



Edgar Filing: INTERFACE INC - Form 10-Q

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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Emerging growth company

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

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

Shares outstanding of each of the registrant's classes of common stock at May 5, 2018:

| <u>Class</u>                            | <u>Number of Shares</u> |
|---|-------------------------|
| Common Stock, \$.10 par value per share | 59,494,324              |

Table of Contents

INTERFACE, INC.

INDEX

|   | <b><u>PAGE</u></b> |
|---|--------------------|
| <b>PART I. <u>FINANCIAL INFORMATION</u></b>   |                    |
| Item 1. <u>Financial Statements</u>   | 3                  |
| <u>Consolidated Condensed Balance Sheets – April 1, 2018 and December 31, 2017</u>                          | 3                  |
| <u>Consolidated Condensed Statements of Operations - Three Months Ended April 1, 2018 and April 2, 2017</u> | 4                  |
| <u>Consolidated Statements of Comprehensive Income – Three Months Ended April 1, 2018 and April 2, 2017</u> | 5                  |
| <u>Consolidated Condensed Statements of Cash Flows – Three Months Ended April 1, 2018 and April 2, 2017</u> | 6                  |
| <u>Notes to Consolidated Condensed Financial Statements</u>   | 7                  |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>        | 15                 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                   | 16                 |
| Item 4. <u>Controls and Procedures</u>  | 18                 |
| <b>PART II. <u>OTHER INFORMATION</u></b>  |                    |
| Item 1. <u>Legal Proceedings</u>  | 18                 |
| Item 1A. <u>Risk Factors</u>  | 18                 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                  | 18                 |
| Item 3. <u>Defaults Upon Senior Securities</u>  | 18                 |
| Item 4. <u>Mine Safety Disclosures</u>  | 18                 |
| Item 5. <u>Other Information</u>  | 18                 |
| Item 6. <u>Exhibits</u>   | 19                 |

---

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## INTERFACE, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

(IN THOUSANDS)

|   | <b>APRIL 1, 2018</b> | <b>DECEMBER<br/>31, 2017</b> |
|---|----------------------|------------------------------|
|   | <b>(UNAUDITED)</b>   |                              |
| <b>ASSETS</b>                               |                      |                              |
| Current Assets                              |                      |                              |
| Cash and cash equivalents                   | \$ 67,857            | \$ 87,037                    |
| Accounts receivable, net                    | 137,890              | 142,808                      |
| Inventories, net                            | 197,415              | 177,935                      |
| Prepaid expenses and other current assets   | 38,122               | 23,087                       |
| Total current assets                        | 441,284              | 430,867                      |
| Property and equipment, net                 | 214,689              | 212,645                      |
| Deferred tax asset                          | 18,035               | 18,003                       |
| Goodwill, net                               | 70,916               | 68,754                       |
| Other assets                                | 70,529               | 70,331                       |
| Total assets                                | \$ 815,453           | \$ 800,600                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                      |                              |
| Current liabilities                         |                      |                              |
| Accounts payable                            | \$ 55,313            | \$ 50,672                    |
| Accrued expenses                            | 99,247               | 110,974                      |
| Current portion of long-term debt           | 15,000               | 15,000                       |
| Total current liabilities                   | 169,560              | 176,646                      |
| Long-term debt                              | 228,881              | 214,928                      |
| Deferred income taxes                       | 7,326                | 6,935                        |
| Other                                       | 71,319               | 72,000                       |
| Total liabilities                           | 477,086              | 470,509                      |
| Commitments and contingencies               |                      |                              |
| Shareholders' equity                        |                      |                              |
| Preferred stock                             | 0                    | 0                            |

Edgar Filing: INTERFACE INC - Form 10-Q

|   |            |   |            |
|---|------------|---|------------|
| Common stock  | 5,950      |   | 5,981      |
| Additional paid-in capital  | 260,115    |   | 271,271    |
| Retained earnings   | 198,649    |   | 187,432    |
| Accumulated other comprehensive loss – foreign currency translation | (70,113    | ) | (78,943 )  |
| Accumulated other comprehensive income – cash flow hedge            | 2,536      |   | 904        |
| Accumulated other comprehensive loss – pension liability            | (58,770    | ) | (56,554 )  |
| Total shareholders' equity  | 338,367    |   | 330,091    |
| Total liabilities and shareholders' equity                          | \$ 815,453 |   | \$ 800,600 |

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<br/>ENDED</b> |                          |
|--|-------------------------------|--------------------------|
|  | <b>APRIL<br/>1, 2018</b>      | <b>APRIL<br/>2, 2017</b> |
| NET SALES                                    | \$240,563                     | \$221,102                |
| Cost of Sales                                | 146,981                       | 133,300                  |
| GROSS PROFIT ON SALES                        | 93,582                        | 87,802                   |
| Selling, General and Administrative Expenses | 70,594                        | 64,714                   |
| Restructuring and Asset Impairment Charges   | 0                             | 7,299                    |
| OPERATING INCOME                             | 22,988                        | 15,789                   |
| Interest Expense                             | 2,094                         | 1,617                    |
| Other Expense                                | 519                           | 1,394                    |
| INCOME BEFORE INCOME TAX EXPENSE             | 20,375                        | 12,778                   |
| Income Tax Expense                           | 5,291                         | 4,231                    |
| Net Income                                   | \$15,084                      | \$8,547                  |
| Earnings Per Share – Basic                   | \$0.25                        | \$0.13                   |
| Earnings Per Share – Diluted                 | \$0.25                        | \$0.13                   |
| Common Shares Outstanding – Basic            | 59,671                        | 64,081                   |
| Common Shares Outstanding – Diluted          | 59,717                        | 64,123                   |

See accompanying notes to consolidated condensed financial statements.



Table of Contents

INTERFACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(IN THOUSANDS)

|   | <b>THREE<br/>MONTHS<br/>ENDED</b> |                          |
|---|-----------------------------------|--------------------------|
|   | <b>APRIL<br/>1, 2018</b>          | <b>APRIL<br/>2, 2017</b> |
| Net Income  | \$15,084                          | \$8,547                  |
| Other Comprehensive Income, Foreign Currency Translation Adjustment | 8,830                             | 11,030                   |
| Other Comprehensive Income, Cash Flow Hedge                         | 1,632                             | 0                        |
| Other Comprehensive Loss, Pension Liability Adjustment              | (2,216 )                          | (932 )                   |
| Comprehensive Income  | \$23,330                          | \$18,645                 |

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>THREE MONTHS<br/>ENDED</b> |                          |
|---|-------------------------------|--------------------------|
|   | <b>APRIL<br/>1, 2018</b>      | <b>APRIL<br/>2, 2017</b> |
| <b>OPERATING ACTIVITIES:</b>  |                               |                          |
| Net income  | \$15,084                      | \$8,547                  |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: |                               |                          |
| Depreciation and amortization   | 8,731                         | 6,969                    |
| Stock compensation amortization expense   | 2,858                         | 1,115                    |
| Deferred income taxes and other   | 1,800                         | 920                      |
| Working capital changes:  |                               |                          |
| Accounts receivable   | 6,338                         | 11,661                   |
| Inventories   | (17,240)                      | (18,610)                 |
| Prepaid expenses and current assets   | (16,273)                      | (3,313)                  |
| Accounts payable and accrued expenses   | (7,077)                       | (1,169)                  |
| <b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                                  | <b>(5,779)</b>                | <b>6,120</b>             |
| <b>INVESTING ACTIVITIES:</b>  |                               |                          |
| Capital expenditures  | (7,431)                       | (7,218)                  |
| Other   | 264                           | (390)                    |
| <b>CASH USED IN INVESTING ACTIVITIES</b>  | <b>(7,167)</b>                | <b>(7,608)</b>           |
| <b>FINANCING ACTIVITIES:</b>  |                               |                          |
| Repayments of long-term debt  | (3,750)                       | (50,511)                 |
| Borrowing of long-term debt   | 17,210                        | 0                        |
| Tax withholding payments for share-based compensation                                   | (987)                         | (1,447)                  |
| Proceeds from issuance of common stock  | 124                           | 0                        |
| Dividends paid  | (3,868)                       | (3,806)                  |
| Repurchase of common stock  | (14,485)                      | (31,061)                 |
| <b>CASH USED IN FINANCING ACTIVITIES:</b>   | <b>(5,756)</b>                | <b>(86,825)</b>          |
| <b>Net cash used in operating, investing and financing activities</b>                   | <b>(18,702)</b>               | <b>(88,313)</b>          |

Edgar Filing: INTERFACE INC - Form 10-Q

|   |          |           |
|---|----------|-----------|
| Effect of exchange rate changes on cash | (478 )   | 2,687     |
| <b>CASH AND CASH EQUIVALENTS:</b>       |          |           |
| Net change during the period            | (19,180) | (85,626 ) |
| Balance at beginning of period          | 87,037   | 165,672   |
| Balance at end of period                | \$67,857 | \$80,046  |

See accompanying notes to consolidated condensed financial statements.

-6-

---

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 financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, 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 December 31, 2017 consolidated condensed 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. Each of the first quarters of 2018 and 2017 were comprised of 13 weeks.

Certain prior period amounts have been reclassified to conform to the current period presentation. There was no change to consolidated assets, liabilities, cash flows or net income as a result of these reclassifications.

NOTE 2 – REVENUE RECOGNITION

Effective January 1, 2018, the Company adopted a new accounting standard with regard to revenue from customers. The Company has elected the modified retrospective approach to adoption of this new standard, as is allowed by the standard. The Company did not have any significant impact from this standard as of the date of the adoption.

*Revenue Recognized from Contracts with Customers*

100% of the Company's revenue is due to contracts with its customers. These contracts typically take the form of invoices for purchase of materials from the Company. The performance obligation is the delivery of these materials to customer control. Nearly 95% of the Company's current revenue is produced from the sale of carpet, modular resilient flooring and related products (TacTiles installation materials, etc.) and the revenue from sales of these products is recognized upon shipment, or in certain cases upon delivery to the customer. The transaction price for these sales is readily identifiable.

The remaining revenue generated by the Company is for contracts to sell and install carpet and related products at customer locations. For projects underway, the Company recognized installation revenue over time as the customer simultaneously received and consumed the benefit of the services. The installation of the carpet and related products is a separate performance obligation from the sale of carpet. The majority of these projects are completed within 5 days of the start of installation. The transaction price for these sale and installation contracts is readily determinable between flooring material and installation services and is specifically identified in the contract with the customer.

The Company has utilized the portfolio approach to its contracts with customers, as its contracts with customers have similar characteristics and it is reasonable to expect that the effects from applying this approach are not materially different from applying the accounting standard to individual contracts.

The Company does not have any other significant revenue streams outside of these sales of flooring material, and the sale and installation of flooring material, as described above.

#### *Impairment Losses*

The Company does not recognize any impairment losses related to its revenue contracts due primarily to the short-term and straightforward nature of these contracts.

Table of Contents*Disaggregation of Revenue*

For the first quarter of 2018, revenue from the Company's customers is broken down by geography as follows:

| <u>Geography</u> | <b>Percentage<br/>of Net<br/>Sales</b> |   |
|------------------|--|---|
| Americas         | 56.2                                   | % |
| Europe           | 27.7                                   | % |
| Asia-Pacific     | 16.1                                   | % |

Revenue from sales of carpet, modular resilient flooring, and other flooring-related material was approximately 98% of total revenue for the first quarter of 2018. The remaining 2% of revenue was generated from the installation of carpet and other flooring-related material.

*Performance Obligations*

As noted above, the Company primarily generates revenue through the sale of flooring material to end users either upon shipment or upon arrival of the product at its destination. In these instances, there typically is no other obligation to the customers other than the delivery of flooring material with the exception of warranty. The Company does offer a warranty to its customers which guarantees certain on-floor performance characteristics and warrants against manufacturing defects. The warranty is not a service warranty, and there is no ability to separate the warranty obligation from the sale of the carpet or purchase them separately. The Company's incidence of warranty claims is extremely low, with approximately 0.2% of revenue in claims on an annual basis for the last three fiscal years. Given the nature of the warranty as well as the financial impact, the Company has determined that there is no need to identify this warranty as a separate performance obligation and the Company will continue to account for warranty on an accrual basis.

For the Company's installation business, the sales of carpet and other flooring materials and installation services are separate deliverables which under the revenue recognition requirements should be characterized as separate performance obligations. The Company historically has not separated these obligations and has accounted for these installation projects on a completed contract basis. The nature of the installation projects is such that the vast majority – an amount in excess of 90% of these installation projects – are completed in less than 5 days. The Company's largest installation customers are retail and corporate customers, and these are on a project-by-project basis and are short term installations. The impact of bifurcating the carpet sale from the installation sale is not considered to be material to the total Company. The Company has, however, evaluated these projects at the end of the reporting period and recorded revenue in accordance with the accounting standards for projects which were underway as of the end of the quarter

first quarter of 2018.

*Costs to Obtain Contracts*

The Company pays sales commissions to many of its sales personnel based upon their selling activity. These are direct costs associated with obtaining the contracts and under the standard. Under the accounting standard, these costs should be expensed as the revenue is earned. As these commissions become payable upon shipment (or in certain cases delivery) of product, the commission is earned as the revenue is recognized. Due to this fact pattern, there is no change to the Company's accounting for these selling commissions. There are no other material costs the Company incurs as part of obtaining the sales contract.

NOTE 3 – INVENTORIES

Inventories are summarized as follows:

|                  | <b>April 1,<br/>2018</b> | <b>December<br/>31, 2017</b> |
|------------------|--------------------------|------------------------------|
|                  | <i>(In thousands)</i>    |                              |
| Finished Goods   | \$ 134,673               | \$ 115,512                   |
| Work in Process  | 11,800                   | 13,022                       |
| Raw Materials    | 50,942                   | 49,401                       |
| Inventories, net | \$ 197,415               | \$ 177,935                   |

Table of Contents

## NOTE 4 – EARNINGS PER SHARE

The Company computes basic earnings per share (“EPS”) by dividing net income 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.

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. Unvested share-based awards of restricted stock are paid dividends equally with all other shares of common stock. 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. The following tables show distributed and undistributed earnings:

|                                   | <b>Three<br/>Months<br/>Ended</b> |               |
|-----------------------------------|-----------------------------------|---------------|
|                                   | <b>April</b>                      | <b>April</b>  |
|                                   | <b>1,</b>                         | <b>2,</b>     |
|                                   | <b>2018</b>                       | <b>2017</b>   |
| <b>Earnings Per Share:</b>        |                                   |               |
| Basic Earnings Per Share:         |                                   |               |
| Distributed Earnings              | \$0.06                            | \$0.06        |
| Undistributed Earnings            | 0.19                              | 0.07          |
| Total                             | \$0.25                            | \$0.13        |
| Diluted Earnings Per Share:       |                                   |               |
| Distributed Earnings              | \$0.06                            | \$0.06        |
| Undistributed Earnings            | 0.19                              | 0.07          |
| Total                             | \$0.25                            | \$0.13        |
| <b>Basic earnings per share</b>   | <b>\$0.25</b>                     | <b>\$0.13</b> |
| <b>Diluted earnings per share</b> | <b>\$0.25</b>                     | <b>\$0.13</b> |

The following table presents net income that was attributable to participating securities.

**Three  
Months  
Ended  
April April  
1, 2,  
2018 2017  
(In  
millions)**

Net Income Attributable to Participating Securities \$0.2 \$0.1

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

|                                       | <b>Three Months<br/>Ended<br/>April April<br/>1, 2018 2, 2017<br/>(In thousands)</b> |        |
|---------------------------------------|--|--------|
| Weighted Average Shares Outstanding   | 59,069   | 63,635 |
| Participating Securities              | 602  | 446    |
| Shares for Basic Earnings Per Share   | 59,671   | 64,081 |
| Dilutive Effect of Stock Options      | 46   | 42     |
| Shares for Diluted Earnings Per Share | 59,717   | 64,123 |

For the three months ended April 1, 2018, and April 2, 2017, there were no stock options or participating securities excluded from the computation of diluted EPS.

#### NOTE 5 – LONG-TERM DEBT

##### *Syndicated Credit Facility*

The Company has a syndicated credit facility (the “Facility”) pursuant to which the lenders provide to the Company and certain of its subsidiaries a multicurrency revolving credit facility and provide to the Company a term loan. Interest on base rate loans is charged at varying rates computed by applying a margin depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter. Interest on LIBOR-based loans and fees for letters of credit are charged at varying rates computed by applying a margin over the applicable LIBOR rate, depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter. In addition, the Company pays a commitment fee per annum (depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter) on the unused portion of the Facility.





Table of Contents

As of April 1, 2018, the Company had outstanding \$166.3 million of term loan borrowing and \$77.6 million of revolving loan borrowings under the Facility, and had \$5.7 million in letters of credit outstanding under the Facility. As of April 1, 2018, the weighted average interest rate on borrowings outstanding under the Facility was 3.0%.

The Company is required to make quarterly amortization payments of the term loan borrowing. The amortization payments are due on the last day of the calendar quarter. The quarterly amortization payment amount was \$3.75 million for the first quarter of 2018 and will remain this amount for all future quarters until maturity.

The Company is currently in compliance with all covenants under the Facility and anticipates that it will remain in compliance with the covenants for the foreseeable future.

*Interest Rate Risk Management*

In the third quarter of 2017, the Company entered into an interest rate swap transaction to fix the variable interest rate on a portion of its term loan borrowing in order to manage a portion of its exposure to interest rate fluctuations. The Company's objective and strategy with respect to this interest rate swap is to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability to cash flows relating to interest payments on a portion of its outstanding debt. The Company is meeting its objective by hedging the risk of changes in its cash flows (interest payments) attributable to changes in LIBOR, the designated benchmark interest rate being hedged (the "hedged risk"), on an amount of the Company's debt principal equal to the outstanding swap notional amount.

*Cash Flow Interest Rate Swap*

The Company's interest rate swap is designated and qualifies as a cash flow hedge of forecasted interest payments. The Company reports the effective portion of the fair value gain or loss on the swap as a component of other comprehensive income (or other comprehensive loss). Gains or losses (if any) on any ineffective portion of derivative instruments in cash flow hedging relationships are recorded in the period in which they occur as a component of other expense (or other income) in the Consolidated Condensed Statement of Operations. There were no such gains or losses in the first quarter of 2018. The aggregate notional amount of the swap as of April 1, 2018 was \$100 million.

As of April 1, 2018, the fair value of the cash flow interest rate swap asset was \$2.5 million and was recorded in other assets.

*Other Lines of Credit*

Subsidiaries of the Company have an aggregate of the equivalent of \$9.9 million of other lines of credit available at interest rates ranging from 2.5% to 6.5%. As of April 1, 2018, there were no borrowings outstanding under these lines of credit.

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.

All outstanding stock options vested prior to the end of 2013, and therefore there was no stock option compensation expense in the first quarter of 2018 or 2017.

As of April 1, 2018, there were 72,500 stock options outstanding and exercisable, at an average exercise price of \$7.99 per share. There were no stock options granted in 2018 or 2017. There were 10,000 stock options exercised in the first quarter of 2018 and no forfeitures in the first quarter of 2018. There were no exercises or forfeitures of stock options in the first quarter of 2017. The aggregate intrinsic value of the outstanding and exercisable stock options was \$1.2 million as of April 1, 2018.

*Restricted Stock Awards*

During the three months ended April 1, 2018 and April 2, 2017, the Company granted restricted stock awards for 192,000 and 200,000 shares of common stock, respectively. Awards of restricted stock (or a portion thereof) vest with respect to each recipient over a one to three-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, certain awards (or a portion thereof) could vest earlier in the event of a change in control of the Company, or upon involuntary termination without cause.



Table of Contents

Compensation expense related to restricted stock grants was \$1.1 million and \$0.6 million for the three months ended April 1, 2018, and April 2, 2017, respectively. Accounting standards allow 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 outstanding as of April 1, 2018, as well as activity during the three months then ended:

|                                  | <b>Restricted<br/>Shares</b> | <b>Grant<br/>Date</b> | <b>Weighted<br/>Average<br/><br/>Fair<br/>Value</b> |
|----------------------------------|------------------------------|-----------------------|---|
| Outstanding at December 31, 2017 | 463,000                      |                       | \$ 17.79  |
| Granted                          | 192,000                      |                       | 25.60   |
| Vested                           | 48,000                       |                       | 17.29   |
| Forfeited or canceled            | 5,000                        |                       | 17.57   |
| Outstanding at April 1, 2018     | 602,000                      |                       | \$ 23.30  |

As of April 1, 2018, the unrecognized total compensation cost related to unvested restricted stock was \$7.8 million. That cost is expected to be recognized by the end of 2020.

*Performance Share Awards*

During the three months ended April 1, 2018 and April 2, 2017, the Company issued awards of performance shares to certain employees. These awards will vest based on the achievement of certain performance-based goals over a performance period of one to three years, subject to the employee's continued employment through the last date of the performance period, and will be settled in shares of our common stock or in cash at the Company's election. The number of shares that may be issued in settlement of the performance shares to the award recipients may be greater (up to 200%) or lesser than the nominal award amount depending on actual performance achieved as compared to the performance targets set forth in the awards.

The following table summarizes the performance shares outstanding as of April 1, 2018, as well as the activity during the three months then ended:

|                                  |               | <b>Weighted<br/>Average</b> |
|----------------------------------|---------------|-----------------------------|
|                                  | <b>Shares</b> | <b>Grant<br/>Date</b>       |
|                                  |               | <b>Fair<br/>Value</b>       |
| Outstanding at December 31, 2017 | 669,500       | \$ 17.51                    |
| Granted                          | 260,500       | 25.69                       |
| Vested                           | 115,500       | 17.79                       |
| Forfeited or canceled            | 9,500         | 17.55                       |
| Outstanding at April 1, 2018     | 805,000       | \$ 20.12                    |

Compensation expense related to the performance shares was \$1.8 million and \$0.5 million for the three months ended April 1, 2018, and April 2, 2017, respectively. Unrecognized compensation expense related to these performance shares was approximately \$9.5 million as of April 1, 2018. That cost is expected to be recognized by the end of 2020.

The tax benefits recognized with regard to restricted stock and performance shares were approximately \$0.6 million in the first quarter of 2018.

Table of Contents

## NOTE 7 – EMPLOYEE BENEFIT PLANS

The following tables provide the components of net periodic benefit cost for the three-month periods ended April 1, 2018 and April 2, 2017, respectively:

| <b><u>Defined Benefit Retirement Plans (Europe)</u></b> | <b>Three Months Ended</b> |                      |
|---|---------------------------|----------------------|
|   | <b>April 1, 2018</b>      | <b>April 2, 2017</b> |
|   | <i>(In thousands)</i>     |                      |
| Service cost  | \$187                     | \$384                |
| Interest cost   | 1,353                     | 1,334                |
| Expected return on assets                               | (1,602)                   | (1,586)              |
| Amortization of prior service costs                     | 7                         | 0                    |
| Recognized net actuarial (gains)/losses                 | 288                       | 309                  |
| Net periodic benefit cost                               | \$233                     | \$441                |

| <b><u>Salary Continuation Plan (SCP)</u></b> | <b>Three Months Ended</b> |                      |
|--|---------------------------|----------------------|
|  | <b>April 1, 2018</b>      | <b>April 2, 2017</b> |
|  | <i>(In thousands)</i>     |                      |
| Service cost                                 | \$0                       | \$0                  |
| Interest cost                                | 270                       | 313                  |
| Amortization of prior service cost           | 0                         | 0                    |
| Amortization of (gain)/loss                  | 116                       | 91                   |
| Net periodic benefit cost                    | \$386                     | \$404                |

In accordance with applicable accounting standards, the service cost component of net periodic benefit costs is presented within earnings from operations in the consolidated condensed statement of operations, while all other components of net periodic benefit costs are presented within other expenses in the consolidated condensed statement of operations.

## NOTE 8– SEGMENT INFORMATION

Based on applicable accounting standards, the Company has determined that it has three operating segments – namely, the Americas, Europe and Asia-Pacific geographic regions. Pursuant to accounting standards, the Company has aggregated the three operating segments into one reporting segment because they have similar economic characteristics, and the operating segments are similar in all of the following areas: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) the nature of the regulatory environment.

While the Company operates as one reporting segment for the reasons discussed, included below is selected information on our operating segments.

Summary information by operating segment follows:

|                                   | AMERICAS              | EUROPE   | ASIA-<br>PACIFIC | TOTAL     |
|-----------------------------------|-----------------------|----------|------------------|-----------|
|                                   | <i>(in thousands)</i> |          |                  |           |
| Three Months Ended April 1, 2018: |                       |          |                  |           |
| Net Sales                         | \$135,225             | \$66,556 | \$38,782         | \$240,563 |
| Depreciation and amortization     | 3,611                 | 2,254    | 2,208            | 8,073     |
| Total assets                      | 288,239               | 269,813  | 195,551          | 753,603   |

Three Months Ended April 2, 2017:

|                               |           |          |          |           |
|-------------------------------|-----------|----------|----------|-----------|
| Net Sales                     | \$131,762 | \$56,019 | \$33,321 | \$221,102 |
| Depreciation and amortization | 3,368     | 1,251    | 2,157    | 6,776     |



Table of Contents

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

|   | <b>Three Months<br/>Ended</b> |                              |
|---|-------------------------------|------------------------------|
|   | <b>April<br/>1,<br/>2018</b>  | <b>April<br/>2,<br/>2017</b> |
| DEPRECIATION AND AMORTIZATION               |                               |                              |
|   | <i>(In thousands)</i>         |                              |
| Total segment depreciation and amortization | \$8,073                       | \$6,776                      |
| Corporate depreciation and amortization     | 658                           | 193                          |
| Reported depreciation and amortization      | \$8,731                       | \$6,969                      |

| ASSETS                            | <b>April 1,<br/>2018</b>  |
|-----------------------------------|---------------------------|
|                                   | <i>(In<br/>thousands)</i> |
| Total segment assets              | \$ 753,603                |
| Corporate assets and eliminations | 61,850                    |
| Reported total assets             | \$ 815,453                |

## NOTE 9 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest amounted to \$1.9 million and \$1.6 million for the quarters ended April 1, 2018 and April 2, 2017, respectively. Income tax payments amounted to \$9.8 million and \$4.7 million for the three month periods ended April 1, 2018 and April 2, 2017, respectively.

## NOTE 10 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board ("FASB") issued a new accounting standard regarding leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered after, the beginning of the earliest comparative period presented in the financial statements, with certain

practical expedients available. The Company is currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, but the standard will result in the Company recording both assets and liabilities for leases currently classified as operating leases.

In January 2017, the FASB issued a new accounting standard that provides for the elimination of Step 2 from the goodwill impairment test. Under the new guidance, impairment charges are recognized to the extent the carrying amount of a reporting unit exceeds its fair value with certain limitations. The new guidance is effective for any annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not anticipate that the adoption of the new guidance will have a material effect on its consolidated financial statements.

In March 2017, the FASB issued a new accounting standard regarding the treatment of net periodic benefit costs. This standard will require segregation of these net benefit costs between operating and non-operating expenses. Currently, the Company reports the net benefit costs associated with its defined benefit plans as a component of operating income. The new standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. When the new standard is implemented, only the service cost component of defined benefit plan costs will be reported within operating income, while all other components of net benefit cost will be presented within the "Other Expense (income)" line item on the consolidated statements of operations. The standard requires retrospective application, and as such upon adoption this standard will result in offsetting changes in operating income and "Other Expense (income)" on the consolidated statements of operations for all periods presented, with no impact on net income. The Company adopted this standard in the first quarter of 2018. As is required, the Company adjusted its previously reported first quarter of 2017 financial statements for this adoption, with a reclassification of expense of approximately \$0.5 million from the "Selling, General and Administrative Expenses" line item of the consolidated condensed statement of operations to the "Other Expenses" line items of the consolidated condensed statement of operations. There was no change to consolidated net income or earnings per share from the adoption of this standard.

Table of Contents

In February 2018, the FASB issued a new accounting standard to address a narrow-scope financial reporting issue that arose as a consequence of the U.S. Tax Cuts and Jobs Act. Existing guidance requires that deferred tax liabilities and assets be adjusted for a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. That guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income (rather than in net income), such as amounts related to benefit plans and hedging activity. As a result, the tax effects of items within accumulated other comprehensive income do not reflect the appropriate tax rate (the difference is referred to as stranded tax effects). The new guidance allows for a reclassification of these amounts to retained earnings, thereby eliminating these stranded tax effects. The new guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of adoption of this standard on its consolidated financial statements.

NOTE 11 – INCOME TAXES

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the “Tax Act”) was enacted into law. The Company is continuing to evaluate the Tax Act and its requirements, as well as its application to our business and its impact on our effective tax rate.

The Company is applying the guidance to address the accounting for income taxes under accounting standards in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. Accounting standards provide a reasonable “measurement period” not to exceed twelve months from the date of enactment to complete the accounting of these provisional estimates. As disclosed in the Company’s Annual report on Form 10-K for the fiscal year ended December 31, 2017, two material provisional estimates that impacted the Company were the U.S. statutory rate reduction and the one-time transition tax. These amounts are considered provisional because they use reasonable estimates of which tax returns have not been filed and because estimated amounts may be impacted by future regulatory and accounting guidance if and when issued.

For the first quarter of 2018, there were no significant changes to the Company’s provisional estimates of the income tax effects reflected in 2017 for the changes in tax law and tax rate from the enactment of the Tax Act. The impact of tax law changes on the Company’s financial statements could differ from its reasonable estimates due to further analysis of the new law, regulatory guidance, technical corrections, legislation, or guidance under U.S. generally accepted accounting principles. If significant changes occur, the Company will provide updated information in connection with future regulatory filings or the Company will adjust these provisional amounts as further information becomes available and as we refine our calculations.

## Edgar Filing: INTERFACE INC - Form 10-Q

For the first quarter of 2018, the Company's effective tax rate was favorably impacted by the reduction in the U.S. statutory tax rate due to the enactment of the Tax Act. This favorable impact was partially offset by certain base broadening provisions of the Tax Act. In the first quarter of 2018, our effective tax rate was 26%, as compared to 33% in the first quarter of 2017.

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 three months of 2018, the Company increased its liability for unrecognized tax benefits by \$0.2 million. As of April 1, 2018, the Company had accrued approximately \$29.0 million for unrecognized tax benefits. In accordance with applicable accounting standards, the Company's deferred tax asset as of April 1, 2018 reflects a reduction for \$3.3 million of these unrecognized tax benefits.

### NOTE 12 – ITEMS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME

During the first quarter of 2018, the Company did not reclassify any significant amounts out of accumulated other comprehensive income. The reclassifications that occurred in that period were primarily comprised of \$0.4 million related to the Company's defined benefit retirement plan and salary continuation plan. These reclassifications were included in the other expenses line item of the Company's consolidated condensed statement of operations.

### NOTE 13 – REPURCHASE OF COMMON STOCK

In the second quarter of 2017, the Company adopted a new share repurchase program in which the Company is authorized to repurchase up to \$100 million of its outstanding shares of common stock. The program has no specific expiration date.

During the first quarter of 2018, the Company repurchased and retired 615,000 shares of common stock at an average price of \$23.54 per share pursuant to this share repurchase program.

### NOTE 14 – RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

In the fourth quarter of 2016, the Company committed to a new restructuring plan in its continuing efforts to improve efficiencies and decrease costs across its worldwide operations, and more closely align its operating structure with its business strategy. The plan involved (i) a substantial restructuring of the FLOR business model that included closure of its headquarters office and most retail FLOR stores, (ii) a reduction of approximately 70 FLOR employees and a number of employees in the commercial carpet tile business, primarily in the Americas and Europe regions, and (iii) the write-down of certain underutilized and impaired assets that included information technology assets, intellectual property assets, and obsolete manufacturing, office and retail store equipment.

As a result of this plan, the Company incurred a pre-tax restructuring and asset impairment charge in the fourth quarter of 2016 of \$19.8 million. In the first quarter of 2017, the Company recorded an additional charge of \$7.3 million, primarily related to exit costs associated with the closure of most FLOR retail stores in the first quarter of 2017. The charge in the first quarter of 2017 was comprised of lease exit costs of \$3.4 million, asset impairment charges of \$3.3 million and severance charges of \$0.6 million.

Table of Contents

A summary of these restructuring activities is presented below:

|                     | Total<br>Restructuring<br>Charge | Costs<br>Incurred<br>in<br>2016<br><i>(in thousands)</i> | Costs<br>Incurred<br>in 2017 | Costs<br>Incurred<br>in 2018 | Balance<br>at<br>April 1,<br>2018 |
|---------------------|----------------------------------|--|------------------------------|------------------------------|-----------------------------------|
| Workforce Reduction | \$ 10,652                        | \$ 1,451   | \$ 6,633                     | \$ 917                       | \$ 1,651                          |
| Asset Impairment    | 11,319                           | 8,019  | 3,300                        | 0                            | 0                                 |
| Lease Exit Costs    | 5,116                            | 27   | 5,089                        | 0                            | 0                                 |

## 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 December 31, 2017, under Item 7 of that Form 10-K. Our discussions here focus on our results during the quarter ended, or as of, April 1, 2018, and the comparable period of 2017 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 December 31, 2017, 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.

## General

During the quarter ended April 1, 2018, net sales were \$240.6 million compared with net sales of \$222.1 million in the first quarter last year. Fluctuations in currency exchange rates had a positive impact of approximately \$9.8 million on sales for the 2018 first quarter compared with the prior year period. This impact was primarily a result of the strengthening of the Euro and British Pound against the U.S. dollar.

During the first quarter of 2018, net income was \$15.1 million, or \$0.25 per diluted share, compared with \$8.5 million, or \$0.13 per diluted share, in the first quarter last year. Our net income was positively impacted by the reduction in the U.S. statutory tax rate due to the U.S. Tax Cuts and Jobs Act enacted in the fourth quarter of 2017. The first quarter of 2017 includes \$7.3 million of restructuring and asset impairment charges as a continuation of the plans announced for the fourth quarter of 2016, primarily relating to our closing of the majority of our FLOR retail stores.

## 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 periods ended April 1, 2018 and April 2, 2017, respectively:

|  | <b>Three Months<br/>Ended</b> |                              |
|--|-------------------------------|------------------------------|
|  | <b>April<br/>1,<br/>2018</b>  | <b>April<br/>2,<br/>2017</b> |
| Net sales                                    | 100.0%                        | 100.0%                       |
| Cost of sales                                | 61.1                          | 60.3                         |
| Gross profit on sales                        | 38.9                          | 39.7                         |
| Selling, general and administrative expenses | 29.3                          | 29.3                         |
| Restructuring and Asset Impairment Charge    | 0.0                           | 3.3                          |
| Operating income                             | 9.6                           | 7.1                          |
| Interest/Other expense                       | 1.1                           | 1.4                          |
| Income before tax expense                    | 8.5                           | 5.8                          |
| Income tax expense                           | 2.2                           | 1.9                          |
| Net income                                   | 6.3                           | 3.9                          |

Table of Contents*Net Sales*

Below is information regarding net sales, and analysis of those results, for the three-month periods ended April 1, 2018, and April 2, 2017, respectively.

|           | <b>Three Months Ended</b> |                      | <b>Percentage</b> |   |
|-----------|---------------------------|----------------------|-------------------|---|
|           | <b>April 1, 2018</b>      | <b>April 2, 2017</b> | <b>Change</b>     |   |
|           | <i>(In thousands)</i>     |                      |                   |   |
| Net Sales | \$240,563                 | \$221,102            | 8.8               | % |

For the quarter ended April 1, 2018, net sales increased \$19.5 million (8.8%) versus the comparable period in 2017. Currency fluctuations had an approximately \$9.8 million (4.4%) positive impact on first quarter 2018 sales compared to the first quarter of 2017. This currency impact was most pronounced in our European operations, due to the strengthening of the Euro and British Pound against the U.S. dollar. On a geographic basis, sales increased across all geographies with Americas increasing 3%, Europe increasing 19% (4% in local currency) and Asia-Pacific increasing 16%. In the Americas, the sales comparison was negatively impacted by a decline in our FLOR residential business, which closed its specialty retail stores in the first quarter of 2017. The increase in the Americas was attributable to sales of our modular resilient flooring product, which is a luxury vinyl tile (“LVT”) product that was launched in the first quarter of 2017. The sales increase in the Americas was most pronounced in the corporate office segment, although healthcare and retail both showed growth as well for the period. In Europe, the sales increase was, as noted, aided by the strengthening of the Euro and British Pound. Growth in local currency of 4% in Europe was primarily due to the introduction of our LVT product offering. On a segment basis, the Europe sales increase was most significant in the corporate office and retail segments. The sales increase in Asia-Pacific was a result of performance in both Australia and Asia, with sales in Asia increasing more than 20%, due to the strength of India and China. Sales increases in the Asia-Pacific region were seen in both core carpet sales as well as our LVT product offerings, with the corporate office segment representing the majority of the sales increase in the region.

*Cost and Expenses*

The following table presents our overall cost of sales and selling, general and administrative expenses for the three-month periods ended April 1, 2018, and April 2, 2017, respectively:

**Percentage**



| <u>Cost and Expenses</u>                     | <b>Three Months Ended</b> |                      | <b>Change</b> |   |
|--|---------------------------|----------------------|---------------|---|
|  | <b>April 1, 2018</b>      | <b>April 2, 2017</b> |               |   |
|  | <i>(In thousands)</i>     |                      |               |   |
| Cost of sales                                | \$ 146,981                | \$ 133,300           | 10.3          | % |
| Selling, general and administrative expenses | 70,594                    | 64,714               | 9.1           | % |
| Total  | \$ 217,575                | \$ 198,014           | 9.9           | % |

For the quarter ended April 1, 2018, cost of sales increased \$13.7 million (10.3%) compared to the first quarter of 2017. Currency fluctuations had an approximately \$6 million (4.5%) negative impact on the comparison. In absolute dollars, the increase in cost of sales was largely attributable to the increase in sales for the first quarter of 2018, as described above. The increase in cost of sales was higher on a percentage basis, however, than the increase in net sales due to higher input costs for our raw materials for the first quarter of 2018 as compared to the first quarter of 2017. These increases were partially offset by production efficiencies. As a percentage of sales, our cost of sales increased to 61.1% for the first quarter of 2018 versus 60.3% for the first quarter of 2017. This increase was due to the increase of raw material pricing as discussed above, as well as a result of the exit of our FLOR specialty retail stores at the end of the first quarter of 2017. Sales in these stores typically generated higher gross margins compared to our commercial carpet business, and therefore the absence of these stores was dilutive to gross profit margin when measured as a percentage of sales.

For the quarter ended April 1, 2018, selling, general and administrative (“SG&A”) expenses increased \$5.9 million (9.1%) versus the comparable period in 2017. Fluctuations in currency rates had a \$2.2 million (3.4%) negative impact on the comparison. The increase in SG&A expense was due to higher share-based incentive compensation of \$1.7 million, as well as higher selling expenses of \$1.8 million in our commercial business due to higher sales as well as planned enhancements in our selling system. These increases in selling expenses were offset by lower selling costs of \$1.2 million due to the exit of the FLOR specialty retail stores as of the end of the first quarter of 2017. As a percentage of sales, SG&A expenses remained consistent at 29.3% for each of the first quarters of 2018 and 2017.

Table of Contents

*Interest Expense*

For the three-month period ended April 1, 2018, interest expense increased by \$0.5 million to \$2.1 million, versus \$1.6 million for the three-month period ended April 2, 2017. The reason for the increase was higher average interest rates on our borrowings in the first quarter of 2018 as compared to the first quarter of 2017.

Liquidity and Capital Resources

*General*

At April 1, 2018, we had \$67.9 million in cash. At that date, we had \$166.3 million in term loan borrowing, \$77.6 million of revolving loan borrowings and \$5.7 million in letters of credit outstanding under the Syndicated Credit Facility. As of April 1, 2018, we could have incurred \$166.7 million of additional borrowings under the Syndicated Credit Facility. In addition, we could have incurred an additional \$9.9 million of borrowings under other credit facilities in place at other non-U.S. subsidiaries.

*Analysis of Cash Flows*

We exited the quarter ended April 1, 2018 with \$67.9 million in cash, a decrease of \$19.2 million during the first three months of the year. The most significant factors in the decrease were cash outflows for financing activities, including, (1) \$14.5 million used to repurchase and retire 615,000 shares of our outstanding common stock, (2) dividends paid on our common stock of \$3.9 million, and (3) \$3.8 million of cash used for the required amortization payment under our Syndicated Credit Facility. These financing outflows were partially offset by borrowings of \$17.2 million under our Syndicated Credit Facility. We used \$7.4 million of cash for capital expenditures during the first three months of 2018. Cash flow from operations in the first three months of 2018 required a use of \$5.8 million, with net income of \$15.1 million offset by working capital uses of cash of (1) \$17.2 million for increases in inventories, (2) increases in prepaid expense and other current assts of \$16.3 million, and (3) a decrease in accounts payable and accrued expenses of \$7.1 million. These working capital uses of cash were partially offset by an increase in cash due to reductions of accounts receivable of \$6.3 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The 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 December 31, 2017, under Item 7A of that Form 10-K. The discussion here focuses on the quarter ended April 1, 2018, 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 April 1, 2018, we recognized an \$8.8 million increase in our foreign currency translation adjustment account compared to December 31, 2017, primarily because of the strengthening of the Euro and British Pound against the U.S. dollar as of the end of the first quarter of 2018 compared to the end of 2017.

*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.

Because the debt outstanding under our Syndicated Credit Facility has variable interest rates based on an underlying prime lending rate or LIBOR rate, we do not believe changes in interest rates would have any significant impact on the fair value of that debt instrument. Changes in the underlying prime lending rate or LIBOR rate would, however, impact the amount of our interest expense. For a discussion of these hypothetical impacts on our interest expense, please see the discussion in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

As of April 1, 2018, 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 \$9.5 million or an increase in the fair value of our financial instruments of \$11.6 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.

Table of Contents

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 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 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.

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 first quarter of 2018. For a discussion of risk factors, see Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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

The following table contains information with respect to purchases made by or on behalf of the Company, or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during our first quarter ended April 1, 2018:

| <u>Period</u> <sup>(1)</sup>       | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>Per<br/>Share</b> | <b>Total<br/>Number<br/>of Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs<sup>(2)</sup></b> | <b>Approximate<br/>Dollar<br/>Value of<br/>Shares that<br/>May Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs<sup>(2)</sup></b> |
|------------------------------------|---|---|---|---|
| January 1-31, 2018 <sup>(2)</sup>  | 1,933   | \$ 20.94  | 0   | 39,576,216  |
| February 1-28, 2018 <sup>(2)</sup> | 662,853   | 23.54   | 614,595   | 25,109,272  |
| March 1-31, 2018 <sup>(2)</sup>    | 770   | 24.95   | 0   | 25,109,272  |
| April 1, 2018                      | 0   | 0.00  | 0   | 25,109,272  |
| Total                              | 665,556   | \$ 23.54  | 614,595   | 25,109,272  |

<sup>(1)</sup> The monthly periods identified above correspond to the Company's fiscal first quarter of 2018, which commenced January 1, 2018 and ended April 1, 2018.

<sup>(2)</sup> Includes shares acquired by the Company from employees to satisfy income tax withholding obligations in connection with the vesting of previous equity awards.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed with this report:

EXHIBIT

NUMBER DESCRIPTION OF EXHIBIT

|         |   |
|---------|---|
| 10.1    | <u>Form of 2018 Restricted Stock Agreement for executive officers</u>   |
| 10.2    | <u>Form of 2018 Performance Share Agreement for executive officers</u>  |
| 10.3    | <u>Employment Offer Letter to Bruce A. Hausmann</u>   |
| 10.4    | <u>Employment Offer Letter to J. Chadwick Scales</u>  |
| 10.5    | <u>Employment and Change in Control Agreement of Robert A. Coombs dated May 15, 2015 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on May 19, 2015, previously filed with the Commission and incorporated herein by reference).</u>                     |
| 10.6    | <u>Severance Protection and Change in Control Agreement of Matthew J. Miller dated as of April 3, 2018 (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on April 25, 2018, previously filed with the Commission and incorporated herein by reference).</u> |
| 31.1    | <u>Section 302 Certification of Chief Executive Officer.</u>  |
| 31.2    | <u>Section 302 Certification of Chief Financial Officer.</u>  |
| 32.1    | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.</u>   |
| 32.2    | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.</u>   |
| 101.INS | XBRL Instance Document.   |
| 101.SCH | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document.   |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document.   |

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: May 10, 2018 By: /s/ Bruce A. Hausmann  
Bruce A. Hausmann  
Vice President  
(Principal Financial Officer)

-20-

---

Table of Contents

EXHIBITS INCLUDED HEREWITH

EXHIBIT

NUMBER DESCRIPTION OF EXHIBIT

|         |  |
|---------|--|
| 10.1    | Form of 2018 Restricted Stock Agreement                                |
| 10.2    | Form of 2018 Performance Share Agreement                               |
| 10.3    | Employment Offer Letter to Bruce A. Hausmann                           |
| 10.4    | Employment Offer Letter to J. Chadwick Scales                          |
| 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.  |
| 101.SCH | XBRL Taxonomy Extension Schema Document.                               |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.                 |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.                       |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document.                          |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document.                            |