

INTERFACE INC  
Form 10-Q  
November 10, 2011

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For Quarterly Period Ended October 2, 2011  
Commission File Number 001-33994  
INTERFACE, INC.  
(Exact name of registrant as specified in its charter)**

GEORGIA 58-1451243

(State or other jurisdiction of incorporation or organization) (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  No

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

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

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

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

Shares outstanding of each of the registrant's classes of common stock at November 4, 2011:

Class	Number of Shares
Class A Common Stock, \$.10 par value per share	58,598,808
Class B Common Stock, \$.10 par value per share	6,880,407

INTERFACE, INC.  
INDEX

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Condensed Balance Sheets – October 2, 2011 and January 2, 2011</u>	3
<u>Consolidated Condensed Statements of Operations – Three Months and Nine Months Ended October 2, 2011 and October 3, 2010</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss) – Three Months and Nine Months Ended October 2, 2011 and October 3, 2010</u>	5
<u>Consolidated Condensed Statements of Cash Flows – Nine Months Ended October 2, 2011 and October 3, 2010</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	26
<u>Item 4. Controls and Procedures</u>	26
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	27
<u>Item 1A. Risk Factors</u>	27
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>Item 3. Defaults Upon Senior Securities</u>	27
<u>Item 4. Removed and Reserved</u>	27
<u>Item 5. Other Information</u>	27
<u>Item 6. Exhibits</u>	27
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

---

**Table of Contents**

PART I FINANCIAL INFORMATION  
 ITEM 1. FINANCIAL STATEMENTS  
 INTERFACE, INC. AND SUBSIDIARIES  
 CONSOLIDATED CONDENSED BALANCE SHEETS  
 (IN THOUSANDS)

	<b>OCT. 2, 2011</b>	<b>JAN. 2, 2011</b>
	<b>(UNAUDITED)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 44,386	\$ 69,236
Accounts Receivable, Net	158,009	151,463
Inventories	171,116	136,766
Prepaid Expenses and Other Current Assets	28,365	24,362
Deferred Income Taxes	9,110	10,062
Assets of Business Held for Sale	1,200	1,200
<b>TOTAL CURRENT ASSETS</b>	<b>412,186</b>	<b>393,089</b>
<b>PROPERTY AND EQUIPMENT, Less Accumulated Depreciation</b>	<b>188,070</b>	<b>177,792</b>
<b>DEFERRED TAX ASSET</b>	<b>46,997</b>	<b>53,022</b>
<b>GOODWILL</b>	<b>76,566</b>	<b>75,239</b>
<b>OTHER ASSETS</b>	<b>55,486</b>	<b>56,291</b>
<b>TOTAL ASSETS</b>	<b>\$ 779,305</b>	<b>\$ 755,433</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 57,481	\$ 55,859
Accrued Expenses	96,261	112,657
<b>TOTAL CURRENT LIABILITIES</b>	<b>153,742</b>	<b>168,516</b>
<b>SENIOR NOTES</b>	<b>283,010</b>	<b>282,951</b>
<b>SENIOR SUBORDINATED NOTES</b>	<b>11,477</b>	<b>11,477</b>
<b>DEFERRED INCOME TAXES</b>	<b>8,471</b>	<b>7,563</b>
<b>OTHER</b>	<b>34,074</b>	<b>36,054</b>
<b>TOTAL LIABILITIES</b>	<b>490,774</b>	<b>506,561</b>
Commitments and Contingencies		
<b>SHAREHOLDERS EQUITY:</b>		
Preferred Stock		
Common Stock	6,546	6,445
Additional Paid-In Capital	360,184	349,662
Retained Earnings (Deficit)	(19,369)	(49,770)
	(27,601)	(26,269)

Edgar Filing: INTERFACE INC - Form 10-Q

Accumulated Other Comprehensive Loss	Foreign Currency Translation Adjustment		
Accumulated Other Comprehensive Loss	Pension Liability	(31,229)	(31,196)
TOTAL SHAREHOLDERS	EQUITY	288,531	248,872
		\$ 779,305	\$ 755,433

See accompanying notes to consolidated condensed financial statements.

**Table of Contents**

INTERFACE, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	<b>THREE MONTHS ENDED</b>		<b>NINE MONTHS ENDED</b>	
	<b>OCT. 2,</b>		<b>OCT. 2,</b>	
	<b>2011</b>	<b>OCT. 3, 2010</b>	<b>2011</b>	<b>OCT. 3, 2010</b>
NET SALES	\$ 273,106	\$ 252,724	\$ 786,148	\$ 696,502
Cost of Sales	178,681	163,244	510,020	453,514
<b>GROSS PROFIT ON SALES</b>	<b>94,425</b>	<b>89,480</b>	<b>276,128</b>	<b>242,988</b>
Selling, General and Administrative Expenses	69,087	61,441	203,125	176,597
Restructuring Charge				3,131
<b>OPERATING INCOME</b>	<b>25,338</b>	<b>28,039</b>	<b>73,003</b>	<b>63,260</b>
Interest Expense	6,428	8,409	19,867	25,346
Bond Retirement Expenses				1,085
Other Expense (Income)	(175)	463	(126)	1,008
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>19,085</b>	<b>19,167</b>	<b>53,262</b>	<b>35,821</b>
Income Tax Expense	6,917	6,825	18,456	13,365
<b>NET INCOME</b>	<b>12,168</b>	<b>12,342</b>	<b>34,806</b>	<b>22,456</b>
Income Attributable to Non-Controlling Interest in Subsidiary		(264)		(876)
<b>NET INCOME ATTRIBUTABLE TO INTERFACE, INC.</b>	<b>\$ 12,168</b>	<b>\$ 12,078</b>	<b>\$ 34,806</b>	<b>\$ 21,580</b>
Earnings Per Share Attributable to Interface, Inc. Common Shareholders Basic	\$ 0.19	\$ 0.19	\$ 0.53	\$ 0.34
Earnings Per Share Attributable to Interface, Inc. Common Shareholders Diluted	\$ 0.19	\$ 0.19	\$ 0.53	\$ 0.34
Common Shares Outstanding Basic	65,469	64,025	65,228	63,623
Common Shares Outstanding Diluted	65,676	64,578	65,457	64,106

See accompanying notes to consolidated condensed financial statements.





**Table of Contents**

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

	<b>THREE MONTHS ENDED</b>		<b>NINE MONTHS ENDED</b>	
	<b>OCT. 2, 2011</b>	<b>OCT. 3, 2010</b>	<b>OCT. 2, 2011</b>	<b>OCT. 3, 2010</b>
Net Income	\$ 12,168	\$ 12,342	\$ 34,806	\$ 22,456
Other Comprehensive Income (Loss), Foreign Currency Translation Adjustment and Pension Liability Adjustment	(13,723)	23,247	(1,365)	1,786
Comprehensive Income (Loss)	\$ (1,555)	\$ 35,589	\$ 33,441	\$ 24,242
Comprehensive Income Attributable to Non-Controlling Interest in Subsidiary		(1,081)		(1,957)
Comprehensive Income (Loss) Attributable to Interface, Inc.	\$ (1,555)	\$ 34,508	\$ 33,441	\$ 22,285

See accompanying notes to consolidated condensed financial statements.

**Table of Contents**

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

	<b>NINE MONTHS ENDED</b>	
	<b>OCT. 2,</b>	<b>OCT. 3, 2010</b>
	<b>2011</b>	
<b>OPERATING ACTIVITIES:</b>		
Net Income	\$ 34,806	\$ 22,456
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Premiums Paid to Repurchase Senior Subordinated Notes		792
Depreciation and Amortization	19,900	17,352
Stock Compensation Amortization Expense	8,558	1,901
Deferred Income Taxes and Other	8,244	(167)
Working Capital Changes:		
Accounts Receivable	(6,808)	(10,069)
Inventories	(34,862)	(20,453)
Prepaid Expenses	(3,850)	(7,404)
Accounts Payable and Accrued Expenses	(16,001)	27,196
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>	<b>9,987</b>	<b>31,604</b>
<b>INVESTING ACTIVITIES:</b>		
Capital Expenditures	(30,759)	(18,443)
Other	(1,624)	(1,816)
<b>CASH USED IN INVESTING ACTIVITIES:</b>	<b>(32,383)</b>	<b>(20,259)</b>
<b>FINANCING ACTIVITIES:</b>		
Repurchase of Senior and Senior Subordinated Notes		(39,586)
Premiums Paid to Repurchase Senior Subordinated Notes		(792)
Proceeds from Issuance of Common Stock	2,610	1,803
Dividends Paid to Interface, Inc. Shareholders	(3,921)	(1,435)
Other	(509)	
Dividends Paid to Joint Venture Partner		(7,904)
<b>CASH USED IN FINANCING ACTIVITIES:</b>	<b>(1,820)</b>	<b>(47,914)</b>
Net Cash Used in Operating, Investing and Financing Activities	(24,216)	(36,569)
Effect of Exchange Rate Changes on Cash	(634)	2,060

CASH AND CASH EQUIVALENTS:

Net Change During the Period	(24,850)	(34,509)
Balance at Beginning of Period	69,236	115,363
Balance at End of Period	\$ 44,386	\$ 80,854

See accompanying notes to consolidated condensed financial statements.

**Table of Contents**

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 audited consolidated financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended January 2, 2011, 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 2, 2011, consolidated condensed balance sheet data was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

As described below in Note 9, the Company has sold its Fabrics Group business segment. The results of operations and related disposal costs, gains and losses for this business 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:

	<b>Oct. 2, 2011</b>	<b>Jan. 2, 2011</b>
	<b>(In thousands)</b>	
Finished Goods	\$ 103,157	\$ 78,303
Work in Process	20,114	16,731
Raw Materials	47,845	41,732
	<b>\$ 171,116</b>	<b>\$ 136,766</b>

**NOTE 3 EARNINGS PER SHARE**

The Company computes basic earnings per share (EPS) attributable to common shareholders by dividing net income attributable to common shareholders by the weighted average common shares outstanding, including participating securities outstanding, during the period as discussed below. Diluted EPS reflects the potential dilution beyond shares for basic EPS that could occur if securities or other contracts to issue common stock were exercised, converted into common stock or resulted in the issuance of common stock that would have shared in the Company's earnings. Income attributable to non-controlling interest in subsidiary is included in the calculation of basic and diluted EPS, where applicable.

**Table of Contents**

The Company includes all unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, in the number of shares outstanding in our basic and diluted EPS calculations when the inclusion of these shares would be dilutive. As a result, the Company includes all outstanding restricted stock awards in the calculation of basic and diluted EPS. Distributed earnings include common stock dividends and dividends earned on unvested share-based payment awards. Undistributed earnings represent earnings that were available for distribution but were not distributed. Unvested share-based awards of restricted stock are paid dividends equally with all other shares of common stock. The following tables show distributed and undistributed earnings:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Oct. 2,</b>		<b>Oct. 2,</b>	
	<b>2011</b>	<b>Oct. 3, 2010</b>	<b>2011</b>	<b>Oct. 3, 2010</b>
<b>Basic Earnings Per Share Attributable to Common Shareholders:</b>				
Distributed Earnings	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.02
Undistributed Earnings	0.17	0.18	0.47	0.32
Total	\$ 0.19	\$ 0.19	\$ 0.53	\$ 0.34
<b>Diluted Earnings Per Share Attributable to Common Shareholders:</b>				
Distributed Earnings	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.02
Undistributed Earnings	0.17	0.18	0.47	0.32
Total	\$ 0.19	\$ 0.19	\$ 0.53	\$ 0.34

The following table presents net income and net income attributable to Interface, Inc. that was attributable to participating securities:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Oct. 2,</b>		<b>Oct. 2,</b>	
	<b>2011</b>	<b>Oct. 3, 2010</b>	<b>2011</b>	<b>Oct. 3, 2010</b>
	(In millions)			
Net Income	\$ 0.3	\$ 0.3	\$ 0.9	\$ 0.6
Net Income Attributable to Interface, Inc.	\$ 0.3	\$ 0.3	\$ 0.9	\$ 0.6

The weighted average shares for basic and diluted EPS were as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Oct. 2,</b>		<b>Oct. 2,</b>	
	<b>2011</b>	<b>Oct. 3, 2010</b>	<b>2011</b>	<b>Oct. 3, 2010</b>
	(In thousands)			
Weighted Average Shares Outstanding	63,703	62,284	63,462	61,882
Participating Securities	1,766	1,741	1,766	1,741
Shares for Basic Earnings Per Share	65,469	64,025	65,228	63,623
Dilutive Effect of Stock Options	207	553	229	483
Shares for Diluted Earnings Per Share	65,676	64,578	65,457	64,106

For the quarters ended October 2, 2011, and October 3, 2010, options to purchase 249,000 and 389,000 shares of common stock, respectively, were not included in the computation of diluted EPS as their impact would be anti-dilutive. For the nine-month periods ended October 2, 2011, and October 3, 2010, options to purchase 20,000 and 404,000 shares of common stock, respectively, were not included in the computation of diluted EPS as their impact would be anti-dilutive.

**NOTE 4 SEGMENT INFORMATION**

Based on the quantitative thresholds specified in applicable accounting standards, the Company has determined that it has two reportable segments: (1) the Modular Carpet segment, which includes its InterfaceFLOR, Heuga and FLOR modular carpet businesses, as well as its Intersept antimicrobial sales and licensing program, and (2) the Bentley Prince Street segment, which includes its Bentley Prince Street broadloom, modular carpet and area rug businesses. In 2007, the Company sold its former Fabrics Group business segment (see Note 9 for further information). Accordingly, the Company has included the operations of the former Fabrics Group business segment in discontinued operations.

**Table of Contents**

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 2, 2011, 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. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. 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:

	<b>Modular Carpet</b>	<b>Bentley Prince Street (In thousands)</b>	<b>Total</b>
<b>Three Months Ended October 2, 2011</b>			
Net Sales	\$ 248,721	\$ 24,385	\$ 273,106
Depreciation and Amortization	5,493	554	6,047
Operating Income (Loss)	26,333	(63)	26,270
<b>Three Months Ended October 3, 2010</b>			
Net Sales	\$ 226,513	\$ 26,211	\$ 252,724
Depreciation and Amortization	4,251	538	4,789
Operating Income	29,450	45	29,495
	<b>Modular Carpet</b>	<b>Bentley Prince Street (In thousands)</b>	<b>Total</b>
<b>Nine Months Ended October 2, 2011</b>			
Net Sales	\$ 708,567	\$ 77,581	\$ 786,148
Depreciation and Amortization	20,296	1,677	21,973
Operating Income (Loss)	78,604	(124)	78,480
<b>Nine Months Ended October 3, 2010</b>			
Net Sales	\$ 623,215	\$ 73,287	\$ 696,502
Depreciation and Amortization	12,668	1,660	14,328
Operating Income (Loss)	72,004	(2,511)	69,493

**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
<b>DEPRECIATION AND AMORTIZATION</b>				
Total segment depreciation and amortization	\$ 6,047	\$ 4,789	\$ 21,973	\$ 14,328
Corporate depreciation and amortization	1,179	1,562	6,485	4,925
Reported depreciation and amortization	\$ 7,226	\$ 6,351	\$ 28,458	\$ 19,253
<b>OPERATING INCOME</b>				
Total segment operating income	\$ 26,270	\$ 29,495	\$ 78,480	\$ 69,493
Corporate income, expenses and other reconciling amounts	(932)	(1,456)	(5,477)	(6,233)
Reported operating income	\$ 25,338	\$ 28,039	\$ 73,003	\$ 63,260
<b>ASSETS</b>				
Total segment assets			<b>Oct. 2, 2011</b>	<b>Jan. 2, 2011</b>
Discontinued operations			<b>(In thousands)</b>	
Corporate assets and eliminations			\$ 664,457	\$ 610,024
			1,200	1,200
			113,648	144,209
Reported total assets			\$ 779,305	\$ 755,433

**NOTE 5 LONG-TERM DEBT***7 5/8% Senior Notes*

On December 3, 2010, the Company completed a private offering of \$275 million aggregate principal amount of 7 5/8% Senior Notes due 2018 (the "7 5/8% Senior Notes"). Interest on the 7 5/8% Senior Notes is payable semi-annually on June 1 and December 1, beginning June 1, 2011. The Company used the net proceeds from the sale of the 7 5/8% Senior Notes (plus cash on hand) in connection with the repurchase of approximately \$141.9 million aggregate principal amount of the 11 3/8% Senior Secured Notes and approximately \$98.5 million aggregate principal amount of the 9.5% Senior Subordinated Notes pursuant to a Company tender offer.

As of October 2, 2011, the balance of the 7 5/8% Senior Notes outstanding was \$275 million. The estimated fair value of the 7 5/8% Senior Notes as of October 2, 2011, based on then current market prices, was \$279.1 million.

*11 3/8% Senior Secured Notes*

On June 5, 2009, the Company completed a private offering of \$150 million aggregate principal amount of 11 3/8% Senior Secured Notes due 2013 (the "11 3/8% Senior Secured Notes"). Interest on the 11 3/8% Senior Secured Notes is payable semi-annually on May 1 and November 1, beginning November 1, 2009. The 11 3/8% Senior Secured Notes are guaranteed, jointly and severally, on a senior secured basis by certain of the Company's domestic subsidiaries. The Senior Secured Notes are secured by a second-priority lien on substantially all of the Company's and certain of the Company's domestic subsidiaries' assets that secure the Company's domestic revolving credit facility on a first-priority basis.



As of October 2, 2011, the balance of the 11 3/8% Senior Secured Notes outstanding, net of the remaining unamortized original issue discount, was approximately \$8.0 million. The estimated fair value of the Senior Secured Notes as of October 2, 2011, based on then current market prices, was \$8.1 million.

*9.5% Senior Subordinated Notes*

On February 4, 2004, the Company completed a private offering of \$135 million of 9.5% Senior Subordinated Notes due 2014. Interest on these notes is payable semi-annually on February 1 and August 1 beginning August 1, 2004. As of October 2, 2011, the Company had outstanding \$11.5 million in 9.5% Senior Subordinated Notes due 2014 (the 9.5% Senior Subordinated Notes ). The estimated fair value of the 9.5% Senior Subordinated Notes as of October 2, 2011, based on then current market prices, was \$11.5 million.

**Table of Contents**

During the first quarter of 2010, the Company redeemed \$25.0 million aggregate principal amount of the 9.5% Senior Subordinated Notes at a price equal to 103.167% of the face value of the notes. Accordingly, the premium paid in connection with this redemption was approximately \$0.8 million. In addition, the Company wrote off the portion of the unamortized debt issuance costs related to the redeemed bonds, an amount equal to \$0.3 million. These expenses are contained in the Bond Retirement Expense line item in the Company's consolidated condensed statements of operations.

*Credit Facilities*

On June 24, 2011, the Company amended and restated its primary revolving credit facility. Under the amended and restated facility (the Facility), as under its predecessor, the Company's obligations are secured by a first priority lien on substantially all of the assets of Interface, Inc. and each of its material domestic subsidiaries, which subsidiaries also guarantee the Facility. The maximum aggregate amount of loans and letters of credit available to the Company at any one time remains \$100 million (with the option to further increase that amount to up to a maximum of \$150 million the same option amount as in its predecessor subject to the satisfaction of certain conditions), subject to a borrowing base described in the Facility. The Facility differs from its predecessor in the following key respects:

The stated maturity date of the Facility has been extended to June 24, 2016.

The borrowing base governing borrowing availability has been expanded in certain respects.

The applicable interest rates and unused line fees have been reduced. Interest is now charged at varying rates computed by applying a margin ranging from 0.75% to 2.25% (reduced from the range of 1.75% to 4.00%) over a baseline rate (such as the prime interest rate or LIBOR), depending on the type of borrowing and the average excess borrowing availability during the most recently completed fiscal quarter. The unused line fee was reduced to 0.375% per annum from 0.75% per annum.

The negative covenants have been relaxed in certain respects, including with respect to the amount of other indebtedness and liens the Company may incur or allow to exist.

The threshold to trigger the applicability of the Facility's only financial covenant, a fixed charge coverage test, and the assertion of cash dominion by the lender group has been raised.

The events of default have been amended to make certain of the events of default less restrictive by increasing the applicable dollar thresholds thereunder.

The lender group has been changed in certain respects, and the lending commitments have been reallocated among the lenders. In addition, the threshold of Required Lenders for purposes of certain amendments and consents under the Facility has been lowered to more than 50% of the aggregate amount of the lending commitments from more than 66 2/3% of the aggregate amount of the lending commitments.

As of October 2, 2011, there were zero borrowings and \$5.2 million in letters of credit outstanding under the Facility. As of October 2, 2011, the Company could have incurred \$80.6 million of additional borrowings under the Facility. Interface Europe B.V. (the Company's modular carpet subsidiary based in the Netherlands) and certain of its subsidiaries maintain a Credit Agreement with ABN AMRO Bank N.V. Under this Credit Agreement, ABN AMRO provides a credit facility, until further notice, for borrowings and bank guarantees in varying aggregate amounts over time. As of October 2, 2011, there were no borrowings outstanding under this facility, and the Company could have incurred 14.0 million (approximately \$19.0 million) of additional borrowings under the facility. Other non-U.S. subsidiaries of the Company have an aggregate of the equivalent of \$18.2 million of lines of credit available. As of October 2, 2011, there were no borrowings outstanding under these lines of credit.



**Table of Contents****NOTE 6 STOCK-BASED COMPENSATION***Stock Option Awards*

In accordance with accounting standards, the Company measures 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 applicable accounting standards, the Company is required to select a valuation technique or option pricing model. The Company uses the Black-Scholes model. Accounting standards require that the Company estimate forfeitures for stock options and reduce compensation expense accordingly. The Company has reduced its stock compensation expense by the assumed forfeiture rate and will evaluate experience against this forfeiture rate going forward.

During the first nine months of 2011 and 2010, the Company recognized stock option compensation costs of \$0.7 million and \$1.1 million, respectively. In the third quarters of 2011 and 2010, the Company recognized stock option compensation costs of \$0.2 million and \$0.4 million, respectively. The remaining unrecognized compensation cost related to unvested stock option awards at October 2, 2011, approximated \$0.7 million, and the weighted average period of time over which this cost will be recognized is approximately one year.

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 nine months of fiscal year 2010. There were no stock options granted in 2011.

	<b>Nine Months Ended Oct. 3, 2010</b>
Risk free interest rate	2.09%
Expected life	5.5 years
Expected volatility	61%
Expected dividend yield	0.3%

The weighted average grant date fair value of stock options granted during the first nine months of fiscal 2010 was \$6.79 per share.

The following table summarizes stock options outstanding as of October 2, 2011, as well as activity during the nine months then ended:

	<b>Shares</b>		<b>Weighted Average Exercise Price</b>
Outstanding at January 2, 2011	1,148,500	\$	7.51
Granted			
Exercised	487,000		4.43
Forfeited or canceled	23,500		6.29
Outstanding at October 2, 2011	638,000	\$	7.19
Exercisable at October 2, 2011	498,000	\$	7.95

At October 2, 2011, the aggregate intrinsic value of in-the-money options outstanding and options exercisable was \$2.3 million and \$2.3 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).



**Table of Contents**

Cash proceeds and intrinsic value related to total stock options exercised during the first nine months of fiscal years 2011 and 2010 are provided in the table below. The Company did not recognize any significant tax benefit with regard to stock options in either period.

	<b>Nine Months Ended</b>	
	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>
	<b>(In millions)</b>	
Proceeds from stock options exercised	\$ 2.6	\$ 1.8
Intrinsic value of stock options exercised	\$ 5.9	\$ 3.9

*Restricted Stock Awards*

During the nine months ended October 2, 2011, and October 3, 2010, the Company granted restricted stock awards for 668,000 and 529,000 shares, respectively, of Class B common stock. These awards (or a portion thereof) vest with respect to each recipient over a two 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 restricted stock grants was \$8.6 million and \$1.9 million for the nine months ended October 2, 2011, and October 3, 2010, respectively. Accounting standards require that the Company estimate forfeitures for restricted stock and reduce compensation expense accordingly. The Company has reduced its 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 October 2, 2011, and during the nine months then ended:

	<b>Shares</b>		<b>Weighted Average Grant Date Fair Value</b>
Outstanding at January 2, 2011	1,740,000	\$	13.04
Granted	668,000		17.08
Vested	600,000		12.23
Forfeited or canceled	42,000		14.21
Outstanding at October 2, 2011	1,766,000	\$	15.03

As of October 2, 2011, the unrecognized total compensation cost related to unvested restricted stock was \$13.3 million. That cost is expected to be recognized by the end of 2015.

For the nine months ended October 2, 2011 and October 3, 2010, the Company recognized tax benefits of \$2.4 million and \$0.5 million, respectively, with regard to restricted stock.

**Table of Contents****NOTE 7 EMPLOYEE BENEFIT PLANS**

The following tables provide the components of net periodic benefit cost for the three-month and nine-month periods ended October 2, 2011, and October 3, 2010, respectively:

<b>Defined Benefit Retirement Plan (Europe)</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Service cost	\$ 72	\$ 88	\$ 217	\$ 266
Interest cost	2,835	2,715	8,605	8,094
Expected return on assets	(2,935)	(2,772)	(8,910)	(8,264)
Amortization of prior service costs	21	22	63	66
Recognized net actuarial (gains)/losses	149	413	454	1,226
<b>Net periodic benefit cost</b>	<b>\$ 142</b>	<b>\$ 466</b>	<b>\$ 429</b>	<b>\$ 1,388</b>

<b>Salary Continuation Plan (SCP)</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Service cost	\$ 98	\$ 86	\$ 295	\$ 257
Interest cost	284	280	853	841
Amortization of transition obligation	55	55	164	164
Amortization of prior service cost	12	12	36	36
Amortization of loss	93	68	277	205
<b>Net periodic benefit cost</b>	<b>\$ 542</b>	<b>\$ 501</b>	<b>\$ 1,625</b>	<b>\$ 1,503</b>

**NOTE 8 2010 RESTRUCTURING CHARGE**

In the first quarter of 2010, the Company adopted a restructuring plan primarily related to workforce reduction in its European modular carpet operations. This reduction was in response to the continued challenging economic climate in that region. Smaller amounts were incurred in connection with restructuring activities in the Americas. A total of approximately 50 employees were affected by this restructuring plan. In connection with this plan, the Company recorded a pre-tax restructuring charge of \$3.1 million. Substantially all of this charge involves cash expenditures, primarily severance expenses. Actions and expenses related to this plan were substantially completed in the first quarter of 2010.

A summary of these restructuring activities is presented below:

	<b>Total Restructuring Charge</b>	<b>Costs Incurred in 2010</b>	<b>Costs Incurred in 2011</b>	<b>Balance at Oct. 2, 2011</b>
	<b>(In thousands)</b>			
Workforce reduction	\$ 3,131	\$ 2,674	\$ 457	\$

The table below details these restructuring activities by segment:

	<b>Modular</b>	<b>Bentley</b>
--	----------------	----------------

Edgar Filing: INTERFACE INC - Form 10-Q

	<b>Carpet</b>	<b>Prince Street</b>	<b>Corporate</b>	<b>Total</b>
		<b>(In thousands)</b>		
Total amounts expected to be incurred	\$ 2,951	\$ 180	\$	\$ 3,131
Cumulative amounts incurred to date	2,951	180		3,131
Total amounts incurred in the nine-month period ended October 2, 2011	457			457

-14-

---



**Table of Contents****NOTE 9 DISCONTINUED OPERATIONS**

In 2007, the Company sold its Fabrics Group business segment. All activity related to this business has been included in discontinued operations. Assets and liabilities of this business segment have been reported in assets and liabilities held for sale for all periods presented. Discontinued operations had no net sales and no net income or loss in either the three-month or nine-month periods ended October 2, 2011, and October 3, 2010.

**NOTE 10 SUPPLEMENTAL CASH FLOW INFORMATION**

Cash payments for interest amounted to \$12.0 million and \$21.2 million for the nine months ended October 2, 2011, and October 3, 2010, respectively. Income tax payments amounted to \$15.2 million and \$10.8 million for the nine months ended October 2, 2011, and October 3, 2010, respectively.

**NOTE 11 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In September 2011, the Financial Accounting Standards Board ( FASB ) issued an accounting standard regarding the performance of a company s annual goodwill impairment evaluation. This standard allows companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test. This standard is effective for fiscal years beginning after December 31, 2011. At this time the Company does not expect adoption of this standard will have any significant impact on its consolidated financial statements.

In June 2011, the FASB amended an accounting standard regarding the presentation of comprehensive income. This amendment will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in shareholders equity. The amended guidance, which must be applied retroactively, is effective for interim and annual periods ending after December 31, 2012, with earlier adoption permitted. As this amendment only effects presentation, there is not expected to be any impact on the Company s consolidated financial statements.

In December 2010, the FASB issued new accounting guidance to amend the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Such criteria now require performing Step 2 if qualitative factors indicate that it is more likely than not that an impairment to goodwill exists. This recent guidance is effective for fiscal years beginning after December 15, 2010, as well as for interim periods within such years. The adoption of this standard did not have any significant impact on the Company s consolidated condensed financial statements.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of vendor-specific objective evidence or third-party evidence of the selling prices, consideration must be allocated to the deliverables based on management s best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. The standard became effective for the Company in the first quarter of 2011. The adoption of this standard did not have any significant impact on the Company s consolidated financial statements.

**NOTE 12 INCOME TAXES**

Accounting standards require that all tax positions be analyzed using a two-step approach. The first step requires an entity to determine if a tax position is more-likely-than-not to be sustained upon examination. In the second step, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more-likely-than-not to be realized upon ultimate settlement. In the first nine months of 2011, the Company increased its liability for unrecognized tax benefits by \$0.1 million. As of October 2, 2011, the Company had approximately \$8.2 million accrued for unrecognized tax benefits.

**Table of Contents**

**NOTE 13 DIVIDEND TO NON-CONTROLLING INTEREST PARTNER**

In the third quarter of 2010, the Company's Thailand manufacturing joint venture paid dividends on a pro rata basis to its shareholders, including a dividend to the non-controlling interest partner in the joint venture. All operations, assets and liabilities of this joint venture are currently and have been previously consolidated by the Company. The dividend paid to the non-controlling interest partner was \$7.9 million and had the effect of lowering the non-controlling interest in subsidiary balance as presented in the Company's balance sheet.

On November 3, 2010, the Company purchased the shares of the Thailand manufacturing joint venture that were held by the non-controlling interest partner for approximately \$4.3 million. After this purchase, the Company now owns all of the shares of the Thailand venture.

**NOTE 14 SUBSEQUENT EVENT**

On October 26, 2011, the Company committed to a restructuring plan intended to reduce costs across its worldwide operations and more closely align its operations with reduced demand levels in certain markets. As a result of this plan, the Company expects to incur restructuring and asset impairment charges of approximately \$6.5 million to \$8.0 million during the fourth quarter of 2011. The majority of the charge will relate to reductions of approximately 100 employees (approximately \$5-6 million) as well as smaller amounts for contract termination costs (approximately \$0.5-1.0 million) and impairment of assets (approximately \$0.8-1.0 million). The Company anticipates that approximately \$5.5-6.5 million of this charge will result in future cash expenditures, primarily severance expense. Actions related to this restructuring plan are expected to be completed by the end of the fourth quarter of 2011, and the Company expects to generate annual savings of approximately \$11.0 million as a result thereof.

**NOTE 15 SUPPLEMENTAL CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS**

The Guarantor Subsidiaries, which consist of the Company's principal domestic subsidiaries, are guarantors of the Company's 11 3/8% Senior Secured Notes due 2013, its 9.5% Senior Subordinated Notes due 2014 and its 7 5/8% Senior Notes due 2018. These guarantees are full and unconditional. The Supplemental Guarantor Financial Statements are presented herein pursuant to requirements of the Commission.

**Table of Contents**

INTERFACE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED OCTOBER 2, 2011

	<b>INTERFACE, CONSOLIDATION INC. AND ELIMINATION ENTRIES CONSOLIDATED TOTALS</b>				
	<b>NON- GUARANTOR SUBSIDIARIES</b>	<b>NON- GUARANTOR SUBSIDIARIES</b>	<b>INC. (PARENT CORPORATION)</b>		
	<b>(IN THOUSANDS)</b>				
Net sales	\$ 182,658	\$ 134,854	\$	\$ (44,406)	\$ 273,106
Cost of sales	134,448	88,639		(44,406)	178,681
Gross profit on sales	48,210	46,215			94,425
Selling, general and administrative expenses	30,972	32,062	6,053		69,087
Operating income (loss)	17,238	14,153	(6,053)		25,338
Interest/Other expense	7,823	2,763	(4,333)		6,253
Income (loss) before taxes on income and equity in income of subsidiaries	9,415	11,390	(1,720)		19,085
Income tax expense (benefit)	3,412	4,128	(623)		6,917
Equity in income (loss) of subsidiaries			13,265	(13,265)	
Net income (loss)	6,003	7,262	12,168	(13,265)	12,168
Income attributable to non-controlling interest in subsidiary					
Net income (loss) attributable to Interface, Inc.	\$ 6,003	\$ 7,262	\$ 12,168	\$ (13,265)	\$ 12,168

**Table of Contents**

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE NINE MONTHS ENDED OCTOBER 2, 2011

	<b>NON- GUARANTOR SUBSIDIARIES</b>	<b>NON- GUARANTOR SUBSIDIARIES</b>	<b>INTERFACE, INC. (PARENT CORPORATION)</b>	<b>CONSOLIDATION AND ELIMINATION ENTRIES</b>	<b>CONSOLIDATED TOTALS</b>
	<b>(IN THOUSANDS)</b>				
Net sales	\$ 512,183	\$ 405,303	\$	\$ (131,338)	\$ 786,148
Cost of sales	378,571	262,787		(131,338)	510,020
Gross profit on sales	133,612	142,516			276,128
Selling, general and administrative expenses	86,872	94,901	21,352		203,125
Operating income (loss)	46,740	47,615	(21,352)		73,003
Interest/Other expense	20,654	9,689	(10,602)		19,741
Income (loss) before taxes on income and equity in income of subsidiaries	26,086	37,926	(10,750)		53,262
Income tax expense (benefit)	9,110	13,118	(3,772)		18,456
Equity in income (loss) of subsidiaries			41,784	(41,784)	
Net income (loss)	16,976	24,808	34,806	(41,784)	34,806
Income attributable to non-controlling interest in subsidiary					
Net income (loss) attributable to Interface, Inc.	\$ 16,976	\$ 24,808	\$ 34,806	\$ (41,784)	\$ 34,806

**Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET  
OCTOBER 2, 2011

	NON-		INTERFACE, INC.		CONSOLIDATION AND ELIMINATION ENTRIES		CONSOLIDATED TOTALS
	GUARANTOR SUBSIDIARIES	GUARANTOR SUBSIDIARIES	(PARENT CORPORATION)				
	(IN THOUSANDS)						
<b>ASSETS</b>							
Current Assets:							
Cash and cash equivalents	\$ 1,813	\$ 30,456	\$ 12,117	\$	\$	\$	44,386
Accounts receivable	67,456	89,877	676				158,009
Inventories	96,980	74,136					171,116
Prepays and deferred income taxes	9,071	17,598	10,806				37,475
Assets of business held for sale		1,200					1,200
Total current assets	175,320	213,267	23,599				412,186
Property and equipment less accumulated depreciation	83,806	99,589	4,675				188,070
Investment in subsidiaries	241,113	153,434	189,892		(584,439)		
Goodwill	6,954	69,612					76,566
Other assets	6,545	12,138	83,800				102,483
	\$ 513,738	\$ 548,040	\$ 301,966	\$	(584,439)	\$	779,305
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>							
Current Liabilities	\$ 15,340	\$ 52,044	\$ 86,358	\$	\$	\$	153,742
Senior notes and senior subordinated notes			294,487				294,487
Deferred income taxes	11,124	1,615	(4,268)				8,471
Other	4,242	1,902	27,930				34,074
Total liabilities	30,706	55,561	404,507				490,774
Common stock	94,145	102,199	6,546		(196,344)		6,546
Additional paid-in capital	249,302	12,525	360,184		(261,827)		360,184
Retained earnings (deficit)	141,184	424,722	(460,115)		(125,160)		(19,369)
Foreign currency translation adjustment	(1,599)	(19,119)	(5,775)		(1,108)		(27,601)
Pension liability		(27,848)	(3,381)				(31,229)
	\$ 513,738	\$ 548,040	\$ 301,966	\$	(584,439)	\$	779,305



**Table of Contents**

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS  
ENDED OCTOBER 2, 2011

	NON-		INTERFACE, INC.		CONSOLIDATION AND ELIMINATION		CONSOLIDATED TOTALS	
	GUARANTOR SUBSIDIARIES		GUARANTOR SUBSIDIARIES		(PARENT CORPORATION)		ENTRIES	
	(IN THOUSANDS)							
Net cash provided by (used in) operating activities	\$ (7,940)	\$ 11,306	\$ 5,694	\$ 927	\$ 9,987			
Cash flows from investing activities:								
Purchase of plant and equipment	(15,048)	(15,343)	(368)		(30,759)			
Other	(399)	(1,083)	(142)		(1,624)			
Net cash used for investing activities	(15,447)	(16,426)	(510)		(32,383)			
Cash flows from financing activities:								
Other	24,114	3,609	(27,305)	( 927)	(509)			
Proceeds from issuance of common stock			2,610		2,610			
Dividends paid to Interface, Inc. shareholders			(3,921)		(3,921)			
Net cash used in financing activities	24,114	3,609	(28,616)	(927)	(1,820)			
Effect of exchange rate change on cash		(634)			(634)			
Net increase (decrease) in cash	727	(2,145)	(23,432)		(24,850)			
Cash at beginning of period	1,086	32,601	35,549		69,236			
Cash at end of period	\$ 1,813	\$ 30,456	\$ 12,117	\$	\$ 44,386			

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2011, under Item 7 of that Form 10-K. Our discussions here focus on our results during the quarter and nine months ended, or as of, October 2, 2011, and the comparable periods of 2010 for comparison purposes, and, to the extent applicable, any material changes from the information discussed in that Form 10-K or other important intervening developments or information since that time. These discussions should be read in conjunction with that Form 10-K for more detailed and background information.

**Forward-Looking Statements**

This report contains statements which may constitute forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include risks and uncertainties associated with economic conditions in the commercial interiors industry as well as the risks and uncertainties discussed under the heading "Risk Factors" included in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2011, which discussion is hereby incorporated by reference. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

**7 5/8% Senior Notes**

On December 3, 2010, we completed a private offering of \$275 million aggregate principal amount of 7 5/8% Senior Notes due 2018 (the "7 5/8% Senior Notes"). Interest on the 7 5/8% Senior Notes is payable semi-annually on June 1 and December 1, beginning June 1, 2011. We used the net proceeds from the sale of the 7 5/8% Senior Notes (plus cash on hand) in connection with the repurchase of approximately \$141.9 million aggregate principal amount of our 11 3/8% Senior Secured Notes and approximately \$98.5 million aggregate principal amount of our 9.5% Senior Subordinated Notes pursuant to a Company tender offer.

**Restructuring Plans**

In the first quarter of 2010, we adopted a restructuring plan primarily related to workforce reduction in our European modular carpet operations. This reduction was in response to the continued challenging economic climate in that region. Smaller amounts were incurred in connection with restructuring activities in the Americas. A total of approximately 50 employees were affected by this restructuring plan. In connection with this plan, we recorded a pre-tax restructuring charge of \$3.1 million. Substantially all of this charge involved cash expenditures, primarily severance expenses. Actions and expenses related to this plan were substantially completed in the first quarter of 2010.

In October of 2011, we committed to a restructuring plan intended to reduce costs across our worldwide operations and more closely align our operations with reduced demand levels in certain markets. As a result of this plan, we expect to incur restructuring and asset impairment charges of approximately \$6.5 million to \$8.0 million during the fourth quarter of 2011. The majority of the charge will relate to reductions of approximately 100 employees (approximately \$5-6 million) as well as smaller amounts for contract termination costs (approximately \$0.5-1.0 million) and impairment of assets (approximately \$0.8-1.0 million). We anticipate that approximately \$5.5-6.5 million of this charge will result in future cash expenditures, primarily severance expense. Actions related to this restructuring plan are expected to be completed by the end of the fourth quarter of 2011, and we expect to generate annual savings of approximately \$11.0 million as a result thereof.

**Discontinued Operations**

In 2007, we sold our Fabrics Group business segment. In accordance with applicable accounting standards, we have reported the results of operations for the former Fabrics Group business segment for all periods reflected herein, as discontinued operations.

Our discontinued operations had no net sales and no net income or loss in either of the three-month or nine-month periods ended October 2, 2011 and October 3, 2010.





**Table of Contents****General**

During the quarter ended October 2, 2011, we had net sales of \$273.1 million, compared with net sales of \$252.7 million in the third quarter last year. Fluctuations in currency exchange rates positively impacted 2011 third quarter sales by 4% (approximately \$10 million), compared with the prior year period. During the first nine months of fiscal year 2011, we had net sales of \$768.1 million, compared with net sales of \$696.5 million in the first nine months of last year. Fluctuations in currency exchange rates positively impacted sales in the first nine months of 2011 by 4% (approximately \$26 million), compared with the prior year period.

Included in our results for the nine months ended October 3, 2010 is \$1.1 million of bond retirement expenses (comprised of \$0.8 million of premiums and \$0.3 million of write-offs of unamortized debt issuance costs) related to the partial redemption of our 9.5% Senior Subordinated Notes discussed in the Note entitled Long-Term Debt in Item 1. Also included in the nine-month period ended October 3, 2010 is \$3.1 million of restructuring charges, as described above.

During the third quarter of 2011, we had net income attributable to Interface, Inc. of \$12.2 million, or \$0.19 per diluted share, compared with net income attributable to Interface, Inc. of \$12.1 million, or \$0.19 per diluted share, in the third quarter of 2010. Net income in the third quarter of 2011 was \$12.1 million, or \$0.19 per diluted share, compared with net income of \$12.3 million, or \$0.19 per diluted share, in the third quarter of 2010.

During the nine months ended October 2, 2011, we had net income attributable to Interface, Inc. of \$34.8 million, or \$0.53 per diluted share, compared with net income attributable to Interface, Inc. of \$21.6 million, or \$0.34 per diluted share, in the first nine months of 2010. Net income was \$34.8 million, or \$0.53 per diluted share, in the nine months ended October 2, 2011, compared with net income of \$22.5 million, or \$0.34 per diluted share, in the first nine months of 2010.

**Results of Operations**

The following table presents, as a percentage of net sales, certain items included in our Consolidated Condensed Statements of Operations for the three-month and nine-month periods ended October 2, 2011, and October 3, 2010, respectively:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	65.4	64.6	64.9	65.1
Gross profit on sales	34.6	35.4	35.1	34.9
Selling, general and administrative expenses	25.3	24.3	25.8	25.4
Restructuring charge				0.4
Operating income	9.3	11.1	9.3	9.1
Bond retirement expenses				0.2
Interest/Other expenses	2.3	3.5	2.5	3.8
Income before tax expense	7.0	7.6	6.8	5.1
Income tax expense	2.5	2.7	2.3	1.9
Net income	4.5	4.9	4.4	3.2
Net income attributable to Interface, Inc.	4.5	4.8	4.4	3.1

Below we provide information regarding net sales for each of our operating segments, and analyze those results for the three-month and nine-month periods ended October 2, 2011, and October 3, 2010, respectively.



**Table of Contents***Net Sales by Business Segment*

Net sales by operating segment and for our Company as a whole were as follows for the three-month and nine-month periods ended October 2, 2011, and October 3, 2010, respectively:

	Three Months Ended		Percentage
	Oct. 2, 2011	Oct. 3, 2010	Change
<b>Net Sales By Segment</b>	(In thousands)		
Modular Carpet	\$ 248,721	\$ 226,513	9.8%
Bentley Prince Street	24,385	26,211	(7.0)%
Total	\$ 273,106	\$ 252,724	8.1%

	Nine Months Ended		Percentage
	Oct. 2, 2011	Oct. 3, 2010	Change
<b>Net Sales By Segment</b>	(In thousands)		
Modular Carpet	\$ 708,567	\$ 623,215	13.7%
Bentley Prince Street	77,581	73,287	5.9%
Total	\$ 786,148	\$ 696,502	12.9%

*Modular Carpet Segment.* For the quarter ended October 2, 2011, net sales for the Modular Carpet segment increased \$22.2 million (9.8%) versus the comparable period in 2010. On a geographic basis, we experienced increases in net sales in the Americas (up 8%) and Europe (up 19% in U.S. dollars, 9% in local currency). Asia-Pacific also saw a sales increase as compared to the third quarter of 2010 (up less than 1%). Worldwide, the increases were due to continued success in the corporate office market segment, success in certain non-office commercial market segments, and continuing strong demand in emerging markets. Sales growth in the Americas was driven primarily by the improving corporate office market segment (up 16%) as well as growth in the residential (up 38%) and education (up 13%) market segments. These increases were moderated by declines in the retail (down 13%) and hospitality (down 41%) market segments. Sales growth in Europe was due to the corporate office market segment (up 25% in U.S. dollars, 15% in local currency) as well as smaller increases in the education (up 25% in U.S. dollars, 14% in local currency) and hospitality (up 31% in U.S. dollars, 20% in local currency) market segments. Mitigating these increases were declines in the residential (down 53% in U.S. dollars, 57% in local currency) and retail (down 11% in U.S. dollars, 18% in local currency). Asia-Pacific saw increases in the corporate office (up 9%) and hospitality (up over 100%) market segments. These increases were primarily offset by a decline in the education market segment (down 43%).

For the nine months ended October 2, 2011, net sales for the Modular Carpet segment increased \$85.4 million (13.7%) versus the comparable period in 2010. On a geographic basis, we experienced increases in net sales in all regions for the nine months ended October 2, 2011, versus the comparable period in 2010, with our Americas, Europe and Asia-Pacific regions experiencing sales growth of 11%, 19% and 13%, respectively, during the period (Europe experienced 11% sales growth in local currency). The continued recovery of the corporate office market was the largest factor in this increase in sales, although smaller increases occurred in certain non-office commercial market segments. In the Americas, the corporate office market segment saw an increase of 21% during the nine-month period. Success in certain non-office commercial markets also fueled the sales increase, particularly in the education (up 8%), residential (up 19%) and government (up 7%) market segments. These increases were offset somewhat by decreases in the retail (down 9%) and hospitality (down 30%) market segments. Sales growth in Europe was also due to the strength of the corporate office market segment (up 24% in U.S. dollars, 15% in local currency), as well as success in

the government (up 21% in U.S. dollars, 13% in local currency) and education (up 22% in U.S. dollars, 12% in local currency) market segments. These gains were somewhat offset by a decline in the residential market segment (down 51% in U.S. dollars, 54% in local currency) in Europe. Asia-Pacific saw increases across almost all market segments, with the exception of the government (down 25%) and education (down 3%) market segments. As in other regions, the corporate office market segment (up 17%) saw the most significant increase in the Asia-Pacific region.

*Bentley Prince Street Segment.* In our Bentley Prince Street segment, net sales for the quarter ended October 2, 2011, decreased \$1.8 million (7.0%) versus the comparable period in the prior year. The corporate office market remained strong as compared to the third quarter of 2010, showing an increase in sales of 17%. This increase was offset by decreases in the education (down 49%) and government (down 35%) market segments, as a result of spending reductions by federal, state and local governments.

**Table of Contents**

For the nine months ended October 2, 2011, net sales for the Bentley Prince Street segment increased \$4.3 million (5.9%) versus the comparable period in the prior year. The corporate office market segment continues to be the driving force behind this increase, showing improvement of 27% versus the first nine months of 2010. This increase was mitigated by declines in almost all non-office commercial markets, particularly the government (down 33%) and education (down 19%) market segments. The retail market segment was the only non-office commercial segment to show an increase during the period (up 29%).

*Costs and Expenses*

*Company Consolidated.* The following table presents, on a consolidated basis for our operations, our overall cost of sales and selling, general and administrative expenses for the three-month and nine-month periods ended October 2, 2011, and October 3, 2010, respectively:

<b>Cost and Expenses</b>	<b>Three Months Ended</b>		<b>Percentage</b>
	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>	<b>Change</b>
	(In thousands)		
Cost of sales	\$ 178,681	\$ 163,244	9.5%
Selling, general and administrative expenses	69,087	61,441	12.4%
Total	\$ 247,768	\$ 224,685	10.3%

<b>Cost and Expenses</b>	<b>Nine Months Ended</b>		<b>Percentage</b>
	<b>Oct. 2, 2011</b>	<b>Oct. 3, 2010</b>	<b>Change</b>
	(In thousands)		
Cost of sales	\$ 510,020	\$ 453,514	12.5%
Selling, general and administrative expenses	203,125	176,597	15.0%
Total	\$ 713,145	\$ 630,111	13.2%

For the quarter ended October 2, 2011, our cost of sales increased \$15.4 million (9.5%) versus the comparable period in 2010. Fluctuations in currency exchange rates accounted for approximately \$6.0 million (4%) of the increase. An increase in raw material costs (up 10-12% year-over-year) was the most significant factor in the increase. Due to the increase in raw material costs, as well as lower absorption of fixed overhead costs due to lower production volumes versus the third quarter of 2010, as a percentage of sales, cost of sales increased to 65.4% for the third quarter of 2011 versus 64.6% for the third quarter of 2010. As raw materials costs moderate, we expect to see cost of sales decrease as a percentage of sales going forward.

For the nine months ended October 2, 2011, our cost of sales increased \$56.5 million (12.5%) versus the comparable period in 2010. Fluctuations in currency exchange rates accounted for approximately \$17 million (4%) of the increase. The primary components of this increase in cost of sales were the increases in raw materials costs (approximately \$38 million) and labor costs (approximately \$6 million) associated with higher production volumes, particularly in the first six months of 2011, compared with the prior year period. Our raw materials costs during the first nine months of 2011 were approximately 10-12% higher than raw materials costs in the corresponding period of the prior year. As a percentage of net sales, cost of sales remained relatively consistent for the nine month period ended October 2, 2011, at 64.9% versus 65.1% in the comparable period of 2010. The slight improvement in costs of sales as a percentage of sales was primarily due to higher absorption of fixed overhead costs as a result of higher production volumes in the first nine months of 2011 as compared to 2010, particularly in the first six months of 2011.

For the quarter ended October 2, 2011, our selling, general and administrative expenses increased \$7.6 million (12.4%) versus the comparable period in 2010. Fluctuations in currency exchange rates accounted for approximately

\$2 million (4%) of the increase. The primary components of this increase in selling, general and administrative expenses were (1) a \$5.1 million increase in selling expense, commensurate with the increase in sales as well as selected investments made in our consumer market and diversification strategies, and (2) a \$1.4 million increase in marketing expenses, primarily in international markets as we continued to grow our brand awareness and presence. These increases were somewhat offset by a \$2.6 million decrease in incentives as performance targets were not achieved to the same level in the third quarter of 2011 as they were in the third quarter of 2010. Due to the above factors, as a percentage of net sales, our selling, general and administrative expenses increased to 25.3% for the third quarter of 2011 versus 24.3% for the third quarter of 2010.

**Table of Contents**

For the nine months ended October 2, 2011, our selling, general and administrative expenses increased \$26.5 million (15%) versus the comparable period in 2010. Fluctuations in currency exchange rates accounted for approximately \$7 million (4%) of the increase. The primary components of this increase in selling, general and administrative expenses were (1) a \$13.9 million increase in selling expense, commensurate with the increase in sales as well as selected investments made in our consumer market and diversification strategies, (2) a \$3.9 million increase in marketing expenses, primarily in international markets as we continued to grow our brand awareness and presence, and (3) higher overall administrative costs of \$7.9 million due, in part, to increases in non-cash incentive based pay during the first nine months of 2011, particularly in the first six months of the year. Due to these increases, as a percentage of net sales, selling, general and administrative expenses increased to 25.8% for the nine months ended October 2, 2011, versus 25.4% for the corresponding period in 2010.

*Cost and Expenses by Segment.* The following table presents the combined cost of sales and selling, general and administrative expenses for each of our operating segments:

	Three Months Ended		Percentage Change
	Oct. 2, 2011	Oct. 3, 2010	
<b>Cost of Sales and Selling, General and Administrative Expenses (Combined)</b>	<b>(In thousands)</b>		
Modular Carpet	\$ 222,388	\$ 197,063	12.9%
Bentley Prince Street	24,448	26,166	(6.6)%
Corporate Expenses and Eliminations	932	1,456	(36.0)%
Total	\$ 247,768	\$ 224,685	10.3%

	Nine Months Ended		Percentage Change
	Oct. 2, 2011	Oct. 3, 2010	
<b>Cost of Sales and Selling, General and Administrative Expenses (Combined)</b>	<b>(In thousands)</b>		
Modular Carpet	\$ 629,413	\$ 548,278	14.8%
Bentley Prince Street	77,705	75,600	2.8%
Corporate Expenses and Eliminations	6,027	6,233	(3.3)%
Total	\$ 713,145	\$ 630,111	13.2%

*Interest Expenses*

For the three-month period ended October 2, 2011, interest expense decreased \$2.0 million to \$6.4 million versus \$8.4 million in the comparable period in 2010. This decrease was due to the issuance of our 7 5/8% Senior Notes in the fourth quarter of 2010, the proceeds of which we used to complete the previously discussed tender offer for substantially all of our 11 3/8% Senior Secured Notes, as well as a portion of our outstanding 9.5% Senior Subordinated Notes. Our use of the proceeds from our 7 5/8% Senior Notes to retire higher interest debt led to a significant reduction in our quarterly interest expense, as compared to the third quarter of 2010. For the nine-month period ended October 2, 2011, interest expense decreased by \$5.5 million to \$19.9 million versus \$25.3 million in the comparable period in 2010 due to the factors identified above, as well as the repayment or redemption of \$39.6 million of bonds in the first quarter of 2010.

*Liquidity and Capital Resources**General*

At October 2, 2011, we had \$44.4 million in cash. At that date, we had no borrowings and \$5.2 million in letters of credit outstanding under our domestic revolving credit facility, and no borrowings outstanding under our European



credit facility. As of October 2, 2011, we could have incurred \$80.6 million of additional borrowings under our domestic revolving credit facility and 14.0 million (approximately \$19.0 million) of additional borrowings under our European credit facility. In addition, we could have incurred an additional \$18.2 million of borrowings under our other credit facilities in place at other non-U.S. subsidiaries.

**Table of Contents**

*Analysis of Cash Flows*

Our primary source of cash during the nine months ended October 2, 2011 was \$2.6 million of cash received as a result of exercises of employee stock options. Our primary uses of cash during this period were (1) \$34.9 million due to increased inventory levels as we produced to meet anticipated demand for the second half of 2011, (2) \$30.8 million for capital expenditures, and (3) \$16.0 million due to decreases in accounts payable and accruals.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our discussion below in this Item 3 is based upon the more detailed discussions of our market risk and related matters included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2011, under Item 7A of that Form 10-K. Our discussion here focuses on the period ended October 2, 2011, and any material changes from (or other important intervening developments since the time of) the information discussed in that Form 10-K. This discussion should be read in conjunction with that Form 10-K for more detailed and background information.

At October 2, 2011, we recognized a \$1.3 million decrease in our foreign currency translation adjustment account compared with January 2, 2011, primarily because of the strengthening of the U.S. dollar against certain foreign currencies over the nine-month period.

*Sensitivity Analysis.* For purposes of specific risk analysis, we use sensitivity analysis to measure the impact that market risk may have on the fair values of our market sensitive instruments.

To perform sensitivity analysis, we assess the risk of loss in fair values associated with the impact of hypothetical changes in interest rates and foreign currency exchange rates on market sensitive instruments. The market value of instruments affected by interest rate and foreign currency exchange rate risk is computed based on the present value of future cash flows as impacted by the changes in the rates attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest and foreign currency exchange rates in effect at October 2, 2011. The values that result from these computations are compared with the market values of these financial instruments at October 2, 2011. The differences in this comparison are the hypothetical gains or losses associated with each type of risk.

As of October 2, 2011, based on a hypothetical immediate 150 basis point increase in interest rates, with all other variables held constant, the market value of our fixed rate long-term debt would be impacted by a net decrease of approximately \$20.5 million. Conversely, a 150 basis point decrease in interest rates would result in a net increase in the market value of our fixed rate long-term debt of approximately \$25.4 million.

As of October 2, 2011, a 10% decrease or increase in the levels of foreign currency exchange rates against the U.S. dollar, with all other variables held constant, would result in a decrease in the fair value of our financial instruments of \$10.2 million or an increase in the fair value of our financial instruments of \$8.3 million, respectively. As the impact of offsetting changes in the fair market value of our net foreign investments is not included in the sensitivity model, these results are not indicative of our actual exposure to foreign currency exchange risk.

**ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act ), pursuant to Rule 13a-14(c) under the Act. Based on that evaluation, our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various legal proceedings in the ordinary course of business, none of which is required to be disclosed under this Item 1.

ITEM 1A. RISK FACTORS

There are no material changes in risk factors in the third quarter of 2011. For a discussion of risk factors, see Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for fiscal year 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed with this report:

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.1	Seventh Amended and Restated Credit Agreement, dated as of June 24, 2011, among Interface, Inc, InterfaceFLOR, LLC, the lenders listed therein, Wells Fargo Bank, National Association, and Bank of America, N.A. (included as Exhibit 99.1 to the Company's current report on Form 8-K filed first on October 27, 2011, previously filed with the Commission and incorporated herein by reference).
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document (filed electronically herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed electronically herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed electronically herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed electronically herewith)
101.PRE	XBRL Taxonomy Presentation Linkbase Document (filed electronically herewith)
101.DEF	XBRL Taxonomy Definition Linkbase Document (filed electronically herewith)

**Table of Contents**

SIGNATURE

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.

INTERFACE, INC.

Date: November 10, 2011

By: /s/ Patrick C. Lynch  
Patrick C. Lynch  
Senior Vice President  
(Principal Financial Officer)

-28-

---

**Table of Contents**

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document (filed electronically herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed electronically herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed electronically herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed electronically herewith)
101.PRE	XBRL Taxonomy Presentation Linkbase Document (filed electronically herewith)
101.DEF	XBRL Taxonomy Definition Linkbase Document (filed electronically herewith)