

INTERFACE INC  
Form 10-K  
March 02, 2016  
Table Of Contents

---

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended January 3, 2016**

**Commission File No.: 001-33994**

**Interface, Inc.**

*(Exact name of registrant as specified in its charter)*

**Georgia**

*(State of incorporation)*

**58-1451243**

*(I.R.S. Employer Identification No.)*

**2859 Paces Ferry Road, Suite 2000**

**Atlanta, Georgia**

**30339**

*(Address of principal executive offices) (zip code)*

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

Edgar Filing: INTERFACE INC - Form 10-K

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered:</u>
Common Stock, \$0.10 Par Value Per Share	Nasdaq Global Select Market
Series B Participating Cumulative Preferred Stock Purchase Rights	Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 a "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934. (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

Aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of July 2, 2015: \$1,585,000,222 (64,040,413 shares valued at the closing sale price of \$24.75 on July 2, 2015). See Item 12.

Number of shares outstanding of each of the registrant's classes of Common Stock, as of February 19, 2016:

<u>Class</u>	<u>Number of Shares</u>
Common Stock, \$0.10 par value per share	65,884,825

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III.

---

---

---

Table Of Contents

**TABLE OF CONTENTS**

<u>PART I</u>	2
<u>ITEM 1. BUSINESS</u>	2
<u>ITEM 1A. RISK FACTORS</u>	12
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	15
<u>ITEM 2. PROPERTIES</u>	15
<u>ITEM 3. LEGAL PROCEEDINGS</u>	16
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	16
<u>PART II</u>	16
<u>ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	16
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	19
<u>ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	20
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	31
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	34
<u>CONSOLIDATED STATEMENTS OF OPERATIONS</u>	34
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	35
<u>CONSOLIDATED BALANCE SHEETS</u>	36
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	37
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	38
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	69
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	70
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	71
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	71
<u>ITEM 9B. OTHER INFORMATION</u>	71
<u>PART III</u>	71
<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	71
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	72
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	72
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	72
<u>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	72

<u>PART IV</u>	72
<u>ITEM 15. EXHIBITS AND FINANCIAL STATEMENT</u>	
<u>SCHEDULES</u>	72
<u>SIGNATURES</u>	79
<u>EXHIBIT INDEX</u>	80
EX-21	
EX-23	
EX-24	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

---

Table Of Contents

**PART I**

**ITEM 1. BUSINESS**

**Introduction and General**

*References in this Annual Report on Form 10-K to “Interface,” “the Company,” “we,” “our,” “ours” and “us” refer to Interface Inc. and its subsidiaries or any of them, unless the context requires otherwise.*

We are a worldwide leader in design, production and sales of modular carpet, also known as carpet tile. For the past several years, modular carpet sales growth in the floorcovering industry has significantly outpaced the growth of the overall industry, as architects, designers and end users increasingly recognized the unique and superior attributes of modular carpet, including its dynamic design capabilities, greater economic value (which includes lower costs as a result of reduced waste in both installation and replacement), and installation ease and speed.

As a global company with a reputation for high quality, reliability and premium positioning, we market modular carpet in over 110 countries under the established brand names *Interface*® and *FLOR*®. Our principal geographic markets are the Americas, Europe and Asia-Pacific, where the percentages of our total net sales were approximately 59%, 26% and 15%, respectively, for fiscal year 2015.

Capitalizing on our leadership in modular carpet for the corporate office segment, we are executing a market diversification strategy to increase our presence and market share for modular carpet in non-corporate office market segments, such as government, education, healthcare, hospitality and retail space, which combined are more than twice the size of the approximately \$1 billion U.S. corporate office market segment. Our diversification strategy also targets the approximately \$9 billion U.S. residential market segment for carpet. As a result of our efforts, our mix of corporate office versus non-corporate office modular carpet sales in the Americas was 44% and 56%, respectively, for 2015. Company-wide, our mix of corporate office versus non-corporate office sales was 59% and 41%, respectively, in 2015. We believe the appeal and utilization of modular carpet is growing in non-corporate office market segments, and we are using our considerable skills and experience with designing, producing and marketing modular products that make us the market leader in the corporate office segment to support and facilitate our penetration into these segments around the world.

In July 2012, a fire occurred at our manufacturing facility in Picton, Australia, causing extensive damage and rendering the facility inoperable. In January 2014, we commenced operations at a new manufacturing facility in Minto, Australia. For additional information, please see Items 6-8 of this Annual Report.

In August 2012, we sold our Bentley Prince Street business segment, which designed, manufactured and marketed high-end, designer-oriented broadloom and modular carpet. For additional information, please see Items 6-7 of this Annual Report.

## **Our Strengths**

Our principal competitive strengths include:

*Market Leader in Attractive Modular Carpet Segment.* We are the world's leading manufacturer of carpet tile. Modular carpet has become more prevalent across all commercial interiors markets as designers, architects and end users have become more familiar with its unique attributes. We continue to drive this trend with our product innovations and designs discussed below. According to the annual *Floor Focus* interiors industry survey of the top 250 designers in the United States, carpet tile was ranked as the number one "hot product" for each of the years 2002 through 2012, and was ranked number two for each of the years 2013 through 2015. We believe that we are well positioned to lead and capitalize upon the continued shift to modular carpet, both domestically and around the world.

*Established Brands and Reputation for Quality, Reliability and Leadership.* Our products are known in the industry for their high quality, reliability and premium positioning in the marketplace, and our established brand names are leaders in the industry. The 2015 *Floor Focus* survey ranked our *Interface* brand first in the survey categories of service, quality, design and performance. In the North American residential market segment, our *FLOR* brand is known for its high style carpet design squares that consumers assemble to create custom rugs, runners or wall-to-wall designs in the home. On the international front, *Interface* is a well-recognized brand name in carpet tiles for commercial and institutional use. More generally, we believe that as the appeal and utilization of modular carpet continues to expand into market segments such as government, healthcare, education, hospitality, and retail and residential space, our reputation as the pioneer of modular carpet — as well as our established brands and leading market position for modular carpet in the corporate office segment — will enhance our competitive advantage in marketing to the customers in these new markets.

Table Of Contents

*Innovative Product Design and Development Capabilities.* Our product design and development capabilities have long given us a significant competitive advantage, and we believe they continue to do so as modular carpet's appeal and utilization expand across virtually every market segment and around the globe. One of our recent design innovations is the introduction of long and narrow rectangular carpet tiles in the shape of planks, and even more narrow versions known as *Skinny Planks*<sup>™</sup>. The use of planks and *Skinny Planks* increases the design versatility of our carpet tile, as these products can create aesthetics (such as a herringbone pattern) that are different from, or enhance, that of our traditional square carpet tiles.

The award-winning design firm David Oakey Designs has had a pivotal role in developing our plank and *Skinny Plank* products, as well as many of our other innovative product designs, and our long-standing exclusive relationship with David Oakey Designs remains vibrant and augments our internal research, development and design staff. As another example, David Oakey Designs has developed products that are manufactured using state-of-the-art tufting technology which allows us to pinpoint tufts of different colored yarns in virtually any arrangement within a carpet tile. These unique designs are best exemplified by our *Urban Retreat*<sup>®</sup>, *Net Effect*<sup>®</sup> and *Human Nature*<sup>®</sup> collections, which are sold throughout our international operations.

Historically, one of our best design innovations is our *i2*<sup>™</sup> modular product line, which includes our popular *Entropy*<sup>®</sup> product for which we received a patent in 2005 on the key elements of its design. The *i2* line introduced and features mergeable dye lots, and includes a number of carpet tile products that are designed to be installed randomly without reference to the orientation of neighboring tiles. The *i2* line offers cost-efficient installation and maintenance, interactive flexibility, and recycled and recyclable materials. Another more recent innovation is our *TacTiles*<sup>®</sup> carpet tile installation system, which uses small squares of adhesive plastic film to connect intersecting carpet tiles, thus eliminating the need for traditional carpet adhesive and resulting in a reduction in installation time and waste materials.

*Made-to-Order and Global Manufacturing Capabilities.* We have a distinct competitive advantage in meeting two principal requirements of the specified products markets we primarily target — that is, providing custom samples quickly and on-time delivery of customized final products. We also can generate realistic digital samples that allow us to create a virtually unlimited number of new design concepts and distribute them instantly for customer review, while at the same time reducing sampling waste. Approximately 60% to 65% of our modular carpet products in the United States and Asia-Pacific markets are now made-to-order, and we are increasing our made-to-order production in Europe as well. Our made-to-order capabilities not only enhance our marketing and sales, they significantly improve our inventory turns. Our global manufacturing capabilities in modular carpet production are an important component of this strength, and give us an advantage in serving the needs of multinational corporate customers that require products and services at various locations around the world. Our manufacturing locations across four continents enable us to compete effectively with local producers in our international markets, while giving international customers more favorable delivery times and freight costs.



*Recognized Global Leadership in Ecological Sustainability.* Our long-standing goal and commitment to be ecologically “sustainable” — that is, the point at which we are no longer a net “taker” from the earth and do no harm to the biosphere — have emerged as a competitive strength for our business and remain a strategic initiative. It includes *Mission Zero*®, our global branding initiative, which represents our mission to eliminate any negative impact our companies may have on the environment by the year 2020. Our acknowledged leadership position and expertise in this area resonate deeply with many of our customers and prospects around the globe, and provide us with a differentiating advantage in competing for business among architects, designers and end users of our products, who often make purchase decisions based on “green” factors. The 2015 *Floor Focus* survey named our Interface business the top among “Green Leaders,” and gave us the top “Green Kudos” honors for our *Net Effect* product and its *Net-Works*® recycled fishing net partnership as well as our *FLOR* residential carpet tile.

*Experienced and Motivated Management and Sales Force.* An important component of our competitive position is the quality of our management team and its commitment to developing and maintaining an engaged and accountable workforce. Our team is highly skilled and dedicated to guiding our overall growth and expansion into our targeted market segments, while maintaining our leadership in traditional markets and our high contribution margins. We utilize an internal marketing and predominantly commissioned sales force of more than 650 experienced personnel, stationed at over 70 locations in over 30 countries, to market our products and services in person to our customers. Our incentive compensation and our sales and marketing training programs are tailored to promote performance and facilitate leadership by our executives both in strategic areas as well as the Company as a whole.

### **Our Business Strategy and Principal Initiatives**

Our business strategy is to continue to use our leading position in modular carpet and our product design and global made-to-order capabilities as a platform from which to drive acceptance of modular carpet products across several industry segments, while maintaining our leadership position in the corporate office market segment. We will seek to increase revenues and profitability by capitalizing on the above strengths and pursuing the following key strategic initiatives:

Table Of Contents

*Continue to Penetrate Non-Corporate Office Market Segments.* We will continue our strategic focus on product design and marketing and sales efforts for non-corporate office market segments such as government, education, healthcare, hospitality, retail and residential space. We began this initiative as part of our market diversification strategy in 2001 (when our initial objective was reducing our exposure to the more severe economic cyclicality of the corporate office segment), and it has become a principal strategy generally for growing our business and enhancing profitability. To implement this strategy, we:

introduced specialized product offerings tailored to the unique demands of these segments, including specific designs, functionalities and prices;

created special sales teams dedicated to penetrating these segments at a high level, with a focus on specific customer accounts rather than geographic territories; and

realigned incentives for our corporate office segment sales force generally in order to encourage their efforts, and where appropriate, to assist our penetration of these other segments.

As part of this strategy, our *FLOR* line of products focuses on the U.S. residential carpet and rugs market segment. These products were specifically created to bring high style modular carpet and rugs to the North American residential market. We offer *FLOR* in three primary sales channels – catalogs, the Internet, and in our *FLOR* retail stores. We currently have 20 *FLOR* stores (19 in the U.S. and one in Canada), where customers have the opportunity to experience the modular carpet concept and bring their carpet design ideas to life. The services offered by our *FLOR* stores also include in-store design appointments, in-home design consultations and installation services. Through these sales channels, *FLOR* sales have grown more than 200% from 2005 to 2015.

*Penetrate Expanding Geographic Markets for Modular Products.* The popularity of modular carpet continues to increase compared with other floorcovering products across most markets, internationally as well as in the United States. While maintaining our leadership in the corporate office segment, we will continue to build upon our position as the worldwide leader for modular carpet in order to promote sales in all market segments globally. A principal part of our international focus – which utilizes our global marketing capabilities and sales infrastructure – is the significant opportunities in several emerging geographic markets for modular carpet. These emerging markets, such as China, India and Eastern Europe, represent large and growing economies that are essentially new markets for modular carpet products. Other expanding geographic markets, such as Germany and Italy, are established markets that are transitioning to the use of modular carpet from historically low levels of penetration. Each of these geographic markets represents a significant growth opportunity for our modular carpet business.

*Continue to Minimize Expenses and Invest Strategically.* We have steadily trimmed costs from our operations for several years through multiple initiatives, which have made us leaner today and for the future. Our supply chain and other cost containment initiatives have improved our cost structure and yielded operating efficiencies. While we still

seek to minimize our expenses in order to increase profitability, we will also take advantage of strategic opportunities to invest in systems, processes and personnel that can help us grow our business and increase profitability and value.

*Sustain Leadership in Product Design and Development.* As discussed above, our leadership position for product design and development is a competitive advantage and key strength. Our plank, *Skinny Plank*, and *i2* products and *TacTiles* installation system have confirmed our position as an innovation leader in modular carpet. We will continue initiatives to sustain, augment and capitalize upon that strength to continue to increase our market share in targeted market segments. Our *Mission Zero* global branding initiative, which draws upon and promotes our ecological sustainability commitment, is part of those initiatives and includes placing our *Mission Zero* logo on many of our marketing and merchandising materials distributed throughout the world.

*Use Strong Free Cash Flow Generation to De-leverage Our Balance Sheet.* Our principal business has been structured – including through our rationalization and repositioning initiatives – to yield high contribution margins and generate strong free cash flow (by which we mean cash available to apply towards debt service and potential stock repurchases, strategic acquisitions and the like). Our historical investments in global manufacturing capabilities and mass customization techniques and facilities, which we have maintained, also contribute to our ability to generate substantial levels of free cash flow. We expect to use our strong free cash flow generation capability to continue to repay debt, potentially repurchase shares, and strengthen our financial position. We will also continue to execute programs to reduce costs further and enhance free cash flow. In addition, our existing capacity to increase production levels without significant capital expenditures will further enhance our generation of free cash flow as demand for our products rises.

## Table Of Contents

### **Challenges**

In order to capitalize on our strengths and to implement successfully our business strategy and the principal initiatives discussed above, we will have to handle successfully several challenges that confront us or that affect our industry in general. As discussed in the Risk Factors in Item 1A of this Report, several factors could make it difficult for us, including:

- sales of our principal products have been and may continue to be affected by adverse economic cycles in the renovation and construction of commercial and institutional buildings;
- we compete with a large number of manufacturers in the highly competitive commercial floorcovering products market, and some of these competitors have greater financial resources than we do;
- our success depends significantly upon the efforts, abilities and continued service of our senior management executives and our principal design consultant, and our loss of any of them could affect us adversely;
- our substantial international operations are subject to various political, economic and other uncertainties that could adversely affect our business results;
- large increases in the cost of petroleum-based raw materials could adversely affect us if we are unable to pass these cost increases through to our customers;
- unanticipated termination or interruption of any of our arrangements with our primary third party suppliers of synthetic fiber could have a material adverse effect on us; and
- we have a significant amount of indebtedness, which could have important negative consequences to us.

We believe our business model is strong enough, and our strategic initiatives are properly calibrated, for us to handle these and other challenges we will encounter in our business.

### **Seasonality**

Our first quarter has typically been our slowest quarter while our fourth quarter has typically been our best quarter, with sales generally increasing throughout the course of the fiscal year. However, in some recent years, as our sales efforts and results in the education market segment (which has a heavy buying season in the summer months) have increased and currency fluctuations have impacted us, our second or third quarter sales have occasionally been the highest.

## Our Products and Services

### *Modular Carpet*

Interface is the world's largest manufacturer and marketer of modular carpet. Our modular carpet system, which is marketed under the established global brands *Interface* and *FLOR*, utilizes carpet tiles cut in precise, dimensionally stable squares (usually 50 cm x 50 cm) or rectangles (such as planks and *Skinny Planks*) to produce a floorcovering that combines the appearance and texture of traditional soft floorcovering with the advantages of a modular carpet system. Our *GlasBac*® technology employs a fiberglass-reinforced polymeric composite backing that provides dimensional stability and reduces the need for adhesives or fasteners. We also make carpet tiles with a backing containing post-industrial and/or post-consumer recycled materials, which we market under the *GlasBacRE* brand. In addition, we make carpet tile with yarn containing varying degrees of post-consumer nylon, depending on the style and color.

Our carpet tile has become popular for a number of reasons. Carpet tile incorporating our reinforced backing may be easily removed and replaced, permitting rearrangement of furniture without the inconvenience and expense associated with removing, replacing or repairing other soft surface flooring products, including broadloom carpeting. Because a relatively small portion of a carpet installation often receives the bulk of traffic and wear, the ability to rotate carpet tiles between high traffic and low traffic areas and to selectively replace worn tiles can significantly increase the average life and cost efficiency of the floorcovering. In addition, carpet tile facilitates access to sub-floor air delivery systems and telephone, electrical, computer and other wiring by lessening disruption of operations. It also eliminates the cumulative damage and unsightly appearance commonly associated with frequent cutting of conventional carpet as utility connections and disconnections are made. We believe that, within the overall floorcovering market, the worldwide demand for modular carpet is increasing as more customers recognize these advantages.

## Table Of Contents

We use a number of conventional and technologically advanced methods of carpet construction to produce carpet tiles in a wide variety of colors, patterns, textures, pile heights and densities. These varieties are designed to meet both the practical and aesthetic needs of a broad spectrum of commercial interiors – particularly offices, healthcare facilities, airports, educational and other institutions, hospitality spaces, and retail facilities – and residential interiors. Our carpet tile systems permit distinctive styling and patterning that can be used to complement interior designs, to set off areas for particular purposes and to convey graphic information. While we continue to manufacture and sell a substantial portion of our carpet tile in standard styles, an increasing percentage of our modular carpet sales is custom or made-to-order product designed to meet customer specifications.

In addition to general uses of our carpet tile, we produce and sell a specially adapted version of our carpet tile for the healthcare facilities market. Our carpet tile possesses characteristics — such as the use of the *Intersept*® antimicrobial, static-controlling nylon yarns, and thermally pigmented, colorfast yarns — which make it suitable for use in these facilities in place of hard surface flooring. Moreover, we launched our *FLOR* line of products to specifically target modular carpet sales to the residential market segment. Through our relationship with David Oakey Designs, we also have created modular carpet products (some of which are part of our *i2* product line) specifically designed for each of the education, hospitality and retail market segments.

We also manufacture and sell two-meter roll goods that are structure-backed and offer many of the advantages of both carpet tile and broadloom carpet. These roll goods are often used in conjunction with carpet tiles to create special design effects. Our current principal customers for these products are in the education, healthcare and government market segments.

### ***Broadloom Carpet***

In August 2012, we sold our Bentley Prince Street business segment to a third party. This business designed, manufactured and marketed high-end, designer-oriented broadloom and modular carpet for commercial and residential markets. As a result of this sale, we no longer have a presence in the broadloom carpet market.

### ***Other Products and Services***

We sell a proprietary antimicrobial chemical compound under the registered trademark *Intersept* that we incorporate in all of our modular carpet products and have licensed to another company for use in air filters. We also sell our *TacTiles* carpet tile installation system, along with a variety of traditional adhesives and products for carpet installation and maintenance that are manufactured by a third party. In addition, we continue to manufacture and sell our *Intercell*® brand raised/access flooring product in Europe. We also continue to provide “turnkey” project

management services for national accounts and other large customers through our *InterfaceSERVICES*<sup>™</sup> business.

### *Marketing and Sales*

We have traditionally focused our carpet marketing strategy on major accounts, seeking to build lasting relationships with national and multinational end-users, and on architects, engineers, interior designers, contracting firms, and other specifiers who often make or significantly influence purchasing decisions. While most of our sales are in the corporate office segment, both new construction and renovation, we also emphasize sales in other segments, including retail space, government institutions, schools, healthcare facilities, tenant improvement space, hospitality centers, residences and home office space. Our marketing efforts are enhanced by the established and well-known brand names of our carpet products, including *Interface* and *FLOR*. Our exclusive consulting agreement with the award-winning, premier design firm David Oakey Designs enabled us to introduce more than 25 new carpet designs in the United States in 2015 alone.

An important part of our marketing and sales efforts involves the preparation of custom-made samples of requested carpet designs, in conjunction with the development of innovative product designs and styles to meet the customer's particular needs. Our mass customization initiative simplified our carpet manufacturing operations, which significantly improved our ability to respond quickly and efficiently to requests for samples. In most cases, we can produce samples to customer specifications in less than five days, which significantly enhances our marketing and sales efforts and has increased our volume of higher margin custom or made-to-order sales. In addition, through our websites, we have made it easy to view and request samples of our products. We also use technology which allows us to provide digital, simulated samples of our products, which helps reduce raw material and energy consumption associated with our samples.

We primarily use our internal marketing and sales force to market our carpet products. In order to implement our global marketing efforts, we have product showrooms or design studios in the United States, Canada, Mexico, Brazil, Denmark, England, France, Germany, Spain, the Netherlands, India, Australia, Norway, United Arab Emirates, Russia, Singapore, Hong Kong, Thailand, China and elsewhere. We expect to open offices in other locations around the world as necessary to capitalize on emerging marketing opportunities.

## Table Of Contents

We distribute our products through two primary channels: (1) direct sales to end users; and (2) indirect sales through independent contractors or distributors. In each case, we may also call upon architects, engineers, interior designers, contracting firms and other specifiers who often make or substantially influence purchasing decisions.

### ***Manufacturing***

We manufacture carpet at two locations in the United States and at facilities in the Netherlands, the United Kingdom, Thailand, China and Australia.

Having foreign manufacturing operations enables us to supply our customers with carpet from the location offering the most advantageous delivery times, duties and tariffs, exchange rates, and freight expense, and enhances our ability to develop a strong local presence in foreign markets. We believe that the ability to offer consistent products and services on a worldwide basis at attractive prices is an important competitive advantage in servicing multinational customers seeking global supply relationships. We will consider additional locations for manufacturing operations in other parts of the world as necessary to meet the demands of customers in international markets.

Our raw materials are generally available from multiple sources – both regionally and globally – with the exception of synthetic fiber (nylon yarn). For yarn, we principally rely upon two major global suppliers, but we also have significant relationships with at least two other suppliers. Although our number of principal yarn suppliers is limited, we do have the capability to manufacture carpet using face fiber produced from two separate polymer feedstocks – nylon 6 and nylon 6,6 – which provides additional flexibility with respect to yarn supply inputs, if needed. Our global sourcing strategy, including with respect to our principal yarn suppliers and dual polymer manufacturing capability, allows us to help guard against any potential shortages of raw materials or raw material suppliers in a specific polymer supply chain.

We have a flexible-inputs carpet backing line, which we call “*Cool Blue*™”, at our modular carpet manufacturing facility in LaGrange, Georgia. Using next generation thermoplastic technology, the custom-designed backing line dramatically improves our ability to keep reclaimed and waste carpet in the production “technical loop,” and further permits us to explore other plastics and polymers as inputs. We also have technology that more cleanly separates the face fiber and backing of reclaimed and waste carpet, thus making it easier to recycle some of its components and providing a purer supply of inputs for the *Cool Blue* process. This technology, which is part of our *ReEntry*®2.0 carpet reclamation program, allows us to send some of the reclaimed face fiber back to our fiber supplier to be blended with virgin or other post-industrial materials and extruded into new fiber.



The environmental management systems of our floorcovering manufacturing facilities in LaGrange, Georgia, West Point, Georgia, Northern Ireland, the Netherlands, Thailand, China and Australia are certified under International Standards Organization (ISO) Standard No. 14001.

Our significant international operations are subject to various political, economic and other uncertainties, including risks of restrictive taxation policies, foreign exchange restrictions, changing political conditions and governmental regulations. We also receive a substantial portion of our revenues in currencies other than U.S. dollars, which makes us subject to the risks inherent in currency translations. Although our ability to manufacture and ship products from facilities in several foreign countries reduces the risks of foreign currency fluctuations we might otherwise experience, we also engage from time to time in hedging programs intended to further reduce those risks.

### *Competition*

We compete, on a global basis, in the sale of our modular carpet products with other carpet manufacturers and manufacturers of vinyl and other types of floorcoverings, including broadloom carpet. Although the industry has experienced significant consolidation, a large number of manufacturers remain in the industry. We believe we are the largest manufacturer of modular carpet in the world. However, a number of domestic and foreign competitors manufacture modular carpet as one segment of their business, and some of these competitors have financial resources greater than ours. In addition, some of the competing carpet manufacturers have the ability to extrude at least some of their requirements for fiber used in carpet products, which decreases their dependence on third party suppliers of fiber.

We believe the principal competitive factors in our primary floorcovering markets are brand recognition, quality, design, service, broad product lines, product performance, marketing strategy and pricing. In the corporate office market segment, modular carpet competes with various floorcoverings, of which broadloom carpet is the most common. We believe the quality, service, design, better and longer average product performance, flexibility (design options, selective rotation or replacement, use in combination with roll goods) and convenience of our modular carpet are our principal competitive advantages.

## Table Of Contents

We believe we have competitive advantages in several other areas as well. First, our exclusive relationship with David Oakey Designs allows us to introduce numerous innovative and attractive carpet tile products to our customers. Additionally, we believe that our global manufacturing capabilities are an important competitive advantage in serving the needs of multinational corporate customers. We believe that the incorporation of the *Intersept* antimicrobial chemical agent into the backing of our modular carpet enhances our ability to compete successfully across all of our market segments generally, and specifically with resilient tile in the healthcare market.

In addition, we believe that our goal and commitment to be ecologically “sustainable” by 2020 is a brand-enhancing, competitive strength as well as a strategic initiative. Our customers are concerned about the environmental and broader ecological implications of their operations and the products they use in them. Our leadership, knowledge and expertise in the area, especially in the “green building” movement and the related LEED certification program, resonate deeply with many of our customers and prospects around the globe. Our modular carpet products historically have had inherent installation and maintenance advantages that translated into greater efficiency and waste reduction. We are using raw materials and production technologies, such as our *Cool Blue* backing line and our *ReEntry 2.0* reclaimed carpet separation process, that directly reduce the adverse impact of those operations on the environment and limit our dependence on petrochemicals.

### **Product Design, Research and Development**

We maintain an active research, development and design staff of approximately 80 people and also draw on the research and development efforts of our suppliers, particularly in the areas of fibers, yarns and modular carpet backing materials. Our research and development costs were \$14.5 million, \$13.9 million and \$12.6 million in 2015, 2014, and 2013, respectively.

Our research and development team provides technical support and advanced materials research and development for us. The team assisted in the development of our *NexStep*® backing, which employs moisture-impervious polycarbonate precoating technology with a chlorine-free urethane foam secondary backing, and also helped develop a post-consumer recycled content, polyvinyl chloride, or PVC, extruded sheet process that has been incorporated into our *GlasBacRE* modular carpet backing. Our post-consumer recycled content PVC extruded sheet exemplifies our commitment to “closing-the-loop” in recycling. More recently, this team developed our *TacTiles* carpet tile installation system, which uses small squares of adhesive plastic film to connect intersecting carpet tiles. The team also helped implement our *Cool Blue* flexible inputs backing line and our *ReEntry 2.0* reclaimed carpet separation technology and post-consumer recycling technology for nylon face fibers. With a goal of supporting sustainable product designs in floorcoverings applications, we continue to evaluate renewable polymers for use in our products.

Our research and development team also is the coordinator of our QUEST and EcoSense initiatives (discussed below under “Environmental Initiatives”) and supports the dissemination, consultancies and technical communication of our

global sustainability endeavors. This team also provides all biochemical and technical support to *Intersept* antimicrobial chemical product initiatives.

Innovation and increased customization in product design and styling are the principal focus of our product development efforts, and this focus has led to several design breakthroughs such as our plank and *Skinny Plank* products, as well as our i2 product line. Our carpet design and development team is recognized as an industry leader in carpet design and product engineering for the commercial and institutional markets.

David Oakey Designs provides carpet design and consulting services to us pursuant to a consulting agreement. David Oakey Designs' services under the agreement include creating commercial carpet designs for use by our modular carpet businesses throughout the world, and overseeing product development, design and coloration functions for our modular carpet business in North America. The current agreement runs through August 2017. While the agreement is in effect, David Oakey Designs cannot provide similar services to any other carpet company. Through our relationship with David Oakey Designs, we introduced more than 25 new carpet designs in 2015 alone, and have enjoyed considerable success in winning U.S. carpet industry awards.

David Oakey Designs also contributed to our ability to efficiently produce many products from a single yarn system. Our mass customization production approach evolved, in major part, from this concept. In addition to increasing the number and variety of product designs, which enables us to increase high margin custom sales, the mass customization approach increases inventory turns and reduces inventory levels (for both raw materials and standard products) and their related costs because of our more rapid and flexible production capabilities.

Table Of Contents

**Environmental Initiatives**

In the latter part of 1994, we commenced a new industrial ecological sustainability initiative called EcoSense, inspired in part by the interest of customers concerned about the environmental implications of how they and their suppliers do business. EcoSense, which includes our QUEST waste reduction initiative, is directed towards the elimination of energy and raw materials waste in our businesses, and, on a broader and more long-term scale, the practical reclamation — and ultimate restoration — of shared environmental resources. The initiative involves a commitment by us:

- to learn to meet our raw material and energy needs through recycling of carpet and other petrochemical products and harnessing benign energy sources; and
- to pursue the creation of new processes to help sustain the earth's non-renewable natural resources.

We have engaged some of the world's leading authorities on global ecology as environmental advisors. The list of advisors includes: Paul Hawken, author of *The Ecology of Commerce: A Declaration of Sustainability* and *The Next Economy*, and co-author of *Natural Capitalism: Creating the Next Industrial Revolution*; Amory Lovins, energy consultant and co-founder of the Rocky Mountain Institute; John Picard, President of E2 Environmental Enterprises; Bill Browning, fellow and former director of the Rocky Mountain Institute's Green Development Services; Janine M. Benyus, author of *Biomimicry*; and Bob Fox, renowned architect.

As more customers in our target markets share our view that sustainability is good business and not just good deeds, our acknowledged leadership position should strengthen our brands and provide a differentiated advantage in competing for business. To further raise awareness of our goal of becoming sustainable, we launched our *Mission Zero* global branding initiative, which represents our mission to eliminate any negative impact our companies may have on the environment by the year 2020. As part of this initiative, our *Mission Zero* logo appears on many of our marketing and merchandising materials distributed throughout the world.

A high point in our pursuit of *Mission Zero* is our partnership with the Zoological Society of London on a program called *Net-Works*®. Together we are working with communities in the Philippines to collect discarded fishing nets that are damaging a large coral reef, and diverting them to our yarn supplier where they are recycled into new carpet fiber. *Net-Works* provides a source of income for members of these communities in the Philippines, while also cleaning up the beaches and waters where they live and work. Our *Net Effect* Collection of carpet tile products, among others, contains yarn that is partly made from the recycled fishing nets collected through the *Net-Works* program. This program is a big step in redesigning our supply chain from a linear take-make-waste process toward a closed loop system, and it advances our ultimate goal of becoming a restorative enterprise.

## Backlog

Our backlog of unshipped orders was approximately \$111.4 million at February 14, 2016, compared with approximately \$124.3 million at February 15, 2015. Historically, backlog is subject to significant fluctuations due to the timing of orders for individual large projects and currency fluctuations. All of the backlog orders at February 14, 2016 are expected to be shipped during the succeeding six to nine months.

## Patents and Trademarks

We own numerous patents in the United States and abroad on floorcovering products and on manufacturing processes. The duration of United States patents is between 14 and 20 years from the date of filing of a patent application or issuance of the patent; the duration of patents issued in other countries varies from country to country. We maintain an active patent and trade secret program in order to protect our proprietary technology, know-how and trade secrets. Although we consider our patents to be very valuable assets, we consider our know-how and technology even more important to our current business than patents, and, accordingly, believe that expiration of existing patents or nonissuance of patents under pending applications would not have a material adverse effect on our operations.

We also own many trademarks in the United States and abroad. In addition to the United States, the primary jurisdictions in which we have registered our trademarks are the European Union, Canada, Australia, New Zealand, Japan, and various countries in Central America, South America and Asia. Some of our more prominent registered trademarks include: *Interface*, *FLOR*, *Intersept*, *GlasBac*, *Mission Zero*, and *Net-Works*. Trademark registrations in the United States are valid for a period of 10 years and are renewable for additional 10-year periods as long as the mark remains in actual use. The duration of trademarks registered in other jurisdictions varies.

Table Of Contents

**Financial Information by Operating Segments and Geographic Areas**

The Notes to Consolidated Financial Statements appearing in Item 8 of this Report set forth information concerning our sales and long-lived assets by geographic areas, which are also our operating segments. Following the sale of Bentley Prince Street, we have only one reporting segment. Current and prior periods have been reclassified to include the results of operations and related disposal costs, gains and losses for the Bentley Prince Street business as discontinued operations. In addition, assets and liabilities of the Bentley Prince Street business have been reported in assets and liabilities held for sale for all reported periods.

**Employees**

At January 3, 2016, we employed a total of 3,346 employees worldwide. Of such employees, 1,856 were clerical, staff, sales, supervisory and management personnel and 1,490 were manufacturing personnel. We also utilized the services of 204 temporary personnel as of January 3, 2016.

Some of our production employees in Australia and the United Kingdom are represented by unions. In the Netherlands, a Works Council, the members of which are Interface employees, is required to be consulted by management with respect to certain matters relating to our operations in that country, such as a change in control of Interface Europe B.V. (our modular carpet subsidiary based in the Netherlands), and the approval of the Council is required for some of our actions, including changes in compensation scales or employee benefits. Our management believes that its relations with the Works Council, the unions and all of our employees are good.

**Environmental Matters**

Our operations are subject to laws and regulations relating to the generation, storage, handling, emission, transportation and discharge of materials into the environment. The costs of complying with environmental protection laws and regulations have not had a material adverse impact on our financial condition or results of operations in the past and are not expected to have a material adverse impact in the future. The environmental management systems of our floorcovering manufacturing facilities in LaGrange, Georgia, West Point, Georgia, Northern Ireland, the Netherlands, Thailand, China and Australia are certified under ISO Standard No. 14001.

**Executive Officers of the Registrant**

Our executive officers, their ages as of January 3, 2016, and their principal positions with us are set forth below. Executive officers serve at the pleasure of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Principal Position(s)</u>
Daniel T. Hendrix	61	Chairman and Chief Executive Officer
Jay D. Gould	56	President and Chief Operating Officer
Robert Boogaard	47	Senior Vice President (Europe)
Robert A. Coombs	57	Senior Vice President (Asia-Pacific)
Patrick C. Lynch	46	Senior Vice President and Chief Financial Officer
John R. Wells	54	Senior Vice President (Americas)
Raymond S. Willoch	57	Senior Vice President-Administration, General Counsel and Secretary
Jo Ann Herold	50	Vice President and Chief Marketing Officer
Sanjay Lall	55	Vice President and Chief Information Officer
Matthew J. Miller	47	Vice President and Chief Strategy Officer
Kathleen R. Owen	52	Vice President and Chief Human Resources Officer
Nigel Stansfield	48	Vice President and Chief Innovations Officer

**Mr. Hendrix** joined us in 1983 after having worked previously for a national accounting firm. He was promoted to Treasurer in 1984, Chief Financial Officer in 1985, Vice President-Finance in 1986, Senior Vice President in October 1995, Executive Vice President in October 2000, and President and Chief Executive Officer in July 2001. He was elected to the Board in October 1996 and has served on the Executive Committee of the Board since July 2001. In October 2011, Mr. Hendrix was elected as Chairman of the Board of Directors.

**Mr. Gould** joined us as Executive Vice President and Chief Operating Officer in January 2015, and was promoted to President and Chief Operating Officer in January 2016. From 2012 to January 2015, Mr. Gould was the Chief Executive Officer of American Standard Brands, a kitchen and bath products company. Prior to his employment with American Standard Brands, Mr. Gould held senior executive roles at Newell Rubbermaid Inc., a global marketer of consumer and commercial products, serving as President of its Home & Family business group from 2008 to 2012 and President of its Parenting Essentials business group from 2006 to 2008. He also previously held executive level positions at The Campbell Soup Company (2002-2006) and The Coca-Cola Company (1995-2002).

Table Of Contents

**Mr. Boogaard** joined us in 2011 as Senior Vice President of Sales for our European floorcovering division. Prior to joining Interface, Mr. Boogaard spent 18 years in the office furniture industry in the U.S. and Europe, followed by three years as Director of Global Strategy, Marketing and Commercial Services for a manufacturer of membrane filtration technology used in high end applications such as water purification. Mr. Boogaard was named Interim President of our Europe division in July 2013, and was appointed Senior Vice President of Interface and President of the Europe division in February 2015.

**Mr. Coombs** originally worked for us from 1988 to 1993 as a marketing manager for our *Heuga* carpet tile operations in the United Kingdom and later for all of our European floorcovering operations. In 1996, Mr. Coombs returned to us as Managing Director of our Australian operations. He was promoted in 1998 to Vice President-Sales and Marketing, Asia-Pacific, with responsibility for Australian operations and sales and marketing in Asia, which was followed by a promotion to Senior Vice President, Asia-Pacific. He was promoted to Senior Vice President, European Sales, in May 1999 and Senior Vice President, European Sales and Marketing, in April 2000. In February 2001, he was promoted to President and Chief Executive Officer of Interface Overseas Holdings, Inc. with responsibility for all of our floorcoverings operations in both Europe and the Asia-Pacific region, and he became a Vice President of Interface. In September 2002, Mr. Coombs relocated back to Australia, retaining responsibility for our floorcovering operations in the Asia-Pacific region while another executive assumed responsibility for floorcovering operations in Europe. Mr. Coombs was promoted to Senior Vice President of Interface in July 2008.

**Mr. Lynch** joined us in 1996 after having previously worked for a national accounting firm. He became Assistant Corporate Controller in 1998 and Assistant Vice President and Corporate Controller in 2000. Mr. Lynch was promoted to Vice President and Chief Financial Officer in July 2001. Mr. Lynch was promoted to Senior Vice President in March 2007.

**Mr. Wells** joined us in February 1994 as Vice President-Sales of Interface Flooring Systems, Inc. (now InterfaceFLOR, LLC), our principal U.S. modular carpet subsidiary. Mr. Wells was promoted to Senior Vice President-Sales & Marketing of Interface Flooring Systems in October 1994. He was promoted to Vice President of Interface and President of Interface Flooring Systems in July 1995. In March 1998, Mr. Wells was also named President of both Prince Street Technologies, Ltd. and Bentley Mills, Inc. (our former U.S. broadloom operations), making him President of all three of our U.S. carpet mills at that time. In November 1999, Mr. Wells was named Senior Vice President of Interface, and President and Chief Executive Officer of Interface Americas Holdings, LLC (formerly Interface Americas, Inc.), thereby assuming operations responsibility for all of our floorcovering businesses in the Americas.

**Mr. Willoch**, who previously practiced with an Atlanta law firm, joined us in June 1990 as Corporate Counsel. He was promoted to Assistant Secretary in 1991, Assistant Vice President in 1993, Vice President in January 1996, Secretary and General Counsel in August 1996, and Senior Vice President in February 1998. In July 2001, he was named Senior Vice President-Administration and assumed corporate responsibility for various staff functions.



**Ms. Herold** joined us in July 2013 as Vice President and Chief Marketing Officer, charged with harmonizing the *Interface* brand around the world and across multiple platforms. She oversees marketing and communications for the corporate brand, while also leading the senior marketing team, which is comprised of the Company's marketing and communications teams globally. Ms. Herold has more than 25 years of marketing experience. Prior to joining Interface, she was Vice President of Brand Communications and Public Relations at Arby's Restaurant Group, and previously spent 16 years at HoneyBaked Ham, where she served as Vice President of Marketing and then Chief Marketing Officer. She also has owned her own marketing firm.

**Mr. Lall** joined us in May 2012 and serves as Vice President and Chief Information Officer. In this role, Mr. Lall is responsible for the overall technology direction of Interface and for harmonizing and enhancing our information technology resources globally. Prior to Interface, he served as Vice President and Chief Information Officer at SimplexGrinnell, a \$2 billion business unit of Tyco Corporation, a leader in fire and safety products and monitoring services highly dependent on technology. There he was responsible for activities across the enterprise related to technical infrastructure, architecture and application management. Before that, he served as Vice President and Chief Information Officer at STERIS Corporation, a global medical device manufacturer and marketer for infection prevention, contamination control and surgical and critical care products, and previously he was Vice President and Chief Information Officer for Suntory Water Group, the second largest U.S. manufacturer, marketer and distributor of bottled water.

**Mr. Miller** joined us in June 2015 and serves as Vice President and Chief Strategy Officer. He is responsible for strategic planning across all business units, and came to Interface from American Standard Brands, where he was Senior Vice President of Innovation and Strategy from April 2013 to May 2015. Mr. Miller also was an independent consultant to American Standard Brands from February 2012 to April 2013. Previously, he served as Global Vice President-Finance of the Juvenile Products Segment of Newell Rubbermaid Inc. from 2008 to 2011, and as Director of Strategy and Corporate Development for Newell Rubbermaid from 2006-2008. He also has worked with a number of other global organizations, including Kraft Foods and Zyman Group.

## Table Of Contents

*Ms. Owen* joined us in June 2015 as Vice President and Chief Human Resources Officer. Ms. Owen is responsible for the development and oversight of human resources strategies and initiatives for talent management, organization development, learning, compensation, culture and diversity for Interface associates, globally. She came to Interface from Taylor Morrison Home Corporation, a \$2.5 billion publicly traded North American real estate developer and home builder, where she served as Vice President of Human Resources from June 2005 to December 2014. Prior to that, she held several human resources positions with experience across the U.S. and Europe with companies including McKesson Technology Solutions, Check-Free Corporation and Lanier Worldwide.

*Mr. Stansfield* is our Vice President and Chief Innovations Officer, with global responsibility for developing and implementing Interface's strategy to have a more open and collaborative approach to innovation. Mr. Stansfield was the Operations Manager for Firth Carpets (our former European broadloom operations) at the time it was acquired by us in 1997. For two years following that acquisition, Mr. Stansfield served as Manufacturing Systems Manager, part of a global project team that designed and implemented MRP manufacturing software systems at seven of our manufacturing plants. In 1999, he returned to Firth Carpets as Operations Director. In 2002, he became a member of our European research and development team focusing on our sustainability initiatives, and in 2004, he became Product and Innovations Director for all of our European Operations. In 2010, he joined our European management team as Senior Vice President of Product, Design and Innovation, before taking his current role in March 2012.

## **Available Information**

We make available free of charge on or through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Internet address is <http://www.interface.com>. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including the Company) file electronically with the SEC. The SEC's website is <http://www.sec.gov>.

Interface, Inc. was incorporated in 1973 as a Georgia corporation.

## **Forward-Looking Statements**

This report on Form 10-K contains "forward-looking statements" within the meaning of the Securities Act of 1933, the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Words such as "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include statements regarding the intent, belief or current expectations of our management

team, as well as the assumptions on which such statements are based. Any forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by such forward-looking statements. We undertake 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. 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 below in Item 1A, "Risk Factors".

## **ITEM 1A. RISK FACTORS**

*You should carefully consider the following factors, in addition to the other information included in this Annual Report on Form 10-K and the other documents incorporated herein by reference, before deciding whether to purchase or sell our common stock. Any or all of the following risk factors could have a material adverse effect on our business, financial condition, results of operations and prospects.*

*Sales of our principal products have been and may continue to be affected by adverse economic cycles in the renovation and construction of commercial and institutional buildings.*

Sales of our principal products are related to the renovation and construction of commercial and institutional buildings. This activity is cyclical and has been affected by the strength of a country's or region's general economy, prevailing interest rates and other factors that lead to cost control measures by businesses and other users of commercial or institutional space. The effects of cyclicity upon the corporate office segment tend to be more pronounced than the effects upon the institutional segment. Historically, we have generated more sales in the corporate office segment than in any other market. The effects of cyclicity upon the new construction segment of the market also tend to be more pronounced than the effects upon the renovation segment. These effects may recur and could be more pronounced if global economic conditions do not improve or are further weakened.

Table Of Contents

***We compete with a large number of manufacturers in the highly competitive floorcovering products market, and some of these competitors have greater financial resources than we do.***

The floorcovering industry is highly competitive. Globally, we compete for sales of floorcovering products with other carpet manufacturers and manufacturers of other types of floorcovering. Although the industry has experienced significant consolidation, a large number of manufacturers remain in the industry. Some of our competitors, including a number of large diversified domestic and foreign companies who manufacture modular carpet as one segment of their business, have greater financial resources than we do. Competing effectively may require us to make additional investments in our product development efforts, manufacturing facilities, distribution network and sales and marketing activities. Competitive forces may also result in pricing pressures, decreased demand for our products and the loss of market share.

***Our success depends significantly upon the efforts, abilities and continued service of our senior management executives and our principal design consultant, and our loss of any of them could affect us adversely.***

We believe that our success depends to a significant extent upon the efforts and abilities of our senior management executives. In addition, we rely significantly on the leadership that David Oakey of David Oakey Designs provides to our internal design staff. Specifically, David Oakey Designs provides product design/production engineering services to us under an exclusive consulting contract that contains non-competition covenants. Our current agreement with David Oakey Designs extends to August 2017. The loss of any of these key persons could have an adverse impact on our business because each has a great deal of knowledge, training and experience in the carpet industry – particularly in the areas of sales, marketing, operations, product design and management – and could not easily or quickly be replaced.

***Our substantial international operations are subject to various political, economic and other uncertainties that could adversely affect our business results, including by restrictive taxation or other government regulation and by foreign currency fluctuations.***

We have substantial international operations. In 2015, approximately half of our net sales and a significant portion of our production were outside the United States, primarily in Europe and Asia-Pacific. Our corporate strategy includes the expansion and growth of our international business on a worldwide basis. As a result, our operations are subject to various political, economic and other uncertainties, including risks of restrictive taxation policies, changing political conditions and governmental regulations. We also make a substantial portion of our net sales in currencies other than U.S. dollars (approximately half of 2015 net sales), which subjects us to the risks inherent in currency translations. The scope and volume of our global operations make it impossible to eliminate completely all foreign currency translation risks as an influence on our financial results.

***Concerns regarding the European sovereign debt crisis and market perceptions about the instability of the euro, the potential re-introduction of individual currencies within the Eurozone, the potential dissolution of the euro entirely, or the possibility of the U.K. exiting the European Union, could adversely affect our business, results of operations or financial condition.***

Following the European sovereign debt crisis that began in 2011, concerns still persist regarding the debt burden of certain countries using the euro as their currency (the “Eurozone”) and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Eurozone countries. Despite remedial efforts undertaken by the European Commission and others, these concerns have caused instability in the euro and could lead to the re-introduction of individual currencies in one or more Eurozone countries, or, in more extreme circumstances, the possible dissolution of the euro currency entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of our euro-denominated assets and obligations or increase the risks of foreign currency fluctuations or cause the failure of hedging programs intended to reduce those risks. In addition, concerns over the effect of this financial crisis on financial institutions in Europe and globally could have an adverse impact on the capital markets generally, and more specifically on our ability and the ability of our customers, suppliers and lenders to finance our and their respective businesses, to access liquidity at acceptable financing costs, if at all, on the availability of supplies and materials, and on the demand for our products.

In addition, in June 2016, a referendum will take place in the U.K. as to whether or not the U.K. should remain a member of the European Union. In the event of a decision by the U.K. to exit the European Union, there could be a detrimental effect on the value of either or both of the Euro and the British Pound Sterling, which could negatively impact our business (principally from the translation of sales and earnings in those foreign currencies into our reporting currency of U.S. dollars). Such a development could have other unpredictable adverse effects, including a material adverse effect on demand for office space and our carpet products in Europe if a U.K. exit leads to economic difficulties in Europe.

Table Of Contents

***Large increases in the cost of petroleum-based raw materials could adversely affect us if we are unable to pass these cost increases through to our customers.***

Petroleum-based products comprise the predominant portion of the cost of raw materials that we use in manufacturing. While we attempt to match cost increases with corresponding price increases, continued volatility in the cost of petroleum-based raw materials could adversely affect our financial results if we are unable to pass through such price increases to our customers.

***Unanticipated termination or interruption of any of our arrangements with our primary third party suppliers of synthetic fiber could have a material adverse effect on us.***

The unanticipated termination or interruption of any of our supply arrangements with our current suppliers of synthetic fiber (nylon) could have a material adverse effect on us because we do not have the capability to manufacture our own fiber for use in our carpet products. If any of our supply arrangements with our primary suppliers of synthetic fiber is terminated or interrupted, we likely would incur increased manufacturing costs and experience delays in our manufacturing process (thus resulting in decreased sales and profitability) associated with shifting more of our synthetic fiber purchasing to another synthetic fiber supplier.

***The worldwide financial and credit crisis could have a material adverse effect on our business, financial condition and results of operations.***

The worldwide financial and credit crisis, which began in 2008 and continued in varying degrees for several years thereafter, has reduced the availability of liquidity and credit to fund the continuation and expansion of many business operations worldwide. This shortage of liquidity and credit, combined with substantial losses in worldwide equity markets, could lead to a worldwide economic recession and result in a material adverse effect on our business, financial condition and results of operations. Specifically, the limited availability of credit and liquidity adversely affects the ability of customers and suppliers to obtain financing for significant purchases and operations. Consequently, customers may defer, delay or cancel renovation and construction projects where our carpet is used, resulting in decreased orders and sales for us, and they also may not be able to pay us for those products and services we already have provided to them. For the same reasons, suppliers may not be able to produce and deliver raw materials and other goods and services that we have ordered from them, thus disrupting our own manufacturing operations. In addition, our ability to obtain funding from capital markets may be severely restricted at a time when we would like, or need, to access those markets. This inability to obtain that funding could prevent us from pursuing important strategic growth plans, from reacting to changing economic and business conditions, and from refinancing existing debt (which in turn could lead to a default on our debt). The financial and credit crisis also could have an impact on the lenders under our credit facilities, causing them to fail to meet their obligations to provide us with loans and letters of credit, which are important sources of liquidity for us.

Our Syndicated Credit Facility matures in October 2019. We cannot assure you that we will be able to renegotiate or refinance this debt on commercially reasonable terms, or at all, especially given the effects of the worldwide financial and credit crisis.

***We have a significant amount of indebtedness, which could have important negative consequences to us.***

Our significant indebtedness could have important negative consequences to us, including:

• making it more difficult for us to satisfy our obligations with respect to such indebtedness;

• increasing our vulnerability to adverse general economic and industry conditions;

• limiting our ability to obtain additional financing to fund capital expenditures, acquisitions or other growth initiatives, and other general corporate requirements;

• requiring us to dedicate a substantial portion of our cash flow from operations to interest and principal payments on our indebtedness, thereby reducing the availability of our cash flow to fund capital expenditures, acquisitions or other growth initiatives, and other general corporate requirements;

• limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

• placing us at a competitive disadvantage compared to our less leveraged competitors; and

• limiting our ability to refinance our existing indebtedness as it matures.

As a consequence of our level of indebtedness, a substantial portion of our cash flow from operations must be dedicated to debt service requirements. In addition, borrowings under our Syndicated Credit Facility have variable interest rates, and therefore our interest expenses will increase if the underlying market rates (upon which the variable interest rates are based) increase. The terms of our Syndicated Credit Facility also limit our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness, pay dividends or make certain other restricted payments or investments in certain situations, consummate certain asset sales, enter into certain transactions with affiliates, create liens, merge or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. They also require us to comply with certain other reporting, affirmative and negative covenants and meet certain financial tests. If we fail to satisfy these tests or comply with these covenants, a default may occur, in which case the lenders could accelerate the debt as well as any other debt to which cross-acceleration or cross-default provisions apply. We cannot assure you that we would be able to renegotiate,

refinance or otherwise obtain the necessary funds to satisfy these obligations.



Table Of Contents

***The market price of our common stock has been volatile and the value of your investment may decline.***

The market price of our common stock has been volatile in the past and may continue to be volatile going forward. Such volatility may cause precipitous drops in the price of our common stock on the Nasdaq Global Select Market and may cause your investment in our common stock to lose significant value. As a general matter, market price volatility has had a significant effect on the market values of securities issued by many companies for reasons unrelated to their operating performance. We thus cannot predict the market price for our common stock going forward.

***Our earnings in a future period could be adversely affected by non-cash adjustments to goodwill, if a future test of goodwill assets indicates a material impairment of those assets.***

As prescribed by accounting standards governing goodwill and other intangible assets, we undertake an annual review of the goodwill asset balance reflected in our financial statements. Our review is conducted during the fourth quarter of the year, unless there has been a triggering event prescribed by applicable accounting rules that warrants an earlier interim testing for possible goodwill impairment. In the past, we have had non-cash adjustments for goodwill impairment as a result of such testings (\$61.2 million in 2008 and \$44.5 million in 2007). A future goodwill impairment test may result in a future non-cash adjustment, which could adversely affect our earnings for any such future period.

***Our business operations could suffer significant losses from natural disasters, catastrophes, fire or other unexpected events.***

While we manufacture our products in several facilities and maintain insurance covering our facilities, including business interruption insurance, our manufacturing facilities could be materially damaged by natural disasters, such as floods, tornadoes, hurricanes and earthquakes, or by fire or other unexpected events such as adverse weather conditions or other disruptions to our facilities, supply chain or our customers' facilities. For example, in July 2012, a fire occurred at our manufacturing facility in Picton, Australia, causing extensive damage and rendering the facility inoperable. In January 2014, we commenced operations at a new manufacturing facility in Minto, Australia. We could incur uninsured losses and liabilities arising from such events, including damage to our reputation, and/or suffer material losses in operational capacity, which could have a material adverse impact on our business, financial condition and results of operations.

***Our Rights Agreement could discourage tender offers or other transactions for our stock that could result in shareholders receiving a premium over the market price for our stock.***

Our Board of Directors has adopted a Rights Agreement pursuant to which holders of our common stock will be entitled to purchase from us a fraction of a share of our Series B Participating Cumulative Preferred Stock if a third party acquires beneficial ownership of 15% or more of our common stock without our consent. In addition, the holders of our common stock will be entitled to purchase the stock of an Acquiring Person (as defined in the Rights Agreement) at a discount upon the occurrence of triggering events. These provisions of the Rights Agreement could have the effect of discouraging tender offers or other transactions that could result in shareholders receiving a premium over the market price for our common stock.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

We maintain our corporate headquarters in Atlanta, Georgia in approximately 20,000 square feet of leased space. The following table lists our principal manufacturing facilities and other material physical locations (some locations are comprised of multiple buildings), all of which we own except as otherwise noted:

<b>Location</b>	<b>Floor Space (Sq. Ft.)</b>
Bangkok, Thailand	275,946
Craigavon, N. Ireland(1)	80,986
LaGrange, Georgia	539,545
LaGrange, Georgia(1)	209,337
Valley, Alabama(1)	338,086
Minto, Australia	259,356
Scherpenzeel, the Netherlands	366,935
West Point, Georgia	250,000
Taicang, China(1)	142,500

---

(1)Leased.



Table Of Contents

We maintain marketing offices in over 70 locations in over 30 countries and distribution facilities in approximately 40 locations in six countries. Most of our marketing locations and many of our distribution facilities are leased.

We believe that our manufacturing and distribution facilities and our marketing offices are sufficient for our present operations. We will continue, however, to consider the desirability of establishing additional facilities and offices in other locations around the world as part of our business strategy to meet expanding global market demands. Substantially all of our owned properties in the United States are subject to mortgages, which secure borrowings under our Syndicated Credit Facility.

**ITEM 3. LEGAL PROCEEDINGS**

We are subject to various legal proceedings in the ordinary course of business, none of which we believe are required to be disclosed under this Item 3.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Prior to March 5, 2012, the Company had two classes of common stock – Class A Common Stock and Class B Common Stock. On March 5, 2012, the number of issued and outstanding shares of Class B Common Stock constituted less than 10% of the aggregate number of issued and outstanding shares of the Company's Class A Common Stock and Class B Common Stock, as the cumulative result of varied transactions that caused the conversion of shares of Class B Common Stock into shares of Class A Common Stock. Accordingly, the Class A Common Stock and Class B Common Stock are now, irrevocably from March 5, 2012, a single class of Common Stock in all respects.

Edgar Filing: INTERFACE INC - Form 10-K

Our Common Stock is traded on the Nasdaq Global Select Market under the symbol TILE. As of February 19, 2016, we had 629 holders of record of our Common Stock. We estimate that there are in excess of 10,000 beneficial holders of our Common Stock. The following table sets forth, for the periods indicated, the high and low sale prices of the Company's Common Stock on the Nasdaq Global Select Market as well as dividends paid during such periods.

	<b>High</b>	<b>Low</b>	<b>Dividends Per Share</b>
<b>2016</b>			
First Quarter (through February 19, 2016)	\$ 18.99	\$ 15.30	\$ 0.00
<b>2015</b>			
Fourth Quarter	\$ 24.44	\$ 17.89	\$ 0.05
Third Quarter	27.17	22.13	0.05
Second Quarter	25.59	19.86	0.04
First Quarter	21.38	15.13	0.04
<b>2014</b>			
Fourth Quarter	\$ 16.74	\$ 12.98	\$ 0.04
Third Quarter	19.41	15.72	0.04
Second Quarter	21.13	17.11	0.03
First Quarter	22.46	18.63	0.03

On February 24, 2016, our Board also declared a regular quarterly cash dividend of \$0.05 per share, payable March 25, 2016 to shareholders of record as of March 11, 2016. Future declaration and payment of dividends is at the discretion of our Board, and depends upon, among other things, our investment policy and opportunities, results of operations, financial condition, cash requirements, future prospects, and other factors that may be considered relevant by our Board at the time of its determination. Such other factors include limitations contained in the agreement for our Syndicated Credit Facility, which specifies conditions as to when any dividend payments may be made. As such, we may discontinue our dividend payments in the future if our Board determines that a cessation of dividend payments is proper in light of the factors indicated above.

Table Of Contents**Stock Performance**

The following graph and table compare, for the five-year period ended January 3, 2016, the Company's total returns to shareholders (stock price plus dividends, divided by beginning stock price) with that of (i) all companies listed on the Nasdaq Composite Index, and (ii) a self-determined peer group comprised primarily of companies in the commercial interiors industry, assuming an initial investment of \$100 in each on January 2, 2011 (the last day of the fiscal year 2010).

	1/2/11	1/1/12	12/30/12	12/29/13	12/28/14	1/3/16
<b>Interface, Inc.</b>	\$100	\$74	\$102	\$140	\$109	\$126
<b>NASDAQ Composite Index</b>	\$100	\$99	\$114	\$162	\$190	\$200
<b>Self-Determined Peer Group (14 Stocks)</b>	\$100	\$97	\$137	\$205	\$227	\$244

*Notes to Performance Graph*

- (1) The lines represent annual index levels derived from compound daily returns that include all dividends.
- (2) The indices are re-weighted daily, using the market capitalization on the previous trading day.
- (3) If the annual interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
- (4) The index level was set to \$100 as of January 2, 2011 (the last day of fiscal year 2010).
- (5) The Company's fiscal year ends on the Sunday nearest December 31.

The following companies are included in the Self-Determined Peer Group depicted above: Acuity Brands, Inc.; Albany International Corp.; Apogee Enterprises, Inc.; Armstrong World Industries, Inc.; BE Aerospace, Inc.; The (6) Dixie Group, Inc.; Herman Miller, Inc.; HNI Corporation; Kimball International, Inc.; Knoll, Inc.; Mohawk Industries, Inc.; Steelcase, Inc.; Unifi, Inc.; and USG Corp.

**Securities Authorized for Issuance Under Equity Compensation Plans**

See Item 12 of Part III of this Annual Report on Form 10-K.



Table Of Contents**Issuer Purchases of Equity Securities**

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 fourth quarter ended January 3, 2016:

<b>Period<sup>(1)</sup></b>	<b>Total Number of Shares Purchased<sup>(2)</sup></b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(2)</sup></b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(2)</sup></b>
October 5 - 31, 2015	0	\$ 0.00	0	0
November 1 - 30, 2015	0	0.00	0	500,000
December 1 - 31, 2015	150,000	18.87	150,000	350,000
January 1 - 3, 2016	0	0.00	0	350,000
<b>Total</b>	<b>150,000</b>	<b>\$ 18.87</b>	<b>150,000</b>	<b>350,000</b>

<sup>(1)</sup> The monthly periods identified above correspond to the Company’s fiscal fourth quarter of 2015, which commenced October 5, 2015 and ended January 3, 2016.

<sup>(2)</sup> On October 7, 2014, the Company announced a program to repurchase up to 500,000 shares of common stock per fiscal year, commencing with the 2014 fiscal year. In November 2015, the Board of Directors amended the program to provide that the 500,000 shares of common stock previously approved for repurchases for the 2016 fiscal year may be repurchased by the Company, in management’s discretion, during the period commencing November 19, 2015 and ending at the conclusion of fiscal year 2016.



Table Of Contents**ITEM 6. SELECTED FINANCIAL DATA**

We derived the summary consolidated financial data presented below from our audited consolidated financial statements and the notes thereto for the years indicated. You should read the summary financial data presented below together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the audited consolidated financial statements and notes thereto included within this document. Amounts for all periods presented have been adjusted for discontinued operations.

	<b>Selected Financial Data<sup>(1)</sup></b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(in thousands, except per share data and ratios)</i>				
Net sales	\$1,001,863	\$1,003,903	\$959,989	\$932,020	\$953,045
Cost of sales	618,974	663,876	618,880	614,841	618,303
Operating income <sup>(2)</sup>	113,593	70,295	95,630	64,648	85,700
Income from continuing operations <sup>(3)</sup>	72,418	24,808	48,255	22,899	38,270
Income (loss) from discontinued operations, net of tax	0	0	0	(16,956)	451
Net income	72,418	24,808	48,255	5,943	38,721
Income from continuing operations per common share attributable to Interface, Inc.					
Basic	\$1.10	\$0.37	\$0.73	\$0.35	\$0.59
Diluted	\$1.10	\$0.37	\$0.73	\$0.35	\$0.58
Average Shares Outstanding					
Basic	66,027	66,389	66,194	65,767	65,291
Diluted	66,075	66,448	66,297	65,900	65,486
Cash dividends per common share	\$0.18	\$0.14	\$0.11	\$0.09	\$0.08
Property additions	27,188	38,922	91,851	42,428	38,050
Depreciation and amortization <sup>(4)</sup>	44,751	34,675	32,605	29,175	35,317
Working capital	\$245,391	\$240,881	\$257,918	\$273,213	\$271,625
Total assets	756,549	774,914	796,335	789,367	772,272
Total long-term debt	213,531	263,338	273,826	275,000	294,507
Shareholders’ equity	342,366	306,639	340,787	295,702	281,039
Current ratio <sup>(5)</sup>	2.6	2.7	3.0	2.7	2.8

(1) In the third quarter of 2012, we sold our Bentley Prince Street business. The balances have been adjusted to reflect the discontinued operations of this business.

(2) The following charges and items are included in our operating income. In 2014, we recorded restructuring and asset impairment charges of \$12.4 million. In 2013, we recorded a gain of approximately \$7.0 million related to the final settlement of our insurance claim relating to the Australia fire. In 2012, we recorded restructuring and asset impairment charges of \$19.4 million as well as expenses related to the Australia fire of \$1.7 million. In 2011, we

recorded a restructuring and asset impairment charge of \$5.8 million.

(3) Included in 2014 net income is \$9.2 million of pre-tax expenses related to the premium paid to redeem senior note debt as well as \$2.8 million related to the unamortized debt cost that related to these notes at redemption. Included in the 2013 net income are \$1.7 million of expenses related to the retirement of debt, and a one-time tax dispute resolution benefit of \$1.9 million.

(4) Includes stock compensation amortization.

Current ratio is the ratio of current assets to current liabilities. For purposes of computing our current ratio:  
(5)(a) current assets include assets of businesses held for sale of \$60.7 million for 2011. Current liabilities include liabilities of businesses held for sale of \$8.3 million for 2011.

Table Of Contents

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
7. OF OPERATIONS**

**General**

Our revenues are derived from sales of floorcovering products, primarily modular carpet (we sold our broadloom carpet operations in August 2012). Our business, as well as the commercial interiors industry in general, is cyclical in nature and is impacted by economic conditions and trends that affect the markets for commercial and institutional business space. The commercial interiors industry, including the market for floorcovering products, is largely driven by reinvestment by corporations into their existing businesses in the form of new fixtures and furnishings for their workplaces. In significant part, the timing and amount of such reinvestments are impacted by the profitability of those corporations. As a result, macroeconomic factors such as employment rates, office vacancy rates, capital spending, productivity and efficiency gains that impact corporate profitability in general, also affect our business.

During the past several years, we have successfully focused more of our marketing and sales efforts on non-corporate office segments to reduce somewhat our exposure to economic cycles that affect the corporate office market segment more adversely, as well as to capture additional market share. Our mix of corporate office versus non-corporate office modular carpet sales in the Americas has shifted over the past several years to 44% and 56%, respectively, for 2015 compared with 64% and 36%, respectively, in 2001. Company-wide, our mix of corporate office versus non-corporate office sales was 59% and 41%, respectively, in 2015. We expect a further shift in the future as we continue to implement our market diversification strategy.

During 2015, we had net sales of \$1.0 billion, essentially flat as compared to \$1.0 billion in 2014. Operating income for 2015 was \$113.6 million as compared to \$70.3 million for 2014. Net income for 2015 was \$72.4 million, or \$1.10 per diluted share, compared with \$24.8 million, or \$0.37 per diluted share, in 2014.

Included in our results for 2014 are \$12.4 million of restructuring and asset impairment charges, as discussed below. Also included in our results for 2014 are \$9.2 million of expenses for the premiums paid to redeem our 7.625% Senior Notes as well as \$2.8 million of expenses related to the unamortized debt costs for the retired notes at redemption. Included in our results for 2013 is a \$7.0 million gain related to the settlement of our insurance claim related to the fire at our Australian manufacturing facility, as discussed below. Also included in our 2013 results are a one-time tax dispute resolution benefit of \$1.9 million related to the execution of bilateral pricing agreements, and \$1.7 million of expenses for the retirement of debt.

**Fire at Australia Facility**

In July 2012, a fire destroyed our manufacturing facility in Picton, Australia, which served customers throughout Australia and New Zealand. As a result, there were business disruptions and delays in shipments that affected sales in the region following the fire. While it is difficult to quantify the financial impacts of the fire, we believe it negatively affected net sales by approximately \$13-18 million during the balance of 2012, and by approximately \$18-23 million during 2013. We completed the build-out of a new manufacturing facility in Minto, Australia, which commenced operations in January 2014. For additional information on the fire, please see the Note entitled “Fire at Australian Manufacturing Facility” in Item 8 of this Report.

Table Of Contents

**2014 Restructuring Plan**

In the third quarter of 2014, we committed to a new restructuring plan in our continuing efforts to reduce costs across our worldwide operations. In connection with this restructuring plan, we incurred a pre-tax restructuring and asset impairment charge in the third quarter of 2014 in an amount of \$12.4 million. The charge was comprised of severance expenses of \$9.7 million for a reduction of 100 employees, other related exit costs of \$0.1 million, and a charge for impairment of assets of \$2.6 million. Approximately \$10 million of the charge has resulted in cash expenditures, primarily severance expense.

**7.625% Senior Notes**

In 2010, we completed a private offering of \$275 million aggregate principal amount of 7.625% Senior Notes due 2018. Interest on the 7.625% Senior Notes was payable semi-annually on June 1 and December 1 (the first payment was on June 1, 2011). In November 2013, we redeemed \$27.5 million aggregate principal amount of the 7.625% Senior Notes at a price equal to 103% of the principal amount of the notes redeemed, plus accrued interest to the redemption date. In November 2014, we redeemed \$27.5 million aggregate principal amount of these notes at a price equal to 103% of the principal amount of notes redeemed, plus accrued interest to the redemption date. In December 2014, we redeemed the remaining \$220 million of these notes at a price equal to 103.813% of their principal amount, plus accrued interest to the redemption date.

**11.375% Senior Secured Notes**

In 2009, we completed a private offering of \$150 million aggregate principal amount of 11.375% Senior Secured Notes due 2013.

Following the sale of our 7.625% Senior Notes and the repurchase of \$141.9 million aggregate principal amount of our 11.375% Senior Secured Notes with the proceeds, \$8.1 million aggregate principal amount of our 11.375% Senior Secured Notes remained outstanding. These remaining 11.375% Senior Secured Notes were repaid at maturity in November 2013.

**Analysis of Results of Operations**

The following discussion and analyses reflect the factors and trends discussed in the preceding sections.

Our net sales that were denominated in currencies other than the U.S. dollar were approximately 48% in 2015, 51% in 2014, and 52% in 2013. Because we have such substantial international operations, we are impacted, from time to time, by international developments that affect foreign currency transactions. In 2015, the strengthening of the U.S. dollar led to a significant impact on our consolidated operations. In particular, the Euro, Australian dollar and Canadian dollar were translated at lower rates compared to prior years. The following table presents the amount (in U.S. dollars) by which the exchange rates for converting Euros, Australian dollars and Canadian dollars into U.S. dollars have affected our net sales and operating income during the past three years:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in millions)</i>		
Net sales	\$ (79.5)	\$ (9.5)	\$ (2.2)
Operating income	\$ (9.8 )	(1.0)	(0.2)

The following table presents, as a percentage of net sales, certain items included in our Consolidated Statements of Operations during the past three years:

	<b>Fiscal Year</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net sales	100.0%	100.0%	100.0%
Cost of sales	61.8	66.1	64.5
Gross profit on sales	38.2	33.9	35.5
Selling, general and administrative expenses	26.9	25.6	26.3
Restructuring and asset impairment charges	0.0	1.2	0.0
Expenses (gain) related to Australia fire	0.0	0.0	(0.7 )
Operating income	11.3	7.0	10.0
Interest/Other expense	0.7	2.3	2.6
Debt retirement expenses	0.0	1.2	0.2
Income before income tax expense	10.6	3.6	7.2
Income tax expense	3.3	1.1	2.2
Net income	7.2	2.5	5.0

Table Of Contents*Net Sales*

Below we provide information regarding our net sales and analyze those results for each of the last three fiscal years. Fiscal year 2015 was a 53 week period. Fiscal years 2014 and 2013 were 52-week periods. (As a result of the sale of our Bentley Prince Street Segment in 2012, we currently have only one segment for segment reporting purposes.)

	<b>Fiscal Year</b>			<b>Percentage Change</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2015 compared with 2014</b>	<b>2014 compared with 2013</b>	
	<i>(in thousands)</i>					
Net Sales	\$1,001,863	\$1,003,903	\$959,989	(0.2%)	4.6	%

*Net Sales for 2015 compared with 2014*

For 2015, our net sales were essentially flat as compared to 2014. As discussed above, the largest global driver of this result was the significant devaluation of foreign currencies against the U.S. dollar. The approximate negative impact on sales from the decline of foreign currencies was \$79.5 million, meaning that if currency levels had remained consistent year over year, our 2015 sales would have been higher by this amount. On a geographic basis, we experienced a sales increase in the Americas of 3.4%, and decreases in Europe of 5.1% and Asia-Pacific of 4.9%. The declines in Europe and Asia-Pacific are largely a result of the currency impacts discussed above.

In the Americas, our weighted average selling price per square yard increased approximately 3.5% for the year, reflecting that the sales growth in the region was largely due to increased selling prices as overall sales volume remained relatively constant versus 2014. In the Americas, the sales increase in dollars occurred almost equally in the corporate office (up 4%) and hospitality (up 36%) market segments. The increase in hospitality is due to the continued sales efforts in this segment, as the Company has continued to invest resources in building our sales force in this market. The adoption rate for modular carpet in hospitality spaces has increased due to these efforts, and our sales continue to improve. The increase in the corporate office segment is due to the steady improvement in the U.S. economy as well as our conversion of customers from other flooring surfaces (such as broadloom carpet) to modular carpet. These increases were partially offset by small declines in the government (down 3%) and retail (down 1%) market segments, with sales in our other non-office market segments essentially flat.

In Europe, the sales increase in local currency was 13.6%, but this was offset entirely by the impacts of a weaker Euro and, as translated into U.S. dollars, the decline was 5.1%. In local currency, the weighted average selling price per square yard for the region increased approximately 5%. In local currency, the corporate office segment was up 16%, which was largely due to the recovery in the European economy during the year which led to carpet purchases for new and refurbished office environments. In Europe, the majority of sales for the region occur in the corporate office market. In addition, we had sales increases in the retail (up 26%) and education (up 33%) market segments in Europe. The increase in education sales is due to a targeted focus on higher education customers across the region, particularly in the United Kingdom and France. The increase in the retail segment sales is due to the successes of our segmentation strategy in the region and was experienced across Europe.

In Asia-Pacific, the sales decline of 4.9% as reported in U.S. dollars is reflective of the impact of the devaluation of the Australian dollar during the year. In local currency, the sales increase Asia-Pacific was approximately 5%. The weighted average selling price per square yard for the region declined approximately 7%. This percentage decline was also largely driven by the decline in the Australian dollar, as in local currency in Australia the weighted average selling price per square yard increased approximately 3% and the average selling price per square yard in Asia was down less than 1%. The sales increase in local currency in the region was driven by the corporate office segment, which is the bulk of the region's sales. In U.S. dollars, the corporate office segment was up approximately 1%, and the hospitality segment was up nearly 12%, as the efforts to penetrate this growing market in the region continue. All other market segments in the region experienced declines for the year as compared to 2014.

#### *Net Sales for 2014 Compared with 2013*

For 2014, net sales increased \$43.9 million (4.6%) versus 2013. This increase primarily occurred in our Americas and Europe businesses, due largely to the continued economic recoveries in those regions. On a geographic basis, we experienced sales increases in each of our major operating regions, with the Americas up 5%, Europe up 5% (6% in local currency) and Asia-Pacific up 1% (5% in local currency). On a consolidated basis, fluctuations in currency had a small (approximately 1%) negative impact on net sales, primarily in Australia, which is within our Asia-Pacific region.



Table Of Contents

In the Americas, the increase was due largely to the continued strength and recovery of the corporate office market segment, where our sales grew 4%. We also had sales growth in all non-office market segments with the exception of healthcare, which was down less than 1%. The most significant of the non-office segment increases were in the hospitality (up 55%) and residential (up 15%) segments. The sales increase in the hospitality segment is due to our continued focus on penetrating this segment through large hotel chains, with most success occurring in the U.S. The increase in the residential segment primarily occurred in the multi-family residential channel, as our FLOR consumer business experienced essentially even sales compared with 2013. The weighted average selling price per square yard in the Americas was up approximately 1% in 2014 versus 2013.

In Europe, the sales increase was due primarily to growth in the corporate office market (up 9% in U.S. dollars, 11% in local currency), mostly in Western Europe and particularly in the United Kingdom and Germany. The government segment (down 10% in U.S. dollars, 8% in local currency) experienced the most significant decrease in the region, mostly due to the continued austerity measures that were in place during the year. The weighted average selling price per square yard in Europe increased approximately 4% during 2014, a result of the continued economic recovery in the region as well as the premium positioning of our products. Notably, the euro experienced a significant decline versus the U.S. dollar during the fourth quarter of 2014, and as a result our sales in Europe for that quarterly period experienced an increase of 6% in local currency but a 2% decrease as reported in U.S. dollars.

In Asia-Pacific, the sales increase occurred mostly in the corporate office (up 3%), healthcare (up over 100%) and education (up 15%) market segments. However, these increases were almost entirely offset by declines in the government (down 42%) and retail (down 20%) segments. On a consolidated basis, the translation of Australian dollars into U.S. dollars had a negative impact on this region's 2014 sales performance – in local currency, Australia sales were up more than 9%, but up only 2% as reported in U.S. dollars. This currency impact was particularly acute in the fourth quarter of 2014, when the increase in Australia dollars was approximately 20% but was approximately 11% as reported in U.S. dollars. Outside of Australia, sales in the remainder of the Asia-Pacific region were essentially flat in 2014 versus 2013. The weighted average selling price per square yard in Asia-Pacific in 2014 decreased approximately 1%, largely due to the impact of the decline of the Australian dollar versus the U.S. dollar.

***Cost and Expenses***

The following table presents our overall cost of sales and selling, general and administrative expenses during the past three years:

<u>Cost and Expenses</u>	Fiscal Year			Percentage Change	
	2015	2014	2013	2015	2014
				compared	compared
				with	with 2013

	<b>2014</b>					
	<i>(in thousands)</i>					
Cost of Sales	\$618,974	\$663,876	\$618,880	(6.8%)	7.3	%
Selling, General and Administrative Expenses	269,296	257,346	252,433	4.6 %	1.9	%
Total	\$888,270	\$921,222	\$871,313	(3.6%)	5.7	%

For 2015, our cost of sales decreased \$44.9 million (6.8%) compared with 2014. Fluctuations in currency exchange rates had an approximately \$30 million favorable impact on our cost of sales – absent the foreign currency devaluations, our cost of sales would have declined approximately \$15 million versus 2014. As a percentage of sales, our cost of sales declined to 61.8% in 2015, versus 66.1% in 2014. The primary reasons for this decline were (1) lower raw materials costs related to lower oil and related feedstock costs (raw material costs were down approximately 6-8% versus 2014), (2) higher absorption of fixed manufacturing costs associated with higher production volumes, particularly in the Americas (up 5%) and Europe (up nearly 10%), (3) continued stabilization of the supply chain and manufacturing footprint in the Asia-Pacific region with the normalization of the new carpet tile production facility in Australia during 2015 compared with 2014, (4) the resolution in 2015 of yarn supply issues that hampered the Company on a global basis in 2014, particularly during the second half of the year, and (5) a full year impact from our significant restructuring actions in the third quarter of 2014, particularly in Europe.

For 2014, our cost of sales increased \$45.0 million (7.3%) versus 2013. Fluctuations in currency exchange rates had a slight negative impact (1%) year over year. On a per-unit basis, we did not experience any significant difference in the cost of our raw materials in 2014 versus 2013. Most of the \$45.0 million year over year increase in cost of sales was directly attributable to additional raw materials costs (approximately \$30 million) and labor costs (approximately \$4 million) associated with higher production volumes in 2014, particularly in the second half of the year. Of the remainder of the year over year increase, the majority is related to both the increased fixed costs as well as the inefficiencies associated with the start-up of our new and larger manufacturing facility in Australia which opened in January of 2014. These inefficiencies occurred primarily in the first six months of 2014. As a result of these items, as a percentage of sales, cost of sales increased to 66.1% in 2014, compared with 64.5% in 2013.

For 2015, our selling, general and administrative (“SG&A”) expenses increased \$12.0 million (4.6%) versus 2014. Currency exchange rates had a favorable impact on SG&A expenses; if currency rates had remained the same for 2015 versus that of 2014, our SG&A expenses would have been approximately \$28 million higher than the 2014 levels. The largest factor driving the increase in SG&A expense increase year-over-year is additional administrative expense attributed to higher incentive-based compensation (approximately \$12 million) and performance-based stock compensation (approximately \$10 million), as performance targets were met in 2015 to a higher degree than in 2014. The majority of these expenses were at the corporate level and in the Americas region, and as a result they were not as impacted by foreign currency devaluations as other components of SG&A expense. These increases were offset by declines in marketing expense (down \$4.1 million) and selling expense (down \$2.8 million). While fluctuations in currency exchange rates were the driving factors in these declines, as a percentage of sales, selling and marketing expenses were lower in 2015, a direct result of our restructuring actions which took place in the third quarter of 2014. As a percentage of sales, our consolidated SG&A expenses increased to 26.9% in 2015 versus 25.6% in 2014. This percentage increase was entirely attributable to the performance-based stock compensation and incentive-based compensation discussed above, as absent these amounts SG&A expenses would have been lower as a percentage of sales in 2015 than in 2014.



## Table Of Contents

For 2014, our SG&A expenses increased \$4.9 million (1.9%) versus 2013. Fluctuations in currency exchange rates did not have a significant impact on the comparison. The largest driver of the increase was \$5.6 million of higher selling expenses commensurate with the sales growth in each of our three operating regions. We also had increased marketing expenses of approximately \$1.2 million, split evenly between our European modular carpet business and our FLOR consumer business. The increased marketing expense in Europe related to campaigns designed to further engage the architect and design community, while the increase in our FLOR business related to web-based marketing efforts. These increases were offset by a decline in administrative expenses of approximately \$1.9 million, mostly due to lower incentive compensation in 2014 versus 2013, as well as the impacts of our restructuring actions in the third quarter of 2014. The benefits of the restructuring actions were particularly evident in the fourth quarter of 2014, when our SG&A expenses, as a percentage of sales, declined to 23.8% versus 26.6% for the fourth quarter of 2013. For the full year 2014, our SG&A expenses, as a percentage of sales, declined to 25.6%, versus 26.3% in 2013.

### *Interest Expense*

For 2015, our interest expense decreased \$14.4 million to \$6.4 million, versus \$20.8 million in 2014. This substantial decrease in interest is due to the debt refinancing activities we undertook in the fourth quarter of 2014, in which we redeemed all of our \$247.5 million of outstanding 7.625% Senior Notes and replaced them with borrowings under our Syndicated Credit Facility. This facility, which is comprised of a term loan as well as a multi-currency revolving debt facility, incurs interest at a significantly lower rate (currently approximately 2.0%) than the interest rate on the notes that were refinanced. In addition to the lower borrowing rates, we also reduced our borrowings under the facility by over \$45 million during 2015, which contributed to our lower interest expense.

For 2014, interest expense decreased \$3.0 million to \$20.8 million, versus \$23.8 million in 2013. The primary reasons for the decrease were the redemption of \$27.5 million of our 7.625% Senior Notes and the repayment at maturity of the remaining \$8.1 million of our 11.375% Senior Secured Notes, each in the fourth quarter of 2013. In addition, as described above, we redeemed all of the remaining 7.625% Senior Notes in the fourth quarter of 2014, which also contributed to the interest expense decline. Although we incurred borrowings under our Syndicated Credit Facility to refinance the notes that were repaid and redeemed during 2013 and 2014, the borrowings under our Syndicated Credit Facility were at a significantly lower interest rate (less than 2.5% annually) than the interest rates on the notes that were refinanced.

### *Tax*

Our effective tax rate in 2015 was 31.5%, compared with an effective tax rate of 30.6% in 2014. This increase in effective tax rate was primarily attributable to having a larger proportion of U.S. earnings in 2015, which are taxed at higher federal and state rates than our foreign earnings. The increase in effective rate was partially offset by a decrease in valuation allowances related to state net operating loss carryforwards utilized in 2015. For additional information

on taxes and a reconciliation of effective tax rates to statutory tax rates, see the Note entitled “Taxes on Income” in Item 8 of this Report.

Our effective tax rate in 2014 was 30.6%, compared with an effective tax rate of 30.1% in 2013. This relative consistency in effective tax rate was primarily attributable to favorable tax effects related to foreign operations realized in both years. In addition, there was less of an increase due to valuation allowances related to state net operating loss carryforwards in 2014, which offset the decrease we realized in 2013 related to the favorable settlement of our Canada-U.S. bilateral advanced pricing agreement. For additional information on taxes and a reconciliation of effective tax rates to statutory tax rates, see the Note entitled “Taxes on Income” in Item 8 of this Report.

Table Of Contents

**Liquidity and Capital Resources**

*General*

In our business, we require cash and other liquid assets primarily to purchase raw materials and to pay other manufacturing costs, in addition to funding normal course SG&A expenses, anticipated capital expenditures, interest expense and potential special projects. We generate our cash and other liquidity requirements primarily from our operations and from borrowings or letters of credit under our Syndicated Credit Facility discussed below. We believe that we will be able to continue to enhance the generation of free cash flow through the following initiatives:

- Improving our inventory turns by continuing to implement a made-to-order model throughout our organization;
- Reducing our average days sales outstanding through improved credit and collection practices; and
- Limiting the amount of our capital expenditures generally to those projects that have a short-term payback period.

Historically, we use more cash in the first half of the fiscal year, as we fund insurance premiums, tax payments, incentive compensation and inventory build-up in preparation for the holiday/vacation season of our international operations.

In addition, we have a high contribution margin business with low capital expenditure requirements. Contribution margin represents variable gross profit margin less the variable component of SG&A expenses, and for us is an indicator of profit on incremental sales after the fixed components of cost of sales and SG&A expenses have been recovered. While contribution margin should not be construed as a substitute for gross margin, which is determined in accordance with GAAP, it is included herein to provide additional information with respect to our potential for profitability. In addition, we believe that investors find contribution margin to be a useful tool for measuring our profitability on an operating basis.

At January 3, 2016, we had \$75.7 million in cash. Approximately \$14.3 million of this cash was located in the U.S., and the remaining \$61.4 million was located outside of the U.S. The cash located outside of the U.S. is indefinitely reinvested in the respective jurisdictions (except as identified below). We believe that our strategic plans and business needs, particularly for working capital needs and capital expenditure requirements in Europe, Asia and Australia, support our assertion that our cash in foreign locations will be reinvested and remittance will be postponed indefinitely. Of the \$61.4 million cash in foreign jurisdictions, approximately \$3.6 million represents earnings which we have determined are not permanently reinvested, and as such we have provided for U.S. federal and state income taxes on these amounts in accordance with applicable accounting standards.

As of January 3, 2016, we had \$213.5 million of borrowings and \$3.1 million in letters of credit outstanding under our Syndicated Credit Facility. Of those borrowings outstanding, \$197.5 million were Term Loan A borrowings and \$16.0 million were revolving loan borrowings. As of January 3, 2016, we could have incurred \$230.9 million of additional revolving loan borrowings under our Syndicated Credit Facility. In addition, we could have incurred the equivalent of \$14.6 million of borrowings under our other credit facilities in place at other non-U.S. subsidiaries.

We have approximately \$52.7 million in contractual cash obligations due by the end of fiscal year 2016, which includes, among other things, pension cash contributions, interest payments on our debt and lease commitments. Based on current interest rate and debt levels, we expect our aggregate interest expense for 2016 to be between \$6 million and \$8 million. We estimate aggregate capital expenditures in 2016 to be between \$40 million and \$50 million, although we are not committed to these amounts.

In 2010, we completed a private offering of \$275 million aggregate principal amount of 7.625% Senior Notes. Interest on the 7.625% Senior Notes was payable semi-annually on June 1 and December 1 (the first payment was made on June 1, 2011). In the fourth quarter of 2013, we redeemed \$27.5 million aggregate principal amount of the 7.625% Senior Notes at a price equal to 103% of the principal amount of the notes redeemed, plus accrued interest to the redemption date. In the fourth quarter of 2014, we redeemed \$27.5 million aggregate principal amount of the 7.625% Senior Notes at a price equal to 103% of their principal amount, plus accrued interest, and redeemed the remaining \$220 million aggregate principal amount of these notes at a price equal to 103.813% of their principal amount, plus accrued interest. The redemption transactions in the fourth quarter of 2014 required an aggregate of \$266.1 million (including principal payments, premiums and accrued interest), which was funded through a combination of term loan and revolving loan borrowings under the Syndicated Credit Facility and cash on hand.

It is important for you to consider that we have a significant amount of indebtedness. Our Syndicated Credit Facility matures in October 2019. We cannot assure you that we will be able to renegotiate or refinance any of our debt on commercially reasonable terms, or at all. If we are unable to refinance our debt or obtain new financing, we would have to consider other options, such as selling assets to meet our debt service obligations and other liquidity needs, or using cash, if available, that would have been used for other business purposes.

Table Of Contents

*Syndicated Credit Facility*

We have a syndicated credit facility (the “Facility”) pursuant to which the lenders provide to us and certain of our subsidiaries a multicurrency revolving credit facility and provide to us a term loan. The key features of the Facility are as follows:

The Facility matures on October 3, 2019.

The Facility includes (i) a multicurrency revolving loan facility made available to the Company and our principal subsidiaries in Europe and Australia not to exceed \$240 million in the aggregate at any one time outstanding, and (ii) a revolving loan facility made available to our principal subsidiary in Thailand not to exceed the equivalent of \$10 million in the aggregate at any one time outstanding. A sublimit of \$40 million exists for the issuance of letters of credit under the Facility.

The Facility includes \$200 million of Term Loan A borrowing availability which could be used (and was in fact used) to refinance our 7.625% Senior Notes due 2018.

The Facility provides for required amortization payments of the Term Loan A borrowing, as well as mandatory prepayments of the Term Loan A borrowing (and any term loans made available pursuant to any future multicurrency loan facility increase) from certain asset sales, casualty events and debt issuances, subject to certain qualifications and exceptions as provided for therein.

Advances under the Facility are secured by a first-priority lien on substantially all of Interface, Inc.’s assets and the assets of each of our material domestic subsidiaries, which have guaranteed the Facility.

The Facility contains financial covenants (specifically, a consolidated net leverage ratio and a consolidated interest coverage ratio) that must be met as of the end of each fiscal quarter.

We have the option to increase the borrowing availability under the Facility, either for revolving loans or term loans, by up to \$150 million, subject to the receipt of lender commitments for the increase and the satisfaction of certain other conditions.

Interest Rates and Fees. Interest on base rate loans is charged at varying rates computed by applying a margin ranging from 0.25% to 1.50% over the applicable base interest rate (which is defined as the greatest of the prime rate, a specified federal funds rate plus 0.50%, or a specified LIBOR rate), depending on our 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 ranging from 1.25% to 2.50% over the applicable LIBOR rate, depending on our consolidated net leverage ratio as of the most recently completed fiscal quarter. In addition, we pay a commitment fee ranging from 0.20% to 0.35% per annum (depending on our consolidated net leverage ratio as of the most recently completed fiscal quarter) on the unused portion of the Facility.

Amortization Prepayments. We are required to make amortization payments of the Term Loan A borrowing. The amortization payments are due on the last day of the calendar quarter, commencing with an initial amortization payment of \$2.5 million that was made on December 31, 2015. The quarterly amortization payment amount increases to \$3.75 million on December 31, 2016.



Covenants. The Facility contains standard and customary covenants for agreements of this type, including various reporting, affirmative and negative covenants. Among other things, these covenants limit our ability to:

- create or incur liens on assets;
- make acquisitions of or investments in businesses (in excess of certain specified amounts);
- incur indebtedness or contingent obligations;
- sell or dispose of assets (in excess of certain specified amounts);
- pay dividends or repurchase our stock (in excess of certain specified amounts);
- repay other indebtedness prior to maturity unless we meet certain conditions; and
- enter into sale and leaseback transactions.

The Facility also requires us to remain in compliance with the following financial covenants as of the end of each fiscal quarter, based on our consolidated results for the year then ended:

Consolidated Net Leverage Ratio: Must be no greater than (i) 4.50:1.00 through and including the fiscal quarter ending December 28, 2014, (ii) 4.00:1.00 from and including the fiscal quarter ending April 5, 2015 through and including the fiscal quarter ending January 3, 2016, and (iii) 3.75:1.00 for each fiscal quarter thereafter.

Consolidated Interest Coverage Ratio: Must be no less than 2.25:1.00 as of the end of any fiscal quarter.

Table Of Contents

Events of Default. If we breach or fail to perform any of the affirmative or negative covenants under the Facility, or if other specified events occur (such as a bankruptcy or similar event or a change of control of Interface, Inc. or certain subsidiaries, or if we breach or fail to perform any covenant or agreement contained in any instrument relating to any of our other indebtedness exceeding \$20 million), after giving effect to any applicable notice and right to cure provisions, an event of default will exist. If an event of default exists and is continuing, the lenders' Administrative Agent may, and upon the written request of a specified percentage of the lender group shall:

declare all commitments of the lenders under the facility terminated;  
declare all amounts outstanding or accrued thereunder immediately due and payable; and  
exercise other rights and remedies available to them under the agreement and applicable law.

Collateral. Pursuant to a Security and Pledge Agreement executed on the same date, the Facility is secured by substantially all of the assets of Interface, Inc. and our domestic subsidiaries (subject to exceptions for certain immaterial subsidiaries), including all of the stock of our domestic subsidiaries and up to 65% of the stock of our first-tier material foreign subsidiaries. If an event of default occurs under the Facility, the lenders' Administrative Agent may, upon the request of a specified percentage of lenders, exercise remedies with respect to the collateral, including, in some instances, foreclosing mortgages on real estate assets, taking possession of or selling personal property assets, collecting accounts receivables, or exercising proxies to take control of the pledged stock of domestic and first-tier material foreign subsidiaries.

As of January 3, 2016, we had \$197.5 million of Term Loan A borrowings and \$16.0 million of revolving loan borrowings outstanding under the Facility, and had \$3.1 million in letters of credit outstanding under the Facility.

We are presently in compliance with all covenants under the Syndicated Credit Facility and anticipate that we will remain in compliance with the covenants for the foreseeable future.

*Senior Notes*

As described above, all of our remaining 7.625% Senior Notes were redeemed in full in the fourth quarter of 2014, and our remaining 11.375% Senior Secured Notes were repaid at maturity in the fourth quarter of 2013.

*Analysis of Cash Flows*

We exited 2015 with \$75.7 million in cash, an increase of \$20.8 million during the year. The increase in cash was primarily due to improved cash flow from operating activities of \$125.4 million in 2015, compared with \$46.4 million in 2014. The factors driving the increase in cash flow from operating activities were (1) higher net income in 2015 due to improved operational performance, (2) a \$16.2 million reduction in cash paid for interest, as a result of our 2014 debt refinancing discussed above, (3) an \$18.7 million reduction in accounts receivable, and (4) a \$14.5 million increase in accounts payable and accrued expenses. The increase in cash from operating activities was partially offset by an increase in inventories of \$26.5 million and an increase in prepaid expenses and other assets of \$8.3 million. Our other primary uses of cash during 2015 were (1) \$45.3 million of repayments of revolving loan borrowings under our Syndicated Credit Facility, (2) \$27.2 million of capital expenditures, primary related to our manufacturing locations, (3) \$13.3 million used to repurchase and retire 650,000 shares of our outstanding common stock, pursuant to our established share repurchase plan, (4) \$11.9 million for the payment of dividends, and (5) \$2.5 million for repayment of term loan borrowings under our Syndicated Credit Facility as required by the applicable amortization schedule.

Our primary sources of cash during 2014 were: (1) \$200 million of Term Loan A borrowings and \$48.9 million of revolving loan borrowings under our Syndicated Credit Facility; (2) \$15.4 million due to an increase in accounts payable and accruals; and (3) \$2.8 million due to a decrease in prepaid expenses and other current assets. Our primary uses of cash during 2014 were: (1) \$256.8 million used to redeem our formerly outstanding 7.625% Senior Notes (comprised of \$247.5 million for principal payments, and \$9.3 million for premium payments); (2) \$29.3 million due to an increase in accounts receivable; (3) \$9.9 million used to repay a portion of our outstanding revolving loan borrowings under our Syndicated Credit Facility; (4) \$9.3 million used to pay dividends on our common stock; and (5) \$7.7 million used to repurchase 500,000 shares of our common stock.

Our primary sources of cash during 2013 were: (1) \$56.0 million of proceeds received from our insurance company on our claim related to the fire at our Australia manufacturing facility in 2012; (2) \$26.3 million of borrowings under our Syndicated Credit Facility; and (3) \$3.5 million due to a reduction in accounts receivable. Our primary uses of cash in 2013 were: (1) \$91.9 million of capital expenditures, which included expenditures for the purchase and build-out of our new manufacturing facility in Minto, Australia; (2) \$35.6 million of cash used to retire the remainder (\$8.1 million aggregate principal amount) of our 11.375% Senior Secured Notes and a portion (\$27.5 million aggregate principal amount) of our 7.625% Senior Notes; and (3) \$17.3 million due to a decrease in accounts payable and accruals.

We believe that our liquidity position will provide sufficient funds to meet our current commitments and other cash requirements for the foreseeable future.

Table Of Contents***Funding Obligations***

We have various contractual obligations that we must fund as part of our normal operations. The following table discloses aggregate information about our contractual obligations and the periods in which payments are due. The amounts and time periods are measured from January 3, 2016.

	<b>Total Payments Due</b>	<b>Payments Due by Period</b>			<b>More than 5 years</b>
		<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	
	<i>(in thousands)</i>				
Long-Term Debt Obligations	\$213,531	\$11,250	\$30,000	\$172,281	\$0
Operating Lease Obligations(1)	72,639	20,757	32,889	10,954	8,039
Expected Interest Payments(2)	22,234	4,522	9,044	8,668	0
Unconditional Purchase Obligations(3)	8,104	6,437	1,413	254	0
Pension Cash Obligations(4)	109,068	9,735	20,453	22,546	56,334
Total Contractual Cash Obligations(5)	\$425,576	\$52,701	\$93,799	\$214,703	\$64,373

(1) Our capital lease obligations are insignificant.

(2) Expected interest payments to be made in future periods reflect anticipated interest payments related to the \$197.5 million of Term Loan A borrowings outstanding and the \$16.0 million of revolving loan borrowings outstanding under our Syndicated Credit Facility as of January 3, 2016. We have also assumed in the presentation above that these borrowings will remain outstanding until maturity.

(3) Unconditional purchase obligations do not include unconditional purchase obligations that are included as liabilities in our Consolidated Balance Sheet. Our capital expenditure commitments are not significant.

(4) We have two foreign defined benefit plans and a domestic salary continuation plan. We have presented above the estimated cash obligations that will be paid under these plans over the next ten years. Such amounts are based on several estimates and assumptions and could differ materially should the underlying estimates and assumptions change. Our domestic salary continuation plan is an unfunded plan, and we do not currently have any commitments to make contributions to this plan. However, we do use insurance instruments to hedge our exposure under the salary continuation plan. Contributions to our other employee benefit plans are at our discretion.

- (5) The above table does not reflect unrecognized tax benefits of \$28.3 million, the timing of which payments are uncertain. See the Note entitled "Taxes on Income" in Item 8 of this Report for further information.

### **Critical Accounting Policies**

The policies discussed below are considered by management to be critical to an understanding of our consolidated financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimations about the effects of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, management cautions that future events may not develop as forecasted, and the best estimates routinely require adjustment.

*Revenue Recognition.* The vast majority of our revenue is recognized at the date of shipment when the following criteria are met: persuasive evidence of an agreement exists, price to the buyer is fixed and determinable, and collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. Provisions for discounts, sales returns and allowances are estimated using historical experience, current economic trends, and the Company's quality performance. The related provision is recorded as a reduction of sales and cost of sales in the same period that the revenue is recognized. Accordingly, our estimates and assumptions regarding revenue recognition primarily relate to sales returns and allowances, which historically have been in the range of 2.5-3.0% of gross sales. Over the last several years, we have not experienced any significant fluctuation in sales returns and allowances, our estimates and assumptions related thereto have not changed significantly, and we believe our estimates and assumptions to be reasonably accurate. Management also believes this past experience can be relied upon for such estimates and assumptions in future periods, as our business model and customer mix have not changed significantly.

A small percentage (approximately 5%) of our revenue relates to flooring installation projects, which generally involve short time periods (typically less than two weeks) and therefore present little risk of material difference due to changes in experience.

Table Of Contents

Shipping and handling fees billed to customers are classified in net sales in the consolidated statements of operations. Shipping and handling costs incurred are classified in cost of sales in the consolidated statements of operations.

*Impairment of Long-Lived Assets.* Long-lived assets are reviewed for impairment at the asset group level whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the sum of the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment is indicated. A loss is then recognized for the difference, if any, between the fair value of the asset (as estimated by management using its best judgment) and the carrying value of the asset. If actual market value is less favorable than that estimated by management, additional write-downs may be required.

*Deferred Income Tax Assets and Liabilities.* The carrying values of deferred income tax assets and liabilities reflect the application of our income tax accounting policies in accordance with applicable accounting standards, and are based on management's assumptions and estimates regarding future operating results and levels of taxable income, as well as management's judgment regarding the interpretation of the provisions of applicable accounting standards. The carrying values of liabilities for income taxes currently payable are based on management's interpretations of applicable tax laws, and incorporate management's assumptions and judgments regarding the use of tax planning strategies in various taxing jurisdictions. The use of different estimates, assumptions and judgments in connection with accounting for income taxes may result in materially different carrying values of income tax assets and liabilities and results of operations.

We evaluate the recoverability of these deferred tax assets by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. We use our historical experience and our short and long-term business forecasts to provide insight. Further, our global business portfolio gives us the opportunity to employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established. As of January 3, 2016 and December 28, 2014, we had approximately \$26.2 million and \$100.1 million of U.S. federal net operating loss carryforwards, respectively. In addition, as of January 3, 2016 and December 28, 2014, we had state net operating loss carryforwards of \$139.3 million and \$209.0 million, respectively. As of January 3, 2016 and December 28, 2014, we had approximately \$3.7 million and \$4.0 million of foreign net operating loss carryforwards, respectively. Certain of these carryforwards are reserved with a valuation allowance because, based on the available evidence, we believe it is more likely than not that we would not be able to utilize those deferred tax assets in the future. The remaining year-end 2015 amounts are expected to be fully recoverable within the applicable statutory expiration periods. If the actual amounts of taxable income differ from our estimates, the amount of our valuation allowance could be materially impacted.

*Goodwill.* Pursuant to applicable accounting standards, we test goodwill for impairment at least annually using a two step approach. In the first step of this approach, we prepare valuations of reporting units, using both a market comparable approach and an income approach, and those valuations are compared with the respective book values of

the reporting units to determine whether any goodwill impairment exists. In preparing the valuations, past, present and expected future performance is considered. If impairment is indicated in this first step of the test, a step two valuation approach is performed. The step two valuation approach compares the implied fair value of goodwill to the book value of goodwill. The implied fair value of goodwill is determined by allocating the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit, including both recognized and unrecognized intangible assets, in the same manner as goodwill is determined in a business combination under applicable accounting standards. After completion of this step two test, a loss is recognized for the difference, if any, between the fair value of the goodwill associated with the reporting unit and the book value of that goodwill. If the actual fair value of the goodwill is determined to be less than that estimated, an additional write-down may be required.

During the fourth quarters of 2015, 2014 and 2013, we performed the annual goodwill impairment test. We perform this test at the reporting unit level. For our reporting units which carried a goodwill balance as of January 3, 2016, no impairment of goodwill was indicated. As of January 3, 2016, if our estimates of the fair value of our reporting units were 10% lower, we believe no additional goodwill impairment would have existed.

*Inventories.* We determine the value of inventories using the lower of cost or market. We write down inventories for the difference between the carrying value of the inventories and their net realizable value. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

We estimate our reserves for inventory obsolescence by continuously examining our inventories to determine if there are indicators that carrying values exceed net realizable values. Experience has shown that significant indicators that could require the need for additional inventory write-downs are the age of the inventory, the length of its product life cycles, anticipated demand for our products and current economic conditions. While we believe that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and we could experience additional inventory write-downs in the future. Our inventory reserve on January 3, 2016 and December 28, 2014, was \$15.5 million and \$14.8 million, respectively. To the extent that actual obsolescence of our inventory differs from our estimate by 10%, our 2015 net income would be higher or lower by approximately \$1.0 million, on an after-tax basis.

Table Of Contents

*Pension Benefits.* Net pension expense recorded is based on, among other things, assumptions about the discount rate, estimated return on plan assets and salary increases. While management believes these assumptions are reasonable, changes in these and other factors and differences between actual and assumed changes in the present value of liabilities or assets of our plans above certain thresholds could cause net annual expense to increase or decrease materially from year to year. The actuarial assumptions used in our salary continuation plan and our foreign defined benefit plans reporting are reviewed periodically and compared with external benchmarks to ensure that they appropriately account for our future pension benefit obligation. The expected long-term rate of return on plan assets assumption is based on weighted average expected returns for each asset class. Expected returns reflect a combination of historical performance analysis and the forward-looking views of the financial markets, and include input from actuaries, investment service firms and investment managers. The table below represents the changes to the projected benefit obligation as a result of changes in discount rate assumptions:

	<b>Increase (Decrease) in Projected Benefit Obligation (in millions)</b>
<b><u>Foreign Defined Benefit Plans</u></b>	
1% increase in actuarial assumption for discount rate	\$ (33.9 )
1% decrease in actuarial assumption for discount rate	\$ 42.9

	<b>Increase (Decrease) in Projected Benefit Obligation (in millions)</b>
<b><u>Domestic Salary Continuation Plan</u></b>	
1% increase in actuarial assumption for discount rate	\$ (2.7 )
1% decrease in actuarial assumption for discount rate	\$ 3.2

*Environmental Remediation.* We provide for environmental remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Remediation liabilities are accrued based on estimates of known environmental exposures and are discounted in certain instances. We regularly monitor the progress of environmental remediation. Should studies indicate that the cost of remediation is to be more than previously estimated, an additional accrual would be recorded in the period in which such determination is made. As of January 3, 2016, no significant amounts were provided for remediation liabilities.



*Allowances for Doubtful Accounts.* We maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. Estimating this amount requires us to analyze the financial strengths of our customers. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. By its nature, such an estimate is highly subjective, and it is possible that the amount of accounts receivable that we are unable to collect may be different than the amount initially estimated. Our allowance for doubtful accounts on January 3, 2016 and December 28, 2014, was \$4.5 million and \$5.9 million, respectively. To the extent the actual collectability of our accounts receivable differs from our estimates by 10%, our 2015 net income would be higher or lower by approximately \$0.3 million, on an after-tax basis, depending on whether the actual collectability was better or worse, respectively, than the estimated allowance.

*Product Warranties.* We typically provide limited warranties with respect to certain attributes of our carpet products (for example, warranties regarding excessive surface wear, edge ravel and static electricity) for periods ranging from ten to twenty years, depending on the particular carpet product and the environment in which the product is to be installed. We typically warrant that any services performed will be free from defects in workmanship for a period of one year following completion. In the event of a breach of warranty, the remedy typically is limited to repair of the problem or replacement of the affected product. We record a provision related to warranty costs based on historical experience and periodically adjust these provisions to reflect changes in actual experience. Our warranty and sales allowance reserve on January 3, 2016 and December 28, 2014, was \$4.8 million and \$4.0 million, respectively. Actual warranty expense incurred could vary significantly from amounts that we estimate. To the extent the actual warranty expense differs from our estimates by 10%, our 2015 net income would be higher or lower by approximately \$0.3 million, on an after-tax basis, depending on whether the actual expense is lower or higher, respectively, than the estimated provision.

### **Off-Balance Sheet Arrangements**

We are not a party to any material off-balance sheet arrangements.

Table Of Contents

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standard regarding recognition of revenue from contracts with customers. In summary, the core principle of this standard is that an entity recognizes revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance for this standard was initially effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in August of 2015, the FASB delayed the effective date of the standard for one full year. While we are currently reviewing this new standard, we do not believe that the adoption of this standard will have a material impact on our financial condition or results of operations.

In January 2015, the FASB issued an accounting standard which eliminates the concept of extraordinary items from generally accepted accounting principles. The standard does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. The standard is effective for interim and annual periods in fiscal years beginning after December 15, 2015. The standard allows prospective or retrospective application. Early adoption is permitted if applied from the beginning of the fiscal year of adoption. We do not believe the adoption of this standard will have any significant effect on our ongoing financial reporting.

In February 2015, the FASB issued an accounting standard which changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (“VIE”), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The new accounting standard is effective for annual and interim periods in fiscal years beginning after December 15, 2015. We are currently evaluating the impact, if any, this standard will have on our ongoing financial reporting, but we do not believe the adoption of this standard will have any significant effect on our ongoing financial reporting.

In April 2015, the FASB issued an accounting standard to simplify the presentation of debt issuance costs. This accounting standard requires debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. In August 2015, the FASB issued an accounting standard update that allows the presentation of debt issuance costs related to line-of-credit arrangements as an asset on the balance sheet under the simplified guidance, regardless of whether there are any outstanding borrowings on the related arrangements. The guidance in these accounting standards is to be applied retrospectively and is effective for interim and annual reporting periods beginning after December 15, 2015. As these standards relate to presentation only, we do not believe the adoption of these accounting standards will have a material impact on our financial statements.

In July 2015, the FASB issued an accounting standard to simplify the accounting for inventory. This standard requires all inventories to be measured at the lower of cost and net realizable value, except for inventory that is accounted for

using the LIFO or the retail inventory method, which will be measured under existing accounting standards. The new guidance must be applied on a prospective basis and is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of the adoption of this new standard and do not expect it to have a material impact on our consolidated financial statements.

In November 2015, the FASB issued an accounting standard which requires deferred tax assets and liabilities, as well as any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will only have one net noncurrent deferred tax asset or liability. This standard does not change the existing requirement that only permits offsetting within a jurisdiction. The amendments in the standard may be applied either prospectively or retrospectively to all prior periods presented. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. As this standard impacts only presentation, we do not expect it to have any significant effect on our consolidated financial statements.

In February 2016, the 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 into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Market Risk**

As a result of the scope of our global operations, we are exposed to an element of market risk from changes in interest rates and foreign currency exchange rates. Our results of operations and financial condition could be impacted by this risk. We manage our exposure to market risk through our regular operating and financial activities and, to the extent we deem appropriate, through the use of derivative financial instruments.

We employ derivative financial instruments as risk management tools and not for speculative or trading purposes. We monitor the use of derivative financial instruments through objective measurable systems, well-defined market and credit risk limits, and timely reports to senior management according to prescribed guidelines. We have established strict counter-party credit guidelines and enter into transactions only with financial institutions with a rating of investment grade or better. As a result, we consider the risk of counter-party default to be minimal.



Table Of Contents

***Interest Rate Market Risk Exposure***

Changes in interest rates affect the interest paid on certain of our debt. To mitigate the impact of fluctuations in interest rates, our management monitors interest rates and has developed and implemented a policy to maintain the percentage of fixed and variable rate debt within certain parameters, subject to approval by our Board of Directors. In the past, we have maintained a fixed/variable rate mix within these parameters either by borrowing on a fixed rate basis or entering into interest rate swap transactions. In the interest rate swaps, we agreed to exchange, at specified levels, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal linked to LIBOR. As of January 3, 2016 and December 28, 2014, no such interest rate swaps were in place.

***Foreign Currency Exchange Market Risk Exposure***

A significant portion of our operations consists of manufacturing and sales activities in foreign jurisdictions. We manufacture our products in the United States, Northern Ireland, the Netherlands, China, Thailand and Australia, and sell our products in more than 100 countries. As a result, our financial results have been, and could be, significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which we distribute our products. Our operating results are exposed to changes in exchange rates between the U.S. dollar and many other currencies, including the euro, British pound sterling, Canadian dollar, Australian dollar, Thai baht and Japanese yen. When the U.S. dollar strengthens against a foreign currency, the value of anticipated sales in those currencies decreases, and vice versa. Additionally, to the extent our foreign operations with functional currencies other than the U.S. dollar transact business in countries other than the United States, exchange rate changes between two foreign currencies could ultimately impact us. Finally, because we report in U.S. dollars on a consolidated basis, foreign currency exchange fluctuations could have a translation impact on our financial position.

At January 3, 2016, we recognized a \$32.6 million decrease in our foreign currency translation adjustment account compared with December 28, 2014, because of the strengthening of the U.S. dollar against certain foreign currencies during 2015, particularly the euro and the Australia dollar.

**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 January 3, 2016. The values that result from these computations are then compared with the market values of the financial instruments. The differences are the hypothetical gains or losses associated with each type of risk.

***Interest Rate Risk***

Our weighted average interest rate for our outstanding borrowings in 2015 and 2014 was 2.0% and 7.4%, respectively.

Table Of Contents

As discussed above, in the fourth quarter of 2014, we refinanced our outstanding 7.625% Senior Notes with a combination of term loan and revolving loan borrowings under our Syndicated Credit Facility, plus cash on hand. The following table summarizes our market risks associated with our debt obligations as of January 3, 2016. For debt obligations, the table presents principal cash flows and related weighted average interest rates by year of maturity. Variable interest rates presented for variable-rate debt represent the weighted average interest rate on our Syndicated Credit Facility borrowings as of January 3, 2016.

	2016	2017	2018	2019	Thereafter	Total	Fair Value
	<b>(in thousands)</b>						
<b>Rate-Sensitive Liabilities</b>							
Long-term Debt:							
Variable Rate	\$11,250	\$15,000	\$15,000	\$172,281	\$ 0	\$213,531	\$213,531
Variable Interest Rate	2.0 %	2.0 %	2.0 %	2.0 %	--		

An increase in our effective interest rate of 1% would increase annual interest expense by approximately \$2.1 million. We will continue to review our exposure to interest rate fluctuations and evaluate whether we should manage such exposures through interest rate swap transactions.

***Foreign Currency Exchange Rate Risk***

As of January 3, 2016, 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 short-term financial instruments (primarily cash, accounts receivable and accounts payable) of \$9.9 million or an increase in the fair value of our financial instruments of \$12.1 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****INTERFACE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	FISCAL YEAR		
	2015	2014	2013
	<i>(in thousands, except per share data)</i>		
Net sales	\$1,001,863	\$1,003,903	\$959,989
Cost of sales	618,974	663,876	618,880
Gross profit on sales	382,889	340,027	341,109
Selling, general and administrative expenses	269,296	257,346	252,433
Restructuring and asset impairment charges	0	12,386	0
Gain related to Australia fire	0	0	(6,954 )
Operating income	113,593	70,295	95,630
Interest expense	6,401	20,785	23,810
Debt retirement expenses	0	11,989	1,667
Other expense	1,426	1,779	1,149
Income before income tax expense	105,766	35,742	69,004
Income tax expense	33,348	10,934	20,749
Net income	\$72,418	\$24,808	\$48,255
Net income per share – basic	\$1.10	\$0.37	\$0.73
Net income per share – diluted	\$1.10	\$0.37	\$0.73
Basic weighted average common shares outstanding	66,027	66,389	66,194
Diluted weighted average common shares outstanding	66,075	66,448	66,297

See accompanying notes to consolidated financial statements.





Table Of Contents**INTERFACE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	FISCAL YEAR		
	2015	2014	2013
	<i>(in thousands)</i>		
Net income	\$72,418	\$24,808	\$48,255
Other comprehensive income (loss)			
Foreign currency translation adjustment	(32,575)	(28,351)	(5,241)
Pension liability adjustment	6,072	(15,280)	1,409
Comprehensive income (loss)	\$45,915	\$(18,823)	\$44,423

See accompanying notes to consolidated financial statements.

Table Of Contents**INTERFACE, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	2015	2014
	<i>(in thousands)</i>	
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$75,696	\$54,896
Accounts receivable, net	130,322	157,093
Inventories	161,174	142,167
Prepaid expenses and other current assets	22,490	20,780
Deferred income taxes	8,726	9,732
Total current assets	398,408	384,668
Property and equipment, net	211,489	227,347
Deferred tax asset	20,110	33,138
Goodwill	63,890	70,509
Other assets	62,652	59,252
	\$756,549	\$774,914
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$52,834	\$49,464
Accrued expenses	88,933	94,323
Current portion of long-term debt	11,250	0
Total current liabilities	153,017	143,787
Long term debt	202,281	263,338
Deferred income taxes	10,505	11,002
Other	48,380	50,148
Total liabilities	414,183	468,275
Commitments and contingencies		
Shareholders' equity		
Preferred stock	0	0
Common stock	6,570	6,597
Additional paid-in capital	370,327	368,603
Retained earnings	100,270	39,737
Accumulated other comprehensive loss – foreign currency translation	(91,511 )	(58,936 )
Accumulated other comprehensive loss – pension liability	(43,290 )	(49,362 )
Total shareholders' equity	342,366	306,639

\$756,549 \$774,914

See accompanying notes to consolidated financial statements.

Table Of Contents**INTERFACE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	FISCAL YEAR		
	2015	2014	2013
	<i>(in thousands)</i>		
<b>OPERATING ACTIVITIES:</b>			
Net income	\$72,418	\$24,808	\$48,255
Adjustments to reconcile income to cash provided by operating activities			
Depreciation and amortization	30,803	30,677	24,670
Stock compensation amortization expense	13,948	3,998	7,935
Bad debt expense	763	137	253
Deferred income taxes and other	9,052	(3,534)	9,349
Cash received from insurance company	0	0	25,973
Working capital changes:			
Accounts receivable	18,738	(29,255)	3,478
Inventories	(26,452)	1,343	(10,610)
Prepaid expenses and other current assets	(8,332)	2,785	(25,354)
Accounts payable and accrued expenses	14,497	15,421	(17,316)
Cash provided by operating activities	125,435	46,380	66,633
<b>INVESTING ACTIVITIES:</b>			
Capital expenditures	(27,188)	(38,922)	(91,851)
Other	731	2,415	3,074
Cash received from insurance company	0	0	23,024
Cash used in investing activities	(26,457)	(36,507)	(65,753)
<b>FINANCING ACTIVITIES:</b>			
Credit facility borrowing	0	48,850	26,326
Credit facility repayments	(45,267)	(9,905)	0
Term loan borrowings	0	200,000	0
Term loan repayments	(2,500)	0	0
Repurchase of common stock	(13,306)	(7,669)	0
Dividends paid	(11,885)	(9,297)	(7,283)
Debt issuance costs	0	(1,099)	(1,308)
Redemption/repurchase of senior notes	0	(247,500)	(35,610)
Proceeds from issuance of common stock	359	408	1,881
Cash used in financing activities	(72,599)	(26,212)	(15,994)
Net cash provided by (used in) operating, investing and financing activities	26,379	(16,339)	(15,114)
Effect of exchange rate changes on cash	(5,579)	(1,648)	(2,536)
<b>CASH AND CASH EQUIVALENTS:</b>			

Edgar Filing: INTERFACE INC - Form 10-K

Net increase (decrease)	20,800	(17,987 )	(17,650)
Balance, beginning of year	54,896	72,883	90,533
Balance, end of year	\$75,696	\$ 54,896	\$72,883

See accompanying notes to consolidated financial statements.

Table Of Contents

**INTERFACE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Company is a recognized leader in the worldwide commercial interiors market, offering modular carpet. The Company manufactures modular carpet focusing on the high quality, designer-oriented sector of the market, and provides specialized carpet replacement, installation and maintenance services. Additionally, the Company offers *Intersept*, a proprietary antimicrobial used in a number of interior finishes.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. All of our subsidiaries are wholly-owned, and we are not a party to any joint venture, partnership or other variable interest entity that would potentially qualify for consolidation. All material intercompany accounts and transactions are eliminated. Investments in which the Company does not have the ability to exercise significant influence are carried at fair value. The Company monitors investments for other than temporary declines in value and makes reductions in carrying values when appropriate. As of January 3, 2016 and December 28, 2014, the Company did not hold significant investments of this nature.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Examples include provisions for returns, bad debts, product claims reserves, rebates, inventory obsolescence and the length of product life cycles, accruals associated with restructuring activities, income tax exposures and valuation allowances, environmental liabilities, and the carrying value of goodwill and property and equipment. Actual results could vary from these estimates.

## **Revenue Recognition**

Revenue is recognized when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, price to the buyer is fixed and determinable, and collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. Provisions for discounts, sales returns and allowances are estimated using historical experience, current economic trends, and the Company's quality performance. The related provision is recorded as a reduction of sales and cost of sales in the same period that the revenue is recognized. Material differences may result in the amount and timing of net sales for any period if management makes different judgments or uses different estimates.

Shipping and handling fees billed to customers are classified in net sales in the consolidated statements of operations. Shipping and handling costs incurred are classified in cost of sales in the consolidated statements of operations.

## **Research and Development**

Research and development costs are expensed as incurred and are included in the selling, general and administrative expense caption in the consolidated statements of operations. Research and development expense was \$14.5 million, \$13.9 million and \$12.6 million for the years 2015, 2014 and 2013, respectively.



Table Of Contents

**Cash, Cash Equivalents and Short-Term Investments**

Highly liquid investments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months and less than one year are classified as short-term investments. The Company did not hold any significant amounts of short-term investments at January 3, 2016 or December 28, 2014.

Cash payments for interest amounted to approximately \$4.8 million, \$21.0 million and \$22.9 million for the years 2015, 2014 and 2013, respectively. Income tax payments amounted to approximately \$7.2 million, \$7.5 million and \$8.7 million for the years 2015, 2014 and 2013, respectively. During the years 2015, 2014 and 2013, the Company received income tax refunds of \$3.1 million, \$5.0 million and \$1.4 million, respectively.

**Inventories**

Inventories are carried at the lower of cost (standards approximating the first-in, first-out method) or market. Costs included in inventories are based on invoiced costs and/or production costs, as applicable. Included in production costs are material, direct labor and allocated overhead. The Company writes down inventories for the difference between the carrying value of the inventories and their estimated net realizable value. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

Management estimates its reserves for inventory obsolescence by continuously examining its inventories to determine if there are indicators that carrying values exceed net realizable values. Experience has shown that significant indicators that could require the need for additional inventory write-downs are the age of the inventory, the length of its product life cycles, anticipated demand for the Company's products, and current economic conditions. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the Company could experience additional inventory write-downs in the future.

**Rebates**

The Company has agreements to receive cash consideration from certain of its vendors, including rebates and cooperative marketing reimbursements. The amounts received from its vendors are generally presumed to be a reduction of the prices the Company pays for their products and, therefore, such amounts are reflected as either a

reduction of cost of sales in the accompanying consolidated statements of operations, or, if the product inventory is still on hand at the reporting date, it is reflected as a reduction of "Inventories" on the accompanying consolidated balance sheets. Vendor rebates are typically dependent upon reaching minimum purchase thresholds. The Company evaluates the likelihood of reaching purchase thresholds using past experience and current year forecasts. When rebates can be reasonably estimated and receipt becomes probable, the Company records a portion of the rebate as the Company makes progress towards the purchase threshold.

When the Company receives direct reimbursements for costs incurred in marketing the vendor's product or service, the amount received is recorded as an offset to selling, general and administrative expenses in the accompanying consolidated statements of operations.

### **Assets and Liabilities of Businesses Held for Sale**

The Company considers businesses to be held for sale when the Board or management, having the relevant authority to do so, approves and commits to a formal plan to actively market a business for sale and the sale is considered probable. Upon designation as held for sale, the carrying value of the assets of the business are recorded at the lower of their carrying value or their estimated fair value, less costs to sell. The Company ceases to record depreciation expense at that time.

Table Of Contents

**Property and Equipment and Long-Lived Assets**

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives: buildings and improvements – ten to forty years; and furniture and equipment – three to twelve years. Interest costs for the construction/development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Company capitalized net interest costs on qualifying expenditures of approximately \$0.3 million, \$0.8 million and \$0.8 million for the fiscal years 2015, 2014 and 2013, respectively. Depreciation expense amounted to approximately \$30.4 million, \$30.3 million and \$24.4 million for the years 2015, 2014 and 2013, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flow is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. Repair and maintenance costs are charged to operating expense as incurred.

**Goodwill and Other Intangible Assets**

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as acquisitions. Accumulated amortization amounted to approximately \$77.3 million at both January 3, 2016 and December 28, 2014, and cumulative impairment losses recognized were \$212.6 million as of both January 3, 2016 and December 28, 2014.

As of January 3, 2016 and December 28, 2014, the net carrying amount of goodwill was \$63.9 million and \$70.5 million, respectively. Other intangible assets were \$4.8 million and \$4.7 million as of January 3, 2016 and December 28, 2014, respectively. The Company capitalizes patent defense costs when it determines that a successful defense is probable. Any patent defense costs are amortized over the remaining useful life of the patent. Amortization expense related to intangible assets during the years 2015, 2014 and 2013 was \$0.3 million, \$0.3 million and \$0.3 million, respectively.

During the fourth quarters of 2015, 2014 and 2013, as of the last day of the third quarter of each year, the Company performed the annual goodwill impairment test required by applicable accounting standards. The Company performs this test at the reporting unit level, which is one level below the segment level for the Modular Carpet segment. In effecting the impairment testing, the Company prepared valuations of reporting units on both a market comparable methodology and an income methodology in accordance with the applicable standards, and those valuations were compared with the respective book values of the reporting units to determine whether any goodwill impairment

existed. In preparing the valuations, past, present and future expectations of performance were considered. The annual testing indicated no potential of goodwill impairment in any of the years presented.

Each of the Company's reporting units maintained fair values in excess of their respective carrying values as of the measurement date, and therefore no impairment was indicated during the impairment testing. As of January 3, 2016, if the Company's estimates of the fair values of its reporting units which carry a goodwill balance were 10% lower, the Company still believes no goodwill impairment would have existed.

The changes in the carrying amounts of goodwill for the year ended January 3, 2016 are as follows:

BALANCE DECEMBER 28, 2014 <i>(in thousands)</i>	ACQUISITIONS	IMPAIRMENT	FOREIGN CURRENCY TRANSLATION	BALANCE JANUARY 3, 2016
\$70,509	\$ 0	\$ 0	\$ (6,619)	) \$ 63,890

Table Of Contents

**Product Warranties**

The Company typically provides limited warranties with respect to certain attributes of its carpet products (for example, warranties regarding excessive surface wear, edge ravel and static electricity) for periods ranging from ten to twenty years, depending on the particular carpet product and the environment in which it is to be installed. The Company typically warrants that services performed will be free from defects in workmanship for a period of one year following completion. In the event of a breach of warranty, the remedy typically is limited to repair of the problem or replacement of the affected product.

The Company records a provision related to warranty costs based on historical experience and periodically adjusts these provisions to reflect changes in actual experience. Warranty and sales allowance reserves amounted to \$4.8 million and \$4.0 million as of January 3, 2016 and December 28, 2014, respectively, and are included in “Accrued Expenses” in the accompanying consolidated balance sheets.

**Taxes on Income**

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in tax laws or rates. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized as income or expense in the period that includes the enactment date.

The Company records a valuation allowance to reduce its deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will expire before realization of the benefit or that future deductibility is not probable. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future. This requires us to use estimates and make assumptions regarding significant future events such as the taxability of entities operating in the various taxing jurisdictions.

The Company does not record taxes collected from customers and remitted to governmental authorities on a gross basis.

For uncertain tax positions, the Company applies the provisions of relevant authoritative guidance, which requires application of a “more likely than not” threshold to the recognition and derecognition of tax positions. The Company’s ongoing assessments of the more likely than not outcomes of tax authority examinations and related tax positions require significant judgment and can increase or decrease the Company’s effective tax rate as well as impact operating results. For further information, see the Note entitled “Taxes on Income.”

### **Fair Values of Financial Instruments**

Fair values of cash and cash equivalents and short-term debt approximate cost due to the short period of time to maturity. Fair values of debt are based on quoted market prices or pricing models using current market rates.

### **Translation of Foreign Currencies**

The financial position and results of operations of the Company’s foreign subsidiaries are measured generally using local currencies as the functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each year-end. Income and expense items are translated at average exchange rates for the year. The resulting translation adjustments are recorded in the foreign currency translation adjustment account. In the event of a divestiture of a foreign subsidiary, the related foreign currency translation results are reversed from equity to income. Foreign currency exchange gains and losses are included in net income (loss). Foreign exchange translation gains (losses) were (\$32.6) million, (\$28.4) million and (\$5.2) million for the years 2015, 2014 and 2013, respectively.

### **Income (Loss) Per Share**

Basic income (loss) per share is computed based on the average number of common shares outstanding. Diluted income (loss) per share reflects the increase in average common shares outstanding that would result from the assumed exercise of outstanding stock options, calculated using the treasury stock method.

Table Of Contents

**Stock-Based Compensation**

As of fiscal year 2015, the Company has stock-based employee compensation plans, which are described more fully in the “Shareholders’ Equity” Note below.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. However, there were no stock options granted in 2015, 2014 or 2013.

The Company recognizes expense related to its restricted stock grants based on the grant date fair value of the stock issued, as determined by its market price at date of grant.

**Derivative Financial Instruments**

Accounting standards require a company to recognize all derivatives on the balance sheet at fair value. Derivatives that do not meet the criteria of an accounting hedge must be adjusted to fair value through income. If the derivative is a fair value hedge, changes in the fair value of the hedged assets, liabilities or firm commitments are recognized through earnings. If the derivative is a cash flow hedge, the effective portion of changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative’s change in fair value is immediately recognized in earnings. As of January 3, 2016 and December 28, 2014, the Company was not party to any significant derivative instruments.

**Pension Benefits**

Net pension expense recorded is based on, among other things, assumptions about the discount rate, estimated return on plan assets and salary increases. While the Company believes these assumptions are reasonable, changes in these and other factors and differences between actual and assumed changes in the present value of liabilities or assets of the Company’s plans above certain thresholds could cause net annual expense to increase or decrease materially from year to year. The actuarial assumptions used in the Company’s salary continuation plan and foreign defined benefit plans reporting are reviewed periodically and compared with external benchmarks to ensure that they appropriately account for our future pension benefit obligation. The expected long-term rate of return on plan assets assumption is based on weighted average expected returns for each asset class. Expected returns reflect a combination of historical performance analysis and the forward-looking views of the financial markets, and include input from actuaries, investment service firms and investment managers.

### **Environmental Remediation**

The Company provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Remediation liabilities are accrued based on estimates of known environmental exposures and are discounted in certain instances. The Company regularly monitors the progress of environmental remediation. Should studies indicate that the cost of remediation is to be more than previously estimated, an additional accrual would be recorded in the period in which such determination is made. As of January 3, 2016 and December 28, 2014, no significant amounts were provided for remediation liabilities.

### **Allowances for Doubtful Accounts**

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. Estimating this amount requires the Company to analyze the financial strengths of its customers. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. By its nature, such an estimate is highly subjective, and it is possible that the amount of accounts receivable that the Company is unable to collect may be different than the amount initially estimated. The Company's allowance for doubtful accounts on January 3, 2016 and December 28, 2014, was \$4.5 million and \$5.9 million, respectively.



Table Of Contents

**Reclassifications**

Certain prior period amounts have been reclassified to conform to current year financial statement presentation. These reclassifications had no effect on reported income, comprehensive income, cash flows, total assets or shareholders' equity as previously reported.

**Fiscal Year**

The Company's fiscal year is the 52 or 53 week period ending on the Sunday nearest December 31. All references herein to "2015," "2014," and "2013," mean the fiscal years ended January 3, 2016, December 28, 2014, and December 29, 2013, respectively. Fiscal year 2015 was comprised of 53 weeks, while fiscal years 2014 and 2013 were each comprised of 52 weeks.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard regarding recognition of revenue from contracts with customers. In summary, the core principle of this standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance for this standard was initially effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in August of 2015, the FASB delayed the effective date of the standard for one full year. While the Company is currently reviewing this new standard, it does not believe that the adoption of this standard will have a material impact on its financial condition or results of operations.

In January 2015, the FASB issued an accounting standard which eliminates the concept of extraordinary items from generally accepted accounting principles. The standard does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. The standard is effective for interim and annual periods in fiscal years beginning after December 15, 2015. The standard allows prospective or retrospective application. Early adoption is permitted if applied from the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have any significant effect on its ongoing financial reporting.

In February 2015, the FASB issued an accounting standard which changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or

service provider are variable interests in a variable interest entity (“VIE”), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The new accounting standard is effective for annual and interim periods in fiscal years beginning after December 15, 2015. The Company is evaluating the impact, if any, this standard will have on its ongoing financial reporting, but currently does not believe the adoption of this standard will have any significant effect on its ongoing financial reporting.

In April 2015, the FASB issued an accounting standard to simplify the presentation of debt issuance costs. This accounting standard requires debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability. In August 2015, the FASB issued an accounting standard update that allows the presentation of debt issuance costs related to line-of-credit arrangements as an asset on the balance sheet under the simplified guidance, regardless of whether there are any outstanding borrowings on the related arrangements. The guidance in these accounting standards is to be applied retrospectively and is effective for interim and annual reporting periods beginning after December 15, 2015. As these standards relate to presentation only, the Company does not believe the adoption of this accounting standard will have a significant impact on its financial statements.

In July 2015, the FASB issued an accounting standard to simplify the accounting for inventory. This standard requires all inventories to be measured at the lower of cost and net realizable value, except for inventory that is accounted for using the LIFO or the retail inventory method, which will be measured under existing accounting standards. The new guidance must be applied on a prospective basis and is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this new standard and does not expect it to have a significant impact on its consolidated financial statements.

In November 2015, the FASB issued an accounting standard which requires deferred tax assets and liabilities, as well as any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will only have one net noncurrent deferred tax asset or liability. This standard does not change the existing requirement that only permits offsetting within a jurisdiction. The amendments in the standard may be applied either prospectively or retrospectively to all prior periods presented. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. As this standard impacts only presentation, the Company does not expect it to have any significant effect on its ongoing financial reporting.

In February 2016, the 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 into 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.



Table Of Contents**RECEIVABLES**

The Company has adopted credit policies and standards intended to reduce the inherent risk associated with potential increases in its concentration of credit risk due to increasing trade receivables from sales to owners and users of commercial office facilities and with specifiers such as architects, engineers and contracting firms. Management believes that credit risks are further moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of January 3, 2016 and December 28, 2014, the allowance for bad debts amounted to \$4.5 million and \$5.9 million, respectively, for all accounts receivable of the Company. Reserves for warranty and returns allowances amounted to \$4.8 million and \$4.0 million as of January 3, 2016 and December 28, 2014, respectively.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company does not have significant assets and liabilities measured at fair value on a recurring basis under applicable accounting standards as of the end of 2015. The Company does have approximately \$24.8 million of Company-owned life insurance which is measured on readily determinable cash surrender value on a recurring basis. Due to the short maturity of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, their carrying values approximate fair value. As of January 3, 2016, the carrying value of the Company's borrowings under its Syndicated Credit Facility approximates fair value as the Facility bears interest rates that are similar to existing market rates.

**INVENTORIES**

Inventories are summarized as follows:

	2015	2014
	<i>(in thousands)</i>	
Finished goods	\$101,697	\$89,688
Work-in-process	9,865	9,898
Raw materials	49,612	42,581
	\$161,174	\$142,167

Reserves for inventory obsolescence amounted to \$15.5 million and \$14.8 million as of January 3, 2016 and December 28, 2014, respectively, and have been netted against amounts presented above.

## PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2015	2014
	<i>(in thousands)</i>	
Land	\$16,501	\$15,862
Buildings	125,568	124,476
Equipment	342,986	347,965
	485,055	488,303
Accumulated depreciation	(273,566)	(260,956)
	\$211,489	\$227,347

The estimated cost to complete construction-in-progress for which the Company was committed at January 3, 2016, was approximately \$13.1 million.

Table Of Contents**ACCRUED EXPENSES**

Accrued expenses are summarized as follows:

	2015	2014
	<i>(in thousands)</i>	
Compensation	\$62,435	\$56,354
Interest	442	709
Restructuring	104	7,179
Taxes	9,299	17,962
Accrued purchases	4,104	2,966
Warranty and sales allowances	4,759	3,957
Other	7,790	5,196
	\$88,933	\$94,323

Other non-current liabilities include pension liability of \$29.3 million and \$37.9 million as of January 3, 2016 and December 28, 2014, respectively (see the discussion below in the Note entitled “Employee Benefit Plans”).

**BORROWINGS***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. The key features of the Facility are as follows:

The Facility matures on October 3, 2019.

The Facility includes (i) a multicurrency revolving loan facility made available to the Company and its principal subsidiaries in Europe and Australia not to exceed \$240 million in the aggregate at any one time outstanding, and (ii) a revolving loan facility made available to the Company’s principal subsidiary in Thailand not to exceed the equivalent of \$10 million in the aggregate at any one time outstanding. A sublimit of \$40 million exists for the issuance of letters of credit under the Facility.

The Facility includes \$200 million of Term Loan A borrowing availability which could be used (and was in fact used) to refinance the Company's 7.625% Senior Notes due 2018 (discussed below).

The Facility provides for required amortization payments of the Term Loan A borrowing, as well as mandatory prepayments of the Term Loan A borrowing (and any term loans made available pursuant to any future multicurrency loan facility increase) from certain asset sales, casualty events and debt issuances, subject to certain qualifications and exceptions as provided for therein.

Advances under the Facility are secured by a first-priority lien on substantially all of the Company's assets and the assets of each of its material domestic subsidiaries, which have guaranteed the Facility.

The Facility contains financial covenants (specifically, a consolidated net leverage ratio and a consolidated interest coverage ratio) that must be met as of the end of each fiscal quarter.

The Company has the option to increase the borrowing availability under the Facility, either for revolving loans or term loans, by up to \$150 million, subject to the receipt of lender commitments for the increase and the satisfaction of certain other conditions.

Interest Rates and Fees. Interest on base rate loans is charged at varying rates computed by applying a margin ranging from 0.25% to 1.50% over the applicable base interest rate (which is defined as the greatest of the prime rate, a specified federal funds rate plus 0.50%, or a specified LIBOR rate), 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 ranging from 1.25% to 2.50% 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 ranging from 0.20% to 0.35% 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

Amortization Payments. The Company is required to make amortization payments of the Term Loan A borrowing. The amortization payments are due on the last day of the calendar quarter, commencing with an initial amortization payment of \$2.5 million that was made on December 31, 2015. The quarterly amortization payment amount increases to \$3.75 million on December 31, 2016.

Covenants. The Facility contains standard and customary covenants for agreements of this type, including various reporting, affirmative and negative covenants. Among other things, these covenants limit the Company's and its subsidiaries' ability to:

- create or incur liens on assets;
- make acquisitions of or investments in businesses (in excess of certain specified amounts);
- incur indebtedness or contingent obligations;
- sell or dispose of assets (in excess of certain specified amounts);
- pay dividends or repurchase the Company's stock (in excess of certain specified amounts);
- repay other indebtedness prior to maturity unless the Company meets certain conditions; and
- enter into sale and leaseback transactions.

The Facility also requires the Company to remain in compliance with the following financial covenants as of the end of each fiscal quarter, based on the Company's consolidated results for the year then ended:

Consolidated Net Leverage Ratio: Must be no greater than (i) 4.50:1.00 through and including the fiscal quarter ending December 28, 2014, (ii) 4.00:1.00 from and including the fiscal quarter ending April 5, 2015 through and including the fiscal quarter ending January 3, 2016, and (iii) 3.75:1.00 for each fiscal quarter thereafter.  
Consolidated Interest Coverage Ratio: Must be no less than 2.25:1.00 as of the end of any fiscal quarter.

Events of Default. If the Company breaches or fails to perform any of the affirmative or negative covenants under the Facility, or if other specified events occur (such as a bankruptcy or similar event or a change of control of Interface, Inc. or certain subsidiaries, or if the Company breaches or fails to perform any covenant or agreement contained in any instrument relating to any of the Company's other indebtedness exceeding \$20 million), after giving effect to any applicable notice and right to cure provisions, an event of default will exist. If an event of default exists and is continuing, the lenders' Administrative Agent may, and upon the written request of a specified percentage of the lender group shall:

- declare all commitments of the lenders under the facility terminated;
- declare all amounts outstanding or accrued thereunder immediately due and payable; and
- exercise other rights and remedies available to them under the agreement and applicable law.



Collateral. Pursuant to a Security and Pledge Agreement executed on the same date, the Facility is secured by substantially all of the assets of the Company and its domestic subsidiaries (subject to exceptions for certain immaterial subsidiaries), including all of the stock of the Company's domestic subsidiaries and up to 65% of the stock of its first-tier material foreign subsidiaries. If an event of default occurs under the Facility, the lenders' Administrative Agent may, upon the request of a specified percentage of lenders, exercise remedies with respect to the collateral, including, in some instances, foreclosing mortgages on real estate assets, taking possession of or selling personal property assets, collecting accounts receivables, or exercising proxies to take control of the pledged stock of domestic and first-tier material foreign subsidiaries.

As described below, in the fourth quarter of 2014, the Company redeemed \$27.5 million in aggregate principal amount of its 7.625% Senior Notes due 2018 at a price equal to 103% of their principal amount, plus accrued interest to the redemption date of November 26, 2014, and redeemed the remaining \$220 million in aggregate principal amount of the 7.625% Senior Notes that had not previously been called for redemption at a price equal to 103.813% of their principal amount, plus accrued interest to the redemption date of December 1, 2014. These redemptions transactions were funded through a combination of term loan and revolving loan borrowings under the Facility and cash on hand.

As of January 3, 2016, the Company had outstanding \$197.5 million of Term Loan A borrowing and \$16.0 million of revolving loan borrowings outstanding under the Facility, and had \$3.1 million in letters of credit outstanding under the Facility. As of January 3, 2016 the weighted average interest rate on borrowings outstanding under the Facility was 2.0%.

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.

Table Of Contents

**7.625% Senior Notes**

On December 3, 2010, the Company completed a private offering of \$275 million aggregate principal amount of 7.625% Senior Notes due 2018 (the "7.625% Senior Notes"). Interest on the 7.625% Senior Notes was payable semi-annually on June 1 and December 1 (the first payment was made on June 1, 2011). The 7.625% Senior Notes were guaranteed, fully, unconditionally, and jointly and severally, on an unsecured senior basis by certain of the Company's domestic subsidiaries. The Company had the option to redeem some or all of these notes at any time prior to December 1, 2014, at a redemption price equal to 100% of the principal amount plus a make-whole premium. Prior to December 1, 2014, the Company had the option to redeem up to 10% of the aggregate principal amount of the 7.625% Senior Notes per 12-month period at a redemption price equal to 103% of the principal amount of the notes redeemed, plus accrued and unpaid interest. In addition, the notes became redeemable for cash after December 1, 2014 at the Company's option, in whole or in part, initially at a redemption price equal to 103.813% of the principal amount, declining to 100% of the principal amount on December 1, 2016, plus accrued interest thereon to the date fixed for redemption.

In November 2013, the Company redeemed \$27.5 million aggregate principal amount of the 7.625% Senior Notes at a price equal to 103% of the principal amount of the notes redeemed, plus accrued interest to the redemption date. As discussed above, on November 26, 2014, the Company redeemed \$27.5 million in aggregate principal amount of its 7.625% Senior Notes at a price equal to 103% of their principal amount, plus accrued interest, and on December 1, 2014, the Company redeemed the remaining \$220 million in aggregate principal amount of the 7.625% Senior Notes at a price equal to 103.813% of their principal amount, plus accrued interest. The aggregate premiums paid in connection with the redemptions in 2014 was \$9.3 million. The estimated fair value of the 7.625% Senior Notes as of December 29, 2013, based on then current market prices, was \$265.8 million.

**11.375% Senior Secured Notes**

On June 5, 2009, the Company completed a private offering of \$150 million aggregate principal amount of 11.375% Senior Secured Notes due 2013. Interest on the 11.375% Senior Secured Notes was payable semi-annually on May 1 and November 1 (the first payment was made on November 1, 2009). The 11.375% Senior Secured Notes were guaranteed, jointly and severally, on a senior secured basis by certain of the Company's domestic subsidiaries. The 11.375% Senior Secured Notes were 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 Syndicated Credit Facility on a first-priority basis.

**Other Lines of Credit**

Subsidiaries of the Company have an aggregate of the equivalent of \$14.6 million of other lines of credit available at interest rates ranging from 2% to 7%. As of January 3, 2016 and December 28, 2014, there were no borrowings outstanding under these lines of credit.

### **Borrowing Costs**

Deferred borrowing costs, which include underwriting, legal and other direct costs related to the issuance of debt, net of accumulated amortization, were \$1.9 million and \$2.4 million, as of January 3, 2016 and December 28, 2014, respectively. The Company amortizes these costs over the life of the related debt. Expenses related to such costs for the years 2015, 2014 and 2013 amounted to \$0.5 million, \$3.8 million, and \$2.0 million, respectively. The expense for 2014 included \$2.8 million related to the writedown of debt costs associated with the refinancing actions discussed above. The expense for the year 2013 included \$0.8 million of expense related to the write-down of debt costs associated with note repurchases and the termination of our former \$100 million domestic revolving credit facility.

Table Of Contents**Future Maturities**

The aggregate maturities of borrowings for each of the five fiscal years subsequent to 2015 are as follows:

FISCAL YEAR	AMOUNT
	<i>(in thousands)</i>
2016	\$ 11,250
2017	15,000
2018	15,000
2019	172,281
2020	0
Thereafter	0
	\$ 213,531

**PREFERRED STOCK**

The Company is authorized to designate and issue up to 5,000,000 shares of \$1.00 par value preferred stock in one or more series and to determine the rights and preferences of each series, to the extent permitted by the Articles of Incorporation, and to fix the terms of such preferred stock without any vote or action by the shareholders. The issuance of any series of preferred stock may have an adverse effect on the rights of holders of common stock and could decrease the amount of earnings and assets available for distribution to holders of common stock. In addition, any issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of the Company. As of January 3, 2016 and December 28, 2014, there were no shares of preferred stock issued.

**Preferred Share Purchase Rights**

The Company has previously issued one purchase right (a "Right") in respect of each outstanding share of Common Stock pursuant to a Rights Agreement it entered into in March 2008. Each Right entitles the registered holder of the Common Stock to purchase from the Company one one-hundredth of a share (a "Unit") of Series B Participating Cumulative Preferred Stock (the "Series B Preferred Stock").

The Rights may have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that acquires (without the consent of the Company's Board of Directors) 15% or more of the outstanding shares of

Common Stock or if other specified events occur without the Rights having been redeemed or in the event of an exchange of the Rights for Common Stock as permitted under the Shareholder Rights Plan.

The dividend and liquidation rights of the Series B Preferred Stock are designed so that the value of one Unit of Series B Preferred Stock issuable upon exercise of each Right will approximate the same economic value as one share of Common Stock, including voting rights. The exercise price per Right is \$90, subject to adjustment. Shares of Series B Preferred Stock will entitle the holder to a minimum preferential dividend of \$1.00 per share, but will entitle the holder to an aggregate dividend payment of 100 times the dividend declared on each share of Common Stock. In the event of liquidation, each share of Series B Preferred Stock will be entitled to a minimum preferential liquidation payment of \$1.00, plus accrued and unpaid dividends and distributions thereon, but will be entitled to an aggregate payment of 100 times the payment made per share of Common Stock. In the event of any merger, consolidation or other transaction in which Common Stock is exchanged for or changed into other stock or securities, cash or other property, each share of Series B Preferred Stock will be entitled to receive 100 times the amount received per share of Common Stock. Series B Preferred Stock is not convertible into Common Stock.

Each share of Series B Preferred Stock will be entitled to 100 votes on all matters submitted to a vote of the shareholders of the Company, and shares of Series B Preferred Stock will generally vote together as one class with the Common Stock and any other voting capital stock of the Company on all matters submitted to a vote of the Company's shareholders.

Further, whenever dividends on the Series B Preferred Stock are in arrears in an amount equal to six quarterly payments, the Series B Preferred Stock, together with any other shares of preferred stock then entitled to elect directors, shall have the right, as a single class, to elect one director until the default has been cured.

Prior to entering into the March 2008 Rights Agreement, the Company maintained a substantially similar Rights Agreement that was entered into in 1998.

Table Of Contents

**SHAREHOLDERS' EQUITY**

Prior to March 5, 2012, the Company had two classes of common stock – Class A Common Stock and Class B Common Stock. The Company was authorized to issue 80 million shares of \$0.10 par value Class A Common Stock and 40 million shares of \$0.10 par value Class B Common Stock. The Class A and Class B Common Stock had identical voting rights except for the election or removal of directors. Holders of Class B Common Stock were entitled as a class to elect a majority of the Board of Directors. Under the terms of the Class B Common Stock, its special voting rights to elect a majority of the Board members would terminate irrevocably if the total outstanding shares of Class B Common Stock ever comprised less than ten percent of the Company's total issued and outstanding shares of Class A and Class B Common Stock.

On March 5, 2012, the number of issued and outstanding shares of Class B Common Stock of the Company constituted less than 10% of the aggregate number of issued and outstanding shares of the Company's Class A Common Stock and Class B Common Stock (that is, 6,459,556 shares of an aggregate of 65,372,375 shares), as the cumulative result of varied transactions that caused the conversion of shares of Class B Common Stock into shares of Class A Common Stock. Accordingly, in accordance with the respective terms for the Class B Common Stock and the Class A Common Stock in Article V of the Company's Articles of Incorporation (the "Articles"), the Class A Common Stock and Class B Common Stock are now, irrevocably from March 5, 2012, a single class of Common Stock in all respects, with no distinction whatsoever between the voting rights or any other rights and privileges of the holders of Class A Common Stock and the holders of Class B Common Stock. The Company intends to eliminate uses of (or references to) the terms "Class A" and "Class B" in connection with the Common Stock, except for historical purposes or to facilitate transition by certain stock listing or administrative services organizations who are accustomed to the old designations for the Common Stock. Following the March 5, 2012 event, the Company is authorized to issue 120 million shares of \$0.10 par value Common Stock.

The Company's Common Stock is traded on the Nasdaq Global Select Market under the symbol TILE.

The Company paid dividends totaling \$0.18 per share in 2015, \$0.14 per share during 2014 and \$0.11 per share during 2013, to each share of Common Stock. The future declaration and payment of dividends is at the discretion of the Company's Board, and depends upon, among other things, the Company's investment policy and opportunities, results of operations, financial condition, cash requirements, future prospects, and other factors that may be considered relevant at the time of the Board's determination. Such other factors include limitations contained in the agreement for its syndicated credit facility, which specifies conditions as to when any dividend payments may be made. As such, the Company may discontinue its dividend payments in the future if its Board determines that a cessation of dividend payments is proper in light of the factors indicated above.

Edgar Filing: INTERFACE INC - Form 10-K

On October 7, 2014, the Company announced a program to repurchase up to 500,000 shares of common stock per fiscal year, commencing with the 2014 fiscal year. During 2014, the Company repurchased and retired 500,000 shares of common stock at an average purchase price of \$15.30 per share. On November 19, 2015, the Board of Directors amended the program to provide that the 500,000 shares of common stock previously approved for repurchases for the 2016 fiscal year may be repurchased by the Company, in management's discretion, during the period commencing on November 19, 2015 and ending at the conclusion of fiscal year 2016. During 2015, the Company repurchased and retired 650,000 shares of common stock at an average purchase price of \$20.47 per share.

All treasury stock is accounted for using the cost method.

Table Of Contents

The following tables depict the activity in the accounts which make up shareholders equity for the years 2015, 2014, and 2013.

	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	PENSION LIABILITY	FOREIGN CURRENCY TRANSLATION ADJUSTMENT
	<i>(in thousands)</i>					
Balance, at December 30, 2012	66,062	\$ 6,606	\$ 366,677	\$ (16,746 )	\$ (35,491 )	\$ (25,344 )
Net income	0	0	0	48,255	0	0
Stock issuances under employee option plans	201	20	1,814	0	0	0
Other issuances of common stock	670	67	10,805	0	0	0
Unamortized stock compensation expense related to restricted stock awards	0	0	(10,872 )	0	0	0
Cash dividends paid	0	0	0	(7,283 )	0	0
Forfeitures and compensation expense related to stock awards	(622 )	(62 )	6,173	0	0	0
Pension liability adjustment	0	0	0	0	1,409	0
Foreign currency translation adjustment	0	0	0	0	0	(5,241 )
Other	0	0	0	0	0	0
Balance, at December 29, 2013	66,311	\$ 6,631	\$ 374,597	\$ 24,226	\$ (34,082 )	\$ (30,585 )

	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	PENSION LIABILITY	FOREIGN CURRENCY TRANSLATION ADJUSTMENT
	<i>(in thousands)</i>					
Balance, at December 29, 2013	66,311	\$ 6,631	\$ 374,597	\$ 24,226	\$ (34,082 )	\$ (30,585 )
Net income	0	0	0	24,808	0	0
Stock issuances under employee option plans	55	5	381	0	0	0
Other issuances of common stock	489	49	10,361	0	0	0
Unamortized stock compensation expense related to restricted stock awards	0	0	(10,410 )	0	0	0
Cash dividends paid	0	0	0	(9,297 )	0	0
Forfeitures and compensation expense related to stock awards	(387 )	(38 )	1,293	0	0	0
Share repurchases	(500 )	(50 )	(7,619 )	0	0	0
Pension liability adjustment	0	0	0	0	(15,280 )	0
	0	0	0	0	0	(28,351 )



Edgar Filing: INTERFACE INC - Form 10-K

Foreign currency translation  
adjustment

Other	0	0	0	0	0	0
Balance, at December 28, 2014	65,968	\$ 6,597	\$ 368,603	\$ 39,737	\$ (49,362 )	\$ (58,936 )

50

---

Table Of Contents

	SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	PENSION LIABILITY	FOREIGN CURRENCY TRANSLATION ADJUSTMENT
	<i>(in thousands)</i>					
Balance, at December 28, 2014	65,968	\$ 6,597	\$ 368,603	\$ 39,737	\$ (49,362 )	\$ (58,936 )
Net income	0	0	0	72,418	0	0
Stock issuances under employee option plans	39	4	355	0	0	0
Other issuances of common stock	597	59	9,746	0	0	0
Unamortized stock compensation expense related to restricted stock awards	0	0	(9,806 )	0	0	0
Cash dividends paid	0	0	0	(11,885 )	0	0
Forfeitures and compensation expense related to stock awards	(253 )	(25 )	14,670	0	0	0
Share repurchases	(650 )	(65 )	(13,241 )	0	0	0
Pension liability adjustment	0	0	0	0	6,072	0
Foreign currency translation adjustment	0	0	0	0	0	(32,575 )
Other	0	0	0	0	0	0
Balance, at January 3, 2016	65,701	\$ 6,570	\$ 370,327	\$ 100,270	\$ (43,290 )	\$ (91,511 )

**Stock Options**

The Company has an Omnibus Stock Incentive Plan (“Omnibus Plan”) under which a committee of independent directors is authorized to grant directors and key employees, including officers, options to purchase the Company’s Common Stock. Options are exercisable for shares of Common Stock at a price not less than 100% of the fair market value on the date of grant. The options become exercisable either immediately upon the grant date or ratably over a time period ranging from one to five years from the date of the grant. The Company’s options expire at the end of time periods ranging from three to ten years from the date of the grant. In May 2015, the shareholders approved an amendment and restatement of the Omnibus Plan. This amendment and restatement extended the term of the Omnibus Plan until February 2025, and set the number of shares authorized for issuance or transfer on or after the effective date of the amendment and restatement at 5,161,020 shares, except that each share issued pursuant to an award other than a stock option reduces the number of such authorized shares by 1.33 shares.

Accounting standards require that the Company measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair market 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 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 expense by the assumed forfeiture rate and will evaluate actual experience against the assumed forfeiture rate going forward. This expense reduction is not significant to the Company.

The Company recognized stock option compensation expense of \$0.1 million in 2013. All outstanding stock options vested prior to 2014 and therefore there were no stock option compensation expenses during 2014 or 2015. The expense for stock options is included in selling, general and administrative expense on the Company's consolidated statements of operations, as none of these stock options have been issued to production personnel.

Table Of Contents

The following table summarizes stock options outstanding as of January 3, 2016, as well as activity during the previous fiscal year:

	Shares	Weighted Average Exercise Price
Outstanding at December 28, 2014	126,000	\$ 9.23
Granted	0	0
Exercised	38,500	9.27
Forfeited or cancelled	0	0
Outstanding at January 3, 2016 (a)	87,500	\$ 8.75
Exercisable at January 3, 2016 (b)	87,500	\$ 8.75

(a) At January 3, 2016, the weighted-average remaining contractual life of options outstanding was 3.9 years.

(b) At January 3, 2016, the weighted-average remaining contractual life of options exercisable was 3.9 years.

At January 3, 2016, the aggregate intrinsic values of in-the-money options outstanding and options exercisable were \$0.9 million and \$0.9 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).

The intrinsic value of stock options exercised in 2015, 2014 and 2013 was \$0.4 million, \$0.6 million and \$1.9 million, respectively. The cash proceeds related to stock options exercised in 2015, 2014 and 2013 were \$0.4 million, \$0.4 million and \$1.9 million, respectively.

The tax benefit recognized with respect to stock options during all presented years was not significant.

Range of Exercise Prices	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Number Outstanding at January 3, 2016	Weighted Average Remaining		Number Exercisable at January 3,	Weighted Average Exercise Price

Edgar Filing: INTERFACE INC - Form 10-K

		Contractual Life  (years)			2016	
\$4.01 - \$5.00	40,000	3.0	\$	4.31	40,000	\$ 4.31
\$12.00 - \$14.00	47,500	4.7		12.49	47,500	12.49
	87,500	3.9	\$	8.75	87,500	\$ 8.75

*Restricted Stock Awards*

During fiscal years 2015, 2014 and 2013, the Company granted restricted stock awards totaling 597,000, 489,000, and 670,000 shares, respectively, of 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 the vesting of restricted stock was \$13.9 million, \$4.0 million and \$7.9 million for 2015, 2014 and 2013, respectively. These grants are made primarily to executive-level personnel at the Company and, as a result, no compensation costs have been capitalized. 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 actual experience against the assumed forfeiture rate going forward. The forfeiture rate has been developed using historical data regarding actual forfeitures as well as an estimate of future expected forfeitures under our restricted stock grants.

Table Of Contents

The following table summarizes restricted stock activity as of January 3, 2016, and during the previous fiscal year:

	Shares	Weighted Average Grant Date	Fair Value
Outstanding at December 28, 2014	1,391,000	\$ 17.12	
Granted	597,000	16.43	
Vested	314,000	14.28	
Forfeited or cancelled	204,000	13.71	
Outstanding at January 3, 2016	1,470,000	\$ 17.92	

As of January 3, 2016, the unrecognized total compensation cost related to unvested restricted stock was \$9.7 million. That cost is expected to be recognized by the end of 2020.

As stated above, accounting standards require the Company to estimate forfeitures in calculating the expense related to stock-based compensation, as opposed to only recognizing these forfeitures and the corresponding reduction in expense as they occur.

The tax benefit recognized with respect to restricted stock during the years 2015, 2014 and 2013 was \$5.5 million, \$1.0 million and \$3.0 million, respectively.

**INCOME (LOSS) PER SHARE**

The Company computes basic earnings (loss) per share ("EPS") by dividing net income (loss), by the weighted average common shares outstanding, including participating securities outstanding, during the period as depicted 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 is included in the computation of basic and diluted earnings per share, where applicable.

Edgar Filing: INTERFACE INC - Form 10-K

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 common 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:

	Fiscal Year		
	2015	2014	2013
<b>Earnings per share:</b>			
Basic earnings per share			
Distributed earnings	\$0.18	\$0.14	\$0.11
Undistributed earnings	0.92	0.23	0.62
	\$1.10	\$0.37	\$0.73
Diluted earnings per share			
Distributed earnings	\$0.18	\$0.14	\$0.11
Undistributed earnings	0.92	0.23	0.62
	\$1.10	\$0.37	\$0.73

Table Of Contents

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

	<b>Fiscal Year</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in millions)</i>		
Net income	\$1.6	\$0.5	\$1.2

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

	<b>Fiscal Year</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>		
Weighted Average Shares Outstanding	64,557	64,998	64,486
Participating Securities	1,470	1,391	1,708
Shares for Basic Earnings Per Share	66,027	66,389	66,194
Dilutive Effect of Stock Options	48	59	103
Shares for Diluted Earnings Per Share	66,075	66,448	66,297

For all periods presented, there were no stock options excluded from the determination of diluted EPS.

**RESTRUCTURING CHARGES**

In the third quarter of 2014, the Company committed to a new restructuring plan in its continuing efforts to reduce costs across its worldwide operations. In connection with this restructuring plan, the Company incurred a pre-tax restructuring and asset impairment charge in the third quarter of 2014 in an amount of \$12.4 million. The charge was comprised of severance expenses of \$9.7 million for a reduction of 100 employees, other related exit costs of \$0.1 million, and a charge for impairment of assets of \$2.6 million.

A summary of these restructuring activities is presented below:

**Total**



	<b>Restructuring Costs</b>		<b>Balance</b>	
	<b>Charge</b>	<b>Incurred</b>	<b>at</b>	
	<b>in 2014</b>	<b>in 2015</b>	<b>Jan. 3, 2016</b>	
	<b>(In thousands)</b>			
Workforce Reduction	\$9,669	\$ 2,732	\$ 6,833	\$ 104
Fixed Asset Impairment	2,584	2,584	0	0
Other Related Exit Costs	133	133	0	0

Table Of Contents**TAXES ON INCOME**

Provisions for federal, foreign and state income taxes in the consolidated statements of operations consisted of the following components:

	FISCAL YEAR		
	2015	2014	2013
	<i>(in thousands)</i>		
Current expense/(benefit):			
Federal	\$1,524	\$224	\$473
Foreign	9,279	5,555	2,605
State	1,403	712	627
	12,206	6,491	3,705
Deferred expense/(benefit):			
Federal	19,971	3,856	3,246
Foreign	3,795	493	8,692
State	(2,624 )	94	5,106
	21,142	4,443	17,044
	\$33,348	\$10,934	\$20,749

Income before taxes on income consisted of the following:

	FISCAL YEAR		
	2015	2014	2013
	<i>(in thousands)</i>		
U.S. operations	\$58,318	\$10,345	\$21,292
Foreign operations	47,448	25,397	47,712
	\$105,766	\$35,742	\$69,004

Deferred income taxes for the years ended January 3, 2016, and December 28, 2014, reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

At January 3, 2016, the Company had approximately \$57 million in federal net operating loss carryforwards with expiration dates through 2032, of which \$30.8 million is from share-based payment awards. In accordance with applicable accounting standards, a financial statement benefit has not been recorded for the net operating loss related to the share-based payment awards. The Company's foreign subsidiaries had approximately \$3.7 million in net operating losses, the majority of which is available for an unlimited carryforward period. The Company expects to utilize all of its federal and foreign carryforwards prior to their expiration. The Company had approximately \$139.3 million in state net operating loss carryforwards relating to continuing operations with expiration dates through 2034. The Company had provided a valuation allowance against \$70.5 million of such losses, which the Company does not expect to utilize. In addition, the Company has approximately \$126.6 million in state net operating loss carryforwards relating to discontinued operations against which a full valuation allowance has been provided.

Table Of Contents

The sources of the temporary differences and their effect on the net deferred tax asset are as follows:

	2015		2014	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	<i>(in thousands)</i>			
Basis differences of property and equipment	\$0	\$ 16,254	\$0	\$ 15,958
Basis difference of intangible assets	0	368	0	384
Foreign currency	0	5,375	0	3,848
Net operating loss carryforwards	5,575	0	28,463	0
Valuation allowances on net operating loss carryforwards	(4,457 )	0	(10,298)	0
Federal tax credits	4,580	0	2,751	0
Deferred compensation	26,352	0	21,190	0
Basis difference of prepaids, accruals and reserves	7,971	0	7,816	0
Pensions	1,075	0	3,152	0
Tax effects of undistributed earnings from foreign subsidiaries not deemed to be indefinitely reinvested	0	1,226	0	948
Basis difference of other assets and liabilities	458	0	0	68
	\$41,554	\$ 23,223	\$53,074	\$ 21,206

Deferred tax assets and liabilities are included in the accompanying balance sheets as follows:

	FISCAL YEAR	
	2015	2014
	<i>(in thousands)</i>	
Deferred income taxes (current asset)	\$8,726	\$9,732
Deferred tax asset (non-current asset)	20,110	33,138
Deferred income taxes (non-current liabilities)	(10,505)	(11,002)
	\$18,331	\$31,868

Management believes, based on the Company's history of taxable income and expectations for the future, that it is more likely than not that future taxable income will be sufficient to fully utilize the federal deferred tax assets at January 3, 2016.

As of January 3, 2016 and December 28, 2014, non-current deferred tax assets were reduced by approximately \$14.2 million and \$21.8 million, respectively, of unrecognized tax benefits.

Edgar Filing: INTERFACE INC - Form 10-K

The Company's effective tax rate was 31.5%, 30.6% and 30.1% for fiscal years 2015, 2014 and 2013, respectively. The following summary reconciles income taxes at the U.S. federal statutory rate of 35% to the Company's actual income tax expense:

Table Of Contents

	FISCAL YEAR		
	2015	2014	2013
	<i>(in thousands)</i>		
Income taxes at U.S federal statutory rate	\$37,018	\$12,510	\$24,151
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax effect	3,003	57	496
Non-deductible business expenses	614	570	601
Non-deductible employee compensation	168	491	409
Tax effects of Company owned life insurance	128	(395 )	(1,117 )
Tax effects of undistributed earnings from foreign subsidiaries not deemed to be indefinitely reinvested	458	362	562
Foreign and U.S. tax effects attributable to foreign operations	(3,347 )	(3,021 )	(3,958 )
Valuation allowance effect – State NOL	(3,797 )	468	3,232
Non-deductible reserve against capital asset	0	0	(218 )
Advance pricing agreements with tax authorities	0	0	(2,492 )
Federal tax credits	(352 )	0	(595 )
Other	(545 )	(108 )	(322 )
Income tax expense	\$33,348	\$10,934	\$20,749

The Company does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries that are considered to be indefinitely reinvested outside of the U.S. as determination of the amount of unrecognized deferred U.S. income tax liability related to the indefinitely reinvested earnings is not practicable because of the complexities associated with its hypothetical calculation. At January 3, 2016, approximately \$259 million of undistributed earnings of the Company's foreign subsidiaries are deemed to be indefinitely reinvested outside of the U.S., on which withholding taxes of approximately \$5.6 million would be payable upon remittance.

At January 3, 2016, the Company has provided for approximately \$1.2 million in U.S. federal income taxes and approximately \$0.2 million in foreign withholding taxes on approximately \$3.6 million of undistributed earnings from foreign subsidiaries that are not deemed to be indefinitely reinvested outside of the U.S.

As of January 3, 2016 and December 28, 2014, the Company had \$28.3 million and \$27.3 million, respectively, of unrecognized tax benefits. If the \$28.3 million of unrecognized tax benefits as of January 3, 2016 are recognized, there would be a favorable impact on the Company's effective tax rate in future periods. If the unrecognized tax benefits are not favorably settled, \$6.3 million of the total amount of unrecognized tax benefits would require the use of cash in future periods.

The Company recognizes accrued interest and income tax penalties related to unrecognized tax benefits as a component of income tax expense. As of January 3, 2016, the Company had accrued interest and penalties of \$1.5 million, which is included in the total unrecognized tax benefit noted above.

The Company's federal income tax returns are subject to examination for the years 2003 to the present. The Company files returns in numerous state and local jurisdictions and in general it is subject to examination by the state tax authorities for the years 2010 to the present. The Company files returns in numerous foreign jurisdictions and in general it is subject to examination by the foreign tax authorities for the years 2004 to the present.

During 2013, the Company executed advance pricing agreements ("APA") with the Canadian tax authorities ("CRA") and the Internal Revenue Service ("IRS"), for tax years 2006 through 2011, with respect to certain intercompany transactions ("Covered Transactions") between Interface, Inc. (including its U.S. subsidiaries) and its Canadian subsidiary, InterfaceFLOR Canada, Inc. The Covered Transactions include intercompany buy-sale distribution, contract manufacturing, provision of management services, and licensing intangibles.

Table Of Contents

The APAs encompass the final resolution resulting from the bilateral negotiations between the CRA and the IRS under the Canada-U.S. bilateral advance pricing agreement program (“BAPA”), which the Company was accepted into during 2008, with respect to the Covered Transactions for tax years 2006 through 2011.

During 2013, the Company recognized tax benefits of \$1.9 million relating to the final resolution of the BAPA and a reduction of \$0.6 million in federal income taxes and foreign withholding taxes previously provided on undistributed earnings, from its Canadian subsidiary, that were not deemed to be indefinitely reinvested outside the U.S.

Management believes changes to our unrecognized tax benefits that are reasonably possible in the next 12 months will not have a significant impact on our financial positions or results of operations. The timing of the ultimate resolution of the Company’s tax matters and the payment and receipt of related cash is dependent on a number of factors, many of which are outside the Company’s control.

A reconciliation of the beginning and ending amounts of gross unrecognized tax benefits is as follows:

	<b>FISCAL YEAR</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in thousands)</i>		
Balance at beginning of year	\$27,301	\$27,361	\$25,186
Increases related to tax positions taken during the current year	641	875	911
Increases related to tax positions taken during the prior years	1,230	1,157	3,938
Decreases related to tax positions taken during the prior years	(194 )	(697 )	(9 )
Decreases related to settlements with taxing authorities	0	0	(1,928 )
Decreases related to lapse of applicable statute of limitations	(367 )	(919 )	(397 )
Changes due to foreign currency translation	( 340 )	(476 )	(340 )
Balance at end of year	\$28,271	\$27,301	\$27,361

**COMMITMENTS AND CONTINGENCIES**

The Company leases certain production, distribution and marketing facilities and equipment. At January 3, 2016, aggregate minimum rent commitments under operating leases with initial or remaining terms of one year or more consisted of the following:

FISCAL YEAR AMOUNT



	<i>(in thousands)</i>
2016	\$ 20,757
2017	17,266
2018	15,623
2019	6,427
2020	4,527
Thereafter	8,039

Rental expense amounted to approximately \$24.4 million, \$24.6 million, and \$24.5 million for the years 2015, 2014, and 2013, respectively.

The Company is from time to time a party to routine litigation incidental to its business. Management does not believe that the resolution of any or all of such litigation will have a material adverse effect on the Company's financial condition or results of operations.

## **EMPLOYEE BENEFIT PLANS**

### **Defined Contribution and Deferred Compensation Plans**

The Company has a 401(k) retirement investment plan ("401(k) Plan"), which is open to all otherwise eligible U.S. employees with at least six months of service. The 401(k) Plan calls for Company matching contributions on a sliding scale based on the level of the employee's contribution. The Company may, at its discretion, make additional contributions to the 401(k) Plan based on the attainment of certain performance targets by its subsidiaries. The Company's matching contributions are funded bi-monthly and totaled approximately \$2.9 million, \$2.7 million and \$2.6 million for the years 2015, 2014 and 2013, respectively. No discretionary contributions were made in 2015, 2014 or 2013.

Table Of Contents

Under the Company's nonqualified savings plans ("NSPs"), the Company provides eligible employees the opportunity to enter into agreements for the deferral of a specified percentage of their compensation, as defined in the NSPs. The NSPs call for Company matching contributions on a sliding scale based on the level of the employee's contribution. The obligations of the Company under such agreements to pay the deferred compensation in the future in accordance with the terms of the NSPs are unsecured general obligations of the Company. Participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company has established a rabbi trust to hold, invest and reinvest deferrals and contributions under the NSPs. If a change in control of the Company occurs, as defined in the NSPs, the Company will contribute an amount to the rabbi trust sufficient to pay the obligation owed to each participant. Deferred compensation in connection with the NSPs totaled \$24.3 million at January 3, 2016. The Company invests the deferrals in insurance instruments with readily determinable cash surrender values.

**Foreign Defined Benefit Plans**

The Company has trustee defined benefit retirement plans which cover many of its European employees. The benefits are generally based on years of service and the employee's average monthly compensation. Pension expense was \$2.1 million, \$0.1 million and \$1.0 million for the years 2015, 2014 and 2013, respectively. Plan assets are primarily invested in equity and fixed income securities. The Company uses a year-end measurement date for the plans. As of January 3, 2016, for the European plans, the Company had a net liability recorded of \$4.4 million, an amount equal to their underfunded status, and has recorded in Other Comprehensive Income an amount equal to \$39.1 million (net of taxes) related to the future amounts to be recorded in net post-retirement benefit costs.

The tables presented below set forth the funded status of the Company's significant foreign defined benefit plans and required disclosures in accordance with applicable accounting standards

	FISCAL YEAR	
	2015	2014
	<i>(in thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year	\$275,762	\$251,181
Service cost	1,061	705
Interest cost	8,384	10,563
Benefits and expenses paid	(10,004 )	(9,542 )
Actuarial loss (gain)	(13,591 )	41,631
Member contributions	239	294
Currency translation adjustment	(18,134 )	(19,070 )
Benefit obligation, end of year	\$243,717	\$275,762



Table Of Contents

	FISCAL YEAR	
	2015	2014
	<i>(in thousands)</i>	
Change in plan assets		
Plan assets, beginning of year	\$261,026	\$253,761
Actual return on assets	753	29,280
Company contributions	5,001	5,815
Benefits paid	(10,004 )	(9,542 )
Currency translation adjustment	(17,496 )	(18,288 )
Plan assets, end of year	\$239,280	\$261,026
Reconciliation to balance sheet		
Funded status benefit asset/(liability)	\$(4,437 )	\$(14,736 )
Net amount recognized	\$(4,437 )	\$(14,736 )
Amounts recognized in accumulated other comprehensive income (after tax)		
Unrecognized actuarial loss	\$39,411	\$45,836
Unamortized prior service costs	(347 )	(423 )
Total amount recognized	\$39,064	\$45,413

The above disclosure represents the aggregation of information related to the Company's two defined benefit plans which cover many of its European employees. As of January 3, 2016 and December 28, 2014, one of these plans, which primarily covers certain employees in the United Kingdom (the "UK Plan"), had an accumulated benefit obligation in excess of the plan assets. The other plan, which covers certain employees in Europe (the "Europe Plan"), had assets in excess of the accumulated benefit obligation. The following table summarizes this information as of January 3, 2016 and December 28, 2014.

	2015	2014
	<i>(in thousands)</i>	
<b>UK Plan</b>		
Projected Benefit Obligation	\$168,178	\$190,303
Accumulated Benefit Obligation	168,178	190,303
Plan Assets	167,360	179,205
<b>Europe Plan</b>		
Projected Benefit Obligation	\$75,539	\$85,459
Accumulated Benefit Obligation	71,005	81,353
Plan Assets	71,920	81,821

FISCAL YEAR

Edgar Filing: INTERFACE INC - Form 10-K

	2015	2014	2013
	<i>(in thousands)</i>		
Components of net periodic benefit cost			
Service cost	\$1,061	\$705	\$804
Interest cost	8,384	10,563	9,610
Expected return on plan assets	(8,764)	(11,904)	(10,150)
Amortization of prior service cost	33	19	89
Recognized net actuarial (gains)/losses	1,359	648	684
Net periodic benefit cost	\$2,073	\$31	\$1,037

Table Of Contents

For 2016, it is estimated that approximately \$1.1 million of expenses related to the amortization of unrecognized items will be included in the net periodic benefit cost. During 2015, other comprehensive income was impacted by approximately \$6.4 million comprised of actuarial gain of approximately \$5.5 million and amortization of \$0.9 million.

	FISCAL YEAR		
	2015	2014	2013
Weighted average assumptions used to determine net periodic benefit cost			
Discount rate	3.0%	4.0 %	4.0 %
Expected return on plan assets	4.0%	4.2 %	4.7 %
Rate of compensation	2.0%	2.0 %	2.0 %
Weighted average assumptions used to determine benefit obligations			
Discount rate	3.4%	3.2 %	4.25%
Rate of compensation	2.0%	2.0 %	2.0 %

The expected long-term rate of return on plan assets assumption is based on weighted average expected returns for each asset class. Expected returns reflect a combination of historical performance analysis and the forward-looking views of the financial markets, and include input from actuaries, investment service firms and investment managers.

The Company's foreign defined benefit plans' fair value of plan assets were in excess of the accumulated benefit obligations. The projected benefit obligations, accumulated benefit obligations and fair value of these plans are as follows:

	FISCAL YEAR	
	2015	2014
	<i>(in thousands)</i>	
Projected benefit obligation	\$243,717	\$275,762
Accumulated benefit obligations	239,183	271,656
Fair value of plan assets	239,280	261,026

The investment objectives of the foreign defined benefit plans are to maximize the return on the investments without exceeding the limits of the prudent pension fund investment, to ensure that the assets would be sufficient to exceed minimum funding requirements, and to achieve a favorable return against the performance expectation based on historic and projected rates of return over the short term. The goal is to optimize the long-term return on plan assets at a moderate level of risk, by balancing higher-returning assets, such as equity securities, with less volatile assets, such as fixed income securities. The assets are managed by professional investment firms and performance is evaluated periodically against specific benchmarks. The plans' net assets did not include the Company's own stock at January 3, 2016 or December 28, 2014.

The Company's actual weighted average asset allocations for 2015 and 2014, and the targeted asset allocation for 2016, of the foreign defined benefit plans by asset category, are as follows:

Asset Category:	FISCAL YEAR			2015				2014			
	2016			Percentage of Plan Assets at Year End				Percentage of Plan Assets at Year End			
	Target Allocation										
Equity Securities	45%	-	55%	49	%	63	%	41	%	34	%
Debt and Debt Securities	35%	-	45%	10	%	3	%	41	%	34	%
Other	0%	-	10%	10	%	3	%	10	%	3	%
	100%			100	%	100	%	100	%	100	%

Table Of Contents**Fair Value Measurements of Plan Assets**

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure estimated fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under applicable accounting standards are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets in active markets;
- quoted prices for identical or similar assets in inactive markets;
- inputs other than quoted prices that are observable for the asset; and
- inputs that are derived principally or corroborated by observable data by correlation or other means.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table sets forth by level within the fair value hierarchy the foreign defined benefit plans' assets at fair value, as of January 3, 2016 and December 28, 2014. As required by accounting standards, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

<b>Pension Plan Assets by Category as of January 3, 2016</b>			
	<b>Europe Plan</b>	<b>UK Plan</b>	<b>Total</b>
	<i>(in thousands)</i>		
Level 1	\$71,920	\$93,846	\$165,766
Level 2	0	59,228	59,228
Level 3	0	14,286	14,286
Total	\$71,920	\$167,360	\$239,280



**Pension Plan Assets by  
Category as of December 28,  
2014**

	<b>Europe Plan</b>	<b>UK Plan</b>	<b>Total</b>
	<i>(in thousands)</i>		
Level 1	\$81,821	\$ 173,271	\$255,092
Level 2	0	0	0
Level 3	0	5,934	5,934
Total	\$81,821	\$ 179,205	\$261,026

The tables below detail the foreign defined benefit plans' assets by asset allocation and fair value hierarchy:

	<b>2015</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<i>(in thousands)</i>		
<b>Asset Class</b>			
Equity Securities	\$117,889	\$ 0	\$ 0
Debt and Debt Securities	45,953	41,725	9,576
Other (including cash)	1,924	17,503	4,710
	\$165,766	\$ 59,228	\$ 14,286

Table Of Contents

Asset Class	2014		
	Level 1	Level 2	Level 3
	<i>(in thousands)</i>		
Equity Securities	\$171,224	\$ 0	\$0
Debt and Debt Securities	81,821	0	0
Other (including cash)	2,047	0	5,934
	\$255,092	\$ 0	\$5,934

The assets identified as level 3 above in 2015 relate to insured annuities and direct lending assets held by the UK Plan. The fair value of these assets was calculated using the present value of the future cash flows due under the insurance annuities and for the direct lending assets the value is based on the asset value from the latest available valuation with adjustments for any drawdowns and distribution payments made between the valuation date and the reporting date. The table below indicates the change in value related to these level 3 assets during 2015:

	2015
	<i>(in thousands)</i>
<b>Balance of level 3 assets, beginning of year</b>	\$ 5,934
Interest cost	199
Benefits paid	(776 )
Assets transferred in to Level 3	9,877
Actuarial loss	(367 )
Translation adjustment	(581 )
<b>Ending Balance of level 3 assets</b>	<b>\$ 14,286</b>

During 2016, the Company expects to contribute \$5.0 million to the plan trust. It is anticipated that future benefit payments for the foreign defined benefit plans will be as follows:

FISCAL YEAR	EXPECTED PAYMENTS <i>(in thousands)</i>
2016	\$ 8,726
2017	8,936
2018	9,268

2019	9,518
2020	9,797
2021 - 2025	44,925

### **Domestic Defined Benefit Plan**

The Company maintains a domestic nonqualified salary continuation plan (“SCP”), which is designed to induce selected officers of the Company to remain in the employ of the Company by providing them with retirement, disability and death benefits in addition to those which they may receive under the Company’s other retirement plans and benefit programs. The SCP entitles participants to: (i) retirement benefits upon normal retirement at age 65 (or early retirement as early as age 55) after completing at least 15 years of service with the Company (unless otherwise provided in the SCP), payable for the remainder of their lives (or, if elected by a participant, a reduced benefit is payable for the remainder of the participant’s life and any surviving spouse’s life) and in no event less than 10 years under the death benefit feature; (ii) disability benefits payable for the period of any total disability; and (iii) death benefits payable to the designated beneficiary of the participant for a period of up to 10 years. Benefits are determined according to one of three formulas contained in the SCP, and the SCP is administered by the Compensation Committee of the Company’s Board of Directors, which has full discretion in choosing participants and the benefit formula applicable to each. The Company’s obligations under the SCP are currently unfunded (although the Company uses insurance instruments to hedge its exposure thereunder). The Company is required to contribute the present value of its obligations thereunder to an irrevocable grantor trust in the event of a change in control as defined in the SCP. The Company uses a year-end measurement date for the domestic SCP.

Table Of Contents

The tables presented below set forth the required disclosures in accordance with applicable accounting standards, and amounts recognized in the consolidated financial statements related to the domestic SCP.

	FISCAL YEAR	
	2015	2014
	<i>(in thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year	\$24,016	\$20,947
Service cost	594	500
Interest cost	1,113	1,071
Benefits paid	(847 )	(847 )
Actuarial loss (gain)	984	2,345
Benefit obligation, end of year	\$25,860	\$24,016

The amounts recognized in the consolidated balance sheets are as follows:

	2015	2014
	<i>(in thousands)</i>	
Current liabilities	\$1,009	\$847
Non-current liabilities	24,850	23,169
	\$25,859	\$24,016

The components of the amounts in accumulated other comprehensive income, after tax, are as follows:

	2015	2014
	<i>(in thousands)</i>	
Unrecognized actuarial loss	\$4,226	\$3,949

The accumulated benefit obligation related to the SCP was \$23.6 million and \$20.3 million as of January 3, 2016 and December 28, 2014, respectively. The SCP is currently unfunded; as such, the benefit obligations disclosed are also the benefit obligations in excess of the plan assets. The Company uses insurance instruments to help limit its exposure under the SCP.

2015      2014      2013

Edgar Filing: INTERFACE INC - Form 10-K

*(in thousands, except for assumptions)*

Assumptions used to determine net periodic benefit cost						
Discount rate	4.0	%	4.5	%	4.0	%
Rate of compensation	4.0	%	4.0	%	4.0	%
Assumptions used to determine benefit obligations						
Discount rate	4.25	%	4.0	%	4.5	%
Rate of compensation	4.0	%	4.0	%	4.0	%
Components of net periodic benefit cost						
Service cost	\$594		\$500		\$534	
Interest cost	1,113		1,072		997	
Amortizations	522		291		489	
Net periodic benefit cost	\$2,229		\$1,863		\$2,020	

Table Of Contents

The changes in other comprehensive income during 2015 related to this Plan were approximately \$0.3 million, after tax, primarily comprised of a net loss during the period of \$0.6 million and amortization of loss of \$0.3 million.

For 2016, the Company estimates that approximately \$0.8 million of expenses related to the amortization of unrecognized items will be included in net periodic benefit cost for the SCP.

During 2015, the Company contributed \$0.8 million in the form of direct benefit payments for its domestic SCP. It is anticipated that future benefit payments for the SCP will be as follows:

FISCAL YEAR	EXPECTED PAYMENTS ( <i>in thousands</i> )
2016	\$ 1,009
2017	1,124
2018	1,124
2019	1,124
2020	2,108
2021-2025	11,409

**FIRE AT AUSTRALIAN MANUFACTURING FACILITY**

In July 2012, a fire occurred at the Company's manufacturing facility in Picton, Australia, causing extensive damage and rendering the facility inoperable. As a result of the fire, in 2012, the Company recorded a charge of approximately \$22.3 million for impairment of fixed assets, and incurred approximately \$21.3 million of excess production costs as the Company utilized its other manufacturing facilities to service customers in Australia and New Zealand. Each of these amounts for impairment of fixed assets and excess production costs previously were recorded as a receivable on the Company's balance sheet, because they were subject to a claim for reimbursement under the Company's insurance policy. In 2012, the Company received \$20.7 million in reimbursement from its insurance company related to the fire. Following the receipt of those proceeds, as of the end of 2012, the Company had an insurance recovery receivable on the fire claim of approximately \$22.9 million.

In addition to the excess production costs described above, in 2012 the Company incurred approximately \$1.7 million of costs related to the fire that were non-production related and were not the subject of a claim under the Company's insurance policy. As a result, this amount was included in the determination of operating income as shown in the line item "Expenses related to Australia fire" in the Company's consolidated condensed statement of operations.

In 2013, the Company recorded further impairment of fixed assets of \$2.7 million and excess production costs of \$23.4 million related to the fire. (Thus, the aggregate of the amounts for impairment of fixed assets and excess production costs recorded during 2012 and 2013 totaled \$69.7 million). In the first nine months of 2013, the Company received \$33.7 million of further reimbursements related to the fire insurance claim, and in the fourth quarter of 2013, the Company received a final settlement payment of \$22.3 million from its insurance company. (Thus, the aggregate cash insurance proceeds received during 2012 and 2013 totaled \$76.7 million.)

At the time of the final insurance settlement payment, the amount of proceeds received exceeded the amount that the Company had recorded as a receivable. (Certain amounts claimed with the insurance company had not been recorded in the Company's financial statements, in accordance with applicable accounting standards.) Accordingly, the amount of reimbursement received in excess of the insurance receivable, approximately \$7.0 million, was recorded as a gain during 2013 in the consolidated statement of operations. There was no insurance recovery receivable as of the end of 2013, or since that time, and the Company does not expect to incur any additional fire related expenses or record any additional fire related recoveries from the insurer.

As described in Items 1 and 7 of this report, the Company's new manufacturing facility in Minto, Australia commenced operations in January 2014.

Table Of Contents**ENTERPRISE-WIDE DISCLOSURES**

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-PACIFIC	TOTAL
	<i>(in thousands)</i>			
2015				
Net Sales	\$593,163	\$262,671	\$ 146,029	1,001,863
Depreciation and amortization	15,390	5,007	9,167	29,564
Total assets	223,085	249,241	175,940	648,266
2014				
Net Sales	\$573,458	\$276,845	\$ 153,600	\$1,003,903
Depreciation and amortization	14,719	4,803	9,412	28,934
Total assets	221,324	258,847	174,335	654,506
2013				
Net sales	\$545,882	\$262,640	\$ 151,467	\$959,989
Depreciation and amortization	13,317	3,777	6,332	23,426

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

FISCAL YEAR ENDED		
2015	2014	2013



Edgar Filing: INTERFACE INC - Form 10-K

*(in thousands)*

DEPRECIATION AND AMORTIZATION

Total segment depreciation and amortization	\$29,564	\$28,934	\$23,426
Corporate depreciation and amortization	1,239	1,743	1,244
Reported depreciation and amortization	\$30,803	\$30,677	\$24,670

ASSETS

Total segment assets	\$648,266	\$654,506
Corporate assets and eliminations	108,283	120,408
Reported total assets	\$756,549	\$774,914

Table Of Contents

The Company has a large and diverse customer base, which includes numerous customers located in foreign countries. No single unaffiliated customer accounted for more than 10% of total sales in any year during the past three years. Sales to customers in foreign markets in 2015, 2014 and 2013 were approximately 48%, 51% and 52%, respectively, of total net sales. These sales were primarily to customers in Europe, Canada, Asia, Australia and Latin America. With the exception of the United States, no one country represented more than 10% of the Company's net sales. Revenue and long-lived assets related to operations in the United States and other countries are as follows:

	FISCAL YEAR		
	2015	2014	2013
	<i>(in thousands)</i>		
<b>SALES TO UNAFFILIATED CUSTOMERS<sup>(1)</sup></b>			
United States	\$520,375	\$487,001	\$458,585
United Kingdom	72,445	83,182	75,076
Australia	76,600	79,922	78,569
Other foreign countries	332,443	353,798	347,759
Net sales	\$1,001,863	\$1,003,903	\$959,989
<b>LONG-LIVED ASSETS<sup>(2)</sup></b>			
United States	\$79,279	\$86,856	
United Kingdom	10,653	10,604	
Netherlands	42,808	38,086	
Australia	47,557	57,410	
China	11,733	14,007	
Other foreign countries	19,459	20,384	
Total long-lived assets	\$211,489	\$227,347	

<sup>(1)</sup> Revenue attributed to geographic areas is based on the location of the customer.

<sup>(2)</sup> Long-lived assets include tangible assets physically located in foreign countries.

**QUARTERLY DATA AND SHARE INFORMATION (UNAUDITED)**

The following tables set forth, for the fiscal periods indicated, selected consolidated financial data and information regarding the market price per share of the Company's Common Stock. The prices represent the reported high and low sale prices during the period presented.

	FISCAL YEAR 2015			
	FIRST	SECOND	THIRD	FOURTH
	QUARTER	QUARTER	QUARTER	QUARTER
	<i>(in thousands, except per share data)</i>			
Net sales	\$236,904	\$263,637	\$254,686	\$246,636
Gross profit	85,432	101,252	97,966	98,239
Net income	12,322	21,722	20,127	18,247
Basic income per share	\$0.19	\$0.33	\$0.31	\$0.28
Diluted income per share	\$0.19	\$0.33	\$0.31	\$0.28
Share prices				
High	\$21.38	\$25.59	\$27.17	\$24.44
Low	\$15.13	\$19.86	\$22.13	\$17.89

Table Of Contents

	FISCAL YEAR 2014			
	FIRST	SECOND	THIRD	FOURTH
	QUARTER	QUARTER	QUARTER <sup>(1)</sup>	QUARTER <sup>(2)</sup>
	<i>(in thousands, except per share data)</i>			
Net sales	\$218,992	\$260,624	\$252,191	\$272,096
Gross profit	74,686	90,385	83,595	91,361
Net income (loss)	4,025	13,071	(376)	) 8,088
Basic income (loss) per share	\$0.06	\$0.20	\$ (0.01	) \$ 0.12
Diluted income (loss) per share	\$0.06	\$0.20	\$ (0.01	) \$ 0.12
Share prices				
High	\$22.46	\$21.13	\$19.41	\$16.74
Low	\$18.63	\$17.11	\$15.72	\$12.98

<sup>(1)</sup> Results for the third quarter of 2014 include restructuring and asset impairment charges of \$12.4 million.

<sup>(2)</sup> Results for the fourth quarter of 2014 include debt retirement expenses of \$12.0 million.

**ITEMS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME**

During 2015, the Company did not reclassify any significant amounts out of accumulated other comprehensive income. The only reclassifications that occurred in that period were comprised of \$1.9 million related to the Company's defined retirement benefit plans and salary continuation plan. These reclassifications were included in the selling, general and administrative expenses line item of the Company's consolidated statement of operations.

Table Of Contents

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders of Interface, Inc. and Subsidiaries

Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of Interface, Inc. and Subsidiaries as of January 3, 2016 and December 28, 2014 and the related consolidated statements of operations and comprehensive income and cash flows for each of the three years in the period ended January 3, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Interface, Inc. and Subsidiaries at January 3, 2016 and December 28, 2014, and the results of its operations and its cash flows for each of the three years in the period ended January 3, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Interface, Inc. and Subsidiaries' internal control over financial reporting as of January 3, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Atlanta, Georgia

March 2, 2016

69

---

Table Of Contents

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders of Interface, Inc. and Subsidiaries

Atlanta, Georgia

We have audited Interface, Inc. and Subsidiaries' internal control over financial reporting as of January 3, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Interface, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Interface, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 3, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Interface, Inc. and Subsidiaries as of January 3, 2016 and December 28, 2014, and the related consolidated statements of operations and comprehensive income, and cash flows for each of the three years in the period ended January 3, 2016 and our report dated March 2, 2016 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Atlanta, Georgia

March 2, 2016



Table Of Contents

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.* As of the end of the period covered by this Annual Report on Form 10-K, 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, 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 Annual Report.

*Changes in Internal Control over Financial Reporting.* 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.

*Management's Annual Report on Internal Control over Financial Reporting.* The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of January 3, 2016 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control – Integrated Framework (2013)." Based on that assessment, management concluded that, as of January 3, 2016, our internal control over financial reporting was effective based on those criteria.

Our independent auditors have issued an audit report on the effectiveness of our internal control over financial reporting. This report immediately precedes Item 9 of this Report.

**ITEM 9B. OTHER INFORMATION**

None

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information contained under the captions “Nomination and Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Meetings and Committees of the Board of Directors” in our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2015 fiscal year, is incorporated herein by reference. Pursuant to Instruction 3 to Paragraph (b) of Item 401 of Regulation S-K, information relating to our executive officers is included in Item 1 of this Report.

We have adopted the “Interface Code of Business Conduct and Ethics” (the “Code”) which applies to all of our employees, officers and directors, including the Chief Executive Officer and Chief Financial Officer. The Code may be viewed on our website at [www.interface.com](http://www.interface.com). Changes to the Code will be posted on our website. Any waiver of the Code for executive officers or directors may be made only by our Board of Directors and will be disclosed to the extent required by law or Nasdaq rules on our website or in a filing on Form 8-K.

Table Of Contents

**ITEM 11. EXECUTIVE COMPENSATION**

The information contained under the captions “Executive Compensation and Related Items,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Compensation Committee Interlocks and Insider Participation,” and “Potential Payments upon Termination or Change in Control” in our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2015 fiscal year, is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information contained under the captions “Principal Shareholders and Management Stock Ownership” and “Equity Compensation Plan Information” in our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2015 fiscal year, is incorporated herein by reference.

For purposes of determining the aggregate market value of our voting and non-voting stock held by non-affiliates, shares held by our directors and executive officers have been excluded. The exclusion of such shares is not intended to, and shall not, constitute a determination as to which persons or entities may be “affiliates” as that term is defined under federal securities laws.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information contained under the captions “Certain Relationships and Related Transactions” and “Director Independence” in our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2015 fiscal year, is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information contained under the captions “Audit and Non-Audit Fees” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors” in our definitive Proxy Statement for our 2016 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2015 fiscal year, is incorporated herein by reference.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

#### **1. Financial Statements**

The following Consolidated Financial Statements and Notes thereto of Interface, Inc. and subsidiaries and related Reports of Independent Registered Public Accounting Firm are contained in Item 8 of this Report:

Consolidated Statements of Operations and Comprehensive Income — fiscal years ended January 3, 2016, December 28, 2014 and December 29, 2013.

Consolidated Balance Sheets — January 3, 2016 and December 28, 2014.

Consolidated Statements of Cash Flows — fiscal years ended January 3, 2016, December 28, 2014 and December 29, 2013.

Table Of Contents

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

**2. Financial Statement Schedule**

The following Consolidated Financial Statement Schedule of Interface, Inc. and subsidiaries and related Report of Independent Registered Public Accounting Firm are included as part of this Report (see the pages immediately preceding the signatures in this Report).

Report of Independent Registered Public Accounting Firm

Schedule II — Valuation and Qualifying Accounts and Reserves

**3. Exhibits**

The following exhibits are included as part of this Report:

**Exhibit**

**Description of Exhibit**

**Number**

- |     |  |
|-----|--|
| 3.1 | Restated Articles of Incorporation and accompanying Clarification Certificate (included as Exhibit 3.1 to the Company's quarterly report on Form 10-Q filed on May 10, 2012, previously filed with the Commission and incorporated herein by reference). |
| 3.2 | Bylaws, as amended and restated October 28, 2015 (included as Exhibit 3.1 to the Company's current report on Form 8-K filed on October 28, 2015, previously filed with the Commission and incorporated herein by reference).                             |

- 4.1 See Exhibits 3.1 and 3.2 for provisions in the Company's Articles of Incorporation and Bylaws defining the rights of holders of Common Stock of the Company.
- 4.2 Rights Agreement dated March 7, 2008 and effective as of March 17, 2008 between the Company and Computershare Trust Company, N.A. (included as Exhibit 4.1 to the Company's current report on Form 8-K filed on March 7, 2008, previously filed with the Commission and incorporated herein by reference).
- 10.1 Salary Continuation Plan, dated May 7, 1982 (included as Exhibit 10.20 to the Company's registration statement on Form S-1, File No. 2-82188, previously filed with the Commission and incorporated herein by reference).\*
- 10.2 Form of Salary Continuation Agreement, dated as of January 1, 2008 (as used for Daniel T. Hendrix, Raymond S. Willoch and John R. Wells) (included as Exhibit 99.5 to the Company's current report on Form 8-K filed on January 7, 2008, previously filed with the Commission and incorporated herein by reference).\*
- 10.3 Interface, Inc. Omnibus Stock Incentive Plan (as amended and restated effective February 18, 2015) (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on May 20, 2015, previously filed with the Commission and incorporated herein by reference); Forms of Restricted Stock Agreement, as used for directors, executive officers and other key employees/consultants (included as Exhibits 99.1, 99.2 and 99.3, respectively, to the Company's current report on Form 8-K filed on January 14, 2005, previously filed with the Commission and incorporated herein by reference); Form of Restricted Stock Agreement, as used for executive officers (included as Exhibit 10.5 to the Company's annual report on Form 10-K for the year ended December 30, 2007, previously filed with the Commission and incorporated herein by reference); and Form of Performance Share Agreement (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on January 20, 2016, previously filed with the Commission and incorporated herein by reference).\*
- 10.4 Interface, Inc. Executive Bonus Plan, as amended October 28, 2015 (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on October 28, 2015, previously filed with the Commission and incorporated herein by reference).\*

Table Of Contents

- Interface, Inc. Nonqualified Savings Plan (as amended and restated effective January 1, 2002) (included as Exhibit 10.4 to the Company's annual report on Form 10-K for the year ended December 30, 2001, previously filed with the Commission and incorporated herein by reference); First Amendment thereto, dated as of December 20, 2002 (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 2003, previously filed with the Commission and incorporated herein by reference); Second
- 10.5 ~~Amendment thereto, dated as of December 30, 2002 (included as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 2003, previously filed with the Commission and incorporated herein by reference); Third Amendment thereto, dated as of May 8, 2003 (included as Exhibit 10.6 to the Company's annual report on Form 10-K for the year ended December 28, 2003 (the "2003 10-K"), previously filed with the Commission and incorporated herein by reference); and Fourth Amendment thereto, dated as of December 31, 2003 (included as Exhibit 10.7 to the 2003 10-K, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.6 ~~Amended and Restated Employment and Change in Control Agreement of Daniel T. Hendrix dated January 1, 2008 (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on January 7, 2008, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.7 ~~Amended and Restated Employment and Change in Control Agreement of Patrick C. Lynch dated January 1, 2008 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on January 7, 2008, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.8 ~~Amended and Restated Employment and Change in Control Agreement of John R. Wells dated January 1, 2008 (included as Exhibit 99.3 to the Company's current report on Form 8-K filed on January 7, 2008, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.9 ~~Amended and Restated Employment and Change in Control Agreement of Raymond S. Willoch dated January 1, 2008 (included as Exhibit 99.4 to the Company's current report on Form 8-K filed on January 7, 2008, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.10 ~~Employment and Change in Control Agreement of Jay D. Gould dated January 9, 2015 (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on January 13, 2015, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.11 ~~Split Dollar Insurance Agreement, dated February 21, 1997, between the Company and Daniel T. Hendrix (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 4, 1998, previously filed with the Commission and incorporated herein by reference); and Amendment thereto, dated December 29, 2008 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on January 2, 2009, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.12 ~~Form of Indemnity Agreement of Director (as used for directors of the Company) (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on November 30, 2005, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.13 ~~Form of Indemnity Agreement of Officer (as used for certain officers of the Company, including Daniel T. Hendrix, Jay D. Gould, John R. Wells, Patrick C. Lynch, and Raymond S. Willoch) (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on November 30, 2005, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.14 ~~Interface, Inc. Long-Term Care Insurance Plan and related Summary Plan Description (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on December 20, 2005, previously filed with the Commission and incorporated herein by reference).\*~~
- 10.15 ~~Interface, Inc. Nonqualified Savings Plan II, as amended and restated effective January 1, 2009 (included as Exhibit 10.18 to the Company's annual report on Form 10-K for the year ended December 30, 2012 (the "2012 10-K"), previously filed with the Commission and incorporated herein by reference; First Amendment thereto, dated February 26, 2009 (included as Exhibit 10.19 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); Second Amendment thereto, dated December 9, 2009 (included as~~

Edgar Filing: INTERFACE INC - Form 10-K

Exhibit 10.20 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); Third Amendment thereto, dated April 15, 2010 (included as Exhibit 10.21 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); and Fourth Amendment thereto, dated August 9, 2012 (included as Exhibit 10.22 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference).\*



Table Of Contents

10.16	<p>Syndicated Facility Agreement, dated as of October 22, 2013, among Interface, Inc., certain subsidiaries of the Company as borrowers, certain subsidiaries of the Company as guarantors, Bank of America, N.A. as Administrative Agent, The Royal Bank of Scotland, as Syndication Agent, and SunTrust Bank and Regions Bank, as Co-Documentation Agents, and the other lenders party thereto (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on October 23, 2013, previously filed with the Commission and incorporated herein by reference); and First Amendment thereto, dated as of October 3, 2014 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on October 7, 2014, previously filed with the Commission and incorporated herein by reference).</p> <p>Security and Pledge Agreement, dated as of October 22, 2013, among Interface, Inc., certain subsidiaries of the Company as obligors, and Bank of America, N.A. as Administrative Agent (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on October 23, 2013, previously filed with the Commission and incorporated herein by reference).</p>
21	<del>Subsidiaries of the Company.</del>
23	<del>Consent of BDO USA, LLP.</del>
24	<del>Power of Attorney (see signature page of this Report).</del>
31.1	Certification of Chief Executive Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016.
31.2	Certification of Chief Financial Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016.
32.1	<del>Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Executive Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016.</del>
32.2	<del>Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Financial Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016.</del>
101.INS	<del>XBRL Instance Document</del>
101.SCH	<del>XBRL Taxonomy Extension Schema Document</del>
101.CAL	<del>XBRL Taxonomy Extension Calculation Linkbase Document</del>
101.LAB	<del>XBRL Taxonomy Extension Label Linkbase Document</del>
101.PRE	<del>XBRL Taxonomy Presentation Linkbase Document</del>
101.DEF	<del>XBRL Taxonomy Definition Linkbase Document</del>

---

\* Management contract or compensatory plan or agreement required to be filed pursuant to Item 15(b) of this Report.

Table Of Contents

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders of Interface, Inc. and Subsidiaries

Atlanta, Georgia

The audits referred to in our report, dated March 2, 2016, relating to the consolidated financial statements of Interface, Inc. and Subsidiaries, which is contained in Item 8 of this Form 10-K, also included the audit of the Financial Statement Schedule II (Valuation and Qualifying Accounts and Reserves) listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP

Atlanta, Georgia

March 2, 2016

Table Of Contents**INTERFACE, INC. AND SUBSIDIARIES****SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

	COLUMN A BALANCE AT BEGINNING OF YEAR <i>(in thousands)</i>	COLUMN B CHARGED TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS (DESCRIBE) (B)	COLUMN E BALANCE, AT END OF YEAR
Allowance for Doubtful Accounts:					
Year Ended:					
January 3, 2016	\$5,896	\$ 212	\$ 0	\$ 1,629	\$ 4,479
December 28, 2014	7,646	(730 )	0	1,020	5,896
December 29, 2013	8,818	253	0	1,425	7,646

(A) Includes changes in foreign currency exchange rates.

(B) Write off of bad debt, and recovering of previously provided for amounts.

	COLUMN A BALANCE AT BEGINNING OF YEAR <i>(in thousands)</i>	COLUMN B CHARGED TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS(B)	COLUMN D DEDUCTIONS (DESCRIBE) (C)	COLUMN E BALANCE, AT END OF YEAR
Restructuring Reserve:					
Year Ended:					

Edgar Filing: INTERFACE INC - Form 10-K

January 3, 2016	\$7,179	\$ (481	) \$ 0	\$ 6,594	\$ 104
December 28, 2014	519	9,315	2,717	5,372	7,179
December 29, 2013	4,350	0	0	3,831	519

---

(A) Includes changes in foreign currency exchange rates.

(B) Reduction of asset carrying value.

(C) Cash payments.

Table Of Contents

	COLUMN A	COLUMN B CHARGED TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS (DESCRIBE) (B)	COLUMN E BALANCE, AT END OF YEAR
	OF YEAR (in thousands)				
Warranty and Sales Allowances Reserves :					
Year ended:					
January 3, 2016	\$3,954	\$ 2,584	\$ 0	\$ 1,779	\$ 4,759
December 28, 2014	4,935	457	0	1,438	3,954
December 29, 2013	4,331	1,806	0	1,202	4,935

(A) Includes changes in foreign currency exchange rates.

(B) Represents credits and costs applied against reserve and adjustments to reflect actual exposure.

	COLUMN A	COLUMN B CHARGED TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS (DESCRIBE) (B)	COLUMN E BALANCE, AT END OF YEAR
	OF YEAR (in thousands)				
Inventory Reserves :					
Year ended:					
January 3, 2016	\$14,784	\$ 3,758	\$ 0	\$ 3,075	\$ 15,467
December 28, 2014	13,416	4,819	0	3,451	14,784
December 29, 2013	12,946	3,445	0	2,975	13,416

(A) Includes changes in foreign currency exchange rates.

(B) Represents costs applied against reserve and adjustments to reflect actual exposure.

(All other Schedules for which provision is made in the applicable accounting requirements of the Securities and Exchange Commission are omitted because they are either not applicable or the required information is shown in the Company's Consolidated Financial Statements or the Notes thereto.)

Table Of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 2, 2016

**INTERFACE, INC.**

By: /s/ DANIEL T. HENDRIX

Daniel T. Hendrix

*Chief Executive Officer*

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel T. Hendrix as attorney-in-fact, with power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Capacity</b>	<b>Date</b>
/s/ DANIEL T. HENDRIX Daniel T. Hendrix	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2016
/s/ PATRICK C. LYNCH Patrick C. Lynch	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2016
/s/ JOHN P. BURKE	Director	March 2, 2016

John P. Burke

/s/ EDWARD C. CALLAWAY Edward C. Callaway	Director	March 2, 2016
/s/ ANDREW B. COGAN Andrew B. Cogan	Director	March 2, 2016
/s/ CARL I. GABLE Carl I. Gable	Director	March 2, 2016
/s/ CHRISTOPHER G. KENNEDY Christopher G. Kennedy	Director	March 2, 2016
/s/ K. DAVID KOHLER K. David Kohler	Director	March 2, 2016
/s/ JAMES B. MILLER, JR. James B. Miller, Jr.	Director	March 2, 2016
/s/ SHERYL D. PALMER Sheryl D. Palmer	Director	March 2, 2016
/s/ HAROLD M. PAISNER Harold M. Paisner	Director	March 2, 2016



Table Of Contents**EXHIBIT INDEX**

<b><u>Exhibit Number</u></b>	<b><u>Description of Exhibit</u></b>
21	Subsidiaries of the Company.
23	Consent of BDO USA, LLP.
24	Power of Attorney.
31.1	Certification of Chief Executive Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016.
31.2	Certification of Chief Financial Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016.
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Executive Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016.
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Financial Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016.
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