

MOHAWK INDUSTRIES INC

Form 10-Q

November 03, 2014

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

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FORM 10-Q

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[Mark One]

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

For the quarterly period ended September 27, 2014

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

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

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The number of shares outstanding of the issuer's common stock as of October 27, 2014, the latest practicable date, is as follows: 72,896,901 shares of common stock, \$.01 par value.

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## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	September 27, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 105,569	54,066
Receivables, net	1,209,557	1,062,875
Inventories	1,640,487	1,572,325
Prepaid expenses	233,763	204,034
Deferred income taxes	137,220	147,534
Other current assets	42,218	44,884
Total current assets	3,368,814	3,085,718
Property, plant and equipment	5,175,073	4,950,149
Less: accumulated depreciation	2,402,351	2,248,406
Property, plant and equipment, net	2,772,722	2,701,743
Goodwill	1,668,520	1,736,092
Tradenames	658,760	700,592
Other intangible assets subject to amortization, net	87,544	111,010
Deferred income taxes and other non-current assets	145,100	159,022
	\$ 8,701,460	8,494,177
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and commercial paper	\$ 583,495	127,218
Accounts payable and accrued expenses	1,247,862	1,193,593
Total current liabilities	1,831,357	1,320,811
Deferred income taxes	374,947	445,823
Long-term debt, less current portion	1,806,821	2,132,790
Other long-term liabilities	111,817	124,447
Total liabilities	4,124,942	4,023,871
Commitments and contingencies (Notes 9 and 15)		
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued	—	—
Common stock, \$.01 par value; 150,000 shares authorized; 81,052 and 80,841 shares issued in 2014 and 2013, respectively	811	808
Additional paid-in capital	1,592,038	1,566,985
Retained earnings	3,340,211	2,953,809
Accumulated other comprehensive income (loss), net	(122,885)	) 178,689
	4,810,175	4,700,291
Less treasury stock at cost; 8,157 and 8,155 shares in 2014 and 2013, respectively	239,450	239,234
Total Mohawk Industries, Inc. stockholders' equity	4,570,725	4,461,057
Noncontrolling interest	5,793	9,249
Total stockholders' equity	4,576,518	4,470,306

\$8,701,460

8,494,177

See accompanying notes to condensed consolidated financial statements.

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

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$ 1,990,658	1,961,536	5,852,000	5,424,650
Cost of sales	1,434,236	1,444,646	4,239,411	4,016,638
Gross profit	556,422	516,890	1,612,589	1,408,012
Selling, general and administrative expenses	342,729	340,987	1,045,913	1,012,069
Operating income	213,693	175,903	566,676	395,943
Interest expense	34,786	25,630	77,584	70,098
Other (income) expense, net	(2,374)	) 1,168	961	6,458
Earnings from continuing operations before income taxes	181,281	149,105	488,131	319,387
Income tax expense	30,021	28,993	102,957	62,965
Earnings from continuing operations	151,260	120,112	385,174	256,422
Loss from discontinued operations, net of income tax benefit of \$297 and \$782, respectively	—	(553)	) —	(1,914)
Net earnings including noncontrolling interest	151,260	119,559	385,174	254,508
Net income (loss) attributable to noncontrolling interest	(6)	) 491	77	373
Net earnings attributable to Mohawk Industries, Inc.	\$ 151,266	119,068	385,097	254,135
Basic earnings per share attributable to Mohawk Industries, Inc.				
Income from continuing operations	\$2.08	1.65	5.29	3.59
Loss from discontinued operations	—	(0.01)	) —	(0.03)
Basic earnings per share attributable to Mohawk Industries, Inc.	\$2.08	1.64	5.29	3.56
Weighted-average common shares outstanding—basic	72,864	72,575	72,814	71,467
Diluted earnings per share attributable to Mohawk Industries, Inc.				
Income from continuing operations	\$2.06	1.64	5.25	3.56
Loss from discontinued operations	—	(0.01)	) —	(0.03)
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$2.06	1.63	5.25	3.53
Weighted-average common shares outstanding—diluted	73,376	73,087	73,332	71,975

See accompanying notes to condensed consolidated financial statements.

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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net earnings including noncontrolling interest	\$ 151,260	119,559	385,174	254,508
Other comprehensive income (loss):				
Foreign currency translation adjustments	(258,276 )	96,445	(301,590 )	(13,689 )
Pension prior service cost and actuarial gain	12	(26 )	16	181
Other comprehensive income (loss)	(258,264 )	96,419	(301,574 )	(13,508 )
Comprehensive income (loss)	(107,004 )	215,978	83,600	241,000
Comprehensive income (loss) attributable to the noncontrolling interest	(6 )	491	77	373
Comprehensive income (loss) attributable to Mohawk Industries, Inc.	\$(106,998 )	215,487	83,523	240,627

See accompanying notes to condensed consolidated financial statements.

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

(In thousands)

(Unaudited)

	Nine Months Ended	
	September 27, 2014	September 28, 2013
Cash flows from operating activities:		
Net earnings	\$385,174	254,508
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Restructuring	14,078	42,062
Depreciation and amortization	249,905	222,542
Deferred income taxes	(44,842)	(39,799)
Loss on extinguishment of debt	16,530	—
Loss on disposal of property, plant and equipment	511	1,714
Stock-based compensation expense	21,497	13,834
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables, net	(187,243)	(166,592)
Inventories	(108,875)	(45,924)
Accounts payable and accrued expenses	20,911	46,856
Other assets and prepaid expenses	(28,266)	15,153
Other liabilities	(15,957)	(17,381)
Net provided by operating activities	323,423	326,973
Cash flows from investing activities:		
Additions to property, plant and equipment	(391,580)	(255,523)
Acquisitions, net of cash acquired	19	(449,466)
Net cash used in investing activities	(391,561)	(704,989)
Cash flows from financing activities:		
Payments on Senior Credit Facilities	(1,399,286)	(2,113,593)
Proceeds from Senior Credit Facilities	1,048,237	2,407,701
Payments on Commercial Paper	(4,589,051)	—
Proceeds from Commercial Paper	5,158,101	—
Repayment of senior notes	(200,000)	—
Proceeds from 3.85% Senior Notes	—	600,000
Payments of acquired debt and other financings	(39,921)	(940,290)
Net change in asset securitization borrowings	200,000	20,000
Payments on other debt	(52,920)	(1,678)
Debt issuance costs	—	(7,652)
Debt extinguishment costs	(15,450)	—
Change in outstanding checks in excess of cash	5,327	(7,004)
Proceeds and net tax benefit from stock transactions	11,550	38,633
Net cash provided by (used in) financing activities	126,587	(3,883)
Effect of exchange rate changes on cash and cash equivalents	(6,946)	(32,193)
Net change in cash and cash equivalents	51,503	(414,092)
Cash and cash equivalents, beginning of period	54,066	477,672
Cash and cash equivalents, end of period	\$105,569	63,580

See accompanying notes to condensed consolidated financial statements.





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

(In thousands, except per share amounts)

(Unaudited)

1. General

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 2013 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. Results for interim periods are not necessarily indicative of the results for the year.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers. This topic converges the guidance within U.S. generally accepted accounting principles and international financial reporting standards and supersedes ASC 605, Revenue Recognition. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period and early application is not permitted. Accordingly, the Company plans to adopt the provisions of this new accounting standard at the beginning of fiscal year 2017, and is currently assessing the impact on its consolidated financial statements.

2. Acquisitions

Marazzi Acquisition

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

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

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

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

The Company funded the cash portion of the Marazzi acquisition through a combination of proceeds from the 3.85% Senior Notes (as discussed in Note 16), cash on hand and borrowings under the 2011 Senior Credit Facility. The Company incurred \$402 and \$14,214 of direct transaction costs which were recorded in selling, general and

administrative expenses in the three and nine months ended September 28, 2013, respectively. The Company incurred \$15,660 of direct transaction costs, of which \$14,199 were recorded in selling, general and administrative expenses and \$1,461 were recorded in other expenses for the year ended December 31, 2013.

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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the allocation of the aggregate purchase price of the Marazzi acquisition to the estimated fair values of the tangible and identifiable intangible assets acquired and liabilities assumed:

Enterprise value	\$1,522,731	
Assumed indebtedness	(901,773	)
Consideration transferred	\$620,958	
Working capital	\$428,624	
Property, plant and equipment, net	773,594	
Tradenames	215,357	
Customer relationships	21,792	
Equity method investments	32	
Goodwill	276,586	
Other long-term assets	18,499	
Long-term debt, including current portion	(901,773	)
Other long-term liabilities	(70,090	)
Deferred tax liability	(135,455	)
Noncontrolling interest	(6,208	)
Consideration transferred	\$620,958	

Intangible assets subject to amortization of \$21,792 related to customer relationships have an estimated average life of 10 years. In addition to the amortizable intangible assets, there is an additional \$215,357 in indefinite-lived trademark intangible assets. The goodwill of \$276,586 was allocated to the Ceramic segment. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the Marazzi acquisition. These benefits include opportunities to improve the Company's ceramic performance by leveraging best practices, operational expertise, product innovation and manufacturing assets across the segment. The goodwill is not expected to be deductible for tax purposes. The fair value of inventories acquired included a step-up in the value of inventories of approximately \$12,297 and \$31,041 which was charged to cost of sales in the three and nine months ended September 28, 2013, respectively.

In connection with the acquisition of Marazzi, the Company became a party to an off-balance sheet accounts receivable securitization facility ("Marazzi Securitization Facility") pursuant to which the Company services receivables sold to a third party. As of September 27, 2014, the amount utilized under the Marazzi Securitization Facility was €3,713. The Company is in the process of terminating this facility.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following unaudited pro forma consolidated results of operations have been prepared as if the Marazzi acquisition occurred as of January 1, 2012:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net Sales:				
As reported	\$1,990,658	1,961,536	5,852,000	5,424,650
Pro forma	\$1,990,658	1,961,536	5,852,000	5,687,131
Net earnings from continuing operations attributable to Mohawk Industries, Inc.:				
As reported	\$151,266	119,621	385,097	256,049
Pro forma	\$151,266	129,532	385,097	288,682
Basic earnings per share from continuing operations attributable to Mohawk Industries, Inc.:				
As reported	\$2.08	1.65	5.29	3.59
Pro forma	\$2.08	1.78	5.29	3.99
Diluted earnings per share from continuing operations attributable to Mohawk Industries, Inc.:				
As reported	\$2.06	1.64	5.25	3.56
Pro forma	\$2.06	1.77	5.25	3.96

The pro forma earnings and per share results for the three and nine months ended September 28, 2013 have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the date indicated or that may result in the future.

Other Acquisitions

On January 10, 2013, the Company completed its purchase of Pergo, a leading manufacturer of laminate flooring in the U.S. and the Nordic countries. The total value of the acquisition was approximately \$145,000. Pergo complements the Company's specialty distribution network in the U.S., leverages its geographic position in Europe, expands its geographic reach to the Nordic countries and India and enhances its patent portfolio. The acquisition's results and purchase price allocation have been included in the condensed consolidated financial statements since the date of the acquisition. The Company's acquisition of Pergo resulted in a goodwill allocation of \$18,456, indefinite-lived trademark intangible assets of \$16,834 and intangible assets subject to amortization of \$15,188. The goodwill is not expected to be deductible for tax purposes. The factors contributing to the recognition of the amount of goodwill include the opportunity to optimize the assets of Pergo with the Company's existing Laminate and Wood assets while strengthening the design and product performance of the Pergo and Unilin brands. The Pergo results are reflected in the Laminate and Wood segment.

On May 3, 2013, the Company completed the acquisition of Spano, a Belgian panel board manufacturer. The total value of the acquisition was approximately \$160,000. Spano extends the Laminate and Wood segment's customer base into new channels of distribution and adds technical expertise and product knowledge that the Company can leverage.

The acquisition's results and a purchase price allocation have been included in the condensed consolidated financial statements since the date of the acquisition. The Company's acquisition of Spano resulted in a goodwill allocation of \$37,739. The goodwill is not expected to be deductible for tax purposes. The factors contributing to the recognition of the amount of goodwill include the extension of the Company's customer base into new channels of distribution and the opportunity for synergies in manufacturing assets and processes, raw materials and operational efficiencies. The Spano results are reflected in the Laminate and Wood segment.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

Restructuring, acquisition transaction and integration-related costs consisted of the following during the three and nine months ended September 27, 2014 and September 28, 2013:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Cost of sales				
Restructuring costs	\$3,862	9,786	9,396	24,116
Acquisition integration-related costs	3,399	4,913	10,257	8,328
Restructuring and integration-related costs	\$7,261	14,699	19,653	32,444
Selling, general and administrative expenses				
Restructuring costs	\$1,465	3,887	4,682	17,946
Acquisition transaction-related costs	—	402	—	14,214
Acquisition integration-related costs	5,287	5,423	12,572	10,984
Restructuring, acquisition and integration-related costs	\$6,752	9,712	17,254	43,144

The restructuring activity for the nine months ended September 27, 2014 is as follows:

	Lease impairments	Asset write-downs	Severance	Other restructuring costs	Total
Balance as of December 31, 2013	\$ 5,904	—	18,144	—	24,048
Provision - Ceramic segment	—	4,192	823	(590)	4,425
Provision - Laminate and Wood segment	—	—	2,511	7,142	9,653
Cash payments	(3,462)	—	(15,831)	(7,142)	(26,435)
Non-cash items	—	(4,192)	—	590	(3,602)
Balance as of September 27, 2014	\$ 2,442	—	5,647	—	8,089

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

## 4. Discontinued operations

On January 22, 2014, the Company sold a non-core sanitary ware business acquired as part of the Marazzi acquisition because the Company did not believe the business was consistent with its long-term strategy. The Company determined that the business meets the definition of discontinued operations. Sales attributable to discontinued operations for the year ended December 31, 2013 were immaterial. The loss on sale of \$16,569 (\$15,651, net of tax) related to the disposition of the business was recorded in discontinued operations for the year ended December 31, 2013.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. Receivables, net

Receivables, net are as follows:

	September 27, 2014	December 31, 2013
Customers, trade	\$1,226,818	1,076,824
Income tax receivable	6,761	7,590
Other	54,236	55,498
	1,287,815	1,139,912
Less: allowance for discounts, returns, claims and doubtful accounts	78,258	77,037
Receivables, net	\$1,209,557	1,062,875

## 6. Inventories

The components of inventories are as follows:

	September 27, 2014	December 31, 2013
Finished goods	\$1,087,554	1,039,478
Work in process	133,605	129,080
Raw materials	419,328	403,767
Total inventories	\$1,640,487	1,572,325

## 7. Goodwill and intangible assets

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

Goodwill:

	Carpet segment	Ceramic segment	Laminate and Wood segment	Total
Balance as of December 31, 2013				
Goodwill	\$199,132	1,459,812	1,404,573	3,063,517
Accumulated impairment losses	(199,132 )	(531,930 )	(596,363 )	(1,327,425 )
	\$—	927,882	808,210	1,736,092
Goodwill recognized or adjusted during the period		(2,497 )	7,775	5,278
Currency translation during the period		(23,549 )	(49,301 )	(72,850 )
Balance as of September 27, 2014				
Goodwill	\$199,132	1,433,766	1,363,047	2,995,945
Accumulated impairment losses	(199,132 )	(531,930 )	(596,363 )	(1,327,425 )
	\$—	901,836	766,684	1,668,520

During the first quarter of 2014, the Company acquired certain assets of a wood business in the Laminate and Wood segment for \$303, resulting in a preliminary goodwill allocation of \$6,662.

Intangible assets not subject to amortization:

Tradenames

Balance as of December 31, 2013	\$700,592
Currency translation during the period	(41,832 )
Balance as of September 27, 2014	\$658,760

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## Intangible assets subject to amortization:

Gross carrying amounts:	Customer relationships	Patents	Other	Total	
Balance as of December 31, 2013	\$383,359	307,186	1,501	692,046	
Currency translation during the period	(18,825	) (24,957	) (6	) (43,788	
Balance as of September 27, 2014	\$364,534	282,229	1,495	648,258	
Accumulated amortization:	Customer relationships	Patents	Other	Total	
Balance as of December 31, 2013	\$342,361	238,115	560	581,036	
Amortization during the period	5,225	13,369	93	18,687	
Currency translation during the period	(18,811	) (20,194	) (4	) (39,009	
Balance as of September 27, 2014	\$328,775	231,290	649	560,714	
Intangible assets subject to amortization, net	\$35,759	50,939	846	87,544	
		Three Months Ended	Nine Months Ended		
		September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Amortization expense		\$6,140	13,288	18,687	19,262

## 8. Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows:

	September 27, 2014	December 31, 2013
Outstanding checks in excess of cash	\$23,331	18,012
Accounts payable, trade	715,099	631,732
Accrued expenses	269,628	273,230
Product warranties	31,003	35,818
Accrued interest	13,395	35,618
Income taxes payable	20,639	1,095
Deferred tax liability	9,705	11,235
Accrued compensation and benefits	165,062	186,853
Total accounts payable and accrued expenses	\$1,247,862	1,193,593

## 9. Product warranties

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

The activity related to warranty obligations is as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Balance at beginning of period	\$32,236	33,674	35,818	32,930
Warranty claims paid during the period	(11,720	) (12,144	) (41,606	) (41,751

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Acquisitions	—	48	—	3,331
Warranty expense during the period	10,487	11,989	36,791	39,057
Balance at end of period	\$31,003	33,567	31,003	33,567

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 10. Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income by component, net of tax, for the nine months ended September 27, 2014 are as follows:

	Foreign currency translation adjustments	Pensions (1)	Total
Balance as of December 31, 2013	\$178,846	(157 )	178,689
Current period other comprehensive income (loss) before reclassifications	(301,590 )	16	(301,574 )
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—
Balance as of September 27, 2014	\$(122,744 )	(141 )	(122,885 )

(1) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost (refer to Note 13 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013).

## 11. Stock-based compensation

The Company recognizes compensation expense for all share-based payments granted based on the grant-date fair value estimated in accordance with the provisions of the Financial Accounting Standards Board Accounting Standards Codification topic ("ASC") 718-10. Compensation expense is recognized on a straight-line basis over the options' or other awards' estimated lives for fixed awards with ratable vesting provisions.

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

The Company did not grant any options for the three and nine months ended September 27, 2014 and September 28, 2013. The Company recognized stock-based compensation costs related to stock options of \$191 (\$121 net of taxes) and \$251 (\$159 net of taxes) for the three months ended September 27, 2014 and September 28, 2013, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. The Company recognized stock-based compensation costs related to stock options of \$666 (\$422 net of taxes) and \$1,107 (\$701 net of taxes) for the nine months ended September 27, 2014 and September 28, 2013, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. Pre-tax unrecognized compensation expense for stock options granted to employees and outside directors, net of estimated forfeitures, was \$404 as of September 27, 2014, and will be recognized as expense over a weighted-average period of approximately 0.7 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 did not grant any RSUs for the three months ended September 27, 2014. The Company granted 189 RSUs at a weighted-average grant-date fair value of \$144.75 per unit for the nine months ended September 27, 2014.

The Company granted 2 RSUs at a weighted-average grant-date fair value per unit of \$115.79 for the three months ended September 28, 2013. The Company granted 301 RSUs at a weighted-average grant-date fair value per unit of \$110.14 for the nine months ended September 28, 2013. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$7,119 (\$4,510 net of taxes) and \$4,085 (\$2,588 net of taxes) for the three months ended September 27, 2014 and September 28, 2013, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$20,831 (\$13,196 net of taxes) and \$12,727 (\$8,063 net of taxes) for the nine months ended September 27, 2014 and September 28, 2013, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSUs granted to employees, net of estimated forfeitures, was \$35,753 as of September 27, 2014, and will be recognized as expense over a weighted-average period of approximately 2.20 years.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12. Other (income) expense, net

Other (income) expense is as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Foreign currency (gains) losses, net	\$(163	) 3,061	4,693	6,093
All other, net	(2,211	) (1,893	) (3,732	) 365
Total other (income) expense, net	\$(2,374	) 1,168	961	6,458

## 13. Earnings per share

Basic earnings per common share is computed by dividing earnings from continuing operations attributable to Mohawk Industries, Inc. by the weighted average number of common shares outstanding during each period. Diluted earnings per common share assumes the exercise of outstanding stock options and the vesting of RSUs using the treasury stock method when the effects of such assumptions are dilutive. A reconciliation of earnings from continuing operations attributable to Mohawk Industries, Inc. and weighted average common shares outstanding for purposes of calculating basic and diluted earnings per share is as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Earnings from continuing operations attributable to Mohawk Industries, Inc.	\$151,266	119,621	385,097	256,049
Weighted-average common shares outstanding—basic and diluted:				
Weighted-average common shares outstanding—basic	72,864	72,575	72,814	71,467
Add weighted-average dilutive potential common shares—options to purchase common shares and RSUs, net	512	512	518	508
Weighted-average common shares outstanding—diluted	73,376	73,087	73,332	71,975
Earnings per share from continuing operations attributable to Mohawk Industries, Inc.				
Basic	\$2.08	1.65	5.29	3.59
Diluted	\$2.06	1.64	5.25	3.56

## 14. Segment reporting

The Company has three reporting segments: the Carpet segment, the Ceramic segment and the Laminate and Wood segment. The Carpet segment designs, manufactures, sources and markets its floor covering product lines, including carpets, ceramic tile, laminate, rugs, carpet pad, hardwood and resilient, which it distributes 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, shop at home, buying groups, commercial dealers and commercial end users. The Ceramic segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone and other products, which it distributes primarily

in North America, Europe and Russia 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 Company-operated service centers, independent distributors, home center retailers, tile and flooring retailers and contractors. The Laminate and Wood segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard ("MDF"), chipboards and other wood products, which it distributes primarily in North America and Europe through various selling channels, which include retailers, independent distributors and home centers.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales:				
Carpet segment	\$778,849	772,751	2,234,083	2,238,953
Ceramic segment	779,842	767,005	2,271,660	1,939,054
Laminate and Wood segment	462,574	450,723	1,431,839	1,326,178
Intersegment sales	(30,607 )	(28,943 )	(85,582 )	(79,535 )
	\$1,990,658	1,961,536	5,852,000	5,424,650
Operating income (loss):				
Carpet segment	\$74,082	68,836	171,179	148,936
Ceramic segment	101,254	75,908	268,320	152,188
Laminate and Wood segment	44,768	39,020	149,730	119,075
Corporate and intersegment eliminations	(6,411 )	(7,861 )	(22,553 )	(24,256 )
	\$213,693	175,903	566,676	395,943
			September 27, 2014	December 31, 2013
Assets:				
Carpet segment			\$2,016,109	1,786,085
Ceramic segment			3,788,164	3,787,785
Laminate and Wood segment			2,672,599	2,716,759
Corporate and intersegment eliminations			224,588	203,548
			\$8,701,460	8,494,177

## 15. Commitments, contingencies and other

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

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

In these actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. The direct purchaser class currently claims damages from all of the defendants named in the lawsuit of up to approximately \$1,200,000 which amount will be reduced by the value of claims made by plaintiffs that opt out of the class. Any damages actually awarded at trial are subject to being tripled under US antitrust laws. The amount of damages in the remaining cases varies or has not yet been specified by the plaintiffs. Each plaintiff also seeks attorney fees, pre-judgment and post-judgment interest, court costs and injunctive relief against future violations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 denied all defendants' motions to dismiss. On April 9, 2014, the Court certified the direct and indirect purchaser classes. The Company sought permission to appeal the certification order on April 24, 2014, and the petition was denied by the U.S. Court of Appeals for the Sixth Circuit on September 29, 2014.

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

In January 2012, the Company received a €23,789 assessment from the Belgian tax authority related to its year ended December 31, 2008, asserting that the Company had understated its Belgian taxable income for that year. The Company filed a formal protest in the first quarter of 2012 refuting the Belgian tax authority's position. The Belgian tax authority set aside the assessment in the third quarter of 2012 and refunded all related deposits, including interest income of €1,583 earned on such deposits. However, on October 23, 2012, the Belgian tax authority notified the Company of its intent to increase the Company's taxable income for the year ended December 31, 2008 under a revised theory. On May 20, 2014, the Company was re-assessed by the Belgian tax authority for the year ended December 31, 2008 in the amount of €30,132 including penalties, but excluding interest. The Company filed a formal protest in August 2014.

On December 28, 2012, the Belgian tax authority issued assessments for the years ended December 31, 2005 and December 31, 2009, in the amounts of €46,135 and €35,567, respectively, including penalties, but excluding interest. The Company filed a formal protest during the first quarter of 2013 relating to the new assessments. In September 2013, the Belgian tax authority denied the Company's protests, and the Company has petitioned the applicable Belgian court to hear the case.

In December 2013, the Belgian tax authority issued additional assessments related to the years ended December 31, 2006, 2007, and 2010, in the amounts of €38,817, €39,635, and €43,117, respectively, including penalties, but excluding interest. The Company filed formal protests during the first quarter of 2014, refuting the Belgian tax authority's position for each of the years assessed. In August 2014, the Belgian tax authority denied these protests and the Company plans to petition the applicable Belgian court to hear the case.

The Company continues to disagree with the views of the Belgian tax authority on this matter and will persist in its vigorous defense. Although there can be no assurances, the Company believes the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, liquidity or cash flows in a given quarter or year.

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

16. Debt

## Commercial Paper

On February 28, 2014, the Company entered into definitive documentation to establish a commercial paper program for the issuance of unsecured commercial paper in the United States capital markets. Under the program, the Company may issue commercial paper notes from time to time in an aggregate amount not to exceed \$1,000,000 outstanding at any time, subject to availability under the 2013 Senior Credit Facility, which the Company uses as a liquidity backstop. The commercial paper notes will have maturities ranging from one day to 397 days and will not be subject to voluntary prepayment by the Company or redemption prior to maturity. The commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness.

The proceeds from the sale of commercial paper notes will be available for general corporate purposes. The Company used the initial proceeds from the sale of commercial paper notes to repay borrowings under its 2013 Senior Credit Facility and

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

certain of its industrial revenue bonds. As of September 27, 2014, the amount utilized under the commercial paper program was \$569,050 with a weighted-average interest rate and maturity period of 0.63% and 42 days, respectively.

Senior Credit Facility

On September 25, 2013, the Company entered into a \$1,000,000, 5-year, senior revolving credit facility (the "2013 Senior Credit Facility"). The 2013 Senior Credit Facility provides for a maximum of \$1,000,000 of revolving credit, including limited amounts of credit in the form of letters of credit and swingline loans. The Company paid financing costs of \$1,836 in connection with its 2013 Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$11,440 related to the Company's 2011 Credit Facility, are being amortized over the term of the 2013 Senior Credit Facility.

At the Company's election, revolving loans under the 2013 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 1.00% and 1.75%, or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, and a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75%. The Company also pays a commitment fee to the Lenders under the 2013 Senior Credit Facility on the average amount by which the aggregate commitments of the Lenders' exceed utilization of the 2013 Senior Credit Facility ranging from 0.125% to 0.25% per annum. The applicable interest rate and the commitment fee are determined based on whichever of the Company's Consolidated Net Leverage Ratio or its senior unsecured debt rating (or if not available, corporate family rating) results in the lower applicable margins and commitment fee (with applicable margins and the commitment fee increasing as that ratio increases or those ratings decline, as applicable).

The obligations of the Company and its subsidiaries in respect of the 2013 Senior Credit Facility are unsecured.

If at any time (a) both (i) the 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 obligations of the Company and the other Borrowers under the 2013 Senior Credit Facility will be required to be guaranteed by all of the Company's material domestic subsidiaries and all obligations of Borrowers that are foreign subsidiaries will be required to be guaranteed by those foreign subsidiaries of the Company which the Company designates as guarantors.

The 2013 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.

The 2013 Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

The 2013 Senior Credit Facility is scheduled to mature on September 25, 2018. However, the maturity date will accelerate, resulting in the acceleration of any unamortized deferred financing costs, to October 16, 2015, if on that date any of the Company's 6.125% notes due January 15, 2016 remains outstanding and the Company has not delivered to the Administrative Agent a certificate demonstrating that, after giving pro forma effect to the repayment in cash in full on that date of all of the 6.125% notes that remain outstanding, the amount the Company would be

permitted to draw under the 2013 Senior Credit Facility, together with the aggregate consolidated amount of unrestricted cash and cash equivalents of the Company, would exceed \$200,000. While there can be no assurance, the Company currently believes that if any of the 6.125% notes remains outstanding on October 16, 2015, the amount the Company would be permitted to draw under the 2013 Senior Credit Facility, together with the aggregate consolidated amount of the Company's unrestricted cash and cash equivalents, would exceed \$200,000 on October 16, 2015.

As of September 27, 2014, amounts utilized under the facility included \$10,380 of borrowings and \$39,217 of standby letters of credit related to various insurance contracts and foreign vendor commitments. The Company also considers the outstanding borrowings of \$569,050 as of September 27, 2014 under its commercial paper program to be a reduction of the available capacity. Taking the commercial paper borrowings into consideration, the Company has utilized \$618,647 under the 2013 Senior Credit Facility resulting in a total of \$381,353 available under the 2013 Senior Credit Facility.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Senior Notes

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

On January 17, 2006, the Company issued \$900,000 aggregate principal amount of 6.125% notes due January 15, 2016. Interest payable on these notes is subject to adjustment if either Moody's or S&P, or both, upgrades or downgrades the rating assigned to the Company. 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. The current rate in effect is 6.125%. 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.

On August 15, 2014, the Company purchased for cash approximately \$200,000 aggregate principal amount of its outstanding 6.125% senior notes due January 15, 2016 at a price equal to 107.73% of the principal amount, resulting in a premium to redeeming noteholders of approximately \$15,450. The premium as well as the fees of \$1,080 associated with the redemption are included in interest expense on the condensed consolidated statement of operations for the three and nine months ended September 27, 2014.

Accounts Receivable Securitization

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). On September 11, 2014, the Company made certain modifications to its Securitization Facility, which modifications, among other things, increased the aggregate borrowings available under the facility from \$300,000 to \$500,000 and decreased the interest margins on certain borrowings. Under the terms of the Securitization Facility, certain subsidiaries of the Company sell at a discount certain of their trade accounts receivable (the "Receivables") to Mohawk Factoring, LLC ("Factoring") on a revolving basis. Factoring is a wholly owned, bankruptcy remote subsidiary of the Company, meaning that Factoring is a separate legal entity whose assets are available to satisfy the claims of the creditors of Factoring only, not the creditors of the Company or the Company's other subsidiaries. To fund such purchases, Factoring may borrow up to \$500,000 based on the amount of eligible Receivables owned by Factoring, and Factoring has granted a security interest in all of such Receivables to the third-party lending group as collateral for such borrowings. Amounts loaned to Factoring under the Securitization Facility bear interest at commercial paper interest rates, in the case of lenders that are commercial paper conduits, or LIBOR, in the case of lenders that are not commercial paper conduits, in each case, plus an applicable margin of 0.70% per annum. Factoring also pays a commitment fee at a per annum rate of 0.35% on the unused amount of each lender's commitment.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

At September 27, 2014, the amount utilized under the Securitization Facility was \$500,000.

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

	September 27, 2014		December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
3.85% senior notes, payable January 31, 2023; interest payable semiannually	\$598,800	600,000	569,400	600,000
6.125% notes, payable January 15, 2016; interest payable semiannually	744,800	700,000	983,700	900,000
Commercial paper	569,050	569,050	—	—
Five-year senior secured credit facility, due September 25, 2018	10,380	10,380	364,005	364,005
Securitization facility	500,000	500,000	300,000	300,000
Capital leases and other	10,886	10,886	96,003	96,003
Total debt	2,433,916	2,390,316	2,313,108	2,260,008
Less current portion of long term debt and commercial paper	583,495	583,495	127,218	127,218
Long-term debt, less current portion	\$1,850,421	1,806,821	2,185,890	2,132,790

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.



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

#### Overview

Mohawk Industries, Inc. ("Mohawk" or the "Company") is a leading global flooring manufacturer that creates products to enhance residential and commercial spaces around the world. The Company's vertically integrated manufacturing and distribution processes provide competitive advantages in carpet, rugs, ceramic tile, laminate, wood, stone and vinyl flooring. The Company's industry-leading innovation has yielded products and technologies that differentiate its brands in the marketplace and satisfy all flooring related remodeling and new construction requirements. The Company's brands are among the most recognized in the industry and include American Olean<sup>®</sup>, Bigelow<sup>®</sup>, Daltile<sup>®</sup>, Durkan<sup>®</sup>, Karastan<sup>®</sup>, Kerama Marazzi<sup>®</sup>, Lees<sup>®</sup>, Marazzi<sup>®</sup>, Mohawk<sup>®</sup>, Pergo<sup>®</sup>, Quick-Step<sup>®</sup> and Unilin<sup>®</sup>. During the past decade, the Company has transformed its business from an American carpet manufacturer into the world's largest flooring company with operations in Australia, Brazil, Canada, China, Europe, India, Malaysia, Mexico, Russia and the United States. The Company had annual net sales in 2013 of \$7.3 billion.

The Company has three reporting segments: the Carpet segment, the Ceramic segment and the Laminate and Wood segment. The Carpet segment designs, manufactures, sources and markets its floor covering product lines, including carpets, ceramic tile, laminate, rugs, carpet pad, hardwood and resilient, which it distributes 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, including independent floor covering retailers, home centers, mass merchandisers, department stores, shop at home, buying groups, commercial dealers and commercial end users. The Ceramic segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone and other products, which it distributes primarily in North America, Europe and Russia 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 Company-operated service centers, independent distributors, home center retailers, tile and flooring retailers and contractors. The Laminate and Wood segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard ("MDF"), chipboards and other wood products, which it distributes primarily in North America and Europe through various selling channels, which include retailers, independent distributors and home centers.

For the three months ended September 27, 2014, net earnings attributable to the Company were \$151.3 million, or diluted earnings per share ("EPS") of \$2.06, compared to the net earnings attributable to the Company of \$119.1 million, or diluted EPS of \$1.63, for the three months ended September 28, 2013. The increase in diluted EPS for the three months ended September 27, 2014 was primarily attributable to increased operations productivity, lower restructuring, acquisition and integration-related costs, inventory step-up in the prior year related to the Marazzi acquisition, higher volume and the favorable net impact of price and product mix, partially offset by higher input costs.

For the nine months ended September 27, 2014, net earnings attributable to the Company were \$385.1 million, or diluted earnings per share ("EPS") of \$5.25, compared to the net earnings attributable to the Company of \$254.1 million, or diluted EPS of \$3.53, for the nine months ended September 28, 2013. The increase in diluted EPS for the nine months ended September 27, 2014 was primarily attributable to increased operations productivity, lower restructuring, acquisition and integration-related costs, inventory step-up in the prior year related to the Marazzi acquisition, higher volume, the Marazzi and Spano acquisitions and the favorable net impact of price and product mix, partially offset by higher input costs.

#### Results of Operations

Quarter Ended September 27, 2014, as compared with Quarter Ended September 28, 2013

Net sales

Net sales for the three months ended September 27, 2014 were \$1,990.7 million, reflecting an increase of \$29.1 million, or 1.5%, from the \$1,961.5 million reported for the three months ended September 28, 2013. The increase was primarily attributable to higher volume of approximately \$35 million, the favorable net impact of price and product mix of approximately \$3 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$9 million.

Carpet segment—Net sales increased \$6.1 million, or 0.8%, to \$778.8 million for the three months ended September 27, 2014, compared to \$772.8 million for the three months ended September 28, 2013. The increase was primarily attributable to higher volume of approximately \$19 million, partially offset by the unfavorable net impact of price and product

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mix of approximately \$13 million. The volume increases were primarily attributable to increases in residential new construction and commercial sales.

Ceramic segment—Net sales increased \$12.8 million, or 1.7%, to \$779.8 million for the three months ended September 27, 2014, compared to \$767.0 million for the three months ended September 28, 2013. The increase was primarily attributable to higher volume of approximately \$10 million and the favorable net impact of price and product mix of approximately \$12 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$9 million. The volume increases were attributable to higher residential and commercial sales primarily in North America.

Laminate and Wood segment—Net sales increased \$11.9 million, or 2.6%, to \$462.6 million for the three months ended September 27, 2014, compared to \$450.7 million for the three months ended September 28, 2013. The increase was primarily attributable to higher volume of approximately \$8 million, favorable net impact of price and product mix of approximately \$3 million and the net impact of favorable foreign exchange rates of approximately \$1 million. The \$8 million increase in volume in the quarter was primarily attributable to higher sales in Europe.

### Gross profit

Gross profit for the three months ended September 27, 2014 was \$556.4 million (28.0% of net sales), an increase of \$39.5 million or 7.6%, compared to gross profit of \$516.9 million (26.4% of net sales) for the three months ended September 28, 2013. As a percentage of net sales, gross profit increased 160 basis points. The increase in gross profit dollars was primarily attributable to operations productivity of approximately \$24 million, fair value inventory step-up adjustment in the prior year related to the Marazzi acquisition of approximately \$12 million, lower restructuring, acquisition and integration-related costs of approximately \$8 million, higher sales volume of approximately \$9 million and the favorable net impact of price and product mix of approximately \$7 million, partially offset by higher input costs of approximately \$14 million and the net impact of unfavorable foreign exchange rates of approximately \$3 million.

### Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended September 27, 2014 were \$342.7 million (17.2% of net sales), compared to \$341.0 million (17.4% of net sales) for the three months ended September 28, 2013. As a percentage of net sales, selling, general and administrative expenses decreased 20 basis points. The increase in selling, general and administrative expenses in dollars was primarily attributable to a higher provision for legal reserves, partially offset by improved efficiencies.

### Operating income

Operating income for the three months ended September 27, 2014 was \$213.7 million (10.7% of net sales) reflecting an increase of \$37.8 million, or 21.5%, compared to operating income of \$175.9 million (9.0% of net sales) for the three months ended September 28, 2013. The increase in operating income was primarily attributable to increases in operations productivity of approximately \$24 million, the fair value inventory step-up adjustment in the prior year related to the Marazzi acquisition of approximately \$12 million, a decrease in restructuring and integration of approximately \$10 million, sales volume increases of approximately \$9 million and the favorable net impact of price and product mix of approximately \$7 million, partially offset by higher input costs of approximately \$14 million and a higher provision for legal reserves of approximately \$10 million.

Carpet segment—Operating income was \$74.1 million (9.5% of segment net sales) for the three months ended September 27, 2014 reflecting an increase of \$5.2 million compared to operating income of \$68.8 million (8.9% of

segment net sales) for the three months ended September 28, 2013. The increase in operating income was primarily attributable to operations productivity of approximately \$15 million, sales volume increases of approximately \$4 million, partially offset by a higher provision for legal reserves of approximately \$10 million and higher input costs of approximately \$7 million.

Ceramic segment—Operating income was \$101.3 million (13.0% of segment net sales) for the three months ended September 27, 2014 reflecting an increase of \$25.3 million compared to operating income of \$75.9 million (9.9% of segment net sales) for the three months ended September 28, 2013. The increase in operating income was primarily attributable to the fair value inventory step-up adjustment in the prior year related to the Marazzi acquisition of approximately \$12 million, the favorable net impact of price and product mix of approximately \$10 million, operations productivity of approximately \$10 million and sales volume increases of approximately \$3 million, partially offset by higher input costs of approximately \$5 million.

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Laminate and Wood segment—Operating income was \$44.8 million (9.7% of segment net sales) for the three months ended September 27, 2014 reflecting an increase of \$5.7 million compared to operating income of \$39.0 million (8.7% of segment net sales) for the three months ended September 28, 2013. The increase in operating income was primarily attributable to lower restructuring, acquisition and integration costs of approximately \$10 million, higher sales volume of approximately \$3 million, partially offset by approximately \$4 million of higher selling costs to support product introductions and higher input costs of approximately \$2 million.

### Interest expense

Interest expense was \$34.8 million for the three months ended September 27, 2014, reflecting an increase of \$9.2 million compared to interest expense of \$25.6 million for the three months ended September 28, 2013. The increase was primarily attributable to the bond redemption premium and related fees of approximately \$17 million, partially offset by lower interest rates.

### Other (income) expense

Other income was \$2.4 million for the three months ended September 27, 2014, reflecting a favorable change of \$3.5 million compared to other expense of \$1.2 million for the three months ended September 28, 2013.

### Income tax expense

For the three months ended September 27, 2014, the Company recorded income tax expense of \$30.0 million on earnings from continuing operations before income taxes of \$181.3 million for an effective tax rate of 16.6%, as compared to an income tax expense of \$29.0 million on earnings from continuing operations before income taxes of \$149.1 million, for an effective tax rate of 19.4% for the three months ended September 28, 2013. The difference in the effective tax rate for the comparative period is primarily attributable to the resolution of an Italian withholding tax case resulting in a benefit of approximately \$8 million, as well as the geographic dispersion of earnings and losses for the quarters.

Nine Months Ended September 27, 2014, as compared with Nine Months Ended September 28, 2013

### Net sales

Net sales for the nine months ended September 27, 2014 were \$5,852.0 million, reflecting an increase of \$427.4 million, or 7.9%, from the \$5,424.7 million reported for the nine months ended September 28, 2013. The increase was primarily attributable to higher sales volume of approximately \$402 million, the net impact of favorable foreign exchange rates of approximately \$16 million and the favorable net impact of price and product mix of approximately \$9 million. Of the \$402 million increase in volume, approximately \$328 million was attributable to the Marazzi and Spano acquisitions.

Carpet segment—Net sales decreased \$4.9 million, or 0.2%, to \$2,234.1 million for the nine months ended September 27, 2014, compared to \$2,239.0 million for the nine months ended September 28, 2013. The decrease was primarily attributable to the unfavorable net impact of price and product mix of approximately \$16 million, partially offset by higher volume of approximately \$11 million. The volume increases were primarily attributable to increases in residential new construction and commercial sales.

Ceramic segment—Net sales increased \$332.6 million, or 17.2%, to \$2,271.7 million for the nine months ended September 27, 2014, compared to \$1,939.1 million for the nine months ended September 28, 2013. The increase was primarily attributable to higher volume of approximately \$319 million and the favorable net impact of price and

product mix of approximately \$27 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$13 million. Of the \$319 million increase in volume, approximately \$272 million was attributable to the Marazzi acquisition. The remaining volume increases were primarily attributable to higher residential and commercial sales primarily in North America.

Laminate and Wood segment—Net sales increased \$105.7 million, or 8.0%, to \$1,431.8 million for the nine months ended September 27, 2014, compared to \$1,326.2 million for the nine months ended September 28, 2013. The increase was primarily attributable to higher volume of approximately \$78 million and the net impact of favorable foreign exchange rates of approximately \$29 million, partially offset by the unfavorable net impact of price and product mix of approximately \$1 million. Of the \$78 million increase in volume, primarily attributable to the Spano acquisition. The remaining volume increases were attributable to higher sales in Europe.

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## Gross profit

Gross profit for the nine months ended September 27, 2014 was \$1,612.6 million (27.6% of net sales), an increase of \$204.6 million or 14.5%, compared to gross profit of \$1,408.0 million (26.0% of net sales) for the nine months ended September 28, 2013. As a percentage of net sales, gross profit increased 160 basis points. The increase in gross profit dollars was primarily attributable to higher sales volume of approximately \$119 million that was predominately attributable to the Marazzi and Spano acquisitions, operations productivity of approximately \$69 million, the fair value inventory step-up adjustment in the prior year related to the Marazzi acquisition of approximately \$31 million, the favorable net impact of price and product mix of approximately \$20 million, lower restructuring, acquisition and integration-related costs of approximately \$13 million and the net impact of favorable foreign exchange rates of approximately \$5 million, partially offset by higher input costs of approximately \$43 million.

## Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended September 27, 2014 were \$1,045.9 million (17.9% of net sales), compared to \$1,012.1 million (18.7% of net sales) for the nine months ended September 28, 2013. As a percentage of net sales, selling, general and administrative expenses decreased 80 basis points. The increase in selling, general and administrative expenses in dollars was primarily attributable to acquisition volume, partially offset by lower restructuring, acquisition and integration-related costs and improved efficiencies.

## Operating income

Operating income for the nine months ended September 27, 2014 was \$566.7 million (9.7% of net sales) reflecting an increase of \$170.7 million, or 43.1%, compared to operating income of \$395.9 million (7.3% of net sales) for the nine months ended September 28, 2013. The increase in operating income was primarily attributable to increases in operations productivity of approximately \$69 million, sales volume increases of approximately \$57 million partially related to the acquisitions, lower restructuring, acquisition and integration-related costs of approximately \$39 million, fair value inventory step-up adjustment in the prior year related to the Marazzi acquisition of approximately \$31 million and the favorable net impact of price and product mix of approximately \$20 million, partially offset by higher input costs of approximately \$43 million.

Carpet segment—Operating income was \$171.2 million (7.7% of segment net sales) for the nine months ended September 27, 2014 reflecting an increase of \$22.2 million compared to operating income of \$148.9 million (6.7% of segment net sales) for the nine months ended September 28, 2013. The increase in operating income was primarily attributable to operations productivity of approximately \$37 million, lower restructuring costs of approximately \$8 million, improved efficiencies in selling, general and administrative expenses of approximately \$8 million, partially offset by higher input costs of approximately \$14 million, higher provision for legal reserves of approximately \$10 million and the unfavorable net impact of price and product mix of approximately \$6 million.

Ceramic segment—Operating income was \$268.3 million (11.8% of segment net sales) for the nine months ended September 27, 2014 reflecting an increase of \$116.1 million compared to operating income of \$152.2 million (7.8% of segment net sales) for the nine months ended September 28, 2013. The increase in operating income was primarily attributable to sales volume increases of approximately \$38 million partially attributable to the Marazzi acquisition, lower restructuring, acquisition and integration-related costs of approximately \$20 million, inventory step-up in the prior year related to the Marazzi acquisition of approximately \$31 million, operations productivity of approximately \$24 million and the favorable net impact of price and product mix of approximately \$21 million, partially offset by higher input costs of approximately \$17 million.

Laminate and Wood segment—Operating income was \$149.7 million (10.5% of segment net sales) for the nine months ended September 27, 2014 reflecting an increase of \$30.7 million compared to operating income of \$119.1 million (9.0% of segment net sales) for the nine months ended September 28, 2013. The increase in operating income was primarily attributable to sales volume increases of approximately \$19 million, lower restructuring, acquisition and integration-related costs of approximately \$11 million and operations productivity of approximately \$7 million, the favorable net impact of price and product mix of approximately \$5 million, partially offset by higher input costs of approximately \$12 million.



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### Interest expense

Interest expense was \$77.6 million for the nine months ended September 27, 2014, reflecting an increase of \$7.5 million compared to interest expense of \$70.1 million for the nine months ended September 28, 2013. The increase was primarily attributable to the bond redemption premium and related fees of approximately \$17 million, partially offset by lower interest rates.

### Other (income) expense

Other expense was \$1.0 million for the nine months ended September 27, 2014, reflecting a favorable change of \$5.5 million compared to other expense of \$6.5 million for the nine months ended September 28, 2013.

### Income tax expense

For the nine months ended September 27, 2014, the Company recorded income tax expense of \$103.0 million on earnings from continuing operations before income taxes of \$488.1 million for an effective tax rate of 21.1%, as compared to an income tax expense of \$63.0 million on earnings from continuing operations before income taxes of \$319.4 million, for an effective tax rate of 19.7% for the nine months ended September 28, 2013. The difference in the effective tax rate for the comparative period is primarily attributable to the geographic dispersion of earnings and losses for the quarters, partially offset by the resolution of an Italian withholding tax case resulting in a benefit of approximately \$8 million.

### 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, commercial paper, bank credit lines, term and senior notes and credit terms from suppliers.

Net cash provided by operating activities in the first nine months of 2014 was \$323.4 million, compared to net cash provided by operating activities of \$327.0 million in the first nine months of 2013. The decrease was primarily attributable to changes in working capital, partially offset by higher earnings.

Net cash used in investing activities in the first nine months of 2014 was \$391.6 million compared to net cash used in investing activities of \$705.0 million in the first nine months of 2013. The decrease was primarily attributable to acquisitions of \$449.5 million in the prior year, partially offset by higher capital expenditures of \$136.1 million in the current year. Capital spending during the remainder of 2014 is expected to range from approximately \$140 million to \$160 million and is intended to support sales and income growth, promote new product innovations, upgrade the assets of the acquired businesses, increase carpet yarn and ceramic tile capacity and fund the addition of a luxury vinyl tile ("LVT") plant.

Net cash provided by financing activities in the first nine months of 2014 was \$126.6 million compared to net cash used in financing activities of \$3.9 million in the first nine months of 2013.

### Commercial Paper

On February 28, 2014, the Company entered into definitive documentation to establish a commercial paper program for the issuance of unsecured commercial paper in the United States capital markets. Under the program, the Company may issue commercial paper notes from time to time in an aggregate amount not to exceed \$1,000.0 million outstanding at any time, subject to availability under the 2013 Senior Credit Facility, which the Company uses as a

liquidity backstop. The commercial paper notes will have maturities ranging from one day to 397 days and will not be subject to voluntary prepayment by the Company or redemption prior to maturity. The commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness.

The proceeds from the sale of commercial paper notes will be available for general corporate purposes. The Company used the initial proceeds from the sale of commercial paper notes to repay borrowings under its 2013 Senior Credit Facility and certain of its industrial revenue bonds. As of September 27, 2014, the amount utilized under the commercial paper program was \$569.1 million with a weighted-average interest rate and maturity period of 0.63% and 42 days, respectively.

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Senior Credit Facility

On September 25, 2013, the Company entered into a \$1,000.0 million, 5-year, senior revolving credit facility (the "2013 Senior Credit Facility"). The 2013 Senior Credit Facility provides for a maximum of \$1,000.0 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 \$1.8 million in connection with its 2013 Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$11.4 million related to the Company's 2011 Credit Facility, are being amortized over the term of the 2013 Senior Credit Facility.

At the Company's election, revolving loans under the 2013 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 1.00% and 1.75%, or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, and a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75%. The Company also pays a commitment fee to the Lenders under the 2013 Senior Credit Facility on the average amount by which the aggregate commitments of the Lenders' exceed utilization of the 2013 Senior Credit Facility ranging from 0.125% to 0.25% per annum. The applicable interest rate and the commitment fee are determined based on whichever of the Company's Consolidated Net Leverage Ratio or its senior unsecured debt rating (or if not available, corporate family rating) results in the lower applicable margins and commitment fee (with applicable margins and the commitment fee increasing as that ratio increases or those ratings decline, as applicable).

The obligations of the Company and its subsidiaries in respect of the 2013 Senior Credit Facility are unsecured.

If at any time (a) both (i) the 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 obligations of the Company and the other Borrowers under the 2013 Senior Credit Facility will be required to be guaranteed by all of the Company's material domestic subsidiaries and all obligations of Borrowers that are foreign subsidiaries will be required to be guaranteed by those foreign subsidiaries of the Company which the Company designates as guarantors.

The 2013 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.

The 2013 Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

The 2013 Senior Credit Facility is scheduled to mature on September 25, 2018. However, the maturity date will accelerate, resulting in the acceleration of any unamortized deferred financing costs, to October 16, 2015, if on that date any of the Company's 6.125% notes due January 15, 2016 remains outstanding and the Company has not delivered to the Administrative Agent a certificate demonstrating that, after giving pro forma effect to the repayment in cash in full on that date of all of the 6.125% notes that remain outstanding, the amount the Company would be permitted to draw under the 2013 Senior Credit Facility, together with the aggregate consolidated amount of unrestricted cash and cash equivalents of the Company, would exceed \$200.0 million. While there can be no assurance, the Company currently believes that if any of the 6.125% notes remains outstanding on October 16, 2015,

the amount the Company would be permitted to draw under the 2013 Senior Credit Facility, together with the aggregate consolidated amount of the Company's unrestricted cash and cash equivalents, would exceed \$200.0 million on October 16, 2015.

As of September 27, 2014, amounts utilized under the facility included \$10.4 million of borrowings and \$39.2 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. The Company also considers the outstanding borrowings of \$569.1 million as of September 27, 2014 under its commercial paper program to be a reduction of the available capacity. Taking the commercial paper borrowings into consideration, the Company has utilized \$618.6 million under the 2013 Senior Credit Facility resulting in a total of \$381.4 million available under the 2013 Senior Credit Facility.

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### Senior Notes

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

On January 17, 2006, the Company issued \$900.0 million aggregate principal amount of 6.125% notes due January 15, 2016. Interest payable on these notes is subject to adjustment if either Moody's or S&P, or both, upgrades or downgrades the rating assigned to the Company. 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. The current rate in effect is 6.125%. 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.

On August 15, 2014, the Company purchased for cash approximately \$200.0 million aggregate principal amount of its outstanding 6.125% senior notes due January 15, 2016 at a price equal to 107.73% of the principal amount, resulting in a premium to redeeming noteholders of approximately \$15.5 million. The premium as well as the fees of \$1.1 million associated with the redemption are included in interest expense on the condensed consolidated statement of operations for the three and nine months ended September 27, 2014.

### Accounts Receivable Securitization

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). On September 11, 2014, the Company made certain modifications to its Securitization Facility, which modifications, among other things, increased the aggregate borrowings available under the facility from \$300.0 million to \$500.0 million and decreased the interest margins on certain borrowings. Under the terms of the Securitization Facility, certain subsidiaries of the Company sell at a discount certain of their trade accounts receivable (the "Receivables") to Mohawk Factoring, LLC ("Factoring") on a revolving basis. Factoring is a wholly owned, bankruptcy remote subsidiary of the Company, meaning that Factoring is a separate legal entity whose assets are available to satisfy the claims of the creditors of Factoring only, not the creditors of the Company or the Company's other subsidiaries. To fund such purchases, Factoring may borrow up to \$500.0 million based on the amount of eligible Receivables owned by Factoring, and Factoring has granted a security interest in all of such Receivables to the third-party lending group as collateral for such borrowings. Amounts loaned to Factoring under the Securitization Facility bear interest at commercial paper interest rates, in the case of lenders that are commercial paper conduits, or LIBOR, in the case of lenders that are not commercial paper conduits, in each case, plus an applicable margin of 0.70% per annum. Factoring also pays a commitment fee at a per annum rate of 0.35% on the unused amount of each lender's commitment.

At September 27, 2014, the amount utilized under the Securitization Facility was \$500.0 million.

In connection with the acquisition of Marazzi, the Company became a party to an off-balance sheet accounts receivable securitization facility ("Marazzi Securitization Facility") pursuant to which the Company services receivables sold to a third party. As of September 27, 2014, the amounts utilized under the Marazzi Securitization Facility was €3.7 million. The Company is in the process of terminating this facility.

The Company may continue, from time to time, to retire its outstanding debt through cash purchases in the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market

conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amount involved may be material.

As of September 27, 2014, the Company had cash of \$105.6 million, of which \$60.1 million was held outside the United States. While the Company's plans are to permanently reinvest the cash held outside the United States, the estimated cost of repatriation for the cash as of September 27, 2014 was approximately \$21.0 million. The Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its 2013 Senior Credit Facility will be sufficient to meet its capital expenditure, working capital and debt servicing requirements over the next twelve months.

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### Contractual Obligations

There have been no significant changes to the Company's contractual obligations as disclosed in the Company's 2013 Annual Report filed on Form 10-K.

### Critical Accounting Policies and Estimates

There have been no significant changes to the Company's critical accounting policies and estimates during the period. The Company's critical accounting policies and estimates are described in its 2013 Annual Report filed on Form 10-K.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers. This topic converges the guidance within U.S. generally accepted accounting principles and international financial reporting standards and supersedes ASC 605, Revenue Recognition. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period and early application is not permitted. Accordingly, the Company plans to adopt the provisions of this new accounting standard at the beginning of fiscal year 2017, and is currently assessing the impact on its consolidated financial statements.

### Impact of Inflation

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

### Seasonality

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

### 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.



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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 27, 2014, approximately 54% of the Company's debt portfolio was comprised of fixed-rate debt and 46% was floating-rate debt. A 1.0 percentage point change in the interest rate of the floating-rate debt would not have a material impact on the Company's results of operations. There have been no other significant changes to the Company's exposure to market risk as disclosed in the Company's 2013 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

In these actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. The direct purchaser class currently claims damages from all of the defendants named in the lawsuit of up to approximately \$1.2 billion which amount will be reduced by the value of claims made by plaintiffs that opt out of the class. Any damages actually awarded at trial are subject to being tripled under US antitrust laws. The amount of damages in the remaining cases varies or has not yet been specified by the plaintiffs. 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 denied all defendants' motions to dismiss. On April 9, 2014, the Court certified the direct and indirect purchaser classes. The Company sought permission to appeal the certification order on April 24, 2014, and the petition was denied by the U.S. Court of Appeals for the Sixth Circuit on September 29, 2014.

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

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

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2013. The risk factors disclosed in our Annual Report on Form 10-K, in addition to the other information set forth in this report, could materially affect our business, financial condition or results.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

No.	Description
10.1	Third Amendment to Credit and Security Agreement and Omnibus Amendment, dated as of September 11, 2014, among Mohawk Factoring, LLC as borrower, Mohawk Servicing, LLC, as servicer, the lenders from time to time party thereto, the liquidity banks from time to time party thereto, the co-agents from time to time party thereto and SunTrust Bank, as administrative agent.
10.2	Joinder Agreement to Receivables Purchase and Sale Agreement, dated as of September 11, 2014, among Mohawk Carpet Distribution, Inc. and Dal-Tile Distribution, Inc., as existing originators, Mohawk Factoring, LLC, as buyer, and Unilin North America, LLC, as new originator.
31.1	Certification Pursuant to Rule 13a-14(a).
31.2	Certification Pursuant to Rule 13a-14(a).
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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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: November 3, 2014      By: /s/ Jeffrey S. Lorberbaum  
JEFFREY S. LORBERBAUM  
Chairman and Chief Executive Officer  
(principal executive officer)

Dated: November 3, 2014      By: /s/ Frank H. Boykin  
FRANK H. BOYKIN  
Chief Financial Officer  
(principal financial officer)