

MOHAWK INDUSTRIES INC

Form 10-Q

November 10, 2016

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

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FORM 10-Q

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[Mark One]

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

For the quarterly period ended October 1, 2016

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  No

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

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

Large accelerated filer  Accelerated filer

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

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

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The number of shares outstanding of the issuer's common stock as of November 4, 2016, the latest practicable date, is as follows: 74,165,317 shares of common stock, \$.01 par value.

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## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(Unaudited)

|  | October 1,<br>2016 | December 31,<br>2015 |
|--|--------------------|----------------------|
| <b>ASSETS</b>  |                    |                      |
| Current assets:  |                    |                      |
| Cash and cash equivalents  | \$ 112,108         | 81,692               |
| Receivables, net   | 1,506,316          | 1,257,505            |
| Inventories  | 1,673,242          | 1,607,256            |
| Prepaid expenses   | 252,812            | 258,633              |
| Other current assets   | 31,836             | 44,886               |
| Total current assets   | 3,576,314          | 3,249,972            |
| Property, plant and equipment  | 6,163,241          | 5,783,257            |
| Less: accumulated depreciation   | 2,822,348          | 2,636,139            |
| Property, plant and equipment, net   | 3,340,893          | 3,147,118            |
| Goodwill   | 2,331,821          | 2,293,365            |
| Tradenames   | 599,195            | 632,349              |
| Other intangible assets subject to amortization, net   | 277,520            | 304,192              |
| Deferred income taxes and other non-current assets   | 294,850            | 307,404              |
|  | \$ 10,420,593      | 9,934,400            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                    |                      |
| Current liabilities:   |                    |                      |
| Current portion of long-term debt and commercial paper   | \$ 1,548,251       | 2,003,003            |
| Accounts payable and accrued expenses  | 1,435,069          | 1,256,025            |
| Total current liabilities  | 2,983,320          | 3,259,028            |
| Deferred income taxes  | 360,509            | 388,130              |
| Long-term debt, less current portion   | 1,165,577          | 1,188,964            |
| Other long-term liabilities  | 213,758            | 215,463              |
| Total liabilities  | 4,723,164          | 5,051,585            |
| Commitments and contingencies (Note 13)  |                    |                      |
| Redeemable noncontrolling interest   | 24,741             | 21,952               |
| Stockholders' equity:  |                    |                      |
| Preferred stock, \$.01 par value; 60 shares authorized; no shares issued   | —                  | —                    |
| Common stock, \$.01 par value; 150,000 shares authorized; 81,508 and 81,280 shares issued in 2016 and 2015, respectively | 816                | 813                  |
| Additional paid-in capital   | 1,785,350          | 1,760,016            |
| Retained earnings  | 4,799,187          | 4,102,707            |
| Accumulated other comprehensive loss   | (704,120)          | (793,568)            |
|  | 5,881,233          | 5,069,968            |
| Less treasury stock at cost; 7,351 shares in 2016 and 2015   | 215,791            | 215,795              |
| Total Mohawk Industries, Inc. stockholders' equity   | 5,665,442          | 4,854,173            |
| Nonredeemable noncontrolling interest  | 7,246              | 6,690                |
| Total stockholders' equity   | 5,672,688          | 4,860,863            |

\$10,420,593 9,934,400

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

|  | Three Months Ended |                    | Nine Months Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | October 1,<br>2016 | October 3,<br>2015 | October 1,<br>2016 | October 3,<br>2015 |
| Net sales  | \$2,294,139        | 2,150,656          | 6,776,521          | 6,073,566          |
| Cost of sales  | 1,567,580          | 1,489,252          | 4,654,695          | 4,285,090          |
| Gross profit   | 726,559            | 661,404            | 2,121,826          | 1,788,476          |
| Selling, general and administrative expenses                           | 348,252            | 372,670            | 1,147,155          | 1,200,152          |
| Operating income   | 378,307            | 288,734            | 974,671            | 588,324            |
| Interest expense   | 9,410              | 19,319             | 32,062             | 52,606             |
| Other expense, net   | 3,839              | 4,249              | 1,461              | 6,094              |
| Earnings before income taxes   | 365,058            | 265,166            | 941,148            | 529,624            |
| Income tax expense   | 94,231             | 49,463             | 242,090            | 104,643            |
| Net earnings including noncontrolling interests                        | 270,827            | 215,703            | 699,058            | 424,981            |
| Net income attributable to noncontrolling interests                    | 949                | 798                | 2,444              | 1,238              |
| Net earnings attributable to Mohawk Industries, Inc.                   | \$269,878          | 214,905            | 696,614            | 423,743            |
| Basic earnings per share attributable to Mohawk Industries, Inc.       |                    |                    |                    |                    |
| Basic earnings per share attributable to Mohawk Industries, Inc.       | \$3.64             | 2.91               | 9.40               | 5.77               |
| Weighted-average common shares outstanding—basic                       | 74,154             | 73,915             | 74,084             | 73,384             |
| Diluted earnings per share attributable to Mohawk Industries, Inc.     |                    |                    |                    |                    |
| Diluted earnings per share attributable to Mohawk Industries, Inc.     | \$3.62             | 2.89               | 9.34               | 5.73               |
| Weighted-average common shares outstanding—diluted                     | 74,613             | 74,438             | 74,551             | 73,907             |
| See accompanying notes to condensed consolidated financial statements. |                    |                    |                    |                    |

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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

|   | Three Months Ended |            | Nine Months Ended |            |
|---|--------------------|------------|-------------------|------------|
|   | October 1,         | October 3, | October 1,        | October 3, |
|   | 2016               | 2015       | 2016              | 2015       |
| Net earnings including noncontrolling interests               | \$270,827          | 215,703    | 699,058           | 424,981    |
| Other comprehensive income (loss):                            |                    |            |                   |            |
| Foreign currency translation adjustments                      | 11,744             | (72,728 )  | 89,458            | (269,061 ) |
| Pension prior service cost and actuarial (loss) gain          | (3                 | ) —        | (10               | ) 82       |
| Other comprehensive income (loss)                             | 11,741             | (72,728 )  | 89,448            | (268,979 ) |
| Comprehensive income  | 282,568            | 142,975    | 788,506           | 156,002    |
| Comprehensive income attributable to noncontrolling interests | 949                | 798        | 2,444             | 1,238      |
| Comprehensive income attributable to Mohawk Industries, Inc.  | \$281,619          | 142,177    | 786,062           | 154,764    |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|   | Nine Months Ended  |                    |
|---|--------------------|--------------------|
|   | October 1,<br>2016 | October 3,<br>2015 |
| Cash flows from operating activities:   |                    |                    |
| Net earnings  | \$ 699,058         | 424,981            |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                    |                    |
| Restructuring   | 28,300             | 18,716             |
| Tradename impairment  | 47,905             | —                  |
| Depreciation and amortization   | 305,088            | 268,622            |
| Deferred income taxes   | (27,887 )          | (35,171 )          |
| (Gain) loss on disposal of property, plant and equipment                            | (10,849 )          | 349                |
| Stock-based compensation expense  | 28,841             | 24,488             |
| Changes in operating assets and liabilities, net of effects of acquisitions:        |                    |                    |
| Receivables, net  | (255,311 )         | (140,475 )         |
| Inventories   | (53,578 )          | (3,219 )           |
| Other assets and prepaid expenses   | 67,375             | (33,612 )          |
| Accounts payable and accrued expenses   | 166,492            | 146,025            |
| Other liabilities   | (10,753 )          | (13,752 )          |
| Net cash provided by operating activities   | 984,681            | 656,952            |
| Cash flows from investing activities:   |                    |                    |
| Additions to property, plant and equipment  | (460,760 )         | (352,070 )         |
| Acquisitions, net of cash acquired  | —                  | (1,211,715 )       |
| Net cash used in investing activities   | (460,760 )         | (1,563,785 )       |
| Cash flows from financing activities:   |                    |                    |
| Payments on Senior Credit Facilities  | (467,618 )         | (1,087,338 )       |
| Proceeds from Senior Credit Facilities  | 386,551            | 1,057,661          |
| Payments on Commercial Paper  | (17,614,864 )      | (13,456,251 )      |
| Proceeds from Commercial Paper  | 17,835,126         | 13,856,454         |
| Repayment of senior notes   | (645,555 )         | —                  |
| Proceeds from 2.00% Senior Notes  | —                  | 564,653            |
| Payments of acquired debt and other financings                                      | —                  | (9,321 )           |
| Debt issuance costs   | (1,086 )           | (6,859 )           |
| Change in outstanding checks in excess of cash                                      | (1,924 )           | 1,709              |
| Proceeds and net tax benefit from stock transactions                                | 8,149              | 9,798              |
| Net cash (used in) provided by financing activities                                 | (501,221 )         | 930,506            |
| Effect of exchange rate changes on cash and cash equivalents                        | 7,716              | (10,834 )          |
| Net change in cash and cash equivalents   | 30,416             | 12,839             |
| Cash and cash equivalents, beginning of period                                      | 81,692             | 97,877             |
| Cash and cash equivalents, end of period  | \$ 112,108         | 110,716            |

See accompanying notes to condensed consolidated financial statements.



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

1. General

Interim Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto, and the Company's description of critical accounting policies, included in the Company's 2015 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. Results for interim periods are not necessarily indicative of the results for the year.

Segment Realignment

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

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

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

The Company has numerous investments outside the United States. The net assets of these subsidiaries are exposed to changes and volatility in currency exchange rates. The Company uses foreign currency denominated debt to hedge some of its non-U.S. net investments against adverse movements in exchange rates. The gains and losses on the Company's net investments in its non-U.S. operations are partially economically offset by gains and losses on its foreign currency borrowings. The Company designated its €500,000 2.00% Senior Notes borrowing as a net investment hedge of a portion of its European operations. For the nine months ended October 1, 2016, the change in the U.S. dollar value of the Company's euro denominated debt was an increase of \$15,360 (\$9,600 net of taxes), which is recorded in the foreign currency translation adjustment component of other comprehensive income (loss). The increase in the U.S. dollar value of the Company's debt partially offsets the euro-to-dollar translation of the

Company's net investment in its European operations.

#### Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers. This topic converges the guidance within U.S. GAAP and International Financial Reporting Standards ("IFRS") and supersedes ASC 605, Revenue Recognition. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The new guidance is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period and early application is not permitted. On July 9, 2015, the FASB decided to defer the effective date of ASC 606 for one year. The deferral results in the new revenue standard being effective for fiscal years and interim periods within those fiscal years

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This topic converges the guidance within U.S. GAAP and IFRS. The new standard intends to simplify the presentation of debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, versus recording the costs as a prepaid expense in other assets that is amortized. The new standard will more closely align the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable IFRS. In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30) to address the measurement of debt issuance costs associated with line-of-credit arrangements. ASU 2015-15 states that an entity can defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless if there are outstanding borrowings on the line-of-credit arrangement. The Company adopted the provisions of this new accounting standard effective January 1, 2016 retrospectively. Accordingly, unamortized debt issuance costs of \$7,964 were reclassified from other non-current assets to long-term debt in the December 31, 2015 consolidated balance sheet.

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

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under this ASU, acquirers must recognize measurement-period adjustments in the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The Company adopted the provisions of this update effectively January 1, 2016 prospectively. This update did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments in this Update create Topic 842, Leases, and supersede the requirements in Topic 840, Leases. Topic 842 specifies the accounting for leases. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The guidance in this update is effective for annual reporting periods beginning after December 15, 2018 including interim periods within that reporting period and early adoption is permitted. The Company plans to adopt the provisions of this update at the beginning of fiscal year 2019, and is currently assessing the impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This update simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance in this update is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those annual periods and early adoption is permitted. The Company plans to adopt the provisions of this update at the beginning of fiscal year 2017, and is

currently assessing the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of credit losses on financial instruments. Topic 326 amends guidance on reporting credit losses by replacing the current incurred loss model with a forward-looking expected loss model. Current accounting delays the recognition of credit losses until it is probable a loss has been incurred. The update will require a financial asset measured at amortized cost to be presented at the net amount expected to be collected by means of an allowance for credit losses that runs through net income. ASU 2016-13 is effective for annual and interim reporting periods beginning after December 15, 2019. Early adoption is permitted beginning after December 15, 2018. The Company plans to adopt the provisions of this update at the beginning of fiscal year 2020, and is currently assessing the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). This update clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. ASU 2016-15 also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

flows. The guidance in this update should be applied retrospectively and is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The Company plans to adopt the provisions of this update at the beginning of fiscal year 2018 and is currently assessing the impact on its consolidated statement of cash flows.

## 2. Acquisitions

### IVC Group

On January 13, 2015, the Company entered into a share purchase agreement (the “Share Purchase Agreement”) with Enterhold S.A., a Luxembourg societe anonyme (the “Seller”), to acquire all of the outstanding shares of International Flooring Systems S.A., a Luxembourg societe anonyme, and its subsidiaries (collectively, the “IVC Group”). The IVC Group is a global manufacturer, distributor and marketer of LVT and sheet vinyl. On June 12, 2015, pursuant to the terms of the Share Purchase Agreement, the Company completed the acquisition of IVC Group for \$1,146,437. The results of the IVC Group's operations have been included in the consolidated financial statements since that date in the Flooring NA and the Flooring ROW segments. The IVC Group acquisition positions the Company as a major participant in both the fast growing LVT category and the expanding fiberglass sheet vinyl business.

Pursuant to the terms of the Share Purchase Agreement, the Seller will indemnify the Company for uncertain tax positions taken by and tax liabilities that were incurred by the Seller. The Company has recorded these tax liabilities and related indemnification asset in the amount of \$34,781 as of the acquisition date in other long-term liabilities and other long-term assets, respectively.

The equity value of the IVC Group was paid to the Seller in cash and in shares of the Company's common stock (the “Shares”). Pursuant to the Share Purchase Agreement, the Company (i) acquired the entire issued share capital of the IVC Group and (ii) acquired \$17,122 of indebtedness of the IVC Group, in exchange for a cash payment of \$732,189, debt paid of \$261,152, and 806 issued treasury shares for a value of \$153,096.

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

### KAI Group

On May 12, 2015, the Company purchased approximately 90% of all outstanding shares of Advent KAI Luxembourg Holdings S.a r.l., a societe a responsabilite limitee, and its subsidiaries (collectively, the “KAI Group”), an eastern European ceramic tile manufacturer. The Company completed the acquisition of the KAI Group for \$194,613. The results of the KAI Group's operations have been included in the consolidated financial statements since the date of acquisition in the Global Ceramic segment. The KAI Group has a low cost position in the Bulgarian and Romanian markets. The combination with the Company presents opportunities to enhance the group's product offering, upgrade its technology and expand its exports to other countries. The remaining 10% ownership interest in the KAI Group is controlled by a third party. The 10% interest is subject to redemption provisions that are not solely within the Company's control and therefore is recorded as a redeemable noncontrolling interest in the mezzanine section of the balance sheet for \$24,741 as of October 1, 2016. Pursuant to the share purchase agreement, the Company (i) acquired approximately 90% of the issued share capital of the KAI Group and (ii) acquired \$24 of indebtedness of the KAI Group, in exchange for a cash payment of \$169,540 and debt paid of \$25,073.

The Company accounted for the acquisitions of the IVC Group and the KAI Group (together, the “Acquisitions”) using the acquisition method of accounting, with the Company as the acquirer of the IVC Group and the KAI Group. The combined consideration transferred of \$1,341,050, including debt paid and shares issued, was determined in

accordance with the respective share purchase agreements. The consideration transferred is allocated to tangible and intangible assets and liabilities based upon their respective fair values.

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

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

|   |              |
|---|--------------|
| Fair value of assets, net of cash acquired  | \$ 1,382,356 |
| Noncontrolling interests in assets acquired | (24,160 )    |
| Assumed indebtedness                        | (17,146 )    |
| Consideration transferred                   | \$ 1,341,050 |

|   |              |
|---|--------------|
| Working capital                           | 140,606      |
| Property, plant and equipment             | 363,570      |
| Tradenames                                | 48,563       |
| Customer relationships                    | 224,326      |
| Goodwill                                  | 740,140      |
| Other long-term assets                    | 50,236       |
| Long-term debt, including current portion | (17,146 )    |
| Other long-term liabilities               | (57,832 )    |
| Deferred tax liability                    | (127,253 )   |
| Noncontrolling interest                   | (24,160 )    |
| Consideration transferred                 | \$ 1,341,050 |

Intangible assets subject to amortization of \$224,326 related to customer relationships have estimated lives of 12 to 14 years. In addition to the amortizable intangible assets, there is an additional \$48,563 in indefinite-lived tradename intangible assets. The goodwill of \$740,140 was allocated to the Company's segments as disclosed in Note 6, Goodwill and Intangible Assets. The factors contributing to the recognition of the amount of goodwill are based on strategic and synergistic benefits that are expected to be realized from the Acquisitions. These benefits include the opportunities to improve the Company's performance by leveraging best practices, operational expertise, product innovation and manufacturing assets. The recognized goodwill from the Acquisitions is not expected to be deductible for tax purposes.

The results of operations for the Acquisitions were not significant to the Company's consolidated results of operations and, accordingly, the Company has not provided pro forma information relating to the Acquisitions.

**Xtratherm**

On December 7, 2015, the Company completed its purchase of Xtratherm Limited, an Irish company, and certain of its affiliates (collectively, "Xtratherm"). Xtratherm manufactures insulation boards in Ireland, the UK and Belgium. The total value of the acquisition was \$158,851. The Xtratherm acquisition expands the Company's existing insulation board footprint to include Ireland, the UK and Belgium while capitalizing on expanded product offerings in Belgium. The acquisition's results and purchase price allocation have been included in the consolidated financial statements since the date of the acquisition. The Company's acquisition of Xtratherm resulted in a preliminary goodwill allocation of \$33,307, indefinite-lived trademark intangible assets of \$4,681 and intangible assets subject to amortization of \$39,784. The goodwill is not expected to be deductible for tax purposes. The factors contributing to the recognition of the amount of goodwill include the opportunity to optimize the assets of Xtratherm with the Company's existing insulation assets. The Xtratherm results are reflected in the Flooring ROW segment.

**Other Acquisitions**

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

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



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

Restructuring, acquisition transaction and integration-related costs consisted of the following during the three and nine months ended October 1, 2016 and October 3, 2015:

|  | Three Months<br>Ended<br>October 1, 2016 |       | Nine Months<br>Ended<br>October 3, 2015 |        |
|--|--|-------|---|--------|
| Cost of sales  |  |       |   |        |
| Restructuring costs <sup>(a)</sup>                       | \$16,716                                 | 5,828 | 24,540                                  | 26,135 |
| Acquisition integration-related costs                    | 743                                      | 1,463 | 1,546                                   | 3,473  |
| Restructuring and integration-related costs              | \$17,459                                 | 7,291 | 26,086                                  | 29,608 |
| Selling, general and administrative expenses             |  |       |   |        |
| Restructuring costs <sup>(a)</sup>                       | \$2,060                                  | 150   | 3,760                                   | 1,231  |
| Acquisition transaction-related costs                    | —  | 2,725 | —                                       | 7,403  |
| Acquisition integration-related costs                    | 1,828                                    | 2,604 | 4,563                                   | 5,542  |
| Restructuring, acquisition and integration-related costs | \$3,888                                  | 5,479 | 8,323                                   | 14,176 |

(a) The restructuring costs for 2016 and 2015 primarily relate to the Company's actions taken to lower its cost structure and improve efficiencies of manufacturing and distribution operations as well as actions related to the Company's recent acquisitions. During the three and nine months ended October 3, 2015, restructuring costs included accelerated depreciation of \$1,080 and \$8,650, respectively.

The restructuring activity for the nine months ended October 1, 2016 is as follows:

|                                    | Asset<br>write-downs | Severance | Other<br>restructuring<br>costs | Total    |
|------------------------------------|----------------------|-----------|---------------------------------|----------|
| Balance as of December 31, 2015    | \$ —                 | 8,965     | 1,065                           | 10,030   |
| Provision - Global Ceramic segment | 795                  | 331       | 79                              | 1,205    |
| Provision - Flooring NA segment    | 9,852                | 3,600     | 12,880                          | 26,332   |
| Provision - Flooring ROW segment   | 243                  | 1,220     | (700)                           | 763      |
| Cash payments                      | —                    | (9,158)   | (4,288)                         | (13,446) |
| Non-cash items                     | (10,890)             | 68        | (1,233)                         | (12,055) |
| Balance as of October 1, 2016      | \$ —                 | 5,026     | 7,803                           | 12,829   |

The Company expects the remaining severance and other restructuring costs to be paid over the next year.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. Receivables, net

Receivables, net are as follows:

|  | October 1,<br>2016 | December 31,<br>2015 |
|--|--------------------|----------------------|
| Customers, trade   | \$1,523,931        | 1,243,533            |
| Income tax receivable  | 11,988             | 21,835               |
| Other  | 54,405             | 71,084               |
|  | 1,590,324          | 1,336,452            |
| Less: allowance for discounts, returns, claims and doubtful accounts | 84,008             | 78,947               |
| Receivables, net   | \$1,506,316        | 1,257,505            |

## 5. Inventories

The components of inventories are as follows:

|                   | October 1,<br>2016 | December 31,<br>2015 |
|-------------------|--------------------|----------------------|
| Finished goods    | \$1,114,971        | 1,083,012            |
| Work in process   | 137,805            | 137,186              |
| Raw materials     | 420,466            | 387,058              |
| Total inventories | \$1,673,242        | 1,607,256            |

## 6. Goodwill and intangible assets

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

Goodwill:

|   | Global<br>Ceramic<br>segment | Flooring<br>NA<br>segment | Flooring<br>ROW<br>segment | Total        |
|---|------------------------------|---------------------------|----------------------------|--------------|
| Balance as of December 31, 2015                   |                              |                           |                            |              |
| Goodwill  | \$1,472,757                  | 867,916                   | 1,280,117                  | 3,620,790    |
| Accumulated impairment losses                     | (531,930 )                   | (343,054 )                | (452,441 )                 | (1,327,425 ) |
|   | \$940,827                    | 524,862                   | 827,676                    | 2,293,365    |
| Goodwill recognized or adjusted during the period | \$—                          | 1,848                     | 1,158                      | 3,006        |
| Currency translation during the period            | 12,417                       | —                         | 23,033                     | 35,450       |
| Balance as of October 1, 2016                     |                              |                           |                            |              |
| Goodwill  | 1,485,174                    | 869,764                   | 1,304,308                  | 3,659,246    |
| Accumulated impairment losses                     | (531,930 )                   | (343,054 )                | (452,441 )                 | (1,327,425 ) |
|   | \$953,244                    | 526,710                   | 851,867                    | 2,331,821    |

Intangible assets not subject to amortization:

During the third quarter of 2016, the Company determined that it needed to simplify the branding strategy in the Flooring NA segment by consolidating products under the Mohawk Group brands and discontinuing the Lees brand. This resulted in the Company writing off the full value of the Lees tradename and recording an impairment charge of

\$47,905 in selling, general and administrative expenses in the consolidated statements of operations.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

|  | Tradenames             |                   |                 |                 |
|--|------------------------|-------------------|-----------------|-----------------|
| Balance as of December 31, 2015                            | \$ 632,349             |                   |                 |                 |
| Intangible assets impaired during the period               | (47,905 )              |                   |                 |                 |
| Currency translation during the period                     | 14,751                 |                   |                 |                 |
| Balance as of October 1, 2016                              | \$ 599,195             |                   |                 |                 |
| Intangible assets subject to amortization:                 |                        |                   |                 |                 |
| Gross carrying amounts:                                    |                        |                   |                 |                 |
|  | Customer relationships | Patents           | Other           | Total           |
| Balance as of December 31, 2015                            | \$ 588,716             | 243,258           | 6,790           | 838,764         |
| Intangible assets recognized or adjusted during the period | —                      | —                 | —               | —               |
| Currency translation during the period                     | 6,527                  | 6,779             | (804 )          | 12,502          |
| Balance as of October 1, 2016                              | \$ 595,243             | 250,037           | 5,986           | 851,266         |
| Accumulated amortization:                                  |                        |                   |                 |                 |
|  | Customer relationships | Patents           | Other           | Total           |
| Balance as of December 31, 2015                            | \$ 317,593             | 216,273           | 706             | 534,572         |
| Amortization during the period                             | 19,975                 | 9,446             | 18              | 29,439          |
| Currency translation during the period                     | 3,990                  | 6,103             | (358 )          | 9,735           |
| Balance as of October 1, 2016                              | \$ 341,558             | 231,822           | 366             | 573,746         |
| Intangible assets subject to amortization, net             | \$ 253,685             | 18,215            | 5,620           | 277,520         |
|  | Three Months Ended     | Nine Months Ended |                 |                 |
|  | October 1, 2016        | October 3, 2016   | October 3, 2015 | October 3, 2015 |
| Amortization expense                                       | \$ 10,381              | 9,378             | 29,439          | 20,748          |

## 7. Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows:

|   | October 1, 2016 | December 31, 2015 |
|---|-----------------|-------------------|
| Outstanding checks in excess of cash        | \$ 12,101       | 14,023            |
| Accounts payable, trade                     | 767,248         | 696,974           |
| Accrued expenses                            | 398,759         | 293,867           |
| Product warranties                          | 37,506          | 35,516            |
| Accrued interest                            | 12,085          | 34,623            |
| Accrued compensation and benefits           | 207,370         | 181,022           |
| Total accounts payable and accrued expenses | \$ 1,435,069    | 1,256,025         |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the nine months ended October 1, 2016 are as follows:

|   | Foreign<br>currency<br>translation<br>adjustments | Pensions<br>(a) | Total      |
|---|---|-----------------|------------|
| Balance as of December 31, 2015   | \$ (788,652 )                                     | (4,916 )        | (793,568 ) |
| Current period other comprehensive income (loss) before reclassifications | 89,458  | (10 )           | 89,448     |
| Balance as of October 1, 2016   | \$ (699,194 )                                     | (4,926 )        | (704,120 ) |

(a) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost.

## 9. Stock-based compensation

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

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

The Company did not grant any options for the three and nine months ended October 1, 2016 and October 3, 2015. The Company recognized stock-based compensation costs related to stock options of \$7 (\$4 net of taxes) and \$18 (\$11 net of taxes) for the three months ended October 1, 2016 and October 3, 2015, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. The Company recognized stock-based compensation costs related to stock options of \$34 (\$21 net of taxes) and \$191 (\$120 net of taxes) for the nine months ended October 1, 2016 and October 3, 2015, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. Pre-tax unrecognized compensation expense for stock options granted to employees and outside directors, net of estimated forfeitures, was \$10 as of October 1, 2016, and will be recognized as expense over a weighted-average period of approximately 0.39 years.

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

The Company did not grant any RSUs for the three months ended October 1, 2016. The Company granted 182 RSUs at a weighted average grant-date fair value of \$184.88 for the nine months ended October 1, 2016. The Company granted 5 RSUs at a weighted average grant-date fair value of \$203.85 per unit for the three months ended October 3, 2015. The Company granted 248 RSUs at a weighted average grant-date fair value of \$185.66 for the nine months

ended October 3, 2015. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$5,288 (\$3,209 net of taxes) and \$8,084 (\$5,211 net of taxes) for the three months ended October 1, 2016 and October 3, 2015, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$28,807 (\$17,480 net of taxes) and \$24,297 (\$15,634 net of taxes) for the nine months ended October 1, 2016 and October 3, 2015, respectively, which has been allocated to cost of sales and selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSUs granted to employees, net of estimated forfeitures, was \$33,551 as of October 1, 2016, and will be recognized as expense over a weighted-average period of approximately 1.80 years.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 10. Other expense, net

Other expense, net is as follows:

|                                  | Three Months Ended |         | Nine Months Ended |         |
|----------------------------------|--------------------|---------|-------------------|---------|
|                                  | October 3, 2016    |         | October 3, 2015   |         |
| Foreign currency losses, net     | \$794              | 5,612   | 4,171             | 8,692   |
| Release of indemnification asset | 2,368              | —       | 2,368             | —       |
| All other, net                   | 677                | (1,363) | (5,078)           | (2,598) |
| Total other expense, net         | \$3,839            | 4,249   | 1,461             | 6,094   |

## 11. Earnings per share

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

|   | Three Months Ended |         | Nine Months Ended |         |
|---|--------------------|---------|-------------------|---------|
|   | October 1, 2016    |         | October 3, 2015   |         |
| Net earnings attributable to Mohawk Industries, Inc.  | \$269,878          | 214,905 | 696,614           | 423,743 |
| Accretion of redeemable noncontrolling interest   | (53)               | (31)    | (53)              | (191)   |
| Net earnings available to common stockholders   | \$269,825          | 214,874 | 696,561           | 423,552 |
| Weighted-average common shares outstanding—basic and diluted:   |                    |         |                   |         |
| Weighted-average common shares outstanding—basic  | 74,154             | 73,915  | 74,084            | 73,384  |
| Add weighted-average dilutive potential common shares—options to purchase common shares and RSUs, net | 459                | 523     | 467               | 523     |
| Weighted-average common shares outstanding—diluted  | 74,613             | 74,438  | 74,551            | 73,907  |
| Earnings per share attributable to Mohawk Industries, Inc.  |                    |         |                   |         |
| Basic   | \$3.64             | 2.91    | 9.40              | 5.77    |
| Diluted   | \$3.62             | 2.89    | 9.34              | 5.73    |

## 12. Segment reporting

The Company has three reporting segments: the Global Ceramic segment, the Flooring NA segment and the Flooring ROW segment. The Global Ceramic segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone and other products, which it distributes primarily in North America, Europe and Russia through its network of regional distribution centers and Company-operated service centers using company-operated trucks, common carriers or rail transportation. The segment's product lines are sold through Company-operated service



centers, independent distributors, home center retailers, tile and flooring retailers and contractors. The Flooring NA segment designs, manufactures, sources and markets its floor covering product lines, including carpets, rugs, carpet pad, hardwood, laminate and vinyl products, including LVT, which it distributes through its network of regional distribution centers and satellite warehouses using company-operated trucks, common carrier or rail transportation. The segment's product lines are sold through various selling channels, including independent floor covering retailers, home centers, mass merchandisers, department stores, shop at home, buying groups, commercial dealers and commercial end users. The Flooring ROW segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard, chipboards, other wood products, sheet vinyl and LVT,

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

which it distributes primarily in Europe and Russia through various selling channels, which include retailers, independent distributors and home centers.

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

Segment information is as follows:

|   | Three Months Ended |                      | Nine Months Ended  |                    |
|---|--------------------|----------------------|--------------------|--------------------|
|   | October 1,<br>2016 | October 3,<br>2015   | October 1,<br>2016 | October 3,<br>2015 |
| Net sales:                              |                    |                      |                    |                    |
| Global Ceramic segment                  | \$822,040          | 791,538              | 2,425,560          | 2,301,168          |
| Flooring NA segment                     | 1,008,553          | 955,099              | 2,895,610          | 2,722,347          |
| Flooring ROW segment                    | 463,546            | 404,026              | 1,455,351          | 1,050,390          |
| Intersegment sales                      | —                  | (7 )                 | —                  | (339 )             |
|   | \$2,294,139        | 2,150,656            | 6,776,521          | 6,073,566          |
| Operating income (loss):                |                    |                      |                    |                    |
| Global Ceramic segment                  | \$135,985          | 120,055              | 376,368            | 326,571            |
| Flooring NA segment                     | 170,507            | 125,910              | 364,804            | 145,861            |
| Flooring ROW segment                    | 81,757             | 55,471               | 262,356            | 153,164            |
| Corporate and intersegment eliminations | (9,942 )           | (12,702 )            | (28,857 )          | (37,272 )          |
|   | \$378,307          | 288,734              | 974,671            | 588,324            |
|   | October 1,<br>2016 | December 31,<br>2015 |                    |                    |
| Assets:                                 |                    |                      |                    |                    |
| Global Ceramic segment                  | \$4,118,510        | 3,846,133            |                    |                    |
| Flooring NA segment                     | 3,354,286          | 3,164,525            |                    |                    |
| Flooring ROW segment                    | 2,851,227          | 2,805,246            |                    |                    |
| Corporate and intersegment eliminations | 96,570             | 118,496              |                    |                    |
|   | \$10,420,593       | 9,934,400            |                    |                    |

### 13. Commitments and contingencies

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

#### Gadsden, Alabama Litigation

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama (the "Water Board") filed an individual complaint in the Circuit Court of Etowah County, Alabama against certain manufacturers, suppliers and users of chemicals containing perfluorinated compounds, including the Company. The Company has never manufactured such chemicals, but purchased them for use in the manufacture of its carpets prior to 2007. The Water Board is not alleging that levels of perfluorinated compounds in the Company's wastewater discharge exceeded legal

limits. Instead, the Water Board is seeking lost profits based on allegations that its customers decreased water purchases, reimbursement for the cost of a filter and punitive damages.

The Company intends to pursue all available defenses related to this matter. The Company does not believe that the ultimate outcome of this case will have a material adverse effect on its financial condition, but there can be no assurances at this stage that the outcome will not have a material adverse effect on the Company's results of operations, liquidity or cash flows in a

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

given period. Furthermore, the Company cannot predict whether any additional civil or regulatory actions against it may arise from the allegations in this matter.

Polyurethane Foam Litigation

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

In these actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, sought damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. Any damages actually awarded at trial were subject to being tripled under U.S. antitrust laws.

On March 23, 2015, the Company entered into an agreement to settle all claims brought by the class of direct purchasers, and the trial court entered an order granting approval of this settlement on November 19, 2015. On April 30, 2015, the Company entered into an agreement to settle all claims brought by the class of indirect purchasers, and the trial court entered an order granting approval of this settlement on January 27, 2016. Following approval by the trial court, certain individual members of the indirect purchaser class sought to overturn the approval through an appeal to the Sixth Circuit of Appeals. As of June 21, 2016, all of these appeals have been dismissed, provided that one request to reconsider remains pending. As of June 21, 2016, the Company has also entered into settlement agreements resolving all of the claims brought on behalf of all of the consolidated individual lawsuits. The Company denies all allegations of wrongdoing but settled the class actions and individual lawsuits to avoid the uncertainty, risk, expense and distraction of protracted litigation.

In December 2011, the Company was named as a defendant in a Canadian Class action, which alleged similar claims against the Company as raised in the U.S. actions. On June 12, 2015, the Company entered into an agreement to settle all claims brought by the class of Canadian plaintiffs. The Company denies all allegations of wrongdoing but settled to avoid the uncertainty, risk, expense and distraction of protracted litigation.

During the nine months ended October 3, 2015, the Company recorded a \$125,000 charge within selling, general and administrative expenses for the settlement and defense of the antitrust cases. All of the antitrust cases have now been finally settled and with the exception of the single issue pending on appeal in the indirect purchaser class case, all consolidated cases have been dismissed. The Company does not believe that the ultimate outcome of the one remaining issue in the indirect purchaser case will have a material adverse effect on its financial condition.

Belgian Tax Matter

In January 2012, the Company received a €23,789 assessment from the Belgian tax authority related to its year ended December 31, 2008, asserting that the Company had understated its Belgian taxable income for that year. The Company filed a formal protest in the first quarter of 2012 refuting the Belgian tax authority's position. The Belgian tax authority set aside the assessment in the third quarter of 2012 and refunded all related deposits, including interest

income of €1,583 earned on such deposits. However, on October 23, 2012, the Belgian tax authority notified the Company of its intent to increase the Company's taxable income for the year ended December 31, 2008 under a revised theory. On December 28, 2012, the Belgian tax authority issued assessments for the years ended December 31, 2005 and December 31, 2009, in the amounts of €46,135 and €35,567, respectively, including penalties, but excluding interest. The Company filed a formal protest during the first quarter of 2013 relating to the new assessments. In September 2013, the Belgian tax authority denied the Company's protests, and the Company has brought these two years before the Court of First Appeal in Bruges. In December 2013, the Belgian tax authority issued additional assessments related to the years ended December 31, 2006, 2007, and 2010, in the amounts of €38,817, €39,635, and €43,117, respectively, including penalties, but excluding interest. The Company filed formal protests during the first quarter of 2014, refuting the Belgian tax authority's position for each of the years assessed. In the quarter ended June 28, 2014, the Company received a formal assessment for the year ended December 31, 2008, totaling €30,131, against which the Company also submitted its formal protest. All 4 additional years were brought before the Court of First Appeal in November 2014. In January of 2015, the Company met with the Court of First Appeal in Bruges and agreed with the Belgian tax authorities to consolidate and argue the issues regarding the years 2005 and 2009, and apply the ruling to all of the open years (to the extent there are no additional facts/procedural

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

arguments in the other years).

On January 27, 2016, the Court of First Appeal in Bruges, Belgium ruled in favor of the Company with respect to the calendar years ending December 31, 2005 and December 31, 2009. On March 9, 2016, the Belgian tax authority lodged its Notification of Appeal with the Ghent Court of Appeal.

The Company disagrees with the views of the Belgian tax authority on this matter and will persist in its vigorous defense. Nevertheless, on May 24, 2016, the tax collector representing the Belgian tax authorities imposed a lien on the Company's properties in Wielsbeke (Ooigemstraat and Breestraat), Oostrozebeke (Ingelmunstersteenweg) and Desselgem (Waregemstraat) included in the Flooring ROW segment. The purpose of the lien is to provide security for payment should the Belgian tax authority prevail on its appeal. The lien does not interfere with the Company's operations at these properties.

Although there can be no assurances, the Company believes the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, liquidity or cash flows in a given quarter or year.

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

#### 14. Debt

##### Senior Credit Facility and Term Loan

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

On March 26, 2015, the Company amended and restated the 2013 Senior Credit Facility increasing its size from \$1,000,000 to \$1,800,000 and extending the maturity from September 25, 2018 to March 26, 2020 (as amended and restated, the "2015 Senior Credit Facility"). The 2015 Senior Credit Facility eliminates certain provisions in the 2013 Senior Credit Facility, including those that: (a) accelerated the maturity date to 90 days prior to the maturity of senior notes due in January 2016 if certain specified liquidity levels were not met; and (b) required that certain subsidiaries guarantee the Company's obligations if the Company's credit ratings fell below investment grade. The 2015 Senior Credit Facility also modified certain negative covenants to provide the Company with additional flexibility, including flexibility to make acquisitions and incur additional indebtedness. On March 1, 2016, the Company amended the 2015 Senior Credit Facility to, among other things, carve out from the general limitation on subsidiary indebtedness the issuance of Euro-denominated commercial paper notes by subsidiaries and to extend the maturity date from March 26, 2020 to March 26, 2021 with respect to all but \$120,000 of the total amount committed under the 2015 Senior Credit Facility. On October 17, 2016, the Company extended the maturity date for the remaining \$120,000 commitment to March 26, 2021.

At the Company's election, revolving loans under the 2015 Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1, 2, 3 or 6 month periods, as selected by the Company, plus an applicable margin ranging between 1.00% and 1.75% (1.125% as of October 1, 2016), or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, or a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75% (0.125% as of October 1, 2016). The Company also pays a commitment fee to the lenders under the 2015 Senior Credit Facility on the average amount by which the aggregate commitments of the lenders' exceed utilization of the 2015 Senior Credit Facility ranging from 0.10% to 0.225% per annum (0.125% as of October 1, 2016). The applicable margins and the commitment fee are determined based on whichever of the Company's Consolidated Net Leverage Ratio or its senior unsecured debt rating (or if not available, corporate family rating) results in the lower applicable margins and commitment fee (with applicable margins and the commitment fee increasing as that ratio increases or those ratings decline, as applicable).

The obligations of the Company and its subsidiaries in respect of the 2015 Senior Credit Facility are unsecured.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The 2015 Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, subsidiary indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, future negative pledges, and changes in the nature of the Company's business. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter. The limitations contain customary exceptions or, in certain cases, do not apply as long as the Company is in compliance with the financial ratio requirements and is not otherwise in default.

The 2015 Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

Also on March 1, 2016, the Company entered into a three-year, senior, unsecured delayed-draw term loan facility (the "Term Loan Facility") by and among the Company, Wells Fargo Bank, National Association, as administrative agent, and each of the lenders party thereto. Subject to customary conditions precedent, the Company could borrow up to \$200,000 under the Term Loan Facility in no more than two borrowings between March 1, 2016 and September 1, 2016. The Company did not borrow under the Term Loan Facility, and it has since expired on its stated expiration date.

The Company paid financing costs of \$532 in connection with the amendment and extension of its 2015 Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$8,785 related to the Company's 2013 Senior Credit Facility, are being amortized over the term of the 2015 Senior Credit Facility. The Company also paid financing costs of \$553 in connection with its Term Loan Facility.

As of October 1, 2016, amounts utilized under the 2015 Senior Credit Facility included \$55,999 of borrowings and \$941 of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$990,390 under the Company's U.S. and European commercial paper programs as of October 1, 2016 reduce the availability of the 2015 Senior Credit Facility. Including commercial paper borrowings, the Company has utilized \$1,047,330 under the 2015 Senior Credit Facility resulting in a total of \$752,670 available.

#### Commercial Paper

On February 28, 2014, the Company established a U.S. commercial paper program for the issuance of unsecured commercial paper in the United States capital markets. The U.S. commercial paper notes will have maturities ranging from one day to 397 days and will not be subject to voluntary prepayment by the Company or redemption prior to maturity. The U.S. commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. As of October 1, 2016, there was \$294,650 outstanding under the U.S. commercial paper program.

On July 31, 2015, the Company established a European commercial paper program for the issuance of unsecured commercial paper in the Eurozone capital markets. The European commercial paper notes will have maturities ranging from one day to 183 days and will not be subject to voluntary prepayment by the Company or redemption prior to maturity. The European commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. To the extent that the Company issues European commercial paper notes through a subsidiary, the notes will be fully and unconditionally guaranteed by the Company. As of October 1, 2016, the euro equivalent of \$695,740 was outstanding under the European commercial paper program.



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

The proceeds from the sale of commercial paper notes will be available for general corporate purposes. The Company used the initial proceeds from the sale of U.S. commercial paper notes to repay borrowings under its 2013 Senior Credit Facility and certain of its industrial revenue bonds. The Company used the initial proceeds from the sale of European commercial paper notes to repay euro-denominated borrowings under its 2015 Senior Credit Facility. As of October 1, 2016, the amount utilized under the commercial paper programs was \$990,390 with a weighted-average interest rate and maturity period of 0.74% and 23.82 days respectively for the U.S. commercial paper program, and (0.03)% and 31.66 days respectively for the European commercial paper program.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Senior Notes

On June 9, 2015, the Company issued €500,000 aggregate principal amount of 2.00% Senior Notes due January 14, 2022. The 2.00% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the 2.00% Senior Notes is payable annually in cash on January 14 of each year. The Company paid financing costs of \$4,218 in connection with the 2.00% Senior Notes. These costs were deferred and are being amortized over the term of the 2.00% Senior Notes.

On January 31, 2013, the Company issued \$600,000 aggregate principal amount of 3.85% Senior Notes due February 1, 2023. The 3.85% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all the Company's existing and future unsecured indebtedness. Interest on the 3.85% Senior Notes is payable semi-annually in cash on February 1 and August 1 of each year. The Company paid financing costs of \$6,000 in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

On January 17, 2006, the Company issued \$900,000 aggregate principal amount of 6.125% Senior Notes due January 15, 2016. During 2014, the Company purchased for cash \$254,445 aggregate principal amount of its outstanding 6.125% Senior Notes due January 15, 2016. On January 15, 2016, the Company paid the remaining \$645,555 outstanding principal of its 6.125% Senior Notes (plus accrued but unpaid interest) utilizing cash on hand and borrowings under its U.S. commercial paper program.

Accounts Receivable Securitization

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). On September 11, 2014, the Company made certain modifications to its Securitization Facility, which modifications, among other things, increased the aggregate borrowings available under the facility from \$300,000 to \$500,000 and decreased the interest margins on certain borrowings. On December 10, 2015, the Company amended the terms of the Securitization Facility, reducing the applicable margin and extending the termination date from December 19, 2015 to December 19, 2016. The Company paid financing costs of \$250 in connection with this extension. These costs were deferred and are being amortized over the remaining term of the Securitization Facility.

Under the terms of the Securitization Facility, certain subsidiaries of the Company sell at a discount certain of their trade accounts receivable (the "Receivables") to Mohawk Factoring, LLC ("Factoring") on a revolving basis. Factoring is a wholly owned, bankruptcy remote subsidiary of the Company, meaning that Factoring is a separate legal entity whose assets are available to satisfy the claims of the creditors of Factoring only, not the creditors of the Company or the Company's other subsidiaries. To fund such purchases, Factoring may borrow up to \$500,000 based on the amount of eligible Receivables owned by Factoring, and Factoring has granted a security interest in all of such Receivables to the third-party lending group as collateral for such borrowings. Amounts loaned to Factoring under the Securitization Facility bear interest at commercial paper interest rates, in the case of lenders that are commercial paper conduits, or LIBOR, in the case of lenders that are not commercial paper conduits, in each case, plus an applicable margin of 0.65% per annum. Factoring also pays a commitment fee at a per annum rate of 0.35% on the unused amount of each lender's commitment. At October 1, 2016, the amount utilized under the Securitization Facility was \$500,000.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

|  | October 1, 2016 |                | December 31, 2015 |                |
|--|-----------------|----------------|-------------------|----------------|
|  | Fair Value      | Carrying Value | Fair Value        | Carrying Value |
| 3.85% Senior Notes, payable February 1, 2023; interest payable semiannually  | \$634,056       | 600,000        | 584,730           | 600,000        |
| 6.125% Senior Notes, payable January 15, 2016; interest payable semiannually | —               | —              | 646,130           | 645,555        |
| 2.00% Senior Notes, payable January 14, 2022; interest payable annually      | 597,550         | 561,987        | 554,209           | 546,627        |
| U.S. commercial paper  | 294,650         | 294,650        | 284,800           | 284,800        |
| European commercial paper  | 695,740         | 695,740        | 472,067           | 472,067        |
| Five-year senior secured credit facility, due March 26, 2021                 | 55,999          | 55,999         | 134,075           | 134,075        |
| Securitization facility  | 500,000         | 500,000        | 500,000           | 500,000        |
| Capital leases and other   | 12,922          | 12,922         | 16,805            | 16,807         |
| Unamortized debt issuance costs  | (7,470 )        | (7,470 )       | (7,964 )          | (7,964 )       |
| Total debt   | 2,783,447       | 2,713,828      | 3,184,852         | 3,191,967      |
| Less current portion of long term debt and commercial paper                  | 1,548,251       | 1,548,251      | 2,003,578         | 2,003,003      |
| Long-term debt, less current portion   | \$1,235,196     | 1,165,577      | 1,181,274         | 1,188,964      |

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

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

Overview

Mohawk Industries, Inc. ("Mohawk" or the "Company") is a leading global flooring manufacturer that creates products to enhance residential and commercial spaces around the world. The Company's vertically integrated manufacturing and distribution processes provide competitive advantages in carpet, rugs, ceramic tile, laminate, wood, stone, luxury vinyl tile ("LVT") and vinyl flooring. The Company's industry-leading innovation develops products and technologies that differentiate its brands in the marketplace and satisfy all flooring related remodeling and new construction requirements. The Company's brands are among the most recognized in the industry and include American Olean®, Bigelow®, Daltile®, Durkan®, IVC™, Karastan®, Lees®, Marazzi®, Mohawk®, Pergo®, Quick-Step® and Unilin®. The Company has transformed its business from an American carpet manufacturer into the world's largest flooring company with operations in Australia, Brazil, Canada, Europe, India, Malaysia, Mexico, New Zealand, Russia and the United States. The Company had annual net sales in 2015 of \$8.1 billion.

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

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

The Global Ceramic segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone and other products, which it distributes primarily in North America, Europe and Russia through its network of regional distribution centers and Company-operated service centers using Company-operated trucks, common carriers or rail transportation. The segment's product lines are sold through Company-operated service centers, independent distributors, home center retailers, tile and flooring retailers and contractors. The Flooring NA segment designs, manufactures, sources and markets its floor covering product lines, including carpets, rugs, carpet pad, hardwood, laminate and vinyl products, including LVT, which it distributes through its network of regional distribution centers and satellite warehouses using Company-operated trucks, common carrier or rail transportation. The segment's product lines are sold through various selling channels, including independent floor covering retailers, distributors, home centers, mass merchandisers, department stores, shop at home, buying groups, commercial contractors and commercial end users. The Flooring ROW segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard, chipboards, other wood products and vinyl products, including LVT, which it distributes primarily in Europe and Russia through various selling channels, which include retailers, independent distributors and home centers.

The Company is a significant participant in every major product category across the global flooring industry. In the industry, sales of hard surface products - tile, LVT, vinyl, laminate and wood - are growing faster than sales of carpet and other soft surface products. Inside the soft surface category, sales of polyester carpets are increasing, which decreases the average selling price in the soft surface category. The Company believes that it is well positioned in all product types to satisfy these changes in customer trends.

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

For the three months ended October 1, 2016, net earnings attributable to the Company were \$269.9 million, or diluted earnings per share ("EPS") of \$3.62, compared to the net earnings attributable to the Company of \$214.9 million, or diluted EPS

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of \$2.89, for the three months ended October 3, 2015. The increase in diluted EPS for the three months ended October 1, 2016 was primarily attributable to the recent events discussed below, increased sales volumes, and savings from capital investments and cost reduction initiatives, partially offset by costs associated with investments in new product development, sales personnel, and marketing and the net impact of unfavorable foreign exchange rates.

For the nine months ended October 1, 2016, net earnings attributable to the Company were \$696.6 million, or diluted EPS of \$9.34, compared to the net earnings attributable to the Company of \$423.7 million, or diluted EPS of \$5.73 for the nine months ended October 3, 2015. The increase in diluted EPS for the nine months ended October 1, 2016 was primarily attributable to a non-recurring first quarter 2015 charge of \$125 million related to the settlement and defense of the polyurethane foam litigation, the recent events discussed below, increased sales volumes, savings from capital investments and cost reduction initiatives and lower material costs, partially offset by costs associated with investments in new product development, sales personnel, and marketing.

### Recent Events

On August 30, 2016, the Company received \$90.0 million related to the settlement of a contract dispute with a third party that began over fifteen years ago. In connection with the payment the parties have dismissed all pending litigation and appeals with prejudice and released each other from all related claims.

During the third quarter of 2016, the Company determined that it needed to simplify the branding strategy in the Flooring NA segment and took a non-cash write-off for the Lees commercial brand of \$47.9 million.

### Results of Operations

Quarter Ended October 1, 2016, as compared with Quarter Ended October 3, 2015

#### Net sales

Net sales for the three months ended October 1, 2016 were \$2,294.1 million, reflecting an increase of \$143.5 million, or 6.7%, from the \$2,150.7 million reported for the three months ended October 3, 2015. The increase was primarily attributable to higher sales volume of approximately \$152 million, or 7%, which includes sales volume attributable to acquisitions of approximately \$41 million and legacy sales volume of approximately \$147 million, partially offset by the unfavorable impact of fewer shipping days in the third quarter of 2016 of approximately \$36 million. The increase in sales volume was partially offset by the net impact of unfavorable foreign exchange rates of approximately \$10 million.

Global Ceramic segment—Net sales increased \$30.5 million, or 3.9%, to \$822.0 million for the three months ended October 1, 2016, compared to \$791.5 million for the three months ended October 3, 2015. The increase was primarily attributable to the increased sales volume of approximately \$23 million, or 3%, which includes the unfavorable impact of fewer shipping days in the third quarter of 2016 of approximately \$13 million. Also contributing to the increase in sales was the favorable net impact of price and product mix of approximately \$12 million, or 2%, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$5 million.

Flooring NA segment—Net sales increased \$53.5 million, or 5.6%, to \$1,008.6 million for the three months ended October 1, 2016, compared to \$955.1 million for the three months ended October 3, 2015. The increase was primarily attributable to higher sales volume of approximately \$71 million, or 7%, which includes the unfavorable impact of fewer shipping days in the third quarter of 2016 of approximately \$16 million. The increase in sales volume was partially offset by the unfavorable net impact of price and product mix of approximately \$18 million, or 2%.

Flooring ROW segment—Net sales increased \$59.5 million, or 14.7%, to \$463.5 million for the three months ended October 1, 2016, compared to \$404.0 million for the three months ended October 3, 2015. The increase was primarily attributable to higher sales volume of approximately \$57 million, or 14%, which includes sales volume attributable to acquisitions of approximately \$41 million and legacy sales volume of approximately \$23 million, partially offset by the unfavorable impact of fewer shipping days in the third quarter of 2016 of approximately \$7 million. Also contributing to the increase in sales was the favorable net impact of price and product mix of approximately \$7 million, or 2%, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$5 million, or 1%.

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## Gross profit

Gross profit for the three months ended October 1, 2016 was \$726.6 million (31.7% of net sales), an increase of \$65.2 million or 9.9%, compared to gross profit of \$661.4 million (30.8% of net sales) for the three months ended October 3, 2015. As a percentage of net sales, gross profit increased 90 basis points. The increase in gross profit dollars was primarily attributable to higher sales volume of approximately \$39 million, savings from capital investments and cost reduction initiatives of approximately \$27 million, and lower input costs of approximately \$12 million, including lower material costs of approximately \$14 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately 8 million, costs associated with investments in expansion of production capacity of approximately \$3 million, and the unfavorable impact of higher restructuring, acquisition and integration-related, and other costs of approximately \$3 million.

## Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended October 1, 2016 were \$348.3 million (15.2% of net sales), a decrease of \$24.4 million compared to \$372.7 million (17.3% of net sales) for the three months ended October 3, 2015. As a percentage of net sales, selling, general and administrative expenses decreased 210 basis points. The decrease in selling, general and administrative expenses in dollars was primarily attributable to savings from capital investments and cost reduction initiatives of \$13 million and the favorable impact of lower restructuring, acquisition and integration-related, and other costs of approximately \$34 million, partially offset by approximately \$9 million of costs due to higher sales volume, approximately \$8 million of costs associated with investments in new product development, sales personnel, and marketing, and increased employee costs of approximately \$4 million. Restructuring, acquisition and integration-related, and other costs were lower primarily due to the \$90 million received in the third quarter of 2016 related to a contract dispute, partially offset by the charge for approximately \$48 million related to the write-off of the Lees tradename.

## Operating income

Operating income for the three months ended October 1, 2016 was \$378.3 million (16.5% of net sales) reflecting an increase of \$89.6 million, or 31.0%, compared to operating income of \$288.7 million (13.4% of net sales) for the three months ended October 3, 2015. The increase in operating income was primarily attributable to savings from capital investments and cost reduction initiatives of approximately \$40 million, increased sales volumes of approximately \$29 million, lower input costs of approximately \$12 million, including lower material costs of approximately \$14 million and the favorable impact of lower restructuring, acquisition and integration-related, and other costs of approximately \$31 million, partially offset by approximately \$8 million of costs associated with investments in new product development, sales personnel, and marketing, the net impact of unfavorable foreign exchange rates of approximately \$7 million, increased employee costs of approximately \$4 million, and costs associated with investments in expansion of production capacity of approximately \$3 million. Restructuring, acquisition and integration-related, and other costs were lower primarily due to the \$90 million received in the third quarter of 2016 related to a contract dispute, partially offset by the charge for approximately \$48 million related to the write-off of the Lees tradename.

Global Ceramic segment—Operating income was \$136.0 million (16.5% of segment net sales) for the three months ended October 1, 2016 reflecting an increase of \$15.9 million compared to operating income of \$120.1 million (15.2% of segment net sales) for the three months ended October 3, 2015. The increase in operating income was primarily attributable to savings from capital investments and cost reduction initiatives of approximately \$14 million, the favorable impact of price and product mix of approximately \$7 million, and increased sales volumes of approximately \$6 million, partially offset by costs associated with investments in new product development, sales personnel, and marketing of approximately \$4 million, increased employee costs of approximately \$2 million and the net impact of unfavorable foreign exchange rates of approximately \$2 million.



Flooring NA segment—Operating income was \$170.5 million (16.9% of segment net sales) for the three months ended October 1, 2016 reflecting an increase of \$44.6 million compared to operating income of \$125.9 million (13.2% of segment net sales) for the three months ended October 3, 2015. The increase in operating income was primarily attributable savings from capital investments and cost reduction initiatives of approximately \$16 million, increased sales volumes of approximately \$12 million, lower input costs of approximately \$5 million, including lower material costs of approximately \$8 million and the favorable impact of lower restructuring, acquisition and integration-related, and other costs of approximately \$22 million, partially offset by the unfavorable impact of price and product mix of approximately \$4 million, approximately \$3 million of costs associated with investments in new product development, sales personnel, and marketing, and costs associated with investments in expansion of production capacity of approximately \$2 million. Restructuring, acquisition and integration-related, and other costs were lower primarily due to the \$90 million received in the third quarter of 2016 related to a contract dispute, partially offset by the charge for approximately \$48 million related to the write-off of the Lees tradename.

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Flooring ROW segment—Operating income was \$81.8 million (17.6% of segment net sales) for the three months ended October 1, 2016 reflecting an increase of \$26.3 million compared to operating income of \$55.5 million (13.7% of segment net sales) for the three months ended October 3, 2015. The increase in operating income was primarily attributable to higher sales volumes of approximately \$11 million, savings from capital investments and cost reduction initiatives of approximately \$9 million, lower material costs of approximately \$7 million, and lower restructuring, acquisition and integration-related, and other costs of approximately \$5 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$5 million.

Interest expense

Interest expense was \$9.4 million for the three months ended October 1, 2016, reflecting a decrease of \$9.9 million compared to interest expense of \$19.3 million for the three months ended October 3, 2015. The decrease was primarily attributable to the Company paying the remaining balance of its 6.125% senior notes in January 2016 utilizing cash on hand and lower interest rate commercial paper borrowings.

Other expense, net

Other expense was \$3.8 million for the three months ended October 1, 2016, reflecting a slightly favorable change of \$0.4 million compared to other expense of \$4.2 million for the three months ended October 3, 2015. Included in the current year balance is a charge for the release of an indemnification receivable.

Income tax expense

For the three months ended October 1, 2016, the Company recorded income tax expense of \$94.2 million on earnings from continuing operations before income taxes of \$365.1 million for an effective tax rate of 25.8%, as compared to an income tax expense of \$49.5 million on earnings from continuing operations before income taxes of \$265.2 million, for an effective tax rate of 18.7% for the three months ended October 3, 2015. The difference in the effective tax rate for the comparative period is due to the geographic dispersion of earnings and losses for the periods.

Nine Months Ended October 1, 2016, as compared with Nine Months Ended October 3, 2015

Net sales

Net sales for the nine months ended October 1, 2016 were \$6,776.5 million, reflecting an increase of \$703.0 million, or 11.6%, from the \$6,073.6 million reported for the nine months ended October 3, 2015. The increase was primarily attributable to higher sales volume of approximately \$728 million, or 12%, which includes sales volume attributable to acquisitions of approximately \$471 million and legacy sales volume of approximately \$257 million, and the favorable net impact of price and product mix of approximately \$26 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$52 million, or 1%.

Global Ceramic segment—Net sales increased \$124.4 million, or 5.4%, to 2,425.6 million for the nine months ended October 1, 2016, compared to \$2,301.2 million for the nine months ended October 3, 2015. The increase was primarily attributable to higher sales volume of approximately \$124 million, or 5%, which includes sales volume attributable to acquisitions of approximately \$29 million and legacy sales volume of approximately \$95 million, and the favorable net impact of price and product mix of approximately \$37 million, or 2%, offset by the net impact of unfavorable foreign exchange rates of approximately \$37 million, or 2%.

Flooring NA segment—Net sales increased \$173.3 million, or 6.4%, to \$2,895.6 million for the nine months ended October 1, 2016, compared to \$2,722.3 million for the nine months ended October 3, 2015. The increase was

primarily attributable to higher sales volumes of approximately \$189 million, or 7% which includes sales volume attributable to acquisitions of approximately \$76 million and legacy sales volume of approximately \$113 million, partially offset by the unfavorable net impact of price and product mix of \$16 million, or 1%.

Flooring ROW segment—Net sales increased \$405.0 million, or 38.6%, to \$1,455.4 million for the nine months ended October 1, 2016, compared to \$1,050.4 million for the nine months ended October 3, 2015. The increase was primarily attributable to higher sales volume of approximately \$415 million, or 40%, which includes sales volume attributable to acquisitions of approximately \$366 million and legacy sales volume of approximately \$49 million and the favorable net impact of price and product mix of approximately \$5 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$15 million, or 1%.

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## Gross profit

Gross profit for the nine months ended October 1, 2016 was \$2,121.8 million (31.3% of net sales), an increase of \$333.4 million or 18.6%, compared to gross profit of \$1,788.5 million (29.4% of net sales) for the nine months ended October 3, 2015. As a percentage of net sales, gross profit increased 190 basis points. The increase in gross profit dollars was primarily attributable to higher sales volume of approximately \$204 million, savings from capital investments and cost reduction initiatives of approximately \$89 million, lower input costs of approximately \$65 million, including lower material costs of approximately \$62 million and the favorable impact of lower restructuring, acquisition and integration-related, and other costs of approximately \$17 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$21 million, the unfavorable net impact of price and product mix of approximately \$10 million and costs associated with investments in expansion of production capacity of approximately \$6 million.

## Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended October 1, 2016 were \$1,147.2 million (16.9% of net sales), a decrease of \$53.0 million compared to \$1,200.2 million (19.8% of net sales) for the nine months ended October 3, 2015. As a percentage of net sales, selling, general and administrative expenses decreased 290 basis points. The decrease in selling, general and administrative expenses in dollars was primarily attributable savings from capital investments and cost reduction initiatives of \$21 million, the net impact of favorable foreign exchange rates of approximately \$7 million, and the favorable impact of lower restructuring, acquisition and integration-related, and other costs of approximately \$165 million, partially offset by approximately \$80 million of costs due to higher sales volume, approximately \$42 million of costs associated with investments in new product development, sales personnel, and marketing, and increased employee costs of approximately \$14 million. Restructuring, acquisition and integration-related, and other costs were lower primarily due to the non-recurring first quarter 2015 charge of approximately \$125 million related to the settlement and defense of the polyurethane foam litigation and the \$90 million received in the third quarter of 2016 related to a contract dispute, partially offset by a charge for approximately \$48 million related to the write-off of the Lees tradename.

## Operating income

Operating income for the nine months ended October 1, 2016 was \$974.7 million (14.4% of net sales) reflecting an increase of \$386.3 million, or 65.7%, compared to operating income of \$588.3 million (9.7% of net sales) for the nine months ended October 3, 2015. The increase in operating income was primarily attributable to increased sales volumes of approximately \$125 million, savings from capital investments and cost reduction initiatives of approximately \$110 million, lower input costs of approximately \$64 million, including lower material costs of approximately \$62 million and the favorable impact of lower restructuring, acquisition and integration-related, and other costs of approximately \$182 million, partially offset by approximately \$42 million of costs associated with investments in new product development, sales personnel, and marketing, the net impact of unfavorable foreign exchange rates of approximately \$14 million, increased employee costs of approximately \$14 million, the unfavorable net impact of price and product mix of approximately \$11 million and costs associated with investments in expansion of production capacity of approximately \$6 million. Restructuring, acquisition and integration-related, and other costs were lower primarily due to the non-recurring first quarter 2015 charge of approximately \$125 million related to the settlement and defense of the polyurethane foam litigation and the \$90 million received in the third quarter of 2016 related to a contract dispute, partially offset by a charge for approximately \$48 million related to the write-off of the Lees tradename.

Global Ceramic segment—Operating income was \$376.4 million (15.5% of segment net sales) for the nine months ended October 1, 2016 reflecting an increase of \$49.8 million compared to operating income of \$326.6 million (14.2%

of segment net sales) for the nine months ended October 3, 2015. The increase in operating income was primarily attributable to savings from capital investments and cost reduction initiatives of approximately \$40 million, increased sales volumes of approximately \$28 million, and the favorable impact of price and product mix of approximately \$14 million, partially offset by costs associated with investments in new product development, sales personnel, and marketing of approximately \$15 million, increased employee costs of approximately \$7 million and the net impact of unfavorable foreign exchange rates of approximately \$5 million.

Flooring NA segment—Operating income was \$364.8 million (12.6% of segment net sales) for the nine months ended October 1, 2016 reflecting an increase of \$218.9 million compared to operating income of \$145.9 million (5.4% of segment net sales) for the nine months ended October 3, 2015. The increase in operating income was primarily attributable to savings from capital investments and cost reduction initiatives of approximately \$53 million, lower input costs of approximately \$40 million, including lower material costs of approximately \$46 million, increased sales volumes of approximately \$29 million, and the favorable impact of lower restructuring, acquisition and integration-related, and other costs of approximately \$156 million, partially offset by approximately \$24 million of costs associated with investments in new product development, sales personnel, and marketing, the unfavorable impact of price and product mix of approximately \$20 million, costs associated with investments in

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expansion of production capacity of approximately \$10 million and increased employee costs of \$4 million. Restructuring, acquisition and integration-related, and other costs were lower primarily due to the non-recurring first quarter 2015 charge of approximately \$125 million related to the settlement and defense of the polyurethane foam litigation and the \$90 million received in the third quarter of 2016 related to a contract dispute, partially offset by a charge for approximately \$48 million related to the write-off of the Lees tradename.

Flooring ROW segment—Operating income was \$262.4 million (18.0% of segment net sales) for the nine months ended October 1, 2016 reflecting an increase of \$109.2 million compared to operating income of \$153.2 million (14.6% of segment net sales) for the nine months ended October 3, 2015. The increase in operating income was primarily attributable to higher sales volumes of approximately \$68 million, lower material costs of approximately \$20 million, savings from capital investments and cost reduction initiatives of approximately \$18 million, lower restructuring, acquisition and integration-related, and other costs of approximately \$16 million, and the favorable impact of reduced costs from investments in expansion of production capacity of approximately \$6 million, partially offset by the net impact of unfavorable foreign exchange rates of approximately \$10 million, the unfavorable net impact of price and product mix of approximately \$6 million and approximately \$4 million of costs associated with investments in new product development, sales personnel, and marketing.

### Interest expense

Interest expense was \$32.1 million for the nine months ended October 1, 2016, reflecting a decrease of \$20.5 million compared to interest expense of \$52.6 million for the nine months ended October 3, 2015. The decrease was primarily attributable to the Company paying the remaining balance of its 6.125% senior notes in January 2016 utilizing cash on hand and lower interest rate commercial paper borrowings.

### Other expense, net

Other expense was \$1.5 million for the nine months ended October 1, 2016, reflecting an favorable change of \$4.6 million compared to other expense of \$6.1 million for the nine months ended October 3, 2015. The change was, in part, due to the favorable impact of foreign exchange rates on transactions.

### Income tax expense

For the nine months ended October 1, 2016, the Company recorded income tax expense of \$242.1 million on earnings from continuing operations before income taxes of \$941.1 million for an effective tax rate of 25.7%, as compared to an income tax expense of \$104.6 million on earnings from continuing operations before income taxes of \$529.6 million, for an effective tax rate of 19.8% for the nine months ended October 3, 2015. The difference in the effective tax rate for the comparative period is due to the geographic dispersion of earnings and losses for the periods and a non-recurring positive ruling from the Italian tax authorities that lowered the Company's tax expense in 2015.

### Liquidity and Capital Resources

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

Net cash provided by operating activities in the first nine months of 2016 was \$984.7 million, compared to net cash provided by operating activities of \$657.0 million in the first nine months of 2015. The increase of \$327.7 million in 2016 was primarily attributable to higher earnings driven by the absence of the non-recurring first quarter 2015 charge related to the settlement and defense of the polyurethane foam litigation (approximately \$8 million of the original

\$125 million charge remained accrued at October 3, 2015), the \$90 million related to the settlement of a contract dispute with a third party and increased sales volumes during the first nine months of 2016 when compared to the prior year. The increase in earnings was partially offset by changes in working capital. These changes in working capital reflect normal fluctuations relative to the timing and nature of these transactions.

Net cash used in investing activities in the first nine months of 2016 was \$460.8 million compared to net cash used in investing activities of \$1,563.8 million in the first nine months of 2015. The Company has not made any acquisitions thus far in 2016, while in 2015 the Company spent \$1,211.7 million on the IVC Group, the KAI Group and other acquisitions. Capital expenditures increased by \$108.7 million to \$460.8 million in the current year. The Company continues to invest to optimize sales and profit growth this year and beyond with product expansion and cost reduction projects in the business. Capital spending during the fourth quarter of 2016 is expected to range from \$140 million to \$190 million, resulting in the full year spending being between \$600 million and \$650 million.

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Net cash used in financing activities in the first nine months of 2016 was \$501.2 million compared to net cash provided by financing activities of \$930.5 million in the nine months of 2015. The change in cash used in financing is primarily attributable decreased borrowings in the current year.

Senior Credit Facility and Term Loan

On September 25, 2013, the Company entered into a \$1,000.0 million, 5-year, senior revolving credit facility (the "2013 Senior Credit Facility"). The 2013 Senior Credit Facility provided for a maximum of \$1,000.0 million of revolving credit, including limited amounts of credit in the form of letters of credit and swingline loans. The Company paid financing costs of \$1.8 million in connection with its 2013 Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$11.4 million related to the Company's previous credit facility, were amortized over the term of the 2013 Senior Credit Facility.

On March 26, 2015, the Company amended and restated the 2013 Senior Credit Facility increasing its size from \$1,000.0 million to \$1,800.0 million and extending the maturity from September 25, 2018 to March 26, 2020 (as amended and restated, the "2015 Senior Credit Facility"). The 2015 Senior Credit Facility eliminates certain provisions in the 2013 Senior Credit Facility, including those that: (a) accelerated the maturity date to 90 days prior to the maturity of senior notes due in January 2016 if certain specified liquidity levels were not met; and (b) required that certain subsidiaries guarantee the Company's obligations if the Company's credit ratings fell below investment grade. The 2015 Senior Credit Facility also modified certain negative covenants to provide the Company with additional flexibility, including flexibility to make acquisitions and incur additional indebtedness. On March 1, 2016, the Company amended the 2015 Senior Credit Facility to, among other things, carve out from the general limitation on subsidiary indebtedness the issuance of Euro-denominated commercial paper notes by subsidiaries and to extend the maturity date from March 26, 2020 to March 26, 2021 with respect to all but \$120.0 million of the total amount committed under the 2015 Senior Credit Facility. On October 17, 2016, the Company extended the maturity date for the remaining \$120.0 million commitment to March 26, 2021.

At the Company's election, revolving loans under the 2015 Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1, 2, 3 or 6 month periods, as selected by the Company, plus an applicable margin ranging between 1.00% and 1.75% (1.125% as of October 1, 2016), or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, or a monthly LIBOR rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75% (0.125% as of October 1, 2016). The Company also pays a commitment fee to the lenders under the 2015 Senior Credit Facility on the average amount by which the aggregate commitments of the lenders' exceed utilization of the 2015 Senior Credit Facility ranging from 0.10% to 0.225% per annum (0.125% as of October 1, 2016). The applicable margins and the commitment fee are determined based on whichever of the Company's Consolidated Net Leverage Ratio or its senior unsecured debt rating (or if not available, corporate family rating) results in the lower applicable margins and commitment fee (with applicable margins and the commitment fee increasing as that ratio increases or those ratings decline, as applicable).

The obligations of the Company and its subsidiaries in respect of the 2015 Senior Credit Facility are unsecured.

The 2015 Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, subsidiary indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, future negative pledges, and changes in the nature of the Company's business. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter. The limitations contain customary exceptions or, in certain cases, do not apply as long as the Company is in compliance with the financial ratio requirements and is not otherwise



in default.

The 2015 Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

Also on March 1, 2016, the Company entered into a three-year, senior, unsecured delayed-draw term loan facility (the "Term Loan Facility") by and among the Company, Wells Fargo Bank, National Association, as administrative agent, and each of the lenders party thereto. Subject to customary conditions precedent, the Company could borrow up to \$200.0 million under the Term Loan Facility in no more than two borrowings between March 1, 2016 and September 1, 2016. The Company did not borrow under the Term Loan Facility, and it has since expired on its stated expiration date.

The Company paid financing costs of \$0.5 million in connection with the amendment and extension of its 2015 Senior Credit Facility. These costs were deferred and, along with unamortized costs of \$8.8 million related to the Company's 2013 Senior

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Credit Facility, are being amortized over the term of the 2015 Senior Credit Facility. The Company also paid financing costs of \$0.6 million in connection with its Term Loan Facility.

As of October 1, 2016, amounts utilized under the 2015 Senior Credit Facility included \$56.0 million of borrowings and \$0.9 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$990.4 million under the Company's U.S. and European commercial paper programs as of October 1, 2016 reduce the availability of the 2015 Senior Credit Facility. Including commercial paper borrowings, the Company has utilized \$1,047.3 million under the 2015 Senior Credit Facility resulting in a total of \$752.7 million available.

### Commercial Paper

On February 28, 2014, the Company established a U.S. commercial paper program for the issuance of unsecured commercial paper in the United States capital markets. The U.S. commercial paper notes will have maturities ranging from one day to 397 days and will not be subject to voluntary prepayment by the Company or redemption prior to maturity. The U.S. commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. As of October 1, 2016, there was \$294.7 million outstanding under the U.S. commercial paper program.

On July 31, 2015, the Company established a European commercial paper program for the issuance of unsecured commercial paper in the Eurozone capital markets. The European commercial paper notes will have maturities ranging from one day to 183 days and will not be subject to voluntary prepayment by the Company or redemption prior to maturity. The European commercial paper notes will rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. To the extent that the Company issues European commercial paper notes through a subsidiary, the notes will be fully and unconditionally guaranteed by the Company. As of October 1, 2016, the euro equivalent of \$695.7 million was outstanding under the European commercial paper program.

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

The proceeds from the sale of commercial paper notes will be available for general corporate purposes. The Company used the initial proceeds from the sale of U.S. commercial paper notes to repay borrowings under its 2013 Senior Credit Facility and certain of its industrial revenue bonds. The Company used the initial proceeds from the sale of European commercial paper notes to repay euro-denominated borrowings under its 2015 Senior Credit Facility. As of October 1, 2016, the amount utilized under the commercial paper programs was \$990.4 million with a weighted-average interest rate and maturity period of 0.74% and 23.82 days respectively for the U.S. commercial paper program, and (0.03)% and 31.66 days respectively for the European commercial paper program.

### Senior Notes

On June 9, 2015, the Company issued €500.0 million aggregate principal amount of 2.00% Senior Notes due January 14, 2022. The 2.00% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the 2.00% Senior Notes is payable annually in cash on January 14 of each year. The Company paid financing costs of \$4.2 million in connection with the 2.00% Senior Notes. These costs were deferred and are being amortized over the term of the 2.00% Senior Notes.

On January 31, 2013, the Company issued \$600.0 million aggregate principal amount of 3.85% Senior Notes due February 1, 2023. The 3.85% Senior Notes are senior unsecured obligations of the Company and rank pari passu with

all the Company's existing and future unsecured indebtedness. Interest on the 3.85% Senior Notes is payable semi-annually in cash on February 1 and August 1 of each year. The Company paid financing costs of \$6.0 million in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

On January 17, 2006, the Company issued \$900.0 million aggregate principal amount of 6.125% Senior Notes due January 15, 2016. During 2014, the Company purchased for cash \$254.4 million aggregate principal amount of its outstanding 6.125% Senior Notes due January 15, 2016. On January 15, 2016, the Company paid the remaining \$645.6 million outstanding principal of its 6.125% Senior Notes (plus accrued but unpaid interest) utilizing cash on hand and borrowings under its U.S. commercial paper program.

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Accounts Receivable Securitization

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). On September 11, 2014, the Company made certain modifications to its Securitization Facility, which modifications, among other things, increased the aggregate borrowings available under the facility from \$300.0 million to \$500.0 million and decreased the interest margins on certain borrowings. On December 10, 2015, the Company amended the terms of the Securitization Facility, reducing the applicable margin and extending the termination date from December 19, 2015 to December 19, 2016. The Company paid financing costs of \$0.3 million in connection with this extension. These costs were deferred and are being amortized over the remaining term of the Securitization Facility.

Under the terms of the Securitization Facility, certain subsidiaries of the Company sell at a discount certain of their trade accounts receivable (the "Receivables") to Mohawk Factoring, LLC ("Factoring") on a revolving basis. Factoring is a wholly owned, bankruptcy remote subsidiary of the Company, meaning that Factoring is a separate legal entity whose assets are available to satisfy the claims of the creditors of Factoring only, not the creditors of the Company or the Company's other subsidiaries. To fund such purchases, Factoring may borrow up to \$500.0 million based on the amount of eligible Receivables owned by Factoring, and Factoring has granted a security interest in all of such Receivables to the third-party lending group as collateral for such borrowings. Amounts loaned to Factoring under the Securitization Facility bear interest at commercial paper interest rates, in the case of lenders that are commercial paper conduits, or LIBOR, in the case of lenders that are not commercial paper conduits, in each case, plus an applicable margin of 0.65% per annum. Factoring also pays a commitment fee at a per annum rate of 0.35% on the unused amount of each lender's commitment. At October 1, 2016, the amount utilized under the Securitization Facility was \$500.0 million.

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

As of October 1, 2016, the Company had cash of \$112.1 million, of which \$91.1 million was held outside the United States. While the Company's plans are to permanently reinvest the cash held outside the United States, the estimated cost of repatriation for the cash as of October 1, 2016 was approximately \$31.9 million. The Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its existing credit facilities will be sufficient to meet its capital expenditure, working capital and debt servicing requirements over the next twelve months.

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### Contractual Obligations

There have been no significant changes to the Company's contractual obligations as disclosed in the Company's 2015 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 2015 Annual Report filed on Form 10-K.

### Recent Accounting Pronouncements

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

### Impact of Inflation

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

### Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements as of October 1, 2016.

### Seasonality

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

### Forward-Looking Information

Certain of the statements in this Form 10-Q, particularly those anticipating future performance, business prospects, growth and operating strategies, and similar matters, and those that include the words "could," "should," "believes," "anticipates," "expects" and "estimates" or similar expressions constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For those statements, Mohawk claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The

following important factors could cause future results to differ: changes in economic or industry conditions; competition; inflation and deflation in raw material prices and other input costs; inflation and deflation in consumer markets; energy costs and supply; timing and level of capital expenditures; timing and implementation of price increases for the Company's products; impairment charges; ability to identify attractive acquisition targets; ability to successfully complete and integrate acquisitions; international operations; changes in foreign exchange rates; introduction of new products; rationalization of operations; tax, product and other claims; litigation; and other risks identified in Mohawk's SEC reports and public announcements.

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

As of October 1, 2016, approximately 43% of the Company's debt portfolio was comprised of fixed-rate debt and 57% 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 2015 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 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 ineffective at a reasonable assurance level as of the end of the period covered by this report and as of December 31, 2015, because of a material weakness in internal control over financial reporting related to documenting management's inventory control oversight. Management's conclusion was prompted by questions raised during the Public Company Accounting Oversight Board's routine inspection of the Company's independent registered public accounting firm.

The Company has significant controls in place with respect to its inventory and believes its inventories are properly stated, despite a material weakness in the operation and documentation of controls related to the monitoring of inventory cycle counts and the valuation of obsolete inventory at two of the Company's divisions. Although management believes that the Company's other inventory controls allowed the Company to properly value its inventory, the Company cannot demonstrate that the monitoring controls were conducted effectively.

After additional testing, our Chief Executive Officer and Chief Financial Officer have concluded that the consolidated financial statements included in this Quarterly Report and the Company's Form 10-K for the fiscal year ended December 31, 2015 fairly present, in all material respects, the Company's financial position, results of operations and cash flows as of the dates and for the periods presented in conformity with accounting principles generally accepted in the United States and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended. We plan to amend management's assessment of internal control in Item 9A of our annual report on Form 10-K for the fiscal year ended December 31, 2015 to state that internal control over financial reporting was not effective as of December 31, 2015 and to disclose the material weakness in internal control over financial reporting. Our independent registered public accounting firm, KPMG LLP, has informed us that it will amend its report dated February 29, 2016 on the effectiveness of internal control over financial reporting as of December 31, 2015 included in our annual report on Form 10-K for the fiscal year ended December 31, 2015.

### Remediation Plan

As of the date of this filing, the Company is now requiring that management's conduct of monitoring activities for inventory cycle counts and the valuation of obsolete inventory in these divisions be evidenced upon completion. The material weakness will only be considered remediated when the controls have been performing as designed for a sufficient period of time.

### Changes in Internal Control Over Financial Reporting

The Company integrated recent acquisitions (referenced in Note 2 in the Notes to Condensed Consolidated Financial Statements of this Form 10-Q) into its system of internal control. As a result, the Company's internal control over financial reporting now includes controls, procedures and supporting systems with respect to transactions and account balances of the acquisitions, which are reflected in the Company's consolidated financial statements.

There were no other changes identified in the Company's internal control over financial reporting during the quarter that materially affected, or are likely to materially affect, the Company's internal control over financial reporting, other than the remediation plan described above and the integration of the recent acquisitions.



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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.

Gadsden, Alabama Litigation

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama (the “Water Board”) filed an individual complaint in the Circuit Court of Etowah County, Alabama against certain manufacturers, suppliers and users of chemicals containing perfluorinated compounds, including the Company. The Company has never manufactured such chemicals, but purchased them for use in the manufacture of its carpets prior to 2007. The Water Board is not alleging that levels of perfluorinated compounds in the Company’s wastewater discharge exceeded legal limits. Instead, the Water Board is seeking lost profits based on allegations that its customers decreased water purchases, reimbursement for the cost of a filter and punitive damages.

The Company intends to pursue all available defenses related to this matter. The Company does not believe that the ultimate outcome of this case will have a material adverse effect on its financial condition, but there can be no assurances at this stage that the outcome will not have a material adverse effect on the Company’s results of operations, liquidity or cash flows in a given period. Furthermore, the Company cannot predict whether any additional civil or regulatory actions against it may arise from the allegations in this matter.

Polyurethane Foam Litigation

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

In these actions, the plaintiffs, on behalf of themselves and/or a class of purchasers, sought damages allegedly suffered as a result of alleged overcharges in the price of polyurethane foam products from at least 1999 to the present. Any damages actually awarded at trial were subject to being tripled under U.S. antitrust laws.

On March 23, 2015, the Company entered into an agreement to settle all claims brought by the class of direct purchasers, and the trial court entered an order granting approval of this settlement on November 19, 2015. On April 30, 2015, the Company entered into an agreement to settle all claims brought by the class of indirect purchasers, and the trial court entered an order granting approval of this settlement on January 27, 2016. Following approval by the trial court, certain individual members of the indirect purchaser class sought to overturn the approval through an appeal to the Sixth Circuit of Appeals. As of June 21, 2016, all of these appeals have been dismissed, provided that one request to reconsider remains pending. As of June 21, 2016, the Company has also entered into settlement agreements resolving all of the claims brought on behalf of all of the consolidated individual lawsuits. The Company

denies all allegations of wrongdoing but settled the class actions and individual lawsuits to avoid the uncertainty, risk, expense and distraction of protracted litigation.

In December 2011, the Company was named as a defendant in a Canadian Class action, which alleged similar claims against the Company as raised in the U.S. actions. On June 12, 2015, the Company entered into an agreement to settle all claims brought by the class of Canadian plaintiffs. The Company denies all allegations of wrongdoing but settled to avoid the uncertainty, risk, expense and distraction of protracted litigation.

During the nine months ended October 3, 2015, the Company recorded a \$125.0 charge within selling, general and administrative expenses for the settlement and defense of the antitrust cases. All of the antitrust cases have now been finally settled and with the exception of the single issue pending on appeal in the indirect purchaser class case, all consolidated cases have been

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dismissed. The Company does not believe that the ultimate outcome of the one remaining issue in the indirect purchaser case will have a material adverse effect on its financial condition.

### Belgian Tax Matter

In January 2012, the Company received a €23.8 million assessment from the Belgian tax authority related to its year ended December 31, 2008, asserting that the Company had understated its Belgian taxable income for that year. The Company filed a formal protest in the first quarter of 2012 refuting the Belgian tax authority's position. The Belgian tax authority set aside the assessment in the third quarter of 2012 and refunded all related deposits, including interest income of €1.6 million earned on such deposits. However, on October 23, 2012, the Belgian tax authority notified the Company of its intent to increase the Company's taxable income for the year ended December 31, 2008 under a revised theory. On December 28, 2012, the Belgian tax authority issued assessments for the years ended December 31, 2005 and December 31, 2009, in the amounts of €46.1 million and €35.6 million, respectively, including penalties, but excluding interest. The Company filed a formal protest during the first quarter of 2013 relating to the new assessments. In September 2013, the Belgian tax authority denied the Company's protests, and the Company has brought these two years before the Court of First Appeal in Bruges. In December 2013, the Belgian tax authority issued additional assessments related to the years ended December 31, 2006, 2007, and 2010, in the amounts of €38.8 million, €39.6 million, and €43.1 million, respectively, including penalties, but excluding interest. The Company filed formal protests during the first quarter of 2014, refuting the Belgian tax authority's position for each of the years assessed. In the quarter ended June 28, 2014, the Company received a formal assessment for the year ended December 31, 2008, totaling €30.1 million, against which the Company also submitted its formal protest. All 4 additional years were brought before the Court of First Appeal in November 2014. In January of 2015, the Company met with the Court of First Appeal in Bruges and agreed with the Belgian tax authorities to consolidate and argue the issues regarding the years 2005 and 2009, and apply the ruling to all of the open years (to the extent there are no additional facts/procedural arguments in the other years).

On January 27, 2016, the Court of First Appeal in Bruges, Belgium ruled in favor of the Company with respect to the calendar years ending December 31, 2005 and December 31, 2009. On March 9, 2016 the Belgian tax authority lodged its Notification of Appeal with the Ghent Court of Appeal.

The Company disagrees with the views of the Belgian tax authority on this matter and will persist in its vigorous defense. Nevertheless, on May 24, 2016, the tax collector representing the Belgian tax authorities imposed a lien on the Company's properties in Wielsbeke (Ooigemstraat and Breestraat), Oostrozebeke (Ingelmunstersteenweg) and Desselgem (Waregemstraat) included in the Flooring ROW segment. The purpose of the lien is to provide security for payment should the Belgian tax authority prevail on its appeal. The lien does not interfere with the Company's operations at these properties.

Although there can be no assurances, the Company believes the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, liquidity or cash flows in a given quarter or year.

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

### Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in Part I, Item 1A to our Annual Report on Form 10-K for the year ended December 31, 2015. The risk factors disclosed in our Annual Report on Form 10-K, in addition to the other information set forth in this report, could materially affect our business, financial condition or results.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

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SIGNATURES

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

MOHAWK INDUSTRIES, INC.  
(Registrant)

Dated: November 10, 2016 By: /s/ Jeffrey S. Lorberbaum  
JEFFREY S. LORBERBAUM  
Chairman and Chief Executive Officer  
(principal executive officer)

Dated: November 10, 2016 By: /s/ Frank H. Boykin  
FRANK H. BOYKIN  
Chief Financial Officer  
(principal financial officer)