

MOHAWK INDUSTRIES INC  
Form 10-Q  
May 04, 2012  
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 March 31, 2012

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)

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>52-1604305</b> (I.R.S. Employer Identification No.)
<b>160 S. Industrial Blvd., Calhoun, Georgia</b> (Address of principal executive offices)	<b>30701</b> (Zip Code)
<b>Registrant's telephone number, including area code: (706) 629-7721</b>	

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares outstanding of the issuer's classes of common stock as of April 26, 2012, the latest practicable date, is as follows:  
68,971,610 shares of Common Stock, \$.01 par value.

**Table of Contents**

**MOHAWK INDUSTRIES, INC.**

**INDEX**

	Page No
Part I. <b><u>FINANCIAL INFORMATION</u></b>	
Item 1. <b><u>Financial Statements</u></b> (unaudited)	
<u>Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2012 and April 2, 2011</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and April 2, 2011</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and April 2, 2011</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	16
Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	21
Item 4. <b><u>Controls and Procedures</u></b>	21
Part II. <b><u>OTHER INFORMATION</u></b>	
Item 1. <b><u>Legal Proceedings</u></b>	22
Item 1A. <b><u>Risk Factors</u></b>	22
Item 2. <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	28
Item 3. <b><u>Defaults Upon Senior Securities</u></b>	28
Item 4. <b><u>Mine Safety Disclosures</u></b>	28
Item 5. <b><u>Other Information</u></b>	28
Item 6. <b><u>Exhibits</u></b>	28

**Table of Contents**

## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

## ASSETS

(In thousands)

(Unaudited)

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 304,775	311,945
Receivables, net	782,000	686,165
Inventories	1,164,991	1,113,630
Prepaid expenses	113,764	112,779
Deferred income taxes	156,110	150,910
Other current assets	22,988	22,735
<b>Total current assets</b>	<b>2,544,628</b>	<b>2,398,164</b>
Property, plant and equipment, net	1,718,396	1,712,154
Goodwill	1,390,712	1,375,175
Tradenames	457,974	450,432
Other intangible assets, net	141,651	154,668
Deferred income taxes and other non-current assets	145,833	115,635
	<b>\$ 6,399,194</b>	<b>6,206,228</b>

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)

	March 31, 2012	December 31, 2011
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 57,309	386,255
Accounts payable and accrued expenses	721,383	715,091
<b>Total current liabilities</b>	<b>778,692</b>	<b>1,101,346</b>
Deferred income taxes	362,948	355,653
Long-term debt, less current portion	1,642,419	1,200,184
Other long-term liabilities	95,838	99,537
<b>Total liabilities</b>	<b>2,879,897</b>	<b>2,756,720</b>
Commitments and contingencies (Notes 6 and 11)		
Redeemable noncontrolling interest		33,723
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued		
Common stock, \$.01 par value; 150,000 shares authorized; 80,003 and 79,815 shares issued in 2012 and 2011, respectively	800	798
Additional paid-in capital	1,256,200	1,248,131
Retained earnings	2,395,142	2,354,765
Accumulated other comprehensive income, net	190,617	135,639
	3,842,759	3,739,333
Less treasury stock at cost; 11,032 and 11,034 shares in 2012 and 2011, respectively	323,462	323,548
<b>Total stockholders' equity</b>	<b>3,519,297</b>	<b>3,415,785</b>
	<b>\$ 6,399,194</b>	<b>6,206,228</b>

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>April 2, 2011</b>
Net sales	\$ 1,409,035	1,343,595
Cost of sales	1,049,609	1,002,003
Gross profit	359,426	341,592
Selling, general and administrative expenses	287,450	285,508
Operating income	71,976	56,084
Interest expense	22,498	26,595
Other expense (income)	(1,825)	(15)
Earnings before income taxes	51,303	29,504
Income tax expense	10,291	4,966
Net earnings	41,012	24,538
Less: Net earnings attributable to noncontrolling interest	635	1,096
Net earnings attributable to Mohawk Industries, Inc.	\$ 40,377	23,442
Basic earnings per share attributable to Mohawk Industries, Inc.	\$ 0.59	0.34
Weighted-average common shares outstanding basic	68,862	68,674
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$ 0.58	0.34
Weighted-average common shares outstanding diluted	69,141	68,904

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>April 2,</b>
	<b>2012</b>	<b>2011</b>
Net earnings	\$ 41,012	24,538
Other comprehensive income:		
Foreign currency translation adjustments	54,961	114,659
Pension prior service cost and actuarial gain	17	72
Other comprehensive income	54,978	114,731
Comprehensive income	95,990	139,269
Less: comprehensive income attributable to the noncontrolling interest	635	1,096
Comprehensive income attributable to Mohawk Industries, Inc.	\$ 95,355	138,173

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>April 2,</b>
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 41,012	24,538
<b>Adjustments to reconcile net earnings to net cash used in operating activities:</b>		
Restructuring		6,813
Depreciation and amortization	73,286	74,253
Deferred income taxes	(4,978)	(1,820)
Loss on disposal of property, plant and equipment	419	137
Stock-based compensation expense	5,571	3,861
<b>Changes in operating assets and liabilities:</b>		
Receivables, net	(91,485)	(131,826)
Tax deposit	(31,820)	
Inventories	(46,331)	(60,300)
Accounts payable and accrued expenses	13,814	19,387
Other assets and prepaid expenses	1,565	(2,577)
Other liabilities	(5,523)	121
 Net cash used in operating activities	 (44,470)	 (67,413)
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(43,251)	(52,811)
 Net cash used in investing activities	 (43,251)	 (52,811)
<b>Cash flows from financing activities:</b>		
Payments on Senior Credit Facility	(329,800)	(332,330)
Proceeds from Senior Credit Facility	443,500	607,330
Repayment of senior notes		(298,248)
Payments on term loan and other debt	(584)	(536)
Debt issuance costs	(1,018)	
Purchase of non-controlling interest	(35,000)	
Distribution to non-controlling interest	(423)	(3,283)
Change in restricted cash		27,954
Change in outstanding checks in excess of cash	(10,255)	6,438
Proceeds from stock transactions	5,539	1,067
 Net cash provided by financing activities	 71,959	 8,392
 Effect of exchange rate changes on cash and cash equivalents	 8,592	 13,846
 Net change in cash and cash equivalents	 (7,170)	 (97,986)
Cash and cash equivalents, beginning of period	311,945	354,217



Cash and cash equivalents, end of period	\$ 304,775	256,231
--	------------	---------

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 2011 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

On March 19, 2012, the Company purchased the non-controlling interest within the Dal-Tile segment for \$35,000.

Accounting Standards Update (ASU) No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05) requires comprehensive income to be presented as a single continuous financial statement or in two separate but consecutive statements. The option of presenting other comprehensive income in the statement of stockholders' equity was eliminated. The Company adopted ASU 2011-05 in the current quarter and chose to present comprehensive income as two separate but consecutive statements.

Reclassification: Certain prior year amounts have been reclassified to conform to the current year presentation.

## 2. Receivables, net

Receivables, net are as follows:

	March 31, 2012	December 31, 2011
Customers, trade	\$ 796,162	696,856
Income tax receivable	613	1,703
Other	27,648	31,311
	824,423	729,870
Less allowance for discounts, returns, claims and doubtful accounts	42,423	43,705
Receivables, net	\$ 782,000	686,165

## 3. Inventories

The components of inventories are as follows:

March 31, 2012	December 31, 2011
-------------------	----------------------

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

Finished goods	\$ 710,657	670,877
Work in process	110,877	113,311
Raw materials	343,457	329,442
Total inventories	\$ 1,164,991	1,113,630

**Table of Contents**

## 4. Goodwill and intangible assets

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

**Goodwill:**

	Mohawk	Dal-Tile	Unilin	Total
<b>Balances as of December 31, 2011</b>				
Goodwill	\$ 199,132	1,186,913	1,316,555	2,702,600
Accumulated impairments losses	(199,132)	(531,930)	(596,363)	(1,327,425)
	\$	654,983	720,192	1,375,175
<b>Currency translation during the period</b>				
	\$		15,537	15,537
<b>Balances as of March 31, 2012</b>				
Goodwill	\$ 199,132	1,186,913	1,332,092	2,718,137
Accumulated impairments losses	(199,132)	(531,930)	(596,363)	(1,327,425)
	\$	654,983	735,729	1,390,712

**Intangible assets:**

<b>Indefinite life assets not subject to amortization:</b>	<b>Tradenames</b>
Balance as of December 31, 2011	\$ 450,432
Currency translation during the period	7,542
Balance as of March 31, 2012	\$ 457,974

<b>Intangible assets subject to amortization:</b>	<b>Customer relationships</b>	<b>Patents</b>	<b>Other</b>	<b>Total</b>
Balance as of December 31, 2011	\$ 64,958	88,544	1,166	154,668
Amortization during the period	(11,479)	(4,752)	(30)	(16,261)
Currency translation during the period	710	2,524	10	3,244
Balance as of March 31, 2012	\$ 54,189	86,316	1,146	141,651

	<b>Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>April 2, 2011</b>
Amortization expense	\$ 16,261	17,399

## 5. Accounts payable and accrued expenses

## Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

Accounts payable and accrued expenses are as follows:

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Outstanding checks in excess of cash	\$ 7,335	17,590
Accounts payable, trade	398,842	372,616
Accrued expenses	155,820	154,560
Product warranties	32,680	30,144
Accrued interest	23,770	34,235
Deferred tax liability	8,102	8,760
Accrued compensation and benefits	94,834	97,186
Total accounts payable and accrued expenses	\$ 721,383	715,091

### 6. 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.

**Table of Contents**

The activity related to warranty obligations is as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>April 2,</b>
	<b>2012</b>	<b>2011</b>
Balance at beginning of period	\$ 30,144	37,265
Warranty claims paid during the period	(13,920)	(13,735)
Pre-existing warranty accrual adjustment during the period		2,995
Warranty expense during the period	16,456	9,912
<b>Balance at end of period</b>	<b>\$ 32,680</b>	<b>36,437</b>

#### 7. 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 FASB Accounting Standards 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 2007 Incentive Plan ( 2007 Plan ), which was approved by the Company's stockholders on May 16, 2007, 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 2017. 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 granted 83 and 76 options to employees at a weighted-average grant-date fair value of \$28.71 and \$25.39 per share for the three months ended March 31, 2012 and April 2, 2011, respectively. The Company recognized stock-based compensation costs related to stock options of \$614 (\$389 net of taxes) and \$559 (\$354 net of taxes) for the three months ended March 31, 2012 and April 2, 2011, respectively, which has been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for stock options granted to employees and outside directors, net of estimated forfeitures, was \$3,658 as of March 31, 2012, and will be recognized as expense over a weighted-average period of approximately 2.2 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 261 and 196 RSUs at a weighted-average grant-date fair value of \$65.98 and \$57.34 per unit for the three months ended March 31, 2012 and April 2, 2011, respectively. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$4,937 (\$3,127 net of taxes) and \$3,272 (\$2,073 net of taxes) for the three months ended March 31, 2012 and April 2, 2011, respectively, which has been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSUs granted to employees, net of estimated forfeitures, was \$22,382 as of March 31, 2012, and will be recognized as expense over a weighted-average period of approximately 3.6 years.

The Company did not grant any restricted stock awards for the three months ended March 31, 2012 and April 2, 2011. Compensation expense for restricted stock awards for the three months ended March 31, 2012 and April 2, 2011, respectively, was not significant.

**Table of Contents**

## 8. Other Expense (Income)

Other Expense (Income) is as follows:

	<b>Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>April 2, 2011</b>
Foreign currency (gains) losses, net	\$ (5,650)	(2,982)
All other, net	3,825	2,967
<b>Total other expense (income)</b>	<b>\$ (1,825)</b>	<b>(15)</b>

## 9. 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.

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 three months ended March 31, 2012 and April 2, 2011 were 1,044 and 1,123, respectively.

	<b>Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>April 2, 2011</b>
Net earnings available to common stockholders	\$ 40,377	23,442
Weighted-average common shares outstanding-basic and diluted:		
Weighted-average common shares outstanding basic	68,862	68,674
Add weighted-average dilutive potential common shares options and RSUs to purchase common shares, net	279	230
<b>Weighted-average common shares outstanding-diluted</b>	<b>69,141</b>	<b>68,904</b>
Basic earnings per share attributable to Mohawk Industries, Inc.	\$ 0.59	0.34
<b>Diluted earnings per share attributable to Mohawk Industries, Inc.</b>	<b>\$ 0.58</b>	<b>0.34</b>

## 10. Segment reporting

The Company has three reporting segments: the Mohawk segment, the Dal-Tile segment and the Unilin segment. The Mohawk segment designs, manufactures, sources, distributes and markets its floor covering product lines, which include carpets, ceramic tile, laminate, rugs, carpet pad, hardwood and resilient, primarily in North America through its network of regional distribution centers and satellite warehouses using Company-operated trucks, common carrier or rail transportation. The 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 Dal-Tile segment designs, manufactures, sources, distributes and markets a broad line of ceramic tile, porcelain tile, natural stone and other products, primarily in North America and Mexico through its network of regional distribution centers and Company-operated service

## Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

centers using Company-operated trucks, common carriers or rail transportation. The segment's product lines are sold through independent distributors, home center retailers, tile and flooring retailers and contractors. The Unilin segment designs, manufactures, sources, licenses, distributes and markets laminate and hardwood flooring, roofing systems, insulation panels and other wood products, primarily in North America and Europe through various selling channels, which include retailers, independent distributors and home centers.



**Table of Contents**

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.

Segment information is as follows:

	<b>Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>April 2, 2011</b>
<b>Net sales:</b>		
Mohawk	\$ 699,880	691,165
Dal-Tile	392,925	344,415
Unilin	337,424	325,832
Intersegment sales	(21,194)	(17,817)
	\$ 1,409,035	1,343,595
<b>Operating income (loss):</b>		
Mohawk	\$ 25,282	17,040
Dal-Tile	26,028	17,700
Unilin	27,146	26,250
Corporate and intersegment eliminations	(6,480)	(4,906)
	\$ 71,976	56,084
<b>Assets:</b>		
Mohawk	\$ 1,820,785	1,769,065
Dal-Tile	1,759,934	1,732,818
Unilin	2,620,013	2,533,070
Corporate and intersegment eliminations	198,462	171,275
	\$ 6,399,194	6,206,228

#### 11. 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 seven of the 43 cases filed (the first 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

## Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

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, that alleges similar claims against the Company as raised in the U.S. actions and seeks unspecified damages and punitive damages. The Company denies all of the allegations in these actions and will vigorously defend itself.

**Table of Contents**

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses and that 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 in a given quarter or year.

In January 2012, the Company received a 24,000 assessment from the Belgian tax authority related to the year ended December 31, 2008. The Company disagrees with the view and conclusions of the Belgian tax authority, believes it is unlikely that the Belgian tax authority would be able to successfully defend the proposed changes, and intends to vigorously contest the assessment. The Company filed a formal protest in the first quarter of 2012, contesting the Belgian tax authority's conclusions. In order to eliminate the accrual of additional interest on the assessed amount, the Company remitted payment of the entire assessment, plus interest to date of approximately 2,500, in the first quarter of 2012. If the Company is successful in its defense of this matter, such deposit earns 7% interest per year. In addition, during the fourth quarter of 2011, the Company received notification from the Belgian tax authority of its intent to increase the Company's tax base related to the year ended December 31, 2009. 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 in a given quarter or year.

There were no restructuring charges for the three months ended March 31, 2012. For the three months ended April 2, 2011, the Company recorded pre-tax business restructuring charges of \$6,813, of which \$6,347 was recorded as cost of sales and \$466 was recorded as selling, general and administrative expenses. The charges in 2011 primarily relate to the Company's actions taken to lower its cost structure and improve the efficiency of its manufacturing and distribution operations as the Company adjusted to current economic conditions.

The restructuring activity for the first three months of 2012 is as follows:

	Lease impairments	Severance	Other restructuring costs	Total
Balance as of December 31, 2011	\$ 10,956	2,378	1,511	14,845
Cash payments	(882)	(1,563)	(192)	(2,637)
Balance as of March 31, 2012	\$ 10,074	815	1,319	12,208

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

Subsequent to the balance sheet date, the Company announced plans to reduce its staple capacity related to manufacturing facilities in the Mohawk segment. The Company is finalizing its estimates and expects to record a restructuring charge in the second quarter of 2012.

## 12. 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 \$8,218 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 all 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

---

**Table of Contents**

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 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 March 31, 2012, the amount utilized under the Senior Credit Facility including the term loan was \$509,036 resulting in a total of \$540,964 available under the Senior Credit Facility. The amount utilized included \$411,700 of borrowings, \$46,796 of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$50,540 of standby letters of credit related to various insurance contracts and foreign vendor commitments. As of April 16, 2012, subsequent to the repayment of the outstanding senior 7.20% notes discussed below, the amount utilized under the Senior Credit Facility including the term loan was \$827,136.

**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 \$336,300 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. As a result, the Company classified the outstanding senior 7.20% notes as long-term debt as of March 31, 2012.

**Table of Contents**

## 13. 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:

	March 31, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
7.20% senior notes, payable April 15, 2012 interest payable semiannually (1)	\$ 334,925	336,270	336,606	336,270
6.125% notes, payable January 15, 2016 interest payable semiannually	989,100	900,000	963,900	900,000
Five-year senior secured credit facility, due July 8, 2016	411,700	411,700	298,000	298,000
Industrial revenue bonds, capital leases and other	51,758	51,758	52,169	52,169
<b>Total long-term debt</b>	<b>1,787,483</b>	<b>1,699,728</b>	<b>1,650,675</b>	<b>1,586,439</b>
Less current portion	57,309	57,309	386,591	386,255
<b>Long-term debt, less current portion</b>	<b>1,730,174</b>	<b>1,642,419</b>	<b>1,264,084</b>	<b>1,200,184</b>

- (1) 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. As a result, the Company classified the outstanding senior 7.20% notes as long-term debt as of March 31, 2012.

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**

In 2010, the primary categories of the U.S. floor covering industry, based on sales dollars, were carpet and rug (55%), resilient and rubber (13%), ceramic tile (12%), hardwood (9%), 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.

The U.S. floor covering industry experienced declining demand beginning in the fourth quarter of 2006 with sales declining from \$25.7 billion in 2006 to \$17.1 billion in 2010. Industry conditions have remained difficult due to many factors, including uncertainty caused by economic conditions in the U.S., the European debt crisis, material price volatility, unemployment and consumer confidence, all of which have created headwinds to industry growth.

The Company has three reporting segments: the Mohawk segment, the Dal-Tile segment and the Unilin segment. The Mohawk segment designs, manufactures, sources, distributes and markets its floor covering product lines, which include carpets, ceramic tile, laminate, rugs, carpet pad, hardwood and resilient, primarily in North America through its network of regional distribution centers and satellite warehouses using Company-operated trucks, common carrier or rail transportation. The 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 Dal-Tile segment designs, manufactures, sources, distributes and markets a broad line of ceramic tile, porcelain tile, natural stone and other products, primarily in North America and Mexico through its network of regional distribution centers and Company-operated service centers using Company-operated trucks, common carriers or rail transportation. The segment's product lines are sold through independent distributors, home center retailers, tile and flooring retailers and contractors. The Unilin segment designs, manufactures, sources, licenses, distributes and markets laminate and hardwood flooring, roofing systems, insulation panels and other wood products, primarily in North America and Europe through various selling channels, which include retailers, independent distributors and home centers.

For the three months ended March 31, 2012, net earnings attributable to the Company were \$40.4 million, or diluted earnings per share (EPS) of \$0.58, compared to the net earnings attributable to the Company of \$23.4 million, or diluted EPS of \$0.34, for the three months ended April 2, 2011. The increase in EPS was primarily attributable to the favorable net impact of price and product mix, higher sales volume which more than offset the unfavorable impact of raw materials inflation and the benefit of lower restructuring charges and lower interest costs on the Company's outstanding debt.

#### **Results of Operations**

##### **Quarter Ended March 31, 2012, as Compared with Quarter Ended April 2, 2011**

#### **Net sales**

Net sales for the three months ended March 31, 2012 were \$1,409.0 million, reflecting an increase of \$65.4 million, or 4.9%, from the \$1,343.6 million reported for the three months ended April 2, 2011. The increase was primarily driven by the positive net impact of price and product mix of approximately \$38 million and higher volume of approximately \$41 million, partially offset by the impact of unfavorable foreign exchange rates of approximately \$14 million.

*Mohawk Segment* Net sales increased \$8.7 million, or 1.3%, to \$700.0 million for the three months ended March 31, 2012, compared to \$691.2 million for the three months ended April 2, 2011. The increase was primarily driven by the positive net impact of price and product mix of approximately \$34 million, offset by lower volume of approximately \$26 million. The lower volume was primarily attributable to lower demand of rug products in the mass merchandise channel.

*Dal-Tile Segment* Net sales increased \$48.5 million, or 14.1%, to \$392.9 million for the three months ended March 31, 2012, compared to \$344.4 million for the three months ended April 2, 2011. The increase was primarily driven by volume increases of approximately \$52 million due to increases in home centers sales, expansion in the Mexican market, improvement in the commercial market and warmer weather.

*Unilin Segment* Net sales increased \$11.6 million, or 3.6%, to \$337.4 million for the three months ended March 31, 2012, compared to \$325.8 million for the three months ended April 2, 2011. The increase was primarily driven by volume increases of approximately \$19 million and the

## Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

positive net impact of price and product mix of approximately \$5 million, partially offset by the impact of unfavorable foreign exchange rates of approximately \$12 million. The volume increase was primarily attributable to European laminate flooring, insulation panels and other board sales.



---

**Table of Contents****Gross profit**

Gross profit for the three months ended March 31, 2012 was \$359.4 million (25.5% of net sales) and increased by \$17.8 million or 5.2% compared to gross profit of \$341.6 million (25.4% of net sales) for the three months ended April 2, 2011. The increase in gross profit dollars was primarily attributable to the favorable net impact of price and product mix of approximately \$25 million, volume increases of approximately \$10 million, lower restructuring charges of approximately \$6 million and improved manufacturing costs of approximately \$6 million. Partially offsetting these favorable items were higher inflationary costs of approximately \$28 million primarily related to raw materials.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for the three months ended March 31, 2012 were \$287.5 million (20.4% of net sales), compared to \$285.5 million (21.2% of net sales) for the three months ended April 2, 2011. As a percentage of sales, selling, general and administrative expenses decreased compared to the prior year primarily as a result of the Company's ability to leverage higher sales and various cost savings initiatives.

**Operating income**

Operating income for the three months ended March 31, 2012 was \$72.0 million (5.1% of net sales) reflecting an increase of \$15.9 million, or 28.3%, compared to operating income of \$56.1 million (4.2% of net sales) for the three months ended April 2, 2011. The increase was primarily driven by the favorable net impact of price and product mix of approximately \$25 million, higher volume of approximately \$10 million and lower restructuring charges of approximately \$7 million, partially offset by higher inflationary costs of approximately \$28 million primarily related to raw materials.

*Mohawk Segment* Operating income was \$25.3 million (3.6% of segment net sales) for the three months ended March 31, 2012 reflecting an increase of \$8.2 million compared to operating income of \$17.0 million (2.5% of segment net sales) for the three months ended April 2, 2011. The increase was primarily driven by the favorable net impact of price and product mix of approximately \$23 million, lower manufacturing and selling, general and administrative costs of approximately \$8 million and lower restructuring charges of approximately \$7 million, partially offset by higher inflationary costs of approximately \$23 million primarily related to raw materials and lower volume of \$6 million.

*Dal-Tile Segment* Operating income was \$26.0 million (6.6% of segment net sales) for the three months ended March 31, 2012 reflecting an increase of \$8.3 million compared to operating income of \$17.7 million (5.1% of segment net sales) for the three months ended April 2, 2011. The increase was primarily driven by volume increases of approximately \$14 million and operations productivity of approximately \$2 million, partially offset by higher selling, general and administrative costs of \$8 million attributed to increased volume and marketing investments.

*Unilin Segment* Operating income was \$27.1 million (8.0% of segment net sales) for the three months ended March 31, 2012 reflecting an increase of \$0.9 million compared to operating income of \$26.3 million (8.1% of segment net sales) for the three months ended April 2, 2011. The increase was primarily driven by the favorable net impact of price and product mix of approximately \$3 million and volume increases of approximately \$2 million, partially offset by higher inflationary costs of approximately \$3 million and unfavorable foreign exchange rates of approximately \$1 million.

**Interest expense**

Interest expense was \$22.5 million for the three months ended March 31, 2012, reflecting a decrease of \$4.1 million compared to interest expense of \$26.6 million for the three months ended April 2, 2011. The decrease in interest expense in 2012 was due to lower interest costs on the Company's outstanding debt.

**Income tax expense**

For the three months ended March 31, 2012, the Company recorded income tax expense of \$10.3 million on earnings before income taxes of \$51.3 million for an effective tax rate of 20.1%, as compared to an income tax expense of \$5.0 million on earnings before income taxes of \$29.5 million, resulting in an effective tax rate of 16.8% for the three months ended April 2, 2011. The difference in the effective tax rate for the comparative period is primarily due to the geographic dispersion of earnings and losses for the current period.



## **Table of Contents**

### **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 used in operating activities in the first three months of 2012 was \$44.5 million, including a tax deposit of 26.5 million paid to the Belgian tax authority as discussed in Note 11 in the notes to the condensed consolidated financial statements, compared to \$67.4 million in the first three months of 2011. The favorable change in operating activities is primarily attributable to improved earnings and better utilization of working capital.

Net cash used in investing activities in the first three months of 2012 was \$43.3 million compared to \$52.8 million in the first three months of 2011. Cash used in investing activities primarily relates to various geographic capacity expansions. Capital spending during the remainder of 2012, excluding acquisition expenditures, is expected to range from approximately \$180 million to \$200 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 three months of 2012 was \$72.0 million compared to \$8.4 million in the first three months of 2011. The proceeds from the incremental term loan facility of \$150.0 million discussed below were used to pay down the revolving portion of the Senior Credit Facility. The increase in total borrowings on the Senior Credit Facility was primarily used for the purchase of the non-controlling interest within the Dal-Tile segment for \$35.0 million and funding of working capital.

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 all 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 exceeds 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



---

## **Table of Contents**

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 March 31, 2012, the amount utilized under the Senior Credit Facility including the term loan was \$509.0 million resulting in a total of \$541.0 million available under the Senior Credit Facility. The amount utilized included \$411.7 million of borrowings, \$46.8 million of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$50.5 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. As of April 16, 2012, subsequent to the repayment of the outstanding senior 7.20% notes discussed below, the amount utilized under the Senior Credit Facility including the term loan was \$827.1 million.

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. As a result, the Company classified the outstanding senior 7.20% notes as long-term debt as of March 31, 2012.

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 March 31, 2012, the Company had invested cash of \$275.0 million, of which \$264.4 million was held in money market AAA rated cash investments in Europe. While the Company's plans are to permanently reinvest the cash held in Europe, the estimated cost of repatriation for the cash invested in Europe would be approximately \$93 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 2011 Annual Report filed on Form 10-K.

## **Table of Contents**

### **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 2011 Annual Report filed on Form 10-K.

### **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 Mohawk and Dal-Tile segments, its results of operations for the first quarter tend to be the weakest. The second, third and fourth quarters typically produce higher net sales and operating income in these segments. These results are primarily due to consumer residential spending patterns for floor covering, which historically have decreased during the first two months of each year following the holiday season. The Unilin 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.

**Table of Contents**

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

There have been no significant changes to the Company's exposure to market risk as disclosed in the Company's 2011 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.

No change in the Company's internal control over financial reporting occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**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. Other than 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 seven of the 43 cases filed (the first 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, that alleges similar claims against the Company as raised in the U.S. actions and seeks 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 and that 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 in a given quarter or year.

**Item 1A. Risk Factors**

In addition to the other information provided in this Form 10-Q, the following risk factors should be considered when evaluating an investment in shares of Common Stock.

If any of the events described in these risks were to occur, it could have a material adverse effect on the Company's business, financial condition and results of operations.

***The floor covering industry is sensitive to changes in general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels, availability of credit and demand for housing. The downturn in the U.S. and global economies beginning in 2006, along with the residential and commercial markets in such economies, negatively impacted the floor covering industry and the Company's business. It is not known when economic conditions will improve or whether they will deteriorate further. Further, significant or prolonged declines in such economies or in spending for replacement floor covering products or new construction activity could have a material adverse effect on the Company's business.***

The floor covering industry in which the Company participates is highly dependent on general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels, availability of credit and demand for housing. The Company derives a majority of its sales from the replacement segment of the market. Therefore, economic changes that result in a significant or prolonged decline in spending for remodeling and replacement activities could have a material adverse effect on the Company's business and results of operations.

The floor covering industry is highly dependent on construction activity, including new construction, which is cyclical in nature and currently in a downturn. The current downturn in the U.S. and global economies, along with the housing markets in such economies, has negatively impacted the floor covering industry and the Company's business. Although the impact of a decline in new construction activity is typically accompanied by an increase in remodeling and replacement activity, these activities have also lagged during the current downturn. The difficult economic conditions may continue or deteriorate in the foreseeable future. A significant or prolonged decline in residential or commercial construction



activity could have a material adverse effect on the Company's business and results of operations.

**Table of Contents**

***In periods of rising costs, the Company may be unable to pass raw materials, energy and fuel-related cost increases on to its customers, which could have a material adverse effect on the Company's business.***

The prices of raw materials and fuel-related costs could vary significantly with market conditions. Although the Company generally 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 recovered. During such periods of time, the Company's business may be materially adversely affected.

***The Company faces intense competition in the flooring industry, which could decrease demand for the Company's products or force it to lower prices, which could have a material adverse effect on the Company's business.***

The floor covering industry is highly competitive. The Company faces competition from a number of manufacturers and independent distributors. Some of the Company's competitors are larger and have greater resources and access to capital than the Company does. Maintaining the Company's competitive position may require substantial investments in the Company's product development efforts, manufacturing facilities, distribution network and sales and marketing activities. Competitive pressures may also result in decreased demand for the Company's products or force the Company to lower prices. Any of these factors or others may impact demand which could have a material adverse effect on the Company's business.

***Uncertainty in the credit market or downturns in the global economy and the Company's business could affect the Company's overall availability and cost of credit.***

Uncertainty in the credit markets could affect the overall availability and cost of credit. Despite recent improvement in overall economic conditions, the impact of the economic downturn on the Company's ability to obtain financing, including any financing necessary to refinance existing indebtedness, in the future, and the cost and terms of it, remains uncertain. These and other economic factors could have a material adverse effect on demand for the Company's products and on its financial condition and operating results. Further, these generally negative economic and business conditions may factor into the Company's periodic credit ratings assessment by either or both Moody's Investors Service, Inc. and Standard & Poor's Financial Services, LLC. A rating agency's evaluation is based on a number of factors, which include scale and diversification, brand strength, profitability, leverage, liquidity and interest coverage. Any future downgrades in the Company's credit ratings would increase the cost of its existing credit and could adversely affect the cost of and ability to obtain additional credit in the future. A downgrade of the Company's credit rating would increase interest expense on the Company's senior unsecured notes by 25 basis points per downgrade. The Company can provide no assurances that downgrades will not occur.

***If the Company were unable to meet certain covenants contained in the Senior Credit Facility, it may be required to repay borrowings under the Senior Credit Facility prior to their maturity and may lose access to the Senior Credit Facility for additional borrowings that may be necessary to fund its operations, which could have a material adverse effect on the Company's business.***

On July 8, 2011, the Company entered into a \$900.0 million five-year, senior, secured revolving credit facility (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. As of March 31, 2012, the amount utilized under the Senior Credit Facility including the term loan was \$509.0 million resulting in a total of \$541.0 million available under the Senior Credit Facility. The amount utilized included \$411.7 million of borrowings, \$46.8 million of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$50.5 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. 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. Subsequent to this repayment, the amount utilized under the Senior Credit Facility including the term loan was \$827.1 million.

During the term of the Senior Credit Facility, if the Company's cash flow is worse than expected, the Company may need to refinance all or a portion of its indebtedness through a public and/or private debt offering or a new bank facility and may not be able to do so on terms acceptable to it, or at all. If the Company is unable to access debt markets at competitive rates or in sufficient amounts due to credit rating downgrades, market volatility, market disruption, or other factors, it could materially adversely affect the Company's ability to repay its indebtedness and otherwise have a material adverse effect on the Company's financial condition and results of operations.

---

## **Table of Contents**

Additionally, 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 and as defined in the Senior Credit Facility.

***The Company may be unable to obtain raw materials or sourced product on a timely basis, which could have a material adverse effect on the Company's business.***

The principal raw materials used in the Company's manufacturing operations include nylon, polypropylene, triexta and polyester resins and fibers, which are used primarily in the Company's carpet and rugs business; clay, talc, nepheline syenite and glazes, including frit (ground glass), zircon and stains, which are used exclusively in the Company's ceramic tile business; and wood, paper, and resins which are used primarily in the Company's laminate flooring business. In addition, the Company sources finished goods as well. For certain of such raw materials and sourced products, the Company is dependent on one or a small number of suppliers. An adverse change in the Company's relationship with such a supplier, the financial condition of such a supplier or such supplier's ability to manufacture or deliver such raw materials or sourced products to the Company could lead to an interruption of supply or require the Company to purchase more expensive alternatives. An extended interruption in the supply of these or other raw materials or sourced products used in the Company's business or in the supply of suitable substitute materials or products would disrupt the Company's operations, which could have a material adverse effect on the Company's business.

***Fluctuations in currency exchange rates may impact the Company's financial condition and results of operations and may affect the comparability of results between the Company's financial periods.***

The results of the Company's foreign subsidiaries reported in the local currency are translated into U.S. dollars for balance sheet accounts using exchange rates in effect as of the balance sheet date and for the statement of operations accounts using, principally, the Company's average rates during the period. The exchange rates between some of these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. The Company may not be able to manage effectively the Company's currency translation risks and volatility in currency exchange rates may have a material adverse effect on the Company's consolidated financial statements and affect comparability of the Company's results between financial periods.

***The Company may experience certain risks associated with acquisitions, joint ventures and strategic investments.***

The Company has typically grown its business through acquisitions. Growth through acquisitions involves risks, many of which may continue to affect the Company after the acquisition. The Company cannot give assurance that an acquired company will achieve the levels of revenue, profitability and production that the Company expects. The combination of an acquired company's business with the Company's existing businesses involves risks. The Company cannot be assured that reported earnings will meet expectations because of goodwill and intangible asset impairment, other asset impairments, increased interest costs and issuance of additional securities or incurrence of debt. The Company may also face challenges in consolidating functions, integrating the Company's organizations, procedures, operations and product lines in a timely and efficient manner and retaining key personnel. These challenges may result in:

maintaining executive offices in different locations;

manufacturing and selling different types of products through different distribution channels;

conducting business from various locations;

maintaining different operating systems and software on different computer hardware; and

## Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

providing different employment and compensation arrangements for employees.

The diversion of management attention and any difficulties encountered in the transition and integration process could have a material adverse effect on the Company's revenues, level of expenses and operating results.

Failure to successfully manage and integrate an acquisition with the Company's existing operations could lead to the potential loss of customers of the acquired business, the potential loss of employees who may be vital to the new operations, the potential loss of business opportunities or other adverse consequences that could have a material adverse effect on the Company's business, financial condition and results of operations. Even if integration occurs successfully, failure of the acquisition to achieve levels of anticipated sales growth, profitability or productivity, or otherwise perform as expected, may have a material adverse effect on the Company's business, financial condition and results of operations.

---

**Table of Contents**

In addition, we have made certain investments, including through joint ventures, in which we have a minority equity interest and lack management and operational control. The controlling joint venture partner in a joint venture investment may have business interests, strategies or goals that are inconsistent with ours, and business decisions or other actions or omissions of the controlling joint venture partner or the joint venture company may result in harm to our reputation or adversely affect the value of our investment in the joint venture.

***A failure to identify suitable acquisition candidates or partners for strategic investments and to complete acquisitions could have a material adverse effect on the Company's business.***

As part of the Company's business strategy, the Company intends to continue to pursue a wide array of potential strategic transactions, including acquisitions of complementary businesses, as well as strategic investments and joint ventures. Although the Company regularly evaluates such opportunities, the Company may not be able successfully to identify suitable acquisition candidates or investment opportunities, to obtain sufficient financing on acceptable terms to fund such strategic transactions, to complete acquisitions and integrate acquired businesses with the Company's existing businesses, or to manage profitably acquired businesses or strategic investments.

***The Company has been, and in the future may be, subject to costs, liabilities and other obligations under existing or new laws and regulations, which could have a material adverse effect on the Company's business.***

The Company and its customers and suppliers are subject to various federal, state and local laws, regulations and licensing requirements. The Company faces risks and uncertainties related to compliance with and enforcement of increasingly numerous and complex federal, state and local laws and regulations. In addition, new laws and regulations may be enacted in the U.S. or abroad that may require the Company to incur additional personnel-related, environmental, or other costs on an ongoing basis, such as recently enacted healthcare legislation in the United States.

Further, the Company's operations are subject to various environmental, health and safety laws and regulations, including those governing air emissions, wastewater discharges, and the use, storage, treatment, recycling and disposal of materials and finished product. The applicable requirements under these laws are subject to amendment, to the imposition of new or additional requirements and to changing interpretations of agencies or courts. The Company could incur material expenditures to comply with new or existing regulations, including fines and penalties and increased costs of its operations. For example, enactment of climate control legislation or other regulatory initiatives by the U.S. Congress or various states, or the adoption of regulations by the Environmental Protection Agency and analogous state or foreign governmental agencies that restrict emissions of greenhouse gases in areas in which the Company conducts business could have an adverse effect on its operations and demand for its products. The Company's manufacturing processes use a significant amount of energy, especially natural gas. Increased regulation of energy use to address the possible emission of greenhouse gases and climate change could have a material adverse effect on the Company's business.

The nature of the Company's business and operations, including the potential discovery of presently unknown environmental conditions, exposes it to the risk of claims under environmental, health and safety laws and regulations. The Company could incur material costs or liabilities in connection with such claims.

***The Company's business operations could suffer significant losses from natural disasters, catastrophes, fire or other unexpected events.***

Many of the Company's business activities involve substantial investments in manufacturing facilities and many products are produced at a limited number of locations. These facilities could be materially damaged by natural disasters, such as floods, tornados, hurricanes and earthquakes, or by fire or other unexpected events. The Company could incur uninsured losses and liabilities arising from such events, including damage to its reputation, and/or suffer material losses in operational capacity, which could have a material adverse impact on its business, financial condition and results of operations.

***The Company may be exposed to litigation, claims and other legal proceedings in the ordinary course of business relating to its products, which could have a material adverse effect on the Company's business.***

In the ordinary course of business, the Company is subject to a variety of product-related claims, lawsuits and legal proceedings, including those relating to product liability, product warranty, product recall, personal injury, and other matters that are inherently subject to many uncertainties regarding the possibility of a loss to the Company. Such matters could have a material adverse effect on its business, results of operations and financial condition if the Company is unable to successfully defend against or resolve these matters or if its insurance coverage is insufficient to satisfy any judgments



**Table of Contents**

against the Company or settlements relating to these matters. Although the Company has product liability insurance, the policies may not provide coverage for certain claims against the Company or may not be sufficient to cover all possible liabilities. Further, the Company may not be able to maintain insurance at commercially acceptable premium levels. Moreover, adverse publicity arising from claims made against the Company, even if the claims are not successful, could adversely affect the Company's reputation or the reputation and sales of its products.

*The Company manufactures, sources and sells many products internationally and is exposed to risks associated with doing business globally.*

The Company's manufacturing facilities in Mexico and Europe represent a significant portion of the Company's capacity for ceramic tile and laminate flooring, respectively, and the Company's European operations represent a significant source of the Company's revenues and profits. The business, regulatory and political environments in these locations differ from those in the U.S. In addition, the Company increasingly sells products, operates plants and invests in companies in other parts of the world. The Company's international sales, operations and investments are subject to risks and uncertainties, including:

changes in foreign country regulatory requirements;

differing business practices associated with foreign operations;

various import/export restrictions and the availability of required import/export licenses;

imposition of foreign tariffs and other trade barriers;

political, legal and economic instability;

foreign currency exchange rate fluctuations;

foreign country tax rules, regulations and other requirements, such as changes in tax rates and statutory and judicial interpretations in tax laws;

inflation;

differing labor laws and changes in those laws;

work stoppages and disruptions in the shipping of imported and exported products;

government price controls;

extended payment terms and the inability to collect accounts receivable; and

## Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

tax inefficiencies and currency exchange controls that may adversely impact its ability to repatriate cash from non-U.S. subsidiaries. The Company cannot assure investors that it will succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where the Company does business and therefore that the foregoing factors will not have a material adverse effect on the Company's operations or upon its financial condition and results of operations.

***The Company's inability to protect its intellectual property rights or collect license revenues, particularly with respect to the Company's patented laminate flooring technology and its registered trademarks, could have a material adverse effect on the Company's business.***

The future success and competitive position of certain of the Company's businesses, particularly the Company's laminate flooring business, depend in part upon the Company's ability to obtain, maintain and license proprietary technology used in the Company's principal product families. The Company relies, in part, on the patent, trade secret and trademark laws of the U.S. and countries in Europe, as well as confidentiality agreements with some of the Company's employees, to protect that technology.

The Company has obtained a number of patents relating to the Company's products and associated methods and has filed applications for additional patents, including the UNICLIC family of patents, which protects Unilin's interlocking laminate flooring panel technology. The Company cannot assure investors that any patents owned by or issued to it will provide the Company with competitive advantages, that third parties will not challenge these patents, or that the Company's pending patent applications will be approved. In addition, patent filings by third parties, whether made before or after the date of the Company's filings, could render the Company's intellectual property less valuable.

Furthermore, despite the Company's efforts, the Company may be unable to prevent competitors and/or third parties from using the Company's technology without the Company's authorization through license agreements, independently developing technology that is similar to that of the Company or designing around the Company's patents. The use of the



## **Table of Contents**

Company's technology or similar technology by others could reduce or eliminate any competitive advantage the Company has developed, cause the Company to lose sales or otherwise harm the Company's business. In addition, if the Company does not obtain sufficient protection for the Company's intellectual property, the Company's competitiveness in the markets it serves could be significantly impaired, which could have a material effect on the Company's business.

The Company has obtained and applied for numerous U.S. and Foreign Service marks and trademark registrations and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. The Company cannot guarantee that any of the Company's pending or future applications will be approved by the applicable governmental authorities. Moreover, even if such applications are approved, third parties may seek to oppose or otherwise challenge the registrations. A failure to obtain trademark registrations in the U.S. and in other countries could limit the Company's ability to protect the Company's trademarks and impede the Company's marketing efforts in those jurisdictions and could have a material effect on the Company's business.

The Company generates license revenue for certain patents that expire in 2017. The Company continues to develop new sources of revenue to offset the expiration in its UNICLIC family of patents. The failure to develop alternative revenues could have a material adverse effect on the Company's business.

The Company generally requires third parties with access to the Company's trade secrets to agree to keep such information confidential. While such measures are intended to protect the Company's trade secrets, there can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach or that the Company's confidential and proprietary information and technology will not be independently developed by or become otherwise known to third parties. In any of these circumstances, the Company's competitiveness could be significantly impaired, which would limit the Company's growth and future revenue.

***Companies may claim that the Company infringed their intellectual property or proprietary rights, which could cause it to incur significant expenses or prevent it from selling the Company's products.***

In the past, companies have claimed that certain technologies incorporated in the Company's products infringe their patent rights. There can be no assurance that the Company will not receive notices in the future from parties asserting that the Company's products infringe, or may infringe, those parties' intellectual property rights. The Company cannot be certain that the Company's products do not and will not infringe issued patents or other intellectual property rights of others. Historically, patent applications in the U.S. and some foreign countries have not been publicly disclosed until the patent is issued (or, in some recent cases, until 18 months following submission), and the Company may not be aware of currently filed patent applications that relate to the Company's products or processes. If patents are later issued on these applications, the Company may be liable for infringement.

Furthermore, the Company may initiate claims or litigation against parties for infringement of the Company's proprietary rights or to establish the invalidity, noninfringement, or unenforceability of the proprietary rights of others. Likewise, the Company may have similar claims brought against it by competitors. Litigation, either as plaintiff or defendant, could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel from operations, whether or not such litigation is resolved in the Company's favor. In the event of an adverse ruling in any such litigation, the Company might be required to pay substantial damages (including punitive damages and attorney's fees), discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. There can be no assurance that licenses to disputed technology or intellectual property rights would be available on reasonable commercial terms, if at all. In the event of a successful claim against the Company along with failure to develop or license a substitute technology, the Company's business, financial condition and results of operations would be materially and adversely affected.

***The long-term performance of the Company's business relies on its ability to attract, develop and retain talented management.***

To be successful, the Company must attract, develop and retain qualified and talented personnel in management, sales, marketing, product design and innovation and operations, and as it considers entering new international markets, skilled personnel familiar with those markets. The Company competes with multinational firms for these employees and invests resources in recruiting, developing, motivating and retaining them. The failure to attract, develop, motivate and retain key employees could negatively affect the Company's competitive position and its operating results.

**Table of Contents**

*The Company is subject to changing regulation of corporate governance and public disclosure that have increased both costs and the risk of noncompliance.*

The Company's stock is publicly traded. As a result, the Company is subject to the rules and regulations of federal and state agencies and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the Securities and Exchange Commission and the New York Stock Exchange, frequently issue new requirements and regulations. The Company's efforts to comply with the regulations and interpretations have resulted in, and are likely to continue to result in, increased general and administrative costs and diversion of management's time and attention from revenue generating activities to compliance activities.

*Declines in the Company's business conditions may result in an impairment of the Company's tangible and intangible assets which could result in a material non-cash charge.*

A significant or prolonged decrease in the Company's market capitalization, including a decline in stock price, or a negative long-term performance outlook, could result in an impairment of its tangible and intangible assets which results when the carrying value of the Company's assets exceed their fair value.

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

**None.**

**Item 3. Defaults Upon Senior Securities**

**None.**

**Item 4. Mine Safety Disclosures**

**None.**

**Item 5. Other Information**

**None.**

**Item 6. Exhibits**

No.	Description
10.1*	Amendment No. 1 to Credit Agreement dated as of January 20, 2012 by and among the Company and certain of its subsidiaries, as Borrowers, certain of its subsidiaries, as Guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender, and a L/C Issuer, the other lenders party thereto, and the other parties thereto (Incorporated herein by reference to Exhibit 10.1 of Mohawk's Current Report on Form 8-K dated January 20, 2012).
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.

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\* Indicates exhibit incorporated by reference.

**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: May 4, 2012

By:

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

Dated: May 4, 2012

By:

/s/ Frank H. Boykin  
FRANK H. BOYKIN  
Chief Financial Officer  
(principal financial officer)