

MOHAWK INDUSTRIES INC
Form 10-Q
August 04, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended June 28, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 01-13697

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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The number of shares outstanding of the issuer's classes of common stock as of July 28, 2014, the latest practicable date, is as follows: 72,836,431 shares of Common Stock, \$.01 par value.

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

	June 28, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$70,044	54,066
Receivables, net	1,261,808	1,062,875
Inventories	1,644,768	1,572,325
Prepaid expenses	230,263	204,034
Deferred income taxes	135,259	147,534
Other current assets	36,947	44,884
Total current assets	3,379,089	3,085,718
Property, plant and equipment	5,208,907	4,950,149
Less: accumulated depreciation	2,378,705	2,248,406
Property, plant and equipment, net	2,830,202	2,701,743
Goodwill	1,730,713	1,736,092
Tradenames	694,350	700,592
Other intangible assets subject to amortization, net	97,910	111,010
Deferred income taxes and other non-current assets	149,417	159,022
	\$8,881,681	8,494,177
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt and commercial paper	\$619,229	127,218
Accounts payable and accrued expenses	1,253,291	1,193,593
Total current liabilities	1,872,520	1,320,811
Deferred income taxes	409,332	445,823
Long-term debt, less current portion	1,807,609	2,132,790
Other long-term liabilities	118,920	124,447
Total liabilities	4,208,381	4,023,871
Commitments and contingencies (Notes 9 and 15)		
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued	—	—
Common stock, \$.01 par value; 150,000 shares authorized; 80,991 and 80,841 shares issued in 2014 and 2013, respectively	810	808
Additional paid-in capital	1,580,010	1,566,985
Retained earnings	3,187,640	2,953,809
Accumulated other comprehensive income, net	135,379	178,689
	4,903,839	4,700,291
Less treasury stock at cost; 8,155 shares in 2014 and 2013	239,230	239,234
Total Mohawk Industries, Inc. stockholders' equity	4,664,609	4,461,057
Noncontrolling interest	8,691	9,249
Total stockholders' equity	4,673,300	4,470,306

\$8,881,681

8,494,177

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	\$2,048,247	1,976,299	3,861,342	3,463,114
Cost of sales	1,473,435	1,462,243	2,805,175	2,571,992
Gross profit	574,812	514,056	1,056,167	891,122
Selling, general and administrative expenses	352,564	380,858	703,184	671,082
Operating income	222,248	133,198	352,983	220,040
Interest expense	20,702	25,312	42,798	44,468
Other (income) expense	(1,555)	(1,097)	3,335	5,290
Earnings from continuing operations before income taxes	203,101	108,983	306,850	170,282
Income tax expense	50,240	23,240	72,936	33,972
Earnings from continuing operations	152,861	85,743	233,914	136,310
Loss from discontinued operations, net of income tax benefit of \$485	—	(1,361)	—	(1,361)
Net earnings including noncontrolling interest	152,861	84,382	233,914	134,949
Net income (loss) attributable to noncontrolling interest	111	(190)	83	(118)
Net earnings attributable to Mohawk Industries, Inc.	\$152,750	84,572	233,831	135,067
Basic earnings per share attributable to Mohawk Industries, Inc.				
Income from continuing operations	\$2.10	1.19	3.21	1.92
Loss from discontinued operations	—	(0.02)	—	(0.02)
Basic earnings per share attributable to Mohawk Industries, Inc.	\$2.10	1.17	3.21	1.90
Weighted-average common shares outstanding—basic	72,832	72,406	72,788	70,907
Diluted earnings per share attributable to Mohawk Industries, Inc.				
Income from continuing operations	\$2.08	1.18	3.19	1.91
Loss from discontinued operations	—	(0.02)	—	(0.02)
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$2.08	1.16	3.19	1.89
Weighted-average common shares outstanding—diluted	73,297	72,867	73,302	71,405
See accompanying notes to condensed consolidated financial statements.				

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net earnings including noncontrolling interest	\$152,861	84,382	233,914	134,949
Other comprehensive income (loss):				
Foreign currency translation adjustments	19,768	(32,428)	(43,314)	(110,134)
Pension prior service cost and actuarial gain	2	(8)	4	207
Other comprehensive income (loss)	19,770	(32,436)	(43,310)	(109,927)
Comprehensive income	172,631	51,946	190,604	25,022
Comprehensive income (loss) attributable to the noncontrolling interest	111	(190)	83	(118)
Comprehensive income attributable to Mohawk Industries, Inc.	\$172,520	52,136	190,521	25,140

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	June 28, 2014	June 29, 2013
Cash flows from operating activities:		
Net earnings	\$233,914	134,949
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Restructuring	8,751	28,389
Depreciation and amortization	164,738	140,992
Deferred income taxes	(21,984)	(16,253)
Loss on disposal of property, plant and equipment	700	422
Stock-based compensation expense	14,197	9,498
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables, net	(200,684)	(172,457)
Inventories	(74,600)	(40,555)
Accounts payable and accrued expenses	(1,314)	47,120
Other assets and prepaid expenses	(13,951)	(4,594)
Other liabilities	(11,893)	(13,597)
Net provided by operating activities	97,874	113,914
Cash flows from investing activities:		
Additions to property, plant and equipment	(249,697)	(146,097)
Acquisitions, net of cash acquired	19	(449,464)
Net cash used in investing activities	(249,678)	(595,561)
Cash flows from financing activities:		
Payments on Senior Credit Facilities	(1,212,295)	(878,634)
Proceeds from Senior Credit Facilities	875,983	1,348,808
Payments on Commercial Paper	(2,213,101)	—
Proceeds from Commercial Paper	2,773,101	—
Proceeds from 3.85% Senior Notes	—	600,000
Payments of acquired debt and other financings	(12,292)	(895,127)
Net change in asset securitization borrowings	—	20,000
Payments on other debt	(52,793)	(22)
Debt issuance costs	—	(5,815)
Change in outstanding checks in excess of cash	2,938	(11,423)
Proceeds and net tax benefit from stock transactions	6,822	29,859
Net cash provided by financing activities	168,363	207,646
Effect of exchange rate changes on cash and cash equivalents	(581)	(34,926)
Net change in cash and cash equivalents	15,978	(308,927)
Cash and cash equivalents, beginning of period	54,066	477,672
Cash and cash equivalents, end of period	\$70,044	168,745

See accompanying notes to condensed consolidated financial statements.

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(Unaudited)

1. General

Interim Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto, and the Company's description of critical accounting policies, included in the Company's 2013 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. Results for interim periods are not necessarily indicative of the results for the year.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-05, "Liabilities - Debt: Debt Issuance Costs," which requires that debt issuance costs be recognized as a contra liability, net of the related debt liability, and be amortized over the term of the debt. The ASU is effective for public companies for fiscal years beginning after December 15, 2014. The Company is currently evaluating the impact of this ASU on its financial statements.