

MOHAWK INDUSTRIES INC  
Form 10-K  
February 27, 2013

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

FORM 10-K

[Mark One]

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

For the fiscal year ended December 31, 2012

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.,

30701

Calhoun, Georgia

(Zip Code)

(Address of principal executive offices)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.01 par value

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the

Act Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this

chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form

10-K.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company"

in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

..

Non-accelerated filer

Smaller reporting company

..

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates (excludes beneficial owners of more than 10% of the Common Stock) of the Registrant (48,771,300 shares) on June 29, 2012 (the last business day of the Registrant's most recently completed fiscal second quarter) was \$3,405,699,879. The aggregate market value was computed by reference to the closing price of the Common Stock on such date.

Number of shares of Common Stock outstanding as of February 20, 2013: 69,326,449 shares of Common Stock, \$.01 par value.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement for the 2013 Annual Meeting of Stockholders-Part III.

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PART I

Item 1. Business

General

Mohawk Industries, Inc. (“Mohawk” or the “Company”) is a leading producer of floor covering products for residential and commercial applications in the United States (“U.S.”) and residential applications in Europe. The Company is the second largest carpet and rug manufacturer and one of the largest manufacturers, marketers and distributors of ceramic tile, natural stone and hardwood flooring in the United States, as well as a leading producer of laminate flooring in the U.S. and Europe. The Company has recently expanded its international presence through investments in Australia, Brazil, China, France, Mexico and Russia. The Company had annual net sales in 2012 of \$5.8 billion. Approximately 83% of this amount was generated by sales in North America and approximately 17% was generated by sales outside North America. The Company has three reporting segments: the Mohawk segment, the Dal-Tile segment and the Unilin segment. Selected financial information for the Mohawk, Dal-Tile and Unilin segments, geographic net sales and the location of long-lived assets is set forth in Note 16 to the consolidated financial statements.

The Mohawk segment designs, manufactures, sources, distributes and markets its floor covering product lines, which include carpets, ceramic tile, laminate, rugs, carpet pad, hardwood and resilient, in a broad range of colors, textures and patterns for residential and commercial applications in both remodeling and new construction. The Mohawk segment markets and distributes its carpets, rugs, ceramic tile, laminate, hardwood and resilient under various brands, including the following premium brand names: Mohawk®, Aladdin®, Mohawk ColorCenters®, Mohawk Floorscapes®, Portico®, Mohawk Home®, Bigelow®, Durkan®, Horizon®, Karastan®, Lees®, Merit® and SmartStrand®. The Mohawk segment markets and distributes soft and hard surface products through over 24,000 customers, which include independent floor covering retailers, home centers, mass merchandisers, department stores, commercial dealers and commercial end users. Some products are also marketed through private labeling programs. The Mohawk segment’s soft surface operations are vertically integrated from the extrusion of resin to the manufacturing and distribution of finished carpets and rugs.

The Dal-Tile segment designs, manufactures, sources, distributes and markets a broad line of ceramic tile, porcelain tile and natural stone products used in the residential and commercial markets for both remodeling and new construction. In addition, Dal-Tile sources, markets and distributes other tile related products. Most of the Dal-Tile segment’s ceramic tile products are marketed under the Dal-Til® and American Olean® brand names and sold through independent distributors, home center retailers, individual floor covering retailers, ceramic specialists, commercial dealers and commercial end users. The Dal-Tile segment operations are vertically integrated from the production of raw material for body and glaze preparation to the manufacturing and distribution of ceramic and porcelain tile.

The Unilin segment designs, manufactures, sources, licenses, distributes and markets laminate and hardwood flooring used primarily in the residential market for both remodeling and new construction in Europe and the U.S. Unilin is one of the leaders in laminate flooring technology, having commercialized direct pressure laminate (“DPL”), a technology used in a majority of laminates today, and has developed the patented UNICLIC® glueless installation system and a variety of other new technologies, such as beveled edges, multiple length planks and new surface and finish features from which the company generates licensing revenue. Unilin sells its flooring products under the Quick-Step®, Columbia Flooring®, Century Flooring® and Mohawk® brands through retailers, independent distributors and home centers. Unilin is one of the largest vertically-integrated laminate flooring manufacturers in the U.S. producing both laminate flooring and related high density fiberboard. In Europe, Unilin also produces roofing systems, insulation panels and other wood products. In 2012, Unilin began marketing luxury vinyl tiles in Europe. This product features UNICLIC® technology for easy installation.

Recent Developments

In January 2013, Unilin purchased Pergo, a leading manufacturer of premium laminate flooring in the U.S. and Europe. Pergo complements our specialty distribution network in the United States, leverages our geographic position in Europe, expands our geographic reach to the Nordic countries and India and enhances our patent portfolio.

On December 20, 2012, the Company entered into a definitive share purchase agreement (the “Share Purchase Agreement”) to acquire Fintiles S.p.A. and its subsidiaries (collectively, the “Marazzi Group”), a global producer of tile products for residential and commercial applications in Russia, the United States and Europe, pursuant to which the Company will acquire all of the outstanding shares of the Marazzi Group and retire all outstanding debt of the Marazzi Group for an estimated transaction value of approximately €1,170 million, or \$1,504.4 million, subject to certain adjustments set forth in the share purchase agreement and plus transaction expenses. The Company expects to complete the transaction during the first half of 2013 pending customary governmental approvals and the satisfaction of other closing conditions.

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On January 28, 2013, the Company entered into an agreement to purchase Spano Invest NV, a Belgian panel board manufacturer, for €125 million or \$168 million in cash. The Company expects to complete the transaction during the second half of 2013 pending customary governmental approvals and the satisfaction of other closing conditions.

**Industry**

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

Domestic carpet and rug sales volume of U.S. manufacturers was approximately 1.1 billion square yards, or \$9.5 billion, in 2011. The carpet and rugs category has two primary markets, residential and commercial. In 2011, the residential market made up approximately 68% of industry amounts shipped and the commercial market comprised approximately 32%. Sales of U.S. carpet and rug are distributed to the residential market for both new construction and residential replacement.

The U.S. ceramic tile industry shipped 2.1 billion square feet, or \$2.2 billion, in 2011. The ceramic tile industry's two primary markets, residential applications and commercial applications, represent 56% and 44% of the 2011 industry total, respectively. Of the total residential market, 73% of the dollar values of shipments were made in response to residential replacement demand.

In 2011, the U.S. laminate industry shipped 0.9 billion square feet, or \$0.9 billion. The laminate industry's two primary markets, residential applications and commercial applications, represent 88% and 12% of the 2011 industry total, respectively. Sales of U.S. laminate flooring are primarily distributed through the residential replacement market. In 2011, the European laminate industry produced approximately 4.9 billion square feet which accounted for approximately 14% of the European floor covering market.

In 2011, the U.S. hardwood industry shipped 0.9 billion square feet, representing a market of approximately \$1.8 billion. The hardwood industry's two primary markets, residential applications and commercial applications, represent 77% and 23% of the 2011 industry total, respectively. Sales of U.S. hardwood are primarily distributed to the residential market for both new construction and residential replacement.

In 2011, the U.S. stone flooring industry shipped 0.3 billion square feet, representing a market of approximately \$1.1 billion. The stone flooring industry's two primary markets, residential applications and commercial applications, represent 53% and 47% of the 2011 industry total, respectively. Sales of U.S. stone flooring are primarily distributed to the residential market for both new construction and residential replacement.

In 2011, the U.S. resilient and rubber industry shipped 3.2 billion square feet, representing a market of approximately \$2.4 billion. The resilient and rubber industry's two primary markets, residential applications and commercial applications, represent 43% and 57% of the 2011 industry total, respectively. Sales of U.S. resilient are distributed to the residential market for both new construction and residential replacement.

**Sales and Distribution**

**Mohawk Segment**

Through its Mohawk segment, the Company designs, manufactures, sources, distributes and markets thousands of styles of carpet and rugs in a broad range of colors, textures and patterns. In addition, the Mohawk segment markets and distributes ceramic tile, laminate, hardwood, resilient floor covering, carpet pad and flooring accessories. The Mohawk segment positions product lines in all price ranges and emphasizes quality, style, performance and service. The Mohawk segment markets and distributes its product lines to over 24,000 customers, which include independent floor covering retailers, home centers, mass merchandisers, department stores, commercial dealers and commercial end users. Some products are also marketed through private labeling programs. Sales to residential customers represent a significant portion of the total industry and the majority of the segment's carpet and rug sales.

The Company has positioned its premier residential carpet and rug brand names across all price ranges. The Mohawk, Horizon, WundaWeve®, SmartStrand and Karastan brands are positioned to sell primarily in the medium-to-high retail price channels in the residential broadloom and rug markets. These lines have substantial brand name recognition among carpet dealers and retailers, with the Karastan and Mohawk brands having among the highest consumer recognition in the industry.

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Karastan is a leader in the high-end market. The Aladdin and Mohawk Home brands compete primarily in the value retail price channel. The Portico and Properties® brand names compete primarily in the builder and multi-family markets, respectively. The Company markets its hard surface product lines, which include Mohawk Ceramic, Mohawk Hardwood, Mohawk Laminate, Mohawk LVT and Congoleum, across all price ranges.

The Company offers marketing and advertising support through residential dealer programs like Mohawk Floorscapes, Mohawk ColorCenter, and Karastan. These programs offer varying degrees of support to dealers in the form of sales and management training, in-store merchandising systems, exclusive promotions and assistance in certain administrative functions, such as consumer credit, advertising and website technology.

The Company produces and markets its commercial broadloom and modular carpet tile under the Mohawk Group which includes the following brands: Bigelow, Lees, and Karastan Contract. It markets its hospitality carpet under the Durkan brand which includes the Merit collection of hospitality carpet. The commercial customer base is divided into several channels: corporate office space, education institutions, healthcare facilities, retail space and institutional and government facilities. Different purchase decision makers and decision-making processes exist for each channel. The Company's sales forces are generally organized by product type and sales channels in order to best serve each type of customer. Product delivery to dealers is done predominantly on Mohawk trucks operating from strategically positioned warehouses/cross-docks that receive inbound product directly from the source of manufacture.

Dal-Tile Segment

The Dal-Tile segment designs, manufactures, sources, distributes and markets a broad line of ceramic tile, porcelain tile and natural stone products. Products are distributed through separate distribution channels consisting of independent distributors, home center retailers, individual floor covering retailers, ceramic specialists and commercial dealers and directly to commercial end users. The business is organized to address the specific customer needs of each distribution channel, and dedicated sales forces support the various channels.

The Company serves as a "one-stop" source that provides customers with one of the ceramic tile industry's broadest product lines—a complete selection of glazed floor tile, glazed wall tile, glazed and unglazed ceramic mosaic tile, porcelain tile, quarry tile and stone products, as well as installation products. In addition to products manufactured by the Company's ceramic tile business, the Company also sources products from other manufacturers to enhance its product offering.

The Company has two of the leading brand names in the U.S. ceramic tile industry—Dal-Tile and American Olean. The Dal-Tile and American Olean brand names date back over 50 years and are well recognized in the industry. Both of these brands are supported by a fully integrated marketing program, displays, merchandising boards, literature/catalogs and internet websites. The Company is focused on sales growth opportunities through innovative products and programs in both the residential and commercial channels.

A network of Company-owned service centers distributes primarily the Dal-Tile brand product with a fully integrated marketing program, emphasizing a focus on quality and fashion serving customers in the U.S., Canada and Puerto Rico. The service centers provide distribution points for customer pick-up, local delivery and showrooms for product selection and design assistance. In addition, the Dal-Tile brand is distributed through independent distributors in Mexico. The American Olean brand is primarily distributed through independent distributors and Company-owned service centers that service both residential and commercial customers.

In addition to Company-owned service centers, the Company uses regional distribution centers which include the utilization of the Company's truck fleet to help deliver high-quality customer service with shorter lead times, increased order fill rates and improved on-time deliveries to customers.

Unilin Segment

The Unilin segment designs, manufactures, licenses, distributes and markets laminate and hardwood flooring. It also designs and manufactures roofing systems, insulation panels and other wood products in Europe. Products are distributed through separate distribution channels consisting of retailers, independent distributors and home centers. Unilin U.S. operations also manufacture Mohawk branded laminate and hardwood flooring, which sells through the Mohawk channel and also directly through home centers and mass merchandisers. The majority of Unilin's laminate



sales, both in the U.S. and Europe, are for residential replacement. The business is organized to address the specific customer needs of each distribution channel.

The Unilin segment markets and sells laminate and hardwood flooring products under the Quick-Step, Columbia Flooring, Century Flooring, Mohawk and Pergo® brands. Unilin also sells private label laminate and hardwood flooring products. The Company believes Quick-Step and Pergo are leading brand names in the U.S. and European flooring industry. In

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addition, Unilin markets and sells insulation panels in Europe. The segment also licenses its UNICLIC and Pergo intellectual property to floor manufacturers throughout the world.

In the U.S., Europe and Asia, the Company uses regional distribution centers and direct shipping from manufacturing facilities to provide high-quality customer service and enhance the Company's ability to plan and manage inventory requirements.

Advertising and Promotion

The Company promotes its brands through advertising in television, print, social and internet media, as well as cooperative advertising, point-of-sale displays, sponsorship of a European cycling team and marketing literature. The Company also continues to rely on the substantial brand name recognition of its product lines. The cost of point-of-sale displays and product samples, a significant promotional expense, is partially offset by sales of samples to customers.

Manufacturing and Operations

Mohawk Segment

The Company's carpet and rug manufacturing operations are vertically integrated and include the extrusion of resin and post-consumer plastics into triexta fiber, polyester, nylon and polypropylene, and yarn processing, backing manufacturing, tufting, weaving, dyeing, coating and finishing. The Mohawk segment continues to invest in capital expenditures, principally in state-of-the-art equipment, to increase manufacturing efficiency, improve overall cost competitiveness and develop new capabilities.

Dal-Tile Segment

The Company's tile manufacturing operations are vertically integrated from the production of raw material for body and glaze preparation to the manufacturing and distribution of ceramic and porcelain tile in the U.S. and Mexico. The Company believes that its manufacturing organization offers competitive advantages due to its ability to manufacture a differentiated product line consisting of one of the industry's broadest product offerings of colors, textures and finishes and its ability to utilize the industry's newest technology, as well as the industry's largest offering of trim and angle pieces. In addition, Dal-Tile also imports or sources a portion of its product to supplement its product offerings. The Dal-Tile segment continues to invest in capital expenditures, principally in state-of-the-art equipment, to increase manufacturing capacity, improve efficiency and develop new capabilities. The segment is expanding its international presence through investments in China and Mexico and through the pending acquisition of the Marazzi Group in Europe and Russia.

Unilin Segment

The Company's laminate flooring manufacturing operations are vertically integrated, both in the U.S. and in Europe, and include high-density fiberboard ("HDF") production, paper impregnation, short-cycle pressing, cutting and milling. The European operations also include resin production. Unilin has state-of-the-art equipment that results in competitive manufacturing in terms of cost and flexibility. In addition, Unilin has significant manufacturing capability for both engineered and prefinished solid wood flooring for the U.S. and European markets. The Unilin segment continues to invest in capital expenditures, principally in new plants and state-of-the-art equipment, to increase manufacturing capacity, improve efficiency and develop new capabilities. The segment is expanding its international presence through investments in Australia, Brazil, France and Russia, and with the recent acquisition of Pergo, the Nordic countries and India. The manufacturing facilities for other activities in the Unilin business (roofing systems, insulation panels and other wood products) are all configured for cost-efficient manufacturing and production flexibility and are competitive in the European market.

Raw Materials and Suppliers

Mohawk Segment

The principal raw materials used in the production of carpet and rugs are nylon, triexta, polyester, polypropylene, synthetic backing materials, latex and various dyes and chemicals, all of which are petroleum based. Major raw materials used in the Company's manufacturing process are available from independent sources, and the Company obtains most of its externally purchased fibers and resins principally from six major suppliers. If these suppliers were

unable to satisfy the requirements, the Company believes that alternative supply arrangements would be available. Although the market for carpet raw materials is sensitive to temporary disruptions, the carpet and rug business has not experienced a significant shortage of raw materials in recent years.

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Dal-Tile Segment

The principal raw materials used in the production of ceramic tile are clay, talc, nepheline syenite and glazes. The Company has entered into a long-term supply agreement for most of its talc requirements. In addition, the Company has long-term clay mining rights in Kentucky and Mississippi that satisfy nearly all of its clay requirements for producing quarry tile. The Company purchases a number of different grades of clay for the manufacture of its non-quarry tile. The Company believes that there is an adequate supply of all grades of clay and that all are readily available from a number of independent sources. The Company has two suppliers for its nepheline syenite requirements. If these suppliers were unable to satisfy the requirements, the Company believes that alternative supply arrangements would be available. Glazes are used on a significant percentage of manufactured tiles. Glazes consist of frit (ground glass), zircon, stains and other materials, with frit being the largest ingredient. The Company manufactures approximately 75% of its frit requirements.

Unilin Segment

The principal raw materials used in producing boards, laminate and hardwood flooring are wood, paper, resins, coatings and stains. Wood supply is a very fragmented market in Europe. The Company has long-standing relationships with numerous suppliers. These suppliers provide a wide variety of wood species, varying from fresh round wood to several kinds of by-products of sawmills and used wood recycled specifically for chipboard production, giving the Company a cost-effective and secure supply of raw material. In the U.S., the Company has a long-term contract with a contiguously located lumber company that supplies most of its total needs for HDF board production. The supply of various species of hardwoods and hardwood veneers used in the production of solid wood and engineered flooring is both localized and global.

Major manufacturers supply the papers required in the laminate flooring business in both Europe and the U.S. The Company processes most of the paper impregnation internally in its laminate flooring facilities in Europe and the U.S. In Europe, the resins for paper impregnation are manufactured by the Company, which permits greater control over the laminate flooring manufacturing process, enabling the Company to produce higher-quality products. The Company buys the balance of its resin requirements from a number of companies. The Company believes there are ample sources of supply located within a reasonable distance of Unilin's facilities.

Competition

The principal methods of competition within the floor covering industry generally are service, style, quality, price, product innovation and technology. In each of the markets, price competition and market coverage are particularly important because there is limited differentiation among competing product lines. The Company's investments in manufacturing equipment, computer systems and distribution network, as well as the Company's marketing strategy, contribute to its ability to compete primarily on the basis of performance, quality, style and service, rather than just price.

Mohawk Segment

The carpet and rug industry is highly competitive. Based on industry publications, the top five North American carpet and rug manufacturers (including their North American and foreign divisions) in 2011 had carpet and rug sales in excess of \$7.1 billion of the over \$9.9 billion market. The Company believes it is the second largest producer of carpets and rugs (in terms of sales dollars) in the world based on its 2011 net sales.

Dal-Tile Segment

The ceramic tile industry is significantly more fragmented than the carpet industry. The Company estimates that over 100 tile manufacturers, more than half of which are based outside the U.S., compete for sales of ceramic tile to customers located in the U.S. Although the U.S. ceramic tile industry is highly fragmented at both the manufacturing and distribution levels, the Company believes it is one of the largest manufacturers, distributors and marketers of ceramic tile in the world. The Company believes it is substantially larger than the next largest competitor in the United States and that it is the only significant manufacturer with its own North American distribution system.

Unilin Segment

The Company faces competition in the laminate and hardwood flooring channel from a large number of domestic and foreign manufacturers. The Company estimates that there are over 100 wood flooring manufacturers located in various countries. The Company believes it is one of the largest manufacturers, distributors and licensors of laminate flooring in the world, with a focus on high-end products. The Company believes it is one of the largest manufacturers and distributors of hardwood flooring in the U.S. In addition, the Company believes it has a competitive advantage in the laminate flooring channel as a result of Unilin's industry leading design, patented technologies and brands, which allows the Company to

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distinguish its laminate and hardwood flooring products in the areas of finish, quality, installation and assembly and provides a source of additional revenue for the Company from licensing royalties.

**Patents and Trademarks**

Intellectual property is important to the Company's business, and the Company relies on a combination of patent, copyright, trademark and trade secret laws to protect its interests.

The Company uses several trademarks that it considers important in the marketing of its products, including Aladdin, American Olean, Bigelow, Century Flooring, Columbia Flooring, Dal-Tile, Duracolor®, didit, Durkan, Elka®, Everset fibers®, Horizon, Karastan, Lees, Merit, Mohawk, Mohawk ColorCenter, Mohawk Floorscapes, Mohawk GreenWorks®, Mohawk Home, Pergo, Portico, PureBond®, Quick-Step, SmartStrand, Ultra Performance System®, UNICLIC, UNILIN®, Utherm® and Wear-Dated®. These trademarks represent innovations that highlight competitive advantages and provide differentiation from competing brands in the market.

Unilin owns a number of important patent families in Europe and the U.S. some of which the Company licenses to manufacturers and distributors throughout the world. The most important of these patent families is the UNICLIC family, which include the snap, pretension, clearance and the beveled edge patent and are not expected to expire until 2017, protecting Unilin's interlocking laminate flooring technology. The recent acquisition of Pergo potentially enhances the intellectual property revenue stream with new "clicking" technology that could be licensed until 2021. Also, the marketability of the Company's furniture technology utilizing the "click" methodology continues to develop. The licensing and related furniture products are in the early stages of introduction into the European market. The Company believes these and other ongoing innovations will partially offset the impact of the future expiration of the UNICLIC family patents. The licensing revenue from patents included in the Unilin results was approximately €80 million in 2012. The licensing revenue from patents generated in the Unilin operations is partially offset by various expenses such as amortization, developing new technologies, filing new patents, supporting existing patents, defending patent lawsuits, collection and auditing of receivables, bad debt and other administrative activities. The Company continues to build upon these patents, trademarks and its proven innovation in pursuing growth opportunities.

**Sales Terms and Major Customers**

The Company's sales terms are substantially the same as those generally available throughout the industry. The Company generally permits its customers to return products purchased from it within specified time periods from the date of sale, if the customer is not satisfied with the quality of the product.

During 2012, no single customer accounted for more than 5% of total net sales, and the top 10 customers accounted for less than 20% of the Company's net sales. The Company believes the loss of one major customer would not have a material adverse effect on its business.

**Employees**

As of December 31, 2012, the Company employed approximately 25,100 persons consisting of approximately 18,200 in the U.S., approximately 3,600 in Mexico, approximately 2,200 in Europe, approximately 800 in Malaysia, approximately 200 in Canada and approximately 100 in Russia. The majority of the Company's European and Mexican manufacturing employees are members of unions. Most of the Company's U.S. employees are not a party to any collective bargaining agreement. Additionally, the Company has not experienced any strikes or work stoppages in recent years. The Company believes that its relations with its employees are good.

**Available Information**

The Company's Internet address is <http://www.mohawkind.com>. The Company makes the following reports filed by it available, free of charge, on its website under the heading "Investor Information":

- annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K; and
- amendments to the foregoing reports.

The foregoing reports are made available on the Company's website as soon as practicable after they are filed with, or furnished to, the Securities and Exchange Commission ("SEC").

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Item 1A. Risk Factors

Certain Factors affecting the Company's Performance

In addition to the other information provided in this Form 10-K, the following risk factors should be considered when evaluating an investment in shares of the Company's Common Stock. If any of the events described in these risks were to occur, it could have a material adverse effect on the Company's business, financial condition and results of operations.

The floor covering industry is sensitive to changes in general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels, availability of credit and demand for housing. The downturn in the U.S. and global economies, along with the residential and commercial markets in such economies, negatively impacted the floor covering industry and the Company's business. Although these difficult economic conditions have improved, there may be additional downturns that could cause the industry to deteriorate further. Further, significant or prolonged declines in such economies or in spending for replacement floor covering products or new construction activity could have a material adverse effect on the Company's business.

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

The floor covering industry is highly dependent on construction activity, including new construction, which is cyclical in nature and recently experienced a downturn. The downturn in the U.S. and global economies, along with the residential and commercial markets in such economies, negatively impacted the floor covering industry and the Company's business. Although the impact of a decline in new construction activity is typically accompanied by an increase in remodeling and replacement activity, these activities lagged during the downturn. Although the difficult economic conditions have improved, there may be additional downturns that could cause the industry to deteriorate in the foreseeable future. A significant or prolonged decline in residential or commercial construction activity could have a material adverse effect on the Company's business and results of operations.

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

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

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

The floor covering industry is highly competitive. The Company faces competition from a number of manufacturers and independent distributors. Some of the Company's competitors are larger and have greater resources and access to capital than the Company does. Maintaining the Company's competitive position may require substantial investments



in the Company's product development efforts, manufacturing facilities, distribution network and sales and marketing activities. Competitive pressures may also result in decreased demand for the Company's products or force the Company to lower prices. Any of these factors or others may impact demand which could have a material adverse effect on the Company's business.

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

Uncertainty in the credit markets could affect the overall availability and cost of credit. Despite recent improvement in overall economic conditions, market conditions could impact the Company's ability to obtain financing in the future, including any financing necessary to refinance existing indebtedness, and the cost and terms of it, remains uncertain. These and other economic factors could have a material adverse effect on demand for the Company's products and on its financial condition and operating results. Further, these generally negative economic and business conditions may factor into the Company's periodic

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credit ratings assessment by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Financial Services, LLC ("S&P") and Fitch, Inc. A rating agency's evaluation is based on a number of factors, which include scale and diversification, brand strength, profitability, leverage, liquidity and interest coverage. Any future downgrades in the Company's credit ratings could increase the cost of its existing credit and could adversely affect the cost of and ability to obtain additional credit in the future. A downgrade of the Company's credit rating by Moody's or S&P would increase interest expense on the Company's senior unsecured \$900.0 million notes by 25 basis points per downgrade. The Company can provide no assurances that downgrades will not occur.

If the Company were unable to meet certain covenants contained in its existing credit facilities, it may be required to repay borrowings under the credit facilities prior to their maturity and may lose access to the credit facilities for additional borrowings that may be necessary to fund its operations, which could have a material adverse effect on the Company's business.

On July 8, 2011, the Company entered into a \$900.0 million five-year, senior, secured revolving credit facility (the "Senior Credit Facility"). On January 20, 2012, the Company entered into an amendment to the Senior Credit Facility that provides for an incremental term loan facility in the aggregate principal amount of \$150.0 million. As of December 31, 2012, the amount utilized under the Senior Credit Facility including the term loan was \$251.2 million resulting in a total of \$793.1 million available under the Senior Credit Facility. The amount utilized included \$153.9 million of borrowings, \$46.8 million of standby letters of credit guaranteeing the Company's industrial revenue bonds and \$50.5 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. In addition, on December 19, 2012, the Company entered into a three-year on-balance sheet U.S. trade accounts receivable securitization agreement (the "Securitization Facility") that allows the Company to borrow up to \$300 million based on available accounts receivable and is secured by the Company's U.S. trade accounts receivable. At December 31, 2012, the amount utilized under the Securitization Facility was \$280.0 million.

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

Additionally, the credit facilities include certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, indebtedness, investments, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company's business. Many of these limitations are subject to numerous exceptions. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0 for the Senior Credit Facility, each as of the last day of any fiscal quarter and as defined in the Senior Credit Facility. A failure to comply with the obligations contained in our current or future credit facilities or indentures relating to our outstanding public debt could result in an event of default or an acceleration of debt under other instruments that may contain cross-acceleration or cross-default provisions. We cannot be certain that we would have, or be able to obtain, sufficient funds to make these accelerated payments.

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

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

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

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