MOHAWK INDUSTRIES INC
Form 10-Q
May 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 10-Q

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[Mark One]

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

For the quarterly period ended March 30, 2013

OR

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

For the transition period from to

Commission File Number 01-13697

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

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| Delaware | 52-1604305 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 160 S. Industrial Blvd., Calhoun, Georgia | 30701 |
| (Address of principal executive offices) | (Zip Code) |

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 | x | 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 x

The number of shares outstanding of the issuer's classes of common stock as of April 29, 2013, the latest practicable date, is as follows: 72,487,834 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
ASSETS
(In thousands)
(Unaudited)

| | March 30, 2013 | December 31, 2012 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $1,120,167 | 477,672 |
| Receivables, net | 825,659 | 679,473 |
| Inventories | 1,230,250 | 1,133,736 |
| Prepaid expenses | 134,944 | 138,117 |
| Deferred income taxes | 113,519 | 111,585 |
| Other current assets | 22,067 | 9,463 |
| Total current assets | 3,446,606 | 2,550,046 |
| Property, plant and equipment, net | 1,729,916 | 1,692,852 |
| Goodwill | 1,394,062 | 1,385,771 |
| Tradenames | 464,271 | 455,503 |
| Other intangible assets subject to amortization, net | 105,085 | 98,296 |
| Deferred income taxes and other non-current assets | 121,905 | 121,216 |
| | $7,261,845 | 6,303,684 |

See accompanying notes to condensed consolidated financial statements.

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

| | March 30, 2013 | December 31, 2012 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | $53,496 | 55,213 |
| Accounts payable and accrued expenses | 824,135 | 773,436 |
| Total current liabilities | 877,631 | 828,649 |
| Deferred income taxes | 319,290 | 329,810 |
| Long-term debt, less current portion | 2,253,020 | 1,327,729 |
| Other long-term liabilities | 87,320 | 97,879 |
| Total liabilities | 3,537,261 | 2,584,067 |
| Commitments and contingencies (Notes 7 and 13) | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; 60 shares authorized; no shares issued | — | — |
| Common stock, $.01 par value; 150,000 shares authorized; 80,638 and 80,185 shares issued in 2013 and 2012, respectively | 806 | 802 |
| Additional paid-in capital | 1,308,040 | 1,277,521 |
| Retained earnings | 2,655,518 | 2,605,023 |
| Accumulated other comprehensive income, net | 82,242 | 159,733 |
| | 4,046,606 | 4,043,079 |
| Less treasury stock at cost; 11,029 and 11,032 shares in 2013 and 2012, respectively | 323,388 | 323,462 |
| Total Mohawk Industries, Inc. stockholders' equity | 3,723,218 | 3,719,617 |
| Noncontrolling interest | 1,366 | — |
| Total stockholders' equity | 3,724,584 | 3,719,617 |
| | $7,261,845 | 6,303,684 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended | |
|---|---|---|
| | March 30, 2013 | March 31, 2012 |
| Net sales | $1,486,815 | 1,409,035 |
| Cost of sales | 1,109,749 | 1,049,609 |
| Gross profit | 377,066 | 359,426 |
| Selling, general and administrative expenses | 290,224 | 287,450 |
| Operating income | 86,842 | 71,976 |
| Interest expense | 19,156 | 22,498 |
| Other expense (income) | 6,387 | (1,825) |
| Earnings before income taxes | 61,299 | 51,303 |
| Income tax expense | 10,732 | 10,291 |
| Net earnings | 50,567 | 41,012 |
| Less: Net earnings attributable to noncontrolling interest | 72 | 635 |
| Net earnings attributable to Mohawk Industries, Inc. | $50,495 | 40,377 |
| Basic earnings per share attributable to Mohawk Industries, Inc. | $0.73 | 0.59 |
| Weighted-average common shares outstanding—basic | 69,375 | 68,862 |
| Diluted earnings per share attributable to Mohawk Industries, Inc. | $0.72 | 0.58 |
| Weighted-average common shares outstanding—diluted | 69,897 | 69,141 |

See accompanying notes to condensed consolidated financial statements.

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

| | Three Months Ended | |
|---|---|---|
| | March 30, 2013 | March 31, 2012 |
| Net earnings | $50,567 | 41,012 |
| Other comprehensive (loss) income: | | |
| Foreign currency translation adjustments | (77,706) | 54,961 |
| Pension prior service cost and actuarial gain | 215 | 17 |
| Other comprehensive (loss) income | (77,491) | 54,978 |
| Comprehensive (loss) income | (26,924) | 95,990 |
| Less: comprehensive income attributable to the noncontrolling interest | 72 | 635 |
| Comprehensive (loss) income attributable to Mohawk Industries, Inc. | $(26,996) | 95,355 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended | |
|---|---|---|
| | March 30, 2013 | March 31, 2012 |
| Cash flows from operating activities: | | |
| Net earnings | $50,567 | 41,012 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Restructuring | 8,222 | — |
| Depreciation and amortization | 60,349 | 73,286 |
| Deferred income taxes | (5,985) | (4,978) |
| Loss on disposal of property, plant and equipment | 51 | 419 |
| Stock-based compensation expense | 5,504 | 5,571 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Receivables, net | (120,814) | (91,485) |
| Tax deposits | — | (31,820) |
| Inventories | (50,134) | (46,331) |
| Accounts payable and accrued expenses | 15,568 | 13,814 |
| Other assets and prepaid expenses | 11,115 | 1,565 |
| Other liabilities | (13,387) | (5,523) |
| Net cash used in operating activities | (38,944) | (44,470) |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (63,282) | (43,251) |
| Acquisitions, net of cash acquired | (147,769) | — |
| Net cash used in investing activities | (211,051) | (43,251) |
| Cash flows from financing activities: | | |
| Payments on Senior Credit Facility | (537,409) | (329,800) |
| Proceeds from Senior Credit Facility | 842,634 | 443,500 |
| Proceeds from 3.85% Senior Notes | 600,000 | — |
| Net change in asset securitization borrowings | 20,000 | — |
| Payments on other debt | (1,630) | (584) |
| Debt issuance costs | (5,170) | (1,018) |
| Purchase of non-controlling interest | — | (35,000) |
| Distribution to non-controlling interest | — | (423) |
| Change in outstanding checks in excess of cash | (8,069) | (10,255) |
| Proceeds from stock transactions | 27,619 | 5,539 |
| Net cash provided by financing activities | 937,975 | 71,959 |
| Effect of exchange rate changes on cash and cash equivalents | (45,485) | 8,592 |
| Net change in cash and cash equivalents | 642,495 | (7,170) |
| Cash and cash equivalents, beginning of period | 477,672 | 311,945 |
| Cash and cash equivalents, end of period | $1,120,167 | 304,775 |

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. 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 2012 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

2. Receivables, net

Receivables, net are as follows:

| | March 30, 2013 | December 31, 2012 |
|---|---|---|
| Customers, trade | $843,851 | 691,553 |
| Other | 23,765 | 25,793 |
| | 867,616 | 717,346 |
| Less allowance for discounts, returns, claims and doubtful accounts | 41,957 | 37,873 |
| Receivables, net | $825,659 | 679,473 |

3. Acquisitions

On January 10, 2013, the Company completed its purchase of Pergo, a leading manufacturer of laminate flooring in the United States and the Nordic countries. The total value of the acquisition was approximately $150 million in cash. Pergo complements our specialty distribution network in the United States, leverages our geographic position in Europe, expands our geographic reach to the Nordic countries and India and enhances our patent portfolio. The acquisition's results and a preliminary purchase price allocation are included in the condensed consolidated financial statements as of March 30, 2013.
On December 20, 2012, the Company entered into a definitive share purchase agreement to acquire Fintiles S.p.A and its subsidiaries (collectively, the "Marazzi Group"), a global manufacturer, distributor and marketer of ceramic tile. On April 3, 2013, pursuant to the terms of the purchase agreement dated December 20, 2012, the Company completed the acquisition of the Marazzi Group for approximately $1.5 billion with a combination of cash and common stock of the Company.
On January 28, 2013 the Company entered into an agreement to purchase Spano Invest NV, a Belgian panel board manufacturer. On May 3, 2013, pursuant to the terms of the agreement dated January 28, 2013, the Company completed the acquisition of Spano for approximately $164 million in cash.

4. Inventories

The components of inventories are as follows:

| | March 30, 2013 | December 31, 2012 |
|---|---|---|
| Finished goods | $777,825 | 695,606 |

| | | |
|---|---|---|
| Work in process | 108,084 | 103,685 |
| Raw materials | 344,341 | 334,445 |
| Total inventories | $1,230,250 | 1,133,736 |

5. Goodwill and intangible assets

The Company's acquisition of Pergo resulted in a preliminary goodwill allocation of $24,501.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Goodwill:

| | Mohawk | Dal-Tile | Unilin | Total |
|---|---|---|---|---|
| Balance as of December 31, 2012 | | | | |
| Goodwill | $199,132 | 1,186,913 | 1,327,151 | 2,713,196 |
| Accumulated impairment losses | (199,132) | (531,930) | (596,363) | (1,327,425) |
| | $— | 654,983 | 730,788 | 1,385,771 |
| Goodwill acquired during the period | $— | — | 24,501 | 24,501 |
| Currency translation during the period | $— | — | (16,210) | (16,210) |
| Balance as of March 30, 2013 | | | | |
| Goodwill | $199,132 | 1,186,913 | 1,335,442 | 2,721,487 |
| Accumulated impairment losses | (199,132) | (531,930) | (596,363) | (1,327,425) |
| | $— | 654,983 | 739,079 | 1,394,062 |

Intangible assets:

| Indefinite life assets not subject to amortization: | Tradenames |
|---|---|
| Balance as of December 31, 2012 | $455,503 |
| Intangible assets recognized during the period | 16,835 |
| Currency translation during the period | (8,067) |
| Balance as of March 30, 2013 | $464,271 |

| Intangible assets subject to amortization: | Customer relationships | Patents | Other | Total |
|---|---|---|---|---|
| Balance as of December 31, 2012 | $26,210 | 71,031 | 1,055 | 98,296 |
| Intangible assets acquired during the period | — | 15,188 | — | 15,188 |
| Amortization during the period | (1,219) | (4,726) | (29) | (5,974) |
| Currency translation during the period | — | (2,305) | (120) | (2,425) |
| Balance as of March 30, 2013 | $24,991 | 79,188 | 906 | 105,085 |

| | Three Months Ended | |
|---|---|---|
| | March 30, 2013 | March 31, 2012 |
| Amortization expense | $5,974 | 16,261 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows:

| | March 30, 2013 | December 31, 2012 |
|---|---|---|
| Outstanding checks in excess of cash | $17,411 | 25,480 |
| Accounts payable, trade | 459,397 | 387,871 |
| Accrued expenses | 176,045 | 180,039 |
| Product warranties | 35,483 | 32,930 |
| Accrued interest | 16,553 | 26,843 |
| Deferred tax liability | 10,377 | 6,309 |
| Income taxes payable | 10,033 | 2,074 |
| Accrued compensation and benefits | 98,836 | 111,890 |
| Total accounts payable and accrued expenses | $824,135 | 773,436 |

## 7. Product warranties

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

The activity related to warranty obligations is as follows:

| | Three Months Ended | |
|---|---|---|
| | March 30, 2013 | March 31, 2012 |
| Balance at beginning of period | $32,930 | 30,144 |
| Warranty claims paid during the period | (13,301) | (13,920) |
| Warranty expense during the period | 15,854 | 16,456 |
| Balance at end of period | $35,483 | 32,680 |

## 8. Accumulated other comprehensive income

Effective January 1, 2013, the Company adopted recently issued accounting guidance that requires the Company to separately disclose, on a prospective basis, the change in each component of other comprehensive income (loss) relating to reclassification adjustments and current period other comprehensive income (loss). As the guidance relates to presentation only, the adoption did not have a material impact on the Company's results of operations, financial position or cash flows.

The changes in Accumulated other comprehensive income by component, net of tax, for the first quarter of 2013 are as follows:

| | Foreign currency translation adjustments | Pensions (1) | Total |
|---|---|---|---|
| Balance as of December 31, 2012 | $160,661 | (928) | 159,733 |
| Current period other comprehensive income (loss) before reclassifications | (77,706) | 215 | (77,491) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | — | — |

| | | | |
|---|---|---|---|
| Balance as of March 30, 2013 | $82,955 | (713) | 82,242 |

(1) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost (refer to Note 11 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012).

9. Stock-based compensation

The Company recognizes compensation expense for all share-based payments granted based on the grant-date fair value estimated in accordance with the provisions of the Financial Accounting Standards Board Accounting Standards

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Codification topic (“ASC”) 718-10. Compensation expense is recognized on a straight-line basis over the options’ or other awards’ estimated lives for fixed awards with ratable vesting provisions.

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

The Company did not grant any options for the three months ended March 30, 2013. The Company granted 83 options to employees at a weighted-average grant-date fair value of $28.71 per share for the three months ended March 31, 2012. The Company recognized stock-based compensation costs related to stock options of $606 ($384 net of taxes) and $614 ($389 net of taxes) for the three months ended March 30, 2013 and March 31, 2012, 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 $1,752 as of March 30, 2013, and will be recognized as expense over a weighted-average period of approximately 1.9 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 206 and 261 RSUs at a weighted-average grant-date fair value of $111.74 and $65.98 per unit for the three months ended March 30, 2013 and March 31, 2012, respectively. The Company recognized stock-based compensation costs related to the issuance of RSUs of $4,898 ($3,103 net of taxes) and $4,937 ($3,127 net of taxes) for the three months ended March 30, 2013 and March 31, 2012, respectively, which has been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSUs granted to employees, net of estimated forfeitures, was $33,167 as of March 30, 2013, and will be recognized as expense over a weighted-average period of approximately 3.0 years.

The Company did not grant any restricted stock awards for the three months ended March 30, 2013 or March 31, 2012. Compensation expense for restricted stock awards for the three months ended March 30, 2013 and March 31, 2012, respectively, was not significant.

10. Other (income) expense

Other (income) expense is as follows:

| | Three Months Ended | |
|---|---|---|
| | March 30, 2013 | March 31, 2012 |
| Foreign currency (gains) losses, net | $3,799 | (5,650) |
| All other, net | 2,588 | 3,825 |
| Total other expense (income) | $6,387 | (1,825) |

11. Earnings per share

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

Dilutive common stock options are included in the diluted EPS calculation using the treasury stock method. Common stock options and unvested restricted shares (units) that were not included in the diluted EPS computation because the price was greater than the average market price of the common shares for the three months ended March 30, 2013 and March 31, 2012 were 39 and 1,044, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Three Months Ended | |
|---|---|---|
| | March 30, 2013 | March 31, 2012 |
| Net earnings available to common stockholders | $50,495 | 40,377 |
| Weighted-average common shares outstanding-basic and diluted: | | |
| Weighted-average common shares outstanding—basic | 69,375 | 68,862 |
| Add weighted-average dilutive potential common shares—options and RSUs to purchase common shares, net | 522 | 279 |
| Weighted-average common shares outstanding-diluted | 69,897 | 69,141 |
| Basic earnings per share attributable to Mohawk Industries, Inc. | $0.73 | 0.59 |
| Diluted earnings per share attributable to Mohawk Industries, Inc. | $0.72 | 0.58 |

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

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 | |
|---|---|---|
| | March 30, 2013 | March 31, 2012 |
| Net sales: | | |
| Mohawk | $695,334 | 699,880 |
| Dal-Tile | 411,881 | 392,925 |
| Unilin | 404,475 | 337,424 |
| Intersegment sales | (24,875) | (21,194) |
| | $1,486,815 | 1,409,035 |
| Operating income (loss): | | |
| Mohawk | $25,238 | 25,282 |
| Dal-Tile | 29,976 | 26,028 |

| | | |
|---|---|---|
| Unilin | 38,693 | 27,146 |
| Corporate and intersegment eliminations | (7,065) | (6,480) |
| | $86,842 | 71,976 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | March 30, 2013 | December 31, 2012 |
|---|---|---|
| Assets: | | |
| Mohawk | $1,802,241 | 1,721,214 |
| Dal-Tile | 1,795,828 | 1,731,258 |
| Unilin | 2,469,264 | 2,672,389 |
| Corporate and intersegment eliminations | 1,194,512 | 178,823 |
| | $7,261,845 | 6,303,684 |

In connection with the closing of the Marazzi acquisition on April 3, 2013, the Company decided to revise the names of its segments and, beginning in the second quarter of 2013, will refer to the Mohawk segment as the Carpet segment, the Dal-Tile segment as the Ceramic segment and the Unilin segment as the Laminate and Wood segment. Only the names of the segments are affected by the change and therefore no prior period financial information will change.

13. Commitments, contingencies and other

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

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

In these actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek three times the amount of unspecified damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. Each plaintiff also seeks attorney fees, pre-judgment and post-judgment interest, court costs, and injunctive relief against future violations. In April 2011, the Company filed a motion to dismiss the class action claims brought by the direct purchasers, and in May 2011, the Company moved to dismiss the claims brought by the indirect purchasers. On July 19, 2011, the Court issued a written opinion denying all defendants' motions to dismiss. In December 2011, the Company was named as a defendant in a Canadian Class action, Hi ! Neighbor Floor Covering Co. Limited v. Hickory Springs Manufacturing Company, et al., filed in the Superior Court of Justice of Ontario, Canada and Options Consommateures v. Vitafoam, Inc. et.al., filed in the Superior Court of Justice of Quebec, Montreal, Canada, both of which allege similar claims against the Company as raised in the U.S. actions and seek unspecified damages and punitive damages. The Company denies all of the allegations in these actions and will vigorously defend itself.

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

given quarter or year.

In January 2012, the Company received a €23,789 assessment from the Belgian tax authority related to its year ended December 31, 2008, asserting that the Company had understated its Belgian taxable income for that year. The Company filed a formal protest in the first quarter of 2012 refuting the Belgian tax authority's position and in order to eliminate the accrual of additional interest on the assessed amount, the Company remitted payment of the tax assessment, plus applicable interest of €2,912 (collectively, the “Deposit”). In July 2012, the Company received notification of the Belgian tax authority's intention to extend the statute of limitations back to and including the tax year 2005. On September 10, 2012, the Company received notice from the Belgian tax authority setting aside the 2008 assessment and refunding the Deposit to the Company. On October 23, 2012, the Company received notification from the Belgian tax authority of its intent to increase the Company's tax base for the 2008 tax year under a revised theory. On December 28, 2012, the Company received the refund of the Deposit of €23,789. On January 30, 2013, the Company received a refund of the interest Deposit of €2,912 and interest income of €1,583 earned on the Deposit.

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On December 28, 2012, the Belgian taxing authority issued assessments under a revised theory related to the years ended December 31, 2005 and December 31, 2009, in the amounts of €46,135 and €35,567, respectively, excluding potential interest and penalties. The Company timely filed formal protests in the first quarter of 2013 for the years assessed. The Company disagrees with the views of the Belgian tax authority on this matter and will continue to vigorously defend itself. Although there can be no assurances, the Company believes the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, liquidity or cash flows in a given quarter or year.

For the three months ended March 30, 2013, the Company recorded pre-tax business restructuring charges of $8,222, of which $3,006 was recorded as cost of sales and $5,216 was recorded as selling, general and administrative expenses for the same periods, respectively. For the three months ended March 31, 2012, the Company had no business restructuring charges. The charges for 2013 primarily relate to the Company’s actions taken to lower its cost structure and improve the efficiency of its manufacturing operations and administrative functions, as well as actions related to the Company's acquisition of Pergo.

The restructuring activity for the three months ended March 30, 2013 is as follows:

| | Lease impairments | Asset write-downs | Severance | Other restructuring costs | Total |
|---|---|---|---|---|---|
| Balance as of December 31, 2012 | $ 7,457 | — | 2,898 | — | 10,355 |
| Provision - Mohawk Segment | — | — | 5,892 | 326 | 6,218 |
| Provision - Dal-Tile Segment | — | 37 | — | 426 | 463 |
| Provision - Unilin Segment | — | | 1,456 | 85 | 1,541 |
| Cash payments | (703 ) | — | (4,145 ) | (837 ) | (5,685 ) |
| Non-cash items | | (37 ) | — | | (37 ) |
| Balance as of March 30, 2013 | $ 6,754 | — | 6,101 | — | 12,855 |

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

Subsequent to March 30, 2013, the Company completed negotiations with the unions in Sweden and finalized plans to close Pergo's Trelleborg and Perstorp plants. Both plants will close by July 31, 2013 and production will be transferred to the Wielsbeke plant in Belgium. The Company is finalizing its estimates and expects to record a restructuring charge in the second quarter of 2013.

Subsequent to March 30, 2013, the Company announced its intention to consolidate two roofing plants in the Unilin segment. The Company is finalizing its estimates and expects to record a restructuring charge in the second quarter of 2013.

14. Debt

Senior Credit Facility

On July 8, 2011, the Company entered into a five-year, senior, secured revolving credit facility (the “Senior Credit Facility”). The Senior Credit Facility provides for a maximum of $900,000 of revolving credit, including limited amounts of credit in the form of letters of credit and swingline loans. The Company paid financing costs of $8,285 in connection with its Senior Credit Facility. These costs were deferred and, along with unamortized costs of $12,277

related to the Company's prior senior, secured revolving credit facility, are being amortized over the term of the Senior Credit Facility.

On January 20, 2012, the Company entered into an amendment to the Senior Credit Facility that provides for an incremental term loan facility in the aggregate principal amount of $150,000. The Company paid financing costs of $1,018 in connection with the amendment to its Senior Credit Facility. These costs were deferred and are being amortized over the remaining term of the Senior Credit Facility. The incremental term loan facility provides for eight scheduled quarterly principal payments of $1,875, with the first such payment due on June 30, 2012, followed by four scheduled quarterly principal payments of $3,750, with remaining quarterly principal payments of $5,625 prior to maturity.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Senior Credit Facility is scheduled to mature on July 8, 2016. The Company can terminate and prepay the Senior Credit Facility at any time without payment of any termination or prepayment penalty (other than customary breakage costs in respect of loans bearing interest at a rate based on LIBOR).

At the Company's election, revolving loans under the Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1-, 2-, 3- or 6- month periods, as selected by the Company, plus an applicable margin ranging between 1.25% and 2.0%, or (b) the higher of the Bank of America, N.A. prime rate, the Federal Funds rate plus 0.5%, and a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.25% and 1.0%. The Company also pays a commitment fee to the lenders under the Senior Credit Facility on the average amount by which the aggregate commitments of the lenders exceed utilization of the Senior Credit Facility ranging from 0.25% to 0.4% per annum. The applicable margin and the commitment fee are determined based on the Company's Consolidated Net Leverage Ratio (with applicable margins and the commitment fee increasing as the ratio increases).

All obligations of the Company and the other borrowers under the Senior Credit Facility are required to be guaranteed by all of the Company's material domestic subsidiaries, and all obligations of borrowers that are foreign subsidiaries are guaranteed by those foreign subsidiaries of the Company which the Company designates as guarantors.

Due to the rating agency upgrade announced on March 14, 2012 by Standard & Poor's Financial Services, LLC ("S&P"), the security interests in domestic accounts receivable and inventories, certain shares of capital stock (or equivalent ownership interests) of the domestic borrowers' and domestic guarantors' subsidiaries, and proceeds of any of the foregoing securing obligations under the Senior Credit Facility were released. The Company will be required to reinstate such security interests if there is a ratings downgrade such that: (a) both (i) the Moody's Investors Service, Inc. ("Moody's") rating is Ba2 and (ii) the S&P rating is BB, (b) (i) the Moody's rating is Ba3 or lower and (ii) the S&P rating is below BBB- (with a stable outlook or better) or (c) (i) the Moody's rating is below Baa3 (with a stable outlook or better) and (ii) the S&P rating is BB- or lower.

The Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, indebtedness, investments, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company's business. Many of these limitations are subject to numerous exceptions. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter, as defined in the Senior Credit Facility. The Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

As of March 30, 2013, the amount utilized under the Senior Credit Facility excluding the term loan was $413,696 resulting in a total of $486,304 available under the Senior Credit Facility. The amount utilized included $316,600 of borrowings, $46,823 of standby letters of credit guaranteeing the Company's industrial revenue bonds and $50,273 of standby letters of credit related to various insurance contracts and foreign vendor commitments.

Senior Notes

On January 31, 2013, the Company issued $600,000 aggregate principal amount of 3.85% Senior Notes due February 1, 2023. The Company paid financing costs of $5,150 in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

On January 17, 2006, the Company issued $900,000 aggregate principal amount of 6.125% notes due January 15, 2016. Interest payable on these notes is subject to adjustment if either Moody's or S&P, or both, upgrades or downgrades the rating assigned to the notes. Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum increase of 1% per rating agency. If later the rating of these notes improves, then the interest rates would be reduced accordingly. Each 0.25% increase in the interest rate of these notes would increase the Company's interest expense by approximately $63 per quarter per $100,000 of outstanding notes. In 2009, interest rates increased by an aggregate amount of 75 basis points as a result of downgrades by Moody's and S&P. In the first quarter of 2012, interest rates decreased by 50 basis points as a result of the upgrades from S&P and Moody's. Any future downgrades in the Company's credit ratings could increase the cost of its existing credit and adversely affect the cost of and ability to obtain additional credit in the future.

In 2002, the Company issued $400,000 aggregate principal amount of its senior 7.20% notes due April 15, 2012. During 2011, the Company repurchased $63,730 of its senior 7.20% notes, at an average price equal to 102.72% of the

principal amount. On April 16, 2012, the Company repaid the $336,270 principal amount of outstanding senior 7.20% notes, together with accrued interest of $12,106, at maturity using available borrowings under its Senior Credit Facility.

Accounts Receivable Securitization

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). The Securitization Facility allows the Company to borrow up to $300,000 based on available accounts receivable and is secured by the Company's U.S. trade accounts receivable. Borrowings under the Securitization Facility bear interest at commercial paper interest rates, in the case of lenders that are commercial paper conduits, or LIBOR, in the case of lenders that are not commercial paper conduits, in each case, plus an applicable margin of 0.75% per annum. The Company also pays a commitment fee at a per annum rate of 0.30% on the unused amount of each lender's commitment. At March 30, 2013, the amount utilized under the Securitization Facility was $300,000.

15. Fair Value

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

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

| | March 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| 3.85% senior notes, payable January 31, 2023; interest payable semiannually | $610,800 | 600,000 | — | — |
| 6.125% notes, payable January 15, 2016; interest payable semiannually | 1,004,400 | 900,000 | 1,011,600 | 900,000 |
| Five-year senior secured credit facility, due July 8, 2016 | 459,100 | 459,100 | 153,875 | 153,875 |
| Securitization facility | 300,000 | 300,000 | 280,000 | 280,000 |
| Industrial revenue bonds, capital leases and other | 47,416 | 47,416 | 49,067 | 49,067 |
| Total long-term debt | 2,421,716 | 2,306,516 | 1,494,542 | 1,382,942 |
| Less current portion | 53,496 | 53,496 | 55,213 | 55,213 |
| Long-term debt, less current portion | $2,368,220 | 2,253,020 | 1,439,329 | 1,327,729 |

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.

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## 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 United States and residential applications in Europe. 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 United States, as well as a leading producer of laminate flooring in the U.S. and Europe. The Company has recently expanded its international presence through investments in Australia, Brazil, China, France, Mexico and Russia. The Company had annual net sales in 2012 of $5.8 billion.

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 carriers 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 service centers using company-operated trucks, common carriers or rail transportation. The segment’s product lines are sold through Company-owned 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.

In 2011, the primary categories of the U.S. floor covering industry, based on sales dollars, were carpet and rug (53%), resilient and rubber (14%), ceramic tile (12%), hardwood (10%), stone (6%) and laminate (5%). Each of these categories is influenced by the average selling price per square foot, the residential builder and homeowner remodeling markets, housing starts and housing resales, average house size and home ownership. In addition, the level of sales in the floor covering industry, both in the U.S. and Europe, is influenced by consumer confidence, spending for durable goods, interest rates and availability of credit, turnover in housing, the condition of the residential and commercial construction industries and the overall strength of the economy.

For the three months ended March 30, 2013, net earnings attributable to the Company were $50.5 million, or diluted earnings per share (“EPS”) of $0.72, compared to the net earnings attributable to the Company of $40.4 million, or diluted EPS of $0.58, for the three months ended March 31, 2012. The increase in EPS was primarily attributable to operations and selling, general and administrative productivity, higher sales volume, lower amortization costs and the favorable net impact of price and product mix, partially offset by increases in costs to support new product introductions and geographic expansion, increases in restructuring and acquisition/integration costs and the net impact of unrealized foreign exchange gains/losses.

### Recent Developments

On January 10, 2013, the Company completed its purchase of Pergo, a leading manufacturer of laminate flooring in the United States and the Nordic countries. The total value of the acquisition was approximately $150 million in cash. Pergo complements our specialty distribution network in the United States, leverages our geographic position in Europe, expands our geographic reach to the Nordic countries and India and enhances our patent portfolio. The acquisition's results and a preliminary purchase price allocation are included in the condensed consolidated financial statements as of March 30, 2013.

On December 20, 2012, the Company entered into a definitive share purchase agreement to acquire Fintiles S.p.A and its subsidiaries (collectively, the "Marazzi Group"), a global manufacturer, distributor and marketer of ceramic tile. On April 3, 2013, pursuant to the terms of the purchase agreement dated December 20, 2012, the Company completed the acquisition of the Marazzi Group for approximately $1.5 billion with a combination of cash and common stock of the Company.
On January 28, 2013 the Company entered into an agreement to purchase Spano Invest NV, a Belgian panel board manufacturer. On May 3, 2013, pursuant to the terms of the agreement dated January 28, 2013, the Company completed the acquisition of Spano for approximately $164 million in cash.

In connection with the closing of the Marazzi acquisition on April 3, 2013, the Company decided to revise the names of its segments and, beginning in the second quarter of 2013, will refer to the Mohawk segment as the Carpet segment, the Dal-

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Tile segment as the Ceramic segment and the Unilin segment as the Laminate and Wood segment. Only the names of the segments are affected by the change and therefore no prior period financial information will change.

Results of Operations

Quarter Ended March 30, 2013, as Compared with Quarter Ended March 31, 2012

Net sales

Net sales for the three months ended March 30, 2013 were $1,486.8 million, reflecting an increase of $77.8 million, or 5.5%, from the $1,409.0 million reported for the three months ended March 31, 2012. The increase was primarily driven by higher volume of approximately $50 million primarily related to the Pergo acquisition, the favorable net impact of price and product mix of approximately $26 million and the impact of favorable foreign exchange rates of approximately $2 million.

Mohawk Segment—Net sales decreased $4.5 million, or 0.6%, to $695.3 million for the three months ended March 30, 2013, compared to $699.9 million for the three months ended March 31, 2012. The decrease was primarily driven by lower volume of approximately $28 million, which was partially offset by the favorable net impact of price and product mix of approximately $23 million. The lower volume was primarily attributable to the timing of carpet product transitions in the home center channel and lower demand for rug products in the mass merchandise channel.

Dal-Tile Segment—Net sales increased $19.0 million, or 4.8%, to $411.9 million for the three months ended March 30, 2013, compared to $392.9 million for the three months ended March 31, 2012. The increase was primarily driven by higher volume of approximately $12 million, the favorable net impact of price and product mix of approximately $6 million and the impact of favorable foreign exchange rates of approximately $1 million. The volume increases were primarily attributable to continued improvement in the U.S. commercial and residential channels and growth in the Mexican market.

Unilin Segment—Net sales increased $67.1 million, or 19.9%, to $404.5 million for the three months ended March 30, 2013, compared to $337.4 million for the three months ended March 31, 2012. The increase was primarily driven by higher volume of approximately $69 million and the impact of favorable foreign exchange rates of approximately $2 million, partially offset by the unfavorable net impact of price and product mix of approximately $4 million. The volume increases were primarily attributable to the Pergo acquisition.

Gross profit

Gross profit for the three months ended March 30, 2013 was $377.1 million (25.4% of net sales), an increase of $17.6 million or 4.9%, compared to gross profit of $359.4 million (25.5% of net sales) for the three months ended March 31, 2012. The increase in gross profit dollars was primarily attributable to higher sales volume of approximately $10 million, operations productivity of approximately $9 million and the favorable net impact of price and product mix of approximately $5 million, partially offset by restructuring and acquisition/integration charges of approximately $4 million and higher input costs of approximately $3 million.

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended March 30, 2013 were $290.2 million (19.5% of net sales), compared to $287.5 million (20.4% of net sales) for the three months ended March 31, 2012. As a percentage of net sales, selling, general and administrative expenses decreased 90 basis points. The increase in selling, general and administrative expenses in dollars was primarily driven by increases in costs to support new product

introductions and geographic expansion and increases in restructuring and acquisition/integration charges, partially offset by lower amortization costs and improvements in productivity.

Operating income

Operating income for the three months ended March 30, 2013 was $86.8 million (5.8% of net sales) reflecting an increase of $14.9 million, or 20.7%, compared to operating income of $72.0 million (5.1% of net sales) for the three months ended March 31, 2012. The increase in operating income was primarily driven by operations and selling, general and administrative productivity of approximately $14 million, sales volume of approximately $10 million, lower amortization expense of approximately $10 million and the favorable net impact of price and product mix of approximately $5 million, partially offset by increases in costs to support the Pergo acquisition, new product introductions and geographic expansion of approximately $14 million and restructuring and acquisition/integration charges of approximately $10 million.

Mohawk Segment—Operating income was relatively flat at $25.2 million (3.6% of segment net sales) for the three months ended March 30, 2013 compared to operating income of $25.3 million (3.6% of segment net sales) for the three months ended March 31, 2012. The change in operating income was primarily attributable to operations and selling, general and administrative productivity of approximately $8 million and the favorable net impact of price and product mix of approximately $5 million, offset by lower sales volume of approximately $7 million and restructuring charges of approximately $6 million.

Dal-Tile Segment—Operating income was $30.0 million (7.3% of segment net sales) for the three months ended March 30, 2013 reflecting an increase of $3.9 million compared to operating income of $26.0 million (6.6% of segment net sales) for the three months ended March 31, 2012. The increase in operating income was primarily driven by operations and selling, general and administrative productivity of approximately $5 million, the favorable net impact of price and product mix of approximately $3 million and sales volume increases of approximately $3 million, partially offset by increases in input costs of approximately $5 million.

Unilin Segment—Operating income was $38.7 million (9.6% of segment net sales) for the three months ended March 30, 2013 reflecting an increase of $11.5 million compared to operating income of $27.1 million (8.0% of segment net sales) for the three months ended March 31, 2012. The increase in operating income was primarily driven by sales volume of approximately $14 million primarily related to the Pergo acquisition, lower amortization expense of approximately $10 million and operations productivity of approximately $2 million, partially offset by costs to support the Pergo acquisition, new product introductions and geographic expansion of approximately $10 million, restructuring and acquisition/integration charges of approximately $3 million and the unfavorable net impact of price and product mix of approximately $3 million.

Interest expense (income)

Interest expense was $19.2 million for the three months ended March 30, 2013, reflecting a decrease of $3.3 million compared to interest expense of $22.5 million for the three months ended March 31, 2012. Approximately $7 million of the decrease was due to lower interest rates on the Company's outstanding debt, partially offset by interest expense of approximately $4 million associated with the 3.85% Senior Notes issued in contemplation of the Marazzi acquisition. The lower interest rates were primarily attributable to the shift from higher interest rate senior notes to the Senior Credit Facility and the rating agency upgrades discussed in Liquidity and Capital Resources.

Other expense (income)

Other expense was $6.4 million for the three months ended March 30, 2013, reflecting an unfavorable change of $8.2 million compared to other income of $1.8 million for the three months ended March 31, 2012. The change was primarily attributable to the net change in foreign currency gains/losses of approximately $9 million.

Income tax expense

For the three months ended March 30, 2013, the Company recorded income tax expense of $10.7 million on earnings before income taxes of $61.3 million for an effective tax rate of 17.5%, as compared to an income tax expense of $10.3 million on earnings before income taxes of $51.3 million, resulting in an effective tax rate of 20.1% for the three months ended March 31, 2012. The difference in the effective tax rate for the comparative period is primarily due to the geographic dispersion of earnings and losses; a benefit of $2 million from the settlement of certain income tax contingencies in the current period; and a benefit of $1.9 million from the enactment of certain tax provisions that expired on December 31, 2011, including the research and development tax credit, retroactive to the beginning of 2012.

Liquidity and Capital Resources

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

Net cash used in operating activities in the first three months of 2013 was $38.9 million, compared to net cash used in operating activities of $44.5 million in the first three months of 2012.

Net cash used in investing activities in the first three months of 2013 was $211.1 million compared to net cash used in investing activities of $43.3 million in the first three months of 2012. The increase was primarily attributable to the Pergo

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acquisition of $147.8 million and capital expenditures of $63.3 million. Capital spending during the remainder of 2013, including acquisition capital expenditure requirements, is expected to range from approximately $315 million to $325 million and is intended to be used primarily to purchase equipment, add geographic capacity and to streamline manufacturing capabilities.

Net cash provided by financing activities in the first three months of 2013 was $938.0 million compared to net cash provided by financing activities of $72.0 million in the first three months of 2012. The increase was primarily attributable to the proceeds from the 3.85% Senior Notes and proceeds from the senior credit facility used to fund the Marazzi acquisition which closed on April 3, 2013.

On July 8, 2011, the Company entered into a five-year, senior, secured revolving credit facility (the “Senior Credit Facility”). The Senior Credit Facility provides for a maximum of $900.0 million of revolving credit, including limited amounts of credit in the form of letters of credit and swingline loans. The Company paid financing costs of $8.3 million in connection with its Senior Credit Facility. These costs were deferred and, along with unamortized costs of $12.3 million related to the Company’s prior senior, secured revolving credit facility, are being amortized over the term of the Senior Credit Facility.

On January 20, 2012, the Company entered into an amendment to the Senior Credit Facility that provides for an incremental term loan facility in the aggregate principal amount of $150.0 million. The Company paid financing costs of $1.0 million in connection with the amendment to its Senior Credit Facility. These costs were deferred and are being amortized over the remaining term of the Senior Credit Facility. The incremental term loan facility provides for eight scheduled quarterly principal payments of $1.875 million, with the first such payment due on June 30, 2012, followed by four scheduled quarterly principal payments of $3.750 million, with remaining quarterly principal payments of $5.625 million prior to maturity.

The Senior Credit Facility is scheduled to mature on July 8, 2016. The Company can terminate and prepay the Senior Credit Facility at any time without payment of any termination or prepayment penalty (other than customary breakage costs in respect of loans bearing interest at a rate based on LIBOR).

At the Company’s election, revolving loans under the Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1-, 2-, 3- or 6- month periods, as selected by the Company, plus an applicable margin ranging between 1.25% and 2.0%, or (b) the higher of the Bank of America, N.A. prime rate, the Federal Funds rate plus 0.5%, and a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.25% and 1.0%. The Company also pays a commitment fee to the lenders under the Senior Credit Facility on the average amount by which the aggregate commitments of the lenders’ exceed utilization of the Senior Credit Facility ranging from 0.25% to 0.4% per annum. The applicable margin and the commitment fee are determined based on the Company’s Consolidated Net Leverage Ratio (with applicable margins and the commitment fee increasing as the ratio increases).

All obligations of the Company and the other borrowers under the Senior Credit Facility are required to be guaranteed by all of the Company’s material domestic subsidiaries and all obligations of borrowers that are foreign subsidiaries are guaranteed by those foreign subsidiaries of the Company which the Company designates as guarantors.

Due to the rating agency upgrade announced on March 14, 2012 by Standard & Poor’s Financial Services, LLC (“S&P”), the security interests in domestic accounts receivable and inventories, certain shares of capital stock (or equivalent ownership interests) of the domestic borrowers’ and domestic guarantors’ subsidiaries, and proceeds of any of the foregoing securing obligations under the Senior Credit Facility were released. The Company will be required to reinstate such security interests if there is a ratings downgrade such that: (a) both (i) the Moody’s Investor’s Service, Inc. (“Moody’s”) rating is Ba2 and (ii) the S&P rating is BB, (b) (i) the Moody’s rating is Ba3 or lower and (ii) the S&P rating is below BBB- (with a stable outlook or better) or (c) (i) the Moody’s rating is below Baa3 (with a stable outlook

or better) and (ii) the S&P rating is BB- or lower.

The Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company’s financial and business operations, including limitations on liens, indebtedness, investments, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company’s business. Many of these limitations are subject to numerous exceptions. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.00 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter, as defined in the Senior Credit Facility. The Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

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As of March 30, 2013, the amount utilized under the Senior Credit Facility excluding the term loan was $413.7 million, resulting in a total of $486.3 million available under the Senior Credit Facility. The amount utilized included $316.6 million of borrowings, $46.8 million of standby letters of credit guaranteeing the Company’s industrial revenue bonds and $50.3 million of standby letters of credit related to various insurance contracts and foreign vendor commitments.

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). The Securitization Facility allows the Company to borrow up to $300,000 based on available accounts receivable and is secured by the Company's U.S. trade accounts receivable. Borrowings under the Securitization Facility bear interest at commercial paper interest rates, in the case of lenders that are commercial paper conduits, or LIBOR, in the case of lenders that are not commercial paper conduits, in each case, plus an applicable margin of 0.75% per annum. The Company also pays a commitment fee at a per annum rate of 0.30% on the unused amount of each lender's commitment. At March 30, 2013, the amount utilized under the Securitization Facility was $300,000.

On January 31, 2013, the Company issued $600,000 aggregate principal amount of 3.85% Senior Notes due February 1, 2023. The Company paid financing costs of $5,150 in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

On January 17, 2006, the Company issued $900.0 million aggregate principal amount of 6.125% notes due January 15, 2016. Interest payable on these notes is subject to adjustment if either Moody’s or S&P, or both, upgrades or downgrades the rating assigned to the notes. Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum increase of 1% per rating agency. If later the rating of these notes improves, then the interest rates would be reduced accordingly. Each 0.25% increase in the interest rate of these notes would increase the Company’s interest expense by approximately $0.1 million per quarter per $100.0 million of outstanding notes. In 2009, interest rates increased by an aggregate amount of 75 basis points as a result of downgrades by Moody’s and S&P. In the first quarter of 2012, interest rates decreased by 50 basis points as a result of the upgrades from S&P and Moody’s. Any future downgrades in the Company’s credit ratings could increase the cost of its existing credit and adversely affect the cost of and ability to obtain additional credit in the future.

In 2002, the Company issued $400.0 million aggregate principal amount of its senior 7.20% notes due April 15, 2012. During 2011, the Company repurchased $63.7 million of its senior 7.20% notes, at an average price equal to 102.72% of the principal amount. On April 16, 2012, the Company repaid the $336.3 million principal amount of outstanding senior 7.20% notes, together with accrued interest of $12.1 million, at maturity using available borrowings under its Senior Credit Facility.

The Company may continue, from time to time, to retire its outstanding debt through cash purchases in the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company’s liquidity requirements, contractual restrictions and other factors. The amount involved may be material.

As of March 30, 2013, the Company had invested cash of $1,060.9 million, of which $1,058.9 million was in Europe. Of the $1,058.9 million in Europe, $39.2 million was invested in A-1/P-1 rated money market cash investments. On April 3, 2013, the Company completed the acquisition of the Marazzi Group for approximately $1,500 million including approximately €784 million ($1,004 million) in cash with the remainder in common stock of the Company and assumed debt. While the Company’s plans are to permanently reinvest the cash held in Europe, the estimated cost of repatriation for the cash invested in Europe as of March 30, 2013 would have been approximately $370.6 million. The Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its Senior Credit Facility will be sufficient to meet its capital expenditure, working capital and debt servicing

requirements over the next twelve months.

Contractual Obligations

There have been no significant changes to the Company’s contractual obligations as disclosed in the Company’s 2012 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 2012 Annual Report filed on Form 10-K.



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Impact of Inflation

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

Seasonality

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

Forward-Looking Information

Certain of the statements in this Form 10-Q, particularly those anticipating future performance, business prospects, growth and operating strategies, and similar matters, and those that include the words “could,” “should,” “believes,” “anticipates,” “expects” and “estimates” or similar expressions constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For those statements, Mohawk claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following important factors could cause future results to differ: changes in economic or industry conditions; competition; inflation in raw material prices and other input costs; energy costs and supply; timing and level of capital expenditures; timing and implementation of price increases for the Company’s products; impairment charges; integration of acquisitions; international operations; introduction of new products; rationalization of operations; tax, product and other claims; litigation; and other risks identified in Mohawk’s SEC reports and public announcements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 30, 2013, approximately 65% of the Company's debt portfolio was comprised of fixed-rate debt and 35% was floating-rate debt. A 1.0 percentage point change in the interest rate of the floating-rate debt would not have a material impact on the Company's results of operations. There have been no other significant changes to the Company’s exposure to market risk as disclosed in the Company’s 2012 Annual Report filed on Form 10-K.

Item 4. Controls and Procedures

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

controls and procedures were effective at a reasonable assurance level for the period covered by this report.

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

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

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

In these actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, seek three times the amount of unspecified damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. Each plaintiff also seeks attorney fees, pre-judgment and post-judgment interest, court costs, and injunctive relief against future violations. In December 2011, the Company was named as a defendant in a Canadian Class action, Hi ! Neighbor Floor Covering Co. Limited v. Hickory Springs Manufacturing Company, et.al., filed in the Superior Court of Justice of Ontario, Canada and Options Consommateures v. Vitafoam, Inc. et.al., filed in the Superior Court of Justice of Quebec, Montreal, Canada, both of which allege similar claims against the Company as raised in the U.S. actions and seek unspecified damages and punitive damages. The Company denies all of the allegations in these actions and will vigorously defend itself.

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

### Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2012. The risk factors disclosed in our Annual Report on Form 10-K, in addition to the other information set forth in this report, could materially affect our business, financial condition or results.

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

None.

### Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

| No. | Description |
|---|---|
| 4.1 | Indenture, dated as of January 31, 2013, by and between Mohawk Industries, Inc. and U.S. Bank National Association, as Trustee (Incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated January 31, 2013.) |
| 4.2 | First Supplemental Indenture, dated as of January 31, 2013, by and between Mohawk Industries, Inc. and U.S. Bank National Association, as Trustee (Incorporated herein by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K dated January 31, 2013.) |
| 10.1 | Amendment No. 3 to the Credit Agreement, dated January 28, 2013, by and among Mohawk Industries, Inc. and certain of its subsidiaries, as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and a L/C Issuer, the other lenders party thereto and the other parties thereto (Incorporated herein by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K dated January 30, 2013.) |
| 10.2 | First Amendment to Credit and Security Agreement, dated as of January 22, 2013, by and among Mohawk Factoring, LLC, as borrower, Mohawk Servicing, LLC, as servicer, the lenders from time to time party thereto, the liquidity banks from time to time party thereto, the co-agents from time to time party thereto and SunTrust Bank, as administrative agent (Incorporated herein by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K dated February 27, 2013.) |
| 10.3 | Stock Restriction and Registration Rights Agreement, dated as of April 3, 2013, by and among Mohawk Industries, Inc., LuxELIT S.á r.l., and Finceramica S.p.A. |
| 31.1 | Certification Pursuant to Rule 13a-14(a). |
| 31.2 | Certification Pursuant to Rule 13a-14(a). |
| 32.1 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

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SIGNATURES

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

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| | | | MOHAWK INDUSTRIES, INC.<br>(Registrant) |
| Dated: | May 6, 2013 | By: | /s/ Jeffrey S. Lorberbaum<br>JEFFREY S. LORBERBAUM<br>Chairman and Chief Executive Officer<br>(principal executive officer) |
| Dated: | May 6, 2013 | By: | /s/ Frank H. Boykin<br>FRANK H. BOYKIN<br>Chief Financial Officer<br>(principal financial officer) |