

MOHAWK INDUSTRIES INC  
Form 10-Q  
August 07, 2013  
Table of Contents

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

---

FORM 10-Q

---

[Mark One]

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

For the quarterly period ended June 29, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 01-13697

---

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

---

Delaware 52-1604305  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

160 S. Industrial Blvd., Calhoun, Georgia 30701  
(Address of principal executive offices) (Zip Code)

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

---

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

The number of shares outstanding of the issuer's classes of common stock as of July 30, 2013, the latest practicable date, is as follows: 72,516,371 shares of Common Stock, \$.01 par value.

---

Table of ContentsMOHAWK INDUSTRIES, INC.  
INDEX

	Page No
Part I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u> as of June 29, 2013 and December 31, 2012	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u> for the three months ended June 29, 2013 and June 30, 2012	<u>5</u>
<u>Condensed Consolidated Statements of Operations</u> for the six months ended June 29, 2013 and June 30, 2012	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> for the three and six months ended June 29, 2013 and June 30, 2012	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows</u> for the six months ended June 29, 2013 and June 30, 2012	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
Item 4. <u>Controls and Procedures</u>	<u>29</u>
Part II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>30</u>
Item 1A. <u>Risk Factors</u>	<u>30</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>30</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>30</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>30</u>
Item 5. <u>Other Information</u>	<u>30</u>
Item 6. <u>Exhibits</u>	<u>31</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

## ASSETS

(In thousands)

(Unaudited)

	June 29, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 168,745	477,672
Receivables, net	1,145,550	679,473
Inventories	1,591,552	1,133,736
Prepaid expenses	191,117	138,117
Deferred income taxes	134,489	111,585
Other current assets	38,742	9,463
Total current assets	3,270,195	2,550,046
Property, plant and equipment, net	2,594,256	1,692,852
Goodwill	1,690,622	1,385,771
Tradenames	680,107	455,503
Other intangible assets subject to amortization, net	120,422	98,296
Deferred income taxes and other non-current assets	153,362	121,216
	\$ 8,508,964	6,303,684

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 LIABILITIES AND STOCKHOLDERS' EQUITY  
 (In thousands, except per share data)  
 (Unaudited)

	June 29, 2013	December 31, 2012
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$83,171	55,213
Accounts payable and accrued expenses	1,261,791	773,436
Total current liabilities	1,344,962	828,649
Deferred income taxes	452,822	329,810
Long-term debt, less current portion	2,450,584	1,327,729
Other long-term liabilities	156,303	97,879
Total liabilities	4,404,671	2,584,067
Commitments and contingencies (Notes 9 and 15)		
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued	—	—
Common stock, \$.01 par value; 150,000 shares authorized; 80,668 and 80,185 shares issued in 2013 and 2012, respectively	807	802
Additional paid-in capital	1,544,085	1,277,521
Retained earnings	2,740,090	2,605,023
Accumulated other comprehensive income, net	49,806	159,733
	4,334,788	4,043,079
Less treasury stock at cost; 8,155 and 11,032 shares in 2013 and 2012, respectively	239,138	323,462
Total Mohawk Industries, Inc. stockholders' equity	4,095,650	3,719,617
Noncontrolling interest	8,643	—
Total stockholders' equity	4,104,293	3,719,617
	\$8,508,964	6,303,684

See accompanying notes to condensed consolidated financial statements.

Table of ContentsMOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	June 29, 2013	June 30, 2012
Net sales	\$1,976,299	1,469,793
Cost of sales	1,462,243	1,081,329
Gross profit	514,056	388,464
Selling, general and administrative expenses	380,858	280,746
Operating income	133,198	107,718
Interest expense	25,312	18,844
Other expense (income)	(1,097)	) 440
Earnings from continuing operations before income taxes	108,983	88,434
Income tax expense	23,240	15,246
Earnings from continuing operations	85,743	73,188
Loss from discontinued operations, net of income tax benefit of \$485	(1,361)	) —
Net earnings including noncontrolling interest	84,382	73,188
Net loss attributable to noncontrolling interest	(190)	) —
Net earnings attributable to Mohawk Industries, Inc.	\$84,572	73,188
Basic earnings per share attributable to Mohawk Industries, Inc.		
Income from continuing operations	\$1.19	1.06
Loss from discontinued operations	(0.02)	) —
Basic earnings per share attributable to Mohawk Industries, Inc.	\$1.17	1.06
Weighted-average common shares outstanding—basic	72,406	68,984
Diluted earnings per share attributable to Mohawk Industries, Inc.		
Income from continuing operations	\$1.18	1.06
Loss from discontinued operations	(0.02)	) —
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$1.16	1.06
Weighted-average common shares outstanding—diluted	72,867	69,259
See accompanying notes to condensed consolidated financial statements.		

Table of ContentsMOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Six Months Ended	
	June 29, 2013	June 30, 2012
Net sales	\$3,463,114	2,878,828
Cost of sales	2,571,992	2,130,938
Gross profit	891,122	747,890
Selling, general and administrative expenses	671,082	568,196
Operating income	220,040	179,694
Interest expense	44,468	41,342
Other expense (income)	5,290	(1,385 )
Earnings from continuing operations before income taxes	170,282	139,737
Income tax expense	33,972	25,537
Earnings from continuing operations	136,310	114,200
Loss from discontinued operations, net of income tax benefit of \$485	(1,361 )	—
Net earnings including noncontrolling interest	134,949	114,200
Net (loss) income attributable to noncontrolling interest	(118 )	635
Net earnings attributable to Mohawk Industries, Inc.	\$135,067	113,565
Basic earnings per share attributable to Mohawk Industries, Inc.		
Income from continuing operations	\$1.92	1.65
Loss from discontinued operations	(0.02 )	—
Basic earnings per share attributable to Mohawk Industries, Inc.	\$1.90	1.65
Weighted-average common shares outstanding—basic	70,907	68,923
Diluted earnings per share attributable to Mohawk Industries, Inc.		
Income from continuing operations	\$1.91	1.64
Loss from discontinued operations	(0.02 )	—
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$1.89	1.64
Weighted-average common shares outstanding—diluted	71,405	69,204

See accompanying notes to condensed consolidated financial statements.

Table of ContentsMOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net earnings including noncontrolling interest	\$84,382	73,188	134,949	114,200
Other comprehensive loss:				
Foreign currency translation adjustments	(32,428 )	(120,116 )	(110,134 )	(65,155 )
Pension prior service cost and actuarial gain (loss)	(8 )	(37 )	207	(20 )
Other comprehensive loss	(32,436 )	(120,153 )	(109,927 )	(65,175 )
Comprehensive income (loss)	51,946	(46,965 )	25,022	49,025
Comprehensive (loss) income attributable to the noncontrolling interest	(190 )	—	(118 )	635
Comprehensive income (loss) attributable to Mohawk Industries, Inc.	\$52,136	(46,965 )	25,140	48,390

See accompanying notes to condensed consolidated financial statements.



Table of ContentsMOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	June 29, 2013	June 30, 2012
Cash flows from operating activities:		
Net earnings	\$ 134,949	114,200
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Restructuring	28,389	8,226
Depreciation and amortization	140,992	145,117
Deferred income taxes	(16,253	) 1,717
Loss (gain) on disposal of property, plant and equipment	422	(7
Stock-based compensation expense	9,498	8,399
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables, net	(172,457	) (99,903
Tax deposits	—	(31,820
Inventories	(40,555	) (52,486
Accounts payable and accrued expenses	47,120	16,000
Other assets and prepaid expenses	(4,594	) (6,313
Other liabilities	(13,597	) (7,554
Net cash provided by operating activities	113,914	95,576
Cash flows from investing activities:		
Additions to property, plant and equipment	(146,097	) (87,687
Acquisitions, net of cash acquired	(449,464	) —
Investment in joint venture	—	(7,007
Net cash used in investing activities	(595,561	) (94,694
Cash flows from financing activities:		
Payments on Senior Credit Facility	(878,634	) (653,675
Proceeds from Senior Credit Facility	1,348,808	1,031,800
Repayment of senior notes	—	(336,270
Proceeds from 3.85% Senior Notes	600,000	—
Repayment of acquired debt	(895,127	) —
Net change in asset securitization borrowings	20,000	—
Payments on other debt	(22	) (582
Debt issuance costs	(5,815	) (1,018
Purchase of non-controlling interest	—	(35,000
Distribution to non-controlling interest	—	(423
Change in outstanding checks in excess of cash	(11,423	) 1,739
Proceeds from stock transactions	29,859	6,612
Net cash provided by financing activities	207,646	13,183
Effect of exchange rate changes on cash and cash equivalents	(34,926	) (6,547
Net change in cash and cash equivalents	(308,927	) 7,518
Cash and cash equivalents, beginning of period	477,672	311,945
Cash and cash equivalents, end of period	\$ 168,745	319,463

See accompanying notes to condensed consolidated financial statements.



Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

1. Interim reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto, and the Company's description of critical accounting policies, included in the Company's 2012 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

2. Acquisitions

Marazzi Acquisition

On December 20, 2012, the Company entered into a share purchase agreement (the "Share Purchase Agreement") with LuxELIT S.á r.l., a Luxembourg limited liability company and Finceramica S.p.A., an Italian corporation (collectively, "Sellers"), to acquire the shares of Fintiles S.p.A. ("Marazzi"). On April 3, 2013, pursuant to the terms of the Share Purchase Agreement, the Company completed the acquisition of Marazzi for \$1,522,731. The Marazzi business is reflected in the Ceramic segment.

The equity value of Marazzi was paid to the Sellers in cash and in the Company's common stock (the "Shares"). The number of Shares transferred as part of the consideration was calculated using the average closing price for the Company's common stock over a 30-day trading period ending March 19, 2013.

Pursuant to the Share Purchase Agreement, the Company (i) acquired the entire issued share capital of Marazzi and (ii) assumed \$901,773 of indebtedness of Marazzi, in exchange for the following consideration:

- A cash payment of \$307,052; and
- 2,874 newly issued Shares for a value of \$313,906.

The Company funded the cash portion of the Marazzi acquisition through a combination of the 3.85% Senior Notes (as discussed in Note 16), cash on hand and borrowings under the Senior Credit Facility. The Company incurred \$13,812 of direct transaction costs, which are recorded in selling, general and administrative expenses for the three and six months ended June 29, 2013.

The Marazzi acquisition makes the Company a global leader in ceramic tile. The addition of Marazzi will allow the Company to expand its U.S. distribution, source ceramic tile from a worldwide base, and provide industry leading innovation and design to all of its global ceramic customers. The acquisition will provide opportunities to improve performance by leveraging best practices, operational expertise, product innovation and manufacturing assets across the enterprise.

Table of Contents

The Company is continuing to obtain information to complete its valuation of intangible assets, as well as to determine the value of the acquired assets and liabilities including tax assets, liabilities and other attributes. The components of the preliminary purchase price allocation for Marazzi are as follows (in thousands):

Enterprise value	\$1,522,731	
Assumed indebtedness	(901,773	)
Consideration transferred	\$620,958	
Working capital	\$384,134	
Property, plant and equipment, net	779,148	
Tradenames	215,357	
Customer relationships	21,792	
Equity method investments	1,058	
Goodwill	262,613	
Other long term assets	16,114	
Long-term debt, including current portion	(901,773	)
Other long-term liabilities	(72,143	)
Deferred tax liability	(79,132	)
Noncontrolling interest	(6,210	)
Consideration transferred	\$620,958	

Intangible assets subject to amortization of \$21,792 related to customer relationships have an estimated average life of 10 years. In addition to the amortizable intangible assets, there is an additional \$215,357 in indefinite-lived trademark intangible assets. The goodwill of \$262,613 was allocated to the Ceramic segment. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the Marazzi acquisition. These benefits include the opportunities to improve the Company's ceramic performance by leveraging best practices, operational expertise, product innovation and manufacturing assets across the segment. The goodwill is not expected to be deductible for tax purposes. Marazzi contributed net sales and a net loss from continuing operations of \$309,867 and \$6,689, respectively, to the three and six months ended June 29, 2013. The fair value of inventories acquired included a step-up in the value of inventories of approximately \$29,781, of which \$18,744 was charged to cost of sales in the three months ended June 29, 2013. The remaining \$11,037 is expected to be charged to cost of sales during the three months ended September 28, 2013.

In connection with the acquisition of Marazzi, the Company is party to an off-balance sheet accounts receivable securitization facility ("Marazzi Securitization Facility") in which it services receivables sold to a third party. As of June 29, 2013, the amount utilized under the Marazzi Securitization Facility was €73,857. The Company is in the process of terminating this facility.

Table of Contents

The following unaudited pro forma consolidated results of operations have been prepared as if the Marazzi acquisition occurred as of January 1, 2012 (amounts in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net Sales:				
As reported	\$1,976,299	1,469,793	3,463,114	2,878,828
Pro forma	\$1,976,299	1,760,068	3,725,595	3,422,020
Net earnings from continuing operations attributable to Mohawk Industries, Inc.:				
As reported	\$85,933	73,188	136,428	113,565
Pro forma	\$100,741	84,956	159,150	113,755
Basic earnings per share from continuing operations attributable to Mohawk Industries, Inc.:				
As reported	\$1.19	1.06	1.92	1.65
Pro forma	\$1.39	1.18	2.20	1.58
Diluted earnings per share from continuing operations attributable to Mohawk Industries, Inc.:				
As reported	\$1.18	1.06	1.91	1.64
Pro forma	\$1.38	1.18	2.18	1.58

The pro forma earnings and per share results for the three and six months ended June 30, 2012 included amounts charged to cost of sales for the step-up to fair value in inventories of approximately \$8,243 and \$22,242, respectively, net of tax. The pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the date indicated or that may result in the future.

## Other Acquisitions

On January 10, 2013, the Company completed its purchase of Pergo, a leading manufacturer of laminate flooring in the U.S. and the Nordic countries. The total value of the acquisition was approximately \$150 million. Pergo complements the Company's specialty distribution network in the U.S., leverages its geographic position in Europe, expands its geographic reach to the Nordic countries and India and enhances its patent portfolio. The acquisition's results and a preliminary purchase price allocation are included in the condensed consolidated financial statements as of March 30, 2013. The Company's acquisition of Pergo resulted in a preliminary goodwill allocation of \$24,501, indefinite-lived trademark intangible assets of \$16,834 and intangible assets subject to amortization of \$15,188. The factors contributing to the recognition of the amount of goodwill include the opportunity to optimize the assets of Pergo with the Company's existing Laminate and Wood assets while strengthening the design and product performance of the Pergo and Unilin brands. The Pergo results are reflected in the Laminate and Wood segment. On May 3, 2013, the Company completed the acquisition of Spano, a Belgian panel board manufacturer. The total value of the acquisition was approximately \$160 million. Spano extends the Laminate and Wood segment's customer base into new channels of distribution and adds technical expertise and product knowledge which we can leverage. The acquisition's results and a preliminary purchase price allocation are included in the condensed consolidated

financial statements as of June 29, 2013. The Company's acquisition of Spano resulted in a preliminary goodwill allocation of \$35,857. The factors

Table of Contents

contributing to the recognition of the amount of goodwill include the extension of the Company's customer base into new channels of distribution and the opportunity for synergies in manufacturing assets and processes, raw materials and operational efficiencies. The Spano results are reflected in the Laminate and Wood segment.

### 3. Restructuring, acquisition and integration-related costs

The Company incurs costs in connection with acquiring, integrating and restructuring acquisitions and in connection with its global cost-reduction/productivity initiatives. For example:

In connection with acquisition activity, the Company typically incurs costs associated with executing the transactions, integrating the acquired operations (which may include expenditures for consulting and the integration of systems and processes), and restructuring the combined company (which may include charges related to employees, assets and activities that will not continue in the combined company); and

In connection with the Company's cost-reduction/productivity initiatives, it typically incurs costs and charges associated with site closings and other facility rationalization actions and workforce reductions.

Restructuring, acquisition and integration-related costs consisted of the following during the three and six months ended June 29, 2013 and June 30, 2012:

	Three Months Ended		Six Months Ended		
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012	
Cost of sales					
Restructuring costs	\$ 11,324	(a) 6,636	(b) 14,330	(a) 6,636	(b)
Acquisition transaction-related costs	—	—	—	—	
Acquisition integration-related costs	3,010	—	3,345	—	
Restructuring and integration-related costs	\$ 14,334	6,636	17,675	6,636	
Selling, general and administrative expenses					
Restructuring costs	\$ 8,843	(a) 1,590	(b) 14,059	(a) 1,590	(b)
Acquisition transaction-related costs	13,812	—	13,812	—	
Acquisition integration-related costs	4,331	—	5,630	—	
Restructuring, acquisition and integration-related costs	\$ 26,986	1,590	33,501	1,590	

(a) The restructuring costs for 2013 primarily relate to the Company's actions taken to lower its cost structure and improve efficiencies of manufacturing operations and administrative functions, as well as actions related to the Company's acquisition of Pergo, Spano and Marazzi.

(b) The charges for 2012 primarily relate to the Company's actions taken to lower its cost structure and improve efficiencies of manufacturing and distribution operations as the Company adjusted to changing economic conditions.

Table of Contents

The restructuring activity for the six months ended June 29, 2013 is as follows:

	Lease impairments	Asset write-downs	Severance	Other restructuring costs	Total
Balance as of December 31, 2012	\$ 7,457	—	2,898	—	10,355
Provision - Carpet segment	—	—	5,891	326	6,217
Provision - Ceramic segment	—	37	8,169	426	8,632
Provision - Laminate and Wood segment	—	—	12,803	737	13,540
Cash payments	(1,404 )	—	(9,606 )	(1,489 )	(12,499 )
Non-cash items	—	(37 )	—	—	(37 )
Balance as of June 29, 2013	\$ 6,053	—	20,155	—	26,208

The Company expects the remaining lease impairments, severance and other restructuring costs to be paid over the next four years.

#### 4. Discontinued operations

In conjunction with the Marazzi acquisition, the Company is actively marketing for sale a non-core sanitary ware business acquired as part of the acquisition because the Company does not believe it is consistent with its long-term strategy. The Company determined that the business meets the definition of discontinued operations and accordingly has been presented as such as of the inception date of April 3, 2013. Sales attributable to discontinued operations for the three and six months ended June 29, 2013 were immaterial. The net assets held for sale related to the discontinued operations as of June 29, 2013 are reported in cash, receivables, inventories, deferred income taxes, other current assets, accounts payable and other accrued expenses and other long-term liabilities on the consolidated balance sheet as of June 29, 2013, as they are immaterial for separate balance sheet presentation.

#### 5. Receivables, net

Receivables, net are as follows:

	June 29, 2013	December 31, 2012
Customers, trade	\$1,163,699	691,553
Other	59,294	25,793
	1,222,993	717,346
Less: allowance for discounts, returns, claims and doubtful accounts	77,443	37,873
Receivables, net	\$1,145,550	679,473

#### 6. Inventories

The components of inventories are as follows:

	June 29, 2013	December 31, 2012
Finished goods	\$1,090,455	695,606
Work in process	120,659	103,685
Raw materials	380,438	334,445
Total inventories	\$1,591,552	1,133,736

#### 7. Goodwill and intangible assets



The Company's acquisition of Pergo, Marazzi and Spano resulted in preliminary goodwill allocations of \$24,501, \$262,613 and \$35,857, respectively.

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The components of goodwill and other intangible assets are as follows:

## Goodwill:

	Carpet segment	Ceramic segment	Laminate and Wood segment	Total
Balance as of December 31, 2012				
Goodwill	\$ 199,132	1,186,913	1,327,151	2,713,196
Accumulated impairment losses	(199,132 )	(531,930 )	(596,363 )	(1,327,425 )
	\$—	654,983	730,788	1,385,771
Goodwill acquired during the period	\$—	262,613	60,358	322,971
Currency translation during the period	\$—	(6,772 )	(11,348 )	(18,120 )
Balance as of June 29, 2013				
Goodwill	\$ 199,132	1,442,754	1,376,161	3,018,047
Accumulated impairment losses	(199,132 )	(531,930 )	(596,363 )	(1,327,425 )
	\$—	910,824	779,798	1,690,622

## Intangible assets:

## Indefinite life assets not subject to amortization:

Balance as of December 31, 2012	Tradenames	\$455,503
Intangible assets acquired during the period		232,191
Currency translation during the period		(7,587 )
Balance as of June 29, 2013		\$680,107

## Intangible assets subject to amortization:

	Customer relationships	Patents	Other	Total
Balance as of December 31, 2012	\$26,210	71,031	1,055	98,296
Intangible assets acquired during the period	21,792	15,188	—	36,980
Amortization during the period	(3,147 )	(9,541 )	(60 )	(12,748 )
Currency translation during the period	(310 )	(1,548 )	(248 )	(2,106 )
Balance as of June 29, 2013	\$44,545	75,130	747	120,422

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Amortization expense	\$6,774	15,998	12,748	32,259

Table of Contents

## 8. Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows:

	June 29, 2013	December 31, 2012
Outstanding checks in excess of cash	\$14,057	25,480
Accounts payable, trade	729,034	387,871
Accrued expenses	244,929	180,039
Product warranties	33,674	32,930
Accrued interest	36,542	26,843
Deferred tax liability	14,255	6,309
Income taxes payable	5,308	2,074
Accrued compensation and benefits	183,992	111,890
Total accounts payable and accrued expenses	\$1,261,791	773,436

## 9. Product warranties

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

The activity related to warranty obligations is as follows:

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Balance at beginning of period	\$35,483	32,680	32,930	30,144
Warranty claims paid during the period	(16,306 )	(14,866 )	(29,607 )	(28,786 )
Acquisitions	503	—	3,283	—
Warranty expense during the period	13,994	17,053	27,068	33,509
Balance at end of period	\$33,674	34,867	33,674	34,867

## 10. Accumulated other comprehensive income

Effective January 1, 2013, the Company adopted recently issued accounting guidance that requires the Company to separately disclose, on a prospective basis, the change in each component of other comprehensive income (loss) relating to reclassification adjustments and current period other comprehensive income (loss). As the guidance relates to presentation only, the adoption did not have a material impact on the Company's results of operations, financial position or cash flows.

The changes in accumulated other comprehensive income by component, net of tax, for the first quarter of 2013 are as follows:

	Foreign currency translation adjustments	Pensions (1)	Total
Balance as of December 31, 2012	\$160,661	(928 )	159,733
Current period other comprehensive income (loss) before reclassifications	(110,134 )	207	(109,927 )
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Balance as of June 29, 2013	\$50,527	(721 )	49,806

(1) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost (refer to Note 11 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012).

11. Stock-based compensation

The Company recognizes compensation expense for all share-based payments granted based on the grant-date fair value estimated in accordance with the provisions of the Financial Accounting Standards Board Accounting Standards

15

---

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Codification topic (“ASC”) 718-10. Compensation expense is recognized on a straight-line basis over the options’ or other awards’ estimated lives for fixed awards with ratable vesting provisions.

Under the Company’s 2012 Incentive Plan (“2012 Plan”), the Company's principal stock compensation plan as of May 9, 2012, the Company reserved up to a maximum of 3,200 shares of common stock for issuance upon the grant or exercise of stock options, restricted stock, restricted stock units (“RSUs”) and other types of awards, to directors and key employees through 2022. Option awards are granted with an exercise price equal to the market price of the Company’s common stock on the date of the grant and generally vest between three and five years with a 10-year contractual term. Restricted stock and RSUs are granted with a price equal to the market price of the Company’s common stock on the date of the grant and generally vest between three and five years.

The Company did not grant any options for the three or six months ended June 29, 2013. The Company granted 83 options to employees at a weighted-average grant-date fair value of \$28.71 per share for the six months ended June 30, 2012. The Company recognized stock-based compensation costs related to stock options of \$251 (\$159 net of taxes) and \$518 (\$328 net of taxes) for the three months ended June 29, 2013 and June 30, 2012, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. The Company recognized stock-based compensation costs related to stock options of \$856 (\$542 net of taxes) and \$1,132 (\$717 net of taxes) for the six months ended June 29, 2013 and June 30, 2012, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. Pre-tax unrecognized compensation expense for stock options granted to employees and outside directors, net of estimated forfeitures, was \$1,501 as of June 29, 2013, and will be recognized as expense over a weighted-average period of approximately 1.6 years.

The fair value of the option award is estimated on the date of grant using the Black-Scholes-Merton valuation model. Expected volatility is based on the historical volatility of the Company’s common stock. The Company uses historical data to estimate option exercise and forfeiture rates within the valuation model.

The Company granted 93 RSU's at a weighted-average grant-date fair value of \$106.45 per unit for the three months ended June 29, 2013. The Company did not grant any RSU's for the three months ended June 30, 2012. The Company granted 299 and 261 RSUs at a weighted-average grant-date fair value of \$110.10 and \$65.98 per unit for the six months ended June 29, 2013 and June 30, 2012, respectively. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$3,744 (\$2,372 net of taxes) and \$2,311 (\$1,464 net of taxes) for the three months ended June 29, 2013 and June 30, 2012, respectively, which has been allocated to selling, general and administrative expenses and cost of sales. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$8,642 (\$5,475 net of taxes) and \$7,248 (\$4,592 net of taxes) for the six months ended June 29, 2013 and June 30, 2012, respectively, which has been allocated to selling, general and administrative expenses and cost of sales. Pre-tax unrecognized compensation expense for unvested RSUs granted to employees, net of estimated forfeitures, was \$38,193 as of June 29, 2013, and will be recognized as expense over a weighted-average period of approximately 3.1 years.

The Company did not grant any restricted stock awards for the three and six months ended June 29, 2013 or June 30, 2012. Compensation expense for restricted stock awards for the three and six months ended June 29, 2013 and June 30, 2012, respectively, was not significant.

## 12. Other (income) expense

Other (income) expense is as follows:

	Three Months Ended	Six Months Ended
--	--------------------	------------------

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Foreign currency (gains) losses, net	\$ (767 )	(1,052 )	3,032	(6,702 )
All other, net	(330 )	1,492	2,258	5,317
Total other expense (income)	\$ (1,097 )	440	5,290	(1,385 )

13. Earnings per share

Basic net earnings per share (“EPS”) is calculated using net earnings available to common stockholders divided by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS is similar to basic EPS except that the weighted-average number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Dilutive common stock options are included in the diluted EPS calculation using the treasury stock method. Common stock options and unvested restricted shares (units) that were not included in the diluted EPS computation because the price was greater than the average market price of the common shares for the six months ended June 29, 2013 and June 30, 2012 were 0 and 987, respectively.

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Earnings from continuing operations attributable to Mohawk Industries, Inc.	\$85,933	73,188	136,428	113,565
Weighted-average common shares outstanding-basic and diluted:				
Weighted-average common shares outstanding—basic	72,406	68,984	70,907	68,923
Add weighted-average dilutive potential common shares—options and RSUs to purchase common shares, net	461	275	498	281
Weighted-average common shares outstanding-diluted	72,867	69,259	71,405	69,204
Earnings from continuing operations attributable to Mohawk Industries, Inc.				
Basic	\$ 1.19	1.06	1.92	1.65
Diluted	\$ 1.18	1.06	1.91	1.64

## 14. Segment reporting

In connection with the Marazzi acquisition, the Company revised the names of its segments and, beginning in the second quarter of 2013, now refers to the Mohawk Segment as the Carpet segment, the Dal-Tile segment as the Ceramic segment and the Unilin segment as the Laminate and Wood segment. Only the names of the segments are affected by the change and therefore no prior period financial information changed.

The Company has three reporting segments: the Carpet segment, the Ceramic segment and the Laminate and Wood segment. The Carpet segment designs, manufactures, sources, distributes and markets its floor covering product lines, which principally include carpets, modular carpet tiles, rugs, mats and carpet pads, primarily in North America through its network of regional distribution centers and satellite warehouses using Company-operated trucks, common carriers or rail transportation. This segment's product lines are sold through various selling channels, which include independent floor covering retailers, home centers, mass merchandisers, department stores, commercial dealers and commercial end users. The Ceramic segment designs, manufactures, sources, distributes and markets a broad line of ceramic tile, porcelain tile, natural stone and other products, primarily in North America, Europe and Russia. This segment's product lines are sold to various selling channels including independent distributors, home center retailers, tile and flooring retailers and contractors. The Laminate and Wood segment designs, manufactures, sources, licenses, distributes and markets laminate and hardwood flooring, roofing systems, insulation panels and other wood products, primarily in Europe and North America. This segment's product lines are sold through various selling channels including retailers, independent distributors and home centers.

The accounting policies for each operating segment are consistent with the Company's policies for the consolidated financial statements. Amounts disclosed for each segment are prior to any elimination or consolidation entries. Corporate general and administrative expenses attributable to each segment are estimated and allocated accordingly. Segment performance is evaluated based on operating income.





Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Segment information is as follows:

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales:				
Carpet segment	\$770,868	734,493	1,466,202	1,434,373
Ceramic segment	760,168	404,288	1,172,049	797,213
Laminate and Wood segment	470,980	354,374	875,455	691,798
Intersegment sales	(25,717 )	(23,362 )	(50,592 )	(44,556 )
	\$1,976,299	1,469,793	3,463,114	2,878,828
Operating income (loss):				
Carpet segment	\$54,862	37,136	80,100	62,418
Ceramic segment	46,304	36,432	76,280	62,460
Laminate and Wood segment	41,362	40,575	80,055	67,721
Corporate and intersegment eliminations	(9,330 )	(6,425 )	(16,395 )	(12,905 )
	\$133,198	107,718	220,040	179,694
			June 29, 2013	December 31, 2012
Assets:				
Carpet segment			\$1,803,212	1,721,214
Ceramic segment			3,832,888	1,731,258
Laminate and Wood segment			2,691,553	2,672,389
Corporate and intersegment eliminations			181,311	178,823
			\$8,508,964	6,303,684

## 15. Commitments, contingencies and other

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

Beginning in August 2010, a series of civil lawsuits were initiated in several U.S. federal courts alleging that certain manufacturers of polyurethane foam products and competitors of the Company's carpet underlay division had engaged in price fixing in violation of U.S. antitrust laws. Mohawk has been named as a defendant in a number of the individual cases (the first filed on August 26, 2010), as well as in two consolidated amended class action complaints, the first filed on February 28, 2011, on behalf of a class of all direct purchasers of polyurethane foam products, and the second filed on March 21, 2011, on behalf of a class of indirect purchasers. All pending cases in which the Company has been named as a defendant have been filed in or transferred to the U.S. District Court for the Northern District of Ohio for consolidated pre-trial proceedings under the name In re: Polyurethane Foam Antitrust Litigation, Case No. 1:10-MDL-02196.

In these actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek three times the amount of unspecified damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. Each plaintiff also seeks attorney fees, pre-judgment and post-judgment interest, court costs, and injunctive relief against future violations. In April 2011, the Company filed a motion to dismiss the class action claims brought by the direct purchasers, and in May 2011, the Company moved to dismiss the claims brought by the indirect purchasers. On July 19, 2011, the Court issued a written opinion denying all defendants'

motions to dismiss. In December 2011, the Company was named as a defendant in a Canadian Class action, Hi ! Neighbor Floor Covering Co. Limited v. Hickory Springs Manufacturing Company, et al., filed in the Superior Court of Justice of Ontario, Canada and Options Consommateurs v. Vitafoam, Inc. et.al., filed in the Superior Court of Justice of Quebec, Montreal, Canada, both of which allege similar claims against the Company as raised in the U.S. actions and seek unspecified damages and punitive damages. The Company denies all of the allegations in these actions and will vigorously defend itself.

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses that are reasonably estimable. These contingencies are subject to significant uncertainties and

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

we are unable to estimate the amount or range of loss, if any, in excess of amounts accrued. The Company does not believe that the ultimate outcome of these actions will have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, cash flows or liquidity in a given quarter or year. In January 2012, the Company received a €23,789 assessment from the Belgian tax authority related to its year ended December 31, 2008, asserting that the Company had understated its Belgian taxable income for that year. The Company filed a formal protest in the first quarter of 2012 refuting the Belgian tax authority's position and in order to eliminate the accrual of additional interest on the assessed amount, the Company remitted payment of the tax assessment, plus applicable interest of €2,912 (collectively, the "Deposit"). In July 2012, the Company received notification of the Belgian tax authority's intention to extend the statute of limitations back to and including the tax year 2005. On September 10, 2012, the Company received notice from the Belgian tax authority setting aside the 2008 assessment and refunding the Deposit to the Company. On October 23, 2012, the Company received notification from the Belgian tax authority of its intent to increase the Company's tax base for the 2008 tax year under a revised theory. On December 28, 2012, the Company received the refund of the Deposit of €23,789. On January 30, 2013, the Company received a refund of the interest Deposit of €2,912 and interest income of €1,583 earned on the Deposit.

On December 28, 2012, the Belgian taxing authority issued assessments under a revised theory related to the years ended December 31, 2005 and December 31, 2009, in the amounts of €46,135 and €35,567, respectively, excluding potential interest and penalties. The Company timely filed formal protests in the first quarter of 2013 for the years assessed. Subsequent to the quarter ended June 29, 2013, the Company received notifications from the Belgian taxing authority of its intent to increase the Company's tax base in connection with the Company's 2006, 2007 and 2010 tax years. The adjustments proposed relate to the same income items assessed with regard to the 2005 and 2009 tax years. The Company disagrees with the view of the Belgian taxing authority, is reviewing the notifications and intends to continue to vigorously defend itself and contest the proposed changes. Although there can be no assurances, the Company believes the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, liquidity or cash flows in a given quarter or year.

## 16. Debt

## Senior Credit Facility

On July 8, 2011, the Company entered into a five-year, senior, secured revolving credit facility (the "Senior Credit Facility"). The Senior Credit Facility provides for a maximum of \$900,000 of revolving credit, including limited amounts of credit in the form of letters of credit and swingline loans. The Company paid financing costs of \$8,285 in connection with its Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$12,277 related to the Company's prior senior, secured revolving credit facility, are being amortized over the term of the Senior Credit Facility.

On January 20, 2012, the Company entered into an amendment to the Senior Credit Facility that provides for an incremental term loan facility in the aggregate principal amount of \$150,000. The Company paid financing costs of \$1,018 in connection with the amendment to its Senior Credit Facility. These costs were deferred and are being amortized over the remaining term of the Senior Credit Facility. The incremental term loan facility provides for eight scheduled quarterly principal payments of \$1,875, with the first such payment due on June 30, 2012, followed by four scheduled quarterly principal payments of \$3,750, with remaining quarterly principal payments of \$5,625 prior to maturity.

The Senior Credit Facility is scheduled to mature on July 8, 2016. The Company can terminate and prepay the Senior Credit Facility at any time without payment of any termination or prepayment penalty (other than customary breakage

costs in respect of loans bearing interest at a rate based on LIBOR).

At the Company's election, revolving loans under the Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1-, 2-, 3- or 6- month periods, as selected by the Company, plus an applicable margin ranging between 1.25% and 2.0%, or (b) the higher of the Bank of America, N.A. prime rate, the Federal Funds rate plus 0.5%, and a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.25% and 1.0%. The Company also pays a commitment fee to the lenders under the Senior Credit Facility on the average amount by which the aggregate commitments of the lenders exceed utilization of the Senior Credit Facility ranging from 0.25% to 0.4% per annum. The applicable margin and the commitment fee are determined based on the Company's Consolidated Net Leverage Ratio (with applicable margins and the commitment fee increasing as the ratio increases).

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

All obligations of the Company and the other borrowers under the Senior Credit Facility are required to be guaranteed by all of the Company's material domestic subsidiaries, and all obligations of borrowers that are foreign subsidiaries are guaranteed by those foreign subsidiaries of the Company which the Company designates as guarantors.

Due to the rating agency upgrade announced on March 14, 2012 by Standard & Poor's Financial Services, LLC ("S&P"), the security interests in domestic accounts receivable and inventories, certain shares of capital stock (or equivalent ownership interests) of the domestic borrowers' and domestic guarantors' subsidiaries, and proceeds of any of the foregoing securing obligations under the Senior Credit Facility were released. The Company will be required to reinstate such security interests if there is a ratings downgrade such that: (a) both (i) the Moody's Investors Service, Inc. ("Moody's") rating is Ba2 and (ii) the S&P rating is BB, (b) (i) the Moody's rating is Ba3 or lower and (ii) the S&P rating is below BBB- (with a stable outlook or better) or (c) (i) the Moody's rating is below Baa3 (with a stable outlook or better) and (ii) the S&P rating is BB- or lower.

The Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, indebtedness, investments, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company's business. Many of these limitations are subject to numerous exceptions. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter, as defined in the Senior Credit Facility. The Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

As of June 29, 2013, the amount utilized under the Senior Credit Facility excluding the term loan was \$582,239 resulting in a total of \$317,761 available under the Senior Credit Facility. The amount utilized included \$485,143 of borrowings, \$46,823 of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$50,273 of standby letters of credit related to various insurance contracts and foreign vendor commitments.

Senior Notes

On January 31, 2013, the Company issued \$600,000 aggregate principal amount of 3.85% Senior Notes due February 1, 2023. The Company paid financing costs of \$6,000 in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

On January 17, 2006, the Company issued \$900,000 aggregate principal amount of 6.125% notes due January 15, 2016. Interest payable on these notes is subject to adjustment if either Moody's or S&P, or both, upgrades or downgrades the rating assigned to the notes. Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum increase of 1% per rating agency. If later the rating of these notes improves, then the interest rates would be reduced accordingly. Each 0.25% increase in the interest rate of these notes would increase the Company's interest expense by approximately \$63 per quarter per \$100,000 of outstanding notes. In 2009, interest rates increased by an aggregate amount of 75 basis points as a result of downgrades by Moody's and S&P. In the first quarter of 2012, interest rates decreased by 50 basis points as a result of the upgrades from S&P and Moody's. Any future downgrades in the Company's credit ratings could increase the 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 \$400,000 aggregate principal amount of its senior 7.20% notes due April 15, 2012. During 2011, the Company repurchased \$63,730 of its senior 7.20% notes, at an average price equal to 102.72% of the principal amount. On April 16, 2012, the Company repaid the \$336,270 principal amount of outstanding senior

7.20% notes, together with accrued interest of \$12,106, at maturity using available borrowings under its Senior Credit Facility.

#### Accounts Receivable Securitization

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). The Securitization Facility allows the Company to borrow up to \$300,000 based on available accounts receivable and is secured by the Company's U.S. trade accounts receivable. Borrowings under the Securitization Facility bear interest at commercial paper interest rates, in the case of lenders that are commercial paper conduits, or LIBOR, in the case of lenders that are not commercial paper conduits, in each case, plus an applicable margin of 0.75% per annum. The Company also pays a commitment fee at a per annum rate of 0.30% on the unused amount of each lender's commitment. At June 29, 2013, the amount utilized under the Securitization Facility was \$300,000.

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. Fair Value

ASC 825-10, formerly the FASB Staff Position FAS 107-1 and Accounting Principles Board Opinion 28-1, “Interim Disclosures About Fair Value of Financial Instruments”, requires disclosures about fair value of financial instruments in interim reporting periods of publicly-traded companies.

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

	June 29, 2013		December 31, 2012	
	Fair Value	Carrying Value	Fair Value	Carrying Value
3.85% senior notes, payable January 31, 2023; interest payable semiannually	\$573,000	600,000	—	—
6.125% notes, payable January 15, 2016; interest payable semiannually	990,900	900,000	1,011,600	900,000
Five-year senior secured credit facility, due July 8, 2016	625,768	625,768	153,875	153,875
Securitization facility	300,000	300,000	280,000	280,000
Industrial revenue bonds, capital leases and other	107,987	107,987	49,067	49,067
Total long-term debt	2,597,655	2,533,755	1,494,542	1,382,942
Less current portion	83,171	83,171	55,213	55,213
Long-term debt, less current portion	\$2,514,484	2,450,584	1,439,329	1,327,729

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

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses approximate their fair values because of the relatively short-term maturities of these instruments.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company is the world's largest flooring manufacturer. The Company is the largest manufacturer of ceramic tile and the second largest carpet and rug manufacturer, as well as a leading producer of laminate flooring in Europe and the U.S. The Company continues to expand its international presence in Australia, Brazil, China, France, India, Malaysia, Mexico and Russia through acquisitions and internal expansion. The Company had annual net sales in 2012 of \$5.8 billion.

In connection with the Marazzi acquisition, the Company revised the names of its segments and, beginning in the second quarter of 2013, now refers to the Mohawk segment as the Carpet segment, the Dal-Tile segment as the Ceramic segment and the Unilin segment as the Laminate and Wood segment. Only the names of the segments are affected by the change and therefore no prior period financial information changed.

The Company has three reporting segments: the Carpet segment, the Ceramic segment and the Laminate and Wood segment. The Carpet segment designs, manufactures, sources, distributes and markets its floor covering product lines, which principally include carpets, modular carpet tiles, rugs, mats and carpet pads, primarily in North America through its network of regional distribution centers and satellite warehouses using Company-operated trucks, common carriers or rail transportation. This segment's product lines are sold through various selling channels, which include independent floor covering retailers, home centers, mass merchandisers, department stores, commercial dealers and commercial end users. The Ceramic segment designs, manufactures, sources, distributes and markets a broad line of ceramic tile, porcelain tile, natural stone and other products, primarily in North America, Europe, and Russia. This segment's product lines are sold to various selling channels including independent distributors, home center retailers, tile and flooring retailers and contractors. The Laminate and Wood segment designs, manufactures, sources, licenses, distributes and markets laminate and hardwood flooring, roofing systems, insulation panels and other wood products, primarily in Europe and North America. This segment's product lines are sold through various selling channels including retailers, independent distributors and home centers.

In 2011, the primary categories of the U.S. floor covering industry, based on sales dollars, were carpet and rug (53%), resilient and rubber (14%), ceramic tile (12%), hardwood (10%), stone (6%) and laminate (5%). Each of these categories is influenced by the average selling price per square foot, the residential builder and homeowner remodeling markets, housing starts and housing resales, average house size and home ownership. In addition, the level of sales in the floor covering industry, both in the U.S. and Europe, is influenced by consumer confidence, spending for durable goods, interest rates and availability of credit, turnover in housing, the condition of the residential and commercial construction industries and the overall strength of the economy.

For the three months ended June 29, 2013, net earnings attributable to the Company were \$84.6 million, or diluted earnings per share ("EPS") of \$1.16, compared to the net earnings attributable to the Company of \$73.2 million, or diluted EPS of \$1.06, for the three months ended June 30, 2012. The increase in EPS was primarily attributable to the Marazzi, Pergo and Spano acquisitions, higher legacy sales volume, increased operations productivity, the favorable net impact of price and product mix and lower amortization expense, partially offset by higher restructuring, acquisition and integration-related costs, inventory step-up related to the Marazzi acquisition, higher input costs and higher interest expense.

For the six months ended June 29, 2013, net earnings attributable to the Company were \$135.1 million, or diluted earnings per share ("EPS") of \$1.89, compared to the net earnings attributable to the Company of \$113.6 million, or diluted EPS of \$1.64, for the six months ended June 30, 2012. The increase in EPS was primarily attributable to the Marazzi, Pergo and Spano acquisitions, increased operations productivity, the favorable net impact of price and



product mix, lower amortization expense and higher legacy sales volume, partially offset by higher restructuring, acquisition and integration-related costs, inventory step-up related to the Marazzi acquisition and higher input costs.

#### Recent Acquisitions

On January 10, 2013, the Company completed its purchase of Pergo, a leading manufacturer of laminate flooring in the U.S. and the Nordic countries. The total value of the acquisition was approximately \$150 million. Pergo complements the Company's specialty distribution network in the U.S., leverages its geographic position in Europe, expands its geographic reach to the Nordic countries and India and enhances its patent portfolio. The acquisition's results and a preliminary purchase price allocation are included in the condensed consolidated financial statements as of March 30, 2013.

On April 3, 2013, the Company completed the acquisition of Marazzi, a global manufacturer, distributor and marketer of ceramic tile. The total value of the acquisition was approximately \$1.5 billion. The Marazzi acquisition makes the Company a global leader in ceramic tile. The addition of Marazzi will allow the Company to expand its U.S. distribution,

## Table of Contents

source ceramic tile from a worldwide base, and provide industry leading innovation and design to all of its global ceramic customers. The acquisition will provide opportunities to improve performance by leveraging best practices, operational expertise, product innovation and manufacturing assets across the enterprise. The acquisition's results and a preliminary purchase price allocation are included in the condensed consolidated financial statements as of June 29, 2013.

On May 3, 2013, the Company completed the acquisition of Spano, a Belgian panel board manufacturer. The total value of the acquisition was approximately \$160 million. Spano extends the Laminate and Wood segment's customer base into new channels of distribution and adds technical expertise and product knowledge which we can leverage. The synergies between the Laminate and Wood segment and Spano create opportunities to optimize manufacturing assets and processes, raw materials and operational efficiencies. The acquisition's results and a preliminary purchase price allocation are included in the condensed consolidated financial statements as of June 29, 2013.

## Results of Operations

### Quarter Ended June 29, 2013, as Compared with Quarter Ended June 30, 2012

#### Net sales

Net sales for the three months ended June 29, 2013 were \$1,976.3 million, reflecting an increase of \$506.5 million, or 34.5%, from the \$1,469.8 million reported for the three months ended June 30, 2012. The increase was primarily driven by higher volume of approximately \$477 million mainly attributable to the Marazzi, Pergo and Spano acquisitions, the favorable net impact of price and product mix of approximately \$22 million and the impact of favorable foreign exchange rates of approximately \$7 million.

Carpet segment—Net sales increased \$36.4 million, or 5.0%, to \$770.9 million for the three months ended June 29, 2013, compared to \$734.5 million for the three months ended June 30, 2012. The increase was primarily driven by the favorable net impact of price and product mix of approximately \$21 million and higher volume of approximately \$15 million. The higher volume was primarily attributable to improvements in the residential specialty and home center channels, as well as the commercial hospitality, corporate and healthcare channels.

Ceramic segment—Net sales increased \$355.9 million, or 88.0%, to \$760.2 million for the three months ended June 29, 2013, compared to \$404.3 million for the three months ended June 30, 2012. The increase was primarily driven by higher volume of approximately \$351 million, the favorable net impact of price and product mix of approximately \$3 million and the impact of favorable foreign exchange rates of approximately \$2 million. Of the \$351 million in volume increases, \$310 million was attributable to the Marazzi acquisition. The remaining volume increases were led by strong residential channel growth along with continued improvement in the commercial channel and expansion of the Mexican market.

Laminate and Wood segment—Net sales increased \$116.6 million, or 32.9%, to \$471.0 million for the three months ended June 29, 2013, compared to \$354.4 million for the three months ended June 30, 2012. The increase was primarily driven by higher volume of approximately \$113 million and the impact of favorable foreign exchange rates of approximately \$5 million, partially offset by the unfavorable net impact of price and product mix of approximately \$2 million. Of the \$113 million increase in volume, approximately \$105 million was attributable to the Pergo and Spano acquisitions.

#### Gross profit

Gross profit for the three months ended June 29, 2013 was \$514.1 million (26.0% of net sales), an increase of \$125.6 million or 32.3%, compared to gross profit of \$388.5 million (26.4% of net sales) for the three months ended June 30,

2012. The increase in gross profit dollars was primarily attributable to higher sales volume of approximately \$152 million that is mainly attributable to the acquisitions, operations productivity of approximately \$22 million and the favorable net impact of price and product mix of approximately \$14 million, partially offset by higher input costs of approximately \$30 million, inventory step-up related to the Marazzi acquisition of approximately \$19 million and higher restructuring, acquisition and integration-related costs of approximately \$8 million,

#### Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended June 29, 2013 were \$380.9 million (19.3% of net sales), compared to \$280.7 million (19.1% of net sales) for the three months ended June 30, 2012. As a percentage of net sales, selling, general and administrative expenses remained relatively flat. The increase in selling, general and administrative expenses in dollars was primarily driven by acquisition volume, partially offset by lower amortization costs.

Table of Contents

## Operating income

Operating income for the three months ended June 29, 2013 was \$133.2 million (6.7% of net sales) reflecting an increase of \$25.5 million, or 23.7%, compared to operating income of \$107.7 million (7.3% of net sales) for the three months ended June 30, 2012. The increase in operating income was primarily driven by sales volume of approximately \$74 million that is primarily attributable to the acquisitions, increases in operations productivity of approximately \$22 million, the favorable net impact of price and product mix of approximately \$14 million, lower amortization expense of approximately \$10 million, partially offset by higher input costs of approximately \$30 million, higher restructuring, acquisition and integration-related costs of approximately \$33 million and inventory step-up related to the Marazzi acquisition of approximately \$19 million.

Carpet segment—Operating income was \$54.9 million (7.1% of segment net sales) for the three months ended June 29, 2013 reflecting an increase of \$17.7 million compared to operating income of \$37.1 million (5.1% of segment net sales) for the three months ended June 30, 2012. The increase in operating income was primarily attributable to the favorable net impact of price and product mix of approximately \$16 million, operations productivity of approximately \$11 million, lower restructuring costs of approximately \$7 million and higher sales volume of approximately \$6 million, partially offset by higher input costs of approximately \$21 million.

Ceramic segment—Operating income including restructuring, acquisition and integration-related costs was \$46.3 million (6.1% of segment net sales) for the three months ended June 29, 2013 reflecting an increase of \$9.9 million compared to operating income of \$36.4 million (9.0% of segment net sales) for the three months ended June 30, 2012. The increase in operating income was primarily driven by volume increases of approximately \$61 million that are mainly attributable to the Marazzi acquisition and operations productivity of approximately \$4 million, partially offset by higher restructuring and integration-related costs of approximately \$23 million, inventory step-up related to the Marazzi acquisition of approximately \$19 million and increases in input costs of approximately \$4 million.

Laminate and Wood segment—Operating income including restructuring and integration-related costs was \$41.4 million (8.8% of segment net sales) for the three months ended June 29, 2013 reflecting an increase of \$0.8 million compared to operating income of \$40.6 million (11.4% of segment net sales) for the three months ended June 30, 2012. The increase in operating income was primarily driven by lower amortization expense of approximately \$10 million, higher sales volume of approximately \$8 million mainly attributable to the Pergo and Spano acquisitions and increases in operations productivity of approximately \$7 million, partially offset by higher restructuring and integration-related costs of approximately \$17 million, higher input costs of approximately \$5 million and the unfavorable net impact of price and product mix of approximately \$4 million.

## Interest expense

Interest expense was \$25.3 million for the three months ended June 29, 2013, reflecting an increase of \$6.5 million compared to interest expense of \$18.8 million for the three months ended June 30, 2012. The increase was primarily due to interest associated with the 3.85% Senior Notes issued in contemplation of the Marazzi acquisition.

## Other expense (income)

Other income was \$1.1 million for the three months ended June 29, 2013, reflecting a favorable change of \$1.5 million compared to other expense of \$0.4 million for the three months ended June 30, 2012.

## Income tax expense

For the three months ended June 29, 2013, the Company recorded income tax expense of \$23.2 million on earnings from continuing operations before income taxes of \$109.0 million for an effective tax rate of 21.3%, as compared to an income tax expense of \$15.2 million on earnings from continuing operations before income taxes of \$88.4 million, for an effective tax rate of 17.2% for the three months ended June 30, 2012. The difference in the effective tax rate for the comparative period is due to the Pergo, Marazzi and Spano acquisitions and the geographical dispersion of earnings and losses for the period.

Table of Contents

Six Months Ended June 29, 2013, as Compared with Six Months Ended June 30, 2012

Net sales

Net sales for the six months ended June 29, 2013 were \$3,463.1 million, reflecting an increase of \$584.3 million, or 20.3%, from the \$2,878.8 million reported for the six months ended June 30, 2012. The increase was primarily driven by higher volume of approximately \$527 million mainly attributable to the Marazzi, Pergo and Spano acquisitions, the favorable net impact of price and product mix of approximately \$48 million and the impact of favorable foreign exchange rates of approximately \$9 million.

Carpet segment—Net sales increased \$31.8 million, or 2.2%, to \$1,466.2 million for the six months ended June 29, 2013, compared to \$1,434.4 million for the six months ended June 30, 2012. The increase was primarily driven by the favorable net impact of price and product mix of approximately \$44 million, partially offset by lower volume of approximately \$12 million. The lower volume was primarily attributable to the timing of carpet product transitions in the home center channel and lower demand for rug products in the mass merchandise channel.

Ceramic segment—Net sales increased \$374.8 million, or 47.0%, to \$1,172.0 million for the six months ended June 29, 2013, compared to \$797.2 million for the six months ended June 30, 2012. The increase was primarily driven by higher volume of approximately \$364 million, the favorable net impact of price and product mix of approximately \$9 million and the impact of favorable foreign exchange rates of approximately \$2 million. Of the \$364 million in volume increases, \$310 million was attributable to the Marazzi acquisition. The remaining volume increases were led by strong residential channel growth along with continued improvement in the commercial channel and expansion of the Mexican market.

Laminate and Wood segment—Net sales increased \$183.7 million, or 26.5%, to \$875.5 million for the six months ended June 29, 2013, compared to \$691.8 million for the six months ended June 30, 2012. The increase was primarily driven by higher volume of approximately \$181 million and the impact of favorable foreign exchange rates of approximately \$7 million, partially offset by the unfavorable net impact of price and product mix of approximately \$5 million. Of the \$181 million increase in volume, approximately \$175 million was attributable to the Pergo and Spano acquisitions.

Gross profit

Gross profit for the six months ended June 29, 2013 was \$891.1 million (25.7% of net sales), an increase of \$143.2 million or 19.2%, compared to gross profit of \$747.9 million (26.0% of net sales) for the six months ended June 30, 2012. The increase in gross profit dollars was primarily attributable to higher sales volume of approximately \$160 million that is primarily attributable to the acquisitions, operations productivity of approximately \$31 million and the favorable net impact of price and product mix of approximately \$19 million, partially offset by higher input costs of approximately \$33 million and inventory step-up related to the Marazzi acquisition of approximately \$19 million and higher restructuring, acquisition and integration-related costs of approximately \$11 million,

Selling, general and administrative expenses

Selling, general and administrative expenses for the six months ended June 29, 2013 were \$671.1 million (19.4% of net sales), compared to \$568.2 million (19.7% of net sales) for the six months ended June 30, 2012. As a percentage of net sales, selling, general and administrative expenses decreased 30 basis points. The increase in selling, general and administrative expenses in dollars was primarily driven by acquisition volume, partially offset by lower amortization costs.

Operating income

Operating income for the six months ended June 29, 2013 was \$220.0 million (6.4% of net sales) reflecting an increase of \$40.3 million, or 22.5%, compared to operating income of \$179.7 million (6.2% of net sales) for the six months ended June 30, 2012. The increase in operating income was primarily driven by sales volume of approximately \$73 million that is primarily attributable to the acquisitions, increases in operations productivity of approximately \$31 million, lower amortization expense of approximately \$21 million and the favorable net impact of price and product mix of approximately \$19 million, partially offset by higher restructuring, acquisition and integration-related costs of approximately \$43 million, inventory step-up related to the Marazzi acquisition of approximately \$19 million and higher input costs of approximately \$33 million.

Carpet segment—Operating income was \$80.1 million (5.5% of segment net sales) for the six months ended June 29, 2013 reflecting an increase of \$17.7 million compared to operating income of \$62.4 million (4.4% of segment net sales) for the

## Table of Contents

six months ended June 30, 2012. The increase in operating income was primarily attributable to the favorable net impact of price and product mix of approximately \$21 million and operations productivity of approximately \$15 million, partially offset by higher input costs of approximately \$19 million.

Ceramic segment—Operating income including restructuring, acquisition and integration-related costs was \$76.3 million (6.5% of segment net sales) for the six months ended June 29, 2013 reflecting an increase of \$13.8 million compared to operating income of \$62.5 million (7.8% of segment net sales) for the six months ended June 30, 2012. The increase in operating income was primarily driven by volume increases of approximately \$64 million that are mainly attributable to the Marazzi acquisition and operations productivity of approximately \$7 million, partially offset by inventory step-up related to the Marazzi acquisition of approximately \$19 million, higher restructuring and integration-related costs of approximately \$24 million and higher input costs of approximately \$9 million.

Laminate and Wood segment—Operating income including restructuring and integration-related costs was \$80.1 million (9.1% of segment net sales) for the six months ended June 29, 2013 reflecting an increase of \$12.3 million compared to operating income of \$67.7 million (9.8% of segment net sales) for the six months ended June 30, 2012. The increase in operating income was primarily driven by lower amortization expense of approximately \$21 million, higher sales volume of approximately \$12 million mainly attributable to the Pergo and Spano acquisitions and increases in operations productivity of approximately \$9 million, partially offset by higher restructuring and integration-related costs of approximately \$20 million, the unfavorable net impact of price and product mix of approximately \$7 million and higher input costs of approximately \$5 million.

### Interest expense

Interest expense was \$44.5 million for the six months ended June 29, 2013, reflecting an increase of \$3.1 million compared to interest expense of \$41.3 million for the six months ended June 30, 2012. The increase was primarily due to interest associated with the 3.85% Senior Notes issued in contemplation of the Marazzi acquisition, partially offset by lower interest rates on the Company's outstanding debt attributable to the shift from the higher interest rate senior 7.20% notes to the Senior Credit Facility.

### Other expense (income)

Other expense was \$5.3 million for the six months ended June 29, 2013, reflecting an increase of \$6.7 million compared to other income of \$1.4 million for the six months ended June 30, 2012. The change was primarily attributable to the net change in foreign currency gains/losses of approximately \$9.7 million.

### Income tax expense

For the six months ended June 29, 2013, the Company recorded income tax expense of \$34.0 million on earnings from continuing operations before income taxes of \$170.3 million for an effective tax rate of 20.0%, as compared to an income tax expense of \$25.5 million on earnings from continuing operations before income taxes of \$139.7 million, resulting in an effective tax rate of 18.3% for the six months ended June 30, 2012. The difference in the effective tax rate for the comparative period is due to the Pergo, Marazzi and Spano acquisitions and the geographical dispersion of earnings and losses for the period.

### Liquidity and Capital Resources

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



Net cash provided by operating activities in the first six months of 2013 was \$113.9 million, compared to net cash provided by operating activities of \$95.6 million in the first six months of 2012. The increase was primarily attributable to higher earnings.

Net cash used in investing activities in the first six months of 2013 was \$595.6 million compared to net cash used in investing activities of \$94.7 million in the first six months of 2012. The increase was primarily attributable to acquisitions of \$449.5 million and capital expenditures of \$146.1 million. Capital spending during the remainder of 2013, including capital expenditure requirements related to our recent acquisitions, is expected to range from approximately \$235 million to \$245

Table of Contents

million and is intended to be used primarily to purchase equipment, add geographic capacity and to streamline manufacturing capabilities.

Net cash provided by financing activities in the first six months of 2013 was \$207.6 million compared to net cash provided by financing activities of \$13.2 million in the first six months of 2012. The increase was primarily attributable to the proceeds from the 3.85% Senior Notes and proceeds from the senior credit facility used to fund the Marazzi acquisition which closed on April 3, 2013.

On July 8, 2011, the Company entered into a five-year, senior, secured revolving credit facility (the "Senior Credit Facility"). The Senior Credit Facility provides for a maximum of \$900.0 million of revolving credit, including limited amounts of credit in the form of letters of credit and swingline loans. The Company paid financing costs of \$8.3 million in connection with its Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$12.3 million related to the Company's prior senior, secured revolving credit facility, are being amortized over the term of the Senior Credit Facility.

On January 20, 2012, the Company entered into an amendment to the Senior Credit Facility that provides for an incremental term loan facility in the aggregate principal amount of \$150.0 million. The Company paid financing costs of \$1.0 million in connection with the amendment to its Senior Credit Facility. These costs were deferred and are being amortized over the remaining term of the Senior Credit Facility. The incremental term loan facility provides for eight scheduled quarterly principal payments of \$1.875 million, with the first such payment due on June 30, 2012, followed by four scheduled quarterly principal payments of \$3.750 million, with remaining quarterly principal payments of \$5.625 million prior to maturity.

The Senior Credit Facility is scheduled to mature on July 8, 2016. The Company can terminate and prepay the Senior Credit Facility at any time without payment of any termination or prepayment penalty (other than customary breakage costs in respect of loans bearing interest at a rate based on LIBOR).

At the Company's election, revolving loans under the Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1-, 2-, 3- or 6- month periods, as selected by the Company, plus an applicable margin ranging between 1.25% and 2.0%, or (b) the higher of the Bank of America, N.A. prime rate, the Federal Funds rate plus 0.5%, and a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.25% and 1.0%. The Company also pays a commitment fee to the lenders under the Senior Credit Facility on the average amount by which the aggregate commitments of the lenders exceed utilization of the Senior Credit Facility ranging from 0.25% to 0.4% per annum. The applicable margin and the commitment fee are determined based on the Company's Consolidated Net Leverage Ratio (with applicable margins and the commitment fee increasing as the ratio increases).

All obligations of the Company and the other borrowers under the Senior Credit Facility are required to be guaranteed by all of the Company's material domestic subsidiaries and all obligations of borrowers that are foreign subsidiaries are guaranteed by those foreign subsidiaries of the Company which the Company designates as guarantors.

Due to the rating agency upgrade announced on March 14, 2012 by Standard & Poor's Financial Services, LLC ("S&P"), the security interests in domestic accounts receivable and inventories, certain shares of capital stock (or equivalent ownership interests) of the domestic borrowers' and domestic guarantors' subsidiaries, and proceeds of any of the foregoing securing obligations under the Senior Credit Facility were released. The Company will be required to reinstate such security interests if there is a ratings downgrade such that: (a) both (i) the Moody's Investor's Service, Inc. ("Moody's") rating is Ba2 and (ii) the S&P rating is BB, (b) (i) the Moody's rating is Ba3 or lower and (ii) the S&P rating is below BBB- (with a stable outlook or better) or (c) (i) the Moody's rating is below Baa3 (with a stable outlook or better) and (ii) the S&P rating is BB- or lower.

The Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, indebtedness, investments, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company's business. Many of these limitations are subject to numerous exceptions. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter, as defined in the Senior Credit Facility. The Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

As of June 29, 2013, the amount utilized under the Senior Credit Facility excluding the term loan was \$582.2 million, resulting in a total of \$317.8 million available under the Senior Credit Facility. The amount utilized included \$485.1 million of

Table of Contents

borrowings, \$46.8 million of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$50.3 million of standby letters of credit related to various insurance contracts and foreign vendor commitments.

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). The Securitization Facility allows the Company to borrow up to \$300.0 million based on available accounts receivable and is secured by the Company's U.S. trade accounts receivable. Borrowings under the Securitization Facility bear interest at commercial paper interest rates, in the case of lenders that are commercial paper conduits, or LIBOR, in the case of lenders that are not commercial paper conduits, in each case, plus an applicable margin of 0.75% per annum. The Company also pays a commitment fee at a per annum rate of 0.30% on the unused amount of each lender's commitment. At June 29, 2013, the amount utilized under the Securitization Facility was \$300.0 million.

In connection with the acquisition of Marazzi, the Company is party to an off-balance sheet accounts receivable securitization facility ("Marazzi Securitization Facility") in which it services receivables sold to a third party. As of June 29, 2013, the amounts utilized under the Marazzi Securitization Facility was €73.9 million. The Company is in the process of terminating this facility.

On January 31, 2013, the Company issued \$600.0 million aggregate principal amount of 3.85% Senior Notes due February 1, 2023. The Company paid financing costs of \$6.0 million in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

On January 17, 2006, the Company issued \$900.0 million aggregate principal amount of 6.125% notes due January 15, 2016. Interest payable on these notes is subject to adjustment if either Moody's or S&P, or both, upgrades or downgrades the rating assigned to the notes. Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum increase of 1% per rating agency. If later the rating of these notes improves, then the interest rates would be reduced accordingly. Each 0.25% increase in the interest rate of these notes would increase the Company's interest expense by approximately \$0.1 million per quarter per \$100.0 million of outstanding notes. In 2009, interest rates increased by an aggregate amount of 75 basis points as a result of downgrades by Moody's and S&P. In the first quarter of 2012, interest rates decreased by 50 basis points as a result of the upgrades from S&P and Moody's. Any future downgrades in the Company's credit ratings could increase the 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 7.20% notes due April 15, 2012. During 2011, the Company repurchased \$63.7 million of its senior 7.20% notes, at an average price equal to 102.72% of the principal amount. On April 16, 2012, the Company repaid the \$336.3 million principal amount of outstanding senior 7.20% notes, together with accrued interest of \$12.1 million, at maturity using available borrowings under its Senior Credit Facility.

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

As of June 29, 2013, the Company had cash of \$168.7 million, of which \$121.7 million was held outside the United States. While the Company's plans are to permanently reinvest the cash held outside the United States, the estimated cost of repatriation for the cash as of June 29, 2013 would have been approximately \$42.6 million. The Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its Senior Credit Facility will be sufficient to meet its capital expenditure, working capital and debt servicing requirements over the next twelve months.

### Contractual Obligations

There have been no significant changes to the Company's contractual obligations as disclosed in the Company's 2012 Annual Report filed on Form 10-K.

### Critical Accounting Policies and Estimates

There have been no significant changes to the Company's critical accounting policies and estimates during the period. The Company's critical accounting policies and estimates are described in its 2012 Annual Report filed on Form 10-K.

## Table of Contents

### Impact of Inflation

Inflation affects the Company's manufacturing costs, distribution costs and operating expenses. The Company expects raw material prices, many of which are petroleum based, to fluctuate based upon worldwide supply and demand of commodities utilized in the Company's production processes. Although the Company attempts to pass on increases in raw material, energy and fuel-related costs to its customers, the Company's ability to do so is dependent upon the rate and magnitude of any increase, competitive pressures and market conditions for the Company's products. There have been in the past, and may be in the future, periods of time during which increases in these costs cannot be fully recovered. In the past, the Company has often been able to enhance productivity and develop new product innovations to help offset increases in costs resulting from inflation in its operations.

### Seasonality

The Company is a calendar year-end company. With respect to its Carpet and Ceramic Segments, its results of operations for the first quarter tend to be the weakest followed by the fourth quarter. The second and third quarters typically produce higher net sales and operating income in these segments. These results are primarily due to consumer residential spending patterns which have historically decreased during the holiday season and the first two months following. The Laminate and Wood Segment's second and fourth quarters typically produce higher net sales and earnings followed by a moderate first quarter and a weaker third quarter. The third quarter is traditionally the weakest due to the European holiday in late summer.

### Forward-Looking Information

Certain of the statements in this Form 10-Q, particularly those anticipating future performance, business prospects, growth and operating strategies, and similar matters, and those that include the words "could," "should," "believes," "anticipates," "expects" and "estimates" or similar expressions constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For those statements, Mohawk claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following important factors could cause future results to differ: changes in economic or industry conditions; competition; inflation in raw material prices and other input costs; energy costs and supply; timing and level of capital expenditures; timing and implementation of price increases for the Company's products; impairment charges; integration of acquisitions; international operations; introduction of new products; rationalization of operations; tax, product and other claims; litigation; and other risks identified in Mohawk's SEC reports and public announcements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 29, 2013, approximately 59% of the Company's debt portfolio was comprised of fixed-rate debt and 41% was floating-rate debt. A 1.0 percentage point change in the interest rate of the floating-rate debt would not have a material impact on the Company's results of operations. There have been no other significant changes to the Company's exposure to market risk as disclosed in the Company's 2012 Annual Report filed on Form 10-K.

### Item 4. 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) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), which have been designed to provide reasonable assurance that such controls and procedures will meet their objectives, as of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such

controls and procedures were effective at a reasonable assurance level for the period covered by this report.

There were no changes in the Company's internal control over financial reporting that occurred 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 other than the integration of the Marazzi acquisition. The Company completed the Marazzi acquisition on April 3, 2013. As a result of this transaction, the Company's internal control over financial reporting now includes controls, procedures and supporting systems with respect to transactions and account balances of the Marazzi business, which are reflected in the Company's consolidated financial statements.

Table of Contents

PART II. OTHER INFORMATION

Item 1. 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 material legal proceedings pending or known by the Company to be contemplated to which the Company is a party or to which any of its property is subject.

Beginning in August 2010, a series of civil lawsuits were initiated in several U.S. federal courts alleging that certain manufacturers of polyurethane foam products and competitors of the Company's carpet underlay division had engaged in price fixing in violation of U.S. antitrust laws. Mohawk has been named as a defendant in a number of the individual cases (the first filed on August 26, 2010), as well as in two consolidated amended class action complaints, the first filed on February 28, 2011, on behalf of a class of all direct purchasers of polyurethane foam products, and the second filed on March 21, 2011, on behalf of a class of indirect purchasers. All pending cases in which the Company has been named as a defendant have been filed in or transferred to the U.S. District Court for the Northern District of Ohio for consolidated pre-trial proceedings under the name In re: Polyurethane Foam Antitrust Litigation, Case No. 1:10-MDL-02196.

In these actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek three times the amount of unspecified damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. Each plaintiff also seeks attorney fees, pre-judgment and post-judgment interest, court costs, and injunctive relief against future violations. In December 2011, the Company was named as a defendant in a Canadian Class action, Hi ! Neighbor Floor Covering Co. Limited v. Hickory Springs Manufacturing Company, et.al., filed in the Superior Court of Justice of Ontario, Canada and Options Consommateures v. Vitafoam, Inc. et.al., filed in the Superior Court of Justice of Quebec, Montreal, Canada, both of which allege similar claims against the Company as raised in the U.S. actions and seek unspecified damages and punitive damages. The Company denies all of the allegations in these actions and will vigorously defend itself.

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses that are reasonably estimable. These contingencies are subject to significant uncertainties and we are unable to estimate the amount or range of loss, if any, in excess of amounts accrued. The Company does not believe that the ultimate outcome of these actions will have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, cash flows or liquidity in a given quarter or year.

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2012. The risk factors disclosed in our Annual Report on Form 10-K, in addition to the other information set forth in this report, could materially affect our business, financial condition or results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company issued 2,874,332 shares of common stock as a portion of the consideration for the Marazzi acquisition pursuant to the exemption of Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities



None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

30

---

Table of Contents

Item 6. Exhibits

No.	Description
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.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Table of Contents

SIGNATURES

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

MOHAWK INDUSTRIES, INC.  
(Registrant)

Dated: August 7, 2013      By: /s/ Jeffrey S. Lorberbaum  
JEFFREY S. LORBERBAUM  
Chairman and Chief Executive Officer  
(principal executive officer)

Dated: August 7, 2013      By: /s/ Frank H. Boykin  
FRANK H. BOYKIN  
Chief Financial Officer  
(principal financial officer)