

MOHAWK INDUSTRIES INC  
Form 10-Q  
May 08, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended April 4, 2015

OR

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

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

Commission File Number 01-13697

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

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The number of shares outstanding of the issuer's common stock as of May 6, 2015, the latest practicable date, is as follows: 73,090,554 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)

	April 4, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 107,041	97,877
Receivables, net	1,158,858	1,081,963
Inventories	1,505,632	1,543,313
Prepaid expenses	247,494	225,759
Deferred income taxes	147,027	151,784
Other current assets	37,767	31,574
Total current assets	3,203,819	3,132,270
Property, plant and equipment	5,057,081	5,130,213
Less: accumulated depreciation	2,438,448	2,427,003
Property, plant and equipment, net	2,618,633	2,703,210
Goodwill	1,553,155	1,604,352
Tradenames	592,038	622,691
Other intangible assets subject to amortization, net	69,808	79,318
Deferred income taxes and other non-current assets	247,169	143,703
	\$ 8,284,622	8,285,544
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and commercial paper	\$ 1,806,175	851,305
Accounts payable and accrued expenses	1,085,805	1,104,509
Total current liabilities	2,891,980	1,955,814
Deferred income taxes	394,312	401,674
Long-term debt, less current portion	606,080	1,402,135
Other long-term liabilities	168,455	103,108
Total liabilities	4,060,827	3,862,731
Commitments and contingencies (Notes 7 and 13)		
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued	—	—
Common stock, \$.01 par value; 150,000 shares authorized; 81,247 and 81,070 shares issued in 2015 and 2014, respectively	812	811
Additional paid-in capital	1,604,149	1,598,887
Retained earnings	3,509,814	3,487,079
Accumulated other comprehensive (loss)	(655,394)	(429,321)
	4,459,381	4,657,456
Less treasury stock at cost; 8,157 shares in 2015 and 2014	239,450	239,450
Total Mohawk Industries, Inc. stockholders' equity	4,219,931	4,418,006
Noncontrolling interest	3,864	4,807
Total stockholders' equity	4,223,795	4,422,813

\$8,284,622

8,285,544

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	
	April 4, 2015	March 29, 2014
Net sales	\$1,881,177	1,813,095
Cost of sales	1,369,234	1,331,740
Gross profit	511,943	481,355
Selling, general and administrative expenses	468,169	350,620
Operating income	43,774	130,735
Interest expense	16,449	22,096
Other (income) expense, net	(1,083	) 4,890
Earnings from continuing operations before income taxes	28,408	103,749
Income tax expense	5,904	22,696
Net earnings including noncontrolling interest	22,504	81,053
Net income (loss) attributable to noncontrolling interest	158	(28
Net earnings attributable to Mohawk Industries, Inc.	\$22,346	81,081
Basic earnings per share attributable to Mohawk Industries, Inc.		
Basic earnings per share attributable to Mohawk Industries, Inc.	\$0.31	1.11
Weighted-average common shares outstanding—basic	72,988	72,742
Diluted earnings per share attributable to Mohawk Industries, Inc.		
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$0.30	1.11
Weighted-average common shares outstanding—diluted	73,530	73,282
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	
	April 4, 2015	March 29, 2014
Net earnings including noncontrolling interest	\$22,504	81,053
Other comprehensive income (loss):		
Foreign currency translation adjustments	(226,159 )	(63,082 )
Pension prior service cost and actuarial gain	86	2
Other comprehensive (loss)	(226,073 )	(63,080 )
Comprehensive income (loss)	(203,569 )	17,973
Comprehensive income (loss) attributable to the noncontrolling interest	158	(28 )
Comprehensive income (loss) attributable to Mohawk Industries, Inc.	\$(203,727 )	18,001
See accompanying notes to condensed consolidated financial statements.		

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	April 4, 2015	March 29, 2014
Cash flows from operating activities:		
Net earnings	\$22,504	81,053
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Restructuring	6,657	4,661
Depreciation and amortization	85,656	80,984
Deferred income taxes	308	(9,814 )
(Gain)/Loss on disposal of property, plant and equipment	(466 )	406 )
Stock-based compensation expense	8,436	7,614
Changes in operating assets and liabilities, net of effects of acquisitions:		
Receivables, net	(114,966 )	(114,755 )
Inventories	7,758	(65,645 )
Accounts payable and accrued expenses	8,551	(36,365 )
Other assets and prepaid expenses	(132,668 )	1,858 )
Other liabilities	58,584	(21,003 )
Net cash used in operating activities	(49,646 )	(71,006 )
Cash flows from investing activities:		
Additions to property, plant and equipment	(105,794 )	(122,081 )
Acquisitions, net of cash acquired	(3,328 )	19 )
Net cash used in investing activities	(109,122 )	(122,062 )
Cash flows from financing activities:		
Payments on Senior Credit Facilities	(205,302 )	(1,010,654 )
Proceeds from Senior Credit Facilities	16,780	682,101
Payments on Commercial Paper	(4,841,700 )	(287,485 )
Proceeds from Commercial Paper	5,197,200	878,626
Payments of acquired debt and other financings	—	(12,417 )
Change in asset securitization borrowings, net	(7,100 )	— )
Payments on other debt	—	(52,460 )
Debt issuance costs	(2,528 )	— )
Change in outstanding checks in excess of cash	9,729	9,056
Proceeds and net tax benefit from stock transactions	8,225	6,276
Net cash provided by financing activities	175,304	213,043
Effect of exchange rate changes on cash and cash equivalents	(7,372 )	(1,396 )
Net change in cash and cash equivalents	9,164	18,579
Cash and cash equivalents, beginning of period	97,877	54,066
Cash and cash equivalents, end of period	\$107,041	72,645

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 2014 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission. Results for interim periods are not necessarily indicative of the results for the year.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under ASU 2014-08, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Additionally, ASU 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations. ASU 2014-08 is effective for fiscal and interim periods beginning on or after December 15, 2014. Accordingly, the Company has adopted the provisions of this new accounting standard at the beginning of fiscal year 2015, and has assessed the impact on its consolidated financial statements to be immaterial.

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

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40). This is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date financial statements are issued. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect that the adoption of

this standard will have a material effect on its 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. The new standard will more closely align the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable IFRS. The new guidance is effective for annual reporting periods beginning after December 15, 2015, including interim reporting periods within that reporting period and early application is permitted. Accordingly, the Company plans to adopt the provisions of this new accounting standard at the beginning of fiscal year 2016, and is currently assessing the impact on its consolidated financial statements.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. 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 months ended April 4, 2015 and March 29, 2014:

	Three Months Ended	
	April 4, 2015	March 29, 2014
Cost of sales		
Restructuring costs	\$9,844	(a) 2,059
Acquisition integration-related costs	132	3,578
Restructuring and integration-related costs	\$9,976	5,637
Selling, general and administrative expenses		
Restructuring costs	\$1,173	(a) 2,602
Acquisition integration-related costs	1,380	3,486
Restructuring, acquisition and integration-related costs	\$2,553	6,088

(a) The restructuring costs for 2015 and 2014 primarily relate to the Company's actions taken to lower its cost structure and improve efficiencies of manufacturing and distribution operations as the Company adjusted to changing economic conditions as well as actions related to the Company's acquisition of Marazzi and Spano. In 2015 restructuring costs included accelerated depreciation of \$4,360.

The restructuring activity for the three months ended April 4, 2015 is as follows:

	Lease impairments	Asset write-downs	Severance	Other restructuring costs	Total
Balance as of December 31, 2014	\$ 1,741	—	3,037	100	4,878
Provision - Carpet segment	1,877	2,556	—	—	4,433
Provision - Ceramic segment	—	869	—	(194)	675
Provision - Laminate and Wood segment	—	4,360	1,331	218	5,909
Cash payments	(1,358)	—	(1,256)	(570)	(3,184)
Non-cash items	—	(7,785)	—	595	(7,190)
Balance as of April 4, 2015	\$ 2,260	—	3,112	149	5,521

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



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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Receivables, net

Receivables, net are as follows: