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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Non-accelerated filer

Large accelerated filer Accelerated filer

Smaller reporting company

Emerging Growth Company

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

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

Yes No

Shares outstanding of each of the registrant’s classes of common stock at August 1, 2017:

| <u>Class</u>                            | <u>Number of Shares</u> |
|---|-------------------------|
| Common Stock, \$.10 par value per share | 61,559,932              |

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INTERFACE, INC.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## INTERFACE, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED BALANCE SHEETS

(IN THOUSANDS)

|   | <b>JULY 2, 2017</b> | <b>JANUARY<br/>1, 2017</b> |
|---|---------------------|----------------------------|
|   | <b>(UNAUDITED)</b>  |                            |
| <b>ASSETS</b>   |                     |                            |
| <b>CURRENT ASSETS:</b>                                |                     |                            |
| Cash and Cash Equivalents                             | \$ 66,783           | \$ 165,672                 |
| Accounts Receivable, net                              | 136,609             | 126,004                    |
| Inventories   | 182,808             | 156,083                    |
| Prepaid Expenses and Other Current Assets             | 24,155              | 23,123                     |
| <b>TOTAL CURRENT ASSETS</b>                           | <b>410,355</b>      | <b>470,882</b>             |
| <br>  |                     |                            |
| PROPERTY AND EQUIPMENT, less accumulated depreciation | 208,725             | 204,508                    |
| DEFERRED TAX ASSET                                    | 32,522              | 33,117                     |
| GOODWILL  | 66,172              | 61,218                     |
| OTHER ASSETS  | 66,170              | 65,714                     |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 783,944</b>   | <b>\$ 835,439</b>          |
| <br>  |                     |                            |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>           |                     |                            |
| <br>  |                     |                            |
| <b>CURRENT LIABILITIES:</b>                           |                     |                            |
| Accounts Payable                                      | \$ 49,799           | \$ 45,380                  |
| Current Portion of Long-Term Debt                     | 15,000              | 15,000                     |
| Accrued Expenses                                      | 92,068              | 98,703                     |
| <b>TOTAL CURRENT LIABILITIES</b>                      | <b>156,867</b>      | <b>159,083</b>             |
| <br>  |                     |                            |
| LONG-TERM DEBT  | 215,425             | 255,347                    |
| DEFERRED INCOME TAXES                                 | 5,195               | 4,728                      |
| OTHER   | 74,522              | 75,552                     |
| <b>TOTAL LIABILITIES</b>                              | <b>452,009</b>      | <b>494,710</b>             |
| <br>  |                     |                            |
| Commitments and Contingencies                         |                     |                            |
| <br>  |                     |                            |
| <b>SHAREHOLDERS' EQUITY:</b>                          |                     |                            |

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|   |            |              |
|---|------------|--------------|
| Preferred Stock   | 0          | 0            |
| Common Stock  | 6,158      | 6,424        |
| Additional Paid-In Capital  | 305,331    | 359,451      |
| Retained Earnings   | 167,980    | 140,238      |
| Accumulated Other Comprehensive Income (Loss) – Foreign Currency Translation Adjustment | (89,692    | ) (110,522 ) |
| Accumulated Other Comprehensive Income (Loss) – Pension Liability                       | (57,842    | ) (54,862 )  |
| TOTAL SHAREHOLDERS' EQUITY  | 331,935    | 340,729      |
|   | \$ 783,944 | \$ 835,439   |

See accompanying notes to consolidated condensed financial statements.

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## INTERFACE, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

|  | <b>THREE MONTHS<br/>ENDED</b> |                         | <b>SIX MONTHS<br/>ENDED</b> |                         |
|--|-------------------------------|-------------------------|-----------------------------|-------------------------|
|  | <b>JULY 2,<br/>2017</b>       | <b>JULY 3,<br/>2016</b> | <b>JULY 2,<br/>2017</b>     | <b>JULY 3,<br/>2016</b> |
| NET SALES                                    | \$251,700                     | \$248,207               | \$472,802                   | \$470,761               |
| Cost of Sales                                | 153,803                       | 149,081                 | 287,103                     | 285,003                 |
| GROSS PROFIT ON SALES                        | 97,897                        | 99,126                  | 185,699                     | 185,758                 |
| Selling, General and Administrative Expenses | 64,852                        | 67,328                  | 130,027                     | 132,933                 |
| Restructuring and Asset Impairment Charges   | 0                             | 0                       | 7,299                       | 0                       |
| OPERATING INCOME                             | 33,045                        | 31,798                  | 48,373                      | 52,825                  |
| Interest Expense                             | 1,682                         | 1,590                   | 3,299                       | 3,109                   |
| Other Expense (Income)                       | 232                           | (116 )                  | 1,165                       | 333                     |
| INCOME BEFORE INCOME TAX EXPENSE             | 31,131                        | 30,324                  | 43,909                      | 49,383                  |
| Income Tax Expense                           | 10,193                        | 9,667                   | 14,424                      | 15,832                  |
| NET INCOME                                   | \$20,938                      | \$20,657                | \$29,485                    | \$33,551                |
| Earnings Per Share – Basic                   | \$0.33                        | \$0.32                  | \$0.46                      | \$0.51                  |
| Earnings Per Share – Diluted                 | \$0.33                        | \$0.32                  | \$0.46                      | \$0.51                  |
| Common Shares Outstanding – Basic            | 62,789                        | 65,367                  | 63,432                      | 65,526                  |
| Common Shares Outstanding – Diluted          | 62,832                        | 65,405                  | 63,474                      | 65,564                  |

See accompanying notes to consolidated condensed financial statements.



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INTERFACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(IN THOUSANDS)

|  | <b>THREE<br/>MONTHS<br/>ENDED</b> |                         | <b>SIX MONTHS<br/>ENDED</b> |                         |
|--|-----------------------------------|-------------------------|-----------------------------|-------------------------|
|  | <b>JULY<br/>2, 2017</b>           | <b>JULY<br/>3, 2016</b> | <b>JULY<br/>2, 2017</b>     | <b>JULY<br/>3, 2016</b> |
| Net Income   | \$20,938                          | \$20,657                | \$29,485                    | \$33,551                |
| Other Comprehensive Income (Loss), Foreign Currency Translation Adjustment | 9,800                             | (8,311)                 | 20,830                      | 1,068                   |
| Other Comprehensive Income (Loss), Pension Liability Adjustment            | (2,048)                           | 2,190                   | (2,980)                     | 2,798                   |
| Comprehensive Income   | \$28,690                          | \$14,536                | \$47,335                    | \$37,417                |

See accompanying notes to consolidated condensed financial statements.



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## INTERFACE, INC. AND SUBSIDIARIES

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS)

|   | <b>SIX MONTHS<br/>ENDED</b> |                         |
|---|-----------------------------|-------------------------|
|   | <b>JULY 2,<br/>2017</b>     | <b>JULY 3,<br/>2016</b> |
| <b>OPERATING ACTIVITIES:</b>  |                             |                         |
| Net Income  | \$29,485                    | \$33,551                |
| Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:       |                             |                         |
| Depreciation and Amortization   | 14,422                      | 14,960                  |
| Stock Compensation Amortization Expense   | 1,821                       | 2,349                   |
| Deferred Income Taxes and Other   | 2,870                       | 4,490                   |
| Working Capital Changes:  |                             |                         |
| Accounts Receivable   | (6,288 )                    | 1,668                   |
| Inventories   | (21,087 )                   | (6,169 )                |
| Prepaid Expenses and Other Current Assets   | (667 )                      | (574 )                  |
| Accounts Payable and Accrued Expenses   | 1,389                       | (15,731)                |
| <b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>                                       | <b>21,945</b>               | <b>34,544</b>           |
| <b>INVESTING ACTIVITIES:</b>  |                             |                         |
| Capital Expenditures  | (15,352 )                   | (12,752)                |
| Other   | 306                         | 1,585                   |
| <b>CASH USED IN INVESTING ACTIVITIES:</b>   | <b>(15,046 )</b>            | <b>(11,167)</b>         |
| <b>FINANCING ACTIVITIES:</b>  |                             |                         |
| Repayments of Long-Term Debt  | (54,675 )                   | (10,000)                |
| Borrowing of Long-Term Debt   | 10,000                      | 20,167                  |
| Tax withholding payments for share-based compensation                               | (1,406 )                    | (4,629 )                |
| Repurchase of Common Stock  | (55,667 )                   | (10,443)                |
| Dividends Paid  | (7,575 )                    | (6,547 )                |
| <b>CASH USED IN FINANCING ACTIVITIES:</b>   | <b>(109,323)</b>            | <b>(11,452)</b>         |
| <b>Net Cash Provided by (Used in) Operating, Investing and Financing Activities</b> | <b>(102,424)</b>            | <b>11,925</b>           |

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|   |           |          |
|---|-----------|----------|
| Effect of Exchange Rate Changes on Cash | 3,535     | 743      |
| <b>CASH AND CASH EQUIVALENTS:</b>       |           |          |
| Net Change During the Period            | (98,889 ) | 12,668   |
| Balance at Beginning of Period          | 165,672   | 75,696   |
| Balance at End of Period                | \$66,783  | \$88,364 |

See accompanying notes to consolidated condensed financial statements.

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## INTERFACE, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## NOTE 1 – CONDENSED FOOTNOTES

As contemplated by the Securities and Exchange Commission (the “Commission”) instructions to Form 10-Q, the following footnotes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to the Company’s year-end audited consolidated financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended January 1, 2017, as filed with the Commission.

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, the financial information included in this report contains all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results for the interim periods. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The January 1, 2017, consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

Certain prior period amounts have been reclassified to conform to the current period presentation.

## NOTE 2 – INVENTORIES

Inventories are summarized as follows:

|                 | <b>July 2,<br/>2017</b> | <b>January<br/>1, 2017</b> |
|-----------------|-------------------------|----------------------------|
|                 | <b>(In thousands)</b>   |                            |
| Finished Goods  | \$ 122,737              | \$ 104,742                 |
| Work in Process | 12,281                  | 8,711                      |
| Raw Materials   | 47,790                  | 42,630                     |
|                 | <b>\$ 182,808</b>       | <b>\$ 156,083</b>          |

NOTE 3 – EARNINGS PER SHARE

The Company computes basic earnings per share (“EPS”) by dividing net income by the weighted average common shares outstanding, including participating securities outstanding, during the period as discussed below. Diluted EPS reflects the potential dilution beyond shares for basic EPS that could occur if securities or other contracts to issue common stock were exercised, converted into common stock or resulted in the issuance of common stock that would have shared in the Company’s earnings.

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

|                                   | <b>Three<br/>Months<br/>Ended</b> |                             | <b>Six Months<br/>Ended</b> |                             |
|-----------------------------------|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                   | <b>July<br/>2,<br/>2017</b>       | <b>July<br/>3,<br/>2016</b> | <b>July<br/>2,<br/>2017</b> | <b>July<br/>3,<br/>2016</b> |
| <b>Earnings Per Share:</b>        |                                   |                             |                             |                             |
| Basic Earnings Per Share:         |                                   |                             |                             |                             |
| Distributed Earnings              | \$0.06                            | \$0.05                      | \$0.12                      | \$0.10                      |
| Undistributed Earnings            | 0.27                              | 0.27                        | 0.34                        | 0.41                        |
| Total                             | \$0.33                            | \$0.32                      | \$0.46                      | \$0.51                      |
| Diluted Earnings Per Share:       |                                   |                             |                             |                             |
| Distributed Earnings              | \$0.06                            | \$0.05                      | \$0.12                      | \$0.10                      |
| Undistributed Earnings            | 0.27                              | 0.27                        | 0.34                        | 0.41                        |
| Total                             | \$0.33                            | \$0.32                      | \$0.46                      | \$0.51                      |
| <b>Basic earnings per share</b>   | \$0.33                            | \$0.32                      | \$0.46                      | \$0.51                      |
| <b>Diluted earnings per share</b> | \$0.33                            | \$0.32                      | \$0.46                      | \$0.51                      |

The following tables present net income that was attributable to participating securities:

|   | <b>Three<br/>Months<br/>Ended</b> |                             | <b>Six Months<br/>Ended</b> |                             |
|---|-----------------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>July<br/>2,<br/>2017</b>       | <b>July<br/>3,<br/>2016</b> | <b>July<br/>2,<br/>2017</b> | <b>July<br/>3,<br/>2016</b> |
| Net Income Attributable to Participating Securities | \$0.2                             | \$0.2                       | \$0.3                       | \$0.3                       |

(In millions)

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

|                                       | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|---------------------------------------|---------------------------|---------------------|-------------------------|---------------------|
|                                       | <b>July 2, 2017</b>       | <b>July 3, 2016</b> | <b>July 2, 2017</b>     | <b>July 3, 2016</b> |
|                                       | <b>(In thousands)</b>     |                     |                         |                     |
| Weighted Average Shares Outstanding   | 62,305                    | 64,779              | 62,948                  | 64,938              |
| Participating Securities              | 484                       | 588                 | 484                     | 588                 |
| Shares for Basic Earnings Per Share   | 62,789                    | 65,367              | 63,432                  | 65,526              |
| Dilutive Effect of Stock Options      | 43                        | 38                  | 42                      | 38                  |
| Shares for Diluted Earnings Per Share | 62,832                    | 65,405              | 63,474                  | 65,564              |

For all periods presented, there were no options or participating securities excluded from the computation of diluted EPS.

#### NOTE 4 – LONG-TERM DEBT

##### *Syndicated Credit Facility*

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

As of July 2, 2017, the Company had outstanding \$177.5 million of term loan borrowings and \$52.9 million of revolving loan borrowings under the Facility, and had \$2.6 million in letters of credit outstanding under the Facility. As of July 2, 2017, the weighted average interest rate on borrowings outstanding under the Facility was 2.6%.

The Company is required to make quarterly amortization payments of the term loan borrowing. The amortization payments are due on the last day of the calendar quarter. The quarterly amortization payment amount was \$3.75 million for the second quarter of 2017 and will remain this amount for all future quarters until maturity.



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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.

On August 8, 2017, subsequent to the end of the second quarter of 2017, the Company amended and restated the syndicated credit facility. The terms and conditions of the amended and restated credit facility (the “Amended Facility”) are substantially similar to the preceding Facility, with the following key changes:

The Amended Facility matures in August of 2022;

The restricted payments covenant in the Amended Facility has been liberalized (and now allows for, among other things, the repurchase of the full amount of the new share repurchase program described above); and

Permits the potential release of the lenders’ liens on certain real property and equipment in connection with an anticipated property tax abatement transaction in Georgia.

*Other Lines of Credit*

Subsidiaries of the Company have an aggregate of the equivalent of \$9.8 million of other lines of credit available at interest rates ranging from 2.5% to 6.5%. As of July 2, 2017, there were no borrowings outstanding under these lines of credit.

NOTE 5 – STOCK-BASED COMPENSATION

*Stock Option Awards*

In accordance with accounting standards, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period in which the employee is required to provide the services – the requisite service period (usually the vesting period) – in exchange for the award.

There were no stock options granted during 2015-2017. All outstanding stock options vested prior to the end of 2013, and therefore there was no stock option compensation expense in the first six months of 2016 or 2017.



As of July 2, 2017, there were 82,500 stock options outstanding and exercisable, at an average exercise price of \$8.53 per share. There were 5,000 stock options exercised in the first six months of 2017. There were no forfeitures during the 2017 period. There were no exercises or forfeitures of stock options in the first six months of 2016. The aggregate intrinsic value of the outstanding and exercisable stock options was \$0.9 million as of July 2, 2017.

#### *Restricted Stock Awards*

During the six months ended July 2, 2017 and July 3, 2016, the Company granted restricted stock awards for 244,000 and 266,500 shares of common stock, respectively. Awards of restricted stock (or a portion thereof) vest with respect to each recipient over a one to three-year period from the date of grant, provided the individual remains in the employment or service of the Company as of the vesting date. Additionally, certain awards (or a portion thereof) could vest (or vest earlier) upon the attainment of certain performance criteria, in the event of a change in control of the Company, or upon involuntary termination without cause.

Compensation expense related to restricted stock grants was \$1.3 million and \$1.7 million for the six months ended July 2, 2017 and July 3, 2016, respectively. Accounting standards require that the Company estimate forfeitures for restricted stock and reduce compensation expense accordingly. The Company has reduced its expense by the assumed forfeiture rate and will evaluate experience against this forfeiture rate going forward.

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The following table summarizes restricted stock outstanding as of July 2, 2017, as well as activity during the six months then ended:

|                                | <b>Restricted<br/>Shares</b> | <b>Grant<br/>Date</b> | <b>Weighted<br/>Average</b> |
|--------------------------------|------------------------------|-----------------------|-----------------------------|
|                                |                              |                       | <b>Fair<br/>Value</b>       |
| Outstanding at January 1, 2017 | 504,500                      |                       | \$ 17.05                    |
| Granted                        | 244,000                      |                       | 17.87                       |
| Vested                         | 261,500                      |                       | 16.53                       |
| Forfeited or canceled          | 3,000                        |                       | 16.70                       |
| Outstanding at July 2, 2017    | 484,000                      |                       | \$ 17.75                    |

As of July 2, 2017, the unrecognized total compensation cost related to unvested restricted stock was \$5.7 million. That cost is expected to be recognized by the end of 2020.

*Performance Share Awards*

In 2017 and 2016, the Company issued awards of performance shares to certain employees. These awards vest based on the achievement of certain performance-based goals over a performance period of one to three years, subject to the employee's continued employment through the last date of the performance period, and will be settled in shares of our common stock or in cash at the Company's election. The number of shares that may be issued in settlement of the performance shares to the award recipients may be greater (up to 200%) or lesser than the nominal award amount depending on actual performance achieved as compared to the performance targets set forth in the awards.

The following table summarizes the performance shares outstanding as of July 2, 2017, as well as the activity during the six months then ended:

| <b>Performance<br/>Shares</b> | <b>Weighted<br/>Average</b> |
|-------------------------------|-----------------------------|
|-------------------------------|-----------------------------|

|                                |         | <b>Grant<br/>Date</b> | <b>Fair<br/>Value</b> |
|--------------------------------|---------|-----------------------|-----------------------|
| Outstanding at January 1, 2017 | 368,500 |                       | \$ 17.20              |
| Granted                        | 352,500 |                       | 17.79                 |
| Vested                         | 28,000  |                       | 17.22                 |
| Forfeited or canceled          | 16,000  |                       | 17.22                 |
| Outstanding at July 2, 2017    | 677,000 |                       | \$ 17.51              |

Compensation expense related to performance shares was \$0.5 million and \$0.6 million for the six months ended July 2, 2017, and July 3, 2016, respectively. Unrecognized compensation expense related to these performance shares was approximately \$8.2 million as of July 2, 2017.

#### NOTE 6 – EMPLOYEE BENEFIT PLANS

The following tables provide the components of net periodic benefit cost for the three-month and six-month periods ended July 2, 2017 and July 3, 2016, respectively:

|  | <b>Three Months<br/>Ended</b> |                         | <b>Six Months<br/>Ended</b> |                         |
|--|-------------------------------|-------------------------|-----------------------------|-------------------------|
|  | <b>July 2,<br/>2017</b>       | <b>July 3,<br/>2016</b> | <b>July 2,<br/>2017</b>     | <b>July 3,<br/>2016</b> |
| <b><u>Defined Benefit Retirement Plan (Europe)</u></b> | <b>(In thousands)</b>         |                         | <b>(In thousands)</b>       |                         |
| Service cost   | \$397                         | \$263                   | \$780                       | \$521                   |
| Interest cost  | 1,378                         | 1,728                   | 2,712                       | 3,448                   |
| Expected return on assets                              | (1,628)                       | (2,007)                 | (3,216)                     | (4,004)                 |
| Amortization of prior service costs                    | (9 )                          | (9 )                    | (16 )                       | 18                      |
| Recognized net actuarial losses                        | 320                           | 184                     | 629                         | 368                     |
| Net periodic benefit cost                              | \$458                         | \$159                   | \$889                       | \$351                   |

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|  | <b>Three Months Ended</b> |                       | <b>Six Months Ended</b> |                       |
|--|---------------------------|-----------------------|-------------------------|-----------------------|
|  | <b>July 2, 2017</b>       | <b>July 3, 2016</b>   | <b>July 2, 2017</b>     | <b>July 3, 2016</b>   |
| <b><u>Salary Continuation Plan (SCP)</u></b> |                           |                       |                         |                       |
|  | <b>(In thousands)</b>     | <b>(In thousands)</b> | <b>(In thousands)</b>   | <b>(In thousands)</b> |
| Service cost                                 | \$0                       | \$110                 | \$0                     | \$220                 |
| Interest cost                                | 314                       | 317                   | 628                     | 634                   |
| Amortization of loss                         | 91                        | 203                   | 182                     | 405                   |
| Net periodic benefit cost                    | \$405                     | \$630                 | \$810                   | \$1,259               |

## NOTE 7 – SEGMENT INFORMATION

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

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

|  | <b>AMERICAS</b>       | <b>EUROPE</b> | <b>ASIA-PACIFIC</b> | <b>TOTAL</b> |
|--|-----------------------|---------------|---------------------|--------------|
|  | <i>(in thousands)</i> |               |                     |              |
| <b><u>Three Months Ended July 2, 2017:</u></b> |                       |               |                     |              |
| Net Sales                                      | \$153,616             | \$57,811      | \$40,273            | \$251,700    |
| Depreciation and amortization                  | 3,310                 | 1,314         | 2,090               | 6,714        |
| Total assets                                   | 264,871               | 239,839       | 181,431             | 686,141      |
| <b><u>Three Months Ended July 3, 2016:</u></b> |                       |               |                     |              |
| Net Sales                                      | \$148,761             | \$61,264      | \$38,182            | \$248,207    |
| Depreciation and amortization                  | 3,611                 | 1,297         | 2,169               | 7,077        |

Six Months Ended July 2, 2017:

|                               |           |           |          |           |
|-------------------------------|-----------|-----------|----------|-----------|
| Net Sales                     | \$285,378 | \$113,830 | \$73,594 | \$472,802 |
| Depreciation and amortization | 6,678     | 2,611     | 4,247    | 13,536    |

Six Months Ended July 3, 2016:

|                               |           |           |          |           |
|-------------------------------|-----------|-----------|----------|-----------|
| Net Sales                     | \$279,177 | \$119,222 | \$72,362 | \$470,761 |
| Depreciation and amortization | 7,268     | 2,571     | 4,385    | 14,224    |

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

| DEPRECIATION AND AMORTIZATION               | <b>Three Months<br/>Ended</b> |                         |
|---|-------------------------------|-------------------------|
|   | <b>July 2,<br/>2017</b>       | <b>July 3,<br/>2016</b> |
|   | <i>(In thousands)</i>         |                         |
| Total segment depreciation and amortization | \$6,714                       | \$7,077                 |
| Corporate depreciation and amortization     | 739                           | 366                     |
| Reported depreciation and amortization      | \$7,453                       | \$7,443                 |

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| DEPRECIATION AND AMORTIZATION               | Six Months<br>Ended   |                 |
|---|-----------------------|-----------------|
|   | July 2,<br>2017       | July 3,<br>2016 |
|   | <i>(In thousands)</i> |                 |
| Total segment depreciation and amortization | \$ 13,536             | \$ 14,224       |
| Corporate depreciation and amortization     | 886                   | 736             |
| Reported depreciation and amortization      | \$ 14,422             | \$ 14,960       |

| ASSETS                            | July 2,<br>2017           |
|-----------------------------------|---------------------------|
|                                   | <i>(In<br/>thousands)</i> |
| Total segment assets              | \$ 686,141                |
| Corporate assets and eliminations | 97,803                    |
| Reported total assets             | \$ 783,944                |

## NOTE 8 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest amounted to \$3.2 million and \$2.5 million for the six months ended July 2, 2017 and July 3, 2016, respectively. Income tax payments amounted to \$11.5 million and \$7.3 million for the six months ended July 2, 2017 and July 3, 2016, respectively.

## NOTE 9 – RECENTLY ISSUED 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. Nearly 95% of the Company’s revenue is produced from the sale of carpet, hard surface flooring and related products (TacTiles installation system, etc.) and the revenue from sales of these products is recognized upon shipment.

There does not exist any performance or any other obligation after the sale of these products outside of the product warranty, which has not historically been of significance compared to total product sales. There is a small portion of the Company's revenues (less than 6%) that is for the sale and installation of carpet and related products. Of these projects, the overwhelming majority are completed in less than 48 hours and therefore the Company does not anticipate a significant shift in the timing of revenue recognition for these sales either. While the Company is currently continuing its review of this new standard, and the method by which it will be adopted, given the nature of the Company's sales it does not believe that the adoption of this standard will have a material impact on its revenues, financial condition or results of operations.

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 adoption of this new standard did not have any significant impact on the Company's 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. The Company adopted this standard in the first quarter of 2017, and recorded a reduction of current assets of \$10.0 million and a corresponding increase in long term assets of \$5.9 million as well as a reduction of long term liabilities of \$4.1 million. The Company applied this standard retrospectively and as a result has adjusted the balance sheet as of the end of 2016 by these amounts as well.

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In March 2016, the FASB issued an accounting standard update to simplify several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. In addition, an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is the current U.S. GAAP practice, or account for forfeitures when they occur. This update will be effective for fiscal periods beginning after December 15, 2016, including interim periods within that reporting period. The element of the new standard that will have the most impact on the Company's financial statements will be income tax consequences. Excess tax benefits and tax deficiencies on stock-based compensation awards will now be included in the tax provision within the consolidated statement of operations as discrete items in the reporting period in which they occur, rather than the current accounting of recording them in additional paid-in capital on the consolidated balance sheet. The adoption of this standard resulted in an increase in deferred tax assets of approximately \$5.8 million, with a corresponding increase to equity accounts, as of implementation in the first quarter of 2017. There was an impact of this standard on the consolidated statement of cash flows upon adoption, as under the standard when an employer withholds shares for tax withholding purposes those related tax payments will be treated as financing activities, not as operating activities. Upon adoption in the first quarter of 2017, this resulted in a reclassification of \$4.6 million of such tax payments in the first quarter of 2016 from operating activities to financing activities. The Company has elected to continue our current policy of estimating forfeitures of stock-based compensation awards at the time of grant and revising in subsequent periods to reflect actual forfeitures, which is allowable under the new standard.

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.

## NOTE 10 – INCOME TAXES

Accounting standards require that all tax positions be analyzed using a two-step approach. The first step requires an entity to determine if a tax position is more-likely-than-not to be sustained upon examination. In the second step, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more-likely-than-not to be realized upon ultimate settlement. In the first six months of 2017, the Company increased its liability for unrecognized tax benefits by \$0.5 million. As of July 2, 2017, the Company had accrued approximately \$28.4 million for unrecognized tax benefits. In accordance with applicable accounting standards, the Company's deferred tax asset as of July 2, 2017 reflects a reduction for \$5.0 million of these unrecognized tax benefits.



NOTE 11 – ITEMS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME

During the first six months of 2017, the Company did not reclassify any significant amounts out of accumulated other comprehensive income. The reclassifications that occurred in that period were primarily comprised of \$0.8 million related to the Company's defined benefit retirement plan and salary continuation plan. These reclassifications were included in the selling, general and administrative expenses line item of the Company's consolidated condensed statement of operations.

NOTE 12 – REPURCHASE OF COMMON STOCK

In the fourth quarter of 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 the second quarter of 2016, the Company amended the share purchase program to authorize the repurchase of up to \$50 million of common stock, with no specific expiration date. During the first three months of 2017, the Company repurchased and retired 1,601,896 shares of common stock at a weighted average purchase price of \$19.36 per share. These repurchases completed the \$50 million repurchase plan.

In the second quarter of 2017, the Company adopted a new share repurchase program in which the Company is authorized to repurchase up to \$100 million of its outstanding shares of common stock. The program has no specific expiration date. During the second quarter of 2017, pursuant to this new program, the Company repurchased and retired 1,244,735 shares of common stock at a weighted average price of \$19.74 per share.

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## NOTE 13 – RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

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

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

A summary of these restructuring activities is presented below:

|                     | Total<br>Restructuring<br>Charge | Costs<br>Incurred<br>in<br>2016 | Costs<br>Incurred<br>in 2017 | Balance<br>at<br>July, 2,<br>2017 |
|---------------------|----------------------------------|---------------------------------|------------------------------|-----------------------------------|
|                     |                                  | <i>(in thousands)</i>           |                              |                                   |
| Workforce Reduction | \$ 10,652                        | \$ 1,451                        | \$ 5,631                     | \$ 3,570                          |
| Asset Impairment    | 11,319                           | 8,019                           | 3,300                        | 0                                 |
| Lease Exit Costs    | 5,116                            | 27                              | 4,122                        | 967                               |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2017, under Item 7 of that Form 10-K. Our discussions here focus on our results during the quarter and six months ended, or as of, July 2, 2017, and the comparable periods of 2016 for comparison purposes, and, to the extent applicable, any material changes from the information discussed in that Form 10-K or other important intervening developments or information since that time. These discussions should be read in conjunction with that Form 10-K for more detailed and background information.

#### Forward-Looking Statements

This report contains statements which may constitute “forward-looking statements” within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include risks and uncertainties associated with economic conditions in the commercial interiors industry as well as the risks and uncertainties discussed under the heading “Risk Factors” included in Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended January 1, 2017, which discussion is hereby incorporated by reference. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

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## General

During the quarter ended July 2, 2017, we had net sales of \$251.7 million, compared with net sales of \$248.2 million in the second quarter last year. During the first six months of fiscal year 2017, we had net sales of \$472.8 million, compared with net sales of \$470.8 million in the first six months of last year. Fluctuations in currency exchange rates had small negative impacts on our sales and operating income in the 2017 reported periods, compared with the prior year periods. The following table presents the amounts (in U.S. dollars) by which the exchange rates for converting foreign currencies into U.S. dollars have negatively affected our net sales and operating income for the three months and six months ended July 2, 2017.

| Impact of Changes in Foreign<br>Currency on: | Three                | Six       |
|--|----------------------|-----------|
|  | Months               | Months    |
| Ended  | Ended                | Ended     |
| July   | July 2,              | July 2,   |
| 2,   | 2017                 | 2017      |
|  | <i>(In millions)</i> |           |
| Net sales                                    | \$(2.7)              | \$ (4.9 ) |
| Operating income                             | (0.5)                | (0.5 )    |

During the second quarter of 2017, we had net income of \$20.9 million, or \$0.33 per diluted share, compared with net income of \$20.7 million, or \$0.32 per diluted share, in the second quarter of 2016. During the six months ended July 2, 2017, we had net income of \$29.5 million, or \$0.46 per diluted share, compared with net income of \$33.6 million, or \$0.51 per diluted share, in the first six months of 2016. The first six months of 2017 include \$7.3 million of restructuring and asset impairment charges (all of which were recorded in the first quarter) as a continuation of the plans announced for the fourth quarter of 2016, primarily relating to our closing of the majority of our FLOR specialty retail stores.

## Results of Operations

The following table presents, as a percentage of net sales, certain items included in our Consolidated Condensed Statements of Operations for the three-month and six-month periods ended July 2, 2017, and July 3, 2016, respectively:

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|  | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|--|---------------------------|---------------------|-------------------------|---------------------|
|  | <b>July 2, 2017</b>       | <b>July 3, 2016</b> | <b>July 2, 2017</b>     | <b>July 3, 2016</b> |
| Net sales                                    | 100.0%                    | 100.0%              | 100.0%                  | 100.0%              |
| Cost of sales                                | 61.1                      | 60.1                | 60.7                    | 60.5                |
| Gross profit on sales                        | 38.9                      | 39.9                | 39.3                    | 39.5                |
| Selling, general and administrative expenses | 25.8                      | 27.1                | 27.5                    | 28.2                |
| Restructuring and asset impairment charges   | 0.0                       | 0.0                 | 1.5                     | 0.0                 |
| Operating income                             | 13.1                      | 12.8                | 10.2                    | 11.2                |
| Interest/Other expenses                      | 0.8                       | 0.6                 | 0.9                     | 0.8                 |
| Income before tax expense                    | 12.4                      | 12.2                | 9.3                     | 10.5                |
| Income tax expense                           | 3.9                       | 3.9                 | 3.1                     | 3.4                 |
| Net income                                   | 8.3                       | 8.3                 | 6.2                     | 7.1                 |

*Net Sales*

Below we provide information regarding net sales and analyze those results for the three-month and six-month periods ended July 2, 2017 and July 3, 2016, respectively.

|           | <b>Three Months Ended</b> |                     | <b>Percentage Change</b> |   |
|-----------|---------------------------|---------------------|--------------------------|---|
|           | <b>July 2, 2017</b>       | <b>July 3, 2016</b> |                          |   |
|           | <i>(In thousands)</i>     |                     |                          |   |
| Net Sales | \$251,700                 | \$248,207           | 1.4                      | % |

|           | <b>Six Months Ended</b> |                     | <b>Percentage Change</b> |   |
|-----------|-------------------------|---------------------|--------------------------|---|
|           | <b>July 2, 2017</b>     | <b>July 3, 2016</b> |                          |   |
|           | <i>(In thousands)</i>   |                     |                          |   |
| Net Sales | \$472,802               | \$470,761           | 0.4                      | % |

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For the quarter ended July 2, 2017, net sales increased \$3.5 million (1.4%) versus the comparable period in 2016. Currency fluctuations had an approximately \$2.7 million (1.1%) negative impact on the 2017 second quarter sales compared to the second quarter of 2016. This negative impact was a result of the weakening of the British Pound and Euro as compared to the prior year period, and was offset somewhat by the strengthening of the Australian dollar. On a geographic basis, sales increases in the Americas (up 4%) and Asia-Pacific (up 6%) were partially offset by a decline in Europe (down 6%). The 2017 second quarter also was negatively impacted by the exit of the FLOR specialty retail stores at the end of the first quarter of 2017, although this was partially offset by gains in FLOR's other sales channels. A slight decline in corporate office market sales were offset by increases in the retail, government and multi-family residential market segments. Growth in the Americas region was primarily due to sales of our modular resilient flooring products, a line of luxury vinyl tile, which launched in the first quarter of 2017. These products were introduced globally during the second quarter but the majority of the sales for the period were in the Americas. In Europe, sales decreased 6% on declines throughout the region, with the exception of an increase in Germany. Sales in Asia-Pacific were higher due to the performance of the Australian business, offset by a decline in China.

For the six months ended July 2, 2017, net sales increased \$2.0 million (0.4%) versus the comparable period in 2016. Currency rate changes had an approximately \$4.9 million (1%) negative impact on sales for the first six months of 2017 as compared to the first half of 2016. This impact was a result of the weakening of the British Pound and Euro as compared to the prior year period, offset somewhat by strengthening of the Australia dollar. Sales increases were primarily in the non-office markets of retail, government and multi-family residential. On a geographical basis, sales for the six-month period increased 2% in the Americas and 2% in Asia-Pacific, offset by sales in Europe that declined 5%. As discussed above, we launched modular resilient flooring products in the first quarter of 2017. Sales of these products are progressing according to plan and have been primarily in the Americas, although they were launched globally in the second quarter of this year. Sales were also negatively impacted by the exit of FLOR specialty retail stores at the end of the first quarter of 2017.

*Cost and Expenses*

The following table presents, on a consolidated basis for our operations, our overall cost of sales and selling, general and administrative expenses for the three-month and six-month periods ended July 2, 2017, and July 3, 2016, respectively:

| <u>Cost and Expenses</u>                     | <b>Three Months Ended</b> |                     | <b>Percentage</b> |    |
|--|---------------------------|---------------------|-------------------|----|
|  | <b>July 2, 2017</b>       | <b>July 3, 2016</b> | <b>Change</b>     |    |
|  | <i>(In thousands)</i>     |                     |                   |    |
| Cost of sales                                | \$153,803                 | \$149,081           | 3.2               | %  |
| Selling, general and administrative expenses | 64,852                    | 67,328              | (3.7              | %) |
| Total  | \$218,655                 | \$216,409           | 1.0               | %  |

| <b><u>Cost and Expenses</u></b>              | <b>Six Months Ended</b> |                         | <b>Percentage</b> |   |
|--|-------------------------|-------------------------|-------------------|---|
|  | <b>July 2,<br/>2017</b> | <b>July 3,<br/>2016</b> | <b>Change</b>     |   |
|  | <i>(In thousands)</i>   |                         |                   |   |
| Cost of sales                                | \$287,103               | \$285,003               | 0.7               | % |
| Selling, general and administrative expenses | 130,027                 | 132,933                 | (2.2)             | % |
| Total  | \$417,130               | \$417,936               | (0.2)             | % |

For the quarter ended July 2, 2017, cost of sales increased \$4.7 million (3.2%) as compared to the second quarter of 2016. Fluctuations in currency exchange rates did not have a significant impact on the comparison. The increase in cost of sales was partially due to higher levels of sales during the quarter, as net sales increased 1.4% for the second quarter of 2017. The remainder of the increase was due to higher per-unit raw material costs for the quarter, in particular backing and yarn components, as a result of higher input costs. These increases were somewhat offset by productivity and process improvement gains as well as savings from our restructuring activities. As a percentage of sales, cost of sales increased to 61.1% for the second quarter of 2017 as compared to 60.1% for the second quarter of 2016. This increase as a percentage of sales is due to the factors noted above, as well as a result of the exit of our FLOR specialty retail stores at the end of the first quarter of 2017. Sales in these stores typically generated higher gross margins compared to our commercial carpet business, and therefore the absence of these stores was dilutive to gross profit margin when measured as a percentage of sales.

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For the six months ended July 2, 2017, costs of sales increased \$2.1 million (0.7%) versus the comparable period in 2016. Fluctuations in currency exchange rates did not have a significant impact on the comparison. The increase for the six-month period was due to the factors for the second quarter discussed above as our costs of sales for the first quarter of 2017 declined versus the first quarter of 2016. The increase in the first six months of 2017 was primarily due to increased sales for the period, with raw material input costs having little effect on the year over year comparison. As a percentage of sales, our cost of sales increased slightly to 60.7% for the 2017 six-month period versus 60.5% for the comparable 2016 period. This increase as a percentage of sales was due to the exit of the FLOR specialty retail stores as discussed above, as these higher margin sales were not present in the second quarter of 2017 to the same extent they were for the second quarter of 2016. In the second half of 2017, we expect raw material price inflation and, as a result, cost of sales as a percentage of sales is expected to increase for the remainder of 2017.

For the three months ended July 2, 2017, selling, general and administrative (“SG&A”) expenses decreased \$2.5 million (3.7%) versus the comparable period in 2016. Fluctuations in currency exchanges rates did not have a significant impact on the comparison. The decline in SG&A expenses for the quarter was a result of (1) lower selling expenses related to the exit of the FLOR specialty retail stores, (2) lower functional expenses as we transition to more centralized services, and (3) savings as a result of our restructuring plans implemented in the fourth quarter of 2016. These savings were offset by higher incentive compensation associated with higher projected attainment of performance goals in the second quarter of 2017 as compared to the second quarter of 2016 as well as costs associated with our luxury vinyl tile product launch. As a result of the savings discussed above, as a percentage of sales SG&A expenses declined to 25.8% for the three months ended July 2, 2017, versus 27.1% for the comparable period in 2016.

For the six months ended July 2, 2017, SG&A expenses decreased \$2.9 million (2.2%) versus the comparable period in 2016. Fluctuations in currency exchange rates did not have a significant impact on the comparison. The decline was a result of (1) lower functional expenses, as we move towards more centralized functions and realize associated savings, (2) the selling expense savings in the second quarter of 2017 associated with the exit of the FLOR specialty retail stores, and (3) savings associated with our previously announced restructuring plans. During the first half of 2017, these savings were offset by higher incentive compensation amounts as well as costs associated with our luxury vinyl tile product launches. As a percentage of sales, SG&A expenses declined to 27.5% for the first six months of 2017 as compared to 28.2% for the comparable period of 2016.

*Interest Expense*

For the three-month period ended July 2, 2017, interest expense increased \$0.1 million to \$1.7 million, from \$1.6 million in the second quarter of 2016. For the six-month period ended July 2, 2017, interest expense increased \$0.2 million to \$3.3 million, from \$3.1 million in the comparable period last year. The increases were due to higher average outstanding borrowings under our Syndicated Credit Facility during the second quarter and first six months of 2017 as compared to the corresponding periods of 2016.



## Liquidity and Capital Resources

### *General*

At July 2, 2017, we had \$66.8 million in cash and cash equivalents. At that date, we had \$177.5 million in term loan borrowings, \$52.9 million of revolving loan borrowings and \$2.6 million in letters of credit outstanding under the Syndicated Credit Facility.

As of July 2, 2017, we could have incurred \$194.5 million of additional borrowings under our Syndicated Credit Facility. In addition, we could have incurred an additional \$9.8 million of borrowings under our other lines of credit in place at other non-U.S. subsidiaries.

### *Analysis of Cash Flows*

As of July 2, 2017, we had \$66.8 million in cash, a decrease of \$98.9 million during the first six months of the year. The decrease in cash was primarily a result of cash outflows for financing activities, with the most significant factors being (1) \$55.7 million of cash used to repurchase and retire 2.8 million shares of our outstanding common stock, (2) \$54.7 million of cash used to repay borrowings under the Syndicated Credit Facility (including required amortization payments of \$7.6 million), and (3) \$7.6 million for the payment of dividends. We also used cash of \$15.4 million for capital expenditures in the first six months of 2017. These uses were partially offset by \$21.9 million of cash generated by operating activities. The factors driving the cash from operations were (1) \$29.5 million of net income for the period, and (2) \$1.4 million of cash received due to an increase in accounts payable and accrued expenses. These inflows were partially offset by operating cash outflows of \$21.1 million due to an increase in inventory and \$6.3 million used for an increase in accounts receivable.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our discussion below in this Item 3 is based upon the more detailed discussions of our market risk and related matters included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2017 under Item 7A of that Form 10-K. Our discussion here focuses on the period ended July 2, 2017, and any material changes from (or other important intervening developments since the time of) the information discussed in that Form 10-K. This discussion should be read in conjunction with that Form 10-K for more detailed and background information.

At July 2, 2017, we recognized a \$20.8 million increase in our foreign currency translation adjustment account compared to January 1, 2017, primarily because of the weakening of the U.S. dollar against certain foreign currencies, particularly the Euro, British Pound and Australian 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.

Because the debt outstanding under our Syndicated Credit Facility has variable interest rates based on an underlying prime lending rate or LIBOR rate, we do not believe changes in interest rates would have any significant impact on the fair value of that debt instrument. Changes in the underlying prime lending rate or LIBOR rate would, however, impact the amount of our interest expense. For a discussion of these hypothetical impacts on our interest expense, please see the discussion in Item 7A of our Annual Report on Form 10-K for the year ended January 1, 2017.

As of July 2, 2017, a 10% decrease or increase in the levels of foreign currency exchange rates against the U.S. dollar, with all other variables held constant, would result in a decrease in the fair value of our financial instruments of \$6.5 million or an increase in the fair value of our financial instruments of \$7.9 million, respectively. As the impact of offsetting changes in the fair market value of our net foreign investments is not included in the sensitivity model, these results are not indicative of our actual exposure to foreign currency exchange risk.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including our President and Chief Executive Officer and

our Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Act”), pursuant to Rule 13a-14(c) under the Act. Based on that evaluation, our President and Chief Executive Officer and our Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

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

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## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

## ITEM 1A. RISK FACTORS

There are no material changes in risk factors in the second quarter of 2017. For a discussion of risk factors, see Part I, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended January 1, 2017.

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

The following table contains information with respect to purchases made by or on behalf of the Company, or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended July 2, 2017:

| <b><u>Period</u></b> <sup>(1)</sup> | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>Per<br/>Share</b> | <b>Total<br/>Number<br/>of Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or</b> | <b>Approximate<br/>Dollar<br/>Value of<br/>Shares that<br/>May Yet Be<br/>Purchased<br/>Under the</b> |
|-------------------------------------|---|---|--|---|
|-------------------------------------|---|---|--|---|

|                                 |           |          | <b>Programs<sup>(2)</sup></b> | <b>Plans or<br/>Programs<sup>(2)</sup></b> |
|---------------------------------|-----------|----------|-------------------------------|--|
| April 3-30, 2017 <sup>(3)</sup> | 5,354     | \$ 19.37 | 0                             | \$ 100,000,000                             |
| May 1-31, 2017 <sup>(3)</sup>   | 5,155     | \$ 20.65 | 0                             | 100,000,000                                |
| June 1-30, 2017                 | 1,244,735 | \$ 19.74 | 1,244,735                     | 75,431,486                                 |
| July 1-2, 2017                  | 0         | N/A      | 0                             | 75,431,486                                 |
| Total                           | 1,255,244 | \$ 19.75 | 1,244,735                     | \$ 75,431,486                              |

<sup>(1)</sup> The monthly periods identified above correspond to the Company's fiscal second quarter of 2017, which commenced April 3, 2017 and ended July 2, 2017.

<sup>(2)</sup> In April 2017, the Company announced a new share purchase program authorizing the repurchase of up to \$100 million of common stock. This amended program has no specific expiration date.

<sup>(3)</sup> Comprised of shares acquired by the Company from employees to satisfy income tax withholding obligations in connection with the vesting of previous grants of equity awards.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

### ITEM 5. OTHER INFORMATION

None



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ITEM 6. EXHIBITS

The following exhibits are filed with this report:

EXHIBIT

NUMBER DESCRIPTION OF EXHIBIT

|         |   |
|---------|---|
|         | Amended and Restated Rights Agreement dated May 8, 2017 between Interface, Inc. and Computershare   |
| 4.1     | Trust Company, N.A., as Rights Agent (included as Exhibit 4.1 to the Company's current report on Form 8-K filed on May 9, 2017, previously filed with the Commission and incorporated herein by reference). |
| 31.1    | Section 302 Certification of Chief Executive Officer.   |
| 31.2    | Section 302 Certification of Chief Financial Officer.   |
| 32.1    | Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.  |
| 32.2    | Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.  |
| 101.INS | XBRL Instance Document  |
| 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  |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERFACE, INC.

Date: August 10, 2017 By: /s/ Bruce A. Hausmann  
Bruce A. Hausmann  
Vice President  
(Principal Financial Officer)



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## EXHIBITS INCLUDED HEREWITH

## EXHIBIT

| <u>NUMBER</u> | <u>DESCRIPTION<br/>OF EXHIBIT</u> |
|---------------|-----------------------------------|
|---------------|-----------------------------------|

|         |   |
|---------|---|
| 31.1    | Section 302<br>Certification of<br>Chief Executive<br>Officer                     |
| 31.2    | Section 302<br>Certification of<br>Chief Financial<br>Officer                     |
| 32.1    | Certification of<br>Chief Executive<br>Officer<br>pursuant to 18<br>U.S.C. § 1350 |
| 32.2    | Certification of<br>Chief Financial<br>Officer<br>pursuant to 18<br>U.S.C. § 1350 |
| 101.INS | XBRL Instance<br>Document   |
| 101.SCH | XBRL<br>Taxonomy<br>Extension<br>Schema<br>Document                               |
| 101.CAL | XBRL<br>Taxonomy<br>Extension<br>Calculation<br>Linkbase<br>Document              |
| 101.LAB | XBRL<br>Taxonomy<br>Extension<br>Label Linkbase<br>Document                       |
| 101.PRE | XBRL<br>Taxonomy  |

Presentation  
Linkbase  
Document  
XBRL  
Taxonomy  
101.DEF Definition  
Linkbase  
Document

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