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As filed with the Securities and Exchange Commission on March 19, 2012

Registration No. 333-179809

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

To

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

MERCER INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Washington	**2611**	**47-0956945**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

Suite 1120, 700 West Pender Street

Vancouver, British Columbia

Canada, V6C 1G8

(604) 684-1099

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

David M. Gandossi

Suite 1120

700 West Pender Street

Vancouver, British Columbia, Canada V6C 1G8

(604) 684-1099

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

H.S. Sangra, Esq.	**David R. Wilson, Esq.**
Sangra Moller LLP	**Davis Wright Tremaine LLP**
1000 Cathedral Place, 925 West Georgia Street	**Suite 2200, 1201 Third Avenue**
Vancouver, B.C. V6C 3L2	**Seattle, WA 98101-3045**
(604) 662-8808	**(206) 757-8274**

Approximate date of commencement of proposed sale to the public: February 29, 2012.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

The Registrant hereby further amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Mercer International Inc. and MERC Acquisition Inc. may not complete the Offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and Mercer International Inc. and MERC Acquisition Inc. are not soliciting an offer to buy these securities in any state or jurisdiction in which such offer or sale is not permitted.

This document is important and requires your immediate attention. If you have any questions as to how to deal with the transactions described in this document, you are encouraged to consult your investment dealer, stockbroker, bank manager, accountant, lawyer or other professional advisor. The Offer has not been approved or disapproved by any securities regulatory authority in Canada or the United States and no securities regulatory authority has expressed an opinion about, or passed upon the fairness or merits of the Offer contained in this document, the securities offered pursuant to the Offer or the adequacy of the information contained in this document. Any representation to the contrary is unlawful.

March 19, 2012

NOTICE OF VARIATION

by

MERCER INTERNATIONAL INC.

and

MERC ACQUISITION INC.,

a wholly-owned subsidiary of MERCER INTERNATIONAL INC.

OFFER TO PURCHASE

all of the outstanding common shares of

FIBREK INC.

for consideration per common share of Fibrek Inc. payable, at the election of each holder, in

one of the following forms:

C$1.30 in cash (subject to proration as described below)

OR

C$0.54 in cash plus 0.0903 of a share of common stock of MERCER INTERNATIONAL INC.

OR

0.1540 of a share of common stock of MERCER INTERNATIONAL INC. (subject to proration as described below)

Mercer International Inc., a Washington corporation (**Mercer**), and MERC Acquisition Inc., a Canadian corporation, and a wholly-owned subsidiary of Mercer (**Mercer Acquisition** and, together with Mercer, the **Offerors**), hereby give notice that we are amending our Offer to

Purchase and Circular dated February 29, 2012 (the **Offer to Purchase and Circular**) pursuant to which we are offering to purchase (the **Offer**) all of the issued and outstanding common shares of Fibrek Inc. (**Fibrek**) including any Fibrek common shares that may become issued and outstanding after the date of the Offer but before the Expiry Time (as defined below) upon the exercise of options issued under Fibrek s share option plan (the **Fibrek SOP**) implemented on May 19, 2010 (the **Fibrek Shares**) for the purpose of and as described in this Notice of Variation.

The Offer, as hereby amended, will remain open for acceptance until 5:00 p.m., Eastern Time, on April 6, 2012, unless extended or withdrawn by us (the **Expiry Time**).

This Notice of Variation supplements and should be read in conjunction with the Offer to Purchase and Circular. ***Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Offer to Purchase and Circular unless the context otherwise requires, and we , us and our refer to the Offerors or to Mercer with its subsidiaries and controlled affiliates, either individually or collectively, as the context may require.***

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Fibrek shareholders who have validly deposited and not withdrawn their Fibrek Shares do not need to take any further action to accept the Offer. Fibrek shareholders desiring to deposit all or any portion of their Fibrek Shares under the Offer should either: (i) complete and sign the Letter of Transmittal (printed on **BLUE** paper) previously provided to Fibrek shareholders in accordance with the instructions in the Letter of Transmittal and mail or deliver it, together with the certificate(s) evidencing deposited Fibrek Shares, and any other required documents, to Computershare Investor Services Inc. (the **Depositary**) at its office specified in the Letter of Transmittal; (ii) deposit such Fibrek Shares pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer to Purchase, Manner of Acceptance ; or (iii) request such Fibrek shareholder s broker, dealer, commercial bank, trust company or other nominee to effect the transaction for such Fibrek shareholder. **Any Fibrek shareholder whose Fibrek Shares are registered in the name of a broker, investment dealer, bank, trust company or other nominee must contact the Depositary or its broker, investment dealer, bank, trust company or other nominee if such Fibrek shareholder desires to deposit such Fibrek Shares in the Offer.**

If a Fibrek shareholder desires to deposit Fibrek Shares pursuant to the Offer and: (i) the certificates evidencing such Fibrek Shares are not immediately available; (ii) such shareholder cannot deliver the certificates and all other required documents to the Depositary before the Expiry Time; or (iii) such shareholder cannot comply with the procedures for book-entry transfer on a timely basis, such Fibrek Shares may nevertheless be validly deposited under the Offer in compliance with the procedures for guaranteed delivery using the accompanying Notice of Guaranteed Delivery (printed on **YELLOW** paper). See Section 3 of the Offer to Purchase, Manner of Acceptance .

Shares of Mercer common stock (**Mercer Shares**) are traded on the NASDAQ Global Market (**NASDAQ**) under the symbol MERC and the Toronto Stock Exchange (**TSX**) under the symbol MRI.U . Fibrek Shares are traded on TSX under the symbol FBK .

The securities offered in the Offer involve certain risks. For a discussion of risk factors you should consider in evaluating the Offer, see the Section entitled Risk Factors beginning on page 22 of the Offer to Purchase and Circular.

NONE OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE SEC), ANY STATE SECURITIES COMMISSION, ANY CANADIAN SECURITIES REGULATORY AUTHORITY OR ANY OTHER REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE OFFER TO PURCHASE AND CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Questions or requests for assistance may be directed to The Laurel Hill Advisory Group Company (the **Information Agent**) at its address and telephone number set forth on the back cover of this Notice of Variation. Requests for additional copies of this document, the Offer to Purchase and Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to the Information Agent, and copies will be furnished promptly at our expense. Fibrek shareholders may also contact their brokers, investment dealers, banks, trust companies or other nominees for assistance concerning the Offer.

We have not authorized anyone to provide any information or make any representation in connection with the Offer that is different from, or in addition to, the information and representations contained in this document, in the Offer to Purchase and Circular or in any materials regarding the Offer accompanying this document or the Offer to Purchase and Circular or incorporated by reference therein. Fibrek shareholders should not rely on any information or any representations regarding the Offer not contained in this document, the Offer to Purchase and Circular or in the documents regarding the Offer accompanying this document or the Offer to Purchase and Circular or incorporated by reference therein.

While the Offer is being made to all holders of Fibrek Shares, this document does not constitute an offer or a solicitation in any jurisdiction in which such offer or solicitation is unlawful. The Offer is not being made in, nor will deposits be accepted in, any jurisdiction in which the making or acceptance thereof would not be in compliance with the laws of such jurisdiction. However, we may, in our sole discretion, take such action as we may deem necessary to make the Offer in any such jurisdiction.

NOTICE TO SHAREHOLDERS IN CANADA

We present our financial statements in Euros and prepare our financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Financial information in the Offer to Purchase and the Circular has been prepared in accordance with U.S. GAAP, and therefore may not be comparable to financial data prepared by many Canadian companies.

Fibrek shareholders in Canada should be aware that the disposition of Fibrek Shares and the acquisition of Mercer Shares by them as described herein or in the Offer to Purchase and Circular may have tax consequences both in Canada and the U.S. Such consequences may not be fully described herein or in the Offer to Purchase and Circular and such shareholders are encouraged to consult their tax advisors. See Section 17 of the Circular, Material Canadian Federal Income Tax Considerations and Section 18 of the Circular, Material U.S. Federal Income Tax Considerations .

Certain of the directors and officers of Mercer and certain of the experts named herein or in the Offer to Purchase and Circular may reside outside of Canada. Substantially all of the assets of these persons and of Mercer may be located outside of Canada. It may not be possible for investors to effect service of process within Canada upon the directors, officers and experts referred to above. It may also not be possible to enforce against Mercer, its directors and officers and certain of the experts named herein or in the Offer to Purchase and Circular judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable securities laws in Canada.

NOTICE TO SHAREHOLDERS IN THE U.S.

We present our financial statements in Euros and prepare our financial statements in accordance with U.S. GAAP. Financial statements for Fibrek included herein or in the Offer to Purchase and Circular have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, which differ from U.S. GAAP in certain material respects, and thus may not be comparable to financial statements of U.S. companies.

Fibrek shareholders in the U.S. should be aware that the disposition of Fibrek Shares and the acquisition of Mercer Shares by them as described herein or in the Offer to Purchase and Circular may have tax consequences both in the U.S. and in Canada. Such consequences may not be fully described herein or in the Offer to Purchase and Circular and such shareholders are encouraged to consult their tax advisors. See Section 18 of the Circular, Material U.S. Federal Income Tax Considerations and Section 17 of the Circular, Material Canadian Federal Income Tax Considerations .

The enforcement by investors of civil liabilities under U.S. federal securities laws may be affected adversely by the fact that Mercer Acquisition is organized under the laws of Canada, that some or all of our officers and directors may reside outside the U.S., that some of the experts named herein or in the Offer to Purchase and Circular may reside outside the U.S., and that all or a substantial portion of our assets and of the assets of such persons may be located outside the U.S.

NOTICE TO HOLDERS OF OPTIONS

The Offer is made only for Fibrek Shares, including Fibrek Shares issued and outstanding before the Expiry Time upon the exercise of options issued under the Fibrek SOP and is not made for any stock options issued under the Fibrek SOP. Any holder of stock options issued under the Fibrek SOP who wishes to accept the Offer should, to the extent permitted by the terms of the security and applicable laws, exercise the options in order to obtain Fibrek Shares and deposit those Fibrek Shares pursuant to the Offer. Any such exercise must be completed sufficiently in advance of the Expiry Time to assure compliance with the procedures set forth in Section 3 of the Offer to Purchase, Manner of Acceptance . Pursuant to the Support Agreement, Fibrek has agreed that until the expiry date, subject to the terms of the Fibrek SOP and the receipt of any necessary approvals and in accordance with applicable securities laws, it shall take such actions as may be necessary or desirable, including amending the terms of the Fibrek SOP, to provide that the vesting of any unvested Eligible Options be accelerated and a cashless exercise of the Eligible Options be effected solely for the purpose of tendering under the Offer all Fibrek Shares issued in connection with such cashless exercise. Mercer and Fibrek have also agreed in the Support Agreement that all Conditional Option Exercises shall be deemed to have been exercised immediately prior to the take-up of the Fibrek Shares by Mercer.

Mercer shall accept as validly tendered under the Offer all of the Fibrek Shares to be issued pursuant to the Conditional Option Exercise, provided that the holders of such Fibrek options confirm to Fibrek and Mercer that such Fibrek Shares are tendered pursuant to the Offer. The Support Agreement provides that Fibrek shall resolve prior to the Effective Time that all Eligible Options remaining and not exercised at the Effective Time shall be terminated for no consideration, which termination shall not require the consent of any holders of Fibrek options. The income tax consequences to holders of stock options issued under the Fibrek SOP are not described under Section 17 of the Circular, Material Canadian Federal Income Tax Considerations or under Section 18 of the Circular, Material U.S. Federal Income Tax Considerations . Any holders of options should consult their own tax advisors for advice with respect to the actual or potential income tax consequences to them in connection with a decision they may make to exercise or not to exercise their options prior to the Expiry Time or thereafter.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Statements in this Notice of Variation, the Offer to Purchase and Circular and the documents incorporated by reference herein or therein that are not reported financial results or other historical information of the Offerors or Fibrek, are forward-looking statements and involve risks and uncertainties relating to business outlook; assessment of market conditions; liquidity outlook, prospects, growth, strategies and the industry in which we operate; expected benefits resulting from the Offer and stated reasons to accept the Offer; and strategies for achieving our goals generally. Forward-looking statements may be identified by the use of forward-looking terminology such as the words should , would , could , will , may , expect , believe , anticipate , attempt , project and other terms with similar meaning indicating possible future events or potent on our business or Mercer shareholders.

The reader is cautioned not to place undue reliance on these forward-looking statements, which are not guarantees of future performance. These statements are based on management s current assumptions, beliefs and expectations, all of which involve a number of business risks and uncertainties that could cause actual results to differ materially. The potential risks and uncertainties that could cause our actual future financial condition, results of operations and performance to differ materially from those expressed or implied in this Notice of Variation, the Offer to Purchase and Circular and the documents incorporated by reference herein or therein include, but are not limited to: Mercer Shares issued in connection with the Offer may have a market value lower than expected; the businesses of Mercer and Fibrek may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; the expected benefits, synergies and cost savings from the Offer may not be fully realized or not realized within the expected time frame; the possible delay in the completion of the steps required to be taken for our acquisition of Fibrek, including the possibility that approvals or clearances required to be obtained from regulatory and other agencies and bodies will not be obtained in a timely manner; disruption from the proposed transaction making it more difficult to maintain relationships with customers, employees and suppliers; and all other potential risks and uncertainties set forth under the Section entitled Risk Factors in the Offer to Purchase and Circular.

The completion of the Offer is subject to a number of terms and conditions. The conditions to the Offer may not be satisfied in accordance with their terms, and/or we may exercise our termination rights under the Support Agreement, in which case the Offer could be terminated. The outcome of the appeal of the decision of the Court of Québec may also have an impact on the completion of the Offer. Failure to complete the Offer could have a material adverse impact on the market price of the Fibrek Shares.

All forward-looking statements in this Notice of Variation, the Offer to Purchase and Circular and the documents incorporated by reference herein or therein are expressly qualified by the cautionary statements contained or referred to in this section and in our other filings with the SEC and the Canadian securities regulatory authorities. We disclaim any obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable laws.

MARKET AND INDUSTRY DATA

Information about industry or general economic conditions contained in this Notice of Variation, the Offer to Purchase and Circular and the documents incorporated by reference herein or therein is derived from third-party sources and certain trade publications that we believe are widely accepted and accurate; however, we have not independently verified this information and cannot provide assurances of its accuracy.

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RECENT DEVELOPMENTS

On February 29, 2012, Fibrek filed a directors circular with the Canadian securities regulatory authorities wherein the Fibrek Board unanimously recommended that Fibrek shareholders **ACCEPT** our Offer and tender their Fibrek Shares to our Offer. The Fibrek Board also reaffirmed its recommendation that Fibrek shareholders **REJECT** the unsolicited offer made by Abitibi and that any Fibrek Shareholder who has tendered his or her Fibrek Shares to the unsolicited offer by Abitibi should **WITHDRAW** those Fibrek Shares and **TENDER** those Fibrek Shares to our Offer. Fibrek s directors circular described in detail the reasons for their recommendation.

On March 5, 6 and 7, 2012, the Court of Québec heard the appeal of the decision of the *Bureau de décision*. On March 9, 2012, we announced that the Court of Québec ruled in favor of Mercer and Fibrek, reversing the cease trade order against the Special Warrants issued by the *Bureau de decision* on February 23, 2012.

On March 13, 2012, we commenced mailing to Mercer s shareholders the proxy materials regarding the special meeting of Mercer shareholders at which we will be seeking the Mercer Shareholder Approval.

On March 16, 2012, the Québec Court of Appeal granted Abitibi leave to appeal the decision of the Court of Québec. Such appeal is currently scheduled to be heard before the Québec Court of Appeal on March 22, 2012.

On March 19, 2012, we announced that we had received a no-action letter from Canada s Commissioner of Competition (the Commissioner), confirming that, at this time, the Commissioner does not intend to challenge Mercer s acquisition of Fibrek Shares under the Offer.

On March 19, 2012, in response to certain comments raised by the SEC on our registration statement on Form S-4 which contains the Offer to Purchase and Circular initially filed with the SEC on February 29, 2012 (the **S-4 Registration Statement**), Mercer filed Amendment No. 1 to the S-4 Registration Statement. This Notice of Variation has been prepared under Canadian securities Laws and regulations in order to give effect to Amendment No. 1 to the S-4 Registration Statement under Canadian take-over bid rules.

Also on March 19, 2012, we issued a press release announcing (i) the filing of Amendment No. 1 to the S-4 Registration Statement, and (ii) the filing and mailing to Fibrek shareholders of this Notice of Variation.

MARKET PRICES AND EXCHANGE RATE

On March 16, 2012, the closing sale price of Mercer Shares on the NASDAQ was $7.76 and the closing sale price of the Fibrek Shares on TSX was C$1.25.

On March 9, 2012, the date of the noon buying rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the **Noon Buying Rate**) for the conversion of Euros and Canadian dollars to U.S. dollars before the date hereof, the Noon Buying Rate for the conversion of Euros and Canadian dollars to U.S. dollars was 0.7629 per U.S. dollar and C$0.9894 per U.S. dollar. Fibrek shareholders are encouraged to obtain current market quotations for Mercer Shares and Fibrek Shares and current exchange rate information prior to making any decision with respect to the Offer.

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NOTICE OF VARIATION

The Offer to Purchase and Circular and this Notice of Variation contain important information which should be read carefully before making a decision with respect to the Offer.

March 19, 2012

TO HOLDERS OF FIBREK SHARES:

On March 19, 2012, by written notice given to the Depositary and as set forth in this Notice of Variation, we have amended our Offer to Purchase and Circular dated February 29, 2012 (the **Offer to Purchase and Circular**), pursuant to which we are offering to purchase, on the terms and subject to the conditions contained therein, all of the issued and outstanding Fibrek Shares (the **Original Offer**). Unless the context otherwise requires, capitalized terms used but not defined herein have the meanings set forth in the Offer to Purchase and Circular.

Except as otherwise set forth in this Notice of Variation, the terms and conditions set forth in the Offer to Purchase and Circular continue to be applicable in all respects. This Notice of Variation should be carefully read in conjunction with the Offer to Purchase and Circular, the Letter of Transmittal and the Notice of Guaranteed Delivery.

All references to the **Offer** in the Offer to Purchase and Circular, the Letter of Transmittal, the Notice of Guaranteed Delivery and this Notice of Variation mean the Original Offer, as amended by this Notice of Variation.

1. AMENDMENTS TO CERTAIN PROVISIONS APPLICABLE TO THE OFFER

We have amended certain provisions applicable to the Offer as set forth below.

Section 4 of the Offer to Purchase, Conditions of the Offer

The following sentence shall be included at the end of Section 4 of the Offer to Purchase, Conditions of the Offer on page 39:

The Offer is not conditional upon the issuance or conversion of the Special Warrants.

Section 4 of the Circular, Background to the Offer

The following paragraph is added to the end of Section 4 of the Circular, Background to the Offer on page 50:

On March 5, 6 and 7, 2012, the Court of Québec heard the appeal of the decision of the *Bureau de décision*. On March 9, 2012, we announced that the Court of Québec ruled in favor of Mercer and Fibrek, reversing the cease trade order against the Special Warrants issued by the *Bureau de decision* on February 23, 2012. On March 16, 2012, the Québec Court of Appeal granted Abitibi leave to appeal the decision of the Court of Québec.

Section 7 of the Circular, Certain Relationships between Fibrek and Us

The following sentences are added to the end of the second paragraph under the heading Special Warrant Agreement in Section 7 of the Circular, Certain Relationships between Fibrek and Us on page 56:

On March 9, 2012, we announced that the Court of Québec ruled in favor of Mercer and Fibrek, reversing the cease trade order against the Special Warrants issued by the *Bureau de decision* on February 23, 2012. On March 16, 2012, the Québec Court of Appeal granted Abitibi leave to appeal the decision of the Court of Québec.

Section 7 of the Circular, Certain Relationships between Fibrek and Us

The last paragraph under the heading Special Warrant Agreement in Section 7 of the Circular, Certain Relationships between Fibrek and Us on page 57 is deleted and replaced with the following paragraphs:

On March 5, 6 and 7, 2012, the Court of Québec heard the appeal of the decision of the *Bureau de décision*. On March 9, 2012, we announced that the Court of Québec ruled in favor of Mercer and Fibrek, reversing the cease trade order against the Special Warrants issued by the Bureau de decision on February 23, 2012. On March 16, 2012, the Québec Court of Appeal granted Abitibi leave to appeal the decision of the Court of Québec.

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As a result of the foregoing, and as the matter is before the Québec Court of Appeal, at this time, we cannot predict whether Fibrek will be permitted to issue the Special Warrants to us pursuant to the terms of the Special Warrant Agreement or at all.

2. TIME FOR ACCEPTANCE

The Offer will remain open for acceptance until 5:00 p.m., Eastern Time, on April 6, 2012, unless extended or withdrawn by us.

3. MANNER OF ACCEPTANCE

Fibrek Shares which have not already been deposited pursuant to the Offer may be deposited under the Offer in accordance with the provisions of Section 3 of the Offer to Purchase, Manner of Acceptance .

4. TAKE UP OF, AND PAYMENT FOR, DEPOSITED FIBREK SHARES

If all conditions described in the Offer to Purchase and Circular have been satisfied or waived by us at or immediately prior to the Expiry Time, we will take up and promptly pay for Fibrek Shares validly deposited under the Offer and not properly withdrawn. Under Canadian Law, take up and payment must occur no later than ten days after the Expiry Time. All Fibrek Shares taken up under the Offer will be paid for promptly and, in any event, within three Business Days after having been taken up. Fibrek Shares deposited pursuant to the Offer after the first date on which Fibrek Shares have been taken up and paid for by us will be taken up and paid for not later than ten days after such deposit.

Fibrek shareholders should refer to Section 6 of the Offer to Purchase, Take Up and Payment for Deposited Fibrek Shares for details regarding the take up of and payment for Fibrek Shares deposited under the Offer.

5. WITHDRAWAL OF DEPOSITED SHARES

Fibrek Shares deposited under the Offer may be withdrawn by or on behalf of the depositing Fibrek shareholder (unless otherwise required or permitted by applicable laws):

- at any time before Fibrek Shares deposited under the Offer are taken up and paid for by us; or

- at any time before the expiration of the tenth day after the date upon which:

  - this Notice of Variation;

  - a notice of change relating to a change that has occurred in the information contained in the Offer to Purchase and Circular, and such change is one that would reasonably be expected to affect the decision of a Fibrek shareholder to accept or reject the Offer (other than a change that is not within our control or the control of our affiliates, unless it is a change in a material fact relating to Mercer Shares); provided that such change occurs before the Expiry Time or after the Expiry Time but before the expiration of all rights of withdrawal in respect of the Offer; or

  - any subsequent notice of variation concerning a further variation of the terms of the Offer;

is first mailed, delivered or otherwise properly communicated, unless in either case the Fibrek Shares have been taken up before the date of such notice of change or variation.

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The ten-day period referred to above may be extended to ten Business Days where required by U.S. securities Laws.

Notice of withdrawal of deposited Fibrek Shares must: (i) be made by a method that provides the Depositary with a timely written or printed copy of such notice; (ii) be made by or on behalf of the depositing Fibrek shareholder; (iii) be signed by or on behalf of the depositing Fibrek shareholder; (iv) specify such Fibrek shareholder s identity, the number of Fibrek Shares to be withdrawn, and the name of the registered Fibrek shareholder; and (v) be actually received by the Depositary within the applicable time limits specified above.

If certificates evidencing the Fibrek Shares to be withdrawn have been delivered or otherwise identified to the Depositary then, prior to the physical release of such certificates, the serial numbers shown on such certificates must be submitted to the Depositary and, unless the notice of withdrawal is signed by the registered owner of such Fibrek Shares or such Fibrek Shares have been deposited by or for the account of an Eligible Institution, the signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution. If Fibrek Shares have been deposited pursuant to the procedures for book-entry transfer as described in Section 3 of the Offer to Purchase, Manner of Acceptance , any notice of withdrawal must specify the name and number of the account at CDS or DTC, as applicable, to be credited with the withdrawn Fibrek Shares or otherwise comply with the procedures of CDS or DTC, as applicable.

Withdrawals may not be rescinded and will take effect upon actual receipt by the Depositary of a properly completed notice of withdrawal. Any Fibrek Shares withdrawn will be deemed not properly deposited for the purposes of the Offer, but may be re-deposited at any time on or prior to the Expiry Time by following the applicable procedures described in Section 3 of the Offer to Purchase, Manner of Acceptance .

6. STATUTORY RIGHTS

Securities legislation in the provinces and territories of Canada provides security holders of Fibrek with, in addition to any other rights they may have at Law, one or more rights of rescission, price revision or to damages, if there is a misrepresentation in a circular or notice that is required to be delivered to those securityholders. However, such rights must be exercised within prescribed time limits. Securityholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult a lawyer.

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APPROVAL AND CERTIFICATE OF MERCER INTERNATIONAL INC.

The foregoing, together with the Offer to Purchase and Circular, contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Dated: March 19, 2012

(Signed) Jimmy S. H. Lee Jimmy S.H. Lee President and Chief Executive Officer		(Signed) David M. Gandossi David M. Gandossi Executive Vice President, Chief Financial Officer and Secretary
	On behalf of the board of directors	
(Signed) Eric Lauritzen Eric Lauritzen Director		(Signed) William McCartney William McCartney Director

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APPROVAL AND CERTIFICATE OF MERC ACQUISITION INC.

The foregoing, together with the Offer to Purchase and Circular, contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Dated: March 19, 2012

(Signed) Jimmy S.H. Lee Jimmy S.H. Lee President		(Signed) David M. Gandossi David M. Gandossi Secretary
	On behalf of the board of directors	
(Signed) Jimmy S.H. Lee Jimmy S.H. Lee Director		(Signed) David M. Gandossi David M. Gandossi Director

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THE DEPOSITARY FOR THE OFFER IS:

By Registered Mail, Hand or Courier	By Mail
Computershare Investor Services Inc.	Computershare Investor Services Inc.
100 University Avenue	P.O. Box 7021
9th Floor	31 Adelaide Street East
Toronto, Ontario M5Y 2Y1	Toronto, Ontario M5C 3H2
Attention: Corporate Actions	

Inquiries

Toll Free (North America): 1-800-564-6253

Overseas: 1-514-982-7555

E-mail: corporateactions@computershare.com

ANY QUESTIONS OR REQUESTS FOR ASSISTANCE MAY BE DIRECTED TO THE

INFORMATION AGENT:

Toll-Free (North America): 1-877-304-0211

Banks brokers or collect calls: 416-304-0211

Email: assistance@laurelhill.com

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Mercer International Inc. and MERC Acquisition Inc. may not complete the Offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and Mercer International Inc. and MERC Acquisition Inc. are not soliciting an offer to buy these securities in any state or jurisdiction in which such offer or sale is not permitted.

This document is important and requires your immediate attention. If you have any questions as to how to deal with the transactions described in this document, you are encouraged to consult your investment dealer, stockbroker, bank manager, accountant, lawyer or other professional advisor. The Offer has not been approved or disapproved by any securities regulatory authority in Canada or the United States and no securities regulatory authority has expressed an opinion about, or passed upon the fairness or merits of the Offer contained in this document, the securities offered pursuant to the Offer or the adequacy of the information contained in this document. Any representation to the contrary is unlawful.

February 29, 2012

OFFER TO PURCHASE

all of the outstanding common shares of

FIBREK INC.

by

MERCER INTERNATIONAL INC.

and

MERC ACQUISITION INC.,

a wholly-owned subsidiary of MERCER INTERNATIONAL INC.,

for consideration per common share of Fibrek Inc. payable, at the election of each holder, in

one of the following forms:

C$1.30 in cash (subject to proration as described below)

OR

C$0.54 in cash plus 0.0903 of a share of common stock of MERCER INTERNATIONAL INC.

OR

0.1540 of a share of common stock of MERCER INTERNATIONAL INC. (subject to proration as described below)

Mercer International Inc., a Washington corporation (**Mercer**), and MERC Acquisition Inc., a Canadian corporation, and a wholly-owned subsidiary of Mercer (**Mercer Acquisition** and, together with Mercer, the **Offerors**), hereby offer to purchase (the **Offer**), upon the terms and subject to the conditions set forth in the Offer to Purchase and Circular and related letter of transmittal and election form (the **Letter of Transmittal**), all of the issued and outstanding common shares of Fibrek Inc. (**Fibrek**), a Canadian corporation, including any Fibrek common shares that may become issued and outstanding after the date of the Offer but before the Expiry Time upon the exercise of options issued under

Fibrek s share option plan (the **Fibrek SOP**) implemented on May 19, 2010 (the **Fibrek Shares**), for consideration per Fibrek Share payable, at the election of each holder, in one of the following forms:

- C$1.30 in cash, subject to proration as described in Section 1 of the Offer to Purchase, The Offer (the **Cash Only Option**); or

- C$0.54 in cash plus 0.0903 of a share of common stock (the **Mercer Shares**) of Mercer (the **Cash and Share Option**); or

- 0.1540 of a Mercer Share, subject to proration as described in Section 1 of the Offer to Purchase, The Offer (the **Shares Only Option**).

The Offer will be open for acceptance until 5:00 p.m., Eastern Time, on April 6, 2012, unless extended or withdrawn by us (the Expiry Time). We will not amend the Offer in such a manner as would cause the Expiry Time of the Offer to occur earlier than such date and time or alter the withdrawal rights of Fibrek shareholders. Fibrek Shares deposited under the Offer may be withdrawn at any time prior to being taken up and paid for.

The board of directors of Fibrek, after consulting with its financial and legal advisors, has UNANIMOUSLY DETERMINED that the consideration to be offered for the Fibrek Shares pursuant to the Offer is fair to all Fibrek shareholders (other than those who have entered into lock-up agreements with any person other than Mercer with respect to their Fibrek Shares), that it is in the best interests of Fibrek to support and facilitate the Offer and UNANIMOUSLY RECOMMENDS that holders of Fibrek Shares deposit their Fibrek Shares to the Offer.

The Offer represents, as at February 9, 2012, a premium of 30% over the unsolicited insider bid made by AbitibiBowater Inc. (the **Abitibi Bid**), 81% over the closing price of the Fibrek Shares on November 28, 2011, the date of announcement of the Abitibi Bid, and 70% over the volume-weighted average trading price of the Fibrek Shares on the Toronto Stock Exchange (the **TSX**) for the 20 trading days ending on such date.

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As at the close of business on February 28, 2012, there were 130,075,556 issued and outstanding Fibrek Shares. Based on this total, the maximum amount of cash consideration available under the Offer shall be C$70,000,000 (the **Maximum Cash Consideration**) and the maximum number of Mercer Shares available to be issued under the Offer shall be 11,741,496 (the **Maximum Share Consideration**). The consideration payable to Fibrek shareholders having elected the Cash Only Option or the Shares Only Option will be prorated on each date on which Fibrek Shares are taken up under the Offer as necessary to ensure that the aggregate consideration payable under the Offer does not exceed the Maximum Cash Consideration and the Maximum Share Consideration. Such proration will be based on the number of Fibrek Shares acquired on such date in proportion to the number of issued and outstanding Fibrek Shares as of such date. See Section 1 of the Offer to Purchase, The Offer .

Mercer and Fibrek have entered into a support agreement dated February 9, 2012 (the **Support Agreement**) pursuant to which Fibrek agreed to support and recommend the Offer, all subject to the terms and conditions set forth therein. See Section 7 of the Circular, Certain Relationships Between Fibrek and us .

In connection with the Offer, we have entered into lock-up agreements pursuant to which certain directors and officers of Fibrek have agreed to support the Offer. See Section 7 of the Circular, Certain Relationships Between Fibrek and us Arrangements Between us and the Directors and Officers of Fibrek , for additional details on such lock-up agreements.

Mercer Shares are traded on the NASDAQ Global Market (**NASDAQ**) under the symbol MERC and on the TSX under the symbol MRI.U . Fibrek Shares are traded on the TSX under the symbol FBK .

The securities offered in the Offer involve certain risks. For a discussion of risk factors you should consider in evaluating the Offer, see the Section entitled Risk Factors .

NONE OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE SEC), ANY STATE SECURITIES COMMISSION, ANY CANADIAN SECURITIES REGULATORY AUTHORITY OR ANY OTHER REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFER TO PURCHASE AND CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NOTICE TO SHAREHOLDERS IN CANADA

We present our financial statements in Euros and prepare our financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Financial information in the Offer to Purchase and the Circular has been prepared in accordance with U.S. GAAP, and therefore may not be comparable to financial data prepared by many Canadian companies.

Fibrek shareholders in Canada should be aware that the disposition of Fibrek Shares and the acquisition of Mercer Shares by them as described herein may have tax consequences both in Canada and the U.S. Such consequences may not be fully described herein and such shareholders are encouraged to consult their tax advisors. See Section 17 of the Circular, Material Canadian Federal Income Tax Considerations and Section 18 of the Circular, Material U.S. Federal Income Tax Considerations .

Certain of the directors and officers of Mercer and certain of the experts named herein may reside outside of Canada. Substantially all of the assets of these persons and of Mercer may be located outside of Canada. It may not be possible for investors to effect service of process within Canada upon the directors, officers and experts referred to above. It may also not be possible to enforce against Mercer, its directors and officers and certain of the experts named herein judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable securities laws in Canada.

NOTICE TO SHAREHOLDERS IN THE U.S.

We present our financial statements in Euros and prepare our financial statements in accordance with U.S. GAAP. Financial statements for Fibrek included herein have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, which differ from U.S. GAAP in certain material respects, and thus may not be comparable to financial statements of U.S. companies.

Fibrek shareholders in the U.S. should be aware that the disposition of Fibrek Shares and the acquisition of Mercer Shares by them as described herein may have tax consequences both in the U.S. and in Canada. Such consequences may not be fully described herein and such shareholders are encouraged to consult their tax advisors. See Section 18 of the Circular, Material U.S. Federal Income Tax Considerations and Section 17 of the Circular, Material Canadian Federal Income Tax Considerations .

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The enforcement by investors of civil liabilities under U.S. federal securities laws may be affected adversely by the fact that Mercer Acquisition is organized under the laws of Canada, that some or all of our officers and directors may reside outside the U.S., that some of the experts named herein may reside outside the U.S., and that all or a substantial portion of our assets and of the assets of such persons may be located outside the U.S.

NOTICE TO HOLDERS OF OPTIONS

The Offer is made only for Fibrek Shares, including Fibrek Shares issued and outstanding before the Expiry Time upon the exercise of options issued under the Fibrek SOP and is not made for any stock options issued under the Fibrek SOP. Any holder of stock options issued under the Fibrek SOP who wishes to accept the Offer should, to the extent permitted by the terms of the security and applicable laws, exercise the options in order to obtain Fibrek Shares and deposit those Fibrek Shares pursuant to the Offer. Any such exercise must be completed sufficiently in advance of the Expiry Time to assure compliance with the procedures set forth in Section 3 of the Offer to Purchase, Manner of Acceptance . Pursuant to the Support Agreement, Fibrek has agreed that until the expiry date, subject to the terms of the Fibrek SOP and the receipt of any necessary approvals and in accordance with applicable securities laws, it shall take such actions as may be necessary or desirable, including amending the terms of the Fibrek SOP, to provide that the vesting of any unvested Eligible Options be accelerated and a cashless exercise of the Eligible Options (as defined herein) be effected solely for the purpose of tendering under the Offer all Fibrek Shares issued in connection with such cashless exercise. Mercer and Fibrek have also agreed in the Support Agreement that all Conditional Option Exercises (as defined herein), shall be deemed to have been exercised immediately prior to the take-up of the Fibrek Shares by Mercer. Mercer shall accept as validly tendered under the Offer all of the Fibrek Shares to be issued pursuant to the Conditional Option Exercise, provided that the holders of such Fibrek options confirm to Fibrek and Mercer that such Fibrek Shares are tendered pursuant to the Offer. The Support Agreement provides that Fibrek shall resolve prior to the Effective Time (as defined herein) that all Eligible Options remaining and not exercised at the Effective Time shall be terminated for no consideration, which termination shall not require the consent of any holders of Fibrek options. The income tax consequences to holders of stock options issued under the Fibrek SOP are not described under Section 17 of the Circular, Material Canadian Federal Income Tax Considerations or under Section 18 of the Circular, Material U.S. Federal Income Tax Considerations . Any holders of options should consult their own tax advisors for advice with respect to the actual or potential income tax consequences to them in connection with a decision they may make to exercise or not to exercise their options prior to the Expiry Time or thereafter.

The Depositary for the Offer is:	**The Information Agent for the Offer is:**

The consideration payable in the form of Mercer Shares under the Offer will be subject to adjustment for fractional shares. No fractional Mercer Shares will be issued under the Offer.

Based on 130,075,556 issued and outstanding Fibrek Shares as at the close of business on February 28, 2012, and assuming that all outstanding Fibrek Shares are deposited and taken up under the Offer, we estimate that the number of Mercer Shares that Fibrek shareholders will receive in the Offer will represent approximately 17% of the Mercer Shares outstanding immediately following the issuance of such Mercer Shares.

The Offer is subject to certain conditions, which are described in Section 4 of the Offer to Purchase, Conditions of the Offer including, without limitation, there being validly deposited or tendered under the Offer and not withdrawn, at the Expiry Time, a number of Fibrek Shares which, together with the Fibrek Shares and any Special Warrants (as defined herein) held by Mercer and its affiliates, represent at least 50.1% of the aggregate number of Fibrek Shares outstanding on a fully-diluted basis. Subject to applicable law and the Support Agreement, we reserve the right to withdraw the Offer and to not take up and pay for any Fibrek Shares deposited pursuant to the Offer unless each of the conditions of the Offer is satisfied or waived by us at or immediately prior to the Expiry Time. The Offer is not subject to any financing condition.

Upon the purchase of Fibrek Shares pursuant to the Offer, additional Mercer Shares will be listed under the same symbol for existing Mercer Shares on the NASDAQ and the TSX. We will apply to the NASDAQ and the TSX to list Mercer Shares to be issued to Fibrek shareholders in connection with the Offer. It is a condition of the Offer that Mercer Shares to be issued in the Offer shall have been approved for listing on the NASDAQ and on the TSX. Listing of Mercer Shares to be issued in the Offer will be subject to us fulfilling the listing requirements of the NASDAQ and the TSX. See Section 12 of the Circular, Stock Exchange Listing Applications .

In the Offer to Purchase and Circular, **we** , **us** and **our** refer to the Offerors or to Mercer with its subsidiaries and controlled affiliates, either individually or collectively, as the context may require.

Any Fibrek shareholder desiring to deposit all or any portion of such shareholder s Fibrek Shares under the Offer should either: (i) complete and sign the accompanying Letter of Transmittal (printed on BLUE paper) in accordance with the instructions in the Letter of Transmittal and mail or deliver it together with the certificate(s) evidencing deposited Fibrek Shares, and any other required documents, to the Depositary (as defined herein) at its office specified in the Letter of Transmittal; (ii) deposit such Fibrek Shares pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer to Purchase, Manner of Acceptance ; or (iii) request such Fibrek shareholder s broker, dealer, commercial bank, trust company or other nominee to effect the transaction for such Fibrek shareholder. **Any Fibrek shareholder whose Fibrek Shares are registered in the name of a broker, investment dealer, bank, trust company or other nominee must contact the Depositary or its broker, investment dealer, bank, trust company or other nominee if such Fibrek shareholder desires to deposit such Fibrek Shares in the Offer.**

If a Fibrek shareholder desires to deposit Fibrek Shares pursuant to the Offer and: (i) the certificates evidencing such Fibrek Shares are not immediately available; (ii) such shareholder cannot deliver the certificates and all other required documents to the Depositary before the Expiry Time; or (iii) such shareholder cannot comply with the procedures for book-entry transfer on a timely basis, such Fibrek Shares may nevertheless be validly deposited under the Offer in compliance with the procedures for guaranteed delivery using the accompanying Notice of Guaranteed Delivery (printed on **YELLOW** paper). See Section 3 of the Offer to Purchase, Manner of Acceptance .

If Fibrek Shares validly deposited under the Offer are taken up and paid for, we will, to the extent within our control and subject to applicable laws, acquire, directly or indirectly, all of the issued and outstanding Fibrek Shares not deposited under the Offer by way of one or more Second Step Transactions (as defined herein). The terms of any such Second Step Transaction will provide that the consideration offered for Fibrek Shares under any Second Step Transaction, including the consideration options, will be the same as that offered and paid to Fibrek shareholders under the Offer (subject to proration). See Section 15 of the Circular, Acquisition of Fibrek Shares not Deposited .

The cash portion of the Offer Consideration (as defined herein) payable under the Offer will be denominated and paid in Canadian dollars.

We have engaged The Laurel Hill Advisory Group Company to act as information agent (the **Information Agent**) for the Offer and have engaged Computershare Investor Services Inc. to act as depositary (the **Depositary**) for the Offer.

Questions or requests for assistance may be directed to the Information Agent at its address and telephone number set forth on the back cover of the Offer to Purchase and Circular. Requests for additional copies of the Offer to Purchase and Circular, the accompanying Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to the Information Agent, and copies will be furnished promptly at our expense. Fibrek shareholders may also contact their brokers, investment dealers, banks, trust companies or other nominees for assistance concerning the Offer.

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We have not authorized anyone to provide any information or make any representation in connection with the Offer that is different from, or in addition to, the information and representations contained in the Offer or in any materials regarding the Offer accompanying this document or incorporated by reference herein or therein. Fibrek shareholders should not rely on any information or any representations regarding the Offer not contained in the Offer to Purchase and Circular or in the documents accompanying the Offer to Purchase and Circular.

While the Offer is being made to all holders of Fibrek Shares, this document does not constitute an offer or a solicitation in any jurisdiction in which such offer or solicitation is unlawful. The Offer is not being made in, nor will deposits be accepted in, any jurisdiction in which the making or acceptance thereof would not be in compliance with the laws of such jurisdiction. However, we may, in our sole discretion, take such action as we may deem necessary to make the Offer in any such jurisdiction.

Unless otherwise specified, the information contained in this document speaks only as of the date of this document. All websites referred to in the Offer to Purchase and Circular and Letter of Transmittal are inactive textual references only, meaning that the information contained on such websites is not incorporated by reference into the Offer to Purchase and Circular or the Letter of Transmittal, and you should not consider information contained on such websites as part of the Offer to Purchase and Circular or the Letter of Transmittal, unless expressly specified in the Offer to Purchase and Circular or the Letter of Transmittal.

THIS OFFER TO PURCHASE AND CIRCULAR AND THE RELATED LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION, AND YOU SHOULD CAREFULLY READ BOTH IN THEIR ENTIRETY BEFORE MAKING A DECISION WITH RESPECT TO THE OFFER.

THE OFFER TO PURCHASE AND CIRCULAR INCORPORATES IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT MERCER FROM DOCUMENTS FILED WITH THE SEC AND THE CANADIAN SECURITIES REGULATORY AUTHORITIES THAT HAVE NOT BEEN INCLUDED IN OR DELIVERED WITH THIS OFFER TO PURCHASE AND CIRCULAR. SUCH INFORMATION IS AVAILABLE AT THE INTERNET WEBSITES MAINTAINED BY THE SEC AND CANADIAN SECURITIES REGULATORY AUTHORITIES AT WWW.SEC.GOV AND WWW.SEDAR.COM, RESPECTIVELY. PLEASE SEE THE SECTION ENTITLED WHERE YOU CAN FIND ADDITIONAL INFORMATION . YOU MAY ALSO REQUEST COPIES OF THESE DOCUMENTS FROM US, WITHOUT CHARGE, UPON WRITTEN OR ORAL REQUEST TO THE INFORMATION AGENT AT ITS ADDRESS OR TELEPHONE NUMBER SET FORTH ON THE BACK COVER OF THIS OFFER TO PURCHASE AND CIRCULAR. IN ORDER TO RECEIVE TIMELY DELIVERY OF THE DOCUMENTS, YOU MUST MAKE YOUR REQUEST NO LATER THAN MARCH 29, 2012 OR FIVE BUSINESS DAYS PRIOR TO THE EXPIRY TIME OF THE OFFER, WHICHEVER IS LATER.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Statements in the Offer to Purchase, the Circular and the documents incorporated by reference herein that are not reported financial results or other historical information of the Offerors or Fibrek, are forward-looking statements and involve risks and uncertainties relating to business outlook; assessment of market conditions; liquidity outlook, prospects, growth, strategies and the industry in which we operate; expected benefits resulting from this Offer and stated reasons to accept the Offer; and strategies for achieving our goals generally. Forward-looking statements may be identified by the use of forward-looking terminology such as the words should , would , could , will , may , expect , beli anticipate , attempt , project and other terms with similar meaning indicating possible future events or potential impact on our business or Mercer shareholders.

The reader is cautioned not to place undue reliance on these forward-looking statements, which are not guarantees of future performance. These statements are based on management s current assumptions, beliefs and expectations, all of which involve a number of business risks and uncertainties that could cause actual results to differ materially. The potential risks and uncertainties that could cause our actual future financial condition, results of operations and performance to differ materially from those expressed or implied in this Offer to Purchase and Circular and the documents incorporated by reference in the Offer to Purchase and Circular include, but are not limited to: Mercer Shares issued in connection with the Offer may have a market value lower than expected; the businesses of Mercer and Fibrek may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; the expected benefits, synergies and cost savings from the Offer may not be fully realized or not realized within the expected time frame; the possible delay in the completion of the steps required to be taken for our acquisition of Fibrek, including the possibility that approvals or clearances required to be obtained from regulatory and other agencies and bodies will not be obtained in a timely manner; disruption from the proposed transaction making it more difficult to maintain relationships with customers, employees and suppliers; and all other potential risks and uncertainties set forth under the Section entitled Risk Factors .

The completion of the Offer is subject to a number of terms and conditions. The conditions to the Offer may not be satisfied in accordance with their terms, and/or we may exercise our termination rights under the Support Agreement, in which case the Offer could be terminated. The outcome of the appeal of the decision of the Bureau de décision may also have an impact on the completion of the Offer. Failure to complete the Offer could have a material adverse impact on the market price of the Fibrek Shares.

All forward-looking statements in the Offer to Purchase, the Circular and the documents incorporated by reference herein are expressly qualified by the cautionary statements contained or referred to in this section and in our other filings with the SEC and the Canadian securities regulatory authorities. We disclaim any obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable laws.

MARKET AND INDUSTRY DATA

Information about industry or general economic conditions contained in the Offer to Purchase, the Circular and the documents incorporated by reference herein is derived from third-party sources and certain trade publications that we believe are widely accepted and accurate; however, we have not independently verified this information and cannot provide assurances of its accuracy.

REPORTING CURRENCIES AND FINANCIAL PRINCIPLES

In the Offer to Purchase and Circular, all references to refer to Euro, all references to **C$** refer to Canadian dollars and all references to **US$** refer to U.S. dollars, unless otherwise indicated.

Our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 and the notes thereto are prepared in accordance with U.S. GAAP.

INFORMATION CONCERNING FIBREK

Except as otherwise indicated, the information concerning Fibrek contained herein has been taken from or is based upon Fibrek s (and other) publicly available documents and records. Although Mercer has no knowledge that would indicate that any statements contained herein concerning Fibrek taken from or based upon such documents and records are untrue or incomplete, neither Mercer nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, including any of Fibrek s financial information or statements, or for any failure by Fibrek to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information but which are unknown to Mercer. Mercer has limited means of verifying the accuracy or completeness of any of the information contained herein that is derived from Fibrek s publicly available documents or records or whether there has been any failure by Fibrek to disclose events that may have occurred or may affect the significance or accuracy of any information.

EXCHANGE RATES

Our reporting currency and our financial statements are reported in Euros, as a significant majority of our business transactions are originally denominated in Euros. We translate non-Euro denominated assets and liabilities at the rate of exchange on the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the period.

The following table sets out exchange rates, based on the noon buying rates in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the **Noon Buying Rate**) for the conversion of Euros and Canadian dollars to U.S. dollars in effect at the end of the following periods, the average exchange rates during these periods (based on daily Noon Buying Rates) and the range of high and low exchange rates for these periods:

Years Ended December 31,	
2009	2008
(/US$)	
0.6977	
0.6623	

).7970
).7176

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constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Sect
Securities Exchange Act of 1934, as amended. For those statements, Mohawk claims the protection of the safe harbor for forwar
statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-lookin
statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following i
factors could cause future results to differ: changes in industry conditions; competition; raw material prices; energy costs; timin
of capital expenditures; integration of acquisitions; legislative enactments and regulatory decisions; introduction of new product
rationalization of operations; litigation; and other risks identified in Mohawk s SEC reports and public announcements.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The Company owns a 0.1 million square foot headquarters office in Calhoun, Georgia on an eight-acre site. The Company also
2.1 million square foot manufacturing facility located in Dalton, Georgia, used by the Mohawk segment, 1.7 million and 1.0 mil
foot manufacturing facilities located in Monterey, Mexico and Muskogee, Oklahoma, respectively, used by the Dal-Tile segmen
1.1 million square foot manufacturing facility located in Wielsbeke, Belgium and a 0.5 million square foot manufacturing facilit
in Thomasville, NC used by the Unilin segment.

The following table summarizes the Company s facilities both owned and leased for each segment in square feet (in millions):

	Mohawk Segment		**Dal-Tile Segment**		**Unilir**
Primary Purpose	**Owned**	**Leased**	**Owned**	**Leased**	**Owned**
Manufacturing	16.4	0.1	4.4		7.7
Selling and Distribution	3.4	4.9	0.3	7.9	0.1
Other	1.1	0.1	0.3		0.1
Total	20.9	5.1	5.0	7.9	7.9

The Company s properties are in good condition and adequate for its requirements. The Company believes its principal plants a
adequate to meet its production plans pursuant to the Company s long-term sales goals. In the ordinary course of business, the C
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 litigation from time to time in the regular course of its business. Except as noted below there are no
legal proceedings pending or known by the Company to be contemplated to which the Company is a party or to which any of its
is subject.

In Shirley Williams et al. v. Mohawk Industries, Inc., four plaintiffs filed a putative class action lawsuit in January 2004 in the U
States District Court for the Northern District of Georgia (Rome Division), alleging that they are former and current employees
Company and that the actions and conduct of the Company, including the employment of persons who are not authorized to wor
United States, have damaged them and the other members of the putative class by suppressing the wages of the Company s hou
employees in Georgia. The plaintiffs seek a variety of relief, including (a) treble damages; (b) return of any allegedly unlawful p
(c) attorney s fees and costs of litigation. In February 2004, the Company filed a Motion to Dismiss the Complaint, which was

the District Court in April 2004. Following appellate review of this decision, the case was returned to the District Court for furth proceedings. On December 18, 2007, the plaintiffs filed a motion for class certification. On March 3, 2008, the District Court de plaintiffs motion for class certification. The plaintiffs then appealed the decision to the United States Court of Appeals

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for the 11th Circuit on March 17, 2008. On May 28, 2009, the Court of Appeals issued an order reversing the District Court s d remanding the case back to the District Court for further proceedings on the class certification issue. Discovery has been stayed District Court since the appeal. In August 2009, the Company filed a petition for certiorari with the United States Supreme Cour was denied in November 2009. The Company will continue to vigorously defend itself against this action.

In Collins & Aikman Floorcoverings, Inc., et. al. v. Interface, Inc., United States District Court for the Northern District of Geor Division), Mohawk Industries, Inc. joined Collins & Aikman Floorcoverings, Inc. (CAF) and Shaw Industries Group, Inc. (Interface, Inc. (Interface) for declaratory judgments that United States Patent 6,908,656 (the Patent), assigned to Interface certain styles of carpet tiles, is not infringed and is invalid. Also in June 2005, in Interface, Inc., et al. v. Mohawk Industries, Inc United States District Court for the Northern District of Georgia (Atlanta Division), Interface sued Mohawk Industries, Inc., Mo Carpet Corporation, and Mohawk Commercial, Inc. for allegedly infringing the Patent. Interface brought similar suits against en affiliated with CAF and Shaw. Interface sought monetary damages as well as injunctive relief. The cases were consolidated in th States District Court for the Northern District of Georgia (Rome Division). During the second quarter of 2009, the Company and reached a settlement and the pending cases were dismissed by the District Court on June 26, 2009.

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been mad probable losses and that the ultimate outcome of these actions will not have a material adverse effect on its financial condition b have a material adverse effect on its results of operations in a given quarter or year.

Environmental Matters

The Company is subject to various federal, state, local and foreign environmental health and safety laws and regulations, includi governing air emissions, wastewater discharges, the use, storage, treatment and disposal of solid and hazardous materials, and th of contamination associated therewith. Because of the nature of the Company s business, the Company has incurred, and will c 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 c The Company has provided accruals for such activities that it has determined to be both probable and reasonably estimable. The does not expect that the ultimate liability with respect to such activities will have a material adverse effect on its operations, but an effect on the results of operations for a given quarter or annual period.

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, 2009.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market for the Common Stock

The Company s common stock, $0.01 par value per share (the Common Stock) is quoted on the New York Stock Exchange the symbol MHK. The table below shows the high and low sales prices per share of the Common Stock as reported on the NY Composite Tape, for each fiscal period indicated.

	Mohaw Common High
2008	
First quarter	$ 83.09
Second quarter	80.29
Third quarter	75.26
Fourth quarter	69.47
2009	
First quarter	$ 46.05
Second quarter	51.88
Third quarter	53.71
Fourth quarter	50.49

As of February 22, 2010, there were approximately 344 holders of record of Common Stock. The Company has not paid or decl cash dividends on shares of its Common Stock since completing its initial public offering. The Company s policy is to retain al earnings for the development of its business, and presently, it does not anticipate paying cash dividends on the Common Stock i foreseeable future. The payment of future cash dividends will be at the sole discretion of the Board of Directors and will depend Company s profitability, financial condition, cash requirements, future prospects and other factors deemed relevant by the Boar Directors.

The Company did not repurchase any of its common stock during the fourth quarter of 2009.

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 consolidated financial statements of the Company. On October 31, 2005, the Company acquired all the outstanding shares of Un Holding NV (Unilin Acquisition). The total purchase price of the Unilin Acquisition, net of cash, was approximately Euro 2. (approximately $2.5 billion). On August 13, 2007, the Company completed the acquisition of certain wood flooring assets for $147.1 million in cash. The consolidated financial statements include the results of all acquisitions from the date of acquisition. selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Operations and the Company s consolidated financial statements and notes thereto included elsewhere herein.

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	As of or for the Years Ended December 31,			
	2009	2008	2007	2006
	(In thousands, except per share data)			
Statement of operations data:				
Net sales	$ 5,344,024	6,826,348	7,586,018	7,905,842
Cost of sales(a)	4,111,794	5,088,584	5,471,234	5,674,531
Gross profit	1,232,230	1,737,764	2,114,784	2,231,311
Selling, general and administrative expenses	1,188,500	1,318,501	1,364,678	1,392,251
Impairment of goodwill and other intangibles(b)		1,543,397		
Operating income (loss)	43,730	(1,124,134)	750,106	839,060
Interest expense	127,031	127,050	154,469	173,697
Other expense, net	(5,588)	21,288	(6,925)	(252)
U.S. customs refund(c)			(9,154)	(19,436)
	121,443	148,338	138,390	154,009
Earnings (loss) before income taxes	(77,713)	(1,272,472)	611,716	685,051
Income taxes (benefit) expense(d)	(76,694)	180,062	(102,697)	220,478
Net (loss) earnings	(1,019)	(1,452,534)	714,413	464,573
Less: Net earnings attributable to the noncontrolling interest	4,480	5,694	7,599	8,740
Net earnings (loss) attributable to Mohawk Industries, Inc	$ (5,499)	(1,458,228)	706,814	455,833
Basic (loss) earnings per share	$ (0.08)	(21.32)	10.37	6.74
Weighted-average common shares outstanding	68,452	68,401	68,172	67,674
Diluted (loss) earnings per share	$ (0.08)	(21.32)	10.32	6.70
Weighted-average common and dilutive potential common shares outstanding	68,452	68,401	68,492	68,056
Balance sheet data:				
Working capital (includes short-term debt)	$ 1,474,978	1,369,333	1,238,220	783,148
Total assets (b and d)	6,391,446	6,446,175	8,680,050	8,212,209
Long-term debt (including current portion)	1,854,479	1,954,786	2,281,834	2,783,681
Total equity	3,234,282	3,184,933	4,738,843	3,744,468

(a) In 2005, gross margin was impacted by a non-recurring $34,300 ($22,300 net of tax) fair value adjustment to Unilin s acq inventory.

(b) In 2008, the Company recorded an impairment of goodwill and other intangibles which included $276,807 for the Mohawk $531,930 for the Dal-Tile segment and $734,660 for the Unilin segment.

(c) In 2007 and 2006, the Company received partial refunds from the U.S. government in reference to settlement of custom dis dating back to 1982.

(d) In 2007, the Company implemented a change in residency of one of its foreign subsidiaries. This tax restructuring resulted up in the subsidiary s taxable basis, which resulted in the recognition of a

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deferred tax asset of approximately $245,000 and a related income tax benefit of approximately $272,000. In 2008, the Com recorded a valuation allowance of approximately $253,000 against the deferred tax asset described above.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Overview

The Company is a leading producer of floor covering products for residential and commercial applications in the U.S. and Europ sales in 2009 of $5.3 billion. The Company is the second largest carpet and rug manufacturer in the U.S., a leading manufacture and distributor of ceramic tile, natural stone and hardwood flooring in the U.S. and a leading producer of laminate flooring in th Europe. In 2008, the primary categories of the U.S. floor covering industry, based on sales dollars, were carpet and rug (58%), c (11%), resilient and rubber (11%), hardwood (10%), stone (5%) and laminate (5%).

The Company believes that the U.S. floor covering industry has experienced declining demand beginning in the fourth quarter o which worsened considerably during the later parts of 2008 and continued to decline throughout 2009. The global economy con the most significant downturn in recent history. Overall economic conditions and consumer sentiment have remained challengin has intensified the pressure on the demand for housing and flooring products. Although the Company cannot determine with cer when market conditions will stabilize and begin to improve, the Company believes it is well-positioned in the long-term as the i improves. The Company continues to monitor expenses based on current industry conditions and will continue to adjust as requ

The Company has three reporting segments, the Mohawk segment, the Dal-Tile segment and the Unilin segment. The Mohawk manufactures, markets and distributes its product lines primarily in North America, which include carpet, rugs, pad, ceramic tile hardwood, resilient and laminate, through its network of regional distribution centers and satellite warehouses using company-o trucks, common carrier or rail transportation. The segment product lines are sold through various selling channels, which includ covering retailers, home centers, mass merchandisers, department stores, independent distributors, commercial dealers and com users. The Dal-Tile segment manufactures, markets and distributes its product lines primarily in North America, which include tile, porcelain tile and stone products, through its network of regional distribution centers and company-operated sales service c using company-operated trucks, common carriers or rail transportation. The segment product lines are purchased by floor coveri retailers, home centers, independent distributors, tile specialty dealers, tile contractors, and commercial end users. The Unilin se manufactures, markets and distributes its product lines primarily in North America and Europe, which include laminate flooring flooring, roofing systems and other wood products through various selling channels, which include retailers, home centers and i distributors.

The Company reported net loss of $5.5 million or loss per share of $0.08 for 2009, compared to net loss of $1,458.2 million or l share of $21.32 for 2008. The net loss for 2008 included a $1,543.4 million impairment charge to reduce the carrying amount of Company s goodwill and intangible assets and a charge of $253 million to record a tax valuation allowance against the carrying a deferred tax asset recognized in the fourth quarter of 2007. In addition, the change in EPS resulted from the impact of lower sa volumes, which the Company believes is attributable to continued weakness in the U.S. residential remodeling and new constru markets, commercial real estate market and European demand, the net effect of price and product mix and higher warranty requ partially offset by lower raw material, energy and selling general and administrative costs. During 2009, the Company recognize trend of incidents related to the use of new technology in certain commercial carpet tiles and recorded a $121.2 million carpet sa allowance and a $12.4 million inventory write-off. The Company discontinued sales of these commercial carpet tiles and replac an established technology. The amounts recorded reflect the Company s best reasonable estimate but the actual amount of clai related costs could vary from such estimates.

For the year ended December 31, 2009, the Company generated $672.2 million of operating cash flow which it used to reduce d $103.6 million and build cash. As of December 31, 2009, the Company had

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cash and cash equivalents of $531.5 million. In addition, the Company adjusted capital expenditures to align its manufacturing, and selling infrastructure to market conditions.

Results of Operations

Following are the results of operations for the last three years:

	For the Years Ended December 31, 2009		2008 (In millions)		2007
Statement of operations data:					
Net sales	$ 5,344.0	100.0%	$ 6,826.3	100.0%	$ 7,586.0
Cost of sales	4,111.8	76.9%	5,088.5	74.5%	5,471.2
Gross profit	1,232.2	23.1%	1,737.8	25.5%	2,114.8
Selling, general and administrative expenses	1,188.5	22.2%	1,318.5	19.3%	1,364.7
Impairment of goodwill and other intangibles			1,543.4	22.6%	
Operating income (loss)	43.7	0.8%	(1,124.1)	(16.5)%	750.1
Interest expense	127.0	2.4%	127.1	1.9%	154.5
Other expense, net	(5.6)	(0.1)%	21.3	0.3%	(6.9)
U.S. customs refund					(9.2)
	121.4	2.3%	148.4	2.2%	138.4
Earnings (loss) before income taxes	(77.7)	(1.5)%	(1,272.5)	(18.6)%	611.7
Income tax (benefit) expense	(76.7)	(1.4)%	180.0	2.6%	(102.7)
Net (loss) earnings	(1.0)		(1,452.5)	(21.3)%	714.4
Less: Net earnings attributable to the noncontrolling interest	4.5	0.1%	5.7	0.1%	7.6
Net earnings (loss) attributable to Mohawk Industries, Inc.	$ (5.5)	(0.1)%	$ (1,458.2)	(21.4)%	$ 706.8

Year Ended December 31, 2009, as Compared with Year Ended December 31, 2008

Net sales

Net sales for 2009 were $5,344.0 million, reflecting a decrease of $1,482.3 million, or 21.7%, from the $6,826.3 million reporte The decrease was primarily driven by a decline in sales volumes of approximately $1,047 million due to the continued weaknes U.S. residential remodeling and new construction markets, commercial real estate market and European demand, a decline of approximately $298 million due to unfavorable price and product mix as customers trade down to lower priced products, a decr approximately $81 million due to a net increase in warranty requirements described in the overview and a decline of approximat $56 million due to unfavorable foreign exchange rates and other.

Mohawk Segment Net sales decreased $771.4 million, or 21.3%, to $2,856.7 million in 2009 compared to $3,628.2 million in decrease was primarily driven by a decline in sales volumes of approximately $531 million due to the continued weakness in the U.S. residential remodeling and new construction markets and the declining commercial real estate market, a decline of approxi $151 million due to unfavorable price and product mix as customers trade down to lower priced products and a decrease of appr $81 million due to a net increase in warranty requirements described above in the overview.

Dal-Tile Segment Net sales decreased $388.6 million, or 21.4%, to $1,426.8 million in 2009 compared to $1,815.4 million in decrease was primarily driven by a decline in sales volumes of approximately $301 million due to the continued weakness in the U.S. residential remodeling and new construction markets and the declining commercial real estate market, a decline of approxi $73 million due to unfavorable

price and product mix as customers trade down to lower priced products and a decline of approximately $15 million due to unfa
foreign exchange rates.

Unilin Segment Net sales decreased $336.9 million, or 23.0%, to $1,128.3 million in 2009 compared to $1,465.2 million in 20
decrease was driven by a decline in sales volumes of approximately $215 million due to the continued weakness in the U.S. resi
remodeling and new construction markets and slowing European demand, a decline of approximately $74 million due to the net
price and product mix as customers trade down to lower priced products and a decline of approximately $48 million due to unfa
foreign exchange rates.

Quarterly net sales and the percentage changes in net sales by quarter for 2009 versus 2008 were as follows (dollars in millions)

	2009	2008	C
First quarter	$ 1,208.3	1,738.1	
Second quarter	1,406.0	1,840.0	
Third quarter	1,382.6	1,763.0	
Fourth quarter	1,347.1	1,485.2	
Total year	$ 5,344.0	6,826.3	

Gross profit

Gross profit for 2009 was $1,232.2 million (23.1% of net sales) and represented a decrease of $505.5 million compared to gross
$1,737.8 million (25.5% of net sales) for 2008. Gross profit in 2009 was unfavorably impacted by approximately $315 million r
from lower sales volume, a decline of approximately $185 million due to the net effect of price and product mix, a decline of
approximately $89 million due to a net increase in warranty requirements described above in the overview, restructuring charge
approximately $28 million and the impact of unfavorable foreign exchange rates of approximately $9 million, partially offset by
manufacturing costs of approximately $120 million. The decrease in gross profit percentage is primarily attributable to unfavora
and product mix, increased warranty requirements and restructuring costs, partially offset by lower raw material and manufactur

Selling, general and administrative expenses

Selling, general and administrative expenses for 2009 were $1,188.5 million (22.3% of net sales), reflecting a decrease of $130.
or 9.9%, compared to $1,318.5 million (19.3% of net sales) for the prior year. The decrease in selling, general and administrativ
is primarily driven by lower sales and various cost savings initiatives implemented by the Company, partially offset by approxir
$8 million of unfavorable foreign exchange rates and approximately $4 million for restructuring charges. The increase in selling
and administrative expenses as a percentage of net sales is primarily a result of a higher mix of fixed costs on lower net sales, ar
restructuring costs.

Operating income (loss)

Operating income for 2009 was $43.7 million (0.8% of net sales) reflecting an increase of $1,167.9 million compared to an oper
of $1,124.1 million in 2008. The change was primarily driven by the recognition of an impairment of goodwill and other intangi
approximately $1,543.4 million in 2008. In addition, operating income in the current period was impacted by a decline of appro
$315 million due to lower sales volumes, a decline of approximately $185 million due to unfavorable price and product mix, a d
approximately $89 million due to a net increase in warranty requirements described above in the overview and restructuring cha
approximately $32 million, partially offset by lower manufacturing and selling, general and administrative costs of approximate

$244 million.

Mohawk Segment Operating loss was $126.0 million in 2009 reflecting a decrease of $90.2 million compared to operating loss
$216.2 million in 2008. The increase was primarily driven by the recognition of

an impairment of goodwill and other intangibles of approximately $276.8 million in 2008. In addition, operating income in the c
period was impacted by a decline of approximately $133 million due to lower sales volumes, a decrease of approximately $89 m
to a net increase in warranty requirements and a decline of approximately $74 million due to unfavorable price and product mix
restructuring charges of approximately $7 million, partially offset by lower manufacturing and selling, general and administrativ
approximately $116 million.

Dal-Tile Segment Operating income was $84.2 million (5.9% of segment net sales) in 2009 reflecting an increase of $407.5 m
compared to operating loss of $323.4 million for 2008. The change was primarily driven by the recognition of an impairment of
and other intangibles of approximately $531.9 million in 2008. In addition, operating income in the current period was impacted
decline of approximately $108 million due to lower sales volumes, a decline of approximately $35 million due to unfavorable pr
product mix and restructuring charges of approximately $12 million, partially offset by lower manufacturing and selling, genera
administrative costs of approximately $23 million.

Unilin Segment Operating income was $106.0 million (9.4% of segment net sales) in 2009 reflecting an increase of $670.9 mi
compared to operating loss of $564.9 million for 2008. The increase was primarily driven by the recognition of an impairment o
and other intangibles of $734.7 million in 2008. In addition, operating income in the current period was impacted by a decline o
approximately $76 million due to the net effect of price and product mix, a decline in sales volumes of approximately $74 millio
restructuring charges of approximately $13 million and the impact of unfavorable foreign exchange rates of approximately $8 m
partially offset by lower raw material, manufacturing and selling, general and administrative costs of approximately $107 millio

Interest expense

Interest expense for 2009 was $127.0 million compared to $127.1 million in 2008. Interest expense in 2009 was directly impact
higher interest rates on the Company s notes and revolving credit facilities due to three credit rating downgrades in 2009, partia
lower average debt levels in the current year compared to 2008.

Income tax (benefit) expense

For 2009, the Company recorded an income tax benefit of $76.7 million on loss before taxes of $77.7 million as compared to in
expense of $180.1 million on loss before taxes of $1,272.5 million for 2008. The change is principally due to the non-deductible
goodwill impairment charge, the recognition of a $253 million valuation allowance against a deferred asset, and the geographic
distribution of income (loss).

In the fourth quarter of 2007, the Company moved the intellectual property and treasury operations of an indirectly owned Euro
to a new office in another jurisdiction in Europe. The Company also indirectly owned a holding company in the new jurisdictio
provided certain treasury functions to Unilin, and the move allowed for the consolidation of the historical intellectual property a
operations to be combined with those of the holding company s treasury operations in a single jurisdiction in order to integrate
streamline the operations, to facilitate international acquisitions and to improve tax and cost efficiencies. This restructuring resu
step up in the subsidiary s taxable basis of its intellectual property. The step up relates primarily to intangible assets which will
amortized over 10 years for tax purposes. During the fourth quarter of 2007, the Company evaluated the evidence for recognitio
deferred tax asset created through the restructuring and determined that, based on the available evidence at the time, the deferre
would more likely than not be realized. The deferred tax asset recognized as of December 31, 2007 was approximately $245 mi
the related income tax benefit recognized in the consolidated financial statements was approximately $272 million.

During the third quarter of 2008, the Company reassessed the need for a valuation allowance against its deferred tax assets. Cas
decreased from that projected as of December 31, 2007, primarily due to the slowing worldwide economy and declining sales v
Company determined that, given the current

and expected economic conditions and the corresponding reductions in cash flows, its ability to realize the benefit of the deferre related to the transaction described above as well as tax losses generated in the same jurisdiction was not more likely than not. A the Company recorded a valuation allowance against the deferred tax asset in the amount of $253 million during the quarter end September 27, 2008.

Year Ended December 31, 2008, as Compared with Year Ended December 31, 2007

Net sales

Net sales for the year ended December 31, 2008, were $6,826.3 million, reflecting a decrease of $759.7 million, or 10.0%, from $7,586.0 million reported for the year ended December 31, 2007. The decrease was primarily driven by a decline in sales volum approximately $971 million due to the continued decline in the U.S. residential markets, softening commercial demand and slov European demand, partially offset by a benefit of approximately $132 million due to the net effect of price increases and produc a benefit of approximately $79 million due to favorable foreign exchange rates.

Mohawk Segment Net sales decreased $577.6 million, or 13.7%, to $3,628.2 million in 2008, compared to $4,205.7 million in decrease was primarily driven by a decline in sales volumes of approximately $639 million due to the continued decline in the U.S. residential market and softening commercial demand, partially offset by a benefit of approximately $83 million due to the r of price increases and product mix.

Dal-Tile Segment Net sales decreased $122.4 million, or 6.3%, to $1,815.4 million in 2008, compared to $1,937.7 million rep 2007. This decrease was primarily driven by a decline in sales volumes of approximately $146 million due to the continued decl U.S. residential market, partially offset by a benefit of approximately $24 million due to the net effect of price increases and pro

Unilin Segment Net sales decreased $22.4 million, or 1.5%, to $1,465.2 million in 2008, compared to $1,487.6 million in 200 decrease in net sales was driven by a decline in sales volume of approximately $188 million due to the continued decline in the U.S. residential market and slowing European demand, partially offset by a benefit of approximately $63 million due to the Wo Acquisition, a benefit of approximately $79 million due to favorable foreign exchange rates and a benefit of approximately $23 to the net effect of price increases and product mix.

Quarterly net sales and the percentage changes in net sales by quarter for 2008 versus 2007 were as follows (dollars in millions)

	2008	2007
First quarter	$ 1,738.1	1,863.9
Second quarter	1,840.0	1,977.2
Third quarter	1,763.0	1,937.7
Fourth quarter	1,485.2	1,807.2
Total year	$ 6,826.3	7,586.0

Gross profit

Gross profit was $1,737.8 million (25.5% of net sales) for 2008 and represented a decrease of $377.0 million, or 17.8%, compar profit of $2,114.8 million (27.9% of net sales) for 2007. Gross profit was unfavorably impacted by increasing costs for raw mate energy of approximately $172 million, net of cost savings initiatives, and a decline in volumes of approximately $279 million, p offset by the net effect of price increases and product mix of approximately $97 million.

Selling, general and administrative expenses

Selling, general and administrative expenses for 2008 were $1,318.5 million (19.3% of net sales), reflecting a decrease of $46.2
3.4%, compared to $1,364.7 million (18.0% of net sales) for 2007.

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The decrease in selling, general and administrative expenses is attributable to various cost savings initiatives implemented by th Company, offset by approximately $25 million of unfavorable foreign exchange rates.

Impairment of goodwill and intangibles

During 2008, the Company recorded a $1,543.4 million impairment charge to reduce the carrying amount of the Company s go intangible assets to their estimated fair value based upon the results of two interim impairment tests. The Company performed in impairment tests because of a prolonged decline in the Company s market capitalization which the Company believes is primar of the weakness in the U.S. residential housing market and the slowing European economy. In both the third and fourth quarters the Company concluded that the weakness in the U.S. residential housing market is likely to persist based on its review of, amon things, sequential quarterly housing starts, recent turmoil surrounding the nation s largest mortgage lenders, the potential negati on the availability of mortgage financing and housing start forecasts published by national home builder associations pushing re the U.S. residential housing market beyond 2009. The total impairment included $276.8 million in the Mohawk segment, $531.9 the Dal-Tile segment and $734.7 million in the Unilin segment. If, in the future, the Company s market capitalization and/or the fair value of the Company s reporting units were to decline further, it may be necessary to record further impairment charges.

Operating (loss) income

Operating loss for 2008 was $1,124.1 million reflecting a decrease of $1,874.2 million compared to operating income of $750.1 (9.9% of net sales) in 2007. The decrease was primarily driven by the recognition of impairment of goodwill and other intangibl $1,543.4 million, a decline in sales volumes of approximately $285 million and rising costs for raw materials and energy of appr $116 million, net of cost savings initiatives, partially offset by a benefit of approximately $130 million due to the net effect of pr increases and product mix.

Mohawk Segment Operating loss was $216.2 million in 2008 reflecting a decrease of $471.1 million compared to operating in $254.9 million (6.1% of segment net sales) in 2007. The decrease was primarily due to the impairment of goodwill and other int $276.8 million, a decline in sales volumes of approximately $142 million and rising costs for raw materials and energy of appro $82 million, net of cost savings initiatives, partially offset by a benefit of approximately $82 million due to the net effect of pric and product mix.

Dal-Tile Segment Operating loss was $323.4 million in 2008 reflecting a decrease of $582.1 million, compared to operating in $258.7 million (13.4% of segment net sales) in 2007. The decrease was primarily due to the impairment of goodwill of $531.9 m rising costs for raw materials and energy of approximately $31 million, net of cost savings initiatives, and a decline in sales volu approximately $56 million, partially offset by a benefit of approximately $41 million due to the net effect of price increases and mix.

Unilin Segment Operating loss was $564.9 million in 2008, reflecting a decrease of $837.2 million compared to operating inco $272.3 million (18.3% of segment net sales) in 2007. The decrease was primarily due to the impairment of goodwill and other in of $734.7 million, a decline in sales volumes of approximately $88 million and rising costs for raw materials and energy of appr $19 million, net of cost savings initiatives, partially offset by a benefit of approximately $7 million due to the net effect of price and product mix.

Interest expense

Interest expense for 2008 was $127.1 million compared to $154.5 million in 2007. The decrease in interest expense for 2008 as to 2007 was attributable to lower average debt and lower average interest rates on outstanding revolving debt.

Income tax (benefit) expense

The 2008 provision for income tax was $180.1 million, as compared to an income tax benefit of $102.7 million for 2007. The ef rate for 2008 was (14.2)% as compared to an effective tax rate benefit of 16.8% for 2007. The change in the tax rate was primar the impact on pre-tax earnings of the impairment charge on non-deductible goodwill, the 2008 asset restructurings, and the reco valuation allowance of $253 million, which is described above, against certain deferred tax assets that the Company believes is more likely than not to be realized. Without the impact of these three items, the Company would have reflected a 2008 provisio income tax of $70.5 million, as compared to a provision of $168.9 million for 2007.

Liquidity and Capital Resources

The Company s primary capital requirements are for working capital, capital expenditures and acquisitions. The Company s ca are met primarily through a combination of internally generated funds, bank credit lines, term and senior notes and credit terms suppliers.

Cash flows provided by operations for 2009 were $672.2 million compared to cash flows provided by operations of $576.1 mill 2008. The increase in operating cash flows for 2009 as compared to 2008 is primarily attributable to lower working capital requ due to lower sales demand.

Net cash used in investing activities for 2009 was $114.8 million compared to $226.1 million in 2008. The decrease is due to lo spending as a result of lower sales and tighter management of expenditures during 2009 as compared to 2008. Capital expenditu including $161.3 million for acquisitions have totaled $651.1 million over the past three years. Capital spending during 2010, ex acquisitions, is expected to range from $150 million to $160 million, and is intended to be used primarily to purchase equipmen streamline manufacturing capacity.

Net cash used in financing activities for 2009 was $125.8 million compared to net cash used by financing activities of $348.9 m 2008. The change in cash used in financing activities as compared to 2008 is primarily attributable to lower debt levels as the C manages its working capital requirements to align with its current sales.

On September 2, 2009, the Company entered into a $600 million four-year, senior, secured revolving credit facility (the ABL connection with the replacement of the Company s then-existing senior, unsecured, revolving credit facility (the Senior Unse Facility). At the time of its termination, the Senior Unsecured Facility consisted of a $650 million revolving credit facility, wh mature on October 28, 2010. The ABL Facility provides for a maximum of $600 million of revolving credit, subject to borrowi availability, including limited amounts of credit in the form of letters of credit and swingline loans. The borrowing base is equal specified percentages of eligible accounts receivable and inventories of the Company and other borrowers under the ABL Facili are subject to seasonal variations, less reserves established in good faith by the Administrative Agent under the ABL Facility. A obligations under the ABL Facility, and the guarantees of those obligations, are secured by a security interest in certain account receivable, inventories, certain deposit and securities accounts, tax refunds and other personal property (excluding intellectual p directly relating to, or arising from, and proceeds of, any of the foregoing. In connection with the entry into the ABL Facility, th Company incurred approximately $23.7 million in debt issuance costs which will be amortized on a straight-line basis over the f term of the facility and recognized as interest expense in the condensed consolidated statement of operations.

At the Company s election, revolving loans under the ABL Facility bear interest at annual rates equal to either (a) LIBOR for 1 6 month periods, as selected by the Company, plus an applicable margin ranging between 3.75% and 4.25%, or (b) the higher o rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate, plus an applicable margin ranging between 2.25% and 2.75%. Th also pays a commitment fee to the Lenders under the ABL Facility on the average amount by which the aggregate commitments Lenders exceed utilization of the ABL Facility equal to 1.00% per annum during any

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quarter that this excess is 50% or more, and 0.75% per annum during any quarter that this excess is less than 50%.

The ABL Facility includes certain affirmative and negative covenants that impose restrictions on Mohawk s financial and busin operations, including limitations on debt, liens, investments, fundamental changes, asset dispositions, dividends and other simila payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes nature of the Company s business. Many of these limitations are subject to numerous exceptions. The Company is also required a fixed charge coverage ratio of 1.1 to 1.0 during any period that the unutilized amount available under the ABL Facility is less of the amount available under the ABL Facility.

The ABL Facility is scheduled to mature on September 2, 2013 but the maturity date will be accelerated to: (i) October 15, 2010 Company s outstanding 5.75% senior notes due January 15, 2011 have not been repaid, refinanced, defeased or adequately rese the Company, as reasonably determined by the Administrative Agent, prior to October 15, 2010, and (ii) January 15, 2012, if the Company s outstanding 7.20% senior notes due April 15, 2012 have not been repaid, refinanced, defeased or adequately reserv Company, as reasonably determined by the Administrative Agent, prior to January 15, 2012. The Company can make adequate such senior notes with unrestricted cash on hand and unutilized borrowing availability under the ABL Facility. The Company be and cash equivalents and availability under the ABL Facility will be sufficient to satisfy the October 15, 2010 requirements of th Facility, although there can be no assurances the Company will have adequate reserves as defined in the ABL Facility.

As of December 31, 2009, the amount considered used under the ABL Facility was $113.4 million leaving a total of approximat $462 million available under the ABL Facility. The amount used under the ABL Facility is composed of $53.5 million standby l credit guaranteeing the Company s industrial revenue bonds and $59.9 million of standby letters of credit related to various insu contracts and foreign vendor commitments.

During 2009, the Company terminated its Euro 130.0 million, five-year unsecured, revolving credit facility and its on-balance sh accounts receivable securitization agreement, which allowed for borrowings up to $250.0 million based on available accounts re

On January 17, 2006, the Company issued $500.0 million aggregate principal amount of 5.750% notes due 2011 and $900.0 mil aggregate principal amount of 6.125% notes due 2016. Interest payable on each series of the notes is subject to adjustment if eith Moody s Investors Service, Inc. (Moody s) or Standard & Poor s Ratings Services (Standard & Poor s), or both, downg assigned to the notes. Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum incre per rating agency. If later the rating of these notes improves, then the interest rates would be reduced accordingly. Each 0.25% i the interest rate of these notes would increase the Company s interest expense by approximately $3.5 million per year. Currentl interest rates have been increased by an aggregate amount of 0.75% as a result of downgrades by Moody s and Standard & Poo 2009. These downgrades increase the Company s interest expense by approximately $10.5 million per year and could adversely cost of and ability to obtain additional credit in the future. Additional downgrades in the Company s credit ratings could further cost of its existing credit and adversely affect the cost of and ability to obtain additional credit in the future.

In 2002, the Company issued $400.0 million aggregate principal amount of its senior 7.2% notes due 2012.

The Company may from time to time seek to retire its outstanding debt through cash purchases in the open market, privately neg transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company s liquidity requi contractual restrictions and other factors. The amount involved may be material.

As of December 31, 2009, the Company had invested cash of $464.9 million in money market AAA rated cash investments of w $367.3 million was in North America and $97.6 million was in Europe. The

Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its ABL Fa
be sufficient to repay, defease or refinance its 5.75% senior notes due January 2011 and meet its capital expenditures and worki
requirements over the next twelve months.

The Company s Board of Directors has authorized the repurchase of up to 15 million shares of the Company s outstanding co
Since the inception of the program in 1999, a total of approximately 11.5 million shares have been repurchased at an aggregate
approximately $334.7 million. All of these repurchases have been financed through the Company s operations and banking arr
No shares were repurchased during 2009, 2008 and 2007.

On October 31, 2005, the Company entered into a Discounted Stock Purchase Agreement (the DSPA) with certain members
management team (the Unilin Management). The Company terminated the DSPA during the year ended December 31, 2009.
terms of the DSPA, the Company was obligated to make cash payments to the Unilin Management in the event that certain perf
goals were satisfied. In each of the years in the five-year period ended December 31, 2010, the remaining members of Unilin M
could earn amounts, in the aggregate, equal to the average value of 30,671 shares of the Company s common stock over the 20
period ending on December 31 of the prior year. Any failure in a given year to reach the performance goals could have been rec
consequently the amounts payable with respect to achieving such criteria could have been made, in any of the other years. The a
the liability is measured each period and recognized as compensation expense in the consolidated statement of operations. No e
related to the DSPA was recognized by the Company in 2009.

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

Contractual obligations

The following is a summary of the Company s future minimum payments under contractual obligations as of December 31, 20
millions):

	Total	2010	2011	2012	2013	2014	T
Recorded Contractual Obligations:							
Long-term debt, including current maturities and capital leases	$ 1,854.5	52.9	499.8	400.4	0.4	0.4	
Unrecorded Contractual Obligations:							
Interest payments on long-term debt and capital leases(1)	473.4	123.3	92.1	70.2	61.9	61.9	
Operating leases	379.4	94.3	77.1	58.5	45.2	37.3	
Purchase commitments(2)	684.1	186.5	180.4	105.8	105.7	105.7	
Expected pension contributions(3)	0.9	0.9					
Uncertain tax positions(4)	69.3	69.3					
Guarantees	0.7	0.7					
	1,607.8	475.0	349.6	234.5	212.8	204.9	
Total	$ 3,462.3	527.9	849.4	634.9	213.2	205.3	

(1)

For fixed rate debt, the Company calculated interest based on the applicable rates and payment dates. For variable rate debt Company estimated average outstanding balances for the respective periods and applied interest rates in effect as of Decem 2009 to these balances.

(2) Includes commitments for natural gas, electricity and raw material purchases.

(3) Includes the estimated pension contributions for 2010 only, as the Company is unable to estimate the pension contributions 2010. The Company s projected benefit obligation as of December 31, 2009 was

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$25.5 million. These liabilities have not been presented in the table above due to uncertainty as to amounts and timing rega
future payments.

(4) Excludes $48.5 million of non-current accrued income tax liabilities for uncertain tax positions. These liabilities have not b
presented in the table above due to uncertainty as to amounts and timing regarding future payments.

Critical Accounting Policies

In preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles, the Compa
make decisions which impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such de
include the selection of appropriate accounting principles to be applied and the assumptions on which to base accounting estima
reaching such decisions, the Company applies judgment based on its understanding and analysis of the relevant circumstances a
historical experience. Actual amounts could differ from those estimated at the time the consolidated financial statements are pre

The Company s significant accounting policies are described in Note 1 to the Consolidated Financial Statements included elsev
report. Some of those significant accounting policies require the Company to make subjective or complex judgments or estimate
accounting policies are defined as those that are both most important to the portrayal of a company s financial condition and res
require management s most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the
matters that are inherently uncertain and may change in subsequent periods.

The Company believes the following accounting policies require it to use judgments and estimates in preparing its consolidated
statements and represent critical accounting policies.

Accounts receivable and revenue recognition. Revenues are recognized when there is persuasive evidence of an arrang
delivery has occurred, the price has been fixed or is determinable, and collectability can be reasonably assured. The Co
provides allowances for expected cash discounts, returns, claims and doubtful accounts based upon historical bad debt a
experience and periodic evaluation of specific customer accounts and the aging of accounts receivable. If the financial c
the Company s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional a
may be required.

Inventories are stated at the lower of cost or market (net realizable value). Cost has been determined using the first-in
method (FIFO). Costs included in inventory include raw materials, direct and indirect labor and employee benefits, d
general manufacturing overhead and various other costs of manufacturing. Market, with respect to all inventories, is rep
cost or net realizable value. Inventories on hand are compared against anticipated future usage, which is a function of hi
usage, anticipated future selling price, expected sales below cost, excessive quantities and an evaluation for obsolescenc
results could differ from assumptions used to value obsolete inventory, excessive inventory or inventory expected to be
cost and additional reserves may be required.

Goodwill and other intangibles. Goodwill is tested annually for impairment during the fourth quarter or earlier upon th
occurrence of certain events or substantive changes in circumstances. The Company considers the relationship between
capitalization and its book value, among other factors, when reviewing for indicators of impairment. The goodwill impa
tests are based on determining the fair value of the specified reporting units based on management judgments and assun
using the discounted cash flows and comparable company market valuation approaches. The Company has identified M
Dal-Tile, Unilin Flooring, Unilin Chipboard and Melamine, and Unilin Roofing as its reporting units for the purposes o
goodwill and intangibles as well as assessing impairments. The valuation approaches are subject to key judgments and
assumptions that are sensitive to change such as judgments and assumptions about appropriate sales growth rates, opera
margins, weighted average cost of capital (WACC), and comparable company market multiples. When developing th
judgments and assumptions, the Company considers economic, operational and

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market conditions that could impact the fair value of the reporting unit. However, estimates are inherently uncertain and only management s reasonable expectations regarding future developments. These estimates and the judgments and as upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. Should a si prolonged deterioration in economic conditions occur, such as continued declines in spending for new construction, rem and replacement activities; the inability to pass increases in the costs of raw materials and fuel on to customers; or a de comparable company market multiples, then key judgments and assumptions could be impacted. Generally, a moderate estimated operating income or a small increase in WACC or a decline in market capitalization could result in an additio indication of impairment.

The impairment test for intangible assets not subject to amortization involves a comparison of the estimated fair value of the int asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized amount equal to that excess. Significant judgments inherent in this analysis include assumptions about appropriate sales growth royalty rates, WACC and the amount of expected future cash flows. These judgments and assumptions are subject to the variabi discussed above.

The impairment evaluation for indefinite lived intangible assets, which for the Company are its trademarks, is conducted during quarter of each year, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The dete of fair value used in the impairment evaluation is based on discounted estimates of future sales projections attributable to owner trademarks. Significant judgments inherent in this analysis include assumptions about appropriate sales growth rates, royalty rat and the amount of expected future cash flows. The judgments and assumptions used in the estimate of fair value are generally c with past performance and are also consistent with the projections and assumptions that are used in current operating plans. Suc assumptions are subject to change as a result of changing economic and competitive conditions. The determination of fair value sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fai the trademarks. Estimated cash flows are sensitive to changes in the economy among other things.

The Company reviews its long-lived asset groups, which include intangible assets subject to amortization, which for the Compa patents and customer relationships, for impairment whenever events or changes in circumstances indicate that the carrying amou asset groups may not be recoverable. Recoverability of asset groups to be held and used is measured by a comparison of the car amount of long-lived assets to future undiscounted net cash flows expected to be generated by these asset groups. If such asset g considered to be impaired, the impairment recognized is the amount by which the carrying amount of the asset group exceeds th of the asset group. Assets held for sale are reported at the lower of the carrying amount or fair value less estimated costs of disp no longer depreciated.

The Company conducted its annual assessment of goodwill and indefinite lived intangibles in the fourth quarter and no impairm indicated. The Company did record impairment of goodwill and other intangibles of $1,543.4 million in 2008.

The Company s effective tax rate is based on its income, statutory tax rates and tax planning opportunities available in jurisdictions in which it operates. Tax laws are complex and subject to different interpretations by the taxpayer and resp governmental taxing authorities. Significant judgment is required in determining the Company s tax expense and in ev Company s tax positions. Deferred tax assets represent amounts available to reduce income taxes payable on taxable in future period. The Company evaluates the recoverability of these future tax benefits by assessing the adequacy of future taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and tax planning strategies. These sources of income inherently rely on estimates, including business forecasts and other pr financial results over an extended period of time. In the event that the Company is not able to realize

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all or a portion of its deferred tax assets in the future, a valuation allowance is provided. The Company would recognize amounts through a charge to income in the period in which that determination is made or when tax law changes are enac Company recorded valuation allowances of $365.9 million in 2009, $343.6 million in 2008 and $75.0 million in 2007.

In the ordinary course of business there is inherent uncertainty in quantifying the Company s income tax positions. The Compa its income tax positions and records tax benefits for all years subject to examination based upon the Company s evaluation of th circumstances and information available as of the reporting date. For those tax positions where it is more likely than not that a ta will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realiz ultimate settlement with a taxing authority that has full knowledge of all relevant information, as required by the provisions of th Financial Accounting Standards Board (FASB) FASB Accounting Standards Codification Topic 740 (ASC 740-10), a rep FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* . Fo income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized i consolidated financial statements. As of December 31, 2009, the Company has $105.6 million accrued for uncertain tax position

Environmental and legal accruals are estimates based on judgments made by the Company relating to ongoing environm legal proceedings, as disclosed in the Company s consolidated financial statements. In determining whether a liability i and reasonably estimable, the Company consults with its internal experts. The Company believes that the amounts reco accompanying financial statements are based on the best estimates and judgments available to it.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued ASC 820-10, formerly Statement of Financial Standards (SFAS) No. 157, *Fair Value Measurements* . ASC 820-10 defines fair value, establishes a framework for measu and requires enhanced disclosures about fair value measurements. ASC 820-10 requires companies to disclose the fair value of f instruments according to a fair value hierarchy. Additionally, companies are required to provide certain disclosures regarding in within the hierarchy, including a reconciliation of the beginning and ending balances for each major category of assets and liabi 820-10 is effective for the Company s fiscal year beginning January 1, 2008 for financial assets and liabilities and January 1, 20 non-financial assets and liabilities. The Company s adoption of ASC 820-10 for financial assets and liabilities on January 1, 20 non-financial assets and liabilities on January 1, 2009 did not have a material impact on the Company s consolidated financial s

In December 2007, the FASB issued ASC 805-10, formerly SFAS No. 141 (revised 2007), *Business Combinations* . ASC 805 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable a acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. ASC 805-10 also establi disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. ASC 805-10 is t applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The adoption of AS on January 1, 2009 did not have a material impact on the Company s consolidated financial statements, although the adoption o 805-10 will impact the recognition and measurement of future business combinations and certain income tax benefits recognize prior business combinations.

In December 2007, the FASB issued ASC 810-10, formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financia Statements an amendment of Accounting Research Bulletin No. 51* . ASC 810-10 establishes accounting and reporting standa ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to th and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity when

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a subsidiary is deconsolidated. ASC 810-10 also establishes disclosure requirements that clearly identify and distinguish betwee interests of the parent and the interests of the noncontrolling owners. ASC 810-10 is effective for fiscal years beginning after De 2008. The adoption of ASC 810-10 on January 1, 2009 did not have a material impact on the Company s consolidated financial Upon adoption, the Company reclassified $31.1 million on the condensed consolidated balance sheets from other long-term liab noncontrolling interest within equity and reclassified the related net earnings to net earnings attributable to the noncontrolling in the consolidated statements of operations.

In March 2008, the FASB issued ASC 815-10, formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedgin Activities* . ASC 815-10 is intended to improve financial reporting about derivative instruments and hedging activities by requir enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performanc flows. The provisions of ASC 815-10 are effective for the first quarter of 2009. The adoption of ASC 815-10 on January 1, 2009 have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued ASC 825-10, formerly the FASB Staff Position on FAS 107-1 and APB 28-1, *Interim Disclos Fair Value of Financial Instruments* . ASC 825-10 requires disclosures about fair value of financial instruments in interim repo periods of publicly-traded companies that were previously only required to be disclosed in annual financial statements. The prov ASC 825-10 are effective for the second quarter of 2009. The adoption of this standard on June 27, 2009 did not have a material the Company s consolidated financial statements.

In May 2009, the FASB issued ASC 855-10-05, formerly SFAS No. 165, *Subsequent Events* . ASC 855-10-05 establishes ger standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are a be issued (subsequent events). More specifically, ASC 855-10-05 sets forth the period after the balance sheet date during whi management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balanc date in its financial statements and the disclosures that should be made about events or transactions that occur after the balance s ASC 855-10-05 provides largely the same guidance on subsequent events which previously existed only in the auditing literatur 855-10-05 is effective for interim or annual financial periods ending after June 15, 2009, and is to be applied prospectively. The of this standard did not have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued ASC 860, formerly SFAS No. 166, *Accounting for Transfers of Financial Assets an amendm Statement No. 140* . ASC 860 seeks to improve the relevance, representational faithfulness, and comparability of the informatio reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial po financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. Specifi 860 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a p financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in financial assets. ASC 860 is effective for annual and quarterly reporting periods that begin after November 15, 2009. The adopti standard on January 1, 2010 is not expected to have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued ASC 810, formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* . ASC 810 FASB Interpretation No. 46(R), *Variable Interest Entities* for determining whether an entity is a variable interest entity (VI requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controll interest in a VIE. Under ASC 810, an enterprise has a controlling financial interest when it has a) the power to direct the activiti that most significantly impact the entity s economic performance and b) the obligation to absorb losses of the entity or the right benefits from the entity that could potentially be significant to the VIE. ASC 810 also requires an enterprise to assess whether it implicit financial responsibility to

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ensure that a VIE operates as designed when determining whether it has power to direct the activities of the VIE that most signi
impact the entity s economic performance. ASC 810 also requires ongoing assessments of whether an enterprise is the primary
of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. ASC 810 is e
annual and quarterly reporting periods that begin after November 15, 2009. The adoption of this standard on January 1, 2010 is
expected to have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued ASC 105-10, formerly SFAS No. 168, *The FASB Accounting Standards Codification and Hier Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* . ASC 105-10 establishes the FASB Sta
Accounting Codification (Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP
the FASB to be applied to nongovernmental entities and rules and interpretive releases of the SEC as authoritative GAAP for S
registrants. The Codification superseded all the existing non-SEC accounting and reporting standards upon its effective date. AS
also replaced FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* given that once in effe
Codification carries the same level of authority. ASC 105-10 is effective for financial statements issued for interim and annual p
ending after September 15, 2009. The adoption of this standard did not have a material impact on the Company s consolidated
statements.

Impact of Inflation

Inflation affects the Company s manufacturing costs, distribution costs and operating expenses. The carpet, tile and laminate in
experienced significant inflation in the prices of raw materials and fuel-related costs beginning in the first quarter of 2004, and t
increased dramatically during the latter part of 2008, peaking in the second half of 2008. The Company expects raw material pri
continue to fluctuate based upon worldwide demand of commodities utilized in the Company s production processes. In the pas
Company has generally been able to pass along these price increases to its customers and has been able to enhance productivity
offset increases in costs resulting from inflation in its operations.

Seasonality

The Company is a calendar year-end company. With respect to its Mohawk and Dal-Tile segments, its results of operations for t
quarter tend to be the weakest. The second, third and fourth quarters typically produce higher net sales and operating income in
segments. These results are primarily due to consumer residential spending patterns for floor covering, which historically have d
during the first two months of each year following the holiday season. The Unilin segment second and fourth quarters typically
higher net sales and earnings followed by a moderate first quarter and a weaker third quarter. The third quarter is traditionally th
due to the European holiday in late summer.

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 po
adverse effect that the volatility of exchange rates and natural gas markets may have on its operating results. The Company doe
regularly engage in speculative transactions, nor does it regularly hold or issue financial instruments for trading purposes.

Natural Gas Risk Management

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

The Company has designated the natural gas futures contracts as cash flow hedges. The outstanding contracts are valued at mar
offset applied to other comprehensive income, net of applicable income taxes and any hedge ineffectiveness.

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Any gain or loss is reclassified from other comprehensive income and recognized in cost of sales in the same period or periods d
which the hedged transaction affects earnings. As of December 31, 2009, the Company had no outstanding natural gas contracts
December 31, 2008, the Company had natural gas contracts that mature from January 2009 to December 2009 with an aggregate
amount of approximately 2,650 thousand MMBTU s. The fair value of these contracts was a liability of $5.9 million as of Dece
2008. The offset to these liabilities is recorded in other comprehensive income, net of applicable income taxes. The ineffective p
the derivative is recognized in the cost of sales within the consolidated statements of operations and was not significant for the p
reported.

The Company s natural gas long-term supply agreements are accounted for under the normal purchase provision within ASC 8
SFAS No. 133 and its amendments. As of December 31, 2009, the Company had no outstanding normal purchase commitments
gas. As of December 31, 2008, the Company had normal purchase commitments of approximately 2,026 thousand MMBTU s f
maturing from January 2009 through December 2009. The contracted value of these commitments was approximately $17.2 mil
December 31, 2008.

Foreign Currency Rate Management

The Company enters into foreign exchange forward contracts to hedge foreign denominated costs associated with its operations
The objective of these transactions is to reduce volatility of exchange rates where these operations are located by fixing a portio
costs in U.S. currency. Accordingly, these contracts have been designated as cash flow hedges. Gains and losses are reclassified
comprehensive income and recognized in cost of sales in the same period or periods during which the hedged transaction affects
The Company had no outstanding forward contracts to purchase Mexican pesos as of December 31, 2009. The Company had fo
contracts to purchase approximately 269.1 million Mexican pesos as of December 31, 2008. The aggregate U.S. dollar value of
contracts as of December 31, 2008 was approximately $23.9 million and the fair value of these contracts was a liability of appro
$5.2 million.

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Item 8. *Consolidated Financial Statements and Supplementary Data*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Mohawk Industries, Inc. and subsidiaries as of December 31 2008, and the related consolidated statements of operations, equity and comprehensive income, and cash flows for each of the y three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company s m Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are fr material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fina statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as w 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 positi Mohawk Industries, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash fl each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting prin

As discussed in Note 13 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, included in subtopic 740-10, Income Taxes-Overall, effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), M Industries, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Co Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our re February 26, 2010 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial repor

/s/ KPMG LLP

Atlanta, Georgia
February 26, 2010

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Report of Independent Registered Public Accounting Firm

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

We have audited Mohawk Industries, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commissio Mohawk Industries, Inc. s management is responsible for maintaining effective internal control over financial reporting and fo assessment of the effectiveness of internal control over financial reporting, as set forth in Item 9A of Mohawk Industries, Inc. s Report on Form 10-K for the year ended December 31, 2009. Our responsibility is to express an opinion on the Company s inte over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). T standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control ove reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financi reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the relial financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted acco principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the n of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with auth of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statemen

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, proje any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Mohawk Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Spons Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Mohawk Industries, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related con statements of operations, equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated February 26, 2010 expressed an unqualified opinion on those consolidated financial st

/s/ KPMG LLP

Atlanta, Georgia
February 26, 2010

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2009 and 2008

		2009
		(In thousands, exc share data)
ASSETS		
Current assets:		
Cash and cash equivalents	$	531,458
Receivables, net		673,931
Inventories		892,981
Prepaid expenses		108,947
Deferred income taxes		130,990
Other current assets		20,693
Total current assets		2,359,000
Property, plant and equipment, net		1,791,412
Goodwill		1,411,128
Tradenames		477,607
Other intangible assets, net		307,735
Deferred income taxes and other non-current assets		44,564
	$	6,391,446
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$	52,907
Accounts payable and accrued expenses		831,115
Total current liabilities		884,022
Deferred income taxes		370,903
Long-term debt, less current portion		1,801,572
Other long-term liabilities		100,667
Total liabilities		3,157,164
Commitments and contingencies (Note 14)		
Equity:		
Preferred stock, $.01 par value; 60 shares authorized; no shares issued		
Common stock, $.01 par value; 150,000 shares authorized; 79,518 and 79,461 shares issued in 2009 and 2008, respectively		795
Additional paid-in capital		1,227,856

Retained earnings	1,998,616
Accumulated other comprehensive income, net	296,917
	3,524,184
Less treasury stock at cost; 11,034 and 11,040 shares in 2009 and 2008, respectively	323,361
Total Mohawk Industries, Inc. stockholders equity	3,200,823
Noncontrolling interest	33,459
Total equity	3,234,282
	$ 6,391,446

See accompanying notes to consolidated financial statements.

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
Years Ended December 31, 2009, 2008 and 2007

	2009	2008
	(In thousands, except per share d	
Net sales	$ 5,344,024	6,826,348
Cost of sales	4,111,794	5,088,584
Gross profit	1,232,230	1,737,764
Selling, general and administrative expenses	1,188,500	1,318,501
Impairment of goodwill and other intangibles		1,543,397
Operating income (loss)	43,730	(1,124,134)
Other expense (income):		
Interest expense	127,031	127,050
Other expense	16,935	31,139
Other income	(22,523)	(9,851)
U.S. customs refund		
	121,443	148,338
Earnings (loss) before income taxes	(77,713)	(1,272,472)
Income taxes (benefit) expense	(76,694)	180,062
Net (loss) earnings	(1,019)	(1,452,534)
Less: Net earnings attributable to the noncontrolling interest	4,480	5,694
Net (loss) earnings attributable to Mohawk Industries, Inc	$ (5,499)	(1,458,228)
Basic (loss) earnings per share attributable to Mohawk Industries, Inc.	$ (0.08)	(21.32)
Weighted-average common shares outstanding basic	68,452	68,401
Diluted (loss) earnings per share attributable to Mohawk Industries, Inc.	$ (0.08)	(21.32)
Weighted-average common shares outstanding diluted	68,452	68,401

See accompanying notes to consolidated financial statements.

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Equity and Comprehensive Income
Years Ended December 31, 2009, 2008 and 2007

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income	Treasury Stock		Noncontrolli
	Shares	Amount	Capital	Earnings	(Loss) (In thousands)	Shares	Amount	Interest
Balances at December 31, 2006	78,816	$ 788	$ 1,152,420	$ 2,755,529	$ 130,372	(11,051)	$ (323,846)	$ 29,207
Shares issued under employee and director stock plans	588	6	31,115			5	128	
Stock-based compensation expense			13,594					
Tax benefit from stock-based compensation			6,828					
Distribution to noncontrolling interest								(5,318
Comprehensive income:								
Currency translation adjustment					230,941			
Unrealized gain on hedge instruments net of taxes					1,453			
Pension prior service cost and actuarial gain or loss					1,215			
Net earnings				706,814				7,599
Total comprehensive income								
Balances at December 31, 2007	79,404	794	1,203,957	3,462,343	363,981	(11,046)	(323,718)	31,488
Shares issued under employee and director stock plans	57	1	1,621			6	173	
Stock-based compensation expense			11,991					
Tax benefit from stock-based			334					

compensation								
Distribution to noncontrolling interest								(6,052
Comprehensive loss:								
Currency translation adjustment					(101,935)			
Unrealized loss on hedge instruments net of taxes					(7,127)			
Pension prior service cost and actuarial gain or loss					(384)			
Net loss				(1,458,228)				5,694
Total comprehensive loss								
Balances at December 31, 2008	79,461	795	1,217,903	2,004,115	254,535	(11,040)	(323,545)	31,130
Shares issued under employee and director stock plans	57		642			6	184	
Stock-based compensation expense			9,653					
Tax deficit from stock-based compensation			(342)					
Distribution to noncontrolling interest, net of adjustments								(2,151
Comprehensive income:								
Currency translation adjustment					36,089			
Unrealized gain on hedge instruments net of taxes					7,207			
Pension prior service cost and actuarial gain or loss					(914)			
Net loss				(5,499)				4,480
Total comprehensive income								
Balances at December 31, 2009	79,518	$ 795	$ 1,227,856	$ 1,998,616	$ 296,917	(11,034)	$ (323,361)	$ 33,459

See accompanying notes to consolidated financial statements.

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years Ended December 31, 2009, 2008 and 2007

	2009	2008
	(In thousands, except per share	
Cash flows from operating activities:		
Net (loss) earnings	$ (1,019)	(1,452,534)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Impairment of goodwill and other intangibles		1,543,397
Restructuring	57,412	29,617
Depreciation and amortization	303,004	295,054
Deferred income taxes	(20,579)	69,842
Loss on disposal of property, plant and equipment	1,481	2,272
Excess tax deficit (benefit) from stock-based compensation	342	(334)
Stock-based compensation expense	9,653	11,991
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	102,799	118,199
Income tax receivable	(72,515)	
Inventories	276,169	102,706
Accounts payable and accrued expenses	11,510	(127,905)
Other assets and prepaid expenses	17,320	(23,774)
Other liabilities	(13,372)	7,555
Net cash provided by operating activities	672,205	576,086
Cash flows from investing activities:		
Additions to property, plant and equipment	(108,925)	(217,824)
Acquisitions, net of cash acquired	(5,924)	(8,276)
Net cash used in investing activities	(114,849)	(226,100)
Cash flows from financing activities:		
Payments on revolving line of credit	(412,666)	(1,448,742)
Proceeds from revolving line of credit	349,571	1,270,449
Net change in asset securitization borrowings	(47,000)	(143,000)
Borrowings (payments) on term loan and other debt	6,537	(11,819)
Debt issuance costs	(23,714)	
Distribution to noncontrolling interest	(4,402)	(6,052)
Excess tax (deficit) benefit from stock-based compensation	(342)	334
Change in outstanding checks in excess of cash	5,288	(12,007)
Proceeds from stock transactions	884	1,915
Net cash used in financing activities	(125,844)	(348,922)

Effect of exchange rate changes on cash and cash equivalents	6,427	2,851
Net change in cash and cash equivalents	437,939	3,915
Cash and cash equivalents, beginning of year	93,519	89,604
Cash and cash equivalents, end of year	$ 531,458	93,519

See accompanying notes to consolidated financial statements.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2009, 2008 and 2007
(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 significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management t estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and lia of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual res differ from those estimates.

(b) Cash and Cash Equivalents

The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents. A December 31, 2009, the Company had invested cash of $464,936 in money market AAA rated cash investments of which $367, North America and $97,631 was in Europe.

(c) Accounts Receivable and Revenue Recognition

The Company is principally a carpet, rugs, ceramic tile, laminate and hardwood manufacturer and sells carpet, rugs, ceramic tile stone, hardwood, resilient and laminate flooring products in the United States. In addition, the Company manufactures laminate carpet, rugs and laminate flooring products in Europe principally for residential and commercial use. The Company grants credi customers, most of whom are retail-flooring dealers and commercial end users, under credit terms that the Company believes are customary in the industry.

Revenues, which are recorded net of taxes collected from customers, are recognized when there is persuasive evidence of an arr delivery has occurred, the price has been fixed or is determinable, and collectability can be reasonably assured. The Company pr allowances for expected cash discounts, returns, claims and doubtful accounts based upon historical bad debt and claims experie periodic evaluations of specific customer accounts. Licensing revenues received from third parties for patents are recognized ba contractual agreements.

(d) Inventories

The Company accounts for all inventories on the first-in, first-out (FIFO) method. Inventories are stated at the lower of cost o realizable value). Cost has been determined using the FIFO method. Costs in inventory include raw materials, direct and indirec employee benefits, depreciation, general manufacturing overhead and various other costs of manufacturing. Market, with respec inventories, is replacement cost or net realizable value. Inventories on hand are compared against anticipated future usage, whic function of historical usage, anticipated future selling price, expected sales below cost, excessive quantities and an evaluation fo obsolescence. Actual results could differ from assumptions used to value obsolete inventory, excessive inventory or inventory ex be sold below cost and additional reserves may be required.

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(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost, including capitalized interest. Depreciation is calculated on a straight-line basis estimated remaining useful lives, which are 25-35 years for buildings and improvements, 5-15 years for machinery and equipme shorter of the estimated useful life or lease term for leasehold improvements and 3-7 years for furniture and fixtures.

(f) Goodwill and Other Intangible Assets

In accordance with the provisions of Financial Accounting Standards Board (FASB) FASB Accounting Standards Codificati (ASC 350), formerly Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Ass* Company tests goodwill and other intangible assets with indefinite lives for impairment on an annual basis in the fourth quarter interim basis if an event occurs that might reduce the fair value of the reporting unit below its carrying value). The Company co relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairm goodwill impairment tests are based on determining the fair value of the specified reporting units based on management s judg assumptions using the discounted cash flows and comparable company market valuation approaches. The Company has identifi Mohawk, Dal-Tile, Unilin Flooring, Unilin Chipboard and Melamine, and Unilin Roofing as its reporting units for the purposes allocating goodwill and intangibles as well as assessing impairments. The valuation approaches are subject to key judgments an assumptions that are sensitive to change such as judgments and assumptions about appropriate sales growth rates, operating mar weighted average cost of capital (WACC), and comparable company market multiples.

When developing these key judgments and assumptions, the Company considers economic, operational and market conditions t impact the fair value of the reporting unit. However, estimates are inherently uncertain and represent only management s reaso expectations regarding future developments. These estimates and the judgments and assumptions upon which the estimates are b in all likelihood, differ in some respects from actual future results. Should a significant or prolonged deterioration in economic c occur, such as continued declines in spending for new construction; remodeling and replacement activities; the inability to pass in the costs of raw materials and fuel on to customers; or a decline in comparable company market multiples, then key judgmen assumptions could be impacted.

The impairment evaluation for indefinite lived intangible assets, which for the Company are its trademarks, is conducted during quarter of each year, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The dete of fair value used in the impairment evaluation is based on discounted estimates of future sales projections attributable to owner trademarks. Significant judgments inherent in this analysis include assumptions about appropriate sales growth rates, royalty rat and the amount of expected future cash flows. The judgments and assumptions used in the estimate of fair value are generally co with past performance and are also consistent with the projections and assumptions that are used in current operating plans. Suc assumptions are subject to change as a result of changing economic and competitive conditions. The determination of fair value sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fai the trademarks. Estimated cash flows are sensitive to changes in the economy among other things. The impairment test for inde intangible assets involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of f indefinite lived intangible assets are determined using a discounted cash flows valuation. Significant judgments inherent in this include assumptions about appropriate sales growth rates, royalty rates, WACC and the amount of expected future cash flows. T judgments and assumptions are subject to the variability discussed above.

Intangible assets that do not have indefinite lives are amortized based on average lives, which range from 7-16 years.

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(g) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the fut consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and t respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enac rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settl effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactm

(h) Financial Instruments

The Company s financial instruments consist primarily of receivables, accounts payable, accrued expenses and long-term debt. carrying amount of receivables, accounts payable and accrued expenses approximates its fair value because of the short-term ma such instruments. The carrying amount of the Company s floating rate debt approximates its fair value based upon level two fai hierarchy. Interest rates that are currently available to the Company for issuance of long-term debt with similar terms and remai maturities are used to estimate the fair value of the Company s long-term debt.

(i) Derivative Instruments

Accounting for derivative instruments and hedging activities requires the Company to recognize all derivatives on the consolida sheet at fair value. Derivatives that are not qualifying hedges must be adjusted to fair value through earnings. If the derivative is qualifying hedge, depending on the nature of the hedge, changes in its fair value are either offset against the change in fair value liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recogni earnings. The Company engages in activities that expose it to market risks, including the effects of changes in interest rates, exc and natural gas commodity prices. Financial exposures are managed as an integral part of the Company s risk management pro seeks to reduce the potentially adverse effect that the volatility of the interest rate, exchange rate and natural gas commodity ma have on operating results. The Company does not engage in speculative transactions, nor does it hold or issue financial instrume trading purposes.

The Company formally documents hedging instruments and hedging items, as well as its risk management objective and strateg undertaking hedged items. This process includes linking all derivatives that are designated as fair value and cash flow hedges to assets, liabilities or firm commitments on the consolidated balance sheet or to forecasted transactions. The Company also forma assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effe offsetting changes in fair value or cash flows of hedged items. Regression analysis is used to assess effectiveness of the hedging relationship and the dollar offset method is used to measure any ineffectiveness associated with the hedges. When it is determin derivative is not highly effective, the derivative expires, or is sold, terminated, or exercised, or the derivative is discontinued bec unlikely that a forecasted transaction will occur, the Company discontinues hedge accounting prospectively for that specific hed instrument.

(j) Advertising Costs and Vendor Consideration

Advertising and promotion expenses are charged to earnings during the period in which they are incurred. Advertising and prom expenses included in selling, general, and administrative expenses were $43,752 in 2009, $53,643 in 2008 and $56,168 in 2007.

Vendor consideration, generally cash, is classified as a reduction of net sales, unless specific criteria are met regarding goods or that the vendor may receive in return for this consideration. The Company makes various payments to customers, including slot 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 in accordance with ASC 605-50,

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formerly, FASB, Emerging Issues Task Force 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Includi Reseller of the Vendor s Products).* Co-op advertising expenses, a component of advertising and promotion expenses, were $3 2009, $7,359 in 2008 and $5,686 in 2007.

(k) Product Warranties

The Company warrants certain qualitative attributes of its flooring products. The Company has recorded a provision for estimat and related costs, based on historical experience and periodically adjusts these provisions to reflect actual experience.

(l) Impairment of Long-Lived Assets

The Company reviews its long-lived asset groups, which include intangible assets subject to amortization, which for the Compa patents and customer relationships, for impairment whenever events or changes in circumstances indicate that the carrying amou asset groups may not be recoverable. Recoverability of asset groups to be held and used is measured by a comparison of the car amount of long-lived assets to future undiscounted net cash flows expected to be generated by these asset groups. If such asset g considered to be impaired, the impairment recognized is the amount by which the carrying amount of the asset group exceeds th of the asset group. Assets held for sale are reported at the lower of the carrying amount or fair value less estimated costs of disp no longer depreciated.

(m) Foreign Currency Translation

The Company s subsidiaries that operate outside the United States use their local currency as the functional currency, with the operations carried out in Canada and Mexico, in which case the functional currency is the U.S. dollar. Other than Canada and M functional currency is translated into U.S. dollars for balance sheet accounts using the month end rates in effect as of the balanc and average exchange rate for revenue and expense accounts for each respective period. The translation adjustments are deferre separate component of stockholders equity, within other comprehensive income. Gains or losses resulting from transactions de in foreign currencies are included in other income or expense, within the consolidated statements of operations. The assets and l the Company s Canada and Mexico operations are re-measured using a month end rate, except for non-monetary assets and liab which are re-measured using the historical exchange rate. Income and expense accounts are re-measured using an average mont the period, except for expenses related to those balance sheet accounts that are re-measured using historical exchange rates. The re-measurement adjustment is reported in the consolidated statements of operations when incurred.

(n) Earnings per Share (EPS)

Basic net earnings per share (EPS) is calculated using net earnings available to common stockholders divided by the weighte number of shares of common stock outstanding during the year. Diluted EPS is similar to basic EPS except that the weighted-av number of shares is increased to include the number of additional common shares that would have been outstanding if the poten dilutive common shares had been issued.

Dilutive common stock options are included in the diluted EPS calculation using the treasury stock method. Common stock opti were not included in the diluted EPS computation because the options exercise price was greater than the average market price common shares for the periods presented were 1,355, 1,083 and 656 for 2009, 2008 and 2007, respectively. For 2009 and 2008, outstanding common stock options to purchase common shares and unvested restricted shares (units) were excluded from the ca of diluted loss per share because their effect on net loss per common share was anti-dilutive.

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

	Years Ended December 3	
	2009	2008
Net earnings (loss) attributable to Mohawk Industries, Inc	$ (5,499)	(1,458,228)
Weighted-average common sharesoutstanding-basic and diluted:		
Weighted-average common shares outstanding basic	68,452	68,401
Add weighted-average dilutive potential common shares options and RSU s to purchase common shares, net		
Weighted-average common shares outstanding-diluted	68,452	68,401
Basic earnings (loss) per share attributable to Mohawk Industries, Inc	$ (0.08)	(21.32)
Diluted earnings (loss) per share attributable to Mohawk Industries, Inc	$ (0.08)	(21.32)

(o) Stock-Based Compensation

The Company recognizes compensation expense for all share-based payments granted based on the grant-date fair value estimat accordance with the ASC 718-10, formerly SFAS No 123R *Stock Compensation* . Compensation expense is generally recogni straight-line basis over the options estimated lives for fixed awards with ratable vesting provisions.

(p) Comprehensive Income

Comprehensive income includes foreign currency translation of assets and liabilities of foreign subsidiaries, effects of exchange changes on intercompany balances of a long-term nature and transactions and derivative financial instruments designated as cas hedges. The Company does not provide income taxes on currency translation adjustments, as earnings from foreign subsidiaries considered to be indefinitely reinvested.

Amounts recorded in accumulated other comprehensive income on the Consolidated Statements of Equity for the years ended December 31, 2009, 2008 and 2007 are as follows:

	Translation Adjustment	Hedge Instruments	SFAS 158	Tax Expense (Benefit)
December 31, 2007	$ 362,028	(126)	2,033	46
2008 activity	(101,935)	(11,024)	(384)	3,897
December 31, 2008	260,093	(11,150)	1,649	3,943
2009 activity	36,089	11,150	(914)	(3,943)
December 31, 2009	$ 296,182		735	

(q) Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued ASC 820-10, formerly Statement of Financial Standards (SFAS) No. 157, *Fair Value Measurements* . ASC 820-10 defines fair value, establishes a framework for measu and requires enhanced disclosures about fair value measurements. ASC 820-10 requires companies to disclose the fair value of f instruments according to a fair value hierarchy. Additionally, companies are required to provide certain disclosures regarding in within the hierarchy, including a reconciliation of the beginning and ending balances for each major category of assets and liabi 820-10 is effective for the Company s fiscal year beginning January 1, 2008 for financial assets and liabilities and January 1, 20 non-financial assets and liabilities. The Company s adoption of ASC 820-10 for financial assets and liabilities on January 1, 20 non-financial assets and liabilities on January 1, 2009 did not have a material impact on the Company s consolidated financial s

In December 2007, the FASB issued ASC 805-10, formerly SFAS No. 141 (revised 2007), *Business Combinations* . ASC 805 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable a acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. ASC 805-10 also establi disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. ASC 805-10 is applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The adoption of AS on January 1, 2009 did not have a material impact on the Company s consolidated financial statements, although the adoption o 805-10 will impact the recognition and measurement of future business combinations and certain income tax benefits recognize prior business combinations.

In December 2007, the FASB issued ASC 810-10, formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financia Statements an amendment of Accounting Research Bulletin No. 51* . ASC 810-10 establishes accounting and reporting standa ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to th and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained noncontrolling equity when a subsidiary is deconsolidated. ASC 810-10 also establishes disclosure requirements that clearly identify and distinguish b interests of the parent and the interests of the noncontrolling owners. ASC 810-10 is effective for fiscal years beginning after De 2008. The adoption of ASC 810-10 on January 1, 2009 did not have a material impact on the Company s consolidated financial Upon adoption, the Company reclassified $31,130 on the condensed consolidated balance sheets from other long-term liabilities noncontrolling interest within equity and reclassified the related net earnings to net earnings attributable to the noncontrolling in the consolidated statements of operations.

In March 2008, the FASB issued ASC 815-10, formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedgin Activities* . ASC 815-10 is intended to improve financial reporting about derivative instruments and hedging activities by requir enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performanc flows. The provisions of ASC 815-10 are effective for the first quarter of 2009. The adoption of ASC 815-10 on January 1, 2009 have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued ASC 825-10, formerly the FASB Staff Position on FAS 107-1 and APB 28-1, *Interim Disclos Fair Value of Financial Instruments* . ASC 825-10 requires disclosures about fair value of financial instruments in interim repo periods of publicly-traded companies that were previously only required to be disclosed in annual financial statements. The prov ASC 825-10 are effective for the second quarter of 2009. The adoption of this standard on June 27, 2009 did not have a material the Company s consolidated financial statements.

In May 2009, the FASB issued ASC 855-10-05, formerly SFAS No. 165, *Subsequent Events* . ASC 855-10-05 establishes ger standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are a be issued (subsequent events). More specifically, ASC 855-10-05 sets forth the period after the balance sheet date during whi management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balanc date in its financial statements and the disclosures that should be made about events or transactions that occur after the balance s ASC 855-10-05 provides largely the same guidance on subsequent events which previously existed only in the auditing literatur 855-10-05 is effective for interim or annual financial periods ending after June 15, 2009, and is to be applied prospectively. The of this standard did not have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued ASC 860, formerly SFAS No. 166, *Accounting for Transfers of Financial Assets an amendm Statement No. 140* . ASC 860 seeks to improve the relevance,

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representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements abo transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transfe continuing involvement, if any, in transferred financial assets. Specifically, ASC 860 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifie sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. ASC 860 i for annual and quarterly reporting periods that begin after November 15, 2009. The adoption of this standard on January 1, 2010 expected to have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued ASC 810, formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* . ASC 810 FASB Interpretation No. 46(R), *Variable Interest Entities* for determining whether an entity is a variable interest entity (VII requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controll interest in a VIE. Under ASC 810, an enterprise has a controlling financial interest when it has a) the power to direct the activiti that most significantly impact the entity s economic performance and b) the obligation to absorb losses of the entity or the right benefits from the entity that could potentially be significant to the VIE. ASC 810 also requires an enterprise to assess whether it implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has power to direct the a the VIE that most significantly impact the entity s economic performance. ASC 810 also requires ongoing assessments of whet enterprise is the primary beneficiary of a VIE, requires enhanced disclosures and eliminates the scope exclusion for qualifying special-purpose entities. ASC 810 is effective for annual and quarterly reporting periods that begin after November 15, 2009. Th of this standard on January 1, 2010 is not expected to have a material impact on the Company s consolidated financial statemen

In June 2009, the FASB issued ASC 105-10, formerly SFAS No. 168, *The FASB Accounting Standards Codification and Hier Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* . ASC 105-10 establishes the FASB Stan Accounting Codification (Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP the FASB to be applied to nongovernmental entities and rules and interpretive releases of the SEC as authoritative GAAP for SE registrants. The Codification superseded all the existing non-SEC accounting and reporting standards upon its effective date. AS also replaced FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* given that once in effec Codification carries the same level of authority. ASC 105-10 is effective for financial statements issued for interim and annual p ending after September 15, 2009. The adoption of this standard did not have a material impact on the Company s consolidated statements.

(r) 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 neares calendar quarter end.

(2) Acquisitions

During 2009 and 2008, the Company acquired a business in the Unilin segment for $5,604 and certain stone center assets in the segment for $8,276, respectively.

During 2007, the Company acquired certain wood flooring assets and liabilities of Columbia Forest Products, Inc. (Columbia approximately $147,097. The acquisition included the assets of two pre-finished solid plants and one engineered wood plant in t States and an engineered wood plant in Malaysia. The results of operations from the date of acquisition are included in the Com consolidated results.

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(3) Receivables

	2009
Customers, trade	$ 633,571
Income tax receivable	72,515
Other	30,654
	736,740
Less allowance for discounts, returns, claims and doubtful accounts	62,809
Receivables, net	$ 673,931

The following table reflects the activity of allowances for discounts, returns, claims and doubtful accounts for the years ended D
31:

	Balance at Beginning of Year	Additions Charged to Costs and Expenses(1)	Deductions(2)
2007	$ 69,799	270,993	284,482
2008	56,310	274,337	268,269
2009	62,378	205,145	204,714

(1) Includes $1,500 in 2007 related to the Columbia acquisition which was not charged to costs and expenses.

(2) Represents charge-offs, net of recoveries.

(4) Inventories

The components of inventories are as follows:

	2009
Finished goods	$ 559,339
Work in process	84,414
Raw materials	249,227
Total inventories	$ 892,981

(5) Goodwill and Other Intangible Assets

The Company conducted its annual assessment in the fourth quarter of 2009 and determined the fair values of its reporting units their carrying values. As a result, no impairment was indicated. During 2008, the Company recorded a $1,543,397 impairment c reduce the carrying amount of the Company s goodwill and intangible assets to their estimated fair value based upon the results interim impairment tests. The total impairment included $276,807 in the Mohawk segment, $531,930 in the Dal-Tile segment ar $734,660 in the Unilin segment.

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The following table summarizes the components of intangible assets:

Goodwill:

	Mohawk	Dal-Tile	Unilin	
Balances as of December 31, 2007	$ 199,132	1,186,013	1,412,194	
Goodwill recognized during the year		900	(40,691)	
Impairment charge	(199,132)	(531,930)	(596,363)	(
Currency translation during the year			(30,689)	
Balance as of December 31, 2008		654,983	744,451	
Goodwill recognized during the year			1,288	
Currency translation during the year			10,406	
Balances as of December 31, 2009	$	654,983	756,145	

During 2009, the Company recorded additional goodwill of $1,288 in the Unilin segment in a business acquisition. During 2008
Company recorded additional goodwill of $1,742 in the Dal-Tile segment for the acquisition of certain stone center assets. In ad
during 2008, the Company reversed $842 and $40,691 of pre-acquisition tax liabilities in the Dal-Tile and Unilin segments, resp

Intangible assets:

	Tra
Indefinite life assets not subject to amortization:	
Balance as of December 31, 2007	$
Impairment charge	
Effect of translation	
Balance as of December 31, 2008	
Effect of translation	
Balance as of December 31, 2009	$

	Customer Relationships	Patents	Other
Intangible assets subject to amortization:			
Balance as of December 31, 2007	$ 256,092	208,691	
Intangible assets recognized during the year	2,980		
Amortization during year	(49,092)	(29,475)	
Effect of translation	(5,916)	(7,829)	

Balance as of December 31, 2008		204,064	171,387	
Intangible assets recognized during the year		972		1,496
Amortization during year		(47,175)	(26,812)	(68)
Effect of translation		1,441	2,433	(3)
Balance as of December 31, 2009	$	159,302	147,008	1,425

	Years Ended December 3	
	2009	2008
Amortization expense:		
Aggregation amortization expense	$ 74,055	78,567

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Estimated amortization expense for the years ending December 31, are as follows:

2010	$
2011	
2012	
2013	
2014	

(6) Property, Plant and Equipment

Following is a summary of property, plant and equipment:

		2009
Land	$	195,171
Buildings and improvements		722,533
Machinery and equipment		2,348,689
Furniture and fixtures		80,722
Leasehold improvements		54,995
Construction in progress		67,415
		3,469,525
Less accumulated depreciation and amortization		1,678,113
Net property, plant and equipment	$	1,791,412

Property, plant and equipment included capitalized interest of $4,469, $6,419 and $4,446 in 2009, 2008 and 2007, respectively. Depreciation expense was $223,453, $212,281 and $207,613 for 2009, 2008 and 2007, respectively. Included in the property, pl equipment are capital leases with a cost of $37,846 and $36,208 and accumulated depreciation of $8,348 and $5,248 as of Decer 2009 and 2008, respectively.

(7) Long-Term Debt

On September 2, 2009, the Company entered into a $600,000 four-year, senior, secured revolving credit facility (the ABL Faci connection with the replacement of the Company s then-existing senior, unsecured, revolving credit facility (the Senior Unsec Facility). At the time of its termination, the Senior Unsecured Facility consisted of a $650,000 revolving credit facility, which mature on October 28, 2010. The ABL Facility provides for a maximum of $600,000 of revolving credit, subject to borrowing b availability, including limited amounts of credit in the form of letters of credit and swingline loans. The borrowing base is equal specified percentages of eligible accounts receivable and inventories of the Company and other borrowers under the ABL Facili are subject to seasonal variations, less reserves established in good faith by the Administrative Agent under the ABL Facility. A obligations under the ABL Facility, and the guarantees of those obligations, are secured by a security interest in certain accounts receivable, inventories, certain deposit and securities accounts, tax refunds and other personal property (excluding intellectual p directly relating to, or arising from, and proceeds of, any of the foregoing. In connection with the entry into the ABL Facility, th Company incurred $23,714 in debt issuance costs which will be amortized on a straight-line basis over the four-year term of the and recognized as interest expense in the condensed consolidated statement of operations.

At the Company s election, revolving loans under the ABL Facility bear interest at annual rates equal to either (a) LIBOR for 1 6 month periods, as selected by the Company, plus an applicable margin ranging between 3.75% and 4.25%, or (b) the higher of rate, the Federal Funds rate plus 0.5%, or a daily LIBOR rate, plus an applicable margin ranging between 2.25% and 2.75%. Th also pays a commitment fee to the Lenders under the ABL Facility on the average amount by which the aggregate commitments Lenders exceed utilization of the ABL Facility equal to 1.00% per annum during any

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quarter that this excess is 50% or more, and 0.75% per annum during any quarter that this excess is less than 50%.

The ABL Facility includes certain affirmative and negative covenants that impose restrictions on Mohawk s financial and busi operations, including limitations on debt, liens, investments, fundamental changes, asset dispositions, dividends and other simila payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes nature of the Company s business. Many of these limitations are subject to numerous exceptions. The Company is also required a fixed charge coverage ratio of 1.1 to 1.0 during any period that the unutilized amount available under the ABL Facility is less of the amount available under the ABL Facility.

The ABL Facility is scheduled to mature on September 2, 2013 but the maturity date will accelerate to: (i) October 15, 2010 if t Company s outstanding 5.75% senior notes due January 15, 2011 have not been repaid, refinanced, defeased or adequately rese the Company, as reasonably determined by the Administrative Agent, prior to October 15, 2010, and (ii) January 15, 2012, if the Company s outstanding 7.20% senior notes due April 15, 2012 have not been repaid, refinanced, defeased or adequately reserv Company, as reasonably determined by the Administrative Agent, prior to January 15, 2012. The Company can make adequate such senior notes with unrestricted cash on hand and unutilized borrowing availability under the ABL Facility. The Company be and cash equivalents and availability under the ABL Facility will be sufficient to satisfy the October 15, 2010 requirements of t Facility, although there can be no assurances the Company will have adequate reserves as defined in the ABL Facility.

As of December 31, 2009, the amount considered used under the ABL Facility was $113,451 leaving a total of $461,871 availa the ABL Facility. The amount used under the ABL Facility is composed of $53,542 of standby letters of credit guaranteeing the industrial revenue bonds and $59,909 of standby letters of credit related to various insurance contracts and foreign vendor comm

During 2009, the Company terminated its Euro 130,000, five-year unsecured, revolving credit facility and its on-balance sheet t accounts receivable securitization agreement, which allowed for borrowings up to $250,000 based on available accounts receiva

On January 17, 2006, the Company issued $500,000 aggregate principal amount of 5.750% notes due 2011 and $900,000 aggre principal amount of 6.125% notes due 2016. Interest payable on each series of the notes is subject to adjustment if either Mood Service, Inc. (Moody s) or Standard & Poor s Ratings Services (Standard & Poor s), or both, downgrades the rating ass Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum increase of 1% per rating a later the rating of these notes improves, then the interest rates would be reduced accordingly. Each 0.25% increase in the interes these notes would increase the Company s interest expense by approximately $3,500 per year. Currently, the interest rates have increased by an aggregate amount of 0.75% as a result of downgrades by Moody s and Standard & Poor s during 2009. These increase the Company s interest expense by approximately $10,500 per year and could adversely affect the cost of and ability t additional credit in the future. Additional downgrades in the Company s credit ratings could further increase the cost of its exis and adversely affect the cost of and ability to obtain additional credit in the future.

In 2002, the Company issued $400,000 aggregate principal amount of its senior 7.2% notes due 2012.

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The fair value and carrying value of our debt instruments are detailed as follows:

	2009		2008
	Fair Value	Carrying Value	Fair Value
5.75% notes, payable January 15, 2011 interest payable semiannually	$ 508,703	498,240	450,000
7.20% senior notes, payable April 15, 2012 interest payable semiannually	418,400	400,000	340,000
6.125% notes, payable January 15, 2016 interest payable semiannually	891,900	900,000	684,000
Securitization facility, terminated June 2009			47,000
Five-year senior unsecured credit facility, terminated September 2009			55,300
Four-year senior secured credit facility, due September 2013			
Industrial revenue bonds, capital leases and other	56,239	56,239	52,486
Total long-term debt	1,875,242	1,854,479	1,628,786
Less current portion	52,907	52,907	94,785
Long-term debt, excluding current portion	$ 1,822,335	1,801,572	1,534,001

The fair values of the Company s debt instruments were estimated using market observable inputs, including quoted prices in a markets, market indices and interest rate measurements. Within the hierarchy of fair value measurements, these are Level 2 fair

The aggregate maturities of long-term debt as of December 31, 2009 are as follows:

2010	$
2011	
2012	
2013	
2014	
Thereafter	
	$

(8) Accounts Payable, Accrued Expenses and Deferred Tax Liability

Accounts payable and accrued expenses are as follows:

	2009

Outstanding checks in excess of cash	$ 17,900
Accounts payable, trade	335,401
Accrued expenses	169,730
Product warranties	66,545
Accrued interest	52,743
Income taxes payable	85,699
Deferred tax liability	2,836
Accrued compensation and benefits	100,261
Total accounts payable and accrued expenses	$ 831,115

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(9) Derivative Financial Instruments

Natural Gas Risk Management

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

The Company has designated the natural gas futures contracts as cash flow hedges. The outstanding contracts are valued at marl offset applied to other comprehensive income, net of applicable income taxes and any hedge ineffectiveness.

Any gain or loss is reclassified from other comprehensive income and recognized in cost of goods sold in the same period or per during which the hedged transaction affects earnings. As of December 31, 2009, the Company had no outstanding natural gas co of December 31, 2008, the Company had natural gas contracts that matured from January 2009 to December 2009 with an aggre notional amount of approximately 2,650 MMBTU s. The fair value of these contracts was a liability of $5,913 as of December The offset to these liabilities is recorded in other comprehensive income, net of applicable income taxes. The ineffective portion derivative is recognized in the cost of goods sold within the consolidated statements of operations and was not significant for th reported.

The Company s natural gas long-term supply agreements are accounted for under the normal purchase provision within ASC 8 SFAS No. 133 and its amendments. As of December 31, 2009, the Company had no outstanding normal purchase commitments gas. As of December 31, 2008, the Company had normal purchase commitments of approximately 2,026 MMBTU s for period from January 2009 through December 2009. The contracted value of these commitments was approximately $17,151 as of Dece 2008.

Foreign Currency Rate Management

The Company enters into foreign exchange forward contracts to hedge foreign denominated costs associated with its operations The objective of these transactions is to reduce volatility of exchange rates where these operations are located by fixing a portio costs in U.S. currency. Accordingly, these contracts have been designated as cash flow hedges. Gains and losses are reclassified comprehensive income and recognized in cost of goods sold in the same period or periods during which the hedged transaction a earnings. The Company had no outstanding forward contracts to purchase Mexican pesos as of December 31, 2009. The Compa forward contracts to purchase approximately 269,129 Mexican pesos as of December 31, 2008. The fair value of these contracts liability of $5,237 as of December 31, 2008. The aggregate U.S. dollar value of these contracts as of December 31, 2008 was approximately $23,923. The offset to these liabilities is recorded in other comprehensive income, net of applicable income taxes ineffective portion of the derivative is recognized in the cost of goods sold within the consolidated statements of operations and significant for the periods reported.

(10) Product Warranties

The Company warrants certain qualitative attributes of its products for up to 50 years. The Company records a provision for esti warranty and related costs in accrued expenses, based on historical experience and periodically adjusts these provisions to reflec experience.

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Product warranties are as follows:

	2009	2008
Balance at beginning of year	$ 56,460	46,187
Warranty claims paid during the year	(167,053)	(81,586)
Pre-existing warranty accrual adjustment during the year(1)	125,124	
Warranty expense during the year(1)	52,014	91,859
Other(2)		
Balance at end of year	$ 66,545	56,460

(1) The increase in warranty expense in 2009 and 2008 relates primarily to certain commercial carpet tiles that were discontinu 2009.

(2) Includes $2,859 in 2007 related to the Columbia acquisition. This amount was not charged to expense.

(11) Stock Options, Stock Compensation and Treasury Stock

The Company recognizes compensation expense for all share-based payments granted based on the grant-date fair value estimat accordance with the provisions of ASC 718-10. Compensation expense is recognized on a straight-line basis over the options es lives for fixed awards with ratable vesting provisions.

Under the Company s 2007 Incentive Plan (2007 Plan), which was approved by the Company s stockholders on May 16, 20 Company reserved up to a maximum of 3,200 shares of common stock for issuance upon the grant or exercise of stock options, stock, restricted stock units (RSU s) and other types of awards, to directors and key employees through 2017. Option awards with an exercise price equal to the market price of the Company s common stock on the date of the grant and generally vest bet and five years with a 10-year contractual term. Restricted stock and RSU s are granted with a price equal to the market price of Company s common stock on the date of the grant and generally vest between three and five years.

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

	2009	2008
Options outstanding at beginning of year	1,506	1,455
Options granted	76	146
Options exercised	(35)	(46)
Options canceled	(66)	(49)
Options outstanding at end of year	1,481	1,506
Options exercisable at end of year	1,165	1,035

Option prices per share:

Options granted during the year	$	28.37	74.47	75
Options exercised during the year	$	16.66-48.50	19.63-73.45	16
Options canceled during the year	$	19.94-93.65	16.66-93.65	22
Options outstanding at end of year	$	16.66-93.65	16.66-93.65	16
Options exercisable at end of year	$	16.66-93.65	16.66-93.65	16

During 1996, the Company adopted the 1997 Non-Employee Director Stock Compensation Plan. The plan provides for awards o stock of the Company for non-employee directors to receive in lieu of cash for their annual retainers. During 2009, 2008 and 2007, a total of 2, 1 and 1 shares, respectively, were awarded to the non-e directors under the plan.

In addition, the Company maintains an employee incentive program that awards restricted stock on the attainment of certain ser criteria. The outstanding awards related to these programs and related compensation expense was not significant for any of the y December 31, 2009, 2008 and 2007.

The Company s Board of Directors has authorized the repurchase of up to 15,000 shares of the Company s outstanding comm the year ended December 31, 2009, 2008 and 2007 no shares of the Company s common stock were purchased. Since the incep program, a total of approximately 11,512 shares have been repurchased at an aggregate cost of approximately $334,747. All of t repurchases have been financed through the Company s operations and banking arrangements.

On October 31, 2005, the Company entered into a Discounted Stock Purchase Agreement (the DSPA) with certain members management team (the Unilin Management). The Company terminated the DSPA during the year ended December 31, 2009. terms of the DSPA, the Company was obligated to make cash payments to the Unilin Management in the event that certain perf goals are satisfied. In each of the years in the five-year period ending December 31, 2010, the remaining members of the Unilin Management could earn amounts, in the aggregate, equal to the average value of 30,671 shares of the Company s common stoc 20 trading day period ending on December 31 of the prior year. Any failure in a given year to reach the performance goals coul rectified, and consequently the amounts payable with respect to achieving such criteria could have been made, in any of the othe The amount of the liability was measured each period and recognized as compensation expense in the consolidated statement of operations. No expense related to the DSPA was recognized by the Company in 2009. The Company expensed approximately $ $2,300 under the DSPA for the years ended December 31, 2008 and 2007, respectively.

The fair value of option awards is estimated on the date of grant using the Black-Scholes-Merton valuation model that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company s common sto factors. The Company uses historical data to estimate option exercise and forfeiture rates within the valuation model. Optionees exhibit similar option exercise behavior are segregated into separate groups within the valuation model. The expected term of op granted represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on U.S. Tre yields in effect at the time of the grant for the expected term of the award.

	2009	**2008**
Dividend yield		
Risk-free interest rate	1.7%	2.9%
Volatility	35.3%	24.0%
Expected life (years)	5	5

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A summary of the Company s options under the 2007 Plan as of December 31, 2009, and changes during the year then ended is
as follows:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	A
Options outstanding December 31, 2008	1,506	$	70.98		
Granted	76		28.37		
Exercised	(35)		24.50		
Forfeited and expired	(66)		67.00		
Options outstanding, December 31, 2009	1,481		70.11	4.6	$
Vested and expected to vest as of December 31, 2009	1,464	$	70.20	4.6	$
Exercisable as of December 31, 2009	1,165	$	70.61	3.8	$

The weighted-average grant-date fair value of an option granted during 2009, 2008 and 2007, was $9.17, $20.26 and $33.68, res
The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was $809, $1,169 and
respectively. Total compensation expense recognized for the years ended December 31, 2009, 2008 and 2007 was $4,552 ($2,88
tax), $6,646 ($4,210, net of tax) and $8,827 ($6,359, net of tax), respectively, which was allocated to selling, general and admin
expenses. The remaining unamortized expense for non-vested compensation expense as of December 31, 2009 was $3,538 with
average remaining life of 2.0 years.

The following table summarizes information about the Company s stock options outstanding as of December 31, 2009:

	Outstanding				Exercis
Exercise Price Range	Number of Shares	Average Life		Average Price	Number of Shares
Under $42.86	150	5.2	$	29.11	74
$42.86-$69.46	397	2.5		58.10	397
$69.95-$74.47	333	5.5		73.85	221
$74.93-$86.51	255	5.6		82.56	199
$87.87-$88.00	35	5.8		87.96	28
$88.33-$93.65	311	5.1		88.98	246
Total	1,481	4.6	$	70.11	1,165

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A summary of the Company s RSUs under the 2007 Plan as of December 31, 2009, and changes during the year then ended is p
follows:

	Shares	Weighted Average Price	Weighted Average Remaining Contractual Term (Years)	Agg Intrin
Restricted Stock Units outstanding December 31, 2008	187	$ 92.94		
Granted	204	34.77		
Released	(22)	87.50		
Forfeited	(10)	76.54		
Restricted Stock Units outstanding, December 31, 2009	359	60.69	2.8	$
Vested and expected to vest as of December 31, 2009	317	$ 60.69	2.4	$

The Company recognized stock-based compensation costs related to the issuance of RSU s of $5,009 ($3,173, net of taxes), $4.
($3,153, net of taxes) and $4,446 ($3,203, net of taxes) for the years ended December 31, 2009, 2008 and 2007, respectively, wh
been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSU s
employees, net of estimated forfeitures, was $7,988 as of December 31, 2009, and will be recognized as expense over a weighte
period of approximately 3.4 years.

Additional information relating to the Company s RSUs under the 2007 Plan is as follows:

	2009	2008
Restricted Stock Units outstanding, January 1	187	137
Granted	204	72
Released	(22)	(15)
Forfeited	(10)	(7)
Restricted Stock Units outstanding, December 31	359	187
Vested and expected to vest as of December 31	317	175

(12) Employee Benefit Plans

The Company has a 401(k) retirement savings plan (the Mohawk Plan) open to substantially all of its employees within the M
segment, Dal-Tile segment and, as of January 1, 2007, certain U.S. employees of the Unilin segment, who have completed 90 da
eligible service. For the Mohawk segment, the Company contributes $0.50 for every $1.00 of employee contributions up to a ma
4% of the employee s salary and an additional $0.25 for every $1.00 of employee contributions in excess of 4% of the employe

to a maximum of 6%. For the Dal-Tile and Unilin segments, the Company contributes $.50 for every $1.00 of employee contrib
to a maximum of 6% of the employee s salary. Employee and employer contributions to the Mohawk Plan were $34,838 and $
2009, $40,393 and $16,024 in 2008, and $43,187 and $16,946 in 2007, respectively. The Company also made a discretionary co
to the Mohawk Plan of approximately $1,908, $4,211 and $5,500 in 2009, 2008 and 2007, respectively.

The Company also has various pension plans covering employees in Belgium, France, and The Netherlands (the Non-U.S. Pla
acquired with the acquisition of Unilin. Benefits under the Non-U.S. Plans depend on compensation and years of service. The Non-U.S. Plans are funded in accordance with local regulations. The Company uses December 31 as the measurement date for i
Non-U.S. Plans.

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Components of the net periodic benefit cost of the Company s Non-U.S. pension benefit plans are as follows:

	2009	2008
Service cost of benefits earned	$ 1,315	1,881
Interest cost on projected benefit obligation	1,352	1,245
Expected return on plan assets	(1,069)	(993)
Amortization of actuarial gain	(322)	(29)
Effect of curtailments and settlements	(200)	
Net pension expense	$ 1,076	2,104

Assumptions used to determine net periodic pension expense for Non-U.S. pension plans:

	2009	
Discount rate	6.00%-6.60%	5.
Expected rate of return on plan assets	4.50%-6.60%	4.
Rate of compensation increase	0.00%-4.00%	1.
Underlying inflation rate	2.25%	

The obligations, plan assets and funding status of the Non-U.S. pension plans were as follows:

	2009
Change in benefit obligation:	
Projected benefit obligation at end of prior year	$ 20,090
Cumulative foreign exchange effect	374
Service cost	1,356
Interest cost	1,395
Plan participants contributions	763
Actuarial gain (loss)	2,588
Benefits paid	(687)
Effect of curtailment and settlement	(411)
Projected benefit obligation at end of year	$ 25,468
Change in plan assets:	
Fair value of plan assets at end of prior year	$ 16,371
Cumulative foreign exchange effect	306
Actual return on plan assets	3,234
Employer contributions	2,059
Benefits paid	(687)
Plan participant contributions	763

Actual loss	
Effect of settlement	(205)
Fair value of plan assets at end of year	$ 21,841
Funded status of the plans:	
Ending funded status	$ (3,627)
Net amount recognized in consolidated balance sheets:	
Accrued expenses (current liability)	$
Accrued benefit liability (non-current liability)	(3,628)
Accumulated other comprehensive gain	(735)
Net amount recognized	$ (4,363)

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The Company s net amount recognized in other comprehensive income related to actuarial (losses) gains was $(914), $(384) an the years ended December 31, 2009, 2008 and 2007, respectively.

Assumptions used to determine the projected benefit obligation for the Company s Non-U.S. pension plans were as follows:

	2009	
Discount rate	5.00%	6.(
Rate of compensation increase	0.00%-6.00%	1.:
Underlying inflation rate	2.00%	

The discount rate assumptions used to account for pension obligations reflect the rates at which the Company believes these obl will be effectively settled. In developing the discount rate, the Company evaluated input from its actuaries, including estimated t obligation payments and yield on investments. The rate of compensation increase for the Non-U.S. Plans is based upon the Com annual reviews.

	Non-U.S. Pl
	2009
Plans with accumulated benefit obligations in excess of plan assets:	
Projected benefit obligation	$ 10,251
Accumulated benefit obligation	8,585
Fair value of plan assets	7,907
Plans with plan assets in excess of accumulated benefit obligations:	
Projected benefit obligation	$ 25,468
Accumulated benefit obligation	21,827
Fair value of plan assets	21,841

Estimated future benefit payments for the Non-U.S. pension plans are $1,206 in 2010, $757 in 2011, $988 in 2012, $1,157 in 20 in 2014 and $8,019 in total for 2015-2019.

The Company expects to make cash contributions of $856 to its Non-U.S. pension plans in 2010.

The fair value of the Non-U.S. pension plan investments were estimated using market observable data. Within the hierarchy of f measurements, these investments represent Level 2 fair values. The fair value and percentage of each asset category of the total investments held by the plans as of December 31, 2009 and 2008 were as follows:

	2009
Non-U.S. pension plans:	
Insurance contracts	$ 21,841

The Company s investment policy:

	2009
Non-U.S. pension plans:	
Insurance contracts	100.0%

The Company s approach to developing its expected long-term rate of return on pension plan assets combines an analysis of his investment performance by asset class, the Company s investment guidelines and current and expected economic fundamentals

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(13) Income Taxes

Following is a summary of earnings (loss) from continuing operations before income taxes for United States and foreign operati

	2009	2008
United States	$ (205,737)	(847,624)
Foreign	128,024	(424,848)
Earnings (loss) before income taxes	$ (77,713)	(1,272,472)

Income tax expense (benefit) for the years ended December 31, 2009, 2008 and 2007 consists of the following:

	2009	2008
Current income taxes:		
U.S. federal	$ (78,051)	61,186
State and local	1,139	8,248
Foreign	20,797	41,232
Total current	(56,115)	110,666
Deferred income taxes:		
U.S. federal	18,082	(91,813)
State and local	(6,931)	(7,511)
Foreign	(31,730)	168,720
Total deferred	(20,579)	69,396
Total	$ (76,694)	180,062

Income tax expense (benefit) attributable to earnings (loss) before income taxes differs from the amounts computed by applying U.S. statutory federal income tax rate to earnings (loss) before income taxes as follows:

	2009	2008
Income taxes at statutory rate	$ (27,200)	(445,365)
State and local income taxes, net of federal income tax benefit	(3,874)	(4,113)
Foreign income taxes	(12,840)	(380)
Change in valuation allowance	12,214	276,801
Intellectual property migration to Luxembourg		
Goodwill impairment		406,577

Notional interest	(55,956)	(63,694)
Tax contingencies and audit settlements	9,634	4,990
Change in statutory tax rate	101	(254)
Other, net	1,227	5,500
	$ (76,694)	180,062

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilitie
December 31, 2009 and 2008 are presented below:

	2009
Deferred tax assets:	
Accounts receivable	$ 22,843
Inventories	46,536
Accrued expenses and other	102,665
Deductible state tax and interest benefit	24,801
Intangibles	199,660
Foreign and state net operating losses and credits	214,955
Gross deferred tax assets	611,460
Valuation allowance	(365,944)
Net deferred tax assets	245,516
Deferred tax liabilities:	
Inventories	(5,089)
Plant and equipment	(279,668)
Intangibles	(160,429)
LIFO change in accounting method	(12,850)
Other liabilities	(30,144)
Gross deferred tax liabilities	(488,180)
Net deferred tax liability(1)	$ (242,664)

(1) This amount includes $85 and $29 of non-current deferred tax assets which are in deferred income taxes and other non-cur
and $2,836 and $3,030 current deferred tax liabilities which are included in accounts payable and accrued expenses in the
consolidated balance sheets as of December 31, 2009 and 2008, respectively.

Management believes it is more likely than not the Company will realize the benefits of these deductible differences, with the ex
certain carryforward deferred tax assets discussed below, based upon the expected reversal of deferred tax liabilities and the lev
historic and forecasted taxable income over periods in which the deferred tax assets are deductible.

In accordance with ASC 350, the company is required to test goodwill and indefinite-lived assets for impairment annually, or m
an event or circumstance indicates that an impairment loss may have been incurred. In 2008, the Company recorded a non-cash
impairment charge of $1,543,397 to reduce the carrying value of goodwill and other intangibles. The tax impact was to book an
$406,577 related to the portion of the impaired assets that are non-deductible for tax purposes.

The Company evaluates its ability to realize the tax benefits associated with deferred tax assets by analyzing its forecasted taxab
using both historic and projected future operating results, the reversal of existing temporary differences, taxable income in prior
years (if permitted) and the availability of tax planning strategies. The valuation allowance as of December 31, 2009 and Decem

2008 is $365,944 and $343,572, respectively. The December 31, 2009 valuation allowance relates to net operating losses and ta
$168,773 and intangibles of $197,171. The December 31, 2008 valuation allowance relates to net operating losses and tax credit
$127,525 and intangibles of $216,047. For 2009, the total change in the valuation allowance was an increase of $22,372, which
accumulated other comprehensive income change of $6,740 primarily related to foreign currency translation, and a non-P&L ch
$3,418 primarily related to current year state tax credits which have a full valuation allowance.

As of December 31, 2009, the Company has state net operating loss carryforwards and state tax credits with potential tax benefi
$53,550, net of federal income tax benefit; these carryforwards expire over various periods based on taxing jurisdiction. A valua
allowance totaling $32,473 has been recorded against these deferred tax assets as of December 31, 2009. In addition, as of Dece
2009, the Company has net operating loss carryforwards in various foreign jurisdictions of $161,405. A valuation allowance tota
$136,300 has been recorded against these deferred tax assets as of December 31, 2009.

In the fourth quarter of 2007, the Company moved the intellectual property and treasury operations of an indirectly owned Euro
to a new office in another jurisdiction in Europe. The Company also indirectly owned a holding company in the new jurisdiction
provided certain treasury functions to Unilin, and the move allowed for the consolidation of the historical intellectual property a
operations to be combined with those of the holding company s treasury operations in a single jurisdiction in order to integrate
streamline the operations, to facilitate international acquisitions and to improve tax and cost efficiencies. This restructuring resu
step up in the subsidiary s taxable basis of its intellectual property. The step up relates primarily to intangible assets which will
amortized over 10 years for tax purposes. During the fourth quarter of 2007, the Company evaluated the evidence for recognitio
deferred tax asset created through the restructuring and determined that, based on the available evidence, the deferred tax asset
likely than not be realized. The deferred tax asset recognized as of December 31, 2007 was approximately $245,000 and the rela
tax benefit recognized in the consolidated financial statements was approximately $272,000.

During the third quarter of 2008, the Company reassessed the need for a valuation allowance against its deferred tax assets. Actu
flows have been less than those projected as of December 31, 2007, primarily due to the slowing worldwide economy and declin
volume. The Company determined that, given the current and expected economic conditions and the corresponding reductions i
flows, its ability to realize the benefit of the deferred tax asset related to the European step up transaction described above, as we
losses generated in the same jurisdiction was not more likely than not. Accordingly, the Company recorded a valuation allowanc
the deferred tax asset in the amount of $252,751 during the quarter ended September 27, 2008.

The Company does not provide for U.S. federal and state income taxes on the cumulative undistributed earnings of its foreign su
because such earnings are permanently reinvested. As of December 31, 2009 and 2008, the Company had not provided federal i
taxes on earnings of approximately $723,000 and $654,000, respectively, from its foreign subsidiaries. Should these earnings be
distributed in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes and withholding tax
various foreign jurisdictions. These taxes may be partially offset by U.S. foreign tax credits. Determination of the amount of the
unrecognized deferred US tax liability is not practical because of the complexities associated with this hypothetical calculation.

Tax Uncertainties

In the normal course of business, the Company s tax returns are subject to examination by various taxing authorities. Such exar
may result in future tax and interest assessments by these taxing jurisdictions. Accordingly, the Company accrues liabilities whe
believes that it is not more likely than not that it will realize the benefits of tax positions that it has taken in its tax returns or for
of any tax benefit that exceeds the cumulative probability threshold in accordance with ASC 740-10, formerly FASB Interpretat
Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109 . Differences between the estimate
amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effec
Company s consolidated financial position but could possibly be material to the Company s consolidated results of operations
in any given quarter or annual period.

The Company adopted the provisions of ASC 740-10 on January 1, 2007. Upon adoption, the Company recognized no change t
retained earnings. As of December 31, 2009, the Company s gross amount of unrecognized tax benefits is $105,779, excluding
penalties. If the Company were to prevail on all uncertain tax positions, the net effect would be a benefit of $43,014 to the Comp
effective tax rate and a balance sheet adjustment of $62,765, exclusive of any benefits related to interest and penalties.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2009
Balance at January 1	$ 91,887
Additions based on tax positions related to the current year	8,678
Additions for tax positions of prior years	10,630
Reductions for tax positions of prior years	
Reductions resulting from the lapse of the statute of limitations	(60)
Settlements with taxing authorities	(5,562)
Effects of foreign currency translation	206
Balance at December 31	$ 105,779

The Company will continue to recognize interest and penalties related to unrecognized tax benefits as a component of its income
provision. As of December 31, 2009 and 2008, the Company has $47,870 and $39,641, respectively, accrued for the payment of
and penalties, excluding the federal tax benefit of interest deductions where applicable. During the years ending December 31, 2
and 2007, the Company accrued interest and penalties through continuing operations of $8,228, $3,657 and $1,115, respectively

The Company s 2004-2006 federal income tax returns are currently under examination by the Internal Revenue Service. The C
expects this examination to end within the next twelve months. The Company is also protesting through the IRS Appeals divisio
open issues related to the audit of its 1999 2003 tax years. In connection with this protest, the Company paid a $35,844 cash b
IRS. The Company believes it is reasonably possible that it will effectively settle all open tax years, 1999 through 2006, with th
Revenue Service within the next twelve months and expects to make a cash payment of approximately $33,000 (including penal
interest). The Company believes it is reasonably possible that the balance of unrecognized tax benefits could decrease by an add
$36,277 (which includes accrued penalties and interest expense) within the next twelve months due to settlements or statutory e
in various tax jurisdictions. Except as noted above, the Company has substantially concluded all income tax matters related to y
to 2004.

(14) Commitments and Contingencies

The Company is obligated under various operating leases for office and manufacturing space, machinery, and equipment. Futur
lease payments under non-cancelable capital and operating leases (with initial or remaining lease terms in excess of one year) as
December 31:

	Capital	Operating	Tot Pa
2010	$ 1,611	94,340	
2011	1,056	77,101	
2012	457	58,505	
2013	522	45,153	
2014	437	37,346	
Thereafter	696	67,005	

Total payments	4,779	379,450
Less amount representing interest	543	
Present value of capitalized lease payments	$ 4,236	

Rental expense under operating leases was $130,227, $139,103 and $123,095 in 2009, 2008 and 2007, respectively.

The Company had approximately $58,603 and $73,928 as of December 31, 2009 and 2008, respectively, in standby letters of cr various insurance contracts and commitments to foreign vendors that expire within two years. In addition, as of December 31, 2 2008, the Company guaranteed approximately $721 and $85,640 for building leases, respectively, related to its operating faciliti France.

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

In Shirley Williams et al. v. Mohawk Industries, Inc., four plaintiffs filed a putative class action lawsuit in January 2004 in the U States District Court for the Northern District of Georgia (Rome Division), alleging that they are former and current employees Company and that the actions and conduct of the Company, including the employment of persons who are not authorized to wor United States, have damaged them and the other members of the putative class by suppressing the wages of the Company s hou employees in Georgia. The plaintiffs seek a variety of relief, including (a) treble damages; (b) return of any allegedly unlawful p (c) attorney s fees and costs of litigation. In February 2004, the Company filed a Motion to Dismiss the Complaint, which was the District Court in April 2004. Following appellate review of this decision, the case was returned to the District Court for furth proceedings. On December 18, 2007, the plaintiffs filed a motion for class certification. On March 3, 2008, the District Court de plaintiffs motion for class certification. The plaintiffs then appealed the decision to the United States Court of Appeals for the 1 on March 17, 2008. On May 28, 2009, the Court of Appeals issued an order reversing the District Court s decision and remandi back to the District Court for further proceedings on the class certification issue. Discovery has been stayed at the District Court appeal. In August 2009, the Company filed a petition for certiorari with the United States Supreme Court, which was denied in 2009. The Company will continue to vigorously defend itself against this action.

In Collins & Aikman Floorcoverings, Inc., et. al. v. Interface, Inc., United States District Court for the Northern District of Geor Division), Mohawk Industries, Inc. joined Collins & Aikman Floorcoverings, Inc. (CAF) and Shaw Industries Group, Inc. (Interface, Inc. (Interface) for declaratory judgments that United States Patent 6,908,656 (the Patent), assigned to Interface certain styles of carpet tiles, is not infringed and is invalid. Also in June 2005, in Interface, Inc., et al. v. Mohawk Industries, Inc United States District Court for the Northern District of Georgia (Atlanta Division), Interface sued Mohawk Industries, Inc., Mo Carpet Corporation, and Mohawk Commercial, Inc. for allegedly infringing the Patent. Interface brought similar suits against en affiliated with CAF and Shaw. Interface sought monetary damages as well as injunctive relief. The cases were consolidated in th States District Court for the Northern District of Georgia (Rome Division). During the second quarter of 2009, the Company and reached a settlement and the pending cases were dismissed by the District Court on June 26, 2009.

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been mad probable losses and that the ultimate outcome of these actions will not have a material adverse effect on its financial condition b have a material adverse effect on its results of operations in a given quarter or year.

The Company has received partial refunds from the United States government in reference to settling custom disputes dating ba Accordingly, the Company recorded a net gain of $9,154 ($5,799 net of taxes) in other income (expense) for the year ended Dec 2007. No refunds were received in 2009 or 2008. Additional future recoveries will be recorded as realized.

The Company is subject to various federal, state, local and foreign environmental health and safety laws and regulations, includi governing air emissions, wastewater discharges, the use, storage, treatment and disposal of solid and hazardous materials, and th of contamination associated therewith. Because of the nature of the Company s business, the Company has incurred, and will c 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 c The Company has provided accruals for such activities that it has determined to

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be both probable and reasonably estimable. The Company does not expect that the ultimate liability with respect to such activiti have a material adverse effect on its operations, but may have an effect on a given quarter or annual period.

In the normal course of business, the Company has entered into various collective bargaining agreements with its workforce in I Mexico and Malaysia, either locally or within its industry sector. Historically, the Company has maintained favorable relationsh workforce and expects to do so in the future.

The Company recorded pre-tax business restructuring charges of $61,725 for 2009, of which $43,436 was recorded as cost of sa $18,289 was recorded as selling, general and administrative expenses. The Company recorded pre-tax business restructuring cha $29,670 for 2008, of which $15,687 was recorded as cost of sales and $13,983 was recorded as selling, general and administrati expenses. The charges primarily relate to the Company s actions taken to lower its cost structure and improve the efficiency of manufacturing and distribution operations as it adjusts to current economic conditions.

The activity for 2008 and 2009 is as follows:

		Asset Write-Downs(1)	Inventor Write-Downs	Lease Impairments	Severance	Other Restructuring Costs
Balance at December 31, 2007	$					
Provisions						
Mohawk segment		7,237		12,561	1,625	816
Dal-Tile segment		3,124		504	1,715	
Unilin segment		2,088				
Cash payments				(354)	(1,270)	(816)
Noncash items		(12,449)				
Balance as of December 31, 2008	$			12,711	2,070	
Provisions						
Mohawk segment		13,604	2,300	5,365	7,075	347
Dal-Tile segment		5,717	1,653	9,160	1,191	
Unilin segment		4,310	3,096		4,773	3,134
Cash payments				(6,163)	(7,285)	(65)
Noncash items		(23,631)	(7,049)			(415)
Balance as of December 31, 2009	$			21,073	7,824	3,001

(1) Includes $4,313 and $53 in 2009 and 2008, respectively, that was charged to depreciation.

(15) Consolidated Statements of Cash Flows Information

Supplemental disclosures of cash flow information are as follows:

	2009	2008
Net cash paid during the year for:		
Interest	$ 127,623	129,465
Income taxes	$ 39,594	107,638
Supplemental schedule of non-cash investing and financing activities:		
Fair value of assets acquired in acquisition	$ 17,911	9,745
Liabilities assumed in acquisition	(11,987)	(1,469)
	$ 5,924	8,276

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(16) Segment Reporting

The Company has three reporting segments, the Mohawk segment, the Dal-Tile segment and the Unilin segment. The Mohawk manufactures, markets and distributes its product lines primarily in North America, which include carpet, rugs, pad, ceramic tile hardwood, resilient and laminate, through its network of regional distribution centers and satellite warehouses using company-o trucks, common carrier or rail transportation. The segment product lines are sold through various selling channels, which includ covering retailers, home centers, mass merchandisers, department stores, independent distributors, commercial dealers and comm users. The Dal-Tile segment manufactures, markets and distributes its product lines primarily in North America, which include c tile, porcelain tile and stone products, through its network of regional distribution centers and company-operated sales service ce using company-operated trucks, common carriers or rail transportation. The segment product lines are purchased by floor coveri retailers, home centers, independent distributors, tile specialty dealers, tile contractors, and commercial end users. The Unilin se manufactures, markets and distributes its product lines primarily in North America and Europe, which include laminate flooring flooring, roofing systems, insulation panels and other wood products through various selling channels, which include retailers, h centers and independent distributors.

Amounts disclosed for each segment are prior to any elimination or consolidation entries. Corporate general and administrative attributable to each segment are estimated and allocated accordingly. Segment performance is evaluated based on operating inco single customer accounted for more than 5% of net sales for the years ended December 31, 2009, 2008 and 2007.

Segment information is as follows:

	2009	2008
Net sales:		
Mohawk	$ 2,856,741	3,628,183
Dal-Tile	1,426,757	1,815,373
Unilin	1,128,315	1,465,208
Intersegment sales	(67,789)	(82,416)
	$ 5,344,024	6,826,348
Operating income (loss)(1):		
Mohawk	$ (125,965)	(216,152)
Dal-Tile	84,154	(323,370)
Unilin	105,953	(564,911)
Corporate and eliminations	(20,412)	(19,701)
	$ 43,730	(1,124,134)
Depreciation and amortization:		
Mohawk	$ 94,134	92,130
Dal-Tile	47,934	46,093
Unilin	151,450	149,543
Corporate	9,486	7,288
	$ 303,004	295,054

Capital expenditures (excluding acquisitions):		
Mohawk	$ 35,149	78,239
Dal-Tile	17,683	41,616
Unilin	45,966	90,500
Corporate	10,127	7,469
	$ 108,925	217,824
Assets:		
Mohawk	$ 1,582,652	1,876,696
Dal-Tile	1,546,393	1,693,765
Unilin	2,598,182	2,663,599
Corporate and intersegment eliminations	664,219	212,115
	$ 6,391,446	6,446,175

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	2009	2008
Geographic net sales:		
North America	$ 4,516,784	5,776,701
Rest of world	827,240	1,049,647
	$ 5,344,024	6,826,348
Long-lived assets(2):		
North America	$ 2,000,522	2,120,067
Rest of world	1,202,018	1,205,109
	$ 3,202,540	3,325,176
Net sales by product categories(3):		
Soft surface	$ 2,650,452	3,337,073
Tile	1,491,846	1,919,070
Wood	1,201,726	1,570,205
	$ 5,344,024	6,826,348

(1) Operating income (loss) includes the impact of the impairment of goodwill and other intangibles recognized in the third an quarters of 2008 of $276,807 for the Mohawk segment, $531,930 for the Dal-Tile segment and $734,660 for the Unilin seg

(2) Long-lived assets are composed of net property, plant and equipment and goodwill.

(3) The Soft surface product category includes carpets, rugs, carpet pad and resilient. The Tile product category includes ceran porcelain tile and natural stone. The Wood product category includes laminate, hardwood, roofing panels and wood-based

(17) Quarterly Financial Data (Unaudited)

The supplemental quarterly financial data are as follows:

	Quarters Ended			
	March 28, 2009	June 27, 2009	September 26, 2009	Dece
Net sales	$ 1,208,339	1,406,012	1,382,565	
Gross profit	153,689	367,388	369,459	
Net (loss) earnings	(105,887)	46,261	34,348	
Basic (loss) earnings per share	(1.55)	0.68	0.50	
Diluted (loss) earnings per share	(1.55)	0.67	0.50	

	Quarters Ended			
	March 29, 2008	June 28, 2008	September 27, 2008	Decemb 200
Net sales	$ 1,738,097	1,840,045	1,763,034	1,4
Gross profit	459,839	482,892	439,071	3
Net earnings (loss)	65,390	88,778	(1,484,781)	(1
Basic earnings (loss) per share	0.96	1.30	(21.70)	
Diluted earnings (loss) per share	0.95	1.29	(21.70)	

(1) Includes the impact of a valuation allowance of approximately $253,000 which was recognized during the third quarter of 2 Additionally, the third and fourth quarters of 2008 were impacted by $1,418,912 and $124,485, respectively, related to imp goodwill and other intangibles.

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

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Based on an evaluation of the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e 15d-15(e) under the Securities Exchange Act of 1934, as amended), which have been designed to provide reasonable assurance controls and procedures will meet their objectives, as of the end of the period covered by this report, the Company s Chief Exe Officer and Chief Financial Officer have concluded that such controls and procedures were effective at a reasonable assurance l period covered by this report.

Management s Report on Internal Control over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company s management assessed the effective internal control over financial reporting as of December 31, 2009. In making this assessment, the Company s management used set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated The Company s management has concluded that, as of December 31, 2009, its internal control over financial reporting is effect these criteria. The Company s independent registered public accounting firm, KPMG LLP, has issued an attestation report on t Company s internal control over financial reporting, which is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the period covered by this report that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Limitations on the Effectiveness of Controls

The Company s management recognizes that a control system, no matter how well conceived and operated, can provide only re not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent lim all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any Company have been detected.

Item 9B. *Other Information*

None.

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PART III

Item 10. *Directors and Executive Officers and Corporate Governance*

The information required by this item is incorporated by reference to information contained in the Company s Proxy Statement Annual Meeting of Stockholders under the following headings: Election of Directors Director, Director Nominee and Execu Information, Nominees for Director, Continuing Directors, Executive Officers, Meetings and Committees o Section 16(a) Beneficial Ownership Reporting Compliance and Audit Committee. The Company has adopted the Mohawl Standards of Conduct and Ethics, which applies to all of its directors, officers and employees. The standards of conduct and ethi publicly available on our website at *http://mohawkind.com* and will be made available in print to any stockholder who requests t without charge. If the Company makes any substantive amendments to the standards of conduct and ethics, or grants any waiver any implicit waiver, from a provision of the standards required by regulations of the Commission to apply to the Company s ch officer, chief financial officer or chief accounting officer, the Company will disclose the nature of the amendment or waiver on The Company may elect to also disclose the amendment or waiver in a report on Form 8-K filed with the SEC. The Company ha the Mohawk Industries, Inc. Board of Directors Corporate Governance Guidelines, which are publicly available on the Compan and will be made available to any stockholder who requests it.

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to information contained in the Company s Proxy Statement Annual Meeting of Stockholders under the following headings: Executive Compensation and Other Information Summary C Table, Compensation, Discussion and Analysis, Grants of Plan Based Awards, Outstanding Equity Awards at Fi Exercises and Stock Vested, Pension Benefits, Nonqualified Deferred Compensation, Certain Relationships and Compensation Committee Interlocks and Insider Participation, Compensation Committee Report and Director Comp

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is incorporated by reference to information contained in the Company s Proxy Statement Annual Meeting of Stockholders under the following headings: Executive Compensation and Other Information Equity Com Plan Information, and Principal Stockholders of the Company.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is incorporated by reference to information contained in the Company s Proxy Statement Annual Meeting of Stockholders under the following heading: Election of Directors Meetings and Committees of the Board and Executive Compensation and Other Information Certain Relationships and Related Transactions.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated by reference to information contained in the Company s Proxy Statement Annual Meeting of Stockholders under the following heading: Audit Committee Principal Accountant Fees and Services a and Committees of the Board.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. Consolidated Financial Statements

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

2. Consolidated Financial Statement Schedules

Schedules not listed above have been omitted because they are not applicable or the required information is included in the cons
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 Moha Acquisition Corp., Aladdin and certain Shareholders of Aladdin. (Incorporated herein by reference to Exhibit 2.1 Mohawk s Registration Statement on Form S-4, Registration No. 333-74220.)
*3.1	Restated Certificate of Incorporation of Mohawk, as amended. (Incorporated herein by reference to Exhibit 3.1 i Mohawk s Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*3.2	Restated Bylaws of Mohawk. (Incorporated herein by reference to Exhibit 3.2 in Mohawk s Report on Form 8-I December 4, 2007.)
*4.1	See Article 4 of the Restated Certificate of Incorporation of Mohawk. (Incorporated herein by reference to Exhib Mohawk s Annual Report on Form 10-K (File No. 001-13697) for the fiscal year ended December 31, 1998.)
*4.2	See Articles 2, 6, and 9 of the Restated Bylaws of Mohawk. (Incorporated herein by reference to Exhibit 3.2 in M Current Report on Form 8-K dated December 4, 2007.)
*4.3	Indenture, dated as of April 2, 2002 between Mohawk Industries, Inc. and Wachovia Bank, National Association Trustee (Incorporated herein by reference to Exhibit 4.1 in Mohawk s Registration Statement on Form S-4, Reg No. 333-86734, as filed April 22, 2002.)
*4.4	Indenture dated as of January 9, 2006, between Mohawk Industries, Inc. and SunTrust Bank, as trustee. (Incorpo herein by reference to Exhibit 4.4 in Mohawk s Registration Statement on Form S-3, Registration Statement No. 333-130910.)
*4.5	First Supplemental Indenture, dated as of January 17, 2006, by and between Mohawk Industries, Inc., and SunTr as trustee. (Incorporated by reference to Exhibit 4.1 in Mohawk s Current Report on form 8-K dated January 17
*10.1	Registration Rights Agreement by and among Mohawk, Citicorp Investments, Inc., ML-Lee Acquisition Fund, L Certain Management Investors. (Incorporated herein by reference to Exhibit 10.14 of Mohawk s Registration St Form S-1, Registration No. 33-45418.)
*10.2	Voting Agreement, Consent of Stockholders and Amendment to 1992 Registration Rights Agreement dated Dec 1993 by and among Aladdin, Mohawk, Citicorp Investments, Inc., ML-Lee Acquisition Fund, L.P., David L. Ko

	G. Mercer, Frank A. Procopio and John D. Swift. (Incorporated herein by reference to Exhibit 10(b) of Mohawk Registration Statement on Form S-4, Registration No. 33-74220.)
*10.3	Registration Rights Agreement by and among Mohawk and the former shareholders of Aladdin. (Incorporated h reference to Exhibit 10.32 of Mohawk s Annual Report on Form 10-K (File No. 001-13697) for the fiscal year e December 31, 1993.)

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Mohawk Exhibit Number	Description
*10.4	Waiver Agreement between Alan S. Lorberbaum and Mohawk dated as of March 23, 1994 to the Registration R 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 (File No. 001-1 the quarter ended July 2, 1994.)
*10.5	Loan and Security Agreement dated as of September 2, 2009 by and among Mohawk Industries, Inc. and certain Subsidiaries, as Borrowers, certain of its Subsidiaries, as Guarantors, the Lenders from time to time party thereto Wachovia Bank, National Association, as Administrative Agent, and the other parties thereto (Incorporated by re the Company s Current Report on Form 8-K dated Sept 1, 2009).
Exhibits Related to Executive Compensation Plans, Contracts and other Arrangements:	
*10.6	Service Agreement dated February 24, 2009, by and between Unilin Industries BVBA and BVBA F. De Cock Management . (Incorporated by reference to the Company s Current Report on Form 8-K dated February 24, 2
10.7	Service Agreement dated February 9, 2009, by and between Unilin Industries BVBA and Comm. V. Bernard T
*10.8	Second Amended and Restated Employment Agreement, dated as of November 4, 2009, by and between the Co W. Christopher Wellborn (Incorporated by reference to the Company s Current Report on Form 8-K dated Nov 2009).
*10.9	Mohawk Carpet Corporation Supplemental Executive Retirement Plan, as amended. (Incorporated herein by refe Exhibit 10.2 of Mohawk s Registration Statement on Form S-1, Registration No. 33-45418.)
*10.10	Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.8 of Mohawk Registration Statement on Form S-1, Registration No. 33-45418.)
*10.11	Amendment dated July 22, 1993 to the Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorporated herein b to Exhibit 10.2 in Mohawk s quarterly report on Form 10-Q (File No. 001-13697) for the quarter ended July 3,
*10.12	Second Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1992 Stock Option Plan. (Incorpora by reference to Exhibit 10.35 of Mohawk s Annual Report on Form 10-K (File No. 001-13697) for the fiscal ye December 31, 1999.)
*10.13	Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Option Plan. (Incorporated herein by reference to Exhibi Mohawk s Registration Statement on Form S-1, Registration Number 33-53932.)
*10.14	Amendment dated July 22, 1993 to the Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Option Plan. (Inc herein by reference to Exhibit 10.1 of Mohawk s quarterly report on Form 10-Q (File No. 001-13697) for the qu July 3, 1993.)
*10.15	Second Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1992 Mohawk-Horizon Stock Opti (Incorporated herein by reference to Exhibit 10.38 of Mohawk s Annual Report on Form 10-K (File No. 001-13 fiscal year ended December 31, 1999.)
*10.16	Mohawk Industries, Inc. 1993 Stock Option Plan. (Incorporated herein by reference to Exhibit 10.39 of Mohawk Report on Form 10-K (File No. 001-13697) for the fiscal year ended December 31, 1992.)
*10.17	First Amendment dated February 17, 2000 to the Mohawk Industries, Inc. 1993 Stock Option Plan. (Incorporate reference to Exhibit 10.40 of Mohawk s Annual Report on Form 10-K (File No. 001-13697) for the fiscal year December 31, 1999.)
*10.18	The Mohawk Industries, Inc. Amended and Restated Executive Deferred Compensation Plan. (Incorporated here reference to Exhibit 10.30 in Mohawk s Annual Report on Form 10-K for the fiscal year ended December 31, 2
*10.19	The Mohawk Industries, Inc. Amended and Restated Management Deferred Compensation Plan. (Incorporated h reference to Exhibit 10.31 in Mohawk s Annual Report on Form 10-K for the fiscal year ended December 31, 2

Mohawk Exhibit Number	Description
*10.20	Mohawk Industries, Inc. 1997 Non-Employee Director Stock Compensation Plan (Amended and Restated as of J 2009) (Incorporated herein by reference to Exhibit 10.32 in Mohawk s Annual Report on Form 10-K for the fisc ended December 31, 2008.).
*10.21	1997 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.80 of Mohawk s Annual Repo Form 10-K (File No. 001-13697) for the fiscal year ended December 31, 1996.)
*10.22	2002 Long-Term Incentive Plan. (Incorporated herein by reference to Appendix A in the 2002 Mohawk Industri Proxy Statement dated March 29, 2002.)
*10.23	Mohawk Industries, Inc. 2007 Incentive Plan (Incorporated herein by reference to Appendix A of the Company Proxy Statement on Schedule 14A (File No. 001-13697) filed with the Securities and Exchange Commission on 2007)
21	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm (KPMG LLP).
31.1	Certification Pursuant to Rule 13a-14(a).
31.2	Certification Pursuant to Rule 13a-14(a).
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates exhibit incorporated by reference.

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SIGNATURES

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

Mohawk Industries, Inc.

Dated: February 26, 2010

By:
/s/ JEFFREY S. LORBERBAUM

Jeffrey S. Lorberbaum,
Chairman and Chief Executive Officer

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

Dated: February 26, 2010

/s/ JEFFREY S. LORBERBAUM

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

Dated: February 26, 2010

/s/ FRANK H. BOYKIN

Frank H. Boykin,
Chief Financial Officer and Vice President-Fina
(principal financial officer)

Dated: February 26, 2010

/s/ JAMES F. BRUNK

James F. Brunk,
Vice President and Corporate Controller
(principal accounting officer)

Dated: February 26, 2010

/s/ PHYLLIS O. BONANNO

Phyllis O. Bonanno,
Director

Dated: February 26, 2010	/s/ BRUCE C. BRUCKMANN
	Bruce C. Bruckmann, ***Director***
Dated: February 26, 2010	/s/ FRANS DE COCK
	Frans De Cock, ***Director***
Dated: February 26, 2010	/s/ JOHN F. FIEDLER
	John F. Fiedler, ***Director***
Dated: February 26, 2010	/s/ DAVID L. KOLB
	David L. Kolb, ***Director***

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Dated: February 26, 2010	/s/ LARRY W. MCCURDY **Larry W. McCurdy,** ***Director***
Dated: February 26, 2010	/s/ ROBERT N. POKELWALDT **Robert N. Pokelwaldt,** ***Director***
Dated: February 26, 2010	/s/ JOSEPH A. ONORATO **Joseph A. Onorato,** ***Director***
Dated: February 26, 2010	/s/ W. CHRISTOPHER WELLBORN **W. Christopher Wellborn,** ***Director***