

MOHAWK INDUSTRIES INC

Form 10-Q

November 09, 2015

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-Q

---

[Mark One]

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

For the quarterly period ended October 3, 2015

OR

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

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

Commission File Number 01-13697

---

MOHAWK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

---

Delaware

(State or other jurisdiction of  
incorporation or organization)

52-1604305

(I.R.S. Employer  
Identification No.)

160 S. Industrial Blvd., Calhoun, Georgia

(Address of principal executive offices)

30701

(Zip Code)

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

---

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

The number of shares outstanding of the issuer's common stock as of November 4, 2015, the latest practicable date, is as follows: 73,926,764 shares of common stock, \$.01 par value.

---

Table of Contents

MOHAWK INDUSTRIES, INC.  
INDEX

	Page No
Part I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u> as of October 3, 2015 and December 31, 2014	<u>3</u>
<u>Condensed Consolidated Statements of Operations</u> for the three and nine months ended October 3, 2015 and September 27, 2014	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> for the three and nine months ended October 3, 2015 and September 27, 2014	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u> for the nine months ended October 3, 2015 and September 27, 2014	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
Item 4. <u>Controls and Procedures</u>	<u>31</u>
Part II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>32</u>
Item 1A. <u>Risk Factors</u>	<u>33</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>33</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>33</u>
Item 5. <u>Other Information</u>	<u>33</u>
Item 6. <u>Exhibits</u>	<u>34</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	October 3, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$110,716	97,877
Receivables, net	1,340,650	1,081,963
Inventories	1,621,154	1,543,313
Prepaid expenses	226,665	225,759
Deferred income taxes	152,899	151,784
Other current assets	47,110	31,574
Total current assets	3,499,194	3,132,270
Property, plant and equipment	5,623,519	5,130,213
Less: accumulated depreciation	2,577,028	2,427,003
Property, plant and equipment, net	3,046,491	2,703,210
Goodwill	2,280,722	1,604,352
Tradenames	639,831	622,691
Other intangible assets subject to amortization, net	278,824	79,318
Deferred income taxes and other non-current assets	319,420	143,703
	\$10,064,482	8,285,544
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and commercial paper	\$1,927,815	851,305
Accounts payable and accrued expenses	1,371,969	1,104,509
Total current liabilities	3,299,784	1,955,814
Deferred income taxes	485,043	401,674
Long-term debt, less current portion	1,263,176	1,402,135
Other long-term liabilities	238,446	103,108
Total liabilities	5,286,449	3,862,731
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interest	22,150	—
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued	—	—
Common stock, \$.01 par value; 150,000 shares authorized; 81,267 and 81,070 shares issued in 2015 and 2014, respectively	813	811
Additional paid-in capital	1,751,219	1,598,887
Retained earnings	3,911,148	3,487,079
Accumulated other comprehensive loss	(698,300)	(429,321)
	4,964,880	4,657,456
Less treasury stock at cost; 7,351 and 8,157 shares in 2015 and 2014, respectively	215,795	239,450
Total Mohawk Industries, Inc. stockholders' equity	4,749,085	4,418,006
Nonredeemable noncontrolling interest	6,798	4,807

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

Total stockholders' equity	4,755,883	4,422,813
	\$10,064,482	8,285,544

See accompanying notes to condensed consolidated financial statements.

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

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales	\$2,150,656	1,990,658	6,073,566	5,852,000
Cost of sales	1,489,252	1,434,236	4,285,090	4,239,411
Gross profit	661,404	556,422	1,788,476	1,612,589
Selling, general and administrative expenses	372,670	342,729	1,200,152	1,045,913
Operating income	288,734	213,693	588,324	566,676
Interest expense	19,319	34,786	52,606	77,584
Other (income) expense, net	4,249	(2,374)	6,094	961
Earnings from continuing operations before income taxes	265,166	181,281	529,624	488,131
Income tax expense	49,463	30,021	104,643	102,957
Net earnings including noncontrolling interests	215,703	151,260	424,981	385,174
Net income (loss) attributable to noncontrolling interests	798	(6)	1,238	77
Net earnings attributable to Mohawk Industries, Inc.	\$214,905	151,266	423,743	385,097
Basic earnings per share attributable to Mohawk Industries, Inc.				
Basic earnings per share attributable to Mohawk Industries, Inc.	\$2.91	2.08	5.77	5.29
Weighted-average common shares outstanding—basic	73,915	72,864	73,384	72,814
Diluted earnings per share attributable to Mohawk Industries, Inc.				
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$2.89	2.06	5.73	5.25
Weighted-average common shares outstanding—diluted	74,438	73,376	73,907	73,332
See accompanying notes to condensed consolidated financial statements.				

Table of Contents

## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net earnings including noncontrolling interests	\$215,703	151,260	424,981	385,174
Other comprehensive income (loss):				
Foreign currency translation adjustments	(72,728 )	(258,276 )	(269,061 )	(301,590 )
Pension prior service cost and actuarial gain	—	12	82	16
Other comprehensive income (loss)	(72,728 )	(258,264 )	(268,979 )	(301,574 )
Comprehensive income (loss)	142,975	(107,004 )	156,002	83,600
Comprehensive income (loss) attributable to noncontrolling interests	798	(6 )	1,238	77
Comprehensive income (loss) attributable to Mohawk Industries, Inc.	\$ 142,177	(106,998 )	154,764	83,523

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	
	October 3, 2015	September 27, 2014
Cash flows from operating activities:		
Net earnings	\$424,981	385,174
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Restructuring	18,716	14,078
Depreciation and amortization	268,622	249,905
Deferred income taxes	(35,171)	(44,842)
Loss on extinguishment of debt	—	16,530
Loss on disposal of property, plant and equipment	349	511
Stock-based compensation expense	24,488	21,497
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables, net	(147,213)	(187,243)
Inventories	(3,219)	(108,875)
Accounts payable and accrued expenses	146,025	20,911
Other assets and prepaid expenses	(101,466)	(28,266)
Other liabilities	60,840	(15,957)
Net cash provided by operating activities	656,952	323,423
Cash flows from investing activities:		
Additions to property, plant and equipment	(352,070)	(391,580)
Acquisitions, net of cash acquired	(1,211,715)	19
Net cash used in investing activities	(1,563,785)	(391,561)
Cash flows from financing activities:		
Payments on Senior Credit Facilities	(1,087,338)	(1,399,286)
Proceeds from Senior Credit Facilities	1,057,661	1,048,237
Payments on Commercial Paper	(13,456,251)	(4,589,051)
Proceeds from Commercial Paper	13,856,454	5,158,101
Repayment of senior notes	—	(200,000)
Proceeds from 2.00% Senior Notes	564,653	—
Payments of acquired debt and other financings	(9,321)	(39,921)
Change in asset securitization borrowings, net	—	200,000
Payments on other debt	—	(52,920)
Debt issuance costs	(6,859)	—
Debt extinguishment costs	—	(15,450)
Change in outstanding checks in excess of cash	1,709	5,327
Proceeds and net tax benefit from stock transactions	9,798	11,550
Net cash provided by financing activities	930,506	126,587
Effect of exchange rate changes on cash and cash equivalents	(10,834)	(6,946)
Net change in cash and cash equivalents	12,839	51,503
Cash and cash equivalents, beginning of period	97,877	54,066
Cash and cash equivalents, end of period	\$110,716	105,569

See accompanying notes to condensed consolidated financial statements.





Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

1. 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 ("U.S. GAAP") 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 2014 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.

Segment Realignment

During the second quarter of 2015, the Company realigned its reportable segments to reflect how the Company's results will be reported by management. The Company has reorganized the business into three segments - Global Ceramic, Flooring North America ("Flooring NA") and Flooring Rest of the World ("Flooring ROW"). In order to leverage its relationship and distribution capabilities, the Company organized its carpet, wood, laminate and vinyl operations by geography into the Flooring NA segment and Flooring ROW segment. The Company did not make changes to the Global Ceramic segment. Previously reported segment results have been reclassified to conform to the current period presentation.

This new segment structure is consistent with the strategic objective that management now applies to manage the growth and profitability of the Company's business. The Global Ceramic segment includes all worldwide tile and natural stone operations. The Flooring NA segment includes North American operations in all product categories except tile and natural stone. The new segment combines the former Carpet segment with the North American operations of the former Laminate and Wood segment and the North American operations of the Company's newly acquired vinyl flooring businesses. The Flooring ROW segment includes operations outside of North America in all product categories except tile and natural stone. The new segment combines the European and Rest of the World operations of the former Laminate and Wood segment and the European and Rest of the World operations of the Company's newly acquired vinyl flooring businesses.

Hedges of Net Investments in Non-U.S. Operations

The Company has numerous investments outside the United States. The net assets of these subsidiaries are exposed to changes and volatility in currency exchange rates. The Company uses foreign currency denominated debt to hedge its non-U.S. net investments against adverse movements in exchange rates. The gains and losses on the Company's net investments in its non-U.S. operations are economically offset by losses and gains on its foreign currency borrowings. The Company designated its €500,000 2.00% Senior Notes borrowing as a net investment hedge of a portion of its European operations. For the nine months ended October 3, 2015, the change in the U.S. dollar value of the Company's euro denominated debt was \$3,989 (\$2,493 net of taxes), which is recorded in the foreign currency translation adjustment component of other comprehensive income (loss). The increase in the U.S. dollar value of the Company's debt partially offsets the euro-to-dollar translation of the Company's net investment in its European

operations.

#### Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers. This topic converges the guidance within U.S. GAAP and International Financial Reporting Standards ("IFRS") 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. On July 9, 2015, the FASB decided to defer the effective date of ASC 606 for one year. The deferral results in the new revenue standard being effective for fiscal years and interim periods within those fiscal years

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

beginning after December 15, 2017. The Company currently plans to adopt the provisions of this new accounting standard at the beginning of fiscal year 2018, and is currently assessing the impact on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This topic converges the guidance within U.S. GAAP and IFRS. The new standard intends to simplify the presentation of debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, versus recording the costs as a prepaid expense in other assets that is amortized. The new standard will more closely align the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable IFRS. In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30) to address the measurement of debt issuance costs associated with line-of-credit arrangements. ASU 2015-15 states that an entity can defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless if there are outstanding borrowings on the line-of-credit arrangement. The new guidance is effective for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period and early application is permitted. Accordingly, the Company plans to adopt the provisions of this new accounting standard at the beginning of fiscal year 2016. As this standard impacts only the classification of certain amounts within the consolidated balance sheets, the Company does not expect this ASU to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. This update changes the measurement principle for inventory for entities using FIFO or average cost from the lower of cost or market to lower of cost and net realizable value. Entities that measure inventory using LIFO or the retail inventory method are not affected. This update will more closely align the accounting for inventory under U.S. GAAP with IFRS. The new guidance is effective for annual reporting periods beginning after December 15, 2016 including interim periods within that reporting period and early adoption is permitted. The Company currently accounts for inventory using the FIFO method. Accordingly, the Company plans to adopt the provisions of this update at the beginning of fiscal year 2017, and is currently assessing the impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965). There are three parts to ASU 2015-12 that aim to reduce complexity in employee benefit accounting. Part I of this ASU requires fully benefit-responsive investment contracts to be measured at contract value instead of the current fair value measurement. Part II of this ASU requires investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways. Part III of this ASU provides a similar measurement date practical expedient for employee benefit plans as available in ASU No. 2015-04, which allows employers to measure defined benefit plan assets on a month-end date that is nearest to the year's fiscal year-end when the fiscal period does not coincide with a month-end. Parts I and II of the new guidance should be applied on a retrospective basis. Part III of the new guidance should be applied on a prospective basis. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. Accordingly, the Company plans to adopt the provisions of this update at the beginning of fiscal year 2016. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under this ASU, acquirers must recognize measurement-period adjustments in the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the

acquisition date. This guidance is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. Accordingly, the Company plans to adopt the provisions of this update at the beginning of fiscal year 2017, and is currently assessing the impact on its consolidated financial statements.

## 2. Acquisitions

### IVC Group

On January 13, 2015, the Company entered into a share purchase agreement (the "Share Purchase Agreement") with Enterhold S.A., a Luxembourg societe anonyme (the "Seller"), to acquire all of the outstanding shares of International Flooring Systems S.A., a Luxembourg societe anonyme, and its subsidiaries (collectively, the "IVC Group"). The IVC Group is a global manufacturer, distributor and marketer of luxury vinyl tile ("LVT") and sheet vinyl. On June 12, 2015, pursuant to the terms of the Share Purchase Agreement, the Company completed the acquisition of IVC Group for \$1,146,438. The results of the IVC Group's operations have been included in the consolidated financial statements since that date in the Flooring NA and the Flooring ROW segments. The IVC Group acquisition will position the Company as a major participant in both the fast growing LVT category and the expanding fiberglass sheet vinyl business.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Pursuant to the terms of the Share Purchase Agreement, the Seller will indemnify the Company for uncertain tax positions and tax liabilities that were incurred by the Seller. The Company has recorded these tax liabilities and related indemnification asset in the amount of \$57,729 as of the acquisition date in other long-term liabilities and other long-term assets, respectively.

The equity value of IVC Group was paid to the Seller in cash and in shares of the Company's common stock (the "Shares"). Pursuant to the Share Purchase Agreement, the Company (i) acquired the entire issued share capital of IVC Group and (ii) acquired \$17,122 of indebtedness of the IVC Group, in exchange for a cash payment of \$732,191, debt paid of \$261,152, and 806 issued Shares for a value of \$153,095.

The Company funded the cash portion of the IVC Group acquisition through a combination of proceeds from the 2.00% Senior Notes (as discussed in Note 14), cash on hand and borrowings under the 2015 Senior Credit Facility (as discussed in Note 14).

**KAI Group**

On May 12, 2015, the Company purchased 90% of all outstanding shares of Advent KAI Luxembourg Holdings S.a r.l., a societe a responsabilite limitee, and its subsidiaries (collectively, the "KAI Group"), an eastern European ceramic tile floor manufacturer. The Company completed the acquisition of the KAI Group for \$194,613. The results of the KAI Group's operations have been included in the consolidated financial statements since the date of acquisition in the Global Ceramic segment. The KAI Group has a low cost position in the Bulgarian and Romanian markets. The combination with the Company will present opportunities to enhance the group's product offering, upgrade its technology and expand its exports to other countries. The remaining 10% ownership interest in the KAI Group is controlled by a third party. The 10% interest is subject to redemption provisions that are not solely within the Company's control and therefore is recorded as a redeemable noncontrolling interest in the mezzanine section of the balance sheet for \$22,150. Pursuant to the share purchase agreement, the Company (i) acquired 90% of the issued share capital of the KAI Group and (ii) acquired \$24 of indebtedness of the KAI Group, in exchange for a cash payment of \$169,540 and debt paid of \$25,073.

The Company accounted for the acquisitions of the IVC Group and the KAI Group (the "Acquisitions") using the acquisition method of accounting, with the Company as the acquirer of the IVC Group and the KAI Group. The preliminary estimated combined consideration transferred of \$1,341,051, including debt paid and shares issued, was determined in accordance with the respective share purchase agreements. The preliminary consideration transferred is allocated to tangible and intangible assets and liabilities based upon their respective fair values.

During the three and nine months ended October 3, 2015, the Company incurred direct transaction costs of \$2,725 and \$7,403, respectively, for the Acquisitions which were expensed as incurred in selling, general and administrative expenses.

The following table summarizes the preliminary acquisition-date fair value of the consideration transferred for the Acquisitions and the estimated fair value of the consideration transferred to assets acquired and liabilities assumed as of the date of the Acquisitions, and the allocation of the aggregate purchase price of the IVC Group and the KAI Group acquisitions to the estimated fair values of the tangible and identifiable intangible assets acquired and liabilities assumed (in thousands):

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fair value of assets, net of cash acquired	\$1,382,357	
Noncontrolling interests in assets acquired	(24,160)	)
Assumed indebtedness	(17,146)	)
Consideration transferred	\$1,341,051	
Working capital	140,606	
Property, plant and equipment	363,570	
Tradenames	48,563	
Customer relationships	224,326	
Goodwill	730,736	
Other long-term assets	68,556	
Long-term debt, including current portion	(17,146)	)
Other long-term liabilities	(66,747)	)
Deferred tax liability	(127,253)	)
Noncontrolling interest	(24,160)	)
Consideration transferred	\$1,341,051	

The Company is continuing to obtain information to complete its valuation of intangible assets, as well as to determine the fair value of the acquired assets and liabilities including tax accounts, legal liabilities and other attributes. The purchase price allocation is preliminary until the Company obtains final information regarding these fair values.

Intangible assets subject to amortization of \$224,326 related to customer relationships have estimated lives of 12 to 14 years. In addition to the amortizable intangible assets, there is an additional \$48,563 in indefinite-lived tradename intangible assets. The goodwill of \$730,736 was allocated to the Company's segments as disclosed in Note 6, Goodwill and Intangible Assets. The factors contributing to the recognition of the amount of goodwill are based on strategic and synergistic benefits that are expected to be realized from the Acquisitions. These benefits include the opportunities to improve the Company's performance by leveraging best practices, operational expertise, product innovation and manufacturing assets. The recognized goodwill from the Acquisitions is not expected to be deductible for tax purposes.

The amount of revenue and earnings of the Acquisitions since the acquisition date included in the consolidated statements of operations for the three and nine months ended October 3, 2015 was not material. The results of operations for the Acquisitions were not significant to the Company's consolidated results of operations and, accordingly, the Company has not provided pro forma information relating to the Acquisitions.

## Other Acquisitions

During the first quarter of 2015, the Company acquired certain assets of a distribution business in the Flooring ROW segment for \$2,822, resulting in a preliminary goodwill allocation of \$2,659.

During the third quarter of 2015, the Company acquired certain assets of a ceramic business in the Global Ceramic segment for \$20,423, resulting in a preliminary goodwill allocation of \$269.

## 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.



Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Restructuring, acquisition transaction and integration-related costs consisted of the following during the three and nine months ended October 3, 2015 and September 27, 2014:

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Cost of sales				
Restructuring costs <sup>(a)</sup>	\$5,828	3,862	26,135	9,396
Acquisition integration-related costs	1,463	3,399	3,473	10,257
Restructuring and integration-related costs	\$7,291	7,261	29,608	19,653
Selling, general and administrative expenses				
Restructuring costs <sup>(a)</sup>	\$150	1,465	1,231	4,682
Acquisition transaction-related costs	2,725	—	7,403	—
Acquisition integration-related costs	2,604	5,287	5,542	12,572
Restructuring, acquisition and integration-related costs	\$5,479	6,752	14,176	17,254

(a) The restructuring costs for 2015 and 2014 primarily relate to the Company's actions taken to lower its cost structure and improve efficiencies of manufacturing and distribution operations as the Company adjusted to changing economic conditions as well as actions related to the Company's recent acquisitions. During the three and nine months ended October 3, 2015, restructuring costs included accelerated depreciation of \$1,080 and \$8,650, respectively.

The restructuring activity for the nine months ended October 3, 2015 is as follows:

	Lease impairments	Asset write-downs	Severance	Other restructuring costs	Total
Balance as of December 31, 2014	\$ 1,741	—	3,037	100	4,878
Provision - Global Ceramic segment	—	1,245	—	(1,014)	231
Provision - Flooring NA segment	1,877	5,451	1,700	5,369	14,397
Provision - Flooring ROW segment	—	8,667	1,211	2,860	12,738
Cash payments	(3,146)	—	(3,614)	(8,210)	(14,970)
Non-cash items	—	(15,363)	—	1,015	(14,348)
Balance as of October 3, 2015	\$ 472	—	2,334	120	2,926

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

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. Receivables, net

Receivables, net are as follows:

	October 3, 2015	December 31, 2014
Customers, trade	\$1,350,403	1,081,493
Income tax receivable	14,009	12,301
Other	58,714	60,772
	1,423,126	1,154,566
Less: allowance for discounts, returns, claims and doubtful accounts	82,476	72,603
Receivables, net	\$1,340,650	1,081,963

## 5. Inventories

The components of inventories are as follows:

	October 3, 2015	December 31, 2014
Finished goods	\$1,073,711	1,021,188
Work in process	145,663	129,471
Raw materials	401,780	392,654
Total inventories	\$1,621,154	1,543,313

## 6. Goodwill and intangible assets

Pursuant to the segment realignment during the second quarter of 2015, the Company has reclassified certain goodwill and intangible asset balances to reflect the new segment structure. See Note 1, General - Segment Realignment, for further information. ASC 350, Intangibles - Goodwill and Other, requires that goodwill be tested for impairment at least annually or on an interim basis if an event occurs requiring goodwill to be tested. During the second quarter of 2015, the Company completed an assessment of any potential goodwill impairment for reporting units impacted by the segment realignment and determined that no impairment existed. The Company performs its annual testing during the fourth quarter.

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

Goodwill:

	Global Ceramic segment	Flooring NA segment	Flooring ROW segment	Total
Balance as of December 31, 2014				
Goodwill	\$1,395,132	538,515	998,130	2,931,777
Accumulated impairment losses	(531,930 )	(343,054 )	(452,441 )	(1,327,425 )
	\$863,202	195,461	545,689	1,604,352
Goodwill recognized or adjusted during the period	\$100,316	319,528	313,820	733,664
Currency translation during the period	(12,579 )	—	(44,715 )	(57,294 )
Balance as of October 3, 2015				
Goodwill	1,482,869	858,043	1,267,235	3,608,147

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

Accumulated impairment losses	(531,930 )	(343,054 )	(452,441 )	(1,327,425 )
	\$950,939	514,989	814,794	2,280,722

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## Intangible assets not subject to amortization:

	Tradenames
Balance as of December 31, 2014	\$622,691
Intangible assets acquired during the period	48,563
Currency translation during the period	(31,423 )
Balance as of October 3, 2015	\$639,831

## Intangible assets subject to amortization:

Gross carrying amounts:	Customer relationships	Patents	Other	Total
Balance as of December 31, 2014	\$354,768	270,466	1,479	626,713
Intangible assets acquired during the period	223,825	—	501	224,326
Currency translation during the period	(16,727 )	(20,984 )	—	(37,711 )
Balance as of October 3, 2015	\$561,866	249,482	1,980	813,328

Accumulated amortization:	Customer relationships	Patents	Other	Total
Balance as of December 31, 2014	\$320,851	225,875	669	547,395
Amortization during the period	10,573	10,170	5	20,748
Currency translation during the period	(16,178 )	(17,468 )	7	(33,639 )
Balance as of October 3, 2015	\$315,246	218,577	681	534,504

Intangible assets subject to amortization, net	\$246,620	30,905	1,299	278,824
	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Amortization expense	\$9,378	6,140	20,748	18,687

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

2015	\$28,321
2016	34,864
2017	33,449
2018	24,757
2019	21,711

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows:

	October 3, 2015	December 31, 2014
Outstanding checks in excess of cash	\$17,787	16,083
Accounts payable, trade	771,006	622,360
Accrued expenses	347,504	269,668
Product warranties	37,762	29,350
Accrued interest	12,659	28,365
Accrued compensation and benefits	185,251	138,683
Total accounts payable and accrued expenses	\$1,371,969	1,104,509

## 8. Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income by component, net of tax, for the nine months ended October 3, 2015 are as follows:

	Foreign currency translation adjustments	Pensions (a)	Total
Balance as of December 31, 2014	\$(428,505 )	(816 )	(429,321 )
Current period other comprehensive income (loss) before reclassifications	(269,061 )	82	(268,979 )
Balance as of October 3, 2015	\$(697,566 )	(734 )	(698,300 )

(a) 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, 2014).

## 9. Stock-based compensation

The Company recognizes compensation expense for all share-based payments granted based on the grant-date fair value estimated in accordance with the provisions of the FASB 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 October 3, 2015 and September 27, 2014. The Company recognized stock-based compensation costs related to stock options of \$18 (\$11 net of taxes) and \$191 (\$121 net of taxes) for the three months ended October 3, 2015 and September 27, 2014, 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 \$191 (\$120 net of taxes) and \$666 (\$422 net of taxes) for the nine

months ended October 3, 2015 and September 27, 2014, 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 \$54 as of October 3, 2015, and will be recognized as expense over a weighted-average period of approximately 0.89 years.

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

The Company granted 5 RSUs at a weighted-average grant-date fair value of \$203.85 per unit for the three months ended October 3, 2015. The Company granted 248 RSUs at a weighted-average grant-date fair value of \$185.66 per unit for the nine

Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

months ended October 3, 2015. 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 recognized stock-based compensation costs related to the issuance of RSUs of \$8,084 (\$5,211 net of taxes) and \$7,119 (\$4,510 net of taxes) for the three months ended October 3, 2015 and September 27, 2014, 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 \$24,297 (\$15,634 net of taxes) and \$20,831 (\$13,196 net of taxes) for the nine months ended October 3, 2015 and September 27, 2014, 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 \$37,970 as of October 3, 2015, and will be recognized as expense over a weighted-average period of approximately 2.40 years.

## 10. Other (income) expense, net

Other (income) expense is as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Foreign currency (gains) losses, net	\$5,612	(163)	8,692	4,693
All other, net	(1,363)	(2,211)	(2,598)	(3,732)
Total other (income) expense, net	\$4,249	(2,374)	6,094	961

## 11. 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	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Earnings from continuing operations attributable to Mohawk Industries, Inc.	\$214,905	151,266	423,743	385,097
Accretion of redeemable noncontrolling interest <sup>(a)</sup>	(31)	—	(191)	—
Net earnings available to common stockholders	\$214,874	151,266	423,552	385,097

Weighted-average common shares outstanding—basic and diluted:

Weighted-average common shares outstanding—basic	73,915	72,864	73,384	72,814
Add weighted-average dilutive potential common shares—options to purchase common shares and RSUs, net	523	512	523	518
Weighted-average common shares outstanding—diluted	74,438	73,376	73,907	73,332

Earnings per share from continuing operations attributable  
to Mohawk Industries, Inc.

Basic	\$2.91	2.08	5.77	5.29
Diluted	\$2.89	2.06	5.73	5.25

(a) Represents the accretion of the Company's redeemable noncontrolling interest to redemption value. See Note 2, Acquisitions for further information.



Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12. Segment reporting

The Company has three reporting segments: the Global Ceramic segment, the Flooring NA segment and the Flooring ROW segment. The Global 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 Flooring NA segment designs, manufactures, sources and markets its floor covering product lines, including carpets, rugs, carpet pad, hardwood, laminate and vinyl products, including luxury vinyl tile ("LVT"), which it distributes 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 Flooring ROW segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard ("MDF"), chipboards, other wood products, sheet vinyl and LVT, which it distributes primarily in Europe and Russia through various selling channels, which include retailers, independent distributors and home centers.

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

Segment information is as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales:				
Global Ceramic segment	\$791,538	779,842	2,301,168	2,271,660
Flooring NA segment	955,099	886,317	2,722,347	2,562,560
Flooring ROW segment	404,026	326,146	1,050,390	1,021,951
Intersegment sales	(7	) (1,647	) (339	) (4,171
	\$2,150,656	1,990,658	6,073,566	5,852,000
Operating income (loss):				
Global Ceramic segment	\$120,055	101,254	326,571	268,320
Flooring NA segment	125,910	83,623	145,861	207,578
Flooring ROW segment	55,471	35,046	153,164	113,909
Corporate and intersegment eliminations	(12,702	) (6,230	) (37,272	) (23,131
	\$288,734	213,693	588,324	566,676
			October 3, 2015	December 31, 2014
Assets:				
Global Ceramic segment			\$3,938,242	3,542,594
Flooring NA segment			3,195,904	2,587,151
Flooring ROW segment			2,699,255	1,909,487
Corporate and intersegment eliminations			231,081	246,312

\$10,064,482

8,285,544

13. Commitments and contingencies

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.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Polyurethane Foam Litigation

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 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 were 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. Any damages actually awarded at trial are subject to being tripled under U.S. antitrust laws.

On March 23, 2015, the Company entered into an agreement to settle all claims brought by the class of direct purchasers, and on April 30, 2015, the Company entered into an agreement to settle all claims brought by the class of indirect purchasers. Both settlement agreements are subject to court approval, which the Company expects to receive. The Company denies all allegations of wrongdoing but settled the class actions to avoid the uncertainty, risk, expense and distraction of protracted litigation.

The Company remains a defendant in a number of cases involving other purchasers of polyurethane foam products not sold by the Company. On April 23, 2015, the Court consolidated twelve of these lawsuits involving non-class claims filed against the Company by direct purchasers of polyurethane foam. These consolidated cases had been scheduled for trial to begin August 18, 2015. The Company has executed agreements to settle all of the cases set for trial in August and ten additional individual cases. The Company has also reached an agreement in principle to settle one additional individual case. Three individual cases remain pending against the Company, all of which were brought by purchasers of polyurethane foam products not sold by the Company. The amount of the 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 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. On June 12, 2015, the Company entered into an agreement to settle all claims brought by the class of Canadian plaintiffs. The Company continues to deny all allegations of wrongdoing but is settling to avoid the uncertainty, risk, expense and distraction of protracted litigation.

During the three months ended April 4, 2015 the Company recorded a \$125,000 charge within selling, general and administrative expenses for the settlement and defense of the antitrust cases. The Company believes that adequate provisions for resolution of all of these cases have been made. The Company does not believe that the ultimate outcome of the remaining cases will have a material adverse effect on its financial condition.

Belgian Tax Matter

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 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 brought these two years before the Court of First Appeal in Bruges.

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

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

assessed. In the quarter ended June 28, 2014, the Company received a formal assessment for the year ended December 31, 2008, totaling €30,131, against which the Company also submitted its formal protest. All 4 additional years were brought before the Court of First Appeal in November 2014.

In January of 2015, the Company met with the Court of First Appeal in Bruges and agreed with the Belgian tax authorities to consolidate and argue the issues regarding the years 2005 and 2009, and apply the ruling to all of the open years (to the extent there are no additional facts/procedural arguments in the other years). The case is scheduled to be argued on December 2, 2015.

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.

14. Debt

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 provided 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 previous credit facility, were amortized over the term of the 2013 Senior Credit Facility.

On March 26, 2015, the Company amended and restated the 2013 Senior Credit Facility increasing its size from \$1,000,000 to \$1,800,000 and extending the maturity from September 25, 2018 to March 26, 2020 (the "2015 Senior Credit Facility"). The 2015 Senior Credit Facility eliminates certain provisions in the 2013 Senior Credit Facility, including those that: (a) accelerated the maturity date to 90 days prior to the maturity of senior notes due in January 2016 if certain specified liquidity levels were not met; and (b) required that certain subsidiaries guarantee the Company's obligations if the Company's credit ratings fell below investment grade. The 2015 Senior Credit Facility also modified certain negative covenants to provide the Company with additional flexibility, including that to make acquisitions and incur indebtedness.

At the Company's election, revolving loans under the 2015 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 2015 Senior Credit Facility on the average amount by which the aggregate commitments of the Lenders' exceed utilization of the 2015 Senior Credit Facility ranging from 0.10% to 0.225% per annum. The applicable margins 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 2015 Senior Credit Facility are unsecured.

The 2015 Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, subsidiary indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, future negative pledges, and changes in the nature of the Company's business. These limitations are subject to 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 2015 Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company paid financing costs of \$2,641 in connection with its 2015 Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$8,654 related to the Company's 2013 Senior Credit Facility, are being amortized over the term of the 2015 Senior Credit Facility.

As of October 3, 2015, amounts utilized under the 2015 Senior Credit Facility included \$164,727 of borrowings and \$1,381 of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$702,272 under the Company's U.S. and European commercial paper programs as of October 3, 2015 reduce the availability of the 2015 Senior Credit Facility. Taking the commercial paper borrowings into account, the Company has utilized \$868,380 under the 2015 Senior Credit Facility resulting in a total of \$931,620 available under the 2015 Senior Credit Facility.

Commercial Paper

On February 28, 2014, the Company established a U.S. commercial paper program for the issuance of unsecured commercial paper in the United States capital markets. Under the commercial paper program, the Company issues commercial paper notes from time to time, subject to availability under the 2015 Senior Credit Facility. On May 21, 2015, following the amendment and restatement of the 2013 Credit Facility, the Company expanded the amount of borrowings permitted under its U.S. commercial paper program from \$1,000,000 to \$1,800,000. The U.S. 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 U.S. commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness.

On July 31, 2015, the Company established a European commercial paper program for the issuance of unsecured commercial paper in the Eurozone capital markets. Under the European commercial paper program, the Company issues commercial paper notes from time to time, subject to a cap equal to the lower of availability under the 2015 Senior Credit Facility and the euro equivalent of \$1,000,000. The European commercial paper notes will have maturities ranging from one day to 183 days and will not be subject to voluntary prepayment by the Company or redemption prior to maturity. The European commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. Payment on the European commercial paper notes will be fully and unconditionally guaranteed by the Company.

The Company uses its 2015 Senior Credit Facility as a liquidity backstop for its commercial paper programs. Accordingly, the total amount due and payable under any of the Company's commercial paper programs may not exceed \$1,800,000 (or its equivalent in alternative currencies) at any time.

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 U.S. commercial paper notes to repay borrowings under its 2013 Senior Credit Facility and certain of its industrial revenue bonds. The Company used the initial proceeds from the sale of European commercial paper notes to repay euro-denominated borrowings under its 2015 Senior Credit Facility. As of October 3, 2015, the amount utilized under the commercial paper programs was \$702,272 with a weighted-average interest rate and maturity period of 0.46% and 22.75 days, respectively for the U.S. commercial paper program and 0.04% and 33.5 days, respectively for the European commercial paper program.

Senior Notes

On June 9, 2015, the Company issued €500,000 aggregate principal amount of 2.00% Senior Notes due January 14, 2022. The Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's

existing and future unsecured indebtedness. Interest on the Notes is payable annually in cash on January 14 of each year, commencing on January 14, 2016. The Company paid financing costs of \$4,218 in connection with the 2.00% Senior Notes. These costs were deferred and are being amortized over the term of the 2.00% 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



Table of Contents

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 and fees of \$1,080 associated with the redemption. The premium as well as the fees are included in interest expense on the condensed consolidated statement of operations for the three and nine months ended October 3, 2015.

On November 3, 2014, the Company purchased for cash approximately \$54,400 aggregate principal amount of its outstanding 6.125% senior notes due January 15, 2016 at a price equal to 106.38% of the principal amount, resulting in a premium to redeeming noteholders of approximately \$3,500. The premium is included in interest expense on the condensed consolidated statement of operations as at October 3, 2015.

## 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.

At October 3, 2015, the amount utilized under the Securitization Facility was \$500,000, which was secured by \$763,844 of Receivables.

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

	October 3, 2015		December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
3.85% senior notes, payable February 1, 2023; interest payable semiannually	\$605,922	600,000	603,180	600,000
6.125% senior notes, payable January 15, 2016; interest payable semiannually	654,993	645,555	677,833	645,555
2.00% senior notes, payable January 14, 2022; interest payable annually	562,004	560,664	—	—
Commercial paper	702,272	702,272	301,600	301,600
Five-year senior secured credit facility, due March 26, 2020	164,727	164,727	195,665	195,665

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

Securitization facility	500,000	500,000	500,000	500,000
Capital leases and other	17,773	17,773	10,620	10,620
Total debt	3,207,691	3,190,991	2,288,898	2,253,440
Less current portion of long term debt and commercial paper	1,937,253	1,927,815	851,305	851,305
Long-term debt, less current portion	\$1,270,438	1,263,176	1,437,593	1,402,135

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.

## Table of Contents

### 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, LVT 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®, Bigelow®, Daltile®, Durkan®, IVC,™ Karastan®, Lees®, Marazzi®, Mohawk®, Pergo®, Quick-Step® and Unilin®. 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, Europe, India, Malaysia, Mexico, New Zealand, Russia and the United States. The Company had annual net sales in 2014 of \$7.8 billion.

During the second quarter of 2015, the Company realigned its reportable segments to reflect how the Company's results will be reported by management. The Company has reorganized the business into three segments, Global Ceramic, Flooring North America ("Flooring NA") and Flooring Rest of the World ("Flooring ROW"). In order to leverage its relationship and distribution capabilities, the Company organized its carpet, wood, laminate and vinyl operations by geography into the Flooring NA segment and Flooring ROW segment. The Company did not make any changes to the Global Ceramic segment. Previously reported segment results have been reclassified to conform to the current period presentation.

This new segment structure is consistent with the strategic objective that management now applies to manage the growth and profitability of the Company's business. The Global Ceramic segment includes all worldwide tile and natural stone operations. The Flooring NA segment includes North American operations in all product categories except tile and natural stone. The new segment combines the former Carpet segment with the North American operations of the former Laminate and Wood segment and the North American operations of the Company's newly acquired vinyl flooring businesses. The Flooring ROW segment includes operations outside of North America in all product categories except tile and natural stone. The new segment combines the European and Rest of the World operations of the former Laminate and Wood segment and the European and Rest of the World operations of the Company's newly acquired vinyl flooring businesses.

The Global 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 Flooring NA segment designs, manufactures, sources and markets its floor covering product lines, including carpets, rugs, carpet pad, hardwood, laminate and vinyl products, including luxury vinyl tile ("LVT"), which it distributes 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 Flooring ROW segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard ("MDF"), chipboards, other wood products and vinyl products, including LVT, which it distributes primarily in Europe and Russia through various selling channels, which include retailers, independent distributors and home centers.

For the three months ended October 3, 2015, net earnings attributable to the Company were \$214.9 million, or diluted earnings per share ("EPS") of \$2.89, compared to the net earnings attributable to the Company of \$151.3 million, or diluted EPS of \$2.06, for the three months ended September 27, 2014. The increase in diluted EPS for the three months ended October 3, 2015 was primarily attributable to increased sales volumes, increases in operations productivity and lower input costs, partially offset by the net impact of unfavorable foreign exchange rates.

For the nine months ended October 3, 2015, net earnings attributable to the Company were \$423.7 million, or diluted EPS of \$5.73, compared to the net earnings attributable to the Company of \$385.1 million, or diluted EPS of \$5.25, for the nine months ended September 27, 2014. The increase in diluted EPS for the nine months ended October 3, 2015 was primarily attributable to increased sales volumes, increases in operations productivity, lower input costs, lower taxes due to the geographic dispersion of earnings and losses for the quarter, and lower interest expense, partially offset by a \$125 million charge related to the settlement and further defense of the polyurethane foam litigation, the net impact of unfavorable foreign exchange rates, costs associated with investments in new product development, sales personnel and marketing, and the unfavorable net impact of price and product mix.

## Table of Contents

A majority of the Company's sales and long-lived assets are located in the United States and Europe. The Company expects continued strong performance in the United States market as residential housing starts and remodeling continue to rebound. In Europe, the Company's operations improved on a local basis despite a challenging macro-economic environment. The Company also has operations in Mexico and Russia where the Company is growing market share, especially in its ceramic tile product lines. While the Company is performing well in the local markets where it operates, the Company expects that a strong U.S. dollar will continue to impact the translation of its foreign operating results.

## Recent Events

On May 12, 2015, the Company purchased 90% of all outstanding shares of the KAI Group, an eastern European ceramic tile floor manufacturer for \$194.6 million. The KAI Group has a low cost position in the Bulgarian and Romanian markets. The combination with the Company will present opportunities to enhance the group's product offering, upgrade its technology and expand its exports to other countries. The KAI Group's results of operations and a preliminary purchase price allocation are included in the condensed consolidated financial statements as of July 4, 2015.

On June 12, 2015, the Company completed the acquisition of the IVC Group, a global manufacturer, distributor and marketer of vinyl flooring products, including LVT. The total value of the acquisition was \$1.2 billion. The IVC Group acquisition will position the Company as a major participant in both the fast growing LVT category and the expanding fiberglass sheet vinyl business. The IVC Group's results of operations and a preliminary purchase price allocation are included in the condensed consolidated financial statements as of July 4, 2015.

On July 31, 2015, Mohawk Capital Luxembourg S.A., a wholly owned subsidiary of the Company, established a program for the issuance of unsecured commercial paper (the "Notes") in European capital markets. Under the program, the Company may issue Notes from time to time in an aggregate amount not to exceed €1.0 billion outstanding at any time. The proceeds from the sale of the Notes will be available to the Company for general corporate purposes. The Company expects to use the initial proceeds from the sale of the Notes to repay euro-denominated borrowings under its 2015 Credit Facility. Payment on the Notes will be fully and unconditionally guaranteed by the Company.

## Results of Operations

Quarter Ended October 3, 2015, as compared with Quarter Ended September 27, 2014

### Net sales

Net sales for the three months ended October 3, 2015 were \$2,150.7 million, reflecting an increase of \$160.0 million, or 8.0%, from the \$1,990.7 million reported for the three months ended September 27, 2014. The increase was primarily attributable to higher sales volume of approximately \$325 million, or 16%, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$131 million or 6% and the unfavorable net impact of price and product mix of approximately \$34 million, or 2%. Of the \$325 million increase in sales volume, approximately \$178 million was attributable to acquisitions.

Global Ceramic segment—Net sales increased \$11.7 million, or 1.5%, to \$791.5 million for the three months ended October 3, 2015, compared to \$779.8 million for the three months ended September 27, 2014. The increase was primarily attributable to the increased sales volume of approximately \$56 million, or 7%, and the favorable net impact of price and product mix of approximately \$32 million, or 4%, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$76 million, or 10%. Of the \$56 million increase in sales volume, approximately \$27 million was attributable to the KAI Group acquisition.

Flooring NA segment—Net sales increased \$68.8 million, or 7.8%, to \$955.1 million for the three months ended October 3, 2015, compared to \$886.3 million for the three months ended September 27, 2014. The increase was primarily attributable to higher sales volume of approximately \$121 million, or 14%, partially offset by the unfavorable net impact of price and product mix of approximately \$52 million, or 6%. Of the \$121 million increase in sales volume, approximately \$38 million was attributable to the IVC Group acquisition.

Flooring ROW segment—Net sales increased \$77.9 million, or 23.9%, to \$404.0 million for the three months ended October 3, 2015, compared to \$326.1 million for the three months ended September 27, 2014. The increase was primarily attributable to higher sales volume of approximately \$146 million, or 45%, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$55 million, or 17%, and the unfavorable net impact of price and product mix of approximately

## Table of Contents

\$13 million, or 4%. Of the \$146 million increase in sales volume, approximately \$114 million was attributable to the IVC Group acquisition.

### Gross profit

Gross profit for the three months ended October 3, 2015 was \$661.4 million (30.8% of net sales), an increase of \$105.0 million or 18.9%, compared to gross profit of \$556.4 million (28.0% of net sales) for the three months ended September 27, 2014. As a percentage of net sales, gross profit increased 280 basis points. The increase in gross profit dollars was primarily attributable to higher sales volume of approximately \$102 million, operations productivity of approximately \$31 million, and lower input costs of approximately \$34 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$40 million, the unfavorable net impact of price and product mix of approximately \$12 million, the unfavorable impact of higher restructuring, acquisition and integration-related costs of approximately \$7 million and costs associated with investments in expansion of production capacity of approximately \$3 million.

### Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended October 3, 2015 were \$372.7 million (17.3% of net sales), an increase of \$30 million compared to \$342.7 million (17.2% of net sales) for the three months ended September 27, 2014. As a percentage of net sales, selling, general and administrative expenses increased 10 basis points. The increase in selling, general and administrative expenses in dollars was primarily attributable to approximately \$37 million due to higher sales volumes, approximately \$13 million of costs associated with investments in new product development, sales personnel, and marketing, and increased employee costs of approximately \$11 million, partially offset by the positive impact of foreign exchange rates of approximately \$19 million, and lower restructuring, acquisition and integration-related costs of approximately \$11 million.

### Operating income

Operating income for the three months ended October 3, 2015 was \$288.7 million (13.4% of net sales) reflecting an increase of \$75.0 million, or 35.1%, compared to operating income of \$213.7 million (10.7% of net sales) for the three months ended September 27, 2014. The increase in operating income was primarily attributable to increased sales volumes of approximately \$65 million, lower input costs of approximately \$34 million, increases in operations productivity of approximately \$31 million and lower restructuring, acquisition and integration-related costs of approximately \$4 million, which includes approximately \$7 million of costs in the current period related to inventory step-up, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$21 million, costs associated with investments in new product development, sales personnel and marketing of approximately \$13 million, the unfavorable impact of price and product mix of approximately \$12 million, increased employee costs of approximately \$11 million, and costs associated with investments in expansion of production capacity of approximately \$3 million.

Global Ceramic segment—Operating income was \$120.1 million (15.2% of segment net sales) for the three months ended October 3, 2015 reflecting an increase of \$18.8 million compared to operating income of \$101.3 million (13.0% of segment net sales) for the three months ended September 27, 2014. The increase in operating income was primarily attributable to increased sales volumes of approximately \$19 million, operations productivity of approximately \$10 million, and the favorable net impact of price and product mix of approximately \$10 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$12 million and costs associated with investments in new product development, sales personnel, and marketing of approximately \$8 million.

Flooring NA segment—Operating income was \$125.9 million (13.2% of segment net sales) for the three months ended October 3, 2015 reflecting an increase of \$42.3 million compared to operating income of \$83.6 million (9.4% of segment net sales) for the three months ended September 27, 2014. The increase in operating income was primarily attributable to lower input costs of approximately \$29 million, increases in operations productivity of approximately \$25 million, increased sales volume of approximately \$14 million, and the favorable impact of lower restructuring, acquisition and integration costs of approximately \$4 million, partially offset by the unfavorable net impact of price and product mix of approximately \$20 million, increased employee costs of approximately \$6 million, and costs associated with investments in new product development, sales personnel, and marketing of approximately \$5 million.

Flooring ROW segment—Operating income was \$55.5 million (13.7% of segment net sales) for the three months ended October 3, 2015 reflecting an increase of \$20.4 million compared to operating income of \$35.0 million (10.7% of segment net sales) for the three months ended September 27, 2014. The increase in operating income was primarily attributable to higher sales volumes of approximately \$32 million and lower input costs of approximately \$3 million, partially offset by the net impact of



## Table of Contents

unfavorable foreign exchange rates of approximately \$9 million, costs associated with investments in expansion of production capacity of approximately \$2 million, and the unfavorable net impact of price and product mix of approximately \$2 million.

### Interest expense

Interest expense was \$19.3 million for the three months ended October 3, 2015, reflecting a decrease of \$15.5 million compared to interest expense of \$34.8 million for the three months ended September 27, 2014. The decrease was primarily attributable to the Company purchasing approximately \$254.5 million of the 6.125% senior notes in 2014 and lower interest rates.

### Other (income) expense, net

Other expense was \$4.2 million for the three months ended October 3, 2015, reflecting an unfavorable change of \$6.6 million compared to other income of \$2.4 million for the three months ended September 27, 2014. The increase was primarily attributable to the unfavorable impact of foreign exchange rates on transactions.

### Income tax expense

For the three months ended October 3, 2015, the Company recorded income tax expense of \$49.5 million on earnings from continuing operations before income taxes of \$265.2 million for an effective tax rate of 18.7%, as compared to an 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% for the three months ended September 27, 2014. The difference in the effective tax rate for the comparative period is due to the geographic dispersion of earnings and losses for the periods.

Nine Months Ended October 3, 2015, as compared with Nine Months Ended September 27, 2014

### Net sales

Net sales for the nine months ended October 3, 2015 were \$6,073.6 million, reflecting an increase of \$221.6 million, or 3.8%, from the \$5,852.0 million reported for the nine months ended September 27, 2014. The increase was primarily attributable to higher sales volume of approximately \$551 million, or 9%, and favorable impact of additional shipping days during the period of approximately \$105 million, or 2%, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$409 million, or 7% and the unfavorable net impact of price and product mix of approximately \$25 million. Of the \$551 million increase in sales volume, approximately \$234 million was attributable to acquisitions.

Global Ceramic segment—Net sales increased \$29.5 million, or 1.3%, to \$2,301.2 million for the nine months ended October 3, 2015, compared to \$2,271.7 million for the nine months ended September 27, 2014. The increase was primarily attributable to higher sales volume of approximately \$120 million, or 5%, the favorable impact of additional shipping days during the period of approximately \$37 million, or 2% and the favorable net impact of price and product mix of approximately \$83 million, or 4%, offset by the net impact of unfavorable foreign exchange rates of approximately \$211 million, or 9%. Of the \$120 million increase in sales volume, approximately \$44 million was attributable to the KAI Group acquisition.

Flooring NA segment—Net sales increased \$159.8 million, or 6.2%, to \$2,722.3 million for the nine months ended October 3, 2015, compared to \$2,562.6 million for the nine months ended September 27, 2014. The increase was primarily attributable to higher sales volumes of approximately \$211 million, or 8%, the favorable impact of additional shipping days during the period of approximately \$47 million, or 2%, partially offset by the unfavorable net

impact of price and product mix of approximately \$98 million, or 4%. Of the \$211 increase in sales volume, approximately \$48 million was attributable to the IVC Group acquisition.

Flooring ROW segment—Net sales increased \$28.4 million, or 2.8%, to \$1,050.4 million for the nine months ended October 3, 2015, compared to \$1,022.0 million for the nine months ended September 27, 2014. The increase was primarily attributable to higher sales volume of approximately \$216 million, or 21%, and the favorable impact of additional shipping days during the period of approximately \$21 million, or 2%, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$197 million, or 19% and the unfavorable net impact of price and product mix of approximately \$11 million, or 1%. Of the \$216 million increase in sales volume, approximately \$142 million was attributable to the IVC Group acquisition.

#### Gross profit

Gross profit for the nine months ended October 3, 2015 was \$1,788.5 million (29.4% of net sales), an increase of \$175.9 million or 10.9%, compared to gross profit of \$1,612.6 million (27.6% of net sales) for the nine months ended September 27,

## Table of Contents

2014. As a percentage of net sales, gross profit increased 180 basis points. The increase in gross profit dollars was primarily attributable to higher sales volume of approximately \$210 million, operations productivity of approximately \$93 million, and lower input costs of approximately \$58 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$125 million, the unfavorable net impact of price and product mix of approximately \$24 million, the unfavorable impact of higher restructuring, acquisition and integration-related costs of approximately \$23 million, and costs associated with investments in expansion of production capacity of approximately \$11 million.

### Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended October 3, 2015 were \$1,200.2 million (19.8% of net sales), an increase of \$154.3 million compared to \$1,045.9 million (17.9% of net sales) for the nine months ended September 27, 2014. As a percentage of net sales, selling, general and administrative expenses increased 190 basis points. The increase in selling, general and administrative expenses in dollars was primarily attributable to a \$125 million charge related to the settlement and further defense of the polyurethane foam litigation described in more detail herein, approximately \$55 million due to higher sales volume, approximately \$27 million of costs associated with investments in new product development, sales personnel, and marketing, and increased employee costs of approximately \$22 million, partially offset by the positive impact of foreign exchange rates of approximately \$62 million, lower restructuring, acquisition and integration-related costs of approximately \$11 million.

### Operating income

Operating income for the nine months ended October 3, 2015 was \$588.3 million (9.7% of net sales) reflecting an increase of \$21.6 million, or 3.8%, compared to operating income of \$566.7 million (9.7% of net sales) for the nine months ended September 27, 2014. The increase in operating income was primarily attributable to increased sales volumes of approximately \$153 million, increases in operations productivity of approximately \$93 million, and lower input costs of approximately \$58 million, partially offset by a \$125 million charge related to the settlement and further defense of the polyurethane foam litigation described in more detail herein, the net impact of unfavorable foreign exchange rates of approximately \$62 million, costs associated with investments in new product development, sales personnel and marketing of approximately \$27 million, the unfavorable net impact of price and product mix of approximately \$24 million, increased employee costs of approximately \$22 million, the unfavorable impact of higher restructuring, acquisition and integration-related costs of approximately \$12 million which includes approximately \$13 million of costs related to inventory step-up, and costs associated with investments in expansion of production capacity of approximately 11 million.

Global Ceramic segment—Operating income was \$326.6 million (14.2% of segment net sales) for the nine months ended October 3, 2015 reflecting an increase of \$58.3 million compared to operating income of \$268.3 million (11.8% of segment net sales) for the nine months ended September 27, 2014. The increase in operating income was primarily attributable to sales volume increases of approximately \$57 million, operations productivity of approximately \$25 million, the favorable net impact of price and product mix of approximately \$25 million and lower restructuring, acquisition and integration-related costs of approximately \$3 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$30 million, costs associated with investments in new product development, sales personnel and marketing of approximately \$20 million and investments in expansion of production capacity of approximately \$2 million.

Flooring NA segment—Operating income was \$145.9 million (5.4% of segment net sales) for the nine months ended October 3, 2015 reflecting a decrease of \$61.7 million compared to operating income of \$207.6 million (8.1% of segment net sales) for the nine months ended September 27, 2014. The decrease in operating income was primarily attributable to a \$125 million charge related to the settlement and further defense of the polyurethane foam litigation

described in more detail herein, the unfavorable net impact of price and product mix of approximately \$44 million, the unfavorable impact of higher restructuring, acquisition and integration-related costs of approximately \$14 million, increased employee costs of approximately \$8 million, and costs associated with investments in new product development, sales personnel and marketing of approximately \$7 million, partially offset by increases in operations productivity of approximately \$67 million, lower input costs of approximately \$36 million, and sales volume increases of approximately \$28 million.

Flooring ROW segment—Operating income was \$153.2 million (14.6% of segment net sales) for the nine months ended October 3, 2015 reflecting an increase of \$39.3 million compared to operating income of \$113.9 million (11.1% of segment net sales) for the nine months ended September 27, 2014. The increase in operating income was primarily attributable to higher sales volume of approximately \$68 million, lower input costs of approximately \$15 million, and lower restructuring, acquisition and integration costs of \$5 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$32 million, costs associated with investments in expansion of production capacity of approximately \$8 million, and the unfavorable net impact of price and product mix of approximately \$5 million.

## Table of Contents

### Interest expense

Interest expense was \$52.6 million for the nine months ended October 3, 2015, reflecting a decrease of \$25.0 million compared to interest expense of \$77.6 million for the nine months ended September 27, 2014. The decrease was primarily attributable to the Company purchasing approximately \$254.5 million of the 6.125% senior notes in 2014 and lower rates.

### Other (income) expense, net

Other expense was \$6.1 million for the nine months ended October 3, 2015, reflecting an unfavorable change of \$5.1 million compared to other expense of \$1.0 million for the nine months ended September 27, 2014. The increase was primarily attributable to the unfavorable impact of foreign exchange rates on transactions.

### Income tax expense

For the nine months ended October 3, 2015, the Company recorded income tax expense of \$104.6 million on earnings from continuing operations before income taxes of \$529.6 million for an effective tax rate of 19.8%, as compared to an 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% for the nine months ended September 27, 2014. The difference in the effective tax rate for the comparative period is primarily due to the geographic dispersion of earnings and losses for the periods.

### 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 2015 was \$657.0 million, compared to net cash provided by operating activities of \$323.4 million in the first nine months of 2014. The increase of \$333.5 million was primarily attributable to changes in working capital. Receivables, inventories and accounts payable used \$270.8 million less cash during 2015 compared to 2014. These changes in working capital reflect normal fluctuations relative to the timing and nature of these transactions. Also contributing to the increase in cash provided by operating activities were higher earnings driven by increases in sales volumes, improved operations productivity and decreases in income tax and interest expense, partially offset by the foam litigation charge and the net impact of unfavorable foreign exchange rates.

Net cash used in investing activities in the first nine months of 2015 was \$1,563.8 million compared to net cash used in investing activities of \$391.6 million in the first nine months of 2014. The increase was primarily attributable to acquisitions of \$1,211.7 million in the current year partially offset by lower capital expenditures of \$39.5 million in the current year. Capital spending during the remainder of 2015 is expected to range from approximately \$150 million to \$200 million and is intended to support sales and income growth, promote new product innovations and upgrade the assets of the acquired businesses.

Net cash provided by financing activities in the first nine months of 2015 was \$930.5 million compared to net cash provided by financing activities of \$126.6 million in the first nine months of 2014. The change in cash provided by financing is primarily attributable to increased borrowings in the current year.

### 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 provided 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 previous credit facility, were amortized over the term of the 2013 Senior Credit Facility.

On March 26, 2015, the Company amended and restated the 2013 Senior Credit Facility increasing its size from \$1,000.0 million to \$1,800.0 million and extending the maturity from September 25, 2018 to March 26, 2020 (the "2015 Senior Credit Facility"). The 2015 Senior Credit Facility eliminates certain provisions in the 2013 Senior Credit Facility, including those that: (a) accelerated the maturity date to 90 days prior to the maturity of senior notes due in January 2016 if certain specified liquidity levels were not met; and (b) required that certain subsidiaries guarantee the Company's obligations if the Company's credit ratings

## Table of Contents

fell below investment grade. The 2015 Senior Credit Facility also modified certain negative covenants to provide the Company with additional flexibility, including that to make acquisitions and incur indebtedness.

At the Company's election, revolving loans under the 2015 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 2015 Senior Credit Facility on the average amount by which the aggregate commitments of the Lenders' exceed utilization of the 2015 Senior Credit Facility ranging from 0.10% to 0.225% per annum. The applicable margins 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 2015 Senior Credit Facility are unsecured.

The 2015 Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, subsidiary indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, future negative pledges, and changes in the nature of the Company's business. These limitations are subject to 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 2015 Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

The Company paid financing costs of \$2.6 million in connection with its 2015 Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$8.7 million related to the Company's 2013 Senior Credit Facility, are being amortized over the term of the 2015 Senior Credit Facility.

As of October 3, 2015, amounts utilized under the 2015 Senior Credit Facility included \$164.7 million of borrowings and \$1.4 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$702.3 million under the Company's U.S. and European commercial paper programs as of October 3, 2015 reduce the availability of the 2015 Senior Credit Facility. Taking the commercial paper borrowings into account, the Company has utilized \$868.4 million under the 2015 Senior Credit Facility resulting in a total of \$931.6 million available under the 2015 Senior Credit Facility.

### Commercial Paper

On February 28, 2014, the Company established a U.S. commercial paper program for the issuance of unsecured commercial paper in the United States capital markets. Under the commercial paper program, the Company issues commercial paper notes from time to time, subject to availability under the 2015 Senior Credit Facility. On May 21, 2015, following the amendment and restatement of the 2013 Credit Facility, the Company expanded the amount of borrowings permitted under its U.S. commercial paper program from \$1,000.0 million to \$1,800.0 million. The U.S. 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 U.S. commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness.

On July 31, 2015, the Company established a European commercial paper program for the issuance of unsecured commercial paper in the Eurozone capital markets. Under the European commercial paper program, the Company issues commercial paper notes from time to time, subject to a cap equal to the lower of availability under the 2015 Senior Credit Facility and the euro equivalent of \$1,000.0 million. The European commercial paper notes will have maturities ranging from one day to 183 days and will not be subject to voluntary prepayment by the Company or redemption prior to maturity. The European commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. Payment on the European commercial paper notes will be fully and unconditionally guaranteed by the Company.

The Company uses its 2015 Senior Credit Facility as a liquidity backstop for its commercial paper programs. Accordingly, the total amount due and payable under any of the Company's commercial paper programs may not exceed \$1,800.0 million (or its equivalent in alternative currencies) at any time.



## Table of Contents

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 U.S. commercial paper notes to repay borrowings under its 2013 Senior Credit Facility and certain of its industrial revenue bonds. The Company used the initial proceeds from the sale of European commercial paper notes to repay euro-denominated borrowings under its 2015 Senior Credit Facility. As of October 3, 2015, the amount utilized under the commercial paper programs was \$702.3 million with a weighted-average interest rate and maturity period of 0.46% and 22.75 days, respectively for the U.S. commercial paper program and 0.04% and 33.5 days, respectively for the European commercial paper program.

### Senior Notes

On June 9, 2015, the Company issued €500.0 million aggregate principal amount of 2.00% Senior Notes due January 14, 2022. The Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the Notes is payable annually in cash on January 14 of each year, commencing on January 14, 2016. The Company paid financing costs of \$4.2 million in connection with the 2.00% Senior Notes. These costs were deferred and are being amortized over the term of the 2.00% 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 \$63 thousand 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 and fees of \$1.1 million associated with the redemption. The premium as well as the fees are included in interest expense on the condensed consolidated statement of operations for the three and nine months ended October 3, 2015.

On November 3, 2014, the Company purchased for cash approximately \$54.4 million aggregate principal amount of its outstanding 6.125% senior notes due January 15, 2016 at a price equal to 106.38% of the principal amount, resulting in a premium to redeeming noteholders of approximately \$3.5 million. The premium is included in interest expense on the condensed consolidated statement of operations as at October 3, 2015.

### 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 October 3, 2015, the amount utilized under the Securitization Facility was \$500.0 million, which was secured by \$763.8 million of Receivables.

Table of Contents

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 October 3, 2015, the Company had cash of \$110.7 million, of which \$78.7 million was held outside the United States. While the Company's plans are to permanently reinvest the cash held outside the United States, the estimated cost of repatriation for the cash as of October 3, 2015 was approximately \$27.6 million. The Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its 2015 Senior Credit Facility and commercial paper programs will be sufficient to meet its capital expenditure, working capital and debt servicing requirements over the next twelve months.

## Table of Contents

### Contractual Obligations

There have been no significant changes to the Company's contractual obligations as disclosed in the Company's 2014 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, except as described in Note 1 in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q under the headings "Segment Realignment" and "Hedges of Net Investments in Non-U.S. Operations." The Company's critical accounting policies and estimates are described in its 2014 Annual Report filed on Form 10-K.

### Recent Accounting Pronouncements

See Note 1 in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q under the heading "Recent Accounting Pronouncements" for a discussion of new accounting pronouncements which is incorporated herein by reference.

### 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.

### Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements as of October 3, 2015.

### Seasonality

The Company is a calendar year-end company. With respect to its Flooring NA and Global 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 Flooring ROW segment's second quarter typically produces the highest net sales and earnings followed by a moderate first and fourth quarter and a weaker third 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 and deflation in raw material prices and other input costs; inflation and deflation in consumer markets; energy costs and supply; timing and level of capital expenditures; timing and implementation of price increases for the Company's products; impairment charges; integration of acquisitions; international operations; introduction of new products; rationalization of operations; tax, product and other claims; litigation; and other risks identified in Mohawk's SEC reports and public announcements.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of October 3, 2015, approximately 57% of the Company's debt portfolio was comprised of fixed-rate debt and 43% 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 2014 Annual Report filed on Form 10-K.

Item 4. Controls and Procedures

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

There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting other than the integration of the Acquisitions referenced in Note 2 in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q. As a result of these transactions, the Company's internal control over financial reporting now includes controls, procedures and supporting systems with respect to transactions and account balances of the Acquisitions, which are reflected in the Company's consolidated financial statements.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Polyurethane Foam Litigation

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 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 were 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. Any damages actually awarded at trial are subject to being tripled under U.S. antitrust laws.

On March 23, 2015, the Company entered into an agreement to settle all claims brought by the class of direct purchasers, and on April 30, 2015, the Company entered into an agreement to settle all claims brought by the class of indirect purchasers. Both settlement agreements are subject to court approval, which the Company expects to receive. The Company denies all allegations of wrongdoing but settled the class actions to avoid the uncertainty, risk, expense and distraction of protracted litigation.

The Company remains a defendant in a number of cases involving other purchasers of polyurethane foam products not sold by the Company. On April 23, 2015, the Court consolidated twelve of these lawsuits involving non-class claims filed against the Company by direct purchasers of polyurethane foam. These consolidated cases had been scheduled for trial to begin August 18, 2015. The Company has executed agreements to settle all of the cases set for trial in August and ten additional individual cases. The Company has also reached an agreement in principle to settle one additional individual case. Three individual cases remain pending against the Company, all of which were brought by purchasers of polyurethane foam products not sold by the Company. The amount of the 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 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 Consommateur 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. On June 12, 2015, the Company entered into an agreement to settle all claims brought by the class of Canadian plaintiffs. The Company continues to deny all allegations of wrongdoing but is settling to avoid the uncertainty, risk, expense and distraction of protracted litigation.

During the three months ended April 4, 2015 the Company recorded a \$125 million charge within selling, general and administrative expenses for the settlement and defense of the antitrust cases. The Company believes that adequate provisions for resolution of all of these cases have been made. The Company does not believe that the ultimate outcome of the remaining cases will have a material adverse effect on its financial condition.

#### Belgian Tax Matter

In January 2012, the Company received a €23.8 million 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 €1.6 million 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.



## Table of Contents

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 €46.1 million and €35.6 million, 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 brought these two years before the Court of First Appeal in Bruges.

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 €38.8 million, €39.6 million, and €43.1 million, 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 the quarter ended June 28, 2014, the Company received a formal assessment for the year ended December 31, 2008, totaling €30.1 million, against which the Company also submitted its formal protest. All 4 additional years were brought before the Court of First Appeal in November 2014.

In January of 2015, the Company met with the Court of First Appeal in Bruges and agreed with the Belgian tax authorities to consolidate and argue the issues regarding the years 2005 and 2009, and apply the ruling to all of the open years (to the extent there are no additional facts/procedural arguments in the other years). The case is scheduled to be argued on December 2, 2015.

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.

### 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, 2014. 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.

### Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

33

---

Table of Contents

Item 6. Exhibits

No.	Description
31.1	Certification Pursuant to Rule 13a-14(a).
31.2	Certification Pursuant to Rule 13a-14(a).
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Table of Contents

SIGNATURES

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

MOHAWK INDUSTRIES, INC.  
(Registrant)

Dated: November 9, 2015      By: /s/ Jeffrey S. Lorberbaum  
JEFFREY S. LORBERBAUM  
Chairman and Chief Executive Officer  
(principal executive officer)

Dated: November 9, 2015      By: /s/ Frank H. Boykin  
FRANK H. BOYKIN  
Chief Financial Officer  
(principal financial officer)