

MOHAWK INDUSTRIES INC

Form 10-Q

May 03, 2019

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mhk:ThreePointEightFivePercentSeniorNotesDueFebruaryOneTwoThousandTwentyThreeMember 2019-03-30  
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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 March 30, 2019

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  
Former name, former address and former fiscal year, if changed since last report:

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 every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

| Title of Each Class           | Trading Symbol | Name of Each Exchange on Which Registered |
|-------------------------------|----------------|-------------------------------------------|
| Common Stock, \$.01 par value | MHK            | New York Stock Exchange                   |
| Floating Rate Notes due 2019  |                | New York Stock Exchange                   |
| Floating Rate Notes due 2020  |                | New York Stock Exchange                   |
| 2.000% Senior Notes due 2022  |                | New York Stock Exchange                   |

The number of shares outstanding of the issuer's common stock as of May 1, 2019, the latest practicable date, is as follows: 72,421,223 shares of common stock, \$.01 par value.





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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data) (Unaudited)

|                                                                                                                          | March 30,<br>2019 | December 31,<br>2018 |           |
|--------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|-----------|
| <b>ASSETS</b>                                                                                                            |                   |                      |           |
| Current assets:                                                                                                          |                   |                      |           |
| Cash and cash equivalents                                                                                                | \$ 105,668        | 119,050              |           |
| Receivables, net                                                                                                         | 1,743,581         | 1,606,159            |           |
| Inventories                                                                                                              | 2,338,125         | 2,287,615            |           |
| Prepaid expenses                                                                                                         | 427,233           | 421,553              |           |
| Other current assets                                                                                                     | 74,358            | 74,919               |           |
| Total current assets                                                                                                     | 4,688,965         | 4,509,296            |           |
| Property, plant and equipment                                                                                            | 8,282,502         | 8,227,074            |           |
| Less: accumulated depreciation                                                                                           | 3,608,067         | 3,527,172            |           |
| Property, plant and equipment, net                                                                                       | 4,674,435         | 4,699,902            |           |
| Right of use operating lease assets                                                                                      | 320,800           | —                    |           |
| Goodwill                                                                                                                 | 2,548,997         | 2,520,966            |           |
| Tradenames                                                                                                               | 702,774           | 707,380              |           |
| Other intangible assets subject to amortization, net                                                                     | 247,790           | 254,430              |           |
| Deferred income taxes and other non-current assets                                                                       | 421,314           | 407,149              |           |
|                                                                                                                          | \$ 13,605,075     | 13,099,123           |           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                              |                   |                      |           |
| Current liabilities:                                                                                                     |                   |                      |           |
| Short-term debt and current portion of long-term debt                                                                    |                   | \$ 1,763,332         | 1,742,373 |
| Accounts payable and accrued expenses                                                                                    |                   | 1,571,273            | 1,523,866 |
| Current operating lease liabilities                                                                                      |                   | 99,642               | —         |
| Total current liabilities                                                                                                |                   | 3,434,247            | 3,266,239 |
| Deferred income taxes                                                                                                    |                   | 422,772              | 413,740   |
| Long-term debt, less current portion                                                                                     |                   | 1,497,975            | 1,515,601 |
| Non-current operating lease liabilities                                                                                  |                   | 227,595              | —         |
| Other long-term liabilities                                                                                              |                   | 445,441              | 463,484   |
| Total liabilities                                                                                                        |                   | 6,028,030            | 5,659,064 |
| Commitments and contingencies (Note 17)                                                                                  |                   |                      |           |
| Stockholders' equity:                                                                                                    |                   |                      |           |
| Preferred stock, \$.01 par value; 60 shares authorized; no shares issued                                                 |                   | —                    | —         |
| Common stock, \$.01 par value; 150,000 shares authorized; 79,771 and 79,656 shares issued in 2019 and 2018, respectively |                   | 798                  | 797       |
| Additional paid-in capital                                                                                               |                   | 1,853,484            | 1,852,173 |
| Retained earnings                                                                                                        |                   | 6,709,782            | 6,588,197 |
| Accumulated other comprehensive loss                                                                                     |                   | (777,547)            | (791,608) |
|                                                                                                                          |                   | 7,786,517            | 7,649,559 |
| Less: treasury stock at cost; 7,349 and 7,349 shares in 2019 and 2018, respectively                                      |                   | 215,716              | 215,745   |
| Total Mohawk Industries, Inc. stockholders' equity                                                                       |                   | 7,570,801            | 7,433,814 |
| Nonredeemable noncontrolling interest                                                                                    |                   | 6,244                | 6,245     |
| Total stockholders' equity                                                                                               |                   | 7,577,045            | 7,440,059 |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

|                                                               | <b>Three Months Ended</b> |                           |
|---------------------------------------------------------------|---------------------------|---------------------------|
|                                                               | <b>March 30,<br/>2019</b> | <b>March 31,<br/>2018</b> |
| Net sales                                                     | \$2,442,490               | 2,412,202                 |
| Cost of sales                                                 | 1,817,563                 | 1,707,510                 |
| Gross profit                                                  | 624,927                   | 704,692                   |
| Selling, general and administrative expenses                  | 459,597                   | 436,293                   |
| Operating income                                              | 165,330                   | 268,399                   |
| Interest expense                                              | 10,473                    | 7,528                     |
| Other expense (income), net                                   | (3,736                    | ) 3,998                   |
| Earnings before income taxes                                  | 158,593                   | 256,873                   |
| Income tax expense                                            | 37,018                    | 47,632                    |
| Net earnings including noncontrolling interests               | 121,575                   | 209,241                   |
| Net (income) expense attributable to noncontrolling interests | (10                       | ) 475                     |
| Net earnings attributable to Mohawk Industries, Inc.          | \$121,585                 | 208,766                   |

**Basic earnings per share attributable to Mohawk Industries, Inc.**

|                                                                  |        |        |
|------------------------------------------------------------------|--------|--------|
| Basic earnings per share attributable to Mohawk Industries, Inc. | \$1.68 | 2.80   |
| Weighted-average common shares outstanding—basic                 | 72,342 | 74,453 |

**Diluted earnings per share attributable to Mohawk Industries, Inc.**

|                                                                    |        |        |
|--------------------------------------------------------------------|--------|--------|
| Diluted earnings per share attributable to Mohawk Industries, Inc. | \$1.67 | 2.78   |
| Weighted-average common shares outstanding—diluted                 | 72,646 | 74,929 |

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)

|                                                                      | <b>Three Months Ended</b> |                           |
|----------------------------------------------------------------------|---------------------------|---------------------------|
|                                                                      | <b>March 30,<br/>2019</b> | <b>March 31,<br/>2018</b> |
| Net earnings including noncontrolling interests                      | \$ 121,575                | 209,241                   |
| Other comprehensive income (loss):                                   |                           |                           |
| Foreign currency translation adjustments                             | 13,962                    | 72,393                    |
| Pension prior service cost and actuarial gain (loss), net of tax     | 108                       | (135 )                    |
| Other comprehensive income                                           | 14,070                    | 72,258                    |
| Comprehensive income                                                 | 135,645                   | 281,499                   |
| Comprehensive income (loss) attributable to noncontrolling interests | (1 )                      | 1,374                     |
| Comprehensive income attributable to Mohawk Industries, Inc.         | \$ 135,646                | 280,125                   |

See accompanying notes to condensed consolidated financial statements.

Table of ContentsMOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|                                                                                               | <b>Three Months Ended</b> |                  |
|-----------------------------------------------------------------------------------------------|---------------------------|------------------|
|                                                                                               | <b>March 30,</b>          | <b>March 31,</b> |
|                                                                                               | <b>2019</b>               | <b>2018</b>      |
| Cash flows from operating activities:                                                         |                           |                  |
| Net earnings                                                                                  | \$ 121,575                | 209,241          |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: |                           |                  |
| Restructuring                                                                                 | 32,937                    | 18,182           |
| Depreciation and amortization                                                                 | 137,291                   | 122,654          |
| Deferred income taxes                                                                         | 9,903                     | 19,401           |
| (Gain) loss on disposal of property, plant and equipment                                      | 1,164                     | (1,277 )         |
| Stock-based compensation expense                                                              | 5,789                     | 7,948            |
| Changes in operating assets and liabilities, net of effects of acquisitions:                  |                           |                  |
| Receivables, net                                                                              | (142,518 )                | (104,287 )       |
| Inventories                                                                                   | (39,409 )                 | (74,499 )        |
| Other assets and prepaid expenses                                                             | (2,474 )                  | (182 )           |
| Accounts payable and accrued expenses                                                         | 71,199                    | (14,250 )        |
| Other liabilities                                                                             | (25,320 )                 | 297              |
| Net cash provided by operating activities                                                     | 170,137                   | 183,228          |
| Cash flows from investing activities:                                                         |                           |                  |
| Additions to property, plant and equipment                                                    | (136,948 )                | (250,936 )       |
| Acquisitions, net of cash acquired                                                            | (76,847 )                 | (24,410 )        |
| Purchases of short-term investments                                                           | (154,000 )                | (246,096 )       |
| Redemption of short-term investments                                                          | 156,000                   | 280,000          |
| Net cash used in investing activities                                                         | (211,795 )                | (241,442 )       |
| Cash flows from financing activities:                                                         |                           |                  |
| Payments on Senior Credit Facilities                                                          | (132,030 )                | (365,889 )       |
| Proceeds from Senior Credit Facilities                                                        | 94,539                    | 355,252          |
| Payments on Commercial Paper                                                                  | (3,815,406 )              | (3,976,712 )     |
| Proceeds from Commercial Paper                                                                | 3,895,455                 | 4,089,996        |
| Payments of other debt and financing costs                                                    | (125 )                    | —                |
| Change in outstanding checks in excess of cash                                                | (10,965 )                 | (6,905 )         |
| Shares redeemed for taxes                                                                     | (4,669 )                  | (9,144 )         |
| Proceeds from stock transactions                                                              | 1                         | 1                |
| Net cash provided by financing activities                                                     | 26,800                    | 86,599           |
| Effect of exchange rate changes on cash and cash equivalents                                  | 1,476                     | 1,574            |
| Net change in cash and cash equivalents                                                       | (13,382 )                 | 29,959           |
| Cash and cash equivalents, beginning of period                                                | 119,050                   | 84,884           |
| Cash and cash equivalents, end of period                                                      | \$ 105,668                | 114,843          |

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 2018 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.

*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 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 economically offset by losses and gains 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 three months ended March 30, 2019 and March 31, 2018, the change in the U.S. dollar value of the Company’s euro denominated debt was a decrease of \$11,233 (\$8,532 net of taxes) and an increase of \$16,047 (\$13,043 net of taxes), respectively, which is recorded in the foreign currency translation adjustment component of accumulated other comprehensive income (loss). The change 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 - Recently Adopted*

In February 2016, the FASB issued a new standard ASU 2016-02, *Leases*, and subsequently issued additional ASUs amending this ASU (collectively ASC 842, *Leases*). ASC 842 was issued to increase transparency and comparability among organizations by requiring the recognition of right of use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Company adopted the provisions of ASC 842 on January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption in line with the new transition method allowed under ASU 2018-11. ASC 842 provides a number of optional practical expedients in transition. The Company elected the “package of practical expedients” which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight and elected the practical expedient pertaining to land easements. The new standard also provides practical expedients for an entity’s ongoing accounting for leases. The Company elected the short-term lease exemption for all leases that qualify, meaning the Company will not recognize ROU assets or lease liabilities for leases with terms shorter than twelve months. The Company also elected the practical expedient to not separate lease and non-lease components for a majority of its asset classes, including real

estate and most equipment.

The adoption of ASC 842 had a material impact on the Company's condensed consolidated balance sheets, but did not have a material impact on our condensed consolidated statements of operations or cashflow. The most significant impact was the recognition of ROU assets of \$328,169 and lease liabilities for operating leases of \$332,286, based on the present value of the future minimum rental payments for existing operating leases. The difference in the balances is due to deferred rent, tenant incentive allowances and prepaid amounts taken into account for adoption. Our accounting for finance leases remained substantially unchanged, See Note 10 - Leases.

On January 1, 2019, the Company adopted the new accounting standard, ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The standard permits entities to reclassify, to retained earnings, the one-time income tax effects stranded in accumulated other comprehensive income arising from the change in the U.S. federal corporate tax rate as a result of the Tax Cuts and Jobs Act of 2017. The effect of adopting the new standard was not material.



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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On January 1, 2018, the Company adopted the new accounting standard, ASC 606, *Revenue from Contracts with Customers* and all the related amendments (“ASC 606”) and applied the provisions of the standard to all contracts using the modified retrospective method. The cumulative effect of adopting the new revenue standard was immaterial and no adjustment has been recorded to the opening balance of retained earnings. Prior year information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Substantially all of the Company’s revenue continues to be recognized at a point in time when the product is either shipped or received from the Company’s facilities and control of the product is transferred to the customer. The Company reviewed all of its revenue product categories under ASC 606 and the only changes identified were that an immaterial amount of revenue from intellectual property (“IP”) contracts results in earlier recognition of revenue, new controls and processes designed to meet the requirements of the standard were implemented, and the required new disclosures are presented in Note 3, Revenue from Contracts with Customers. The adoption of ASC 606 did not have a material impact on the amounts reported in the Company’s consolidated financial position, results of operations or cash flows.

On January 1, 2018, the Company adopted the new accounting standard, ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The effect of adopting the new standard was not material.

On January 1, 2018, the Company adopted the new accounting standard, ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The effect of adopting the new standard was not material.

*Recent Accounting Pronouncements - Effective in Future Years*

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and other (Topic 350): Simplifying the test for goodwill impairment*. The amendments remove the second step of the current goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for impairment tests in fiscal years beginning after December 15, 2019.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and in November 2018 issued ASU 2018-19, which amended the standard. The standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new approach to estimating credit losses (referred to as the current expected credit losses model) applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. This standard is effective for the Company on January 1, 2020. Entities are required to apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently assessing the impact.

**2. Acquisitions**

*2019 Acquisitions*

On January 31, 2019, the Company acquired a hard surface flooring distribution company based in the Netherlands for \$72,001, resulting in a preliminary goodwill allocation of \$45,931. The results have been included in the Flooring Rest of the World (“Flooring ROW”) segment and are not material to the Company’s consolidated results of operations.

*2018 Acquisitions*

On November 16, 2018, the Company completed its purchase of Eliane S/A Revestimentos Ceramicos (“Eliane”), one of the largest ceramic tile companies in Brazil. Pursuant to the purchase agreement, the Company (i) acquired the entire issued share capital of Eliane and (ii) acquired \$99,037 of net indebtedness of Eliane, with total cash consideration paid of \$148,741. The Company’s acquisition of Eliane resulted in preliminary allocations of goodwill of \$16,932, indefinite-lived tradename intangible assets of \$32,238 and intangible assets subject to amortization of \$5,818. The goodwill is expected to be deductible for tax purposes. The purchase price allocation is preliminary until the Company obtains final information regarding these fair values. Eliane’s results of operations have been included in the consolidated financial statements since the date of acquisition in the Global Ceramic reporting segment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

On July 2, 2018, the Company completed its acquisition of Godfrey Hirst Group, the leading flooring company in Australia and New Zealand, further extending Mohawk's global position. The total value of the acquisition was \$400,894. The Company's acquisition of Godfrey Hirst Group resulted in allocations of goodwill of \$87,043, indefinite-lived tradename intangible assets of \$58,671 and intangible assets subject to amortization of \$43,635. The goodwill is not expected to be deductible for tax purposes. The factors contributing to the recognition of the amount of goodwill include product, sales and manufacturing synergies. The Godfrey Hirst Group's results have been included in the condensed consolidated financial statements since the date of acquisition in the Flooring NA and Flooring ROW segments.

During the first quarter of 2018, the Company completed the acquisition of three businesses in the Flooring ROW segment for \$24,610, resulting in a goodwill allocation of \$12,874 and intangibles subject to amortization of \$7.

*2017 Acquisitions*

On April 4, 2017, the Company completed its purchase of Emilceramica S.r.l ("Emil"), a ceramic company in Italy. The total value of the acquisition was \$186,099. The Emil acquisition will enhance the Company's cost position and strengthen its combined brand and distribution in Europe. The acquisition's results and purchase price allocation have been included in the condensed consolidated financial statements since the date of the acquisition. The Company's acquisition of Emil resulted in a goodwill allocation of \$59,491, indefinite-lived tradename intangible asset of \$16,196 and an intangible asset subject to amortization of \$2,348. The goodwill is not expected to be deductible for tax purposes. The Emil results are reflected in the Global Ceramic segment and the results of Emil's operations are not material to the Company's consolidated results of operations.

During the second quarter of 2017, the Company completed the acquisition of two businesses in the Global Ceramic segment for \$37,250, resulting in a goodwill allocation of \$1,002. The Company also completed the acquisition of a business in the Flooring NA segment for \$26,623.

During the first quarter of 2017, the Company acquired certain assets of a distribution business in the Flooring ROW segment for \$1,407, resulting in intangible assets subject to amortization of \$827.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**3. Revenue from Contracts with Customers**

*Revenue recognition and accounts receivable*

The Company recognizes revenues when it satisfies performance obligations as evidenced by the transfer of control of the promised goods to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods. The nature of the promised goods are ceramic, stone, carpet, resilient, laminate, wood and other flooring products. Payment is typically received 90 days or less from the invoice date. The Company adjusts the amounts of revenue for expected cash discounts, sales allowances, returns, and claims, based upon historical experience. The Company adjusts accounts receivable for doubtful account allowances based upon historical bad debt, claims experience, periodic evaluation of specific customer accounts, and the aging of accounts receivable. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

*Contract liabilities*

The Company historically records contract liabilities when it receives payment prior to fulfilling a performance obligation. Contract liabilities related to revenues are recorded in accounts payable and accrued expenses on the accompanying condensed consolidating balance sheets. The Company had contract liabilities of \$34,665 and \$34,486 as of March 30, 2019 and January 1, 2019, respectively.

*Performance obligations*

Substantially all of the Company's revenue is recognized at a point in time when the product is either shipped or received from the Company's facilities and control of the product is transferred to the customer. Accordingly, in any period, the Company does not recognize a significant amount of revenue from performance obligations satisfied or partially satisfied in prior periods and the amount of such revenue recognized during the three months ended March 30, 2019 was immaterial.

*Costs to obtain a contract*

The Company historically incurs certain incremental costs to obtain revenue contracts. These costs relate to marketing display structures and are capitalized when the amortization period is greater than one year, with the amount recorded in other assets on the accompanying condensed consolidated balance sheets. Capitalized costs to obtain contracts were \$59,034 and \$57,840 as of March 30, 2019 and January 1, 2019, respectively. Amortization expense recognized during the three months ended March 30, 2019 related to these capitalized costs was \$11,048.

*Practical expedients and policy elections*

The Company elected the following practical expedients and policy elections:

• Incremental costs of obtaining a contract is recorded as an expense when incurred in selling, general and administrative expenses if the amortization period is less than one year.

• Shipping and handling activities performed after control has been transferred is accounted for as a fulfillment cost in cost of sales.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

*Revenue disaggregation*

The following table presents the Company's segment revenues disaggregated by the geographical market location of customer sales and product categories for the three months ended March 30, 2019 and March 31, 2018:

| <b>March 30, 2019</b>              | <b>Global<br/>Ceramic<br/>segment</b> | <b>Flooring<br/>NA<br/>segment</b> | <b>Flooring<br/>ROW<br/>segment</b> | <b>Total</b> |
|------------------------------------|---------------------------------------|------------------------------------|-------------------------------------|--------------|
| <b><i>Geographical Markets</i></b> |                                       |                                    |                                     |              |
| United States                      | \$541,826                             | 883,242                            | 68                                  | 1,425,136    |
| Europe                             | 179,310                               | 1,837                              | 469,916                             | 651,063      |
| Russia                             | 51,915                                | 29                                 | 23,615                              | 75,559       |
| Other                              | 125,301                               | 36,872                             | 128,559                             | 290,732      |
|                                    | \$898,352                             | 921,980                            | 622,158                             | 2,442,490    |

***Product Categories***

|                      |           |         |         |           |
|----------------------|-----------|---------|---------|-----------|
| Ceramic & Stone      | \$898,352 | 14,443  | —       | 912,795   |
| Carpet & Resilient   | —         | 735,424 | 190,929 | 926,353   |
| Laminate & Wood      | —         | 172,113 | 210,201 | 382,314   |
| Other <sup>(1)</sup> | —         | —       | 221,028 | 221,028   |
|                      | \$898,352 | 921,980 | 622,158 | 2,442,490 |

| <b>March 31, 2018</b>              | <b>Global<br/>Ceramic<br/>segment</b> | <b>Flooring<br/>NA<br/>segment</b> | <b>Flooring<br/>ROW<br/>segment</b> | <b>Total</b> |
|------------------------------------|---------------------------------------|------------------------------------|-------------------------------------|--------------|
| <b><i>Geographical Markets</i></b> |                                       |                                    |                                     |              |
| United States                      | \$556,187                             | 908,122                            | —                                   | 1,464,309    |
| Europe                             | 190,235                               | 1,650                              | 494,644                             | 686,529      |
| Russia                             | 51,422                                | —                                  | 19,428                              | 70,850       |
| Other                              | 78,704                                | 40,586                             | 71,224                              | 190,514      |
|                                    | \$876,548                             | 950,358                            | 585,296                             | 2,412,202    |

***Product Categories***

|                      |           |         |         |           |
|----------------------|-----------|---------|---------|-----------|
| Ceramic & Stone      | \$876,548 | 17,544  | —       | 894,092   |
| Carpet & Resilient   | —         | 755,545 | 129,011 | 884,556   |
| Laminate & Wood      | —         | 177,269 | 226,143 | 403,412   |
| Other <sup>(1)</sup> | —         | —       | 230,142 | 230,142   |
|                      | \$876,548 | 950,358 | 585,296 | 2,412,202 |

<sup>(1)</sup> Other includes roofing elements, insulation boards, chipboards and IP contracts.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**4. 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 March 30, 2019 and March 31, 2018:

|                                                                      | <b>Three Months Ended</b> |                  |
|----------------------------------------------------------------------|---------------------------|------------------|
|                                                                      | <b>March 30,</b>          | <b>March 31,</b> |
|                                                                      | <b>2019</b>               | <b>2018</b>      |
| <b><i>Cost of sales</i></b>                                          |                           |                  |
| Restructuring costs <sup>(1)</sup>                                   | \$31,535                  | 14,090           |
| Acquisition integration-related costs                                | 1,067                     | 408              |
| Restructuring and acquisition integration-related costs              | \$32,602                  | 14,498           |
| <b><i>Selling, general and administrative expenses</i></b>           |                           |                  |
| Restructuring costs <sup>(1)</sup>                                   | \$1,402                   | 4,092            |
| Acquisition transaction-related costs                                | 280                       | —                |
| Acquisition integration-related costs                                | 1,419                     | 3,514            |
| Restructuring, acquisition transaction and integration-related costs | \$3,101                   | 7,606            |

(1) The restructuring costs for 2019 and 2018 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.

The restructuring activity for the three months ended March 30, 2019 is as follows:

|                                    | <b>Lease</b>       | <b>Asset</b>       | <b>Severance</b> | <b>Other</b>         | <b>Total</b> |
|------------------------------------|--------------------|--------------------|------------------|----------------------|--------------|
|                                    | <b>impairments</b> | <b>write-downs</b> |                  | <b>restructuring</b> |              |
|                                    |                    |                    |                  | <b>costs</b>         |              |
| Balance as of December 31, 2018    | \$ 397             | —                  | 7,866            | 250                  | 8,513        |
| Provision - Global Ceramic segment | —                  | —                  | 4,879            | —                    | 4,879        |
| Provision - Flooring NA segment    | —                  | 23,688             | 598              | 3,313                | 27,599       |
| Provision - Flooring ROW segment   | —                  | —                  | 459              | —                    | 459          |
| Cash payments                      | (145 )             | —                  | (2,733 )         | (3,313 )             | (6,191 )     |
| Non-cash items                     | —                  | (23,688 )          | (17 )            | —                    | (23,705 )    |
| Balance as of March 30, 2019       | \$ 252             | —                  | 11,052           | 250                  | 11,554       |

The Company expects the remaining severance and other restructuring costs to be paid over the next 12 months.





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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**5. Receivables, net**

Receivables, net are as follows:

|                                                             | March 30,<br>2019 | December 31,<br>2018 |
|-------------------------------------------------------------|-------------------|----------------------|
| Customers, trade                                            | \$1,716,927       | 1,562,284            |
| Income tax receivable                                       | 10,735            | 17,217               |
| Other                                                       | 88,227            | 101,376              |
|                                                             | 1,815,889         | 1,680,877            |
| Less: allowance for discounts, claims and doubtful accounts | 72,308            | 74,718               |
| Receivables, net                                            | \$1,743,581       | 1,606,159            |

**6. Inventories**

The components of inventories are as follows:

|                   | March 30,<br>2019 | December 31,<br>2018 |
|-------------------|-------------------|----------------------|
| Finished goods    | \$1,625,685       | 1,582,112            |
| Work in process   | 166,753           | 165,616              |
| Raw materials     | 545,687           | 539,887              |
| Total inventories | \$2,338,125       | 2,287,615            |

**7. Goodwill and intangible assets**

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

**Goodwill:**

|                                        | Global Ceramic<br>segment | Flooring NA<br>segment | Flooring<br>ROW<br>segment | Total        |
|----------------------------------------|---------------------------|------------------------|----------------------------|--------------|
| Balance as of December 31, 2018        |                           |                        |                            |              |
| Goodwill                               | \$1,564,987               | 874,198                | 1,409,206                  | 3,848,391    |
| Accumulated impairment losses          | (531,930 )                | (343,054 )             | (452,441 )                 | (1,327,425 ) |
|                                        | 1,033,057                 | 531,144                | 956,765                    | 2,520,966    |
| Goodwill recognized during the period  | (2,889 )                  | —                      | 45,931                     | 43,042       |
| Currency translation during the period | 1,752                     | —                      | (16,763 )                  | (15,011 )    |
| Balance as of March 30, 2019           |                           |                        |                            |              |
| Goodwill                               | 1,563,850                 | 874,198                | 1,438,374                  | 3,876,422    |
| Accumulated impairment losses          | (531,930 )                | (343,054 )             | (452,441 )                 | (1,327,425 ) |
|                                        | \$1,031,920               | 531,144                | 985,933                    | 2,548,997    |

**Intangible assets not subject to amortization:**

Tradenames

|                                              |           |
|----------------------------------------------|-----------|
| Balance as of December 31, 2018              | \$707,380 |
| Intangible assets acquired during the period | (874 )    |
| Currency translation during the period       | (3,732 )  |
| Balance as of March 30, 2019                 | \$702,774 |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Intangible assets subject to amortization:**

| Gross carrying amounts:                               | Customer relationships        | Patents        | Other        | Total          |
|-------------------------------------------------------|-------------------------------|----------------|--------------|----------------|
| Balance as of December 31, 2018                       | \$651,012                     | 254,483        | 6,535        | 912,030        |
| Intangible assets recognized during the period        | 2,092                         | —              | —            | 2,092          |
| Currency translation during the period                | (6,758 )                      | (5,015 )       | 74           | (11,699 )      |
| Balance as of March 30, 2019                          | \$646,346                     | 249,468        | 6,609        | 902,423        |
| <b>Accumulated amortization:</b>                      | <b>Customer relationships</b> | <b>Patents</b> | <b>Other</b> | <b>Total</b>   |
| Balance as of December 31, 2018                       | \$406,386                     | 249,988        | 1,227        | 657,601        |
| Amortization during the period                        | 6,194                         | 533            | 2            | 6,729          |
| Currency translation during the period                | (4,772 )                      | (4,920 )       | (5 )         | (9,697 )       |
| Balance as of March 30, 2019                          | \$407,808                     | 245,601        | 1,224        | 654,633        |
| <b>Intangible assets subject to amortization, net</b> | <b>\$238,538</b>              | <b>3,867</b>   | <b>5,385</b> | <b>247,790</b> |

|                      | Three Months Ended | March 30, March 31, 2019 | March 31, 2018 |
|----------------------|--------------------|--------------------------|----------------|
| Amortization expense | \$6,729            | 7,567                    |                |

**8. Accounts payable and accrued expenses**

Accounts payable and accrued expenses are as follows:

|                                             | March 30, 2019 | December 31, 2018 |
|---------------------------------------------|----------------|-------------------|
| Outstanding checks in excess of cash        | \$3,626        | 14,624            |
| Accounts payable, trade                     | 914,205        | 811,879           |
| Accrued expenses                            | 407,386        | 430,431           |
| Product warranties                          | 46,129         | 47,511            |
| Accrued interest                            | 7,197          | 21,908            |
| Accrued compensation and benefits           | 192,730        | 197,513           |
| Total accounts payable and accrued expenses | \$1,571,273    | 1,523,866         |

**9. Accumulated other comprehensive income (loss)**

The changes in accumulated other comprehensive income (loss) by component, for the three months ended March 30, 2019 are as follows:

|                                           | Foreign currency translation adjustments | Pensions, net of tax | Total     |
|-------------------------------------------|------------------------------------------|----------------------|-----------|
| Balance as of December 31, 2018           | \$(782,102)                              | (9,506)              | (791,608) |
| Current period other comprehensive income | 13,953                                   | 108                  | 14,061    |
| Balance as of March 30, 2019              | \$(768,149)                              | (9,398)              | (777,547) |



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**10. Leases**

Effective January 1, 2019 the Company adopted ASC 842, which requires recognition of right of use (“ROU”) assets and lease liabilities on the balance sheet, based on the present value of the future minimum rental payments for existing operating leases. The Company adopted the provisions of ASC 842 on January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption in line with the new transition method allowed under ASU 2018-11. ASC 842 provides a number of optional practical expedients in transition. The Company elected the “package of practical expedients” which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight and elected the practical expedient pertaining to land easements. The new standard also provides practical expedients for an entity’s ongoing accounting for leases. The Company elected the short-term lease exemption for all leases that qualify, meaning the Company will not recognize ROU assets or lease liabilities for leases with terms shorter than twelve months. The Company also elected the practical expedient to not separate lease and non-lease components for a majority of its asset classes, including real estate and most equipment.

The Company measures the ROU assets and liabilities based on the present value of the future minimum lease payments over the lease term at the commencement date. Minimum lease payments include the fixed lease and non-lease components of the agreement, as well as any variable rent payments that depend on an index, initially measured using the index at the lease commencement date. The ROU assets are adjusted for any initial direct costs incurred less any lease incentives received, in addition to payments made on or before the commencement date of the lease. The Company recognizes lease expense for leases on a straight-line basis over the lease term.

As the implicit rate is not readily determinable for most of the Company’s lease agreements, the Company uses an estimated incremental borrowing rate to determine the initial present value of lease payments. These discount rates for leases are calculated using the Company’s credit spread adjusted for current market factors and foreign currency rates. The Company also made a policy election to determine its incremental borrowing rate, at the initial application date, using the total lease term and the total minimum rental payments, as the Company believes this rate is more indicative of the implied financing cost.

The Company determines if a contract is or contains a lease at inception. The Company has operating and finance leases for service centers, warehouses, showrooms, and machinery and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company enters into lease contracts ranging from 1 to 60 years with a majority of the Company’s lease terms ranging from 1 to 8 years.

Some leases include one or more options to renew, with renewal terms that can extend the lease term from 3 to 10 years or more. The exercise of these lease renewal options is at the Company’s sole discretion. An insignificant number of our leases include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Certain of our leases include rental payments that will adjust periodically for inflation or certain adjustments based on step increases. An insignificant number of our leases contain residual value guarantees and none of our agreements contain material restrictive covenants. Variable rent expenses consist primarily of maintenance, property taxes and charges based on usage.

We rent or sublease certain real estate to third parties. Our sublease portfolio consists mainly of operating leases.



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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The components of lease costs are as follows:

| Three Months Ended March 30, 2019 | Cost of<br>Goods Sold | Selling,<br>General and<br>Administrative | Total  |
|-----------------------------------|-----------------------|-------------------------------------------|--------|
| Operating lease costs             |                       |                                           |        |
| Fixed                             | \$7,688               | 24,455                                    | 32,143 |
| Short-term                        | 1,439                 | 2,909                                     | 4,348  |
| Variable                          | 2,278                 | 5,200                                     | 7,478  |
| Sub-leases                        | (84 )                 | (133 )                                    | (217 ) |
|                                   | 11,321                | 32,431                                    | 43,752 |
| Finance lease costs               |                       |                                           |        |
| Amortization of leased assets     | —                     | 432                                       | 432    |
| Interest on lease liabilities     | —                     | 31                                        | 31     |
|                                   | —                     | 463                                       | 463    |
| Net lease costs                   | \$ 11,321             | 32,894                                    | 44,215 |

Supplemental balance sheet information related to leases is as follows:

|                                      | Classification                                        | March 30,<br>2019 |
|--------------------------------------|-------------------------------------------------------|-------------------|
| <b>Assets</b>                        |                                                       |                   |
| Operating Leases                     |                                                       |                   |
| Right of use operating lease assets  | Right of use operating lease assets                   | \$ 320,800        |
| Finance Leases                       |                                                       |                   |
| Property, plant and equipment, gross | Property, plant and equipment                         | 9,086             |
| Accumulated depreciation             | Accumulated depreciation                              | (2,817 )          |
| Property, plant and equipment, net   | Property, plant and equipment, net                    | 6,269             |
| Total lease assets                   |                                                       | \$ 327,069        |
| <b>Liabilities</b>                   |                                                       |                   |
| Operating Leases                     |                                                       |                   |
| Other current                        | Current operating lease liabilities                   | \$ 99,642         |
| Non-current                          | Non-current operating lease liabilities               | 227,595           |
| Total operating liabilities          |                                                       | 327,237           |
| Finance Leases                       |                                                       |                   |
| Short-term debt                      | Short-term debt and current portion of long-term debt | 1,179             |
| Long-term debt                       | Long-term debt, less current portion                  | 5,130             |
| Total finance liabilities            |                                                       | 6,309             |
| Total lease liabilities              |                                                       | \$ 333,546        |





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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Maturities of lease liabilities are as follows:

| <b>Year ending December 31,</b>                        | <b>Finance Leases</b> | <b>Operating Leases</b> | <b>Total</b> |
|--------------------------------------------------------|-----------------------|-------------------------|--------------|
| 2019 (excluding the three months ended March 30, 2019) | \$932                 | 81,796                  | 82,728       |
| 2020                                                   | 1,028                 | 100,986                 | 102,014      |
| 2021                                                   | 608                   | 72,184                  | 72,792       |
| 2022                                                   | 412                   | 46,168                  | 46,580       |
| 2023                                                   | 412                   | 23,123                  | 23,535       |
| Thereafter                                             | 3,388                 | 30,289                  | 33,677       |
| Total lease payments                                   | 6,780                 | 354,546                 | 361,326      |
| Less imputed interest                                  | 471                   | 27,309                  |              |
| Present value, Total                                   | \$6,309               | 327,237                 |              |

The Company had approximately \$5,000 of leases that commenced after March 30, 2019 that created rights and obligations to the Company. These leases are not included in the above maturity schedule.

For additional information regarding the Company's Commitments and Contingencies as of December 31, 2018 as disclosed for capital and operating leases, see Note 14 in its 2018 Annual Report filed on Form 10-K.

Lease term and discount rate are as follows:

|                                              | <b>March 30,<br/>2019</b> |
|----------------------------------------------|---------------------------|
| <b>Weighted Average Remaining Lease Term</b> |                           |
| Operating Leases                             | 4.16 years                |
| Finance Leases                               | 8.89 years                |

**Weighted Average Discount Rate**

|                  |     |   |
|------------------|-----|---|
| Operating Leases | 3.3 | % |
| Finance Leases   | 2.1 | % |

Supplemental cash flow information related to leases was as follows:

|                                                                     | <b>Three<br/>Months<br/>Ended<br/>March 30,<br/>2019</b> |
|---------------------------------------------------------------------|----------------------------------------------------------|
| Cash paid for amounts included in measurement of lease liabilities: |                                                          |
| Operating cash flows from operating leases                          | \$31,557                                                 |
| Operating cash flows from finance leases                            | 31                                                       |
| Financing cash flows from finance leases                            | 371                                                      |
| Right-of-use assets obtained in exchange for lease obligations:     |                                                          |
| Operating Leases                                                    | 22,243                                                   |
| Finance Leases                                                      | —                                                        |
| Amortization:                                                       |                                                          |
| Amortization of Right of use operating lease assets <sup>(1)</sup>  | 28,641                                                   |

(1) Amortization of Right of use operating lease assets during the period is reflected in Other assets and prepaid expenses on the Condensed Consolidated Statements of Cash Flows.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**11. 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 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.

The Company granted 169 restricted stock units ("RSUs") at a weighted average grant-date fair value of \$137.71 per unit for the three months ended March 30, 2019. The Company granted 123 at a weighted average grant-date fair value of \$239.04 per unit for the three months ended March 31, 2018. The Company recognized stock-based compensation costs related to the issuance of RSUs of \$5,789 (\$4,283 net of taxes) and \$7,948 (\$5,882 net of taxes) for the three months ended March 30, 2019 and March 31, 2018, 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 \$18,759 as of March 30, 2019, and will be recognized as expense over a weighted-average period of approximately 1.85 years. The Company did not recognize any stock-based compensation costs related to stock options for the three months ended March 30, 2019 and March 31, 2018, respectively.

**12. Other expense (income), net**

Other expense (income), net is as follows:

|                                      | Three Months Ended |                   |
|--------------------------------------|--------------------|-------------------|
|                                      | March 30,<br>2019  | March 31,<br>2018 |
| Foreign currency losses (gains), net | \$(1,110)          | 1,405             |
| Release of indemnification asset     | —                  | 1,749             |
| All other, net                       | (2,626 )           | 844               |
| Total other expense, net             | \$(3,736)          | 3,998             |

**13. Income Taxes**

For the quarter ended March 30, 2019, the Company recorded income tax expense of \$37,018 on earnings before income taxes of \$158,593 for an effective tax rate of 23.3%, as compared to an income tax expense of \$47,632 on earnings before income taxes of \$256,873, for an effective tax rate of 18.5% for the quarter ended March 31, 2018. The difference in the effective tax rates for the comparative periods was caused by the geographic dispersion of profits and losses for the respective periods; the elimination of an annual tax benefit in Italy; and a discrete stock expense.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**14. Stockholders' Equity**

The following tables reflect the changes in stockholders' equity for the three months ended March 30, 2019 and March 31, 2018 (in thousands).

|                                                                                  | Redeemable<br>Noncontrolling<br>Interest | Common Stock |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensiv<br>Income (Loss) | Treasury Stock |           | Noncontrolling<br>Interest | Total<br>Stockholders'<br>Equity |              |
|----------------------------------------------------------------------------------|------------------------------------------|--------------|--------|----------------------------------|----------------------|-------------------------------------------------------|----------------|-----------|----------------------------|----------------------------------|--------------|
|                                                                                  |                                          | Shares       | Amount |                                  |                      |                                                       | Shares         | Amount    |                            |                                  |              |
| January 1, 2019                                                                  | \$                                       | —            | 79,656 | \$ 797                           | \$ 1,852,173         | \$ 6,588,197                                          | \$(791,608)    | \$(7,349) | \$(215,745)                | \$ 6,245                         | \$ 7,440,059 |
| Shares issued under employee and director stock plans                            | —                                        | 115          | 1      | (4,478)                          | —                    | —                                                     | —              | 29        | —                          | —                                | (4,448)      |
| Stock-based compensation expense                                                 | —                                        | —            | —      | 5,789                            | —                    | —                                                     | —              | —         | —                          | —                                | 5,789        |
| Accretion of redeemable noncontrolling interest                                  | —                                        | —            | —      | —                                | —                    | —                                                     | —              | —         | —                          | —                                | —            |
| Noncontrolling earnings                                                          | —                                        | —            | —      | —                                | —                    | —                                                     | —              | —         | —                          | (10)                             | (10)         |
| Currency translation adjustment on non-controlling interests                     | —                                        | —            | —      | —                                | —                    | —                                                     | —              | —         | —                          | —                                | —            |
| Currency translation adjustment                                                  | —                                        | —            | —      | —                                | —                    | 13,953                                                | —              | —         | —                          | 9                                | 13,962       |
| Prior pension and post-retirement benefit service cost and actuarial gain / loss | —                                        | —            | —      | —                                | —                    | 108                                                   | —              | —         | —                          | —                                | 108          |
| Net income                                                                       | —                                        | —            | —      | —                                | 121,585              | —                                                     | —              | —         | —                          | —                                | 121,585      |
| March 30, 2019                                                                   | \$                                       | —            | 79,771 | \$ 798                           | \$ 1,853,484         | \$ 6,709,782                                          | \$(777,547)    | \$(7,349) | \$(215,716)                | \$ 6,244                         | \$ 7,577,045 |

|                                                                                  | Redeemable<br>Noncontrolling<br>Interest | Common Stock |        | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensiv<br>Income (Loss) | Treasury Stock |             | Noncontrolling<br>Interest | Total<br>Stockholders'<br>Equity |         |
|----------------------------------------------------------------------------------|------------------------------------------|--------------|--------|----------------------------------|----------------------|-------------------------------------------------------|----------------|-------------|----------------------------|----------------------------------|---------|
|                                                                                  |                                          | Shares       | Amount |                                  |                      |                                                       | Shares         | Amount      |                            |                                  |         |
| January 1, 2018                                                                  | \$ 29,463                                | 81,771       | \$ 818 | \$ 1,828,131                     | \$ 6,004,506         | \$(558,527)                                           | \$(7,350)      | \$(215,766) | \$ 7,847                   | \$ 7,067,009                     |         |
| Shares issued under employee and director stock plans                            | —                                        | 112          | 1      | (9,004)                          | —                    | —                                                     | —              | 17          | —                          | —                                | (8,986) |
| Stock-based compensation expense                                                 | —                                        | —            | —      | 7,948                            | —                    | —                                                     | —              | —           | —                          | —                                | 7,948   |
| Accretion of redeemable noncontrolling interest                                  | 305                                      | —            | —      | —                                | (305)                | —                                                     | —              | —           | —                          | —                                | (305)   |
| Noncontrolling earnings                                                          | 444                                      | —            | —      | —                                | —                    | —                                                     | —              | —           | —                          | 31                               | 31      |
| Currency translation adjustment on non-controlling interests                     | 711                                      | —            | —      | —                                | —                    | —                                                     | —              | —           | —                          | 188                              | 188     |
| Currency translation adjustment                                                  | —                                        | —            | —      | —                                | —                    | 71,494                                                | —              | —           | —                          | —                                | 71,494  |
| Prior pension and post-retirement benefit service cost and actuarial gain / loss | —                                        | —            | —      | —                                | —                    | (135)                                                 | —              | —           | —                          | —                                | (135)   |
| Net income                                                                       | —                                        | —            | —      | —                                | 208,766              | —                                                     | —              | —           | —                          | —                                | 208,766 |
| March 31, 2018                                                                   | \$ 30,924                                | 81,883       | \$ 819 | \$ 1,827,075                     | \$ 6,212,966         | \$(487,168)                                           | \$(7,350)      | \$(215,749) | \$ 8,066                   | \$ 7,346,009                     |         |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**15. Earnings per share**

Basic earnings per common share is computed by dividing net earnings available to common stockholders 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 net earnings available to common stockholders and weighted-average common shares outstanding for purposes of calculating basic and diluted earnings per share is as follows:

|                                                                                                       | <b>Three Months Ended</b> |                           |
|-------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
|                                                                                                       | <b>March 30,<br/>2019</b> | <b>March 31,<br/>2018</b> |
| Net earnings attributable to Mohawk Industries, Inc.                                                  | \$ 121,585                | 208,766                   |
| Accretion of redeemable noncontrolling interest <sup>(1)</sup>                                        | —                         | (305 )                    |
| Net earnings available to common stockholders                                                         | \$ 121,585                | 208,461                   |
| Weighted-average common shares outstanding-basic and diluted:                                         |                           |                           |
| Weighted-average common shares outstanding—basic                                                      | 72,342                    | 74,453                    |
| Add weighted-average dilutive potential common shares—options to purchase common shares and RSUs, net | 304                       | 476                       |
| Weighted-average common shares outstanding-diluted                                                    | 72,646                    | 74,929                    |
| Earnings per share attributable to Mohawk Industries, Inc.                                            |                           |                           |
| Basic                                                                                                 | \$ 1.68                   | 2.80                      |
| Diluted                                                                                               | \$ 1.67                   | 2.78                      |

(1) Represents the accretion of the Company's redeemable noncontrolling interest to redemptive value. The holder put this option to the Company on December 20, 2018 for \$33,884.

**16. 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 tile and other products including natural stone, quartz and porcelain slab countertops, which it distributes primarily in North America, Europe and Russia through its network of regional distribution centers and Company-operated service centers. 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, carpets, rugs, roofing elements, insulation boards, medium-density fiberboard, chipboards, sheet vinyl and LVT, which it distributes primarily in Europe, Russia, Australia and New Zealand 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.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Segment information is as follows:

|                                         | Three Months Ended |                      |
|-----------------------------------------|--------------------|----------------------|
|                                         | March 30,<br>2019  | March 31,<br>2018    |
| Net sales:                              |                    |                      |
| Global Ceramic segment                  | \$ 898,352         | 876,548              |
| Flooring NA segment                     | 921,980            | 950,358              |
| Flooring ROW segment                    | 622,158            | 585,296              |
| Intersegment sales                      | —                  | —                    |
| Total                                   | \$ 2,442,490       | 2,412,202            |
| Operating income (loss):                |                    |                      |
| Global Ceramic segment                  | \$ 84,335          | 113,417              |
| Flooring NA segment                     | 649                | 74,748               |
| Flooring ROW segment                    | 90,431             | 89,060               |
| Corporate and intersegment eliminations | (10,085 )          | (8,826 )             |
| Total                                   | \$ 165,330         | 268,399              |
|                                         | March 30,<br>2019  | December 31,<br>2018 |
| Assets:                                 |                    |                      |
| Global Ceramic segment                  | \$ 5,503,807       | 5,194,030            |
| Flooring NA segment                     | 4,020,336          | 3,938,639            |
| Flooring ROW segment                    | 3,799,591          | 3,666,617            |
| Corporate and intersegment eliminations | 281,341            | 299,837              |
| Total                                   | \$ 13,605,075      | 13,099,123           |

**17. 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.

*Alabama Municipal Litigation*

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama (the “Gadsden Water Board”) filed an individual complaint in the Circuit Court of Etowah County, Alabama against certain manufacturers, suppliers, and users of chemicals containing specific perfluorinated compounds, including the Company. On October 26, 2016, the defendants removed the case to the United States District Court for the Northern District of Alabama, Middle Division, alleging diversity of citizenship and fraudulent joinder. The Gadsden Water Board filed a motion to remand the case back to the state court, and the defendants opposed the Gadsden Water Board’s motion. The federal court granted Gadsden Water Board’s motion for remand.

In May 2017, the Water Works and Sewer Board of the Town of Centre, Alabama (the “Centre Water Board”) filed a very similar complaint to the Gadsden Water Board complaint in the Circuit Court of Cherokee County. On June 19, 2017, the defendants removed this case to the United States District Court for the Northern District of Alabama, Middle Division, again alleging diversity of citizenship and fraudulent joinder. The Centre Water Board filed a motion

to remand the case back to state court, and the defendants opposed the Centre Water Board's motion. The federal court granted Centre Water Board's motion for remand.

Certain defendants, including the Company, filed dispositive motions in each case arguing that the state court lacks personal jurisdiction over them. Both state courts denied those motions. In June and September 2018, certain defendants, including the Company, petitioned the Alabama Supreme Court for Writs of Mandamus directing each lower court to enter an order granting the defendants' dispositive motions on personal jurisdiction grounds. Those petitions have been fully briefed and the Company awaits a decision from the Alabama Supreme Court.



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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company has never manufactured the perfluorinated compounds at issue but purchased them for use in the manufacture of its carpets prior to 2007. The Gadsden and Centre Water Boards are not alleging that chemical levels in the Company's wastewater discharge exceeded legal limits. Instead, the Gadsden and Centre Water Boards are seeking lost profits based on allegations that their customers decreased water purchases, as well as reimbursement for the cost of a filter and punitive damages.

*Belgian Tax Matter*

Between 2012 and 2014, the Company received assessments from the Belgian tax authority for the calendar years 2005 through 2010 in the amounts of €46,135, €38,817, €39,635, €30,131, €35,567 and €43,117 respectively, including penalties, but excluding interest. The Belgian tax authority denied the Company's formal protests against these assessments and the Company brought all six years before the Court of First Appeal in Bruges. The Court of First Appeal in Bruges ruled in favor of the Company on January 27, 2016, with respect to the calendar years ending December 31, 2005 and December 31, 2009; and on June 13, 2018, the Court of First Appeal in Bruges ruled in favor of the Company with respect to the calendar years ending December 31, 2006, December 31, 2007, December 31, 2008 and December 31, 2010. The Belgian tax authority has lodged its Notification of Appeal for all six years with the Ghent Court of Appeal. As of March 2019, the Company received assessments from the Belgian tax authority for tax years 2011 through 2017 in the amount of €40,617, €39,732, €11,358, €23,919, €30,610, €93,145 and €79,933 respectively, including penalties, but excluding interest. The Company intends to file formal protests based on these assessments in a timely manner. The assessments are largely based on the same facts underlying the positive rulings, which the Belgian tax authority is appealing.

The Company continues to disagree 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.

*General*

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 the Company is 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.

**18. Debt**

*Senior Credit Facility*

On March 26, 2015, the Company amended and restated its 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 eliminated 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. Additionally, at several points in 2016, the Company extended the maturity date of the 2015 Senior Credit Facility from March 26, 2020 to March 26, 2021. In the first half of 2017, the Company amended the 2015 Senior Credit Facility to extend the maturity date from March 26, 2021 to March 26, 2022.

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 March 30, 2019), or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, or the Eurocurrency Rate (as defined in the 2015 Senior Credit Facility) rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75% (0.125% as of March 30, 2019). 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

utilization of the 2015 Senior Credit Facility ranging from 0.10% to 0.225% per annum (0.125% as of March 30, 2019). 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.

In 2017, the Company paid financing costs of \$567 in connection with the extension of its 2015 Senior Credit Facility from March 26, 2021 to March 26, 2022. These costs were deferred and, along with unamortized costs of \$6,873 are being amortized over the term of the 2015 Senior Credit Facility.

As of March 30, 2019, amounts utilized under the 2015 Senior Credit Facility included \$20,193 of borrowings and \$22,787 of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$1,405,411 under the Company's U.S. and European commercial paper programs as of March 30, 2019 reduce the availability of the 2015 Senior Credit Facility. Including commercial paper borrowings, the Company has utilized \$1,448,391 under the 2015 Senior Credit Facility resulting in a total of \$351,609 available as of March 30, 2019.

*Commercial Paper*

On February 28, 2014 and July 31, 2015, the Company established programs for the issuance of unsecured commercial paper in the United States and Eurozone capital markets, respectively. Commercial paper issued under the U.S. and European programs will have maturities ranging up to 397 and 183 days, respectively. None of the commercial paper notes may be voluntarily prepaid or redeemed by the Company and all 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 of the Company, the notes will be fully and unconditionally guaranteed by the Company.

The Company uses its 2015 Senior Credit Facility as a liquidity backstop for its commercial paper programs. Accordingly, the total amount outstanding under all of the Company's commercial paper programs may not exceed \$1,800,000 (less any amounts drawn on the 2015 Senior Credit Facility) at any time.

The proceeds from the issuance of commercial paper notes will be available for general corporate purposes. As of March 30, 2019, there was \$688,000 outstanding under the U.S. commercial paper program, and the euro equivalent of \$717,411 under the European program. The weighted-average interest rate and maturity period for the U.S. program were 2.78% and 25.44 days, respectively. The weighted average interest rate and maturity period for the European program were (0.21)% and 38.24 days, respectively.

*Senior Notes*

On May 18, 2018, Mohawk Capital Finance S.A. (“Mohawk Finance”), an indirect wholly-owned finance subsidiary of the Company, completed the issuance and sale of €300,000 aggregate principal amount of its Floating Rate Notes due May 18, 2020 (“2020 Floating Rate Notes”). The 2020 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance’s other existing and future senior unsecured indebtedness. The 2020 Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event shall the interest rate be less than zero). Interest on the 2020 Floating Rate Notes is payable quarterly on August 18, November 18, February 18, and May 18 of each

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

year. Mohawk Finance paid financing costs of \$890 in connection with the 2020 Floating Rate Notes. These costs were deferred and are being amortized over the term of the 2020 Floating Rate Notes.

On September 11, 2017, Mohawk Finance completed the issuance and sale of €300,000 aggregate principal amount of its Floating Rate Notes due September 11, 2019 (“2019 Floating Rate Notes”). The 2019 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance’s other existing and future senior unsecured indebtedness. The 2019 Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event shall the interest rate be less than zero). Interest on the 2019 Floating Rate Notes is payable quarterly on September 11, December 11, March 11, and June 11 of each year. Mohawk Finance paid financing costs of \$911 in connection with the 2019 Floating Rate Notes. These costs were deferred and are being amortized over the term of the 2019 Floating Rate Notes.

On June 9, 2015, the Company issued €500,000 aggregate principal amount of 2.00% Senior Notes (“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, commencing on January 14, 2016. 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 (“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 of 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.

As defined in the related agreements, the Company’s senior notes contain covenants, representations and warranties and events of default, subject to exceptions, and restrictions on the Company’s financial and business operations, including limitations on liens, restrictions on entering into sale and leaseback transactions, fundamental changes, and a provision allowing the holder of the notes to require repayment upon a change of control triggering event.

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

|                                                                             | March 30, 2019 |                | December 31, 2018 |                |
|-----------------------------------------------------------------------------|----------------|----------------|-------------------|----------------|
|                                                                             | Fair Value     | Carrying Value | Fair Value        | Carrying Value |
| 3.85% senior notes, payable February 1, 2023; interest payable semiannually | \$ 618,582     | 600,000        | 599,904           | 600,000        |
| 2.00% senior notes, payable January 14, 2022; interest payable annually     | 583,744        | 560,915        | 587,487           | 572,148        |
| Floating Rate Notes, payable May 18, 2020, interest payable quarterly       | 336,286        | 336,549        | 343,004           | 343,289        |
| Floating Rate Notes, payable September 11, 2019, interest payable quarterly | 336,751        | 336,549        | 343,560           | 343,289        |
| U.S. commercial paper                                                       | 688,000        | 688,000        | 632,668           | 632,668        |

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|                                                              |             |           |           |           |
|--------------------------------------------------------------|-------------|-----------|-----------|-----------|
| European commercial paper                                    | 717,411     | 717,411   | 707,175   | 707,175   |
| Five-year senior secured credit facility, due March 26, 2022 | 20,193      | 20,193    | 57,896    | 57,896    |
| Capital leases and other                                     | 6,310       | 6,310     | 6,664     | 6,664     |
| Unamortized debt issuance costs                              | (4,620 )    | (4,620 )  | (5,155 )  | (5,155 )  |
| Total debt                                                   | 3,302,657   | 3,261,307 | 3,273,203 | 3,257,974 |
| Less current portion of long-term debt and commercial paper  | 1,763,332   | 1,763,332 | 1,742,373 | 1,742,373 |
| Long-term debt, less current portion                         | \$1,539,325 | 1,497,975 | 1,530,830 | 1,515,601 |

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**

During the past two decades, the Company has grown significantly. Its current geographic breadth and diverse product offering are reflected in three reporting segments: Global Ceramic; Flooring North America (“Flooring NA”); and Flooring Rest of the World (“Flooring ROW”). The Global Ceramic Segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone tile and other products including natural stone, quartz and porcelain slab countertops, which it distributes primarily in North America, Europe, Brazil and Russia through various selling channels, which include company-owned stores, independent distributors and home centers. The Flooring NA Segment designs, manufactures, sources and markets its floor covering product lines, including carpets, rugs, carpet cushion, wood, laminate and vinyl products, including luxury vinyl tile (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, online retailers, buying groups, commercial contractors and commercial end users. The Flooring ROW Segment designs, manufactures, sources, licenses and markets laminate, wood flooring, carpets, roofing elements, insulation boards, medium-density fiberboard (“MDF”), chipboards, other wood products and vinyl products, including LVT, which it distributes primarily in Europe, Russia, Australia and New Zealand through various selling channels, which include independent floor covering retailers, independent distributors, company-owned distributors, home centers, commercial contractors and commercial end users.

Mohawk is a significant supplier of every major flooring category with manufacturing operations in 19 nations and sales in more than 170 countries. Based on its annual sales, the Company believes it is the world’s largest flooring manufacturer. A majority of the Company’s long-lived assets are located in the United States and Europe, which are also the Company’s primary markets. The Company expects continued growth in the United States market consistent with residential housing starts and remodeling investments and has invested significantly in state-of-the-art manufacturing to create aspirational products to delight consumers with beauty and performance. The Company also is a leading provider of flooring for the U.S. commercial market and has earned significant recognition for its innovation in design and performance and sustainable practices. Additionally, the Company maintains significant operations in Europe, Russia, Mexico, Australia, New Zealand, Brazil and other parts of the world. The Company is growing share in many markets through its differentiated products, especially its ceramic tile collections.

In 2018, the Company invested over \$790 million in capital projects to expand capacities, differentiate products, and improve productivity. In 2019, the Company plans to invest an additional \$550-580 million in its existing businesses to complete projects that were begun in 2018 and to commence new initiatives. The largest investments during this two-year period are the expansion of LVT in the U.S. and Europe; ceramic capacity increases in Mexico, Italy, Poland and Russia; luxury laminate in the U.S., Europe and Russia; carpet tile in Europe; sheet vinyl in Russia; and countertops in the U.S. and Europe.

For the three months ended March 30, 2019, net earnings attributable to the Company were \$121.6 million, or diluted earnings per share (“EPS”) of \$1.67, compared to net earnings attributable to the Company of \$208.8 million, or diluted EPS of \$2.78 for the three months ended March 31, 2018. The decrease in EPS was primarily attributable to higher inflation, costs due to temporarily reducing production, the impact of restructuring, acquisition and integration-related costs, the net unfavorable impact from foreign exchange rates partially offset by savings from capital investments and cost reduction initiatives.

For the three months ended March 30, 2019, the Company generated \$170.1 million of cash from operating activities. As of March 30, 2019, the Company had cash and cash equivalents of \$105.7 million, of which \$25.7 million was in the United States and \$80.0 million was in foreign countries.

**Recent Events**

On January 31, 2019, the Company completed an acquisition of a hard surface flooring distribution company based in the Netherlands for approximately \$72.0 million.

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Table of Contents**Results of Operations***Quarter Ended March 30, 2019, as compared with Quarter Ended March 31, 2018***Net sales**

Net sales for the three months ended March 30, 2019 were \$2,442.5 million, reflecting an increase of \$30.3 million, or 1.3%, from the \$2,412.2 million reported for the three months ended March 31, 2018. The increase was primarily attributable to higher sales volume of approximately \$100 million, or 4.1% which includes sales from acquisitions of approximately \$120 million, higher legacy sales volume of approximately \$16 million partially offset by the unfavorable impact from fewer shipping days in the first quarter of 2019 of approximately \$36 million. Net Sales were also affected by the unfavorable net impact from foreign exchange rates of approximately \$73 million, or 3%.

*Global Ceramic segment*—Net sales increased \$21.8 million, or 2.5%, to \$898.4 million for the three months ended March 30, 2019, compared to \$876.5 million for the three months ended March 31, 2018. The increase was primarily attributable to higher sales volume of approximately \$40 million which includes sales from acquisitions of approximately \$51 million and the impact of positive sales mix of approximately \$9 million partially offset by the unfavorable impact of fewer shipping days in the first quarter of 2019 of approximately \$12 million and the unfavorable net impact from foreign exchange rates of approximately \$27 million.

*Flooring NA segment*—Net sales decreased \$28.4 million, or 3.0%, to \$922.0 million for the three months ended March 30, 2019, compared to \$950.4 million for the three months ended March 31, 2018. The decrease was primarily attributable to lower volumes of \$24 million, the unfavorable impact of fewer shipping days in the first quarter of 2019 of approximately \$15 million partially offset by the favorable net impact of price and product mix of approximately \$10 million.

*Flooring ROW segment*—Net sales increased \$36.9 million, or 6.3%, to \$622.2 million for the three months ended March 30, 2019, compared to \$585.3 million for the three months ended March 31, 2018. The increase was primarily attributable higher sales volume of approximately \$99 million which includes sales from acquisitions of approximately \$69 million, higher legacy sales of \$39 million partially offset by the unfavorable net impact of price and product mix of \$16 million, the impact of fewer shipping days in the first quarter of 2019 of approximately \$10 million and the unfavorable net impact from foreign exchange rates of approximately \$46 million.

**Gross profit**

Gross profit for the three months ended March 30, 2019 was \$624.9 million (25.6% of net sales), a decrease of \$79.8 million or 11.3%, compared to gross profit of \$704.7 million (29.2% of net sales) for the three months ended March 31, 2018. As a percentage of net sales, gross profit decreased 363 basis points. The decrease in gross profit dollars was attributable to higher inflation costs of approximately \$45 million, the impact of restructuring, acquisition and integration-related costs of approximately \$22 million, the unfavorable net impact from foreign exchange rates of approximately \$22 million, an increase in costs of approximately \$12 million due to lower than expected production volumes, the unfavorable net impact of price and product mix of \$12 million, approximately \$7 million of costs due to temporarily reducing production, partially offset by higher sales volume of approximately \$21 million, savings from capital investments and cost reduction initiatives of approximately \$11 million, and lower start up costs of approximately \$9 million.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for the three months ended March 30, 2019 were \$459.6 million (18.8% of net sales), an increase of \$23.3 million compared to \$436.3 million (18.1% of net sales) for the three months ended March 31, 2018. As a percentage of net sales, selling, general and administrative expenses increased 73 basis points. The increase in selling, general and administrative expenses was primarily attributable to acquisitions of approximately \$20 million, inflation of approximately \$6 million, approximately \$5 million of costs associated with investments in new product development, sales personnel, and marketing, approximately \$2 million of expenses driven by higher sales volume partially offset by the favorable net impact from foreign exchange rates of approximately \$11 million.

### **Operating income**

Operating income for the three months ended March 30, 2019 was \$165.3 million (6.8% of net sales) reflecting a decrease of \$103.1 million, or 38.4%, compared to operating income of \$268.4 million (11.1% of net sales) for the three months ended March 31, 2018. The decrease in operating income was primarily attributable to higher inflation costs of approximately \$51

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million, the impact of restructuring, acquisition and integration-related and other costs of approximately \$18 million, an increase in costs of approximately \$16 million due to lower than expected production volumes, the unfavorable net impact of price and product mix of \$12 million, the unfavorable net impact from foreign exchange rates of approximately \$11 million, \$7 million of costs due to temporarily reducing production, approximately \$5 million of costs associated with investments in new product development, sales personnel, and marketing partially offset by savings from capital investments and cost reduction initiatives of approximately \$11 million and lower startup costs of approximately \$10 million.

*Global Ceramic segment*—Operating income was \$84.3 million (9.4% of segment net sales) for the three months ended March 30, 2019 reflecting a decrease of \$29.1 million compared to operating income of \$113.4 million (12.9% of segment net sales) for the three months ended March 31, 2018. The decrease in operating income was primarily attributable to higher inflation costs of approximately \$21 million, approximately \$6 million of costs due to temporarily reducing production, approximately \$5 million of costs associated with investments in new product development, sales personnel, and marketing, and the unfavorable net impact from foreign exchange rates of approximately \$3 million partially offset by savings from capital investments and cost reduction initiatives of approximately \$8 million.

*Flooring NA segment*—Operating income was \$0.6 million (0.1% of segment net sales) for the three months ended March 30, 2019 reflecting a decrease of \$74.1 million compared to operating income of \$74.7 million (7.9% of segment net sales) for the three months ended March 31, 2018. The decrease in operating income was primarily attributable to higher inflation costs of approximately \$39 million, an increase in costs of approximately \$20 million due to lower than expected production volumes, the impact of restructuring costs of approximately \$14 million and approximately \$15 million due to lower sales volumes partially offset by savings from capital investments and cost reduction initiatives of approximately \$8 million, lower start up costs of approximately \$4 million and the favorable net impact of price and product mix of \$3 million.

*Flooring ROW segment*—Operating income was \$90.4 million (14.5% of segment net sales) for the three months ended March 30, 2019 reflecting an increase of \$1.4 million compared to operating income of \$89.1 million (15.2% of segment net sales) for the three months ended March 31, 2018. The increase in operating income was primarily attributable to increased sales volume of approximately \$14 million, lower material inflation costs of approximately \$10 million and lower start-up costs of approximately \$4 million partially offset by unfavorable net impact of price and product mix of approximately \$16 million and the unfavorable net impact from foreign exchange rates of approximately \$8 million.

**Interest expense**

Interest expense was \$10.5 million for the three months ended March 30, 2019, reflecting an increase of \$2.9 million compared to interest expense of \$7.5 million for the three months ended March 31, 2018. The increase in interest expense was primarily due to increased borrowings.

**Other expense (income), net**

Other expense (income), net was \$3.7 million for the three months ended March 30, 2019, reflecting a favorable change of \$7.7 million compared to other expense, net of \$4.0 million for the three months ended March 31, 2018. The change was primarily attributable to the increased favorable impact from foreign exchange rates on transactions in the current year.

**Income tax expense**

For the three months ended March 30, 2019, the Company recorded income tax expense of \$37.0 million on earnings before income taxes of \$158.6 million for an effective tax rate of 23.3%, as compared to income tax expense of \$47.6 million on earnings before income taxes of \$256.9 million, for an effective tax rate of 18.5% for the three months ended March 31, 2018. The difference in the effective tax rates for the comparative periods was caused by the geographic dispersion of profits and losses for the periods; the elimination of an annual tax benefit in Italy; and a discrete detrimental stock option accounting expense.

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**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 three months of 2019 was \$170.1 million, compared to net cash provided by operating activities of \$183.2 million in the first three months of 2018. The decrease of \$13.1 million in 2019 was primarily attributable to 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 three months of 2019 was \$211.8 million compared to net cash used in investing activities of \$241.4 million in the first three months of 2018. The decrease was primarily due to reduced capital expenditures of \$114.0 million partially offset by an increase in acquisition costs of \$52.4 million and by the net redemption activity in short-term investments of \$31.9 million associated with the Company's wholly-owned captive insurance company. 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 remainder of 2019 is expected to approximate \$428 million.

Net cash provided by financing activities in the first three months of 2019 was \$26.8 million compared to net cash provided by financing activities of \$86.6 million in the three months of 2018. The change in cash provided by financing activities is primarily attributable to increased borrowings of \$60.1 million.

As of March 30, 2019, the Company had cash of \$105.7 million, of which \$80.0 million was held outside the United States. The Company plans to permanently reinvest the cash held outside the United States. 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 at least the next twelve months.

On October 25, 2018, the Company announced that its Board of Directors approved a new share repurchase program, authorizing the Company to repurchase up to \$500 million of its common stock. The share repurchase program does not obligate the Company to acquire any particular amount of common stock, and it may be suspended or terminated at any time at the Company's discretion. The timing and amount of any purchases of common stock will be based on the Company's liquidity, general business and market conditions and other factors, including alternative investment opportunities.

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.

*Senior Credit Facility*

On March 26, 2015, the Company amended and restated its 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 eliminated 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. Additionally, at several points in 2016, the Company extended the maturity date of the 2015 Senior Credit Facility from March 26, 2020 to March 26, 2021. In the first half of 2017, the Company amended the 2015 Senior Credit Facility to extend the maturity date from March 26, 2021 to March 26, 2022.

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 March 30, 2019), or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, or the Eurocurrency Rate (as defined in the 2015 Senior Credit Facility) rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75% (0.125% as of March 30, 2019). 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 March 30, 2019). The

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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.

In 2017, the Company paid financing costs of \$0.6 million in connection with the extension of its 2015 Senior Credit Facility from March 26, 2021 to March 26, 2022. These costs were deferred and, along with unamortized costs of \$6.9 million are being amortized over the term of the 2015 Senior Credit Facility.

As of March 30, 2019, amounts utilized under the 2015 Senior Credit Facility included \$20.2 million of borrowings and \$22.8 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$1,405.4 million under the Company's U.S. and European commercial paper programs as of March 30, 2019 reduce the availability of the 2015 Senior Credit Facility. Including commercial paper borrowings, the Company has utilized \$1,448.4 million under the 2015 Senior Credit Facility resulting in a total of \$351.6 million available as of March 30, 2019.

*Commercial Paper*

On February 28, 2014 and July 31, 2015, the Company established programs for the issuance of unsecured commercial paper in the United States and Eurozone capital markets, respectively. Commercial paper issued under the U.S. and European programs will have maturities ranging up to 397 days and 183 days, respectively. None of the commercial paper notes may be voluntarily prepaid or redeemed by the Company and all 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 of the Company, the notes will be fully and unconditionally guaranteed by the Company.

The Company uses its 2015 Senior Credit Facility as a liquidity backstop for its commercial paper programs. Accordingly, the total amount outstanding under all of the Company's commercial paper programs may not exceed \$1,800.0 million (less any amounts drawn on the 2015 Senior Credit Facility) at any time.

The proceeds from the issuance of commercial paper notes will be available for general corporate purposes. As of March 30, 2019, there was \$688.0 million outstanding under the U.S. commercial paper program, and the euro equivalent of \$717.4 million under the European program. The weighted-average interest rate and maturity period for the U.S. program were 2.78% and 25.44 days, respectively. The weighted average interest rate and maturity period for the European program were (0.21)% and 38.24 days, respectively.

*Senior Notes*

On May 18, 2018, Mohawk Capital Finance S.A. (“Mohawk Finance”), an indirect wholly-owned finance subsidiary of the Company, completed the issuance and sale of €300.0 million aggregate principal amount of its Floating Rate Notes due May 18, 2020 (“2020 Floating Rate Notes”). The 2020 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance’s other existing and future senior unsecured indebtedness. The 2020 Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event shall the interest rate be less than zero). Interest on the 2020 Floating Rate Notes is payable quarterly on August 18, November 18, February 18, and May 18 of each year. Mohawk Finance paid financing costs of \$0.9 million in connection with the 2020 Floating Rate Notes. These costs were deferred and are being amortized over the term of the 2020 Floating Rate Notes.



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On September 11, 2017, Mohawk Finance completed the issuance and sale of €300.0 million aggregate principal amount of its Floating Rate Notes due September 11, 2019 (“2019 Floating Rate Notes”). The 2019 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance’s other existing and future senior unsecured indebtedness. The 2019 Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event shall the interest rate be less than zero). Interest on the 2019 Floating Rate Notes is payable quarterly on September 11, December 11, March 11, and June 11 of each year. Mohawk Finance paid financing costs of \$0.9 million in connection with the 2019 Floating Rate Notes. These costs were deferred and are being amortized over the term of the 2019 Floating Rate Notes.

On June 9, 2015, the Company issued €500.0 million aggregate principal amount of 2.00% Senior Notes (“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, commencing on January 14, 2016. 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 (“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.

As defined in the related agreements, the Company’s senior notes contain covenants, representations and warranties and events of default, subject to exceptions, and restrictions on the Company’s financial and business operations, including limitations on liens, restrictions on entering into sale and leaseback transactions, fundamental changes, and a provision allowing the holder of the notes to require repayment upon a change of control triggering event.

## **Contractual Obligations**

There have been no significant changes to the Company’s contractual obligations as disclosed in the Company’s 2018 Annual Report filed on Form 10-K.

## **Critical Accounting Policies and Estimates**

Refer to Note 1 - General, Note 3 - Revenue from Contracts with Customers and Note 10 - Leases within our Condensed Consolidated Financial Statements of this Form 10-Q for a discussion of the Company’s updated accounting policies on revenue recognition and lease accounting. The Company’s critical accounting policies and estimates are described in its 2018 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 March 30, 2019.

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**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 Item 1A "Risk Factors" in the Company's 2018 Annual Report on Form 10-K.

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

As of March 30, 2019, approximately 36% of the Company's debt portfolio was comprised of fixed-rate debt and 64% was floating-rate debt. A 1.0 percentage point increase in the interest rate of the floating-rate debt would have resulted in an increase in interest expense of \$4.2 million for the three months ended March 30, 2019. There have been no significant changes to the Company's exposure to market risk as disclosed in the Company's 2018 Annual Report filed on Form 10-K.

**Item 4. Controls and Procedures**

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

There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting other than the Company adopted ASC 842, *Leases*, on January 1, 2019, and implemented new controls and processes to meet the requirements of the standard.

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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.

*Alabama Municipal Litigation*

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama (the “Gadsden Water Board”) filed an individual complaint in the Circuit Court of Etowah County, Alabama against certain manufacturers, suppliers, and users of chemicals containing specific perfluorinated compounds, including the Company. On October 26, 2016, the defendants removed the case to the United States District Court for the Northern District of Alabama, Middle Division, alleging diversity of citizenship and fraudulent joinder. The Gadsden Water Board filed a motion to remand the case back to the state court, and the defendants opposed the Gadsden Water Board’s motion. The federal court granted Gadsden Water Board’s motion for remand.

In May 2017, the Water Works and Sewer Board of the Town of Centre, Alabama (the “Centre Water Board”) filed a very similar complaint to the Gadsden Water Board complaint in the Circuit Court of Cherokee County. On June 19, 2017, the defendants removed this case to the United States District Court for the Northern District of Alabama, Middle Division, again alleging diversity of citizenship and fraudulent joinder. The Centre Water Board filed a motion to remand the case back to state court, and the defendants opposed the Centre Water Board’s motion. The federal court granted Centre Water Board’s motion for remand.

Certain defendants, including the Company, filed dispositive motions in each case arguing that the state court lacks personal jurisdiction over them. Both state courts denied those motions. In June and September 2018, certain defendants, including the Company, petitioned the Alabama Supreme Court for Writs of Mandamus directing each lower court to enter an order granting the defendants’ dispositive motions on personal jurisdiction grounds. Those petitions have been fully briefed and the Company awaits a decision from the Alabama Supreme Court.

The Company has never manufactured the perfluorinated compounds at issue but purchased them for use in the manufacture of its carpets prior to 2007. The Gadsden and Centre Water Boards are not alleging that chemical levels in the Company’s wastewater discharge exceeded legal limits. Instead, the Gadsden and Centre Water Boards are seeking lost profits based on allegations that their customers decreased water purchases, as well as reimbursement for the cost of a filter and punitive damages.

*Belgian Tax Matter*

Between 2012 and 2014, the Company received assessments from the Belgian tax authority for the calendar years 2005 through 2010 in the amounts of €46.1 million, €38.8 million, €39.6 million, €30.1 million, €35.6 million and €43.1 million, respectively, including penalties, but excluding interest. The Belgian tax authority denied the Company’s formal protests against these assessments and the Company brought all six years before the Court of First Appeal in Bruges. The Court of First Appeal in Bruges ruled in favor of the Company on January 27, 2016, with respect to the calendar years ending December 31, 2005 and December 31, 2009; and on June 13, 2018, the Court of First Appeal in Bruges ruled in favor of the Company with respect to the calendar years ending December 31, 2006, December 31, 2007, December 31, 2008 and December 31, 2010. The Belgian tax authority has lodged its Notification of Appeal for all six years with the Ghent Court of Appeal. As of March 2019, the Company received assessments from the Belgian tax authority for tax years 2011 through 2017 in the amount of €40.6 million, €39.7 million, €11.4 million, €23.9 million,

€30.6 million, €93.1 million and €79.9 million respectively, including penalties, but excluding interest. The Company intends to file formal protests based on these assessments in a timely manner. The assessments are largely based on the same facts underlying the positive rulings, which the Belgian tax authority is appealing.

The Company continues to disagree 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.

*General*

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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 the Company is 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, 2018. 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**

On October 25, 2018, the Company announced that its Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to \$500 million in shares of its common stock. Under the share repurchase plan, the Company may purchase common stock in open market transactions, block or privately negotiated transactions, and may from time to time purchase shares pursuant to trading plans in accordance with Rules 10b5-1 or 10b-18 under the Exchange Act or by any combination of such methods. The number of shares to be purchased and the timing of the purchases are based on a variety of factors, including, but not limited to, the level of cash balances, credit availability, debt covenant restrictions, general business conditions, regulatory requirements, the market price of the Company's stock and the availability of alternative investment opportunities. No time limit was set for completion of repurchases under the new authorization and the program may be suspended or discontinued at any time. The new program replaces any previously authorized share repurchase programs.

There was no share repurchase activity during the three months ended March 30, 2019.

| Period                             | Total<br>Number of<br>Shares<br>Purchased<br>in Millions | Average<br>Price<br>Paid<br>per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plan in<br>Millions | Approximate<br>Dollar Value<br>of Shares<br>That May<br>Yet Be<br>Purchased<br>Under the<br>Plan in<br>Millions |
|------------------------------------|----------------------------------------------------------|------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| January 1 through February 2, 2019 | —                                                        | \$                                       | —                                                                                                       | \$ 225.9                                                                                                        |
| February 3 through March 2, 2019   | —                                                        | \$                                       | —                                                                                                       | \$ 225.9                                                                                                        |
| March 3 through March 31, 2019     | —                                                        | \$                                       | —                                                                                                       | \$ 225.9                                                                                                        |
| Total                              | —                                                        | \$                                       | —                                                                                                       |                                                                                                                 |

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 to this quarterly report on Form 10-Q.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

**No. Description**

|         |                                                                                                                            |
|---------|----------------------------------------------------------------------------------------------------------------------------|
| 31.1    | <u>Certification Pursuant to Rule 13a-14(a).</u>                                                                           |
| 31.2    | <u>Certification Pursuant to Rule 13a-14(a).</u>                                                                           |
| 32.1    | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>                                            |
| 32.2    | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>                                            |
| 95.1    | <u>Mine Safety Disclosure pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act</u> |
| 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: May 3, 2019 By: /s/ Jeffrey S. Lorberbaum  
JEFFREY S. LORBERBAUM  
Chairman and Chief Executive Officer  
(principal executive officer)

Dated: May 3, 2019 By: /s/ Glenn Landau  
GLENN LANDAU  
Chief Financial Officer  
(principal financial officer)