

MOHAWK INDUSTRIES INC  
Form 10-Q  
April 30, 2009  
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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 28, 2009

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)

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|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)         | <b>52-1604305</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>160 S. Industrial Blvd., Calhoun, Georgia</b><br>(Address of principal executive offices) | <b>30701</b><br>(Zip Code)                                   |
| <b>Registrant's telephone number, including area code: (706) 629-7721</b>                    |  |

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

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

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

Large accelerated filer  Accelerated filer

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

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

The number of shares outstanding of the issuer's classes of common stock as of April 27, 2009, the latest practicable date, is as follows:  
68,447,820 shares of Common Stock, \$.01 par value.

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**MOHAWK INDUSTRIES, INC.**

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## PART I. FINANCIAL INFORMATION

## ITEM I. FINANCIAL STATEMENTS

## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

## ASSETS

(In thousands)

(Unaudited)

|  | March 28, 2009      | December 31, 2008 |
|--|---------------------|-------------------|
| Current assets:                                |                     |                   |
| Cash and cash equivalents                      | \$ 136,552          | 93,519            |
| Receivables, net                               | 784,677             | 696,284           |
| Inventories                                    | 985,463             | 1,168,272         |
| Prepaid expenses                               | 128,413             | 125,603           |
| Deferred income taxes and other assets         | 191,516             | 162,571           |
| <b>Total current assets</b>                    | <b>2,226,621</b>    | <b>2,246,249</b>  |
| Property, plant and equipment, at cost         | 3,391,752           | 3,413,557         |
| Less accumulated depreciation and amortization | 1,524,680           | 1,487,815         |
| Net property, plant and equipment              | 1,867,072           | 1,925,742         |
| Goodwill                                       | 1,368,552           | 1,399,434         |
| Tradenames                                     | 457,104             | 472,399           |
| Other intangible assets, net                   | 342,823             | 375,451           |
| Deferred income taxes and other assets         | 25,464              | 26,900            |
|  | <b>\$ 6,287,636</b> | <b>6,446,175</b>  |

See accompanying notes to condensed consolidated financial statements.

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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

## LIABILITIES AND EQUITY

(In thousands, except per share data)

(Unaudited)

|  | March 28, 2009 | December 31, 2008 |
|--|----------------|-------------------|
| <b>Current liabilities:</b>  |                |                   |
| Current portion of long-term debt  | \$ 137,501     | 94,785            |
| Accounts payable and accrued expenses  | 828,397        | 782,131           |
| Total current liabilities  | 965,898        | 876,916           |
| Deferred income taxes  | 381,994        | 419,985           |
| Long-term debt, less current portion   | 1,843,612      | 1,860,001         |
| Other long-term liabilities  | 104,710        | 104,340           |
| Total liabilities  | 3,296,214      | 3,261,242         |
| <b>Commitments and contingencies</b>   |                |                   |
| <b>Equity:</b>   |                |                   |
| Preferred stock, \$.01 par value; 60 shares authorized; no shares issued   |                |                   |
| Common stock, \$.01 par value; 150,000 shares authorized; 79,480 and 79,461 shares issued in 2009 and 2008, respectively | 795            | 795               |
| Additional paid-in capital   | 1,220,232      | 1,217,903         |
| Retained earnings  | 1,898,228      | 2,004,115         |
| Accumulated other comprehensive income, net  | 163,420        | 254,535           |
|  | 3,282,675      | 3,477,348         |
| Less treasury stock at cost; 11,034 and 11,040 shares in 2009 and 2008, respectively                                     | 323,361        | 323,545           |
| Total Mohawk Industries, Inc. stockholders' equity   | 2,959,314      | 3,153,803         |
| Noncontrolling interest  | 32,108         | 31,130            |
| Total equity   | 2,991,422      | 3,184,933         |
|  | \$ 6,287,636   | 6,446,175         |

See accompanying notes to condensed consolidated financial statements.

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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

|   | Three Months Ended |                |
|---|--------------------|----------------|
|   | March 28, 2009     | March 29, 2008 |
| Net sales   | \$ 1,208,339       | 1,738,097      |
| Cost of sales   | 1,054,650          | 1,278,258      |
| Gross profit  | 153,689            | 459,839        |
| Selling, general and administrative expenses                            | 299,573            | 335,521        |
| Operating (loss) income   | (145,884)          | 124,318        |
| Other expense (income):   |                    |                |
| Interest expense  | 30,184             | 33,767         |
| Other expense   | 6,199              | 5,107          |
| Other income  | (4,562)            | (3,667)        |
|   | 31,821             | 35,207         |
| Earnings (loss) before income taxes                                     | (177,705)          | 89,111         |
| Income tax (benefit) expense  | (72,796)           | 22,382         |
| Net (loss) earnings   | (104,909)          | 66,729         |
| Less: Net earnings attributable to the noncontrolling interest          | (978)              | (1,339)        |
| Net (loss) earnings attributable to Mohawk Industries, Inc.             | \$ (105,887)       | 65,390         |
| Basic (loss) earnings per share attributable to Mohawk Industries, Inc. | \$ (1.55)          | 0.96           |
| Weighted-average common shares outstanding - basic                      | 68,433             | 68,375         |
| Diluted (loss) earnings per share attributable Mohawk Industries, Inc.  | \$ (1.55)          | 0.95           |
| Weighted-average common shares outstanding - diluted                    | 68,433             | 68,579         |

See accompanying notes to condensed consolidated financial statements.



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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|   | <b>Three Months Ended</b> |                       |
|---|---------------------------|-----------------------|
|   | <b>March 28, 2009</b>     | <b>March 29, 2008</b> |
| <b>Cash flows from operating activities:</b>  |                           |                       |
| Net (loss) earnings   | \$ (105,887)              | 65,390                |
| <b>Adjustments to reconcile net (loss) earnings to net cash provided by (used in) operating activities:</b> |                           |                       |
| Depreciation and amortization   | 67,680                    | 73,256                |
| Deferred income taxes   | (55,026)                  | 2,618                 |
| Loss (gain) on disposal of property, plant and equipment  | 593                       | (671)                 |
| Excess tax benefit from stock-based compensation  | (3)                       | (138)                 |
| Stock-based compensation expense  | 2,519                     | 2,545                 |
| <b>Changes in operating assets and liabilities:</b>   |                           |                       |
| Receivables   | (95,522)                  | (121,704)             |
| Inventories   | 176,490                   | (11,017)              |
| Accounts payable and accrued expenses   | 46,009                    | (69,767)              |
| Other assets and prepaid expenses   | (1,674)                   | (14,900)              |
| Other liabilities   | 2,740                     | (5,791)               |
| <b>Net cash provided by (used in) operating activities</b>  | <b>37,919</b>             | <b>(80,179)</b>       |
| <b>Cash flows from investing activities:</b>  |                           |                       |
| Additions to property, plant and equipment, net   | (27,093)                  | (55,971)              |
| <b>Net cash used in investing activities</b>  | <b>(27,093)</b>           | <b>(55,971)</b>       |
| <b>Cash flows from financing activities:</b>  |                           |                       |
| Payments on revolving line of credit  | (256,557)                 | (303,181)             |
| Proceeds from revolving line of credit  | 242,354                   | 300,684               |
| Net change in asset securitization borrowings   | 30,000                    | 80,000                |
| Borrowings (payments) on term loan and other debt   | 11,046                    | (147)                 |
| Excess tax benefit from stock-based compensation  | 3                         | 138                   |
| Change in outstanding checks in excess of cash  | 7,123                     | 40,660                |
| Proceeds from stock transactions  | 9                         | 854                   |
| <b>Net cash provided by financing activities</b>  | <b>33,978</b>             | <b>119,008</b>        |
| Effect of exchange rate changes on cash and cash equivalents  | (1,771)                   | 827                   |
| <b>Net change in cash and cash equivalents</b>  | <b>43,033</b>             | <b>(16,315)</b>       |
| Cash and cash equivalents, beginning of period  | 93,519                    | 89,604                |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 136,552</b>         | <b>73,289</b>         |

See accompanying notes to condensed consolidated financial statements.





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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

1. Interim reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto, and the Company's description of critical accounting policies, included in the Company's 2008 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

2. New pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of financial instruments according to a fair value hierarchy. Additionally, companies are required to provide certain disclosures regarding instruments within the hierarchy, including a reconciliation of the beginning and ending balances for each major category of assets and liabilities. SFAS No. 157 is effective for the Company's fiscal year beginning January 1, 2008 for financial assets and liabilities and January 1, 2009 for non-financial assets and liabilities. The Company's adoption of SFAS No. 157 for financial assets and liabilities on January 1, 2008 and non-financial assets and liabilities on January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The adoption of SFAS No. 141R on January 1, 2009 did not have a material impact on the Company's consolidated financial statements, although the adoption of SFAS No. 141R will impact the recognition and measurement of future business combinations and certain income tax benefits recognized from prior business combinations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 160 on January 1, 2009 did not have a material impact on the Company's consolidated financial statements. Upon adoption the Company reclassified \$31,130 on the condensed consolidated balance sheets from other long-term liabilities to noncontrolling interest within equity.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of SFAS No. 161 are effective for the first quarter of 2009. The adoption of SFAS No. 161 on January 1, 2009 did not have a material impact on the Company's 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)

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

## 3. Receivables, net

Receivables, net are as follows:

|   | March 28, 2009 | December 31, 2008 |
|---|----------------|-------------------|
| Customers, trade  | \$ 793,877     | 722,669           |
| Other (1)   | 55,721         | 35,993            |
|   | 849,598        | 758,662           |
| Less allowance for discounts, returns, claims and doubtful accounts | 64,921         | 62,378            |
| Receivables, net  | \$ 784,677     | 696,284           |

(1) During the first quarter of 2009, the Company recorded an interim U.S. income tax receivable of \$33,220.

## 4. Inventories

The components of inventories are as follows:

|                   | March 28, 2009 | December 31, 2008 |
|-------------------|----------------|-------------------|
| Finished goods    | \$ 630,318     | 767,138           |
| Work in process   | 93,378         | 104,394           |
| Raw materials     | 261,767        | 296,740           |
| Total inventories | \$ 985,463     | 1,168,272         |

## 5. Goodwill and intangible assets

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

Goodwill:

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|  | <b>Dal-Tile</b> | <b>Unilin</b> | <b>Total</b> |
|--|-----------------|---------------|--------------|
| Balance as of January 1, 2009          | \$ 654,983      | 744,451       | 1,399,434    |
| Currency translation during the period |                 | (30,882)      | (30,882)     |
| Balance as of March 28, 2009           | \$ 654,983      | 713,569       | 1,368,552    |

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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Intangible assets:

|   | <b>Tradenames</b> |
|---|-------------------|
| Indefinite life assets not subject to amortization: |                   |
| Balance as of January 1, 2009                       | \$ 472,399        |
| Currency translation during the period              | (15,295)          |
| Balance as of March 28, 2009                        | \$ 457,104        |

|  | <b>Customer relationships</b> | <b>Patents</b> | <b>Tradename</b> | <b>Total</b> |
|--|-------------------------------|----------------|------------------|--------------|
| Intangible assets subject to amortization:     |                               |                |                  |              |
| Balance as of January 1, 2009                  | \$ 204,064                    | 171,387        |                  | 375,451      |
| Intangible assets recognized during the period |                               |                | 1,105            | 1,105        |
| Amortization during period                     | (10,960)                      | (5,989)        | (12)             | (16,961)     |
| Currency translation during the period         | (7,243)                       | (9,529)        |                  | (16,772)     |
| Balance as of March 28, 2009                   | \$ 185,861                    | 155,869        | 1,093            | 342,823      |

|                      | <b>Three Months Ended</b> |                           |
|----------------------|---------------------------|---------------------------|
|                      | <b>March 28,<br/>2009</b> | <b>March 29,<br/>2008</b> |
| Amortization expense | \$ 16,961                 | 19,479                    |

## 6. Accounts payable and accrued expenses

Accounts payable and accrued expenses are as follows:

|                                      | <b>March 28, 2009</b> | <b>December 31, 2008</b> |
|--------------------------------------|-----------------------|--------------------------|
| Outstanding checks in excess of cash | \$ 19,735             | 12,612                   |
| Accounts payable, trade              | 288,916               | 315,053                  |
| Accrued expenses                     | 338,759               | 267,051                  |
| Accrued interest                     | 33,568                | 45,493                   |
| Income taxes payable                 | 42,423                | 40,798                   |
| Deferred tax liability               | 2,026                 | 3,030                    |
| Accrued compensation                 | 102,970               | 98,094                   |

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|   |            |         |
|---|------------|---------|
| Total accounts payable and accrued expenses | \$ 828,397 | 782,131 |
|---|------------|---------|

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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

## 7. Product Warranties

The Company warrants certain qualitative attributes of its products for up to 33 years. The Company records a provision for estimated warranty and related costs, which is included in accrued expenses on the condensed consolidated balance sheets. The provision for warranty and related costs is calculated based on the Company's historical claims experience and assumes that new claims will develop in a manner consistent with previous experience. However, actual experience could vary from estimates due to such factors as the nature and frequency of claims and future costs of repairs and replacements. The warranty obligation is as follows:

|  | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|
|  | <b>March 28,<br/>2009</b> | <b>March 29,<br/>2008</b> |
| Balance at beginning of period                                 | \$ 56,460                 | 46,187                    |
| Warranty claims paid during the period                         | (30,713)                  | (18,764)                  |
| Pre-existing warranty accrual adjustment during the period (1) | 110,224                   |                           |
| Warranty expense during the period                             | 11,274                    | 13,184                    |
| <b>Balance at end of period</b>                                | <b>\$ 147,245</b>         | <b>40,607</b>             |

(1) The adjustment to warranty accruals in 2009 relates to an increase in the claims rate recognized late in the first quarter of 2009, related to certain discontinued commercial carpet tile.

## 8. Comprehensive (loss) income

Comprehensive (loss) income is as follows:

|  | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|
|  | <b>March 28,<br/>2009</b> | <b>March 29,<br/>2008</b> |
| Net (loss) earnings  | \$ (104,909)              | 66,729                    |
| Other comprehensive (loss) income:   |                           |                           |
| Foreign currency translation   | (90,887)                  | 172,361                   |
| Unrealized (loss) gain on derivative instruments, net of income taxes      | (228)                     | 437                       |
| <b>Comprehensive (loss) income</b>   | <b>(196,024)</b>          | <b>239,527</b>            |
| Comprehensive income attributable to the noncontrolling interest           | (978)                     | (1,339)                   |
| <b>Comprehensive (loss) income attributable to Mohawk Industries, Inc.</b> | <b>\$ (197,002)</b>       | <b>238,188</b>            |

## 9. Stock-based compensation

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The Company accounts for its stock-based compensation plans in accordance with SFAS No. 123R, *Share-Based Payment* ( SFAS No. 123R ). Under SFAS No. 123R, all stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as an expense in the statement of earnings over the requisite service period.



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MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Under the Company's 2007 Incentive Plan ( 2007 Plan ), the Company reserved up to 3,200 shares of common stock for issuance upon the grant or exercise of stock options, restricted stock, restricted stock units ( RSU s ) and other types of awards, as defined under the 2007 Plan. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock on the date of the grant and generally vest between three and five years with a 10-year contractual term. Restricted stock and RSU s are generally granted with a price equal to the market price of the Company's common stock on the date of the grant and generally vest between three and five years.

The Company granted 76 and 146 options to employees at a weighted-average grant-date fair value of \$9.17 and \$20.26 per share for the three months ended March 28, 2009 and March 29, 2008, respectively. The Company recognized stock-based compensation costs related to stock options of \$1,080 (\$684 net of taxes) and \$1,579 (\$1,000 net of taxes) for the three months ended March 28, 2009 and March 29, 2008, respectively, which has been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for stock options granted to employees and outside directors, net of estimated forfeitures, was \$6,883 as of March 28, 2009, and will be recognized as expense over a weighted-average period of approximately 2.6 years.

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

The Company granted 114 and 62 RSU s at a weighted-average grant-date fair value of \$29.34 and \$74.41 per unit for the three months ended March 28, 2009 and March 29, 2008, respectively. The Company recognized stock-based compensation costs related to the issuance of RSU s of \$1,373 (\$870 net of taxes) and \$890 (\$564 net of taxes) for the three months ended March 28, 2009 and March 29, 2008, respectively, which has been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSU s granted to employees, net of estimated forfeitures, was \$9,115 as of March 28, 2009, and will be recognized as expense over a weighted-average period of approximately 2.5 years.

The Company granted 3 restricted stock awards for the three months ended March 28, 2009. Compensation expense for restricted stock awards for the three months ended March 28, 2009 and March 29, 2008, respectively, was not significant.

10. Earnings (loss) per share

The Company applies the provisions of SFAS No. 128, *Earnings per Share*, which requires companies to present basic earnings (loss) per share ( EPS ) and diluted EPS. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings (loss) of the Company, if dilutive.

Dilutive common stock options and RSU s are included in the diluted EPS calculation using the treasury stock method, if dilutive. Excluded from the computation of diluted EPS are stock options to purchase common shares and RSU s of 1,252 shares for the three month period ended March 29, 2008 because their effect would have been anti-dilutive. For the three months ended March 28, 2009, all outstanding common stock options to purchase common shares and unvested restricted shares (units) were excluded from the calculation of diluted loss per share because their effect on loss per common share was anti-dilutive.

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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

|  | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|
|  | <b>March 28,<br/>2009</b> | <b>March 29,<br/>2008</b> |
| Net (loss) earnings  | \$ (105,887)              | 65,390                    |
| Weighted-average common shares outstanding-basic and diluted:  |                           |                           |
| Weighted-average common shares outstanding - basic   | 68,433                    | 68,375                    |
| Add weighted-average dilutive potential common shares - options and RSU s to purchase common shares, net |                           | 204                       |
| Weighted-average common shares outstanding-diluted   | 68,433                    | 68,579                    |
| Basic (loss) earnings per share attributable to Mohawk Industries, Inc.                                  | \$ (1.55)                 | 0.96                      |
| Diluted (loss) earnings per share attributable to Mohawk Industries, Inc.                                | \$ (1.55)                 | 0.95                      |

## 11. Supplemental Condensed Consolidated Statements of Cash Flows Information

|                                      | <b>Three Months Ended</b> |                           |
|--------------------------------------|---------------------------|---------------------------|
|                                      | <b>March 28,<br/>2009</b> | <b>March 29,<br/>2008</b> |
| Net cash paid during the period for: |                           |                           |
| Interest                             | \$ 43,429                 | 47,621                    |
| Income taxes                         | \$ 9,085                  | 28,808                    |

## 12. Segment reporting

The Company has three reporting segments, the Mohawk segment, the Dal-Tile segment and the Unilin segment. The Mohawk segment manufactures, markets and distributes its product lines primarily in North America, which include carpet, rugs, pad, ceramic tile, hardwood, resilient and laminate, through its network of regional distribution centers and satellite warehouses using company-operated trucks, common carrier or rail transportation. The segment product lines are sold through various selling channels, which include floor covering retailers, home centers, mass merchandisers, department stores, independent distributors, commercial dealers and commercial end users. The Dal-Tile segment manufactures, markets and distributes its product lines primarily in North America, which include ceramic tile, porcelain tile and stone products, through its network of regional distribution centers and approximately 250 company-operated sales service centers using company-operated trucks, common carriers or rail transportation. The segment product lines are purchased by floor covering retailers, home centers, independent distributors, tile specialty dealers, tile contractors, and commercial end users. The Unilin segment manufactures, markets and distributes its product lines primarily in North America and Europe, which include laminate flooring, wood flooring, roofing systems and other wood products through various selling channels, which include retailers, home centers and independent distributors.

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 (loss) income.



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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

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(In thousands, except per share amounts)

(Unaudited)

Segment information is as follows:

|                            | Three Months Ended |                      |
|----------------------------|--------------------|----------------------|
|                            | March 28,<br>2009  | March 29,<br>2008    |
| Net sales:                 |                    |                      |
| Mohawk                     | \$ 594,331         | 905,044              |
| Dal-Tile                   | 358,478            | 449,051              |
| Unilin                     | 268,466            | 403,755              |
| Intersegment Sales         | (12,936)           | (19,753)             |
|                            | \$ 1,208,339       | 1,738,097            |
| Operating (loss) income:   |                    |                      |
| Mohawk                     | \$ (179,055)       | 22,241               |
| Dal-Tile                   | 21,129             | 56,941               |
| Unilin                     | 14,552             | 49,956               |
| Corporate and Eliminations | (2,510)            | (4,820)              |
|                            | \$ (145,884)       | 124,318              |
|                            |                    | As of                |
|                            | March 28,<br>2009  | December 31,<br>2008 |
| Assets:                    |                    |                      |
| Mohawk                     | \$ 1,773,447       | 1,876,696            |
| Dal-Tile                   | 1,662,595          | 1,693,765            |
| Unilin                     | 2,577,698          | 2,663,599            |
| Corporate and Eliminations | 273,896            | 212,115              |
|                            | \$ 6,287,636       | 6,446,175            |

## 13. Commitments, Contingencies and Other

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

In Shirley Williams et al. v. Mohawk Industries, Inc., four plaintiffs filed a putative class action lawsuit in January 2004 in the United States District Court for the Northern District of Georgia (Rome Division), alleging that they are former and current employees of the Company and that the actions and conduct of the Company, including the employment of persons who are not authorized to work in the United States, have damaged them and the other members of the putative class by suppressing the wages of the Company's hourly employees in Georgia. The plaintiffs seek a variety of relief, including (a) treble damages; (b) return of any allegedly unlawful profits; and (c) attorney's fees and costs of litigation. In February 2004, the Company filed a Motion to Dismiss the Complaint, which was denied by the District Court in April 2004. Following appellate review of this decision, the case was returned to the District Court for further proceedings. On December 18, 2007, the plaintiffs filed a motion for class certification. On March 3, 2008, the District Court denied the plaintiffs motion for class certification. The plaintiffs then appealed the decision to the United States Court of Appeals for the 11th Circuit on March 17, 2008, where the matter is currently pending. Discovery has been stayed at the District Court while the appeal is pending. The Company will continue to vigorously defend itself

against this action.

In Collins & Aikman Floorcoverings, Inc., et. al. v. Interface, Inc., United States District Court for the Northern District of Georgia (Rome Division), Mohawk Industries, Inc. joined Collins & Aikman Floorcoverings, Inc. ( CAF ) and Shaw Industries Group, Inc. ( Shaw ) in suing Interface, Inc. ( Interface )

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for declaratory judgments that United States Patent 6,908,656 (the Patent), assigned to Interface and relating to certain styles of carpet tiles, is not infringed and is invalid. Also in June 2005, in Interface, Inc., et al. v. Mohawk Industries, Inc., et al. United States District Court for the Northern District of Georgia (Atlanta Division), Interface sued Mohawk Industries, Inc., Mohawk Carpet Corporation, and Mohawk Commercial, Inc. for allegedly infringing the Patent. Interface brought similar suits against entities affiliated with CAF and Shaw. Interface is seeking monetary damages as well as injunctive relief. The cases have been consolidated in the United States District Court for the Northern District of Georgia (Rome Division). In January 2008, the Company joined CAF and Shaw in filing motions that the Patent was invalid, that it was not willfully infringed, and that Interface could not obtain damages for lost profits. On February 24, 2009, the District Court (i) denied motions by the Company, CAF and Shaw that the patent was invalid and that Interface could not obtain damages for lost profits, and (ii) granted their motions that should infringement be found that any such infringement would not be willful. The Company is vigorously pursuing its declaratory judgment claims of invalidity and non-infringement with respect to the Patent and defending against the claims brought by Interface for infringement of the Patent. A trial date has been set for the third quarter of 2009.

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses and that the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations in a given quarter or year.

During the fourth quarter of 2008, the Company recorded pre-tax business restructuring charges of \$29,670. The charge included \$13,065 for lease impairments, \$12,449 for asset write-downs, \$3,340 for employee severance costs and \$816 for other restructuring costs. At December 31, 2008, the Company had accrued liabilities relating to the restructuring of \$12,711 related to lease impairments that will be paid over the next six years and \$2,070 for employee severance costs that will be paid during 2009. The activity for the first quarter of 2009 is as follows:

|                   | Balance at<br>December 31, 2008 | Provisions | Cash<br>Payments | Balance at<br>March 28, 2009 |
|-------------------|---------------------------------|------------|------------------|------------------------------|
| Lease impairments | \$ 12,711                       |            | (1,115)          | 11,596                       |
| Severance         | 2,070                           |            | (1,357)          | 713                          |
| <b>Total</b>      | <b>\$ 14,781</b>                |            | <b>(2,472)</b>   | <b>12,309</b>                |

## 14. Fair Value of Financial Instruments - Derivatives

## Natural Gas Risk Management

The Company uses natural gas futures contracts to manage unanticipated changes in natural gas prices. The contracts are based on forecasted usage of natural gas measured in Million British Thermal Units (MMBTU). The Company has designated the natural gas futures contracts as cash flow hedges. The outstanding contracts are valued at market with the offset applied to other comprehensive (loss) income (OCI), net of applicable income taxes and any hedge ineffectiveness. Gains or losses on the effective portion of the derivatives are reclassified from OCI and recognized in cost of sales in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the derivatives is recognized in cost of sales during the period within the condensed consolidated statements of operations. The Company enters into futures contracts that closely match the terms of the underlying transactions. As a result, the ineffective portion of the open hedge contracts as of March 28, 2009 is not material to the condensed consolidated statements of operations. As of March 28, 2009, the Company had natural gas contracts that mature from April 2009 to December 2009 with an aggregate notional amount of approximately 2,160 MMBTU's. The fair value of these contracts was a liability of \$7,549 as of March 28, 2009, which is included in accounts payable and accrued expenses in the condensed consolidated balance sheets. The offset to this liability is recorded in other comprehensive income, net of applicable income taxes. The amount

that the Company anticipates will be

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reclassified out of accumulated other comprehensive income ( AOCI ) in the next twelve months is a loss of approximately \$4,793, net of taxes.

The following tables summarize activities related to the Company's derivative instruments, classified as cash flow hedges in accordance with SFAS No. 133 for the period ended March 28, 2009:

Loss Recognized in AOCI (Effective Portion), Net of Tax:

|  | <b>March 28, 2009</b> |
|--|-----------------------|
| Natural gas futures contracts                        | \$ 3,086              |
| Loss Reclassified from AOCI into Income, Net of Tax: |                       |

|                                  | <b>Location</b> | <b>March 28, 2009</b> |
|----------------------------------|-----------------|-----------------------|
| Natural gas futures contracts    | Cost of sales   | \$ 2,032              |
| Foreign Currency Risk Management |                 |                       |

The Company enters into foreign exchange forward contracts to hedge foreign denominated costs associated with its operations in Mexico. The objective of these transactions is to reduce the impact of the volatility of exchange rates by fixing a portion of these costs in U.S. currency. Accordingly, these contracts have been designated as cash flow hedges. Gains and losses on the effective portion of the derivatives are reclassified from other comprehensive income and recognized in cost of sales in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the derivatives is recognized in cost of goods sold during the period within the condensed consolidated statements of operations. The Company enters into futures contracts that closely match the terms of the underlying transactions. As a result, the ineffective portion of the open hedge contracts as of March 28, 2009 is not material to the condensed consolidated statements of operations. The Company had forward contracts to purchase approximately 196,652 Mexican pesos as of March 28, 2009. The fair value of these contracts was a liability of \$3,937 as of March 28, 2009, which is included in accounts payable and accrued expenses in the condensed consolidated balance sheets. The aggregate U.S. dollar value of these contracts as of March 28, 2009 was approximately \$17,378. The offset to these liabilities is recorded in other comprehensive income (loss), net of applicable income taxes. The amount that the Company anticipates will be reclassified out of accumulated other comprehensive income in the next twelve months is a loss of approximately \$2,500, net of taxes.

The following tables summarize activities related to the Company's derivative instruments, classified as cash flow hedges in accordance with SFAS No. 133 for the period ended March 28, 2009:

Loss Recognized in AOCI (Effective Portion), Net of Tax:

|                                    | <b>March 28, 2009</b> |
|------------------------------------|-----------------------|
| Foreign exchange forward contracts | \$ 121                |



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Loss Reclassified from AOCI into Income, Net of Tax:

|                                    | Location      | March 28, 2009 |
|------------------------------------|---------------|----------------|
| Foreign exchange forward contracts | Cost of sales | \$ 947         |

The Company measures its financial and non-financial assets and liabilities at fair value within the condensed consolidated financial statements. The Company has derivative contracts, which include natural gas futures contracts and foreign exchange forward contracts. The income approach is used to determine fair value, which consists of a discounted cash flow model that takes into account the present value of future cash flows under the terms of the contracts using observable market inputs such as natural gas and foreign exchange spot and forward rates, interest rates, the Company's credit risk and its counterparties' credit risks. As of March 28, 2009, there has not been any significant impact to the fair value of the Company's derivative liabilities due to its own credit risk.

The following table provides a summary of the fair values of financial assets and liabilities subject to SFAS No. 157:

|                        | March 28, 2009 | Fair Value Measurements as of March 28, 2009 Using                      |  |  |
|------------------------|----------------|---|--|--|
|                        |                | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Derivative liabilities | \$ 11,485      |   | 11,485   |  |

## 15. Income taxes

In accordance with Accounting Principles Board Opinion No. 28, *Interim Financial Reporting* ( APB 28 ) and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods - an interpretation of APB Opinion No. 28* ( FIN 18 ), at the end of each interim period, the Company is required to determine the best estimate of its annual effective tax rate and then apply that rate in providing for income taxes on an interim period. However, in certain circumstances where the Company is unable to make a reliable estimate of the annual effective tax rate, FIN 18 allows the actual effective tax rate for the interim period to be used in the interim period. For the first quarter ended March 28, 2009, the Company calculated its effective rate for the interim period and applied that rate to the interim period results because it was unable to reasonably estimate its annual effective rate due to fluctuations in its annual pre-tax income and loss between quarters, including the effects caused by multiple tax jurisdictions.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Overview**

The Company is a leading producer of floor covering products for residential and commercial applications in the U.S. and Europe with net sales in 2008 of \$6.8 billion. The Company is the second largest carpet and rug manufacturer, a leading manufacturer, marketer and distributor of ceramic tile, natural stone and hardwood flooring in the U.S. and a leading producer of laminate flooring in the U.S. and Europe.

The Company has three reporting segments, the Mohawk segment, the Dal-Tile segment and the Unilin segment. The Mohawk segment manufactures, markets and distributes its product lines primarily in North America, which include carpet, rugs, pad, ceramic tile, hardwood, resilient and laminate, through its network of regional distribution centers and satellite warehouses using company-operated trucks, common carrier or rail transportation. The segment product lines are sold through various selling channels, which include floor covering retailers, home centers, mass merchandisers, department stores, independent distributors, commercial dealers and commercial end users. The Dal-Tile segment manufactures, markets and distributes its product lines primarily in North America, which include ceramic tile, porcelain tile and stone products, through its network of regional distribution centers and approximately 250 company-operated sales service centers using company-operated trucks, common carriers or rail transportation. The segment product lines are purchased by floor covering retailers, home centers, independent distributors, tile specialty dealers, tile contractors, and commercial end users. The Unilin segment manufactures, markets and distributes its product lines primarily in North America and Europe, which include laminate flooring, wood flooring, roofing systems and other wood products through various selling channels, which include retailers, home centers and independent distributors.

The Company reported net loss of \$105.9 million or diluted loss per share of \$1.55 for the first quarter of 2009, compared to net earnings of \$65.4 million or \$0.95 earnings per share for the first quarter of 2008. The change in earnings per share resulted primarily from the impact of lower sales volumes, which the Company believes is attributable to slowing U.S. residential housing, commercial and European demand, an increase in warranty requirements for certain commercial carpet tiles and the impact of two fewer shipping days in the first quarter of 2009 compared to the same period in 2008. Accordingly, the Company has adjusted its working capital levels to reflect the current sales demands and production levels of its business.

At the end of the first quarter of 2009, the Company recognized a higher trend of incidents related to the use of new technology in certain commercial carpet tiles and recorded a \$110.2 million carpet sales allowance and a \$12.4 million inventory write-off. The Company discontinued sales of the commercial carpet tile possessing this new technology and has substituted it with an established technology. The amounts recorded reflect the Company's best reasonable estimate but the actual amount of claims and related costs could vary from such estimates.

Although the Company cannot determine with certainty as to when the deteriorating market conditions will stabilize and begin to improve, the Company believes it is well-positioned in the long-term as the industry improves. The Company continues to monitor expenses and manufacturing capacity based on current industry conditions and will continue to adjust as required.

**Results of Operations****Quarter Ended March 28, 2009, as Compared with Quarter Ended March 29, 2008****Net Sales**

Net sales for the quarter ended March 28, 2009 were \$1,208.3 million, reflecting a decrease of \$529.8 million, or 30.5%, from the \$1,738.1 million reported for the quarter ended March 29, 2008. The decrease was primarily driven by a decline in sales volumes of approximately \$343 million due to the continued decline in the U.S. residential market, softening commercial demand and slowing European demand, a decrease of approximately \$110 million due to an increase in warranty requirements described above in the overview, a decline of approximately \$47 million due to unfavorable price and product mix and a decline of approximately \$30 million due to unfavorable foreign exchange rates.

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*Mohawk Segment* - Net sales decreased \$310.7 million, or 34.3%, to \$594.3 million in the current quarter compared to \$905.0 million in the first quarter of 2008. The decrease was primarily driven by a decline in sales volumes of approximately \$180 million due to the continued decline in the U.S. residential market and softening commercial demand, a decrease of approximately \$110 million due to an increase in warranty requirements described above in the overview and a decline of approximately \$21 million due to the net effect of price and product mix.

*Dal-Tile Segment* - Net sales decreased \$90.6 million, or 20.2%, to \$358.5 million in the current quarter compared to \$449.1 million in the first quarter of 2008. The decrease was primarily driven by a decline in sales volumes of approximately \$74 million due to the continued decline in the U.S. residential market and softening commercial demand and a decline of approximately \$10 million due to unfavorable product mix as customers trade down.

*Unilin Segment* - Net sales decreased \$135.3 million, or 33.5%, to \$268.5 million in the current quarter compared to \$403.8 million in the first quarter of 2008. The decrease was driven by a decline in sales volumes of approximately \$89 million due to the continued decline in the U.S. residential market and slowing European demand, a decline of approximately \$30 million due to unfavorable foreign exchange rates and a decline of approximately \$16 million due to the net effect of price and product mix.

**Gross profit**

Gross profit for the first quarter of 2009 was \$153.7 million (12.7% of net sales) and represented a decrease of \$306.1 million compared to gross profit of \$459.8 million (26.5% of net sales) for the prior year's first quarter. Gross profit in the current quarter was unfavorably impacted by a decrease of approximately \$115 million resulting from a decline in sales volume, a decline of approximately \$110 million due to an increase in warranty requirements described above in the overview, a decrease of approximately \$30 million for higher manufacturing costs as a result of the lower volumes and a decline of approximately \$30 million due to the net effect of price and product mix.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for the first quarter of 2009 were \$299.6 million (24.8% of net sales), reflecting a decrease of \$35.9 million, or 10.7%, compared to \$335.5 million (19.3% of net sales) for the prior year's first quarter. The decrease in selling, general and administrative expenses is attributable to various cost savings initiatives implemented by the Company, offset by approximately \$6 million due to unfavorable foreign exchange rates.

**Operating (loss) income**

Operating loss for the first quarter of 2009 was \$145.9 million reflecting a decrease of \$270.2 million compared to operating income of \$124.3 million (7.2% of net sales) in the first quarter of 2008. The decrease was primarily driven by a decline in sales volumes of approximately \$115 million, a decline of approximately \$110 million due to an increase in warranty requirements described above in the overview and a decline of approximately \$30 million due to the net effect of price and product mix.

*Mohawk Segment* - Operating loss was \$179.1 million in the first quarter of 2009 reflecting a decrease of \$201.3 million compared to operating income of \$22.2 million (2.5% of segment net sales) in the first quarter of 2008. The decrease was primarily due to a decline of approximately \$110 million due to an increase in warranty requirements described above in the overview, a decline in sales volumes of approximately \$51 million, higher manufacturing costs as a result of the lower volumes of approximately \$18 million, net of cost savings initiatives, and a decline of approximately \$10 million due to the net effect of price and product mix.

*Dal-Tile Segment* - Operating income was \$21.1 million (5.9% of segment net sales) in the first quarter of 2009 reflecting a decrease of \$35.8 million compared to operating income of \$56.9 million (12.7% of segment net sales) for the first quarter of 2008. The decrease was primarily due to a decline in sales volumes of approximately \$32 million and higher manufacturing costs as a result of the lower volumes of approximately \$4 million, net of cost savings initiatives.

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*Unilin Segment* - Operating income was \$14.6 million (5.4% of segment net sales) in the first quarter of 2009 reflecting a decrease of \$35.4 million compared to operating income of \$50.0 million (12.4% of segment net sales) for the first quarter of 2008. The decrease was primarily due to a decline in sales volumes of approximately \$31 million, a decline of approximately \$16 million due to the net effect of price and product mix, partially offset by lower costs for raw materials and cost savings initiatives of approximately \$19 million.

### **Interest expense**

Interest expense for the first quarter of 2009 was \$30.2 million compared to \$33.8 million in the first quarter of 2008. The decrease in interest expense was directly related to lower average debt levels in the current quarter when compared to the first quarter of 2008, partially offset by higher interest rates on the Company's notes.

### **Income tax (benefit) expense**

For the first quarter of 2009, the Company recorded an income tax benefit of \$72.8 million on a pre-tax book loss of \$177.7 million for an effective tax rate of 41.0%, as compared to a provision of \$22.4 million on pre-tax book income of \$89.1 for an effective tax rate of 25.1% for the same period in 2008. In accordance with Accounting Principles Board Opinion No. 28, *Interim Financial Reporting* ( APB 28 ) and FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods - an interpretation of APB Opinion No. 28* ( FIN 18 ), at the end of each interim period, the Company is required to determine the best estimate of its annual effective tax rate and then apply that rate in providing for income taxes on an interim period. However, in certain circumstances where the Company is unable to make a reliable estimate of the annual effective tax rate, FIN 18 allows the actual effective tax rate for the interim period to be used in the interim period. For the first quarter ended March 28, 2009, the Company calculated its effective rate for the interim period and applied that rate to the interim period results because it was unable to reasonably estimate its annual effective rate due to fluctuations in its annual pre-tax income and loss between quarters, including the effects caused by multiple tax jurisdictions.

### **Liquidity and Capital Resources**

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

Cash flows provided by operations for the first three months of 2009 were \$37.9 million compared to cash flows used in operations of \$80.2 million for the first three months of 2008. The increase in operating cash flows for the first three months of 2009 as compared to the first three months of 2008 is primarily attributable to lower inventories as a result of lower sales demand and improved accounts payable days, partially offset by lower receivables due to lower sales.

Net cash used in investing activities for the first three months of 2009 was \$27.1 million compared to \$56.0 million for the first three months of 2008. The decrease is due to lower capital spending during 2009 as compared to 2008. Capital spending during the remainder of 2009, excluding acquisitions, is expected to range from \$90 million to \$100 million, and will be used primarily to purchase equipment and to streamline manufacturing capacity.

Net cash provided by financing activities for the first three months of 2009 was \$34.0 million compared to net cash provided by financing activities of \$119.0 million for the same period in 2008. The change in cash provided by financing activities as compared to 2008 is primarily attributable to lower borrowings due to lower working capital requirements as a result of lower sales.

On October 28, 2005, the Company entered into a \$1.5 billion five-year, senior, unsecured, revolving credit and term loan facility (the senior unsecured credit facilities). The senior unsecured credit facilities replaced a then-existing credit facility and various uncommitted credit lines. The senior unsecured credit facilities consist of (i) a multi-currency \$750.0 million revolving credit facility, which matures on October 28, 2010, (ii) a \$389.2 million term loan facility, which was repaid in 2006, and (iii) a Euro 300.0 million term

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loan facility, which was repaid in 2008. On December 31, 2008, the Company amended this facility and reduced the \$750 million revolving credit facility to \$650 million by eliminating the credit commitment of Lehman Brothers Holdings Inc. under the defaulting lender provision of the senior unsecured credit facilities. The Company believes the remaining banks in its revolving credit facility are stable and that the remaining availability is adequate to meet its liquidity requirements.

As of March 28, 2009, the amount used under the revolving credit facility of the senior unsecured credit facilities was \$156.6 million leaving a total of approximately \$493.4 million available under the revolving credit facility. The amount used under the revolving credit facility is composed of \$39.4 million borrowings, \$55.6 million standby letters of credit guaranteeing the Company's industrial revenue bonds and \$61.6 million standby letters of credit related to various insurance contracts and foreign vendor commitments.

Borrowings outstanding under the senior unsecured credit facilities bears interest, at the Company's option, at (i) the greater of (x) prime rate or (y) the overnight federal funds rate plus 0.50%, or (ii) LIBOR plus an indexed amount based on the Company's senior, unsecured, long-term debt rating.

On November 8, 2005, one of the Company's subsidiaries entered into a Euro 130.0 million, five-year unsecured, revolving credit facility, maturing on November 8, 2010 (the Euro revolving credit facility). This agreement bears interest at EURIBOR plus an indexed amount based on the Company's senior, unsecured, long-term debt rating. The Company guaranteed the obligations of that subsidiary under the Euro revolving credit facility and any of the Company's other subsidiaries that become borrowers under the Euro revolving credit facility. As of March 28, 2009, the Company had no borrowings outstanding under this facility and a total of \$173 million (USD equivalent) was available to its European operations under the Company's 130 million Euro revolving credit facility.

The Company's senior unsecured credit facilities and the Euro revolving credit facility both contain debt to capital ratio requirements and other customary covenants. The Company was in compliance with these covenants as of March 28, 2009. Under both of these credit facilities, the Company must pay an annual facility fee ranging from 0.06% to 0.25% depending upon the Company's senior, unsecured long-term debt rating.

The Company has an on-balance sheet trade accounts receivable securitization agreement (Securitization Facility) which matures on July 27, 2009. As of March 28, 2009, the Company had \$77.4 million outstanding secured by trade receivables. The Securitization Facility allows the Company to borrow up to \$250.0 million based on available accounts receivable.

On January 17, 2006, the Company issued \$500.0 million aggregate principal amount of 5.750% notes due 2011 and \$900.0 million aggregate principal amount of 6.125% notes due 2016. Interest payable on each series of the notes is subject to adjustment if either Moody's Investors Service, Inc. or Standard & Poor's Ratings Services, or both, downgrades the rating they have assigned to the notes. Each rating agency downgrade results in a 0.25% increase in the interest rate, subject to a maximum increase of 1% per rating agency. If later the rating of these notes improves, then the interest rates would be reduced accordingly. Each 0.25% increase in the interest rate of these notes would increase the Company's interest expense by approximately \$3.5 million per year. On February 25, 2009, Moody's Investors Service, Inc. downgraded its ratings on the Company's senior unsecured notes to Ba1 from Baa3 with a negative rating outlook. On March 13, 2009, Standard & Poor's Ratings Services downgraded its ratings on the Company's senior unsecured notes to BB+ from BBB-, with a stable outlook. These downgrades will increase the Company's interest expense by approximately \$7.0 million per year and could adversely affect the cost of and ability to obtain additional credit in the future. Additional downgrades in the Company's credit rating could further increase the cost of its existing credit and adversely affect the cost of and ability to obtain additional credit in the future.

In 2002, the Company issued \$400.0 million aggregate principal amount of its senior 7.2% notes due 2012.

The Company believes that cash generated from operations in 2009 and availability under its existing revolving credit facility will be sufficient to meet its capital expenditures and working capital requirements in 2009.

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### **Contractual Obligations**

There have been no significant changes to the Company's contractual obligations as disclosed in the Company's 2008 Annual Report filed on Form 10-K.

### **Critical Accounting Policies and Estimates**

There have been no significant changes to the Company's critical accounting policies and estimates during the period. The Company's critical accounting policies and estimates are described in its 2008 Annual Report filed on Form 10-K.

### **Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of financial instruments according to a fair value hierarchy. Additionally, companies are required to provide certain disclosures regarding instruments within the hierarchy, including a reconciliation of the beginning and ending balances for each major category of assets and liabilities. SFAS No. 157 is effective for the Company's fiscal year beginning January 1, 2008 for financial assets and liabilities and January 1, 2009 for non-financial assets and liabilities. The Company's adoption of SFAS No. 157 for financial assets and liabilities on January 1, 2008 and non-financial assets and liabilities on January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The adoption of SFAS No. 141R on January 1, 2009 did not have a material impact on the Company's consolidated financial statements, although the adoption of SFAS 141R will impact the recognition and measurement of future business combinations and certain income tax benefits recognized from prior business combinations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 160 on January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of SFAS No. 161 are effective for the first quarter of 2009. The adoption of SFAS No. 161 on January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted*

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*Accounting Principles.* The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

### **Impact of Inflation**

Inflation affects the Company's manufacturing costs, distribution costs and operating expenses. The carpet, tile and laminate industry experienced significant inflation in the prices of raw materials and fuel-related costs beginning in the first quarter of 2004, and the prices increased dramatically during the latter part of 2008, peaking in the second half of 2008. Prices of raw materials have subsequently moderated. For the period from 1999 through the beginning of 2004, the carpet and tile industry experienced moderate inflation in the prices of raw materials and fuel-related costs. In the past, the Company has generally been able to pass along these price increases to its customers and has been able to enhance productivity to help offset increases in costs resulting from inflation in its operations. However, the spike in these prices during 2008 was rapid and relatively brief, which will likely limit the Company's ability to fully recoup these added costs through price increases.

### **Seasonality**

The Company is a calendar year-end company. With respect to its Mohawk and Dal-Tile segments, its results of operations for the first quarter tend to be the weakest. The second, third and fourth quarters typically produce higher net sales and operating income in these segments. These results are primarily due to consumer residential spending patterns for floor covering, which historically have decreased during the first two months of each year following the holiday season. The Unilin segment second and fourth quarters typically produce higher net sales and earnings followed by a moderate first quarter and a weaker third quarter. The third quarter is traditionally the weakest due to the European holiday in late summer. In light of the current extraordinary economic climate, the Company believes that seasonality in 2009 may not be typical as compared to prior years as more consumers delay purchases.

### **Forward-Looking Information**

Certain of the statements in this Form 10-Q, particularly those anticipating future performance, business prospects, growth and operating strategies, proposed acquisitions, and similar matters, and those that include the words *believes*, *anticipates*, *forecast*, *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; raw material prices; energy costs and supply; timing and level of capital expenditures; impairment charges; integration of acquisitions; introduction of new products; rationalization of operations; claims; litigation; and other risks identified in Mohawk's SEC reports and public announcements.

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

There have been no significant changes to the Company's exposure to market risk as disclosed in the Company's 2008 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) 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 for the period covered by this report. No change in the Company's internal control over financial reporting occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****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.

In *Shirley Williams et al. v. Mohawk Industries, Inc.*, four plaintiffs filed a putative class action lawsuit in January 2004 in the United States District Court for the Northern District of Georgia (Rome Division), alleging that they are former and current employees of the Company and that the actions and conduct of the Company, including the employment of persons who are not authorized to work in the United States, have damaged them and the other members of the putative class by suppressing the wages of the Company's hourly employees in Georgia. The plaintiffs seek a variety of relief, including (a) treble damages; (b) return of any allegedly unlawful profits; and (c) attorney's fees and costs of litigation. In February 2004, the Company filed a Motion to Dismiss the Complaint, which was denied by the District Court in April 2004. Following appellate review of this decision, the case was returned to the District Court for further proceedings. On December 18, 2007, the plaintiffs filed a motion for class certification. On March 3, 2008, the District Court denied the plaintiffs motion for class certification. The plaintiffs then appealed the decision to the United States Court of Appeals for the 11th Circuit on March 17, 2008, where the matter is currently pending. Discovery has been stayed at the District Court while the appeal is pending. The Company will continue to vigorously defend itself against this action.

In *Collins & Aikman Floorcoverings, Inc., et. al. v. Interface, Inc.*, United States District Court for the Northern District of Georgia (Rome Division), Mohawk Industries, Inc. joined Collins & Aikman Floorcoverings, Inc. (CAF) and Shaw Industries Group, Inc. (Shaw) in suing Interface, Inc. (Interface) for declaratory judgments that United States Patent 6,908,656 (the Patent), assigned to Interface and relating to certain styles of carpet tiles, is not infringed and is invalid. Also in June 2005, in *Interface, Inc., et al. v. Mohawk Industries, Inc., et al.* United States District Court for the Northern District of Georgia (Atlanta Division), Interface sued Mohawk Industries, Inc., Mohawk Carpet Corporation, and Mohawk Commercial, Inc. for allegedly infringing the Patent. Interface brought similar suits against entities affiliated with CAF and Shaw. Interface is seeking monetary damages as well as injunctive relief. The cases have been consolidated in the United States District Court for the Northern District of Georgia (Rome Division). In January 2008, the Company joined CAF and Shaw in filing motions that the Patent was invalid, that it was not willfully infringed, and that Interface could not obtain damages for lost profits. On February 24, 2009, the District Court (i) denied motions by the Company, CAF and Shaw that the patent was invalid and that Interface could not obtain damages for lost profits, and (ii) granted their motions that should infringement be found that any such infringement would not be willful. The Company is vigorously pursuing its declaratory judgment claims of invalidity and non-infringement with respect to the Patent and defending against the claims brought by Interface for infringement of the Patent. A trial date has been set for the third quarter of 2009.

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses and that the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations in a given quarter or annual period.

**Item 1A. Risk Factors**

In addition to the other information provided in this Form 10-Q, the following risk factors should be considered when evaluating an investment in shares of Common Stock.

If any of the events described in these risks were to occur, it could have a material adverse effect on the Company's business, financial condition and results of operations.



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***The current uncertainty in the credit markets, downturns in the global economy and the Company's business could affect the overall availability and cost of credit.***

The current uncertainty in the credit markets could also limit demand for our products, and affect the overall availability and cost of credit. At this time, it is unclear whether and to what extent the actions taken by the U.S. government, and other measures currently being implemented or contemplated, will mitigate the effects of the situation. While we do not anticipate any immediate need to access the credit markets, the impact of the current situation on our ability to obtain financing in the future, and the cost and terms of it, is uncertain. These and other economic factors could have a material adverse effect on demand for our products and on our financial condition and operating results. Further, these generally negative economic and business conditions may factor into our periodic credit ratings assessment by either or both Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. The rating agency's evaluation is based on a number of factors, which include scale and diversification, brand strength, profitability, leverage, liquidity and interest coverage. On February 25, 2009, Moody's Investors Service, Inc. downgraded its ratings on the Company's senior unsecured notes to Ba1 from Baa3 with a negative rating outlook. On March 13, 2009, Standard & Poor's Ratings Services downgraded its ratings on the Company's senior unsecured notes to BB+ from BBB-, with a stable outlook. These downgrades will increase the Company's interest expense by approximately \$7.0 million per year and could adversely affect the cost of and ability to obtain additional credit in the future. Additional downgrades in the Company's credit rating could further increase the cost of its existing credit and adversely affect the cost of and ability to obtain additional credit in the future, and the Company can provide no assurances that additional downgrades will not occur. Additionally, our credit facilities require us to meet certain financial covenants, including certain debt to capitalization ratios. Failure to comply with these covenants could materially and adversely affect our ability to finance our operations or capital needs and to engage in other activities that may be in our best interest.

***The floor covering industry is sensitive to changes in general economic conditions, such as consumer confidence and income, corporate and government spending, interest rate levels, availability of credit and demand for housing. The current downturn in the U.S. and global economies, along with the housing markets in such economies, has negatively impacted the floor covering industry and the Company's business. These difficult economic conditions may continue or deteriorate in the foreseeable future. Further, significant or prolonged declines in such economies or in spending for replacement floor covering products or new construction activity could have a material adverse effect on the Company's business.***

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

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

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

The prices of raw materials and fuel-related costs vary with market conditions. Although the Company generally attempts to pass on increases in raw material 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

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during which increases in these costs cannot be recovered. During such periods of time, the Company's profitability may be materially adversely affected.

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

The floor covering industry is highly competitive. The Company faces competition from a number of manufacturers and independent distributors. Some of the Company's competitors are larger and have greater resources and access to capital than the Company does. Maintaining the Company's competitive position may require substantial investments in the Company's product development efforts, manufacturing facilities, distribution network and sales and marketing activities. Competitive pressures may also result in decreased demand for the Company's products or force the Company to lower prices. Any of these factors could have a material adverse effect on the Company's business.

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

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

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

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

***The Company may experience certain risks associated with acquisitions.***

The Company has typically grown its business through acquisitions. Growth through acquisitions involves risks, many of which may continue to affect the Company after the acquisition. The Company cannot give assurance that an acquired company will achieve the levels of revenue, profitability and production that the Company expects. The combination of an acquired company's business with the Company's existing businesses involves risks. The Company cannot be assured that reported earnings will meet expectations because of goodwill and intangible asset impairment, increased interest costs and issuance of additional securities or incurrence of debt. The Company may also face challenges in consolidating functions, integrating the Company's organizations, procedures, operations and product lines in a timely and efficient manner and retaining key personnel. These challenges may result in:

maintaining executive offices in different locations;

manufacturing and selling different types of products through different distribution channels;

conducting business from various locations;



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maintaining different operating systems and software on different computer hardware; and

providing different employment and compensation arrangements for employees.

The diversion of management attention and any difficulties encountered in the transition and integration process could have a material adverse effect on the Company's revenues, level of expenses and operating results.

Failure to successfully manage and integrate an acquisition with the Company's existing operations could lead to the potential loss of customers of the acquired business, the potential loss of employees who may be vital to the new operations, the potential loss of business opportunities or other adverse consequences that could affect the Company's financial condition and results of operations. Even if integration occurs successfully, failure of the acquisition to achieve levels of anticipated sales growth, profitability or productivity or otherwise perform as expected, may adversely impact the Company's financial condition and results of operations.

***A failure to identify suitable acquisition candidates and to complete acquisitions could have a material adverse effect on the Company's business.***

As part of the Company's business strategy, the Company intends to continue to pursue acquisitions of complementary businesses. Although the Company regularly evaluates acquisition opportunities, the Company may not be able successfully to identify suitable acquisition candidates; to obtain sufficient financing on acceptable terms to fund acquisitions; to complete acquisitions and integrate acquired businesses with the Company's existing businesses; or to manage profitably acquired businesses.

***The Company has been, and in the future may be, subject to claims and liabilities under environmental, health and safety laws and regulations, which could be significant.***

The Company's operations are subject to various environmental, health and safety laws and regulations, including those governing air emissions, wastewater discharges, and the use, storage, treatment and disposal of hazardous materials. The applicable requirements under these laws are subject to amendment, to the imposition of new or additional requirements and to changing interpretations of agencies or courts. The Company could incur material expenditures to comply with new or existing regulations, including fines and penalties.

The nature of the Company's operations, including the potential discovery of presently unknown environmental conditions, exposes it to the risk of claims under environmental, health and safety laws and regulations. The Company could incur material costs or liabilities in connection with such claims.

***Changes in laws or in the business, political and regulatory environments in which the Company operates could have a material adverse effect on the Company's business.***

The Company's manufacturing facilities in Mexico and Europe represent a significant portion of the Company's capacity for ceramic tile and laminate flooring, respectively, and the Company's European operations represent a significant source of the Company's revenues and profits. Accordingly, an event that has a material adverse impact on either of these operations or that changes the current tax treatment of the results thereof could have a material adverse effect on the Company. The business, regulatory and political environments in Mexico and Europe differ from those in the U.S., and the Company's Mexican and European operations are exposed to legal, currency, tax, political, and economic risks specific to the countries in which they occur, particularly with respect to labor regulations, which tend to be more stringent in Europe and, to a lesser extent, Mexico. The Company cannot assure investors that the Company will succeed in developing and implementing policies and strategies to counter the foregoing factors effectively in each location where the Company does business and therefore that the foregoing factors will not have a material adverse effect on the Company's operations or upon the Company's financial condition and results of operations.

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***If the Company is unable to protect the Company's intellectual property rights, particularly with respect to the Company's patented laminate flooring technology and the Company's registered trademarks, the Company's business and prospects could be harmed.***

The future success and competitive position of certain of the Company's businesses, particularly the Company's laminate flooring business, depend in part upon the Company's ability to obtain and maintain proprietary technology used in the Company's principal product families. The Company relies, in part, on the patent, trade secret and trademark laws of the U.S. and countries in Europe, as well as confidentiality agreements with some of the Company's employees, to protect that technology.

The Company has obtained a number of patents relating to the Company's products and associated methods and has filed applications for additional patents, including the UNICLIC<sup>®</sup> family of patents, which protects Unilin's interlocking laminate flooring panel technology. The Company cannot assure investors that any patents owned by or issued to it will provide the Company with competitive advantages, that third parties will not challenge these patents, or that the Company's pending patent applications will be approved. In addition, patent filings by third parties, whether made before or after the date of the Company's filings, could render the Company's intellectual property less valuable.

Furthermore, despite the Company's efforts, the Company may be unable to prevent competitors and/or third parties from using the Company's technology without the Company's authorization, independently developing technology that is similar to that of the Company or designing around the Company's patents. The use of the Company's technology or similar technology by others could reduce or eliminate any competitive advantage the Company has developed, cause the Company to lose sales or otherwise harm the Company's business. In addition, if the Company does not obtain sufficient protection for the Company's intellectual property, the Company's competitiveness in the markets it serves could be significantly impaired, which would limit the Company's growth and future revenue.

The Company has obtained and applied for numerous U.S. and Foreign Service marks and trademark registrations and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. The Company cannot guarantee that any of the Company's pending or future applications will be approved by the applicable governmental authorities. Moreover, even if such applications are approved, third parties may seek to oppose or otherwise challenge the registrations. A failure to obtain trademark registrations in the U.S. and in other countries could limit the Company's ability to protect the Company's trademarks and impede the Company's marketing efforts in those jurisdictions.

The Company generally requires third parties with access to the Company's trade secrets to agree to keep such information confidential. While such measures are intended to protect the Company's trade secrets, there can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach or that the Company's confidential and proprietary information and technology will not be independently developed by or become otherwise known to third parties. In any of these circumstances, the Company's competitiveness could be significantly impaired, which would limit the Company's growth and future revenue.

***Companies may claim that the Company infringed their intellectual property or proprietary rights, which could cause it to incur significant expenses or prevent it from selling the Company's products.***

In the past, companies have claimed that certain technologies incorporated in the Company's products infringe their patent rights. There can be no assurance that the Company will not receive notices in the future from parties asserting that the Company's products infringe, or may infringe, those parties' intellectual property rights. The Company cannot be certain that the Company's products do not and will not infringe issued patents or other intellectual property rights of others. Historically, patent applications in the U.S. and some foreign countries have not been publicly disclosed until the patent is issued (or, in some recent cases, until 18 months following submission), and the Company may not be aware of currently filed patent applications that relate to the Company's products or processes. If patents are later issued on these applications, the Company may be liable for infringement.

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Furthermore, the Company may initiate claims or litigation against parties for infringement of the Company's proprietary rights or to establish the invalidity, noninfringement, or unenforceability of the proprietary rights of others. Likewise, the Company may have similar claims brought against it by competitors. Litigation, either as plaintiff or defendant, could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel from operations, whether or not such litigation is resolved in the Company's favor. In the event of an adverse ruling in any such litigation, the Company might be required to pay substantial damages (including punitive damages and attorney's fees), discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to infringing technology. There can be no assurance that licenses to disputed technology or intellectual property rights would be available on reasonable commercial terms, if at all. In the event of a successful claim against the Company along with failure to develop or license a substitute technology, the Company's business, financial condition and results of operations would be materially and adversely affected.

*The Company is subject to changing regulation of corporate governance and public disclosure that have increased both costs and the risk of noncompliance.*

The Company's stock is publicly traded. As a result, the Company is subject to the rules and regulations of federal and state agencies and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the SEC and NYSE, have in recent years issued new requirements and regulations, most notably the Sarbanes-Oxley Act of 2002. From time to time since the adoption of the Sarbanes-Oxley Act of 2002, these authorities have continued to develop additional regulations or interpretations of existing regulations. The Company's efforts to comply with the regulations and interpretations have resulted in, and are likely to continue to result in, increased general and administrative costs and diversion of management's time and attention from revenue generating activities to compliance activities.

*Declines in the Company's business conditions may result in an impairment of the Company's tangible and intangible assets which could result in a material non-cash charge.*

A decrease in the Company's market capitalization, including a short-term decline in stock price, or a negative long-term performance outlook, could result in an impairment of its tangible and intangible assets which results when the carrying value of the Company's assets exceed their fair value. In 2008, the Company's goodwill and other intangible assets suffered an impairment and additional impairment charges could occur in future periods.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

## Edgar Filing: MOHAWK INDUSTRIES INC - Form 10-Q

| <b>No.</b> | <b>Description</b>   |
|------------|--|
| 10.1       | Service Agreement, dated as of February 24, 2009, by and between Unilin Industries BVBA and BVBA F. DeCock Management (incorporated by reference to the Company's Current Report on Form 8-K dated February 24, 2009). |
| 31.1       | Certification Pursuant to Rule 13a-14(a).  |
| 31.2       | Certification Pursuant to Rule 13a-14(a).  |
| 32.1       | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2       | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

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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: April 29, 2009

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

Dated: April 29, 2009

By: /s/ Frank H. Boykin  
FRANK H. BOYKIN  
Chief Financial Officer  
(principal financial officer)