INTERFACE INC
Form 10-Q
August 04, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarterly Period Ended July 2, 2006

Commission File Number 0-12016

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

GEORGIA (State or other jurisdiction of incorporation or organization)	58-1451243 (I.R.S. Employer Identification No.)

2859 PACES FERRY ROAD, SUITE 2000, ATLANTA, GEORGIA 30339
(Address of principal executive offices and zip code)

(770) 437-6800
(Registrant's telephone number, including area code)

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Shares outstanding of each of the registrant's classes of common stock at August 2, 2006:

Class	Number of Shares
Class A Common Stock, $.10 par value per share	47,879,610
Class B Common Stock, $.10 par value per share	6,874,162

INTERFACE, INC.

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	JULY 2, 2006 (UNAUDITED)	JANUARY 1, 2006
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 27,347	$ 51,312
Accounts Receivable, net	143,769	141,408
Inventories	142,766	130,209
Prepaid and Other Expenses	21,040	16,624
Deferred Income Taxes	4,575	4,540
Assets of Businesses Held for Sale	3,107	5,526
TOTAL CURRENT ASSETS	342,604	349,619
PROPERTY AND EQUIPMENT, less accumulated depreciation	180,338	185,643
DEFERRED TAX ASSET	72,964	69,043
GOODWILL	176,738	193,705
OTHER ASSETS	41,594	40,980
	$ 814,238	$ 838,990
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 52,525	$ 50,312
Accrued Expenses	83,425	85,581
Liabilities of Businesses Held for Sale	1,855	4,214
TOTAL CURRENT LIABILITIES	137,805	140,107
LONG-TERM DEBT, less current maturities	1,573	--
SENIOR NOTES	292,250	323,000
SENIOR SUBORDINATED NOTES	135,000	135,000
DEFERRED INCOME TAXES	22,246	23,534
OTHER	40,554	40,864
TOTAL LIABILITIES	629,428	662,505
Minority Interest	4,869	4,409
Commitments and Contingencies		
SHAREHOLDERS' EQUITY:		

Preferred Stock		--		--
Common Stock		5,474		5,334
Additional Paid-In Capital		241,767		234,314
Retained Deficit		(12,642)		(1,443)
Foreign Currency Translation Adjustment		(26,876)		(38,347)
Minimum Pension Liability		(27,782)		(27,782)
TOTAL SHAREHOLDERS' EQUITY		179,941		172,076
	$	814,238	$	838,990

See accompanying notes to consolidated condensed financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 2, 2006	**JULY 3, 2005**	**JULY 2, 2006**	**JULY 3, 2005**
NET SALES	$ 258,678	$ 246,545	$ 509,312	$ 481,260
Cost of Sales	177,511	169,317	349,163	332,893
GROSS PROFIT ON SALES	81,167	77,228	160,149	148,367
Selling, General and Administrative Expenses	58,381	56,005	116,683	109,974
Impairment of Goodwill	--	--	20,712	--
Restructuring Charge	--	--	3,260	--
Loss on Disposal - European Fabrics	1,723	--	1,723	--
OPERATING INCOME	21,063	21,223	17,771	38,393
Interest Expense	10,936	11,506	22,168	23,084
Other Expense	453	268	981	868
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	9,674	9,449	(5,378)	14,441
Income Tax Expense	3,768	5,509	5,798	7,578
Income (Loss) from Continuing Operations	5,906	3,940	(11,176)	6,863
Loss from Discontinued Operations, Net of Tax	(21)	(9,763)	(27)	(14,525)
Loss on Disposal of Discontinued Operations, Net of Tax	--	(1,598)	--	(1,935)
NET INCOME (LOSS)	$ 5,885	$ (7,421)	$ (11,203)	$ (9,597)
Earnings (Loss) Per Share - Basic				
Continuing Operations	$ 0.11	$ 0.08	$ (0.21)	$ 0.13
Discontinued Operations	--	(0.19)	--	(0.28)
Loss on Disposal of Discontinued Operations	--	(0.03)	--	(0.04)
Earnings (Loss) Per Share - Basic	$ 0.11	$ (0.14)	$ (0.21)	$ (0.19)
Earnings (Loss) Per Share - Diluted				

Continuing Operations	$	0.11	$	0.08	$	(0.21)	$	0.13
Discontinued Operations		--		(0.19)		--		(0.28)
Loss on Disposal of Discontinued Operations		--		(0.03)		--		(0.03)
Earnings (Loss) Per Share - Diluted	$	0.11	$	(0.14)	$	(0.21)	$	(0.18)
Common Shares Outstanding - Basic		53,375		51,398		52,995		51,362
Common Shares Outstanding - Diluted		54,996		52,481		52,995		52,622

See accompanying notes to consolidated condensed financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

(IN THOUSANDS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 2, 2006	**JULY 3, 2005**	**JULY 2, 2006**	**JULY 3, 2005**
Net Income (Loss)	$ 5,885	$ (7,421)	$ (11,203)	$ (9,597)
Other Comprehensive Income (Loss), Foreign Currency Translation Adjustment	9,694	(13,089)	11,471	(22,169)
Comprehensive Income (Loss)	$ 15,579	$ (20,510)	$ 268	$ (31,766)

See accompanying notes to consolidated condensed financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(IN THOUSANDS)

	SIX MONTHS ENDED JULY 2, 2006	SIX MONTHS ENDED JULY 3, 2005
OPERATING ACTIVITIES:		
Net loss	$ (11,203)	$ (9,597)
Impairment of fixed assets, related to discontinued operations	--	3,466
Loss from discontinued operations	27	11,059
Loss on disposal of discontinued operations	--	1,935
Income (loss) from continuing operations	(11,176)	6,863
Adjustments to reconcile income (loss) to cash provided by (used in) operating activities:		
Impairment of Goodwill	20,712	--
Restructuring Charge	2,708	--
Depreciation and amortization	15,931	16,194
Deferred income taxes and other	(5,650)	(10,740)
Working capital changes:		
Accounts receivable	(9,579)	(12,063)
Inventories	(21,925)	(15,476)
Prepaid expenses	(4,412)	(6,231)
Accounts payable and accrued expenses	3,524	16,136
Cash used in continuing operations	(9,867)	(5,317)
Cash provided by discontinued operations	--	7,859
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	(9,867)	2,542
INVESTING ACTIVITIES:		
Capital expenditures	(16,083)	(5,832)
Cash proceeds from sale of discontinued operations	--	551
Cash proceeds from sale of European Fabrics	28,837	--
Investment in intellectual property	--	(2,700)
Other	(3,916)	(3,022)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:	8,838	(11,003)
FINANCING ACTIVITIES:		
Net borrowing of long-term debt	1,573	9,825
Repurchase of senior subordinated notes	(30,750)	--
Debt issuance cost	(679)	--
Proceeds from issuance of common stock	5,650	722
CASH PROVIDED BY (USED IN) BY FINANCING ACTIVITIES:	(24,206)	10,547

Net cash provided by (used in) operating, investing and financing activities		(25,235)		2,086
Effect of exchange rate changes on cash		1,270		(1,809)
CASH AND CASH EQUIVALENTS:				
Net change during the period		(23,965)		277
Balance at beginning of period		51,312		22,164
Balance at end of period	$	27,347	$	22,441

See accompanying notes to consolidated condensed financial statements.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1 - CONDENSED FOOTNOTES

As contemplated by the Securities and Exchange Commission (the "Commission") instructions to Form 10-Q, the following footnotes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to the Company's year-end financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended January 1, 2006, as filed with the Commission.

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, the financial information included in this report contains all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results for the interim periods. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The January 1, 2006, consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

In 2004, the Company committed to a plan to exit its owned Re:Source dealer businesses (as well as a small Australian dealer business and a small residential fabrics business) and began to dispose of several of the dealer subsidiaries. The results of operations and related disposal costs, gains and losses for these businesses are classified as discontinued operations for all periods presented.

Additionally, certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 - INVENTORIES

Inventories are summarized as follows:

	July 2, 2006	January 1, 2006
	(In thousands)	
Finished Goods	$ 82,393	$ 71,893
Work in Process	19,399	16,792
Raw Materials	40,974	41,524
	$ 142,766	$ 130,209

NOTE 3 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) to common shareholders by the weighted average number of shares of Class A and Class B Common Stock outstanding during the period. Shares issued or reacquired during the period have been weighted for the portion of the period that they were outstanding. Diluted earnings (loss) per share is calculated in a manner consistent with that of basic earnings (loss) per share while giving effect to all potentially dilutive common shares that were outstanding during the period. The computation of diluted earnings (loss) per share does not assume conversion or exercise of securities that would have an anti-dilutive effect on earnings (loss) per share. For the three-month period ended July 2, 2006, outstanding options to purchase 45,000 shares of common stock were not included in the computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of the common shares during these periods. For the six months ended July 2, 2006, outstanding options to purchase 1,935,000 shares were not included in the computation of diluted loss per share as the Company was in a net loss from continuing operations position and thus any potential common shares were anti-dilutive. For the three-month and six-month periods ended July 3, 2005, outstanding options to purchase 905,000 and 703,000 shares of common stock, respectively, were not included in the computation of diluted loss per share as the exercise prices of these options were greater than the average market price of the common shares during these periods.

The following is a reconciliation from basic earnings (loss) per share to diluted earnings (loss) per share for the three-month and six-month periods ended July 2, 2006, and July 3, 2005, respectively.

For the Three-Month Period Ended		Net Income (Loss)	Average Shares Outstanding		Earnings (Loss) Per Share
		(In Thousands Except Per Share Amounts)			
July 2, 2006	$	5,885	53,375	$	0.11
Effect of Dilution:					
Options		--	1,621		--
Diluted	$	5,885	54,966	$	0.11
July 3, 2005	$	(7,421)	51,398	$	(0.14)
Effect of Dilution:					
Options		--	1,083		--
Diluted	$	(7,421)	52,481	$	(0.14)

For the Six-Month Period Ended		Net Income (Loss)	Average Shares Outstanding		Earnings (Loss) Per Share
		(In Thousands Except Per Share Amounts)			
July 2, 2006	$	(11,203)	52,995	$	(0.21)
Effect of Dilution:					
Options		--	--		--
Diluted	$	(11,203)	52,995	$	(0.21)
July 3, 2005	$	(9,597)	51,362	$	(0.19)
Effect of Dilution:					
Options		--	1,260		--
Diluted	$	(9,597)	52,622	$	(0.18)

NOTE 4 - SEGMENT INFORMATION

Based on the quantitative thresholds specified in Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information,” the Company has determined that it has four reportable segments: (1) the Modular Carpet segment, which includes its InterfaceFLOR Commercial (formerly known as Interface), Heuga and FLOR (formerly known as InterfaceFLOR) modular carpet businesses, and also includes the Company’s Intersept antimicrobial sales and licensing program, (2) the Bentley Prince Street segment, which includes its Bentley Prince Street broadloom, modular carpet and area rug businesses, (3) the Fabrics Group segment, which includes all of its fabrics businesses, and (4) the Specialty Products segment, which includes Pandel, Inc., a producer of vinyl carpet tile backing and specialty mat and foam products. The former segment known as the Re:Source Network, which primarily encompassed the Company’s owned Re:Source dealers that provided carpet installation and maintenance services in the United States, is reported as discontinued operations in the accompanying consolidated condensed statements of operations.

The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies contained in the Company’s Annual Report on Form 10-K for the fiscal year ended January 1, 2006, as filed with the Commission. Segment amounts disclosed are prior to any elimination entries made in consolidation, except in the case of Net Sales, where intercompany sales have been eliminated. The chief operating decision maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of allocated corporate expenses, interest/other expense and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Assets not identifiable to any individual segment are corporate assets, which are primarily comprised of cash and cash equivalents, short-term investments, intangible assets and intercompany amounts, which are eliminated in consolidation.

Segment Disclosures

Summary information by segment follows:

	Modular Carpet	Bentley Prince Street	Fabrics Group	Specialty Products	Total
			(In thousands)		
Three Months Ended July 2, 2006					
Net sales	$ 186,475	$ 33,932	$ 35,494	$ 2,777	$ 258,678
Depreciation and amortization	4,123	603	2,378	19	7,123
Operating income (loss)	23,634	1,704	(3,028)	(29)	22,281
Three Months Ended July 3, 2005					
Net sales	$ 163,681	$ 29,468	$ 49,545	$ 3,851	$ 246,545
Depreciation and amortization	3,742	411	2,690	39	6,882
Operating income	21,379	493	148	215	22,235
Six Months Ended July 2, 2006					
Net sales	$ 352,358	$ 63,032	$ 87,994	$ 5,928	$ 509,312
Depreciation and amortization	7,396	911	5,108	37	13,452
Operating income (loss)	44,309	2,217	(26,406)	14	20,134
Six Months Ended July 3, 2005					
Net sales	$ 317,208	$ 57,530	$ 98,007	$ 8,515	$ 481,260
Depreciation and amortization	7,047	807	5,686	78	13,618
Operating income	37,874	968	1,113	429	40,384

A reconciliation of the Company's total segment operating income, depreciation and amortization, and assets to the corresponding consolidated amounts follows:

	Three Months Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
	(In thousands)		(In thousands)	
DEPRECIATION AND AMORTIZATION				
Total segment depreciation and amortization	$ 7,123	$ 6,882	$ 13,452	$ 13,618
Corporate depreciation and amortization	571	1,205	2,479	2,576
Reported depreciation and amortization	$ 7,694	$ 8,087	$ 15,931	$ 16,194
OPERATING INCOME				
Total segment operating income	$ 22,281	$ 22,235	$ 20,134	$ 40,384

Corporate expenses and other reconciling amounts	(1,218)	(1,012)	(2,363)	(1,991)
Reported operating income	$ 21,063	$ 21,223	$ 17,771	$ 38,393

	July 2, 2006	January 1, 2006
ASSETS	(In thousands)	
Total segment assets	$ 715,450	$ 752,492
Discontinued operations	3,107	5,526
Corporate assets and eliminations	95,681	80,972
Reported total assets	$ 814,238	$ 838,990

Due primarily to the sale of the European fabrics business (as described in Note 14) and the related impairment of goodwill (as described in Note 13), the total segment assets of the Fabrics Group decreased by approximately $54.4 million, from $209.5 million to $155.1 million, during the six-month period ended July 2, 2006.

Restructuring activities by segment

The table below details the restructuring activities undertaken in the first half of 2006 by segment. These charges were all incurred during the first quarter of 2006. There were no restructuring activities in the corresponding period of 2005.

Six Months Ended July 2, 2006	**Modular Carpet**	**Bentley Prince Street**	**Fabrics Group**	**Specialty Products**	**Total**
			(In thousands)		
Total amounts expected to be incurred	$ --	$ --	$ 3,260	$ --	$ 3,260
Cumulative amounts incurred to date	--	--	3,260	--	3,260
Total amounts incurred in the period	--	--	3,260	--	3,260

NOTE 5 - LONG-TERM DEBT

On June 30, 2006, the Company amended and restated its revolving credit facility. Under the amendment and restatement, the maximum aggregate amount of loans and letters of credit available to the Company at any one time was increased from $100 million to $125 million, subject to a borrowing base limitation. The amended credit facility matures on June 30, 2011. The revolving credit facility includes a domestic U.S. Dollar syndicated loan and letter of credit facility up to the lesser of (1) $125 million, or (2) a borrowing base equal to the sum of specified percentages of eligible property and equipment, accounts receivable, finished goods inventory and raw materials inventory in the U.S. (the percentages and eligibility requirements for the domestic borrowing base are specified in the credit facility), less certain reserves. The previous facility included a multicurrency syndicated loan and letter of credit facility in British pounds, which has been removed from the amended facility.

Interest on borrowings and letters of credit under the revolving credit facility is charged at varying rates computed by applying a margin (ranging from 0.0-2.25%) over a baseline rate (such as the prime interest rate or LIBOR), depending on the type of borrowing and our average excess borrowing availability during the most recently completed fiscal quarter. In addition, the Company pays an unused line fee on the facility ranging from 0.25-0.375%, depending on our average excess borrowing availability during the most recently completed fiscal quarter. The revolving credit facility is secured by substantially all of the assets of Interface, Inc. and its domestic subsidiaries (subject to exceptions for certain immaterial subsidiaries), including all of the stock of its domestic subsidiaries and up to 65% of the stock of its first-tier material foreign subsidiaries. Those collateral documents provide that, if an event of default occurs under the revolving credit facility, the lenders' collateral agent may, upon the request of the specified percentage of lenders, exercise remedies with respect to the collateral that include foreclosing mortgages on the Company's real estate assets, taking possession of or selling its personal property assets, collecting its accounts receivable, or exercising proxies to take control of the pledged stock of its domestic and first-tier material foreign subsidiaries.

Under the amended facility our negative covenants have been relaxed in several respects, including with respect to the repayment of our other indebtedness and the payment of dividends and limiting their application to Interface, Inc. and its domestic subsidiaries. Additionally, the financial covenants have been amended to delete the senior secured debt coverage ratio and to modify the terms of the sole remaining financial covenant, a fixed charge coverage test. The Company is currently in compliance under the revolving credit facility and anticipates that it will remain in compliance with the covenants.

As of July 2, 2006, $1.6 million in borrowings at a weighted-average interest rate of approximately 8.25% and $11.4 million in letters of credit were outstanding under the revolving credit facility. As of July 2, 2006, the Company could have incurred $91.8 million of additional borrowings under its revolving credit facility.

As of July 2, 2006, the estimated fair values (based on then-current market prices) of the 9.5% Senior Subordinated Notes due 2014, the 10.375% Senior Notes due 2010 and the 7.3% Senior Notes due 2008 were $139.0 million, $190.3 million and $117.8 million, respectively.

NOTE 6 - STOCK-BASED COMPENSATION

Stock Option Awards

In the first quarter of fiscal 2006, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payments,” which revises SFAS 123, “Accounting for Stock-Based Compensation.” This standard requires that the Company measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period in which the employee is required to provide the services - the requisite service period (usually the vesting period) - in exchange for the award. The grant date fair value for options and similar instruments will be estimated using option pricing models. Under SFAS 123R, the Company is required to select a valuation technique or option pricing model that meets the criteria as stated in the standard, which includes a binomial model and the Black-Scholes model. At the present time, the Company is continuing to use the Black-Scholes model. SFAS 123R requires that the Company estimate forfeitures for stock options and reduce compensation expense accordingly. The Company has reduced its 2006 expense by the assumed forfeiture rate and will evaluate experience against this forfeiture rate going forward.

If compensation costs for the Company’s stock options had been determined based on the fair value at the grant dates for awards made prior to the implementation of SFAS 123R, under those plans and consistent with SFAS No. 123R, the Company’s net income and net income per share would have been adjusted to the pro forma amounts indicated below:

	Three Months Ended		Six Months Ended	
	July 2, 2006	**July 3, 2005**	**July 2, 2006**	**July 3, 2005**
	(In thousands, except per share amounts)		(In thousands, except per share amounts)	
Net income (loss) as reported	$ 5,885	$ (7,421)	$ (11,203)	$ (9,597)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(80)	(119)	(190)	(272)
Add: Recognized stock-based compensation	80	--	190	--
Pro forma net income (loss)	$ 5,885	$ (7,540)	$ (11,203)	$ (9,869)
Basic earnings (loss) per share as reported	$ 0.11	$ (0.14)	$ (0.21)	$ (0.19)
Basic pro forma earnings (loss) per share	$ 0.11	$ (0.15)	$ (0.21)	$ (0.19)
Diluted earnings (loss) per share as reported	$ 0.11	$ (0.14)	$ (0.21)	$ (0.18)
Diluted pro forma earnings (loss) per share	$ 0.11	$ (0.14)	$ (0.21)	$ (0.19)

The Company recognized stock compensation costs of $0.1 million and zero in the second quarters of 2006 and 2005, respectively, and $0.2 million and zero, respectively, in the first six months of 2006 and 2005, respectively. The remaining unrecognized compensation cost related to unvested awards at July 2, 2006, approximated $0.5 million, and the weighted average period of time over which this cost will be recognized is approximately two years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants issued in the first six months of fiscal 2006 and 2005:

	Six Months Ended July 2, 2006	**Six Months Ended July 3, 2005**
Risk free interest rate	4.57%	4.08%
Expected life	3.17 Years	2.0 Years
Expected volatility	60%	60%
Expected dividend yield	0%	0%

The weighted average grant date fair value of stock options granted during the first half of fiscal 2006 was $4.42.

The following table summarizes stock options outstanding as of July 2, 2006, as well as activity during the six month period then ended:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2006	2,925,000	$ 5.81
Granted	90,000	10.49
Exercised	1,050,000	5.65
Forfeited or canceled	30,000	3.52
Outstanding at July 2, 2006 (a)	1,935,000	$ 6.14
Exercisable at July 2, 2006 (b)	1,542,000	$ 6.27

(a) At July 2, 2006, the weighted-average remaining contractual life of options outstanding was 4.1 years.
(b) At July 2, 2006, the weighted-average remaining contractual life of options exercisable was 3.7 years.

At July 2, 2006, the aggregate intrinsic values of options outstanding and options exercisable were $10.7 million and $8.4 million, respectively (the intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option).

Cash proceeds and intrinsic value related to total stock options exercised during the first six months of fiscal years 2006 and 2005 are provided in the following table:

	Six Months Ended	
	July 2, 2006	July 3, 2005
	(In thousands)	
Proceeds from stock options exercised	$ 5,936	$ 722
Intrinsic value of stock options exercised	$ 6,780	$ 385

Restricted Stock Awards

During the six months ended July 2, 2006, and July 3, 2005, the Company granted restricted stock awards for 394,000 and 386,000 shares, respectively, of Class B common stock. These awards (or a portion thereof) vest with respect to each recipient over a three to five year period from the date of grant, provided the individual remains in the employment or service of the Company as of the vesting date. Additionally, these shares (or a portion thereof) could vest earlier upon the attainment of certain performance criteria, in the event of a change in control of the Company, or upon involuntary termination without cause.

Compensation expense related to the vesting of restricted stock was $2.2 million and $0.8 million for the six months ended July 2, 2006, and July 3, 2005, respectively. SFAS 123R requires that the Company estimate forfeitures for restricted stock and reduce compensation expense accordingly. The Company has reduced its 2006 expense by the assumed forfeiture rate and will evaluate experience against this forfeiture rate going forward.

The following table summarizes restricted stock activity as of July 2, 2006, and during the six-month period then ended:

	Shares	Weighted Average

		Grant Date Fair Value
Outstanding at January 1, 2006	1,471,000	$ 7.68
Granted	394,000	8.64
Vested	515,000	7.49
Forfeited or canceled	--	--
Outstanding at July 2, 2006	1,350,000	$ 8.02

As of July 2, 2006, the unrecognized total compensation cost related to unvested restricted stock was $5.9 million. That cost is expected to be recognized by the end of 2010.

As stated above, SFAS 123R requires the Company to estimate forfeitures in calculating the expense relating to stock-based compensation, as opposed to only recognizing these forfeitures and the corresponding reduction in expense as they occur. In prior years, the Company did not estimate the forfeitures of its restricted stock as the expense was recorded. In accordance with the standard, the Company is required to record a cumulative effect of the change in accounting principle to reduce previously recognized compensation for awards not expected to vest (i.e. forfeited or canceled awards). Upon adoption of SFAS 123R, the Company adjusted for this cumulative effect and recognized a reduction in stock-based compensation, which was recorded within the selling, general and administrative expense on the Company’s consolidated condensed statement of operations. The adjustment was not recorded as a cumulative effect adjustment, net of tax, because the amount was not material to the consolidated condensed statement of operations.

NOTE 7 - EMPLOYEE BENEFIT PLANS

The following tables provide the components of net periodic benefit cost for the three-month and six-month periods ended July 2, 2006, and July 3, 2005, respectively:

Defined Benefit Retirement Plan (Europe)	**Three Months Ended**		**Six Months Ended**	
	July 2, 2006	**July 3, 2005**	**July 2, 2006**	**July 3, 2005**
	(In thousands)		**(In thousands)**	
Service cost	$ 458	$ 654	$ 904	$ 1,317
Interest cost	2,418	2,597	4,772	5,226
Expected return on assets	(2,721)	(2,693)	(5,372)	(5,420)
Amortization of prior service costs	--	6	--	12
Recognized net actuarial (gains)/losses	482	639	951	1,285
Amortization of transition obligation	13	44	26	89
Net periodic benefit cost	$ 650	$ 1,247	$ 1,281	$ 2,509

Salary Continuation Plan (SCP)	**Three Months Ended**		**Six Months Ended**	
	July 2, 2006	**July 3, 2005**	**July 2, 2006**	**July 3, 2005**
	(In thousands)		**(In thousands)**	
Service cost	$ 67	$ 55	$ 134	$ 110
Interest cost	212	198	425	396
Amortization of transition obligation	55	55	110	110
Amortization of prior service cost	12	12	24	24
Amortization of (gain)/loss	80	68	160	136
Net periodic benefit cost	$ 426	$ 388	$ 853	$ 776

NOTE 8 - DISCONTINUED OPERATIONS

In 2004, the Company committed to a plan to exit its owned Re:Source dealer businesses, and began to dispose of several of the dealer subsidiaries. Therefore, the results of operations for the owned Re:Source dealer businesses, as well as the Company's small Australian dealer and small residential fabrics businesses that management also decided to exit, are reported as discontinued operations.

Summary operating results for the discontinued operations are as follows:

	Three Months Ended		**Six Months Ended**	
	July 2, 2006	**July 3, 2005**	**July 2, 2006**	**July 3, 2005**
	(In thousands)		**(In thousands)**	
Net sales	$ 1,496	$ 9,415	$ 1,992	$ 26,728
Loss on operations before taxes on income	(29)	(15,000)	(38)	(22,826)
Income tax benefit	(8)	(5,237)	(11)	(8,301)

Loss on operations, net of tax	(21)	(6,765)	(27)	(11,059)
Impairment loss, net of tax	--	(2,998)	--	(3,466)

Assets and liabilities, including reserves, related to the discontinued operations that were held for sale consist of the following:

	July 2, 2006	January 1, 2006
	(In thousands)	
Current assets	$ 1,413	$ 2,279
Property and equipment	--	898
Other assets	1,694	2,349
Current liabilities	1,294	