

MOHAWK INDUSTRIES INC

Form 10-Q

May 06, 2011

**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 April 2, 2011

**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  Smaller reporting company   
(Do not check if a 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 classes of common stock as of May 2, 2011, the latest practicable date, is as follows: 68,735,077 shares of Common Stock, \$.01 par value.

**MOHAWK INDUSTRIES, INC.  
INDEX**

	Page No
<b><u>Part I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets as of April 2, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the three months ended April 2, 2011 and April 3, 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the three months ended April 2, 2011 and April 3, 2010</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	19
<u>Item 4. Controls and Procedures</u>	19
<b><u>Part II OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	20
<u>Item 1A. Risk Factors</u>	20
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>Item 3. Defaults Upon Senior Securities</u>	26
<u>Item 4. (Removed and Reserved)</u>	26
<u>Item 5. Other Information</u>	27
<u>Item 6. Exhibits</u>	27
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	

**Table of Contents**

PART I. FINANCIAL INFORMATION  
 ITEM I. FINANCIAL STATEMENTS  
 MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

(In thousands)

(Unaudited)

<b>ASSETS</b>	April 2, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	\$ 256,231	354,217
Restricted cash		27,954
Receivables, net	754,826	614,473
Inventories	1,075,613	1,007,503
Prepaid expenses	97,846	91,731
Deferred income taxes	133,487	133,304
Other current assets	21,672	19,431
 Total current assets	 2,339,675	 2,248,613
 Property, plant and equipment, at cost	 3,609,635	 3,518,392
Less accumulated depreciation and amortization	1,893,740	1,831,268
 Property, plant and equipment, net	 1,715,895	 1,687,124
Goodwill	1,406,731	1,369,394
Tradenames	475,359	456,890
Other intangible assets, net	214,344	220,237
Deferred income taxes and other non-current assets	114,229	116,668
	\$ 6,266,233	6,098,926

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

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

	April 2, 2011	December 31, 2010
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 52,706	350,588
Accounts payable and accrued expenses	739,768	698,326
Total current liabilities	792,474	1,048,914
Deferred income taxes	355,342	346,503
Long-term debt, less current portion	1,577,188	1,302,994
Other long-term liabilities	94,642	93,518
Total liabilities	2,819,646	2,791,929
Commitments and contingencies (Notes 11 and 12)		
Redeemable noncontrolling interest	33,255	35,441
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued		
Common stock, \$.01 par value; 150,000 shares authorized; 79,760 and 79,666 shares issued in 2011 and 2010, respectively	797	797
Additional paid-in capital	1,239,048	1,235,445
Retained earnings	2,204,285	2,180,843
Accumulated other comprehensive income, net	292,828	178,097
	3,736,958	3,595,182
Less treasury stock at cost; 11,035 and 11,037 shares in 2011 and 2010, respectively	323,626	323,626
Total stockholders' equity	3,413,332	3,271,556
	\$ 6,266,233	6,098,926

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (In thousands, except per share data) (Unaudited)

	Three Months Ended	
	April 2, 2011	April 3, 2010
Net sales	\$ 1,343,595	1,347,236
Cost of sales	1,002,003	1,005,990
Gross profit	341,592	341,246
Selling, general and administrative expenses	285,508	287,625
Operating income	56,084	53,621
Other expense (income):		
Interest expense	26,595	33,908
Other expense	3,825	162
Other income	(3,840)	(4,693)
	26,580	29,377
Earnings before income taxes	29,504	24,244
Income tax expense	4,966	2,974
Net earnings	24,538	21,270
Less: Net earnings attributable to noncontrolling interest	1,096	732
Net earnings attributable to Mohawk Industries, Inc.	\$ 23,442	20,538
Basic earnings per share attributable to Mohawk Industries, Inc.	\$ 0.34	0.30
Weighted-average common shares outstanding basic	68,674	68,523
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$ 0.34	0.30
Weighted-average common shares outstanding diluted	68,904	68,730

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Three Months Ended	
	April 2, 2011	April 3, 2010
Cash flows from operating activities:		
Net earnings	\$ 24,538	21,270
Adjustments to reconcile net earnings to net cash used in operating activities:		
Restructuring	6,813	4,004
Depreciation and amortization	74,253	76,798
Deferred income taxes	(1,820)	(5,675)
Loss on disposal of property, plant and equipment	137	337
Excess tax benefit from stock-based compensation		(28)
Stock-based compensation expense	3,861	1,858
Changes in operating assets and liabilities:		
Receivables, net	(123,730)	(116,010)
Inventories	(60,300)	(44,096)
Accounts payable and accrued expenses	11,291	19,644
Other assets and prepaid expenses	(2,577)	(2,844)
Other liabilities	121	(1,450)
Net cash used in operating activities	(67,413)	(46,192)
Cash flows from investing activities:		
Additions to property, plant and equipment	(52,811)	(23,309)
Net cash used in investing activities	(52,811)	(23,309)
Cash flows from financing activities:		
Payments on revolving line of credit	(332,330)	
Proceeds from revolving line of credit	607,330	
Repayment of senior notes	(298,248)	
Borrowings (payments) on term loan and other debt	(536)	496
Distribution to noncontrolling interest	(3,283)	(2,071)
Change in restricted cash	27,954	
Excess tax benefit from stock-based compensation		28
Change in outstanding checks in excess of cash	6,438	(889)
Proceeds from stock transactions	1,067	394
Net cash provided by (used in) financing activities	8,392	(2,042)
Effect of exchange rate changes on cash and cash equivalents	13,846	(7,580)
Net change in cash and cash equivalents	(97,986)	(79,123)
Cash and cash equivalents, beginning of period	354,217	531,458

Cash and cash equivalents, end of period	\$ 256,231	452,335
--	------------	---------

See accompanying notes to condensed consolidated financial statements.

6

---



**Table of Contents**

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

(In thousands, except per share amounts)

(Unaudited)

**1. Interim reporting**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto, and the Company's description of critical accounting policies, included in the Company's 2010 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

**2. Receivables, net**

Receivables, net are as follows:

	April 2, 2011	December 31, 2010
Customers, trade	\$ 759,162	621,539
Income tax receivable	11,670	11,027
Other	30,995	27,662
	801,827	660,228
Less allowance for discounts, returns, claims and doubtful accounts	47,001	45,755
Receivables, net	\$ 754,826	614,473

**3. Inventories**

The components of inventories are as follows:

	April 2, 2011	December 31, 2010
Finished goods	\$ 655,666	624,082
Work in process	111,424	97,257
Raw materials	308,523	286,164
Total inventories	\$ 1,075,613	1,007,503

**4. Goodwill and intangible assets**

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

	Mohawk	Dal-Tile	Unilin	Total
Balances as of December 31, 2010				
Goodwill	\$ 199,132	1,186,913	1,310,774	2,696,819
Accumulated impairments losses	(199,132)	(531,930)	(596,363)	(1,327,425)
		654,983	714,411	1,369,394
Currency translation during the period			37,337	37,337

Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

Balances as of April 2, 2011

Goodwill	199,132	1,186,913	1,348,111	2,734,156
Accumulated impairments losses	(199,132)	(531,930)	(596,363)	(1,327,425)
	\$	654,983	751,748	1,406,731

7

---

**Table of Contents**

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

(In thousands, except per share amounts)

(Unaudited)

	Tradenames
Indefinite life assets not subject to amortization:	
Balance as of December 31, 2010	\$ 456,890
Currency translation during the period	18,469
Balance as of April 2, 2011	\$ 475,359

	Customer relationships	Patents	Other	Total
Intangible assets subject to amortization:				
Balance as of December 31, 2010	\$ 106,432	112,520	1,285	220,237
Amortization during period	(11,725)	(5,644)	(30)	(17,399)
Currency translation during the period	3,807	7,689	10	11,506
Balance as of April 2, 2011	\$ 98,514	114,565	1,265	214,344

	Three Months Ended	
	April 2, 2011	April 3, 2010
Amortization expense	\$ 17,399	18,218

5. Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows:

	April 2, 2011	December 31, 2010
Outstanding checks in excess of cash	\$ 6,438	
Accounts payable, trade	396,775	353,387
Accrued expenses	150,340	147,595
Product warranties	36,437	37,265
Accrued interest	28,995	45,696
Income taxes payable	9,286	9,301
Deferred tax liability	10,013	5,089
Accrued compensation and benefits	101,484	99,993
Total accounts payable and accrued expenses	\$ 739,768	698,326

6. Product warranties

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

The provision for warranty obligations is as follows:

	Three Months Ended	
	April 2, 2011	April 3, 2010
Balance at beginning of period	\$ 37,265	66,545
Warranty claims paid during the period	(13,735)	(24,373)
Pre-existing warranty accrual adjustment during the period	2,995	
Warranty expense during the period	9,912	11,278
Balance at end of period	\$ 36,437	53,450

**Table of Contents**

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

## 7. Comprehensive income (loss)

Comprehensive income (loss) is as follows:

	Three Months Ended	
	April 2, 2011	April 3, 2010
Net earnings	\$ 24,538	21,270
Other comprehensive income (loss):		
Foreign currency translation	114,731	(99,987)
Comprehensive income (loss)	139,269	(78,717)
Comprehensive income attributable to the noncontrolling interest	(1,096)	(732)
Comprehensive income (loss) attributable to Mohawk Industries, Inc.	\$ 138,173	(79,449)

## 8. Stock-based compensation

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

Under the Company's 2007 Incentive Plan ( 2007 Plan ), which was approved by the Company's stockholders on May 16, 2007, the Company reserved up to a maximum of 3,200 shares of common stock for issuance upon the grant or exercise of stock options, restricted stock, restricted stock units ( RSU s ) and other types of awards, to directors and key employees through 2017. Option awards are granted with an exercise price equal to the market price of the Company's common stock on the date of the grant and generally vest between three and five years with a 10-year contractual term. Restricted stock and RSU s are granted with a price equal to the market price of the Company's common stock on the date of the grant and generally vest between three and five years.

The Company granted 76 and 40 options to employees at a weighted-average grant-date fair value of \$25.39 and \$19.10 per share for the three months ended April 2, 2011 and April 3, 2010, respectively. The Company recognized stock-based compensation costs related to stock options of \$559 (\$354 net of taxes) and \$775 (\$491 net of taxes) for the three months ended April 2, 2011 and April 3, 2010, respectively, which has been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for stock options granted to employees and outside directors, net of estimated forfeitures, was \$3,157 as of April 2, 2011, and will be recognized as expense over a weighted-average period of approximately 2.1 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 196 and 89 RSU s at a weighted-average grant-date fair value of \$57.34 and \$46.94 per unit for the three months ended April 2, 2011 and April 3, 2010, respectively. The Company recognized stock-based compensation costs related to the issuance of RSU s of \$3,272 (\$2,073 net of taxes) and \$1,052 (\$666 net of taxes) for the three months ended April 2, 2011 and April 3, 2010, respectively, which has been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSU s granted to employees, net of estimated forfeitures, was \$16,282 as of April 2, 2011, and will be recognized as expense over a weighted-average period of approximately 4.0 years.



**Table of Contents**

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

(In thousands, except per share amounts)

(Unaudited)

The Company did not grant any restricted stock awards for the three months ended April 2, 2011. Compensation expense for restricted stock awards for the three months ended April 2, 2011 and April 3, 2010, respectively, was not significant.

9. Earnings per share

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

Dilutive common stock options are included in the diluted EPS calculation using the treasury stock method. Common stock options and unvested restricted shares (units) that were not included in the diluted EPS computation because the price was greater than the average market price of the common shares for the three months ended April 2, 2011 and April 3, 2010 were 1,123 and 1,201, respectively.

	Three Months Ended	
	April 2, 2011	April 3, 2010
Net earnings available to common stockholders	\$ 23,442	20,538
Weighted-average common shares outstanding-basic and diluted:		
Weighted-average common shares outstanding basic	68,674	68,523
Add weighted-average dilutive potential common shares - options and RSU s to purchase common shares, net	230	207
Weighted-average common shares outstanding-diluted	68,904	68,730
Basic earnings per share attributable to Mohawk Industries, Inc.	\$ 0.34	0.30
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$ 0.34	0.30

10. Segment reporting

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

include retailers, independent distributors and home centers.



**Table of Contents**

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

(In thousands, except per share amounts)

(Unaudited)

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

Segment information is as follows:

	Three Months Ended	
	April 2, 2011	April 3, 2010
Net sales:		
Mohawk	\$ 691,165	716,583
Dal-Tile	344,415	341,396
Unilin	325,832	305,880
Intersegment sales	(17,817)	(16,623)
	\$ 1,343,595	1,347,236
Operating income:		
Mohawk	\$ 17,040	16,628
Dal-Tile	17,700	15,395
Unilin	26,250	26,458
Corporate and eliminations	(4,906)	(4,860)
	\$ 56,084	53,621
	April 2, 2011	December 31, 2010
Assets:		
Mohawk	\$ 1,749,625	1,637,319
Dal-Tile	1,674,408	1,644,448
Unilin	2,654,268	2,475,049
Corporate and intersegment eliminations	187,932	342,110
	\$ 6,266,233	6,098,926

#### 11. Commitments, contingencies and other

The Company is involved in litigation from time to time in the regular course of its business. There are currently 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.

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses and that the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations in a given quarter

or year.

The Company recorded pre-tax business restructuring charges of \$6,813 for the three months ended April 2, 2011 of which \$6,347 was recorded as cost of sales and \$466 was recorded as selling, general and administrative expenses for the same period. For the three months ended April 3, 2010, the Company recorded pre-tax business restructuring charges of \$4,004 of which \$3,857 was recorded as cost of sales and \$147 was recorded as selling, general and administrative expenses for the same period. The charges in 2011 and 2010 primarily relate to the Company's actions taken to lower its cost structure and improve the efficiency of its manufacturing and distribution operations as the Company adjusts to current economic conditions.

**Table of Contents**

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

(In thousands, except per share amounts)

(Unaudited)

The restructuring activity for the first three months of 2011 is as follows:

	Asset write- downs	Lease impairments	Severance	Other restructuring costs	Total
Balance as of December 31, 2010	\$	10,983	2,108	420	13,511
Provisions					
Mohawk segment	4,847	466		1,500	6,813
Dal-Tile segment					
Unilin segment					
Cash payments		(1,375)	(716)	(288)	(2,379)
Noncash items	(4,847)				(4,847)
Balance as of April 2, 2011	\$	10,074	1,392	1,632	13,098

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

**12. Debt**

On September 2, 2009, the Company entered into a \$600,000 four-year, senior, secured revolving credit facility (the ABL Facility). The ABL Facility provides for a maximum of \$600,000 of revolving credit, subject to borrowing base availability, including limited amounts of credit in the form of letters of credit and swingline loans. The borrowing base is equal to specified percentages of eligible accounts receivable and inventories of the borrowers under the ABL Facility, which are subject to seasonal variations, less reserves established in good faith by the Administrative Agent under the ABL Facility. All obligations under the ABL Facility, and the guarantees of those obligations, are secured by a security interest in certain accounts receivable, inventories, certain deposit and securities accounts, tax refunds and other personal property (excluding intellectual property) directly relating to, or arising from, and proceeds of any of the foregoing. On June 1, 2010, the Company amended the ABL Facility to, among other things, reduce the applicable interest rate margins on loans and reduce the commitment fees.

At the Company's election, revolving loans under the ABL 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 2.75% and 3.25%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a one-month LIBOR rate, plus an applicable margin ranging between 1.25% and 1.75%. The Company also pays a commitment fee to the lenders under the ABL Facility on the average amount by which the aggregate commitments of the lenders exceed utilization of the ABL Facility equal to 0.65% per annum during any quarter that this excess is 50% or more and 0.50% per annum during any quarter that this excess is less than 50%.

The ABL Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on debt, liens, investments, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company's business. The Company is also required to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that the unutilized amount available under the ABL Facility is less than 15% of the lenders' aggregated commitments.

The ABL Facility is scheduled to mature on September 2, 2013 but the maturity date will accelerate, including the acceleration of any unamortized deferred financing costs, to January 15, 2012, if the Company's outstanding \$400,000 aggregate principal amount of its senior 7.20% notes due April 15, 2012 issued in 2002 have not been repaid,

refinanced, defeased or adequately reserved for by the Company, as reasonably determined by the Administrative Agent, prior to January 15, 2012. The Company believes it will be able to make adequate reserves for such senior notes with cash and cash equivalents, unutilized borrowings under the ABL and other uncommitted financing sources, including new public debt offerings or bank facilities, although

**Table of Contents**

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

(In thousands, except per share amounts)

(Unaudited)

there can be no assurances that the Company will be able to complete any necessary financing transactions prior to the relevant date under the ABL Facility or the April 15, 2012 maturity date.

As of April 2, 2011, the amount utilized under the ABL Facility was \$382,100 resulting in a total of \$217,900 available under the ABL Facility. The amount utilized included \$275,000 of borrowings, \$53,542 of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$53,558 of standby letters of credit related to various insurance contracts and foreign vendor commitments.

On January 17, 2006, the Company issued \$500,000 aggregate principal amount of 5.75% senior notes due January 15, 2011 and \$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 Investors Service, Inc. (Moody's) or Standard & Poor's Ratings Services (Standard & Poor's), or both, downgrades the rating assigned to the notes. Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum increase of 1% per rating agency. If later the rating of these notes improves, then the interest rates would be reduced accordingly. Each 0.25% increase in the interest rate of these notes would increase the Company's interest expense by approximately \$63 per quarter per \$100,000 of outstanding notes. Interest rates have been increased by an aggregate amount of 0.75% as a result of downgrades by Moody's and Standard & Poor's since 2008. Additional downgrades in the Company's credit ratings could further increase the cost of its existing credit and adversely affect the cost of and ability to obtain additional credit in the future. During the first quarter of 2011, the Company repaid the remaining outstanding \$298,248 million 5.75% senior notes due January 15, 2011, at maturity with cash on hand and borrowings under the ABL Facility.

### 13. Fair value

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

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

	April 2, 2011		December 31, 2010	
	Fair Value	Carrying Value	Fair Value	Carrying Value
5.75% notes, payable January 15, 2011 interest payable semiannually	\$		296,459	298,248
7.20% senior notes, payable April 15, 2012 interest payable semiannually	419,600	400,000	422,400	400,000
6.125% notes, payable January 15, 2016 interest payable semiannually	963,000	900,000	963,000	900,000
Four-year senior secured credit facility, due September 2, 2013	275,000	275,000		
Industrial revenue bonds, capital leases and other	54,894	54,894	55,334	55,334
<b>Total long-term debt</b>	<b>1,712,494</b>	<b>1,629,894</b>	<b>1,737,193</b>	<b>1,653,582</b>
Less current portion	52,706	52,706	348,799	350,588
<b>Long-term debt, less current portion</b>	<b>\$ 1,659,788</b>	<b>1,577,188</b>	<b>1,388,394</b>	<b>1,302,994</b>

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

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

**Table of Contents**

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

The Company is a leading producer of floor covering products for residential and commercial applications in the U.S. and residential applications in Europe with net sales in 2010 of \$5.3 billion. The Company is the second largest carpet and rug manufacturer and one of the largest manufacturers, marketers and distributors of ceramic tile, natural stone and hardwood flooring in the U.S., as well as a leading producer of laminate flooring in the U.S. and Europe. In 2009, the primary categories of the U.S. floor covering industry were carpet and rug (55%), resilient and rubber (12%), ceramic tile (11%), hardwood (11%), stone (6%) and laminate (5%).

The U.S. floor covering industry experienced declining demand beginning in the fourth quarter of 2006 that worsened during the latter parts of 2008, and continued to decline in 2009. In the first half of 2010 demand showed signs of recovering, but first half gains were lost in the second half of the year. Overall industry conditions in the U.S. are expected to improve during 2011, although the timing and size of a sustained recovery within the market remains uncertain.

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

For the three months ended April 2, 2011, net earnings attributable to the Company were \$23.4 million, or diluted earnings per share (EPS) of \$0.34, compared to the net earnings attributable to the Company of \$20.5 million or diluted EPS of \$0.30 for the three months ended April 3, 2010. The change in EPS is primarily the result of the favorable net impact of price and product mix, the net benefits of restructuring actions taken in 2009 and 2010 and lower selling, general and administrative costs, partially offset by higher costs, primarily related to raw material inflation.

**Table of Contents****Results of Operations****Quarter Ended April 2, 2011, as Compared with Quarter Ended April 3, 2010****Net sales**

Net sales for the three months ended April 2, 2011 were \$1,343.6 million, reflecting a decrease of \$3.6 million, or 0.3%, from the \$1,347.2 million reported for the three months ended April 3, 2010. The decrease was primarily due to lower sales volume of approximately \$26 million, primarily related to continued weakness in the U.S. residential market, and unfavorable foreign exchange rates of approximately \$1 million, offset by the net effect of price and product mix of approximately \$23 million.

*Mohawk Segment* Net sales decreased \$25.4 million, or 3.5%, to \$691.2 million for the three months ended April 2, 2011, compared to \$716.6 million for the three months ended April 3, 2010. The decrease was primarily driven by lower sales volume of approximately \$28 million, primarily related to continued weakness in the U.S. residential market, partially offset by the net effect of price and product mix of approximately \$2 million.

*Dal-Tile Segment* Net sales increased \$3.0 million, or 0.9%, to \$344.4 million for the three months ended April 2, 2011, compared to \$341.4 million for the three months ended April 3, 2010. The increase was primarily driven by the net effect of price and product mix of approximately \$3 million and the impact of favorable foreign exchange rates of approximately \$2 million partially offset by lower sales volume of approximately \$2 million.

*Unilin Segment* Net sales increased \$20.0 million, or 6.5%, to \$325.8 million for the three months ended April 2, 2011, compared to \$305.9 million for the three months ended April 3, 2010. The increase was due to the net effect of price and product mix of approximately \$17 million, higher sales volume of approximately \$5 million, partially offset by unfavorable foreign exchange rates of approximately \$2 million.

**Gross profit**

Gross profit for the three months ended April 2, 2011 was \$341.6 million (25.4% of net sales) and was flat compared to gross profit of \$341.2 million (25.3% of net sales) for the three months ended April 3, 2010. Gross profit was favorably impacted by the net effect of price and product mix of approximately \$30 million and by approximately \$21 million as a result of various restructuring actions and cost savings initiatives implemented by the Company, including manufacturing facility consolidations, workforce reductions and productivity improvements, offset by higher costs of approximately \$40 million, primarily related to raw material inflation, lower sales volume of approximately \$7 million, higher restructuring charges of approximately \$3 million and unfavorable foreign exchange rates of approximately \$1 million.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for the three months ended April 2, 2011 were \$285.5 million (21.2% of net sales), reflecting a decrease of \$2.1 million, or 0.7%, compared to \$287.6 million (21.3% of net sales) for the three months ended April 3, 2010. The decrease in selling, general and administrative expenses is primarily driven by the benefits of various restructuring actions and cost savings initiatives implemented by the Company, including distribution facility consolidations and productivity improvements.

**Operating income**

Operating income for the three months ended April 2, 2011 was \$56.1 million (4.2% of net sales) reflecting a \$2.5 million increase compared to an operating income of \$53.6 million (4.0% of net sales) for the three months ended April 3, 2010. Operating income was favorably impacted by the net effect of price and product mix of approximately \$30 million and lower selling, general and administrative expenses and various restructuring actions and cost savings initiatives implemented by the Company of approximately \$23 million, offset by higher costs of approximately \$40 million, primarily related to raw material inflation, lower sales



**Table of Contents**

volume of approximately \$7 million, higher restructuring charges of approximately \$3 million and the impact of unfavorable foreign exchange rates of approximately \$1 million.

*Mohawk Segment* Operating income was \$17.0 million (2.5% of segment net sales) for the three months ended April 2, 2011 reflecting an increase of \$0.4 million compared to operating income of \$16.6 million (2.3% of segment net sales) for the three months ended April 3, 2010. Operating income was favorably impacted by approximately \$20 million as a result of various restructuring actions and cost savings initiatives implemented by the Company and lower selling, general and administrative expenses and the net effect of price and product mix of approximately \$11 million, partially offset by higher costs of approximately \$18 million, primarily related to raw material inflation, lower sales volume of approximately \$9 million and higher restructuring charges of approximately \$3 million.

*Dal-Tile Segment* Operating income was \$17.7 million (5.1% of segment net sales) for the three months ended April 2, 2011 reflecting an increase of \$2.3 million compared to operating income of \$15.4 million (4.5% of segment net sales) for the three months ended April 3, 2010. Operating income was favorably impacted by approximately \$5 million as a result of lower selling, general and administrative expenses and various restructuring actions and cost savings initiatives implemented by the Company and the net effect of price and product mix of approximately \$2 million, partially offset by higher costs of approximately \$2 million, primarily related to energy and raw material inflation, by lower sales volume of approximately \$1 million and unfavorable foreign exchange rates of approximately \$1 million.

*Unilin Segment* Operating income was \$26.3 million (8.1% of segment net sales) for the three months ended April 2, 2011 reflecting a decrease of \$0.2 million compared to operating income of \$26.5 million (8.6% of segment net sales) for the three months ended April 3, 2010. The decrease was primarily driven by higher costs of approximately \$21 million, primarily related to raw material inflation, offset by the net effect of price and product mix of approximately \$17 million and higher sales volume of approximately \$3 million.

**Interest expense**

Interest expense for the three months ended April 2, 2011 was \$26.6 million compared to \$33.9 million in the three months ended April 3, 2010. The decrease in interest expense resulted from lower debt levels due to the repayment of the remaining approximately \$300 million aggregate principal amount of the Company's 5.75% senior notes due January 15, 2011 in the first quarter of 2011, partially offset by higher borrowings on the Company's \$600.0 million four-year, senior, secured revolving credit facility (the ABL Facility).

**Income tax expense**

For the three months ended April 2, 2011, the Company recorded income tax expense of \$5.0 million on earnings before income taxes of \$29.5 million for an effective tax rate of 16.8%, as compared to an income tax expense of \$3.0 million on earnings before income taxes of \$24.2 million for an effective tax rate of 12.3% for the three months ended April 3, 2010. The difference in the effective tax rate for the comparative periods is due to a change in the geographical pre-tax earnings.

**Liquidity and Capital Resources**

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

Cash flows used in operating activities for the first three months of 2011 were \$67.4 million compared to \$46.2 million in the first three months of 2010. The increase in cash used in operating activities for the first three months of 2011 as compared to 2010 is primarily attributable to raw material inflation and customer mix changes in receivables.

Net cash used in investing activities for the first three months of 2011 was \$52.8 million compared to \$23.3 million in the first three months of 2010. The increase in investing activities primarily relates to higher capital expenditures related to additional extrusion capacity. Capital spending during the remainder of 2011, excluding acquisitions, is expected to range from approximately \$220 million to \$235 million and is intended

**Table of Contents**

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

Net cash provided by financing activities for the first three months of 2011 was \$8.4 million compared to net cash used in financing activities of \$2.0 million in the first three months of 2010. The change in cash provided by (used in) financing activities as compared to the first three months of 2010 is primarily attributable to the change in outstanding checks.

On September 2, 2009, the Company entered into the ABL Facility. The ABL Facility provides for a maximum of \$600.0 million of revolving credit, subject to borrowing base availability, including limited amounts of credit in the form of letters of credit and swingline loans. The borrowing base is equal to specified percentages of eligible accounts receivable and inventories of the borrowers under the ABL Facility, which are subject to seasonal variations, less reserves established in good faith by the Administrative Agent under the ABL Facility. All obligations under the ABL Facility, and the guarantees of those obligations, are secured by a security interest in certain accounts receivable, inventories, certain deposit and securities accounts, tax refunds and other personal property (excluding intellectual property) directly relating to, or arising from, and proceeds of any of the foregoing. On June 1, 2010, the Company amended the ABL Facility to, among other things, reduce the applicable interest rate margins on loans and reduce the commitment fees.

At the Company's election, revolving loans under the ABL 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 2.75% and 3.25%, or (b) the higher of the prime rate, the Federal Funds rate plus 0.5%, or a one-month LIBOR rate, plus an applicable margin ranging between 1.25% and 1.75%. The Company also pays a commitment fee to the lenders under the ABL Facility on the average amount by which the aggregate commitments of the lenders exceed utilization of the ABL Facility equal to 0.65% per annum during any quarter that this excess is 50% or more and 0.50% per annum during any quarter that this excess is less than 50%.

The ABL Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on debt, liens, investments, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company's business. The Company is also required to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that the unutilized amount available under the ABL Facility is less than 15% of the lenders' aggregated commitments.

The ABL Facility is scheduled to mature on September 2, 2013 but the maturity date will accelerate, including the acceleration of any unamortized deferred financing costs, to January 15, 2012, if the Company's outstanding \$400.0 million aggregate principal amount of its senior 7.20% notes due April 15, 2012 issued in 2002 have not been repaid, refinanced, defeased or adequately reserved for by the Company, as reasonably determined by the Administrative Agent, prior to January 15, 2012. The Company believes it will be able to make adequate reserves for such senior notes with cash and cash equivalents, unutilized borrowings under the ABL and other uncommitted financing sources, including new public debt offerings or bank facilities, although there can be no assurances that the Company will be able to complete any necessary financing transactions prior to the relevant date under the ABL Facility or the April 15, 2012 maturity date.

As of April 2, 2011, the amount utilized under the ABL Facility was \$382.1 million resulting in a total of \$217.9 million available under the ABL Facility. The amount utilized included \$275.0 million of borrowings, \$53.5 million of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$53.6 million of standby letters of credit related to various insurance contracts and foreign vendor commitments.

On January 17, 2006, the Company issued \$500.0 million aggregate principal amount of 5.75% senior notes due January 15, 2011 and \$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 Investors Service, Inc. (Moody's) or Standard & Poor's Ratings Services (Standard & Poor's), or both, downgrades the rating assigned to the notes. Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum increase of 1% per rating agency. If later the rating of these notes improves, then the interest rates

## **Table of Contents**

would be reduced accordingly. Each 0.25% increase in the interest rate of these notes would increase the Company's interest expense by approximately \$0.1 million per quarter per \$100.0 million of outstanding notes. Currently, the interest rates have been increased by an aggregate amount of 0.75% as a result of downgrades by Moody's and Standard & Poor's since 2008. Additional downgrades in the Company's credit ratings could further increase the cost of its existing credit and adversely affect the cost of and ability to obtain additional credit in the future. During the first quarter of 2011, the Company repaid the remaining outstanding \$298.2 million 5.75% senior notes due January 15, 2011, at maturity with cash on hand and borrowings under the ABL Facility.

As of April 2, 2011, the Company had invested cash of \$213.5 million in money market AAA rated cash investments of which \$212.5 million was in Europe. The Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its ABL Facility will be sufficient to meet its capital expenditure and working capital requirements, excluding the \$400.0 million senior 7.20% notes due April 15, 2012, over the next twelve months.

The Company may from time to time seek 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.

### **Contractual Obligations**

There have been no significant changes to the Company's contractual obligations as disclosed in the Company's 2010 Annual Report filed on Form 10-K.

### **Critical Accounting Policies and Estimates**

There have been no significant changes to the Company's critical accounting policies and estimates during the period. The Company's critical accounting policies and estimates are described in its 2010 Annual Report filed on Form 10-K.

### **Impact of Inflation**

Inflation affects the Company's manufacturing costs, distribution costs and operating expenses. The Company expects raw material prices, many of which are petroleum based, to continue to fluctuate based upon worldwide supply and demand of commodities utilized in the Company's production processes. In the past, the Company has generally been able to pass along these price increases to its customers and has been able to enhance productivity and develop new product innovations to help offset increases in costs resulting from inflation in its operations.

### **Seasonality**

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

### **Forward-Looking Information**

Certain of the statements in this Form 10-Q, particularly those anticipating future performance, business prospects, growth and operating strategies, proposed acquisitions, and similar matters, and those that include the words "believes," "anticipates," "forecast," "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

**Table of Contents**

safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following important factors could cause future results to differ: changes in economic or industry conditions; competition; inflation in raw material prices and other input costs; energy costs and supply; timing and level of capital expenditures; timing and implementation of price increases for the Company's products; impairment charges; integration of acquisitions; introduction of new products; rationalization of operations; claims; litigation; and other risks identified in Mohawk's SEC reports and public announcements.

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

There have been no significant changes to the Company's exposure to market risk as disclosed in the Company's 2010 Annual Report filed on Form 10-K.

**Item 4. Controls and Procedures**

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

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

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is involved in litigation from time to time in the regular course of its business. There are currently 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.

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses and that the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations in a given quarter or year.

**Item 1A. Risk Factors**

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

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

*The floor covering industry is sensitive to changes in general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels, availability of credit and demand for housing. The downturn in the U.S. and global economies beginning in 2006, along with the residential and commercial markets in such economies, negatively impacted the floor covering industry and the Company's business. While overall economic conditions and the housing and flooring industries have begun to show signs of recovering, this improvement may be temporary and economic conditions may deteriorate in the foreseeable future. Further, significant or prolonged declines in such economies or in spending for replacement floor covering products or new construction activity could have a material adverse effect on the Company's business.*

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

The floor covering industry is highly dependent on residential and commercial construction activity, including new construction, which is cyclical in nature and currently in a downturn. The downturn in the U.S. and global economies, along with the housing markets in such economies, negatively impacted the floor covering industry and the Company's business. Although the impact of a decline in new construction activity is typically accompanied by an increase in remodeling and replacement activity, these activities have also lagged during the downturn. While overall economic conditions and the housing and flooring industries have begun to show signs of recovering, this improvement may be temporary and economic conditions may deteriorate in the foreseeable future. A significant or prolonged decline in residential or commercial construction activity could have a material adverse effect on the Company's business and results of operations.

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

The prices of raw materials and fuel-related costs could vary significantly with market conditions. Although the Company generally attempts to pass on increases in raw material, energy and fuel-related costs to its customers, the Company's ability to do so is dependent upon the rate and magnitude of any increase, competitive pressures and market conditions for the Company's products. There have been in the past, and may be in the future, periods of time during which increases in these costs cannot be recovered. During such periods of time, the Company's profitability may be materially adversely affected.

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

Uncertainty in the credit markets could affect the overall availability and cost of credit. Despite recent improvement in overall economic conditions, the impact of the economic downturn on the Company's ability to obtain financing, including any financing necessary to refinance its existing senior unsecured notes, in the future, and the cost and terms of it, remains uncertain. These and other economic factors could have a material adverse effect on demand for the Company's products and on its financial condition and operating results. Further, these generally negative economic and business conditions may factor into the Company's periodic credit ratings assessment by either or both Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. A rating agency's evaluation is based on a number of factors, which include scale and diversification, brand strength, profitability, leverage, liquidity and interest coverage. During 2009, the Company's senior unsecured notes were downgraded by the rating agencies, which increased the Company's interest expense by approximately \$0.2 million per quarter per \$100 million of outstanding notes and could adversely affect the cost of and ability to obtain additional credit in the future. Additional downgrades in the Company's credit ratings could further increase the cost of its existing credit and adversely affect the cost of and ability to obtain additional credit in the future, and the Company can provide no assurances that additional downgrades will not occur.

***The Company has a significant level of indebtedness that must be repaid or refinanced. In addition, if the Company were unable to meet certain covenants contained in the ABL Facility, it may be required to repay borrowings under the ABL Facility prior to their maturity and may lose access to the ABL Facility for additional borrowings that may be necessary to fund its operations.***

The Company's outstanding 7.20% senior notes in the aggregate amount of \$400.0 million are due April 15, 2012. The Company's \$600.0 million four-year, senior, secured revolving credit facility (the ABL Facility) is scheduled to mature on September 2, 2013, but the maturity date will accelerate, including the acceleration of any unamortized deferred financing costs, to January 15, 2012, if the Company's outstanding 7.20% senior notes due April 15, 2012 have not been repaid, refinanced, defeased or adequately reserved for by the Company, as reasonably determined by the Administrative Agent, prior to January 15, 2012. Although the Company does not currently have sufficient availability under the ABL Facility, together with cash and cash equivalents on hand, to satisfy the January 15, 2012 requirements under the ABL Facility, the Company believes it will be able to make adequate reserves for such senior notes when required with cash and cash equivalents, unutilized borrowing availability under the ABL Facility and other financing sources, including public debt markets or new bank facilities. As of April 2, 2011, the amount utilized under the ABL Facility was \$382.1 million resulting in a total of \$217.9 million available under the ABL Facility. The amount utilized included \$275.0 million of borrowings, \$53.5 million of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$53.6 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. While the Company currently believes it has access to other uncommitted financing sources, including new public debt offerings or bank facilities, to satisfy the January 15, 2012 requirements under the ABL Facility and the subsequent repayment of the 7.20% senior notes due April 15, 2012, there can be no assurances that the Company will be able to complete any necessary financing transactions prior to the relevant date under the ABL Facility or the April 15, 2012 maturity date.

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

Additionally, the Company's credit facilities require it to meet certain affirmative and negative covenants that impose restrictions on its financial and business operations, including limitations relating to debt, investments, asset dispositions and changes in the nature of its business. The Company is also required to maintain a fixed charge coverage ratio of 1.1 to 1.0 during any period that the unutilized amount available under the ABL Facility is less than

15% of the amount available under the ABL Facility. Failure to comply

21

---

**Table of Contents**

with these covenants could materially and adversely affect the Company's ability to finance its operations or capital needs and to engage in other activities that may be in the Company's best interest.

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

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

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

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

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

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

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

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

maintaining executive offices in different locations;

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



**Table of Contents**

conducting business from various locations;

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

providing different employment and compensation arrangements for employees.

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

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

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

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

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

***The Company has been, and in the future may be, subject to costs, liabilities and other obligations under existing or new laws and regulations, which could be significant.***

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

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

**Table of Contents**

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

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

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

***The Company may be exposed to litigation, claims and other legal proceedings in the ordinary course of business relating to its products, which could affect its results of operations and financial condition.***

In the ordinary course of business, the Company is subject to a variety of product-related claims, lawsuits and legal proceedings, including those relating to product liability, product warranty, product recall, personal injury, and other matters that are inherently subject to many uncertainties regarding the possibility of a loss to the Company. Such matters could have a material adverse effect on its business, results of operations and financial condition if the Company is unable to successfully defend against or resolve these matters or if its insurance coverage is insufficient to satisfy any judgments against the Company or settlements relating to these matters. Although the Company has product liability insurance, the policies may not provide coverage for certain claims against the Company or may not be sufficient to cover all possible liabilities. Further, the Company may not be able to maintain insurance at commercially acceptable premium levels. Moreover, adverse publicity arising from claims made against the Company, even if the claims were not successful, could adversely affect the Company's reputation or the reputation and sales of its products.

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

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

- changes in foreign country regulatory requirements;
- differing business practices associated with foreign operations;
- various import/export restrictions and the availability of required import/export licenses;
- imposition of foreign tariffs and other trade barriers;
- political, legal and economic instability;
- foreign currency exchange rate fluctuations;
- changes in foreign country tax rules, regulations and other requirements, such as changes in tax rates and statutory and judicial interpretations in tax laws;
- inflation;
- differing labor laws and changes in those laws;
- work stoppages and disruptions in the shipping of imported and exported products;
- government price controls;
- extended payment terms and the inability to collect accounts receivable; and
- tax inefficiencies and currency exchange controls that may adversely impact its ability to repatriate cash from non-U.S. subsidiaries.

**Table of Contents**

The Company cannot assure investors that it will succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where the Company does business and therefore that the foregoing factors will not have a material adverse effect on the Company's operations or upon its financial condition and results of operations.

***If the Company is unable to protect its intellectual property rights, particularly with respect to the Company's patented laminate flooring technology and its registered trademarks, the Company's business and prospects could be harmed.***

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

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

Furthermore, despite the Company's efforts, the Company may be unable to prevent competitors and/or third parties from using the Company's technology without the Company's authorization, independently developing technology that is similar to that of the Company or designing around the Company's patents. The use of the Company's technology or similar technology by others could reduce or eliminate any competitive advantage the Company has developed, cause the Company to lose sales or otherwise harm the Company's business. In addition, if the Company does not obtain sufficient protection for the Company's intellectual property, the Company's competitiveness in the markets it serves could be significantly impaired, which would limit the Company's growth and future revenue.

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

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

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

In the past, companies have claimed that certain technologies incorporated in the Company's products infringe their patent rights. There can be no assurance that the Company will not receive notices in the future from parties asserting that the Company's products infringe, or may infringe, those parties' intellectual property rights. The Company cannot be certain that the Company's products do not and will not infringe issued patents or other intellectual property rights of others. Historically, patent applications in the U.S. and some foreign countries have not been publicly disclosed until the patent is issued (or, in some recent cases,

**Table of Contents**

until 18 months following submission), and the Company may not be aware of currently filed patent applications that relate to the Company's products or processes. If patents are later issued on these applications, the Company may be liable for infringement.

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

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

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

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

A decrease in the Company's market capitalization, including a short-term decline in stock price, or a negative long-term performance outlook, could result in an impairment of its tangible and intangible assets which results when the carrying value of the Company's assets exceed their fair value. In 2008, the Company's goodwill and other intangible assets suffered an impairment and additional impairment charges could occur in future periods.

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

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

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

**Table of Contents**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>No.</b>	<b>Description</b>
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: May 6, 2011

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

Dated: May 6, 2011

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