

MOHAWK INDUSTRIES INC
Form 11-K
June 29, 2007

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

FORM 11-K

[Mark One]
[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006

OR

[] TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 01-19826

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II

(Full title of the Plan)

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

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

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II

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MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II

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Report of Independent Registered Public Accounting Firm

Plan Administrator

Mohawk Carpet Corporation

Retirement Savings Plan II:

We have audited the accompanying statements of net assets available for plan benefits of the Mohawk Carpet Corporation Retirement Savings Plan II (the Plan) as of December 31, 2006 and 2005, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for plan benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

As explained in Note 1, the financial statements include investments in common collective trusts which hold alternative investments with contract value of \$95,790,722 (25% of net assets) whose carrying values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers and the Plan's trustee.

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

/s/ KPMG LLP

KPMG LLP

Atlanta, Georgia

June 29, 2007

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II

Statements of Net Assets Available for Plan Benefits

December 31, 2006 and 2005

	2006	2005
Assets:		
Cash	\$ -	23,012
Investments, at fair value (notes 3 and 4)	214,820,054	343,988,319
Receivables from pending security transactions (note 2)	166,391,464	-
Contributions receivable from employer	662,278	81,928
Contributions receivable from participants	1,789,661	197,287
Net assets available for plan benefits, at fair value	383,663,457	344,290,546
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	2,823,398	1,427,244
Net assets available for plan benefits	\$ 386,486,855	345,717,790

See accompanying notes to financial statements.

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II

Statements of Changes in Net Assets Available for Plan Benefits

Years Ended December 31, 2006 and 2005

	2006	2005
Additions:		
Investment income:		
Interest and dividends	\$ 17,321,970	8,903,398
Net appreciation (depreciation) in fair value of investments:		
Mutual funds	13,014,947	7,365,939
Common collective funds	5,056,330	2,214,234
Mohawk Industries, Inc. common stock	(5,495,055)	(1,669,823)
Net investment income	29,898,192	16,813,748
Contributions from employer	13,154,039	12,300,180
Contributions from participants	29,621,087	27,939,605
Transfers from other plans (note 7)	3,199,622	4,476,406
Total additions	75,872,940	61,529,939
Deductions:		
Participants' benefits	33,403,000	21,760,621
Administrative expenses	133,547	131,076
Transfers to other plan (note 7)	1,567,328	388,111
Total deductions	35,103,875	22,279,808
Increase in net assets available for plan benefits	40,769,065	39,250,131
Net assets available for plan benefits at beginning of year	345,717,790	306,467,659
Net assets available for plan benefits at end of year	\$ 386,486,855	345,717,790

See accompanying notes to financial statements.

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II
Notes to Financial Statements
December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Mohawk Carpet Corporation Retirement Savings Plan II (the Plan) in preparing its financial statements.

(a) Basis of Presentation

The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting and present the net assets available for plan benefits and changes in those net assets.

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

As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP), investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. As required by the FSP, the statements of net assets available for plan benefits present the fair value of the common collective funds as well as the related adjustment of the fully benefit-responsive investment contracts from fair value to contract value for such contracts held within common collective trust investments. The statements of changes in net assets available for plan benefits are prepared on a contract value basis. The Plan adopted the FSP effective December 31, 2006 and retroactively implemented its requirements to the statement of net assets available for plan benefits as of December 31, 2005.

(b) Investments

Investments in mutual funds, common stock, and common collective funds are stated at fair value based on quoted market prices or as determined by DWS Trust Company (Trustee). Loans to participants are stated at cost which approximates fair value. Common collective funds contain investments in guaranteed investment contracts. The statements of net assets available for plan benefits present the fair value of the common collective funds as well as the related adjustment of the fully benefit-responsive investment contracts from fair value to contract value. Securities transactions are accounted for on a trade date basis.

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

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

(c) Fair Value of Financial Instruments

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

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II
Notes to Financial Statements
December 31, 2006 and 2005

(2) Description of the Plan

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

(a) General

The Plan is a defined contribution plan and covers substantially all salaried, sales, and nonexempt employees, of Mohawk Carpet Corporation (the Company), a wholly owned subsidiary of Mohawk Industries, Inc., and all employees, including hourly, nonexempt and salaried, of the Karastan Bigelow Group and the Lauren Park Mill Group. The Plan provides for retirement savings to qualified active participants through both participant and employer contributions and is subject to certain provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Employees are eligible to participate in the Plan at the beginning of a calendar month after the completion of 90 days of service.

The Plan is administered by an Administrative Committee ("Committee") appointed by the Company. The Committee is responsible for the control, management, and administration of the Plan and the assets. DWS Trust Company is the Trustee of the Plan as of and for the years ended December 31, 2006 and 2005. On January 1, 2007, Fidelity Management Trust Company ("Fidelity") was designated as Trustee of the Plan. In connection with the change in Trustee certain investments were liquidated prior to December 31, 2006 in anticipation of a transfer of funds to Fidelity in January 2007. These pending sale transactions resulted in a net receivable due to the Plan of \$166,391,464 as of December 31, 2006.

(b) Contributions

Contributions to the Plan are made by both participants and the Company. Participants may contribute a maximum of 25% of their gross compensation, subject to certain limitations. Participants may allocate their contributions in multiples of 1% to various investment funds of the Plan. For all participants other than employees of Dal-Tile International, Inc., the Company provides 50% matching contributions up to the first 4% of each participant's gross compensation contributed to the Plan and an additional match of \$0.25 for every \$1.00 of participant contributions in excess of 4% up to a maximum of 6%. The employer match for participants employed by Dal-Tile International, Inc. is 50% up to the first 6% of each participant's gross compensation contributed to the Plan.

The terms of the Plan also provide for discretionary employer profit sharing contributions to plan participants employed on the last day of the plan year or terminated during the plan year on account of death, disability, or retirement. Discretionary employer profit sharing contributions of \$2,933,572 and \$2,767,769, respectively, were made to the Plan during the years ended December 31, 2006 and 2005. Subsequent to December 31, 2006, the Company approved and contributed \$2,771,482 as a discretionary contribution to the Plan; such amount will be recorded as a contribution in 2007.

(c) Participant Accounts

Each participant's account is credited with the participant's contributions for the period as well as the employer's matching contribution and an allocation of any discretionary employer profit sharing contribution. Investment income, realized gains/losses, and the change in unrealized appreciation or depreciation on plan investments are credited to participants' accounts monthly based on the proportion of each participant's account balance to the total account balance within each investment fund at the beginning of the month. Participant accounts may be invested in one or more of the investment funds available under the Plan at the direction of the participant. The Plan provides for monthly valuation of accounts.

(d) Distributions to Participants

Upon termination of employment, the participant's account shall be distributed in a lump-sum cash payment as soon as administratively practicable. Under the terms of the Plan, participants may make hardship withdrawals from their accounts upon furnishing proof of hardship as specified in the Plan agreement. Participants may also borrow the lesser of \$50,000 or 50% of the value of their accounts subject to limitations provided by the Plan. Loans must be paid back to the Plan generally within four years of the loan date, with the exception of homestead loans.

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II
Notes to Financial Statements
December 31, 2006 and 2005

e) Vesting

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

Amounts forfeited by participants who terminate from the Plan prior to being 100% vested are applied to reduce subsequent Company contributions to the Plan. In 2006 and 2005, employer contributions were reduced by forfeitures of \$1,381 and \$186,367, respectively.

(f) Administrative Expenses

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

(3) Transactions with Parties-in-Interest

At December 31, 2006 and 2005, the Plan held investments sponsored by the trustee with current values of \$95,405,620 and \$209,130,204, respectively. The Plan also held investments in 417,077 and 462,127 shares of Mohawk Industries, Inc. common stock with current values of \$31,222,384 and \$40,195,797 at December 31, 2006 and 2005, respectively.

(4) Investments

The following investments represent 5% or more of the Plan assets at December 31, 2006 and 2005:

	2006	2005
Mutual funds:		
DWS Dreman High Return Equity Fund	\$ -	58,394,465
DWS International Select Equity Fund	-	16,770,431
Transamerica Premier Equity Fund	21,907,839	20,694,601
Mohawk Industries, Inc. common stock	31,222,384	40,195,797
Common collective funds:		
DWS Stable Value Fund	92,967,324	85,187,757
Mohawk Moderate Portfolio Fund	1,462,946	25,091,873

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

(5) Income Tax Status

The Plan obtained a favorable determination letter dated April 22, 2005, in which the Internal Revenue Service stated that the Plan was in compliance with the applicable requirements of the Internal Revenue Code.

(6) Plan Termination

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

(7) Transfers from/to Other Plans

During 2006 and 2005, due to changes in employment status, \$2,692,488 and \$1,600,472, respectively, were transferred from the Mohawk Carpet Corporation Retirement Savings Plan to the Plan. During 2006 and 2005, due to changes in employment status, \$1,567,328 and \$388,111, respectively, were transferred to the Mohawk Carpet Corporation Retirement Savings Plan from the Plan.

In 2006, assets of the Keys Granite, Inc. 401(k) Profit Sharing Plan of \$507,134 were transferred into the Plan.

In 2005, assets of the Wayn-Tex, Inc. Employees Save Plus Plan of \$2,875,934 were transferred into the Plan.

MOHAWK CARPET CORPORATION RETIREMENT SAVINGS PLAN II
 Schedule H, Line 4i-Schedule of Assets (Held at End of Year)
 December 31, 2006

Identity of issue		Description of investment	Current value
Mutual funds:			
PIMCO Total Return Fund	1,145,461	Mutual fund units	\$ 11,841,141
Artisan Mid Cap Fund	159,397	Mutual fund units	4,855,236
Baron Growth Fund	288,923	Mutual fund units	14,411,491
Fidelity Low-Priced Stock Fund	135,261	Mutual fund units	5,889,267
Fidelity Mid-Cap Stock Fund	239,438	Mutual fund units	6,977,230
Lord Abbett Small Cap Value Fund	274,207	Mutual fund units	8,138,457
Transamerica Premier Equity Fund	972,817	Mutual fund units	21,907,839
*Mohawk Industries, Inc. - common stock	417,077	Shares of common stock	31,222,384
Common collective funds:			
*DWS Stable Value Fund	95,790,722	Collective fund units	92,967,324
*Mohawk Aggressive Portfolio Fund	18,708	Collective fund units	347,601
*Mohawk Conservative Portfolio Fund	46,158	Collective fund units	627,749
*Mohawk Moderate Portfolio Fund	92,416	Collective fund units	1,462,946
Loans to participants		(1)	14,171,389
		Total	\$ 214,820,054

*DWS Trust Company, Trustee and Mohawk Industries, Inc. are parties-in-interest to the Plan.

(1) Loans are consummated at a fixed rate (then current prime rate plus 1%) with maturity dates through October 4, 2017.

Interest rates range from 5.0% to 10.5% on loans outstanding.

See accompanying report of independent registered public accounting firm.

SIGNATURES

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

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

Dated: June 29, 2007

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