MOHAWK INDUSTRIES INC
Form 10-Q
August 05, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 28, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number

01-13697

MOHAWK INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

P. O. Box 12069, 160 S. Industrial Blvd., Calhoun, Georgia	**30701**
(Address of principal executive offices)	**(Zip Code)**

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x	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 x

The number of shares outstanding of the issuer s classes of common stock as of August 1, 2008, the latest practicable date, is as follows: 68,410,575 shares of Common Stock, $.01 par value.

Table of Contents

MOHAWK INDUSTRIES, INC.

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

(In thousands)

(Unaudited)

	June 28, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 64,038	89,604
Receivables, net	982,378	821,113
Inventories	1,250,300	1,276,568
Prepaid expenses and other assets	131,218	123,395
Deferred income taxes	138,332	139,040
Total current assets	2,566,266	2,449,720
Property, plant and equipment, at cost	3,441,484	3,313,635
Less accumulated depreciation and amortization	1,422,671	1,337,914
Net property, plant and equipment	2,018,813	1,975,721
Goodwill	2,876,724	2,797,339
Tradenames	738,842	707,086
Other intangible assets, net	451,315	464,783
Deferred income taxes and other assets	307,572	285,401
	$ 8,959,532	8,680,050

See accompanying notes to condensed consolidated financial statements.

3

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

(In thousands, except per share data)

(Unaudited)

	June 28, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt	$ 290,392	260,439
Accounts payable and accrued expenses	965,743	951,061
Total current liabilities	1,256,135	1,211,500
Deferred income taxes	638,685	614,619
Long-term debt, less current portion	1,896,642	2,021,395
Other long-term liabilities	125,173	125,179
Total liabilities	3,916,635	3,972,693
Stockholders equity:		
Preferred stock, $.01 par value; 60 shares authorized; no shares issued		
Common stock, $.01 par value; 150,000 shares authorized; 79,449 and 79,404 shares issued in 2008 and 2007, respectively	794	794
Additional paid-in capital	1,212,023	1,203,957
Retained earnings	3,616,512	3,462,343
Accumulated other comprehensive income, net	537,113	363,981
	5,366,442	5,031,075
Less treasury stock at cost; 11,040 and 11,046 shares in 2008 and 2007, respectively	323,545	323,718
Total stockholders equity	5,042,897	4,707,357
	$ 8,959,532	8,680,050

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended	
	June 28, 2008	**June 30, 2007**
Net sales	$ 1,840,045	1,977,210
Cost of sales	1,357,153	1,420,512
Gross profit	482,892	556,698
Selling, general and administrative expenses	336,829	358,450
Operating income	146,063	198,248
Other expense (income):		
Interest expense	32,742	39,138
Other expense	4,796	3,439
Other income	(3,146)	(6,190)
U.S. Customs refund, net		(32)
	34,392	36,355
Earnings before income taxes	111,671	161,893
Income taxes	22,893	46,625
Net earnings	$ 88,778	115,268
Basic earnings per share	$ 1.30	1.69
Weighted-average common shares outstanding	68,403	68,167
Diluted earnings per share	$ 1.29	1.68
Weighted-average common and dilutive potential common shares outstanding	68,617	68,533

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	Six Months Ended	
	June 28, 2008	**June 30, 2007**
Net sales	$ 3,578,142	3,841,073
Cost of sales	2,635,411	2,760,935
Gross profit	942,731	1,080,138
Selling, general and administrative expenses	672,350	711,313
Operating income	270,381	368,825
Other expense (income):		
Interest expense	66,509	80,717
Other expense	11,242	8,853
Other income	(6,813)	(7,377)
U.S. Customs refund, net		(9,154)
	70,938	73,039
Earnings before income taxes	199,443	295,786
Income taxes	45,275	90,140
Net earnings	$ 154,168	205,646
Basic earnings per share	$ 2.25	3.02
Weighted-average common shares outstanding	68,389	68,037
Diluted earnings per share	$ 2.25	3.01
Weighted-average common and dilutive potential common shares outstanding	68,598	68,394

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended	
	June 28, 2008	**June 30, 2007**
Cash flows from operating activities:		
Net earnings	$ 154,168	205,646
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	148,308	149,228
Deferred income taxes	5,661	(11,940)
Loss on disposal and impairment of property, plant and equipment	2,637	943
Excess tax benefit from stock-based compensation	264	(5,884)
Stock-based compensation expense	6,539	7,564
Changes in operating assets and liabilities, net of effects of acquisition:		
Receivables	(148,645)	(83,513)
Inventories	34,375	(1,095)
Accounts payable and accrued expenses	401	61,522
Other assets and prepaid expenses	(16,493)	(4,687)
Other liabilities	(523)	(3,332)
Net cash provided by operating activities	186,692	314,452
Cash flows from investing activities:		
Additions to property, plant and equipment, net	(105,810)	(60,384)
Net cash used in investing activities	(105,810)	(60,384)
Cash flows from financing activities:		
Payments on revolving line of credit	(720,864)	(928,482)
Proceeds from revolving line of credit	615,398	857,398
Net change in asset securitization borrowings		80,000
Payments on term loan and other debt	(230)	(300,167)
Excess tax benefit from stock-based compensation	(264)	5,884
Change in outstanding checks in excess of cash	(2,831)	(5,820)
Proceeds from stock option exercises	1,557	25,382
Net cash used in financing activities	(107,234)	(265,805)
Effect of exchange rate changes on cash and cash equivalents	786	6,008
Net change in cash	(25,566)	(5,729)
Cash, beginning of period	89,604	63,492
Cash, end of period	$ 64,038	57,763

See accompanying notes to condensed consolidated financial statements.

7

Table of Contents

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 accounting principles generally accepted in the United States of America 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 2007 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 adoption of SFAS No. 157 for financial assets and liabilities on January 1, 2008 did not have a material impact on the Company s consolidated financial statements. The Company is currently evaluating the impact, if any, of SFAS No. 157 for non-financial assets and liabilities on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans- an amendment of FASB Statements No. 87, 88, 106 and 132(R*) (SFAS No. 158). The Company adopted all provisions of SFAS No. 158 as of December 31, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The adoption of the measurement provisions of SFAS No. 158 on January 1, 2008 did not have any impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS No. 159, a company may elect to use fair value to measure eligible items at a specified election date and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Eligible items include, but are not limited to, accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and firm commitments. The Company adopted SFAS No. 159 effective January 1, 2008, but did not elect to fair value any of the eligible assets or liabilities. Therefore, the adoption did not have any impact on its 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.

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Once adopted, 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 Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on its 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 Company is currently evaluating the impact of the provisions of SFAS No. 161 on its 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 Accounting Principles* . The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

3. Receivables

Receivables are as follows:

	June 28, 2008	December 31, 2007
Customers, trade	$ 1,016,172	845,446
Other	28,758	31,977
	1,044,930	877,423
Less allowance for discounts, returns, claims and doubtful accounts	62,552	56,310
Net receivables	$ 982,378	821,113

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

4. Inventories

The components of inventories are as follows:

	June 28, 2008	December 31, 2007
Finished goods	$ 760,445	804,408
Work in process	113,857	100,582
Raw materials	375,998	371,578
Total inventories	$ 1,250,300	1,276,568

5. Intangible assets and goodwill

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

Goodwill:

	Mohawk	Dal-Tile	Unilin	Total
Balance as of January 1, 2008	$ 199,132	1,186,013	1,412,194	2,797,339
Goodwill recognized during the period (1)			556	556
Currency translation during the period			78,829	78,829
Balance as of June 28, 2008	$ 199,132	1,186,013	1,491,579	2,876,724

(1) The Company adjusted certain pre-acquisition tax liabilities in the Unilin segment.

Intangible assets:

Indefinite life assets not subject to amortization:	Tradenames
Balance as of January 1, 2008	$ 707,086
Currency translation during the period	31,756
Balance as of June 28, 2008	$ 738,842

Intangible assets subject to amortization:	Customer relationships	Patents	Total
Balance as of January 1, 2008	$ 256,092	208,691	464,783
Amortization during period	(24,939)	(15,082)	(40,021)
Currency translation during the period	11,836	14,717	26,553
Balance as of June 28, 2008	$ 242,989	208,326	451,315

Amortization expense:	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Amortization expense	$ 20,542	23,371	40,021	46,069

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

6. Accounts payable and accrued expenses

	June 28, 2008	December 31, 2007
Outstanding checks in excess of cash	$ 21,788	24,619
Accounts payable, trade	444,232	399,141
Accrued expenses	303,443	321,547
Income taxes payable	33,154	42,090
Deferred tax liability	5,658	11,890
Accrued compensation	157,468	151,774
Total accounts payable and accrued expenses	$ 965,743	951,061

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, based on historical experience and periodically adjusts these provisions to reflect actual experience. The warranty obligation is as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Balance at beginning of period	$ 40,607	30,022	46,187	30,712
Warranty claims paid	(19,154)	(12,561)	(35,310)	(28,373)
Warranty expense	20,775	12,459	31,351	27,581
Balance at end of period	$ 42,228	29,920	42,228	29,920

8. Comprehensive income

Comprehensive income is as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net earnings	$ 88,778	115,268	154,168	205,646
Other comprehensive income:				
Foreign currency translation	(173)	25,477	172,188	48,063
Unrealized gain (loss) on derivative instruments, net of income taxes	507	(939)	944	651
Comprehensive income	$ 89,112	139,806	327,300	254,360

9. Stock compensation

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.

Table of Contents

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 a maximum of 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 146 and 64 options to employees at a weighted-average grant-date fair value of $20.26 and $33.68 per share for the six months ended June 28, 2008 and June 30, 2007, respectively. The Company recognized stock-based compensation costs related to stock options of $1,673 ($1,060 net of taxes) and $2,205 ($1,397 net of taxes) for the three months ended June 28, 2008 and June 30, 2007, respectively, and $3,252 ($2,060 net of taxes) and $4,644 ($2,942 net of taxes) for the six months ended June 28, 2008 and June 30, 2007, 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 $10,806 as of June 28, 2008, and will be recognized as expense over a weighted-average period of approximately 2.5 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 72 and 144 RSU s at a weighted-average grant-date fair value of $75.05 and $93.61 per unit for the six months ended June 28, 2008 and June 30, 2007, respectively. The Company recognized stock-based compensation costs related to the issuance of RSU s of $2,225 ($1,409 net of taxes) and $837 ($527 net of taxes) for the three months ended June 28, 2008 and June 30, 2007, respectively, and $3,115 ($1,973 net of taxes) and $2,789 ($1,767 net of taxes) for the six months ended June 28, 2008 and June 30, 2007, 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 $9,296 as of June 28, 2008, and will be recognized as expense over a weighted-average period of approximately 2.8 years. No restricted stock awards were granted and compensation expense related to prior grants was not significant for the three or six months ended June 28, 2008. Restricted stock awards granted and the related compensation expense was not significant for the three or six months ended June 30, 2007.

10. Earnings per share

The Company applies the provisions of SFAS No. 128, *Earnings per Share*, which requires companies to present basic earnings 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 of the Company.

Dilutive common stock options and RSU s are included in the diluted EPS calculation using the treasury stock method. Excluded from the computation of diluted EPS are stock options and RSU s of 1,215 and 663 shares because their effect would have been anti-dilutive for the three month period ended June 28, 2008 and June 30, 2007, respectively and 1,269 and 782 shares because their effect would have been anti-dilutive for the six month period ended June 28, 2008 and June 30, 2007, respectively.

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net earnings	$ 88,778	115,268	154,168	205,646
Weighted-average common and dilutive potential common shares outstanding:				
Weighted-average common shares outstanding	68,403	68,167	68,389	68,037
Add weighted-average dilutive potential common shares - options and RSU s to purchase common shares, net	214	366	209	357
Weighted-average common and dilutive potential common shares outstanding	68,617	68,533	68,598	68,394
Basic earnings per share	$ 1.30	1.69	2.25	3.02
Diluted earnings per share	$ 1.29	1.68	2.25	3.01

11. Supplemental Condensed Consolidated Statements of Cash Flows Information

	Six Months Ended	
	June 28, 2008	June 30, 2007
Net cash paid during the period for:		
Interest	$ 66,957	83,406
Income taxes	$ 69,686	107,043

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, medium-density fiberboard, roofing systems and other wood products through various selling channels, which include retailers, home centers, independent distributors, contractors, and commercial users.

The accounting policies for each operating segment are consistent with the Company s policies for the consolidated financial statements. Amounts disclosed for each segment are prior to any elimination or consolidation entries. Corporate general and administrative expenses attributable to each segment are estimated and allocated accordingly. Segment performance is evaluated based on operating income.

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Segment information is as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**
Net sales:				
Mohawk	$ 968,426	1,113,412	1,873,470	2,161,073
Dal-Tile	481,511	505,187	930,562	972,148
Unilin	411,525	363,531	815,280	715,627
Intersegment Sales	(21,417)	(4,920)	(41,170)	(7,775)
	$ 1,840,045	1,977,210	3,578,142	3,841,073
Operating income:				
Mohawk	$ 34,593	59,730	56,834	108,175
Dal-Tile	58,169	69,353	115,110	133,748
Unilin	60,121	81,737	110,077	142,236
Corporate and Eliminations	(6,820)	(12,572)	(11,640)	(15,334)
	$ 146,063	198,248	270,381	368,825

	As of	
	June 28, 2008	**December 31, 2007**
Assets:		
Mohawk	$ 2,400,869	2,302,527
Dal-Tile	2,259,255	2,259,811
Unilin	4,109,314	3,916,739
Corporate and Eliminations	190,094	200,973
	$ 8,959,532	8,680,050

13. Employee Benefit Plans

The Company has various pension plans covering employees in Belgium, France and the Netherlands (the Non-U.S. Plans) that it acquired with the acquisition of Unilin Holding NV in October 2005. Benefits under the Non-U.S. Plans depend on compensation and years of service. The Non-U.S. Plans are funded in accordance with local regulations.

Pension expense for the Non-U.S. Plans includes the following components:

	Non-U.S. Plans			
	Three months ended		Six months ended	
	June 28, 2008	**June 30, 2007**	**June 28, 2008**	**June 30, 2007**

Service cost of benefits earned	$ 515	461	1,009	910
Interest cost on projected benefit obligation	327	229	624	446
Estimated return on plan assets	(245)	(176)	(473)	(350)
Amortization of actuarial net gain	(6)		(13)	
Net pension expense	$ 591	514	1,147	1,006

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

The Company contributed $1,085 to its Non-U.S. Plans in the six months ended June 28, 2008 and expects to make cash contributions of approximately $1,085 during the remainder of 2008.

14. 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, 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. 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 an internal review, the Company discovered that it had exchanged employee compensation information with its competitors while gathering market data. The Company discontinued this activity and voluntarily disclosed the practice to the Department of Justice. No claim has been asserted.

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.

The Company has received partial refunds from the United States government in reference to settling custom disputes dating back to 1982. To date, the Company has received partial refunds totaling $28,590 ($18,087 net of taxes). No refunds were recorded during the three or six month periods ended June 28, 2008. For the three and six months ended June 28, 2007, the Company recorded refunds of $32 ($20 net of taxes) and $9,154 ($5,812 net of taxes), respectively. Additional future recoveries, if any, will be recorded when realized.

15. Fair Value of Financial Instruments

As noted above in Note 2, the Company has only adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities that are measured at fair value within the condensed consolidated financial statements. For assets and liabilities measured at fair value on a recurring basis during the period under the provisions of SFAS No. 157, the Company uses an income approach to value the assets and liabilities for outstanding derivative contracts, which include natural gas futures contracts and foreign exchange forward contracts. The income approach 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 current market information as of the reporting date such as natural gas and foreign exchange spot and forward rates.

Table of Contents

MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

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

		Fair Value Measurements at June 28, 2008 Using		
	June 28, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivatives	$ 1,359		1,359	

16

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 2007 of $7.6 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, medium-density fiberboard, roofing systems and other wood products through various selling channels, which include retailers, home centers, independent distributors, contractors, and commercial users.

The Company reported net earnings of $88.8 million or diluted earnings per share (EPS) of $1.29 for the second quarter of 2008, compared to net earnings of $115.3 million or $1.68 EPS for the second quarter of 2007. The change in EPS resulted primarily from lower sales volumes, which the Company believes is attributable to slowing U.S. residential housing and European demand, and rapidly rising raw material and energy costs.

The Company reported net earnings of $154.2 million or EPS of $2.25 for the six months ended June 28, 2008, compared to net earnings of $205.6 million or $3.01 EPS for the same period of 2007. The change in EPS resulted primarily from lower sales volumes, which the Company believes is attributable to slowing U.S. residential housing and European demand, and rapidly rising raw material and energy costs.

Results of Operations

Quarter Ended June 28, 2008, as Compared with Quarter Ended June 30, 2007

Net Sales

Net sales for the quarter ended June 28, 2008 were $1,840.0 million, reflecting a decrease of $137.2 million, or 6.9%, from the $1,977.2 million reported for the quarter ended June 30, 2007. The decrease was primarily driven by a decline in sales volumes of approximately $234 million due to the continued decline in the U.S. residential market, partially offset by a benefit of approximately $47 million due to the net effect of price increases and product mix and a benefit of approximately $41 million due to favorable foreign exchange rates.

Mohawk Segment Net sales decreased $145.0 million, or 13.0%, to $968.4 million in the current quarter compared to $1,113.4 million in the second quarter of 2007. The decrease was primarily driven by a decline in sales volumes of approximately $170 million due to the continued decline in the U.S. residential market, partially offset by a benefit of approximately $34 million due to the net effect of price increases and product mix.

Dal-Tile Segment Net sales decreased $23.7 million, or 4.7%, to $481.5 million in the current quarter compared to $505.2 million in the second quarter of 2007. The decrease was primarily driven by a decline in

Table of Contents

sales volumes of approximately $35 million due to the continued decline in the U.S. residential market, partially offset by a benefit of approximately $12 million due to the net effect of price increases and product mix.

Unilin Segment Net sales increased $48.0 million, or 13.2%, to $411.5 million in the current quarter compared to $363.5 million in the second quarter of 2007. The increase was driven by a benefit of approximately $41 million due to favorable foreign exchange rates and increased sales of approximately $34 million from the wood flooring acquisition completed in the third quarter of 2007 (Wood Acquisition), partially offset by a decline in sales volumes of approximately $28 million due to the continued decline in the U.S. residential market and slowing European demand.

Gross profit

Gross profit for the second quarter of 2008 was $482.9 million (26.2% of net sales) and represented a decrease of $73.8 million, or 13.3%, compared to gross profit of $556.7 million (28.2% of net sales) for the prior year s second quarter. Gross profit in the current quarter was unfavorably impacted by rapidly increasing costs for raw materials and energy and a decline in volumes, partially offset by the net effect of price increases and product mix and favorable foreign exchange rates.

Selling, general and administrative expenses

Selling, general and administrative expenses for the second quarter of 2008 were $336.8 million (18.3% of net sales), reflecting a decrease of $21.7 million, or 6.1%, compared to $358.5 million (18.1% of net sales) for the prior year s second quarter. The increase in selling, general and administrative expenses as a percentage of net sales was primarily attributable to leveraging over lower net sales.

Operating income

Operating income for the second quarter of 2008 was $146.1 million (7.9% of net sales) reflecting a decrease of $52.1 million, or 26.3%, compared to $198.2 million (10.0% of net sales) in the second quarter of 2007. The decrease was primarily due to a decline in sales volumes of approximately $72 million and rapidly rising costs for raw materials and energy of approximately $24 million, net of cost savings initiatives, partially offset by a benefit of approximately $52 million due to the net effect of price increases and product mix.

Mohawk Segment Operating income was $34.6 million (3.6% of segment net sales) in the second quarter of 2008 reflecting a decrease of $25.1 million, or 42.0%, compared to $59.7 million (5.4% of segment net sales) in the second quarter of 2007. The decrease was primarily due to a decline in sales volumes of approximately $32 million and rapidly rising costs for raw materials and energy of approximately $19 million, net of cost savings initiatives, partially offset by a benefit of approximately $34 million due to the net effect of price increases and product mix.

Dal-Tile Segment Operating income was $58.2 million (12.1% of segment net sales) in the second quarter of 2008 reflecting a decrease of $11.2 million, or 16.1%, compared to $69.4 million (13.7% of segment net sales) for the second quarter of 2007. The decrease was primarily due to rapidly rising costs for raw materials and energy of approximately $12 million, net of cost savings initiatives, and a decline in sales volumes of approximately $9 million, partially offset by a benefit of approximately $12 million due to the net effect of price increases and product mix.

Unilin Segment Operating income was $60.1 million (14.6% of segment net sales) in the second quarter of 2008 reflecting a decrease of $21.6 million, or 26.4%, compared to $81.7 million (22.5% of segment net sales) for the second quarter of 2007. The decrease was primarily due to a decline in sales volumes.

Table of Contents

Interest expense

Interest expense for the second quarter of 2008 was $32.7 million compared to $39.1 million in the second quarter of 2007. The decrease in interest expense was directly related to lower average debt levels in the current quarter when compared to the second quarter of 2007.

Income tax expense

Income tax expense was $22.9 million, or 20.5% of earnings before income taxes, for the second quarter of 2008 compared to $46.6 million, or 28.8% of earnings before income taxes, for the prior year s second quarter. The decrease in the tax rate is principally due to the impact of the tax restructuring in the third and fourth quarters of 2007, which principally resulted in higher interest deductions outside the U.S.

Six Months Ended June 28, 2008, as Compared with Six Months Ended June 30, 2007

Net Sales

Net sales for the six months ended June 28, 2008 were $3,578.1 million, reflecting a decrease of $263.0 million, or 6.8%, from the $3,841.1 million reported for the six months ended June 30, 2007. The decrease was primarily driven by a decline in sales volumes of approximately $425 million due to the continued decline in the U.S. residential market, partially offset by a benefit of approximately $75 million due to the net effect of price increases and product mix, a benefit of approximately $57 million due to favorable foreign exchange rates and a benefit of approximately $51 million due to increased sales from the Wood Acquisition.

Mohawk Segment Net sales decreased $287.6 million, or 13.3%, to $1,873.5 million in the current six months compared to $2,161.1 million in the first half of 2007. The decrease was primarily driven by a decline in sales volumes of approximately $313 million due to the continued decline in the U.S. residential market, partially offset by a benefit of approximately $35 million due to the net effect of price increases and product mix.

Dal-Tile Segment Net sales decreased $41.5 million, or 4.3%, to $930.6 million in the current six months compared to $972.1 million in the first half of 2007. This decrease was primarily driven by a decline in sales volumes of approximately $67 million due to the continued decline in the U.S. residential market, partially offset by a benefit of approximately $25 million due to the net effect of price increases and product mix.

Unilin Segment Net sales increased $99.7 million, or 13.9%, to $815.3 million in the current six months compared to $715.6 million in the first half of 2007. The increase in net sales was driven by a benefit of approximately $72 million due to the Wood Acquisition, a benefit of approximately $57 million due to favorable foreign exchange rates and a benefit of approximately $15 million due to the net effect of price increases and product mix, partially offset by a decline in sales volumes of approximately $45 million due to the continued decline in the U.S. residential market and slowing European demand.

Gross profit

Gross profit for the first half of 2008 was $942.7 million (26.3% of net sales) and represented a decrease of $137.4 million, or 12.7%, compared to gross profit of $1,080.1 million (28.1% of net sales) for the prior year s first half. Gross profit was unfavorably impacted by rapidly increasing costs for raw materials and energy, a decline in volumes and losses attributable to the Wood Acquisition, partially offset by the net effect of price increases and product mix and favorable foreign exchange rates.

Selling, general and administrative expenses

Selling, general and administrative expenses for the first half of 2008 were $672.4 million (18.8% of net sales), reflecting a decrease of $38.9 million, or 5.5%, compared to $711.3 million (18.5% of net sales) for the prior year s first half. The increase in selling, general and administrative expenses as a percentage of net sales was primarily attributable to leveraging over lower net sales.

Table of Contents

Operating income

Operating income for the first half of 2008 was $270.4 million (7.6% of net sales) reflecting a decrease of $98.4 million, or 26.7%, compared to $368.8 million (9.6% of net sales) in the first half of 2007. The decrease was primarily due to a decline in sales volumes of approximately $118 million and rapidly rising costs for raw materials and energy of approximately $50 million, net of cost savings initiatives, partially offset by a benefit of approximately $78 million due to the net effect of price increases and product mix.

Mohawk Segment Operating income was $56.8 million (3.0% of segment net sales) in the first half of 2008 reflecting a decrease of $51.4 million, or 47.5%, compared to $108.2 million (5.0% of segment net sales) in the first half of 2007. The decrease was primarily due to a decline in sales volumes of approximately $57 million and rapidly rising costs for raw materials and energy of approximately $20 million, net of cost savings initiatives, partially offset by a benefit of approximately $35 million due to the net effect of price increases and product mix.

Dal-Tile Segment Operating income was $115.1 million (12.4% of segment net sales) in the first half of 2008 reflecting a decrease of $18.6 million, or 13.9%, compared to $133.7 million (13.8% of segment net sales) for the first half of 2007. The decrease was primarily due to rapidly rising costs for raw materials and energy of approximately $25 million, net of cost savings initiatives, and a decline in sales volumes of approximately $17 million, partially offset by a benefit of approximately $25 million due to the net effect of price increases and product mix.

Unilin Segment Operating income was $110.1 million (13.5% of segment net sales) in the first half of 2008 reflecting a decrease of $32.1 million, or 22.6%, compared to $142.2 million (19.9% of segment net sales) for the first half of 2007. The decrease was primarily due to a decline in sales volumes.

Interest expense

Interest expense for the first half of 2008 was $66.5 million compared to $80.7 million for the first six months of 2007. The decrease in interest expense was directly related to lower average debt levels in the first six months of 2008 when compared to the first six months of 2007.

Income tax expense

Income tax expense was $45.3 million, or 22.7% of earnings before income taxes, for the first half of 2008 compared to $90.1 million, or 30.5% of earnings before income taxes, for the prior year s first half. The decrease in the tax rate is principally due to the impact of the tax restructuring in the third and fourth quarters of 2007, which principally resulted in higher interest deductions outside the U.S.

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 six months of 2008 were $186.7 million compared to cash flows provided by operations of $314.5 million for the first six months of 2007. The decrease in operating cash flows for the first six months of 2008 as compared to the first six months of 2007 is primarily attributable to the timing of receipts due to a calendar shift in the fourth quarter of 2007 as compared to 2006, a change in customer mix and lower accounts payable and accruals due to lower volumes, partially offset by lower inventory levels.

Net cash used in investing activities for the first six months of 2008 was $105.8 million compared to $60.4 million for the first six months of 2007. The increase is due to an increase in and the timing of additional plant capital spending during 2008 as compared to 2007. Capital spending during the remainder of 2008 for the Mohawk, Dal-Tile and Unilin segments combined, excluding acquisitions, is expected to range from $120 million to $145 million, and will be used primarily to purchase equipment and to add manufacturing capacity.

Table of Contents

Net cash provided by financing activities for the first six months of 2008 was $107.2 million compared to net cash used in financing activities of $265.8 million for the same period in 2007. The primary reason for the change was lower debt repayments as cash flow from operations decreased, compared to the first six months of 2007.

At June 28, 2008, a total of $554.2 million was available under the Company s revolving credit facility. The amount used under the revolving credit facility at June 28, 2008 was $195.8 million. The amount used under the revolving credit facility is composed of $92.7 million of borrowings, $55.6 million of standby letters of credit guaranteeing the Company s industrial revenue bonds and $47.5 million of standby letters of credit related to various insurance contracts and foreign vendor commitments.

The Company has an on-balance sheet trade accounts receivable securitization agreement (Securitization Facility). At June 28, 2008, the Company had $190.0 million outstanding secured by trade receivables. On July 28, 2008, the Company amended and restated the Securitization Facility, reduced total availability from $350.0 million to $250.0 million and extended the term until July 2009.

Contractual Obligations

There have been no significant changes to the Company s contractual obligations as disclosed in the Company s 2007 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 2007 Annual Report filed on Form 10-K.

Recent Accounting 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 adoption of SFAS No. 157 for financial assets and liabilities on January 1, 2008 did not have a material impact on the Company s consolidated financial statements. The Company is currently evaluating the impact, if any, of SFAS No. 157 for non-financial assets and liabilities on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans- an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158). The Company adopted all provisions of SFAS No. 158 as of December 31, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The adoption of the measurement provisions of SFAS No. 158 on January 1, 2008 did not have any impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS No. 159, a company may elect to use fair value to measure eligible items at a specified election date and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Eligible items include, but are not limited to, accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and firm commitments. The Company adopted SFAS No. 159 effective January 1, 2008, but did not elect to fair value any of the eligible assets or liabilities. Therefore, the adoption did not have any impact on its 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. Once adopted, 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 Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 160 on its 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 Company is currently evaluating the impact of the provisions of SFAS No. 161 on its 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 Accounting Principles* . The adoption of this standard will not 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 and tile industry have experienced significant inflation in the prices of raw materials and fuel-related costs beginning in the first quarter of 2004, predominately related to the oil-based materials it purchases. The laminate industry has experienced moderate inflation in the prices of raw material since the beginning of 2006. 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.

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

Table of Contents

of each year following the holiday season. The Unilin segment s 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.

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 industry conditions; competition; raw material prices; energy costs; timing and level of capital expenditures; integration of acquisitions; introduction of new products; rationalization of operations; 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 2007 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, 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. 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 an internal review, the Company discovered that it had exchanged employee compensation information with its competitors while gathering market data. The Company discontinued this activity and voluntarily disclosed the practice to the Department of Justice. No claim has been asserted.

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.

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. housing market has negatively impacted the floor covering industry and the Company s business and further significant or prolonged declines 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. housing market has negatively impacted the floor covering industry and the Company s business. Although the impact of a decline

24

Table of Contents

in new construction activity is typically accompanied by an increase in remodeling and replacement activity, these activities have also lagged during the current downturn. 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.

The Company may be unable to pass increases in the costs 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. The Company s costs for carpet raw materials and fuel-related materials are currently higher than historical averages and may remain so indefinitely. 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 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 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 can not 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 can not 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;
- 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

Table of Contents

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 not 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 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. 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.

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 international trade laws and in the business, political and regulatory environment in Mexico and Europe 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. Accordingly, an event that has a material adverse impact on either of these operations 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.

Table of Contents

The Company could face increased competition as a result of the agreements under World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA).

The Company is uncertain what effect reduced import duties pursuant to agreements under the WTO may have on the Company s operations, although these reduced rates may stimulate additional competition from manufacturers that export ceramic tile to the United States.

Although NAFTA eliminated tariffs imposed on the Company s ceramic tile manufactured in Mexico and sold in the United States effective January 1, 2008, it may also stimulate competition in the United States and Canada from manufacturers located in Mexico.

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 earnings accounts using the Company s weighted 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. Although the Company has not yet experienced material losses due to foreign currency fluctuation, 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 carrying value of the Company s debt and results of operations and affect comparability of the Company s results between financial periods.

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® 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.

Table of Contents

The Company 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 the Company has had companies claim 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.

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 attorneys 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 goodwill and/or intangible assets and a change in the recoverability of deferred tax 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 goodwill and/or indefinite lived intangible assets which results when the carrying value of the Company s reporting units exceed their fair value. These factors could also affect the recoverability of deferred tax assets.

Table of Contents

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

The Annual Meeting of Stockholders was held on May 14, 2008, at which time stockholders were asked to elect a class of directors to serve a three-year term beginning in 2008.

John F. Fiedler, Jeffrey S. Lorberbaum and Robert N. Pokelwaldt were elected Class III directors of the Company for a term expiring in 2011. Mr. Fiedler was elected by stockholders owning 61,327,779 shares of common stock, with stockholders owning 434,873 shares withholding authority. Mr. Lorberbaum was elected by stockholders owning 61,359,432 shares of common stock, with stockholders owning 403,220 shares withholding authority. Mr. Pokelwaldt was elected by stockholders owning 61,231,908 shares of common stock, with stockholders owning 530,744 shares withholding authority. Ms. Phyllis O. Bonanno and Messrs. Bruce C. Bruckmann, Frans De Cock, David L. Kolb, Larry W. McCurdy, Joseph A. Onorato and W. Christopher Wellborn continued their terms of office as directors.

Item 5. Other Information

None.

Item 6. Exhibits

No.	Description
31.1	Certification Pursuant to Rule 13a-14(a).
31.2	Certification Pursuant to Rule 13a-14(a).
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

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: August 5, 2008	By: /s/ Jeffrey S. Lorberbaum JEFFREY S. LORBERBAUM Chairman, President and Chief Executive Officer (principal executive officer)
Dated: August 5, 2008	By: /s/ Frank H. Boykin FRANK H. BOYKIN Chief Financial Officer (principal financial officer)