsel regarding enforceability, perfection and priority; and
- b. The Agent and Blue Ridge shall receive officer's certificates from each of Mohawk Factoring, Mohawk Distribution, Mohawk Carpet and Carpet LP.

Section 4. Miscellaneous

- (a) Applicability of the Credit and Security Agreement.

In all respects not inconsistent with the terms and provisions of this Amendment, the provisions of the Credit and Security Agreement are hereby ratified, approved and confirmed.

- (b) Opinions to be Furnished.

Borrower will furnish true sale and substantive nonconsolidation opinions of counsel as to Blue Ridge and the Agent as soon as practical, but no later than January 31, 2003. The failure to provide such opinions by January 31, 2003 shall be an Amortization Event under Section 9.1 of the Credit and Security Agreement.

- (c) Headings

The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions hereof.

- (d) Counterparts

This Amendment may be executed in counterparts by facsimile or otherwise, each of which shall constitute an original, but all of which, when taken together, shall constitute but one and the same instrument.

- (e) Governing Law

THIS AMENDMENT SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF GEORGIA, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

[Signatures on Next Page]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of December 31, 2002.

MOHAWK FACTORING, INC.

as Borrower

By: _____

Name:

Title:

BLUE RIDGE ASSET FUNDING CORPORATION

By: _____

WACHOVIA BANK, NATIONAL ASSOCIATION

as Agent

By: _____

Name:

Title:

MOHAWK CARPET DISTRIBUTION, L.P.

as Originator

By: _____

Name:

Title:

Name:

Title:

SECOND AMENDMENT TO LIQUIDITY ASSET PURCHASE AGREEMENT

(Re: Mohawk Factoring, Inc.)

This SECOND Amendment to the Liquidity Asset Purchase Agreement (this "Amendment") is entered into as of October 23, 2002 among WACHOVIA BANK, NATIONAL ASSOCIATION 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, NATIONAL ASSOCIATION 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 22, 2003.
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.

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, NATIONAL ASSOCIATION,
as Liquidity Agent

By: _____
 Name:
 Title:
 Address: 191 Peachtree Street,
 22nd Floor, GA - 8407
 Atlanta, Georgia 30303
 Attention: Elizabeth Wagner
 Telephone: (404) 332-1398
 Telecopy: (404) 332-5152

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Administrator

By: _____
 Name:
 Title:

Address: 191 Peachtree Street,
22nd Floor, GA - 8407
Atlanta, Georgia 30303

Attention: Elizabeth Wagner

Telephone: (404) 332-1398

Telecopy: (404) 332-5152

BLUE RIDGE ASSET FUNDING CORPORATION

as Issuer

By: Wachovia Bank, National Association,

as Attorney in Fact

By: _____

Name:

Title:

Address: 301 South College Street, TW-10

Charlotte, NC 28288

Attention: Douglas R. Wilson

Telephone: (704) 374-2520

Telecopy: (704) 383-9579

With a copy to:

Blue Ridge Asset Funding Corporation

c/o AMACAR Group, L.L.C.

6525 Morrison Blvd., Suite 318

Charlotte, North Carolina 28211

Attention: Douglas K. Johnson

Telephone: (704) 365-0569

Telecopy: (704) 365-1362

THE PURCHASERS

WACHOVIA BANK, NATIONAL ASSOCIATION

By: _____

Name:

Title:

Wachovia Bank, National Association

Address: 191 Peachtree Street,

22nd Floor, GA-8407

Atlanta, Georgia 30303

Attention: Elizabeth Wagner

Telephone: (404) 332-1398

Telecopy: (404) 332-5152

Purchaser Percentage: 100%

Maximum Liquidity Purchase: \$209,100,000

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Mohawk Industries, Inc.:

We consent to the incorporation by reference in the registration statements (No. 33-52070, No. 33-52544, No. 33-67282, No. 33-87998, No. 333-23577, No. 333-74806 and No. 333-91908) on Form S-8, of Mohawk Industries, Inc. of our report dated February 6, 2003, with respect to the consolidated balance sheets of Mohawk Industries, Inc. and subsidiaries as of December 31, 2002 and 2001, 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, 2002, and all related financial statement schedules, which report appears in the December 31, 2002 annual report on Form 10-K of Mohawk Industries, Inc. Our report refers to a change in accounting for goodwill and other intangible assets in 2002.

/s/:KPMG LLP

KPMG LLP

Atlanta, Georgia
February 25, 2003

Statement of Chief Executive Officer of

MOHAWK INDUSTRIES, INC.

Pursuant to 18 U.S.C. Section 1350,

As Adopted Pursuant to

§ 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Mohawk Industries, Inc. (the "Company") on Form 10-K for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey S. Lorberbaum, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/: Jeffrey S. Lorberbaum

Jeffrey S. Lorberbaum

President and Chief Executive Officer

February 25, 2003

Statement of Chief Financial Officer of

MOHAWK INDUSTRIES, INC.

Pursuant to 18 U.S.C. Section 1350,

As Adopted Pursuant to

§ 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Mohawk Industries, Inc. (the "Company") on Form 10-K for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John D. Swift, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John D. Swift

John D. Swift

Chief Financial Officer

February 25, 2003