INTERFACE INC
Form 10-K
February 28, 2019

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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 December 30, 2018

Commission File No.: 001-33994

Interface, Inc.

(Exact name of registrant as specified in its charter)

Georgia	**58-1451243**
(State of incorporation)	*(I.R.S. Employer Identification No.)*
1280 West Peachtree Street	
Atlanta, Georgia	**30309**

(Address of principal executive offices) (zip code)

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

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

Title of Each Class	**Name of Each Exchange on Which Registered:**
Common Stock, $0.10 Par Value Per Share	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 every Interactive Date File required to be submitted 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," "smaller reporting company" and "emerging growth 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 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

Aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of June 29, 2018: $1,343,752,725 (58,551,317 shares valued at the closing sale price of $22.95 on June 29, 2018). See Item 12.

Number of shares outstanding of each of the registrant's classes of Common Stock, as of February 18, 2019:

Class	Number of Shares
Common Stock, $0.10 par value per share	59,453,784

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III.

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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 Interf Inc. and its subsidiaries or any of them, unless the context requires otherwise.

Interface is a global flooring company specializing in carpet tile and resilient flooring, including luxury vinyl tile ("LVT") and rubber flooring. We help our customers create high-performance interior spaces that support well-being, productivity, and creativity, as well as the sustainability of the planet.

We are a worldwide leader in design, production and sales of modular carpet, also known as carpet tile. 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 58%, 27% and 15%, respectively, for fiscal year 2018.

In 2017, we globally launched a line of LVT products, which represented our first introduction into a category of products that we call resilient flooring.

On August 7, 2018, the Company acquired nora Holding GmbH ("nora") a global leader in performance flooring and worldwide leader in the rubber flooring category under the established nora brands *norament*® and *noraplan*®. The nora acquisition is expected to advance the Company's growth strategy in expanding market segments, particularly in the healthcare, life sciences and education market segments. Similar to Interface, nora operates on an international footprint and the Company expects the acquisition will also allow for geographic sales synergies as well. The results of operations for this acquisition have been consolidated with those of the Company from the acquisition date forward. Due to the nora acquisition, our resilient rubber flooring products accounted for approximately 10% of our sales in 2018.

Capitalizing on our acquisition of nora, as well as our leadership in modular carpet for the corporate office market 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. As a result of our efforts, our mix of corporate office versus non-corporate office modular carpet and LVT sales in the Americas was 45% and 55%, respectively, for 2018. Company-wide, our mix of corporate office versus non-corporate office modular carpet and LVT sales was 60% and 40%, respectively, in 2018. 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. Rubber is already an attractive product for non-corporate applications and the acquisition of nora will continue to allow for growth of non-corporate office markets.

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, 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. We continue to drive this trend with our product innovations and designs discussed below. We believe that we are well positioned to lead and capitalize upon the market for modular carpet, both domestically and around the world.

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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. 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, 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. Our acquisition of nora, which is a global leader in performance flooring, further strengthens our strong global brand reputation.

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*™. 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. Nora also offers strong design capabilities and tremendous color palate options to offer attractive and resilient flooring options to our customers.

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*®, *Net Effect*®, *Human Nature*® and *World Woven*® collections, which are sold throughout our international operations.

Historically, one of our best design innovations is our *i2*™ modular product line, which includes our popular *Entropy*® 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 innovation is our *TacTiles*® 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 material waste.

Made-to-Order and Custom Products; 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 made-to-order and custom samples quickly and on-time delivery of made-to-order or 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.

About half of our modular carpet products worldwide are made-to-order sales, which are not custom products, but are instead standard styles which can be produced once ordered. Our made-to-order capabilities not only enhance our marketing and sales, they significantly improve our inventory turns. Our customized products, which are both custom colors of established styles, as well as limited amounts of true custom carpet designs or configurations, are less than 10% of our global sales. The remainder of our modular carpet sales are serviced from off-the-shelf inventory. The salient terms of our contracts for made-to-order and custom modular carpet tile do not differ materially from those for off-the-shelf inventory.

Our global manufacturing capabilities in modular carpet production are an important component of our strength in these areas, 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. It also includes a bold new mission called *Climate Take Back*™, in which we seek to lead the industry in designing and making products in ways that will maintain a climate fit for life. 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.

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 950 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.

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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 our modular carpet, new LVT products and new rubber flooring products across several industry segments, while maintaining our leadership position for modular carpet in the corporate office market segment. These efforts generally are described in the following strategic pillars:

- Grow our core carpet tile business;
- Develop a substantial resilient flooring business, which includes our nora rubber products;
- Execute supply chain productivity;
- Optimize selling, general and administrative ("SG&A") spending; and
- Lead a world-changing sustainability movement centered around Mission Zero and Climate Take Back.

We will seek to increase revenues and profitability by capitalizing on the above strengths and pursuing the following key initiatives.

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 and opportunities for Interface to leverage its brand, experience and skills. 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 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 a market diversification strategy to reduce our exposure to the 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 and created targeted selling techniques dedicated to penetrating certain 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. Historically, we offered *FLOR* in three primary sales channels – catalogs, the Internet, and in our *FLOR* retail stores. In the fourth quarter of 2016, we adopted a restructuring plan that included the closure of *FLOR*'s headquarters office and most retail *FLOR* stores. In 2017, we completed our restructuring plan and now *FLOR* focuses on internet sales as well as crossover sales by our commercial sales force.

Develop a Substantial Resilient Flooring Business. Building upon the success of our initial introduction of products into the high growth LVT market, we plan to expand our LVT product offering while also seeking to introduce new products in the resilient flooring category. We believe our ability to offer and sell our soft and hard surfaces in an integrated flooring design helps meet the needs of our customers by complementing and enhancing our carpet tile portfolio with true modular installation, no transition strips between surfaces, same sizes of carpet tile and LVT products, and favorable acoustic properties. Our acquisition of nora, with its rubber flooring business, is a key component of our strategy in this area.

Continue to Minimize Expenses and Invest Strategically. We have steadily trimmed costs from our operations for several years through multiple initiatives, which have made our cost structure more efficient 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.

Use Strong Free Cash Flow Generation to Strengthen Our Balance Sheet. Our principal business has been structured to yield contribution margins that generate strong free cash flow (by which we mean cash available to invest back into the business, apply towards servicing debt, potential stock repurchases, strategic acquisitions and the like). Our historical investments in global manufacturing capabilities, facilities and product customization techniques, which we have maintained, also contribute to our ability to generate strong levels of free cash flow. We expect to use our strong free cash flow generation capability to potentially repurchase shares and strengthen our financial position, or re-invest in our operations. 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.

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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* and *Climate Take Back* initiatives, which draw upon and promote our ecological sustainability commitment, are part of those initiatives and include placing our *Mission Zero* and *Climate Take Back* logos on many of our marketing and merchandising materials distributed throughout the world.

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;
- success of the nora acquisition will depend substantially on our ability to realize the expected synergies and other benefits from combining the businesses of the Company and nora, and nora may not contribute to the revenue and profitability of the combined business as much as we expect;
- 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 or our sole third party supplier for LVT could have a material adverse effect on us;
- we have a significant amount of indebtedness, which could have important negative consequences to us; and
- some of our competitors who have greater financial resources than we do are adding manufacturing capacity into the industry throughout the world, which could increase the amount of supply in the market, adversely affect pricing in the market, and generate other competitive factors which could adversely impact our sales and profitability.

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

Historically, 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 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 third quarter sales have sometimes 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.

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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.

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, most of our modular carpet sales in the Americas and Asia-Pacific are custom or made-to-order products 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. We also have created modular carpet products 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.

Modular Resilient Flooring

In 2016, we began offering a category of products we call modular resilient flooring, and our first product introductions into this category were LVT products in a four-city test market in the U.S. We recognize that our customers are buying multiple flooring types to service individual projects, while also looking to partner with fewer suppliers that can offer more products and services. Expanding our product portfolio to include modular resilient flooring, and specifically LVT, allows us to meet this growing demand and pursue new or incremental sales opportunities. LVT also shares many of the same attributes and benefits with carpet tile, and we were able to leverage our experience in modular carpet tile in designing a product specification to meet our aesthetic and performance standards. We also selected a reputable third party to manufacture the products to our specifications, thus allowing us to enter the product category with minimal capital commitments.

In 2017, we launched our LVT products globally, beginning with the Level Set™ Collection which includes 41 styles of tiles with printed top layers in a variety of aesthetic looks, including natural woodgrains and stones, textured woodgrains, and patterns. These products are modular and come in sizes that match certain of our modular carpet planks and squares. They also are engineered to the same height as our modular carpet, which means better coverage of irregularities in the sub-floor, lower sound transference from floor to floor, and the ability to install our LVT and modular carpet products side by side without transition strips or layering. In addition, the Level Set Collection is constructed with the same type of backing as our carpet tiles.

Rubber Flooring

Nora is a global leader in performance flooring and worldwide share leader in the rubber flooring category under the established *norament® and noraplan*® brands. Nora enhances the Company’s fast growing resilient flooring portfolio. The acquisition is expected to advance the Company’s growth strategy in expanding market segments, particularly in the healthcare, life sciences and education market segments. Rubber flooring is ideal for applications that require hygienic, safe flooring with strong chemical resistance. Rubber flooring is extremely durable compared to other flooring alternatives.

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Other Products and Services

We sell a proprietary antimicrobial chemical compound under the registered trademark *Intersept* that we incorporate in some 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. We also continue to provide "turnkey" project management services for national accounts and other large customers through our *InterfaceSERVICES*™ business.

Marketing and Sales

We distribute our products through two primary channels: (1) direct sales to end users; and (2) indirect sales through independent contractors or distributors. 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,* as well as the strength of the nora rubber flooring brands of *norament*® and *noraplan*®.

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. 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.

Manufacturing

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

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. For our rubber production we have one manufacturing facility, but we have regional warehouses to achieve advantageous delivery times and optimal freight costs.

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. For rubber flooring, the key polymer raw materials are available from multiple sources and we can source both synthetic and natural rubbers depending on product specification and material availability.

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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. Nora's manufacturing facility, which is located in Weinheim, Germany, is ISO14001 certified as well and sells the majority of its products with the Blauer Engel label. Blauer Engel is the leading German institute that recognizes products that have environmentally friendly aspects.

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 our LVT or roll goods) and convenience of our modular carpet are our principal competitive advantages.

We believe we have competitive advantages in several other areas as well. First, having both an internal design staff as well as our relationship with David Oakey Designs allows us to introduce numerous innovative and attractive carpet tile and LVT products to our customers. Additionally, we believe that our global carpet tile 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 some modular carpet products 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 environmental sustainability goals and commitment to eliminate our negative impact on the environment 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 related environmental certification programs, 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 team provides technical support and advanced materials research and development for us. The team assisted in the development of our 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 bio-based and renewable polymers for use in our products. Our research and development team also 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.

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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.

For nora rubber flooring, the innovation focus is on performance and design. A recent revolutionary innovation is the fast growing self-adhesive nTx solution for nora tiles and sheet goods. Recent step changes in design are noraplan Iona introducing a rubber on rubber print, noraplan valua introducing natural woodlike colors and embossing, and noraplan unita that incorporates real granite parts in a rubber floor. The combination of performance and design makes nora the recognized market leader in rubber flooring.

David Oakey Designs provides carpet design and consulting services to us pursuant to a consulting agreement, and this firm augments our internal research, development and design staff. 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 agreement can be terminated by either party upon six months prior written notice to the other party. 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 and increases the number and variety of product designs, which in turn enables us to offer products with competitive margins.

Environmental Initiatives

In the latter part of 1994, we commenced a sustainability strategy within our business that we now call *Mission Zero*, aimed at reducing waste, environmental footprint and costs. *Mission Zero*, 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.

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; 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 an important factor in making purchasing and design decisions, 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. In 2016, we launched the *Climate Take Back* initiative, in which we seek to lead industry in designing and making products in ways that will maintain a climate fit for life. Our *Mission Zero* and *Climate Take Back* logos appear on many of our marketing and merchandising materials distributed throughout the world.

A high point in our pursuit of sustainability has been our creation with the Zoological Society of London of a program called *Net-Works*® in which we've worked with communities in the Philippines to collect discarded fishing nets that are damaging a large coral reef, and divert 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. *Net-Works* 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.

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Backlog

Our backlog of unshipped orders was approximately $190.4 million at February 10, 2019, compared with approximately $122.9 million at February 11, 2018. The 2019 backlog includes backlog for our acquired nora business. 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 10, 2019 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 non-issuance 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, norament, noraplan, nTX solution, noraplan unita, noraplan valua* 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.

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. We have only one reporting segment.

Employees

At December 30, 2018, we employed a total of 4,094 employees worldwide, of such total 1,688 were clerical, staff, sales, supervisory and management personnel and 2,406 were manufacturing personnel. The worldwide employee total includes 1,066 from the nora acquisition. We also utilized the services of 415 temporary personnel as of December 30, 2018.

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. The majority of our employees in Germany are members of a Works Council as well. Our management believes that its relations with the Works Councils, 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, Germany and Australia are certified under ISO Standard No. 14001.

Executive Officers of the Registrant

Our executive officers, their ages as of December 30, 2018, and their principal positions with us are set forth below. Executive officers serve at the pleasure of the Board of Directors.

Name	Age	Principal Position(s)
Jay D. Gould	59	President and Chief Executive Officer
David B. Foshee	48	Vice President, General Counsel and Secretary
Bruce A. Hausmann	49	Vice President and Chief Financial Officer
Matthew J. Miller	50	Vice President (President - Americas)
Kathleen R. Owen	55	Vice President and Chief Human Resources Officer
Nigel Stansfield	51	Vice President (President - Europe, Africa, Australia, and Asia)

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Mr. Gould joined us as Executive Vice President and Chief Operating Officer in January 2015, was promoted to President and Chief Operating Officer in January 2016, and was promoted to Chief Executive Officer effective March 3, 2017. 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).

Mr. Foshee, who previously practiced with an Atlanta-based international law firm, joined us in October 1999 as Associate Counsel. He was promoted to Assistant Secretary in April 2002, Senior Counsel in April 2006, Assistant Vice President in April 2007, Vice President in July 2012, Associate General Counsel in May 2014, and Secretary and General Counsel in January 2017.

Mr. Hausmann joined us in April 2017 as Vice President and Chief Financial Officer. He came to us from the food, facilities and uniform services supplier Aramark Corporation, where he served as Senior Vice President and Chief Financial Officer for Aramark's Uniform business unit since 2009, and for Aramark's Direct Store Delivery segment since 2014. Prior to joining Aramark, he served as Vice President and Segment Controller for the Interactive Media Group of The Walt Disney Company, which he joined in 2002. He has also previously held finance and controller positions with several software and internet companies and is a certified public accountant (inactive status) in the State of California.

Mr. Miller joined us in June 2015 as Vice President and Chief Strategy Officer, and became President of our Americas business in June 2016. He 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.

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 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 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 being named Vice President and Chief Innovations Officer for the Company in March 2012. In December 2016, he became President of our business serving Europe, the Middle East and Africa, and in January 2019 he assumed responsibility for the Asia-Pacific region as well.

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.

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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 cyclicality 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 cyclicality 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 weakened.

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. We may face challenges competing on

price, making investments in our business, or competing on product design.

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. Moreover, some of our competitors are adding manufacturing capacity into the industry throughout the globe which could increase the amount of supply in the market. Increased capacity at our competitors could result in pricing pressure on our products (including products, like LVT, which may currently carry attractive margins) and less demand for our products, thus adversely affecting both revenues and profitability.

Some of our competitors, including a number of large diversified domestic and foreign companies who manufacture modular carpet and resilient flooring 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.

In addition, we often compete on design preferences. Our customers' design preferences may evolve or change before we adapt quickly enough to those changes or before we recognize those changes have happened in the marketplace. If this occurs, it could negatively affect our sales as our customers choose other product offerings.

Our success depends significantly upon the efforts, abilities and continued service of our senior management executives, our principal design consultant and other key personnel (including sales personnel), 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 agreement with David Oakey Designs can be terminated by either party upon six months prior written notice to the other party. Our business also depends on the recruitment and retention of other key personnel, including strong sales leaders.

We may lose the services of key personnel for a variety of reasons, including if our compensation programs become uncompetitive in the relevant markets for our employees and service providers, or if the Company undergoes significant disruptive change (including not only economic downturns, but potentially other changes management believes are positive in the long term). The loss of key personnel with a great deal of knowledge, training and experience in the flooring industry – particularly in the areas of sales, marketing, operations, product design and management – could have an adverse impact on our business. We may not be able to easily replace such personnel, particularly if the underlying reasons for the loss make the Company relatively unattractive as an employer.

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We are implementing a multi-year transformation of our sales organization, including the implementation of standardized processes in which our sales force goes to market, interacts with customers, works with the architect and design community and, in general, operates day-to-day. We are also implementing technology tools that the sales force will be required to use as part of their day-to-day jobs, and new management positions to actively manage and coach the sales force. All of these changes are disruptive, which may create challenges for our sales force to adapt, particularly for long tenured employees, which comprise a large portion of our sales force. There are no guarantees that these efforts will increase sales or improve profitability of the business, or that they will not instead adversely disrupt the business, decrease sales, and decrease overall profitability.

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 2018, 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. This includes, for example, the uncertainty surrounding the implementation and effect of the United Kingdom’s June 2016 referendum in which voters approved the United Kingdom’s exit from the European Union, including changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union. We also make a substantial portion of our net sales in currencies other than U.S. dollars (approximately half of 2018 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. In addition, political unrest, terrorist acts, military conflict and disease outbreaks have increased the risks of doing business abroad generally.

The uncertainty surrounding the implementation and effect of the U.K. exiting the European Union, and related negative developments in the European Union could adversely affect our business, results of operations or financial condition.

The results of a June 2016 referendum vote in the U.K. were in favor of the U.K. exiting the European Union (commonly referred to as “Brexit”). On March 29, 2017, the U.K. notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. As a result of this notification, a complex and uncertain process of negotiation is now taking place to determine the future terms of the U.K.’s relationship with the European Union, with the U.K. currently due to exit the European Union on March 29, 2019. The uncertainty leading up to and following the Brexit referendum has had, and the implementation of Brexit may continue to have, a negative impact on our business and demand for our products in Europe, and particularly in the U.K. The long-term nature of the U.K.’s relationship with the European Union is unclear and there is considerable uncertainty when, or if, any withdrawal agreement or long-term relationship strategy, including trade deals, will be agreed to and implemented by the U.K. and the European Union. Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and could contribute to instability in political institutions and regulatory agencies. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the U.K., the European Union and elsewhere. In addition, Brexit has had a detrimental effect, and could have further detrimental effects, 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 flooring products in the U.K. and in Europe if a U.K. exit leads to economic difficulties in Europe.

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 carpet. Synthetic rubber uses petroleum based products as feedstock as well. 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.

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Unanticipated termination or interruption of any of our arrangements with our primary third party suppliers of synthetic fiber or our sole third party supplier for luxury vinyl tile ("LVT") could have a material adverse effect on us.

We depend on a small number of third party suppliers of synthetic fiber and a single supplier for our LVT products. The unanticipated termination or interruption of any of our supply arrangements with our current suppliers of synthetic fiber (nylon) or sole supplier of LVT, including failure by any third party supplier to meet our product specifications, 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 or our own LVT. Our suppliers may not be able to meet our demand for a variety of reasons, including our inability to forecast our future needs accurately or a shortfall in production by the supplier for reasons unrelated to us, such as work stoppages, acts of war, terrorism, fire, earthquake, energy shortages, flooding or other natural disasters. If any of our supply arrangements with our primary suppliers of synthetic fiber or our sole supplier of LVT 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 or developing new supply chain sources for LVT. A prolonged inability on our part to source synthetic fiber included in our products or LVT on a cost-effective basis could adversely impact our ability to deliver products on a timely basis, which could harm our sales and customer relationships.

If we fail to realize the expected synergies and other benefits of the nora acquisition, our results of operations and stock price may be negatively affected.

We recently completed the acquisition of nora, a manufacturer and multinational marketer of resilient rubber floor coverings. The success of the acquisition will depend substantially on our ability to realize the expected synergies and other benefits from combining the businesses of the Company and nora. Our ability to realize these anticipated benefits and cost savings is subject to various risks and uncertainties, including the risks that:

- we may not be able to successfully combine and integrate the businesses on a timely basis, or at all;
- the integration process could divert management's attention, cause employee or customer attrition or cause other disruption;
- nora may not contribute to the revenues and profitability of the combined business as much as we currently expect; or
- we may not be able to manage the increased indebtedness we have incurred in connection with the acquisition.

If we are not able to successfully combine the businesses of the Company and nora within the anticipated time frame, or at all, the expected synergies and other benefits of the transaction may not be realized fully or at all, or may take longer to realize than expected, the combined businesses may not perform as expected and the results of our operations or value of our common stock may be adversely affected.

It is also possible that the integration process could result in the loss of key employees or customers of the Company or nora, the disruption of the companies' ongoing businesses or in unexpected integration issues, higher than expected integration costs and an overall post-closing integration process that takes longer than originally anticipated.

We will be required to devote significant management attention and resources to integrating the operations of the Company and nora. It is possible that the integration process could result in:

- diversion of management's attention;
- the lack of personnel or other resources to pursue other potential business opportunities; and
- the disruption of, or the loss of momentum in, each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies.

Any of these consequences could adversely affect each company's ability to maintain relationships with customers, suppliers, employees and other constituencies or their ability to achieve the anticipated benefits of the transaction, or could reduce each company's earnings or otherwise adversely affect the business and financial results of the combined company and the value of our common stock.

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.

It is important for you to consider that we have a significant amount of indebtedness. 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. Our Syndicated Credit Facility matures in August 2023. We cannot assure you that we will be able to renegotiate, refinance or otherwise obtain the necessary funds to satisfy these obligations. 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.

On July 27, 2017, the U.K. Financial Conduct Authority (the “FCA”), which regulates the London interbank offered rate (“LIBOR”), announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021, and LIBOR may be discontinued or modified by 2021. The Federal Reserve Bank of New York began publishing the Secured Overnight Financing Rate (“SOFR”) in April 2018 as an alternative for LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. A transition away from the widespread use of LIBOR to SOFR or another benchmark rate may occur over the course of the next few years. We have exposure to LIBOR-based financial instruments, namely our floating rate Syndicated Credit Facility. This facility allows for the use of an alternative benchmark rate if LIBOR is no longer available. At this time, we cannot predict the overall effect of the modification or discontinuation of LIBOR or the establishment of alternative benchmark rates.

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.

Changes to our facilities could disrupt our operations.

From time to time, we make improvements to our physical facilities, or move operations to new ones. Large scale changes or moves could disrupt our normal operations, leading to possible loss of productivity, which may adversely affect our results.

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We are also making significant investments and modifications to our manufacturing facilities, particularly in LaGrange, Georgia. At times this process can be disruptive, and there is no guarantee that these efforts will yield the financial returns and improvements in the business that we hope to achieve from them. In addition, while these changes are intended to yield stronger financial results, they could potentially adversely affect financial results due to project delays, business disruption as new facilities and equipment come online, and general disruption as we make changes and modifications to our manufacturing facilities and processes.

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.

Disruptions to or failures of our information technology systems could adversely effect on our business.

We rely heavily on information technology systems—both software and computer hardware—to operate our business. We rely on these systems to, among other things:

- facilitate and plan the purchase, management and distribution of, and payment for, inventory and raw materials;
- control our production processes;
- manage and monitor our distribution network and logistics;
- receive, process and ship orders;
- manage billing, collections and payables;
- manage financial reporting; and
- manage payroll and human resources information.

Our IT systems may be disrupted or fail for a number of reasons, including:

- natural disasters, like fires;
- power loss;

software “bugs”, hardware defects or human error; or
hacking, computer viruses, malware, ransomware or other cyber attacks.

Any of these events which deny us use of vital IT systems may seriously disrupt our normal business operations. These disruptions may lead to production or shipping stoppages, which may in turn lead to material revenue loss and reputational harm. There is no guarantee that our backup systems or disaster recovery procedures will be adequate to mitigate losses due to IT system disruptions in a timely fashion, and we may incur significant expense in correcting IT system emergencies.

To the extent our IT systems store sensitive data, including about our employees or other individuals, security breaches may expose us to other serious liabilities and reputational harm if such data is misappropriated. In addition, as cybercriminals continue to become more sophisticated, the costs to defend and insure against cyberattacks can be expected to rise.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We maintain our corporate headquarters in Atlanta, Georgia in approximately 42,000 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:

Location	Floor Space (Sq. Ft.)
Bangkok, Thailand	275,946
Craigavon, N. Ireland(1)	80,986
LaGrange, Georgia	416,545
LaGrange, Georgia(1)	186,205
Union City, Georgia(1)	370,000
Valley, Alabama(1)	338,086
Minto, Australia	259,356
Scherpenzeel, the Netherlands	360,800
West Point, Georgia	250,000
Salem, New Hampshire(1)	100,000
Weinheim, Germany(1)	764,524
Taicang, China(1)	142,500

(1) Leased.

We maintain sales or marketing offices in over 70 locations in over 30 countries and a number of other distribution facilities in several countries. Most of our sales and 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

Our Common Stock is traded on the Nasdaq Global Select Market under the symbol TILE. As of February 18, 2019, we had 630 holders of record of our Common Stock. We estimate that there are in excess of 10,000 beneficial holders of our Common Stock.

On February 19, 2019, our Board declared a regular quarterly cash dividend of $0.065 per share, payable March 22, 2019 to shareholders of record as of March 8, 2019. 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.

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Stock Performance

The following graph and table compare, for the five-year period ended December 30, 2018, 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, (ii) our previous self-determined peer group, and (iii) our new self-determined peer group, assuming an initial investment of $100 in each on December 29, 2013 (the last day of the fiscal year 2013). In 2018, the Company reviewed and updated the peer group it uses for compensation purposes. In its analysis of possible new peer group companies, the Company considered various factors, including the potential peer's industry, business model, size and complexity. The Company chose a new peer group that it believes provides a robust sample size with minimal revenue dispersion, with companies in similar industries or lines of business or subject to similar economic and business cycles, including companies with a significant international presence that are also focused on sustainability.

	12/29/13	12/28/14	1/3/16	1/1/17	12/31/17	12/30/18
Interface, Inc.	$100	$78	$90	$89	$122	$70
NASDAQ Composite Index	$100	$117	$123	$134	$174	$168
Previous Self-Determined Peer Group (14 Stocks)	$100	$111	$119	$137	$152	$103
New Self-Determined Peer Group (20 Stocks)	$100	$109	$109	$125	$128	$102

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 December 29, 2013 (the last day of fiscal year 2013).
(5) The Company's fiscal year ends on the Sunday nearest December 31.
(6) The following companies are included in the Previous Self-Determined Peer Group depicted above: Acuity Brands, Inc.; Albany International Corp.; Apogee Enterprises, Inc.; Armstrong World Industries, Inc.; BE Aerospace, Inc.; The Dixie Group, Inc.; Herman Miller, Inc.; HNI Corporation; Kimball International, Inc.; Knoll, Inc.; Mohawk Industries, Inc.; Steelcase, Inc.; Unifi, Inc.; and USG Corp.
(7) The following companies are included in the New Self-Determined Peer Group depicted above: Acuity Brands, Inc.; Albany International Corp.; Apogee Enterprises, Inc.; Armstrong Flooring, Inc.; Armstrong World Industries, Inc.; Caesarstone Ltd.; FLIR Systems, Inc.; Gentherm Incorporated; H. B. Fuller Company; Harsco Corporation; Herman Miller, Inc.; HNI Corporation; Kimball International, Inc.; Knoll, Inc.; Masonite International Corporation; Materion Corporation; P. H. Glatfelter Company; Steelcase Inc.; Unifi, Inc.; and Welbilt, Inc.

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Securities Authorized for Issuance Under Equity Compensation Plans

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

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 December 30, 2018:

Period[(1)]	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**[(2)]	**Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs**[(2)]
October 1 - 31, 2018 [(3)]	2,559	$ 23.50	0	$ 25,109,272
November 1 – 30, 2018[(3)]	8,022	16.29	0	25,109,272
December 1 – 30, 2018	0	0.00	0	25,109,272
Total	10,581	$ 18.03	0	$ 25,109,272

(1) The monthly periods identified above correspond to the Company's fiscal fourth quarter of 2018, which commenced October 1, 2018 and ended December 30, 2018.

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

(3) Includes shares acquired by the Company from an employee to satisfy income tax withholding obligations in connection with the vesting of previous equity awards.

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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.

	2018		2017	2016	2015	2014
Net sales	$1,179,573		$996,443	$958,617	$1,001,863	$1,003,903
Cost of sales	755,216		610,422	589,973	618,974	663,876
Operating income[1]	76,379		111,571	87,153	113,593	70,295
Net income[2]	50,253		53,246	54,162	72,418	24,808
Income from continuing operations per common share attributable to Interface, Inc.						
Basic	$0.84		$0.86	$0.83	$1.10	$0.37
Diluted	$0.84		$0.86	$0.83	$1.10	$0.37
Average Shares Outstanding						
Basic	59,544		61,996	65,098	66,027	66,389
Diluted	59,566		62,040	65,136	66,075	66,448
Cash dividends per common share	$0.26		$0.25	$0.22	$0.18	$0.14
Property additions	54,857		30,474	28,071	27,188	38,922
Depreciation and amortization	53,580	(3)	37,508	36,505	44,751	34,675
Working capital	$335,292		$254,221	$311,799	$245,391	$240,881
Total assets	1,284,644		800,600	835,439	756,549	774,914
Total long-term debt	618,581		229,928	270,347	213,531	263,338
Shareholders’ equity	354,663		330,091	340,729	342,366	306,639
Current ratio[4]	2.5		2.4	3.0	2.6	2.7

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(1) The following charges and items are included in our operating income. In 2018, we recorded restructuring and asset impairment charges of $20.5 million, $32.1 million of purchase price accounting amortization in connection with the nora acquisition, and nora transaction costs of $5.3 million. In 2017, we recorded restructuring and asset impairment charges of $7.3 million. In 2016, we recorded restructuring and asset impairment charges of $19.8 million. In 2014, we recorded restructuring and asset impairment charges of $12.4 million.

(2) Included in 2018 net income are tax benefits of $6.7 million due to the finalization of our analysis of the U.S. Tax Cuts and Jobs Act. Included in 2017 net income are provisional tax charges of $15.2 million due to the U.S. Tax Cuts and Jobs Act. Please see Item 8, Note 15 “Taxes on Income” for further discussion of these charges. Also included in 2018 net income is $4.2 million in other expense for nora transaction costs. 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.

(3)

Includes stock compensation amortization of $14.5 million and excludes purchase price accounting amortization of $32.1 million.

(4) Current ratio is the ratio of current assets to current liabilities.

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

General

Our revenues are derived from sales of floorcovering products, primarily modular carpet, luxury vinyl tile ("LVT") and starting in August 2018, rubber flooring products. 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.

Most of our sales are to customers in the corporate office market segment, but we also focus 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 and LVT sales in the Americas was 45% and 55%, respectively, for 2018. Company-wide, our mix of corporate office versus non-corporate office modular carpet and LVT sales was 60% and 40%, respectively, in 2018.

On August 7, 2018, the Company completed the acquisition of nora for a purchase price of €385.1 million, or $447.2 million at the exchange rate as of the transaction date, including acquired cash of €40.0 million ($46.5 million) for a net purchase price of €345.1 million ($400.7 million). Nora is an industry leader in the rubber flooring market, and this acquisition is expected to advance the Company's growth strategy in expanding market segments, particularly in the healthcare, life sciences and education market segments. Similar to Interface, nora operates on an international footprint and the Company expects the acquisition will also allow for geographic sales synergies as well.

During 2018, we had net sales of $1,179.6 million, up 18.4% compared to $996.4 million in 2017. Operating income for 2018 was $76.4 million as compared to $111.6 million in 2017. Net income for 2018 was $50.3 million, or $0.84 per share, compared with $53.2 million, or $0.86 per share, in 2017. The 2018 period includes the results of the acquired nora business from August 7 through the end of the year, including nora net sales of $112.6 million during that stub period. These results included amortization related to the fair value of inventory acquired of $26.7 million, and amortization of acquired intangible assets of $5.4 million. 2018 also includes $9.5 million related to nora transaction expenses. Also included in our results for 2018 were $20.5 million of restructuring and asset impairment charges as well as $6.7 million of tax benefits related to the finalization of our analysis of the U.S. Tax Cuts and Jobs Act enacted in 2017. Please see Item 8, Note 15 "Taxes on Income" for further discussion of these tax benefits.

During 2017, we had net sales of $996.4 million, up 3.9% compared to $958.6 million in 2016. Operating income for 2017 was $109.8 million as compared to $84.9 million in 2016. Net income for 2017 was $53.2 million, or $0.86 per share, compared with $54.2 million, or $0.83 per share, in 2016. Included in our results for 2017 were $7.3 million of restructuring and asset impairment charges as well as $15.2 million of tax charges related to the U.S. Tax Cuts and Jobs Act enacted in 2017. Please see Item 8, Note 15 "Taxes on Income" for further discussion of these tax charges.

Restructuring Plans

On December 29, 2018, 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 restructuring of its sales and administrative operations in the United Kingdom, (ii) a reduction of approximately 200 employees, primarily in the Europe and Asia-Pacific geographic regions, and (iii) the write-down of certain underutilized and impaired assets that include information technology assets and obsolete manufacturing equipment.

As a result of this plan, the Company recorded a pre-tax restructuring and asset impairment charge in the fourth quarter of 2018 of approximately $20.5 million. The charge is comprised of severance expenses (approximately $10.8 million), impairment of assets (approximately $8.6 million) and other items (approximately $1.1 million). The charge is expected to result in future cash expenditures of $12 million, primarily for severance payments (approximately $10.8 million). The restructuring plan is expected to be substantially completed in the first half of 2019, and is expected to yield gross annual savings of approximately $12 million beginning in fiscal 2019. The Company expects to redeploy in 2019 essentially all of the anticipated savings toward the funding of sales and strategic growth initiatives, yielding negligible net savings on the Company's income statement.

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In the fourth quarter of 2016, we committed to a separate restructuring plan. The plan involved (i) a substantial restructuring of the FLOR business model that included closure of its headquarters office and most retail FLOR stores, (ii) a reduction of approximately 70 FLOR employees and a number of employees in the commercial carpet tile business, primarily in the Americas and Europe regions, and (iii) the write-down of certain underutilized and impaired assets that included information technology assets, intellectual property assets, and obsolete manufacturing, office and retail store equipment.

As a result of the 2016 restructuring plan, we incurred a pre-tax restructuring and asset impairment charge in the fourth quarter of 2016 of $19.8 million. In connection with this plan, 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 fourth quarter of 2016 was comprised of $10.1 million of severance charges, $8.0 million of asset impairment charges and lease exit costs of $1.7 million. 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. This 2016 restructuring plan was substantially completed in 2017.

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 49% in 2018, 46% in 2017, and 48% in 2016. Because we have such substantial international operations, we are impacted, from time to time, by international developments that affect foreign currency transactions. In 2018, the strengthening of the Euro and British pound against the U.S. dollar had a positive impact on our net sales and operating income. In 2017, the strengthening of the Euro, Australian dollar and Canadian dollar had a small positive impact on our net sales and operating income. During 2016, our sales and operating income were negatively impacted by the strengthening of the U.S. dollar and Euro against the British pound sterling, with smaller impacts due to weakening of the Australian dollar and Canadian dollar against the U.S. dollar. The following table presents the amounts (in U.S. dollars) by which the exchange rates for converting Euros, British pounds, Australian dollars and Canadian dollars into U.S. dollars have affected our net sales and operating income during the past three years:

	2018	**2017**	**2016**
	(in millions)		
Impact of changes in foreign currency on net sales	$8.4	$5.5	$(10.9)
Impact of changes in foreign currency on operating income	1.2	1.0	(1.0)

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

	Fiscal Year		
	2018	**2017**	**2016**
Net sales	100.0%	100.0%	100.0%
Cost of sales	64.0	61.3	61.5
Gross profit on sales	36.0	38.7	38.5
Selling, general and administrative expenses	27.8	26.8	27.3
Restructuring and asset impairment charges	1.7	0.7	2.1
Operating income	6.5	11.2	9.1
Interest/Other expense	1.8	1.1	0.8
Income before income tax expense	4.7	10.1	8.3
Income tax expense	0.4	4.7	2.6
Net income	4.3	5.3	5.7

Net Sales

Below we provide information regarding our net sales and analyze those results for each of the last three fiscal years. Fiscal years 2018, 2017, and 2016 were 52-week periods.

	Fiscal Year			**Percentage Change**	
	2018	**2017**	**2016**	**2018 compared with 2017**	**2017 compared with 2016**
	(in thousands)				
Net Sales	$1,179,573	996,443	$958,617	18.4%	3.9 %

Net sales for 2018 compared with 2017

For 2018, our net sales increased $183.1 million (18.4%) as compared to 2017. As discussed above, the 2018 period included revenue of $112.6 million from the nora acquisition that was not present in 2017. This nora revenue was broken down by region as follows: the Americas $47.6 million, Europe $51.2 million, and Asia-Pacific $13.7 million. Fluctuations in currency exchange rates had a positive impact on our year-over-year sales comparison of approximately $8.4 million, meaning that if currency levels had remained constant year over year our 2018 sales would have been lower by this amount. On a geographic basis, including the impact of nora, we experienced sales growth across all our regions. Sales in the Americas were up 16.0%, sales in Europe were up 29.7% as reported in U.S. dollars, and sales in Asia-Pacific were up 9.7%.

The sales increase of 16.0% in the Americas in 2018 was due primarily to the impact of the nora acquisition, growth from our luxury vinyl tile ("LVT") products, which were introduced in early 2017, but offset by a slight decrease of 2% in our weighted average selling price per square yard for our modular carpet and a decrease of 5% in our weighted average selling price per square feet for LVT compared to 2017. The legacy Interface Americas carpet and LVT business grew approximately 8% for the year. This increase in the legacy business was due to an increase in the corporate office market segment (up 9%) as well as increases in the retail (up 18%) and hospitality (up 7%) market segments. The increase in retail was due to the performance of our *Interface SERVICES*™ business, which has a larger percentage of its sales in the retail segment. These legacy sales increases were partially offset by a decline in the government (down 10%) market segment. The acquired nora business generated approximately 42% of its revenue in the Americas region, which was primarily in the healthcare, education, and transportation market segments.

In Europe, sales in the region were up in both U.S. dollars (29.7%) and local currency (25.0%). This sales increase was due primarily to the impact of the nora acquisition, growth in our LVT products and the strengthening of the Euro and British pound against the U.S. dollar. In Europe, our weighted average selling price per square yard for modular carpet tile increased 3% and our weighted average selling price per square feet for LVT decreased 6% in 2018 compared with 2017. The legacy Interface European carpet and LVT business grew 9% on a U.S. dollar basis, and 5% in local currency. Our legacy business in the United Kingdom, which has historically been our third largest market, experienced a sales decrease in local currency of 7% for the year, but a decline of 4% when translated into U.S. dollars. The sales growth in the legacy Interface European business was most pronounced in the corporate office (up 9%), retail (up 11%), healthcare (up 15%), and hospitality (up 34%) market segments. The acquired nora business generated approximately 46% of its revenue in the Europe region, which was primarily in the healthcare, education, and transportation market segments.

In Asia-Pacific, sales increased 9.7% primarily due to the impact of the nora acquisition and growth in our LVT products. This sales increase was partially offset by the weakening of the Australian dollar and lower sales in Australia. Our weighted average selling price per square yard for modular carpet and our weighted average selling price per square feet for LVT decreased 5% in 2018 compared to 2017. The legacy Interface Asia-Pacific carpet and LVT business grew 1% on a U.S. dollar basis and 2% in local currency. Within the region on a legacy Interface basis, Asia sales increased 8% while Australia sales decreased 5% as translated into U.S. dollars. The sales growth in the legacy Asia-Pacific business was primarily in the hospitality (up 5%) and healthcare (up 6%) market segments, partially offset by decreases in government (down 32%) and retail (down 3%) market segments. The acquired nora business generated approximately 12% of its revenue in the Asia-Pacific region, which was primarily in the healthcare and education market segments.

Net sales for 2017 compared with 2016

For 2017, our net sales increased $37.8 million (3.9%) as compared to 2016. Fluctuations in currency exchange rates had a positive impact on the comparison of approximately $5.5 million, meaning that if currency levels had remained constant year over year our 2017 sales would have been lower by this amount. On a geographic basis, we experienced sales growth across all our regions. Sales in the Americas were up 3.5%, sales in Europe were up 2.0% in U.S. dollars (1.5% increase in local currencies), and sales in Asia-Pacific were up 8.7%.

In the Americas, our weighted average selling price per square yard for our modular carpet decreased 1% in 2017 as compared to 2016. The sales increase in the Americas was due primarily to the introduction of our LVT products in early 2017, as our modular carpet sales in the Americas declined versus 2016. This decline in modular carpet sales was due entirely to the closure of our FLOR specialty retail stores in the first quarter of 2017, as our commercial modular business was up approximately 1% in 2017 as compared to 2016. The corporate office market segment increased 2% for the year. Other market segments showing growth were the government (up 19%), retail (up 5%) and education (up 4%) market segments. The increase in the government market segment was seen across most government customers, with sales to state and municipal governments representing the most significant increase. The increase in retail was due to the performance of our *Interface SERVICES*™ business, which has a larger percentage of its sales to the retail segment. These increases were offset by declines in the hospitality (down 7%) and healthcare (down 6%) market segments.

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In Europe, our weighted average selling price per square meter increased 3% in 2017 compared with 2016. Sales in the region were up in both U.S. dollars (2%) and local currency (1.5%). Within the region, the weakening of the British pound versus the Euro had a negative impact on sales, however this was offset by the strengthening of the Euro versus the U.S. dollar during 2017 as compared to 2016. The United Kingdom, which has historically been our third largest market, experienced a sales increase in local currency of 3% for the year, but a decline of 2% when translated into U.S. dollars. We also experienced growth in Germany in 2017, but this was partially offset by other declines in central Europe. The increase in sales was entirely within the corporate office market segment (up 3%) as no other market segment had a significant increase in sales. The corporate office market comprises the majority of sales in the Europe region. This increase was partially offset by declines in the retail (down 17%), education (down 12%), and residential (down 52%) market segments.

In Asia-Pacific, our weighted average selling price increased 5.6% for the year, with the appreciation of the Australian dollar having a positive impact on this increase. Within the region, Asia sales increased 5% while Australia sales increased 12% as translated into U.S. dollars. As noted, the appreciation of the Australian dollar had a positive impact on the sales increase, as in local currency sales in Australia increased 9%. The increase in sales for the region was primarily due to the strength of the corporate office market (which comprises the bulk of the region's sales and was up 8%). Other non-office market segments showing growth for the year were education (up 16%) and healthcare (up 36%). The increase in the education segment was due to our success in the Australian education market, a result of increased government education spending in the market, as well as growth of student accommodation projects at the university level. These increases were only slightly offset by declines in the retail, government and residential market segments.

Cost and Expenses

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

Cost and Expenses	**Fiscal Year**			**Percentage Change**	
	2018	**2017**	**2016**	**2018 compared with 2017**	**2017 compared with 2016**
	(in thousands)				
Cost of Sales	$755,216	$610,422	$589,973	23.7%	3.5 %
Selling, General and Administrative Expenses	327,449	267,151	261,703	22.6%	2.1 %
Total	$1,082,665	$877,573	$851,676	23.4%	3.0 %

For 2018, our costs of sales increased $144.8 million (23.7%) compared with 2017. Included in the 2018 period are cost of sales of $96.6 million for the acquired business nora, which includes amortization related to acquired inventory and intangible assets of $32.1 million. Fluctuations in currency exchange rates did not have a significant impact (less than 1%) on the year-over-year comparison. In absolute dollars, the increase in costs of sales was a result of higher sales for 2018 as compared to 2017. As a percentage of sales, our costs of sales increased to 64.0% in 2018 versus 61.3% in 2017. This increase was a result of (1) higher costs of sales related to the acquired nora business, including purchase accounting amortization of $32.1 million for acquired inventory and intangible assets, (2) delayed productivity initiatives due to increased sales and production volumes, as well as (3) a change in the sales mix weighted more heavily toward the InterfaceServices business. These service sales typically generate a lower gross margin compared to the rest of our operations.

For 2017, our costs of sales increased $20.4 million (3.5%) compared with 2016. Fluctuations in currency exchange rates did not have a significant impact (less than 1%) on the comparison. In absolute dollars, the increase in costs of sales was a result of the higher sales for 2017 as compared to 2016. As noted above, sales increased 3.9% in 2017. As a percentage of sales, our costs of sales improved to 61.3% in 2017 versus 61.5% in 2016. This improvement was a result of (1) productivity initiatives, including our investment in our manufacturing facilities in LaGrange, Georgia, (2) lower cost of sales as a percentage of sales due to the introduction of our LVT product offerings, which commanded margins in 2017 that were accretive to our modular carpet products, and (3) non-recurring charges in 2016 related to the transition to a centralized warehouse and distribution center in our Americas business. These benefits were partially offset by (1) higher raw materials costs due to input cost inflation, particularly in our European business, and (2) negative gross margin impacts due to the exit of our FLOR specialty retail business. Our FLOR business delivers higher gross margins than our commercial business, and with the closure of the specialty retail stores the decline in sales had a negative impact on our cost of sales as a percentage of sales.

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For 2018, our SG&A expenses increased $60.3 million (22.6%) versus 2017. SG&A expenses for the acquired nora business were $34.9 million from August 7 through the end of the 2018 year. Currency fluctuations had only a slight (less than 1%) unfavorable impact on SG&A expenses. The increase in SG&A expenses during the year was due to (1) transaction costs in connection with the nora acquisition of $5.3 million, (2) higher performance-based stock compensation of approximately $7.0 million as performance targets were met to a higher degree in 2018 as compared to 2017, (3) higher selling expenses of $24.0 million related to the acquired nora business, (4) higher selling expense of $7.5 million due to higher sales volumes in the legacy Interface business, and (5) higher administrative expenses of $15.8 million primarily due to the acquired nora business as noted above. As a percentage of sales, SG&A expenses increased to 27.8% in 2018 versus 26.8% in 2017.

For 2017, our SG&A expenses increased $5.4 million (2.1%) versus 2016. Currency fluctuations had only a slight (less than 1%) unfavorable impact on SG&A expenses. The increase in SG&A expenses during the year was due to (1) higher incentive-based compensation (approximately $6 million) and performance-based stock compensation (approximately $1.5 million) as performance targets were met to a higher degree in 2017 as compared to 2016, and (2) higher administrative expenses of $5 million as we centralize certain support functions. These increases were partially offset by (1) lower marketing expenses of $3.9 million, a result of our restructuring efforts as well as global consolidation of costs for marketing expenditures leading to lower levels of total spend, and (2) lower selling costs of $4.2 million due primarily to exiting our FLOR specialty retail business in 2017. Despite the higher SG&A expense in absolute dollars, due to the increase in sales noted above, SG&A expenses declined as a percentage of sales in 2017 to 26.8% versus 27.3% in 2016.

Interest Expense

For 2018, our interest expense increased $8.3 million to $15.4 million, versus $7.1 million in 2017. This increase was a result of (1) additional debt incurred to complete the nora acquisition and (2) higher average interest rates on our borrowings (our average borrowing rate for 2018 was 3.5% as compared to 2.9% for 2017). Our interest rate swap entered into in 2017 did not have any significant impact on interest expense for 2018.

For 2017, our interest expense increased $1.0 million to $7.1 million, versus $6.1 million in 2016. This increase was a result of (1) higher average interest rates under our Syndicated Credit Facility during 2017 (the average interest rate for 2016 was 2.5% as compared to 2.9% for 2017), and (2) in 2017 we fixed the variable interest rate on $100 million of our term loan borrowings under the Syndicated Credit Facility by entering into an interest rate swap transaction. The effect of this interest rate swap was to increase the interest rate on the $100 million notional amount of the swap above the variable rate in effect for our other term loan borrowings under the Syndicated Credit Facility.

Tax

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. Among the significant changes resulting from the law, the Tax Act reduced the U.S. federal income tax rate from 35% to 21% effective January 1, 2018 and created a modified territorial tax system with a one-time mandatory "transition toll tax" on previously unrepatriated foreign earnings.

As of December 31, 2017, the Company recorded a provisional tax expense of $3.5 million related to the remeasurement of its net deferred tax asset and a provisional tax expense of $11.7 million related to the one-time transition toll tax. As of December 30, 2018, the Company completed the accounting of remeasuring its net deferred tax asset which resulted in a $1.7 million decrease to the previously recorded provisional amount and completed its assessment of the one-time transition toll tax which resulted in a $5.0 million decrease to the previously recorded provisional amount. See "Note 15 – Taxes on Income" to the consolidated financial statements for further information on the financial statement impact of the Tax Act.

Our effective tax rate in 2018 was 8.6%, compared with an effective tax rate of 47.0% in 2017. The decrease in our effective tax rate in 2018 compared to 2017 was primarily due to a $6.7 million tax benefit related to the impacts of the Tax Act as discussed above, the reduction in the U.S. federal income tax rate from 35% to 21%, and an increase in U.S. federal and foreign tax credits.

Our effective tax rate in 2017 was 47.0%, compared with an effective tax rate of 31.6% in 2016. The increase in our effective tax rate in 2017 compared to 2016 was primarily due to the $15.2 million provisional tax charge for the impacts of the Tax Act as discussed above and an increase in U.S. earnings resulting in more U.S. state tax expense. For additional information on taxes and a reconciliation of effective tax rates to statutory tax rates, see the Note 15 entitled "Taxes on Income" in Item 8 of this Report.

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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.

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

On August 7, 2018, our Syndicated Credit Facility was amended and restated in connection with our acquisition of nora. Please see Note 9 and Note 18 in Item 8 for additional information.

At December 30, 2018, we had $81.0 million in cash. Approximately $11.6 million of this cash was located in the U.S., and the remaining $69.4 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, Canada, and Australia, support our assertion that a portion of our cash in foreign locations will be reinvested and remittance will be postponed indefinitely. Of the $69.4 million of cash in foreign jurisdictions, approximately $7.5 million represents earnings which we have determined are not permanently reinvested, and as such we have provided for foreign withholding and U.S. state income taxes on these amounts in accordance with applicable accounting standards.

As of December 30, 2018, we had $626.7 million of borrowings and $3.6 million in letters of credit outstanding under our amended and restated Syndicated Credit Facility. Of those borrowings outstanding, $616.1 million were term loan borrowings and $10.6 million were revolving loan borrowings. As of December 30, 2018, we could have incurred $285.9 million of additional revolving loan borrowings under our amended and restated Syndicated Credit Facility. In addition, we could have incurred the equivalent of $9.5 million of borrowings under our other credit facilities in place at other non-U.S. subsidiaries.

We have approximately $105.4 million in contractual cash obligations due by the end of fiscal year 2019, which includes, among other things, pension cash contributions, interest payments on our debt and lease commitments.

Based on current interest rates and debt levels, we expect our aggregate interest expense for 2019 to be between $24 million and $26 million. We estimate aggregate capital expenditures in 2019 to be between $65 million and $75 million, although we are not committed to these amounts.

It is important for you to consider that we have a significant amount of indebtedness. Our amended and restated Syndicated Credit Facility matures in August of 2023. 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.

It is also important for you to consider that borrowings under our Syndicated Credit Facility comprise the substantial majority of our indebtedness, and that these borrowings are based on variable interest rates (as described below) that expose the Company to the risk that short-term interest may increase. We have, however, entered into an interest rate swap transaction to fix the variable interest rate with respect to $100 million of the term loan borrowings under the Syndicated Credit Facility. For information regarding the current variable interest rates of these borrowings, the potential impact on our interest expense from hypothetical increases in short term interest rates, and the interest rate swap transaction, please see the discussion in Item 7A of this Report.

Syndicated Credit Facility

On August 7, 2018, we amended and restated our Syndicated Credit Facility (the “Facility”) in connection with the nora Holding GmbH (“nora”) acquisition. The purpose of the amended and restated Facility was to fund the nora purchase price and related fees and expenses of the acquisition, and to increase the credit available to us and our subsidiaries following the closing of the nora acquisition in view of the larger enterprise. At December 30, 2018, the amended and restated Facility provided to us and certain of our subsidiaries a multicurrency revolving loan facility up to $300 million, as well as other U.S. denominated and multicurrency term loans.

In connection with the amended and restated Facility as discussed above, we recorded $8.8 million of debt issuance costs associated with the new term loans that are reflected as a reduction of long-term debt in accordance with applicable accounting standards. As these fees are expensed over the life of the outstanding borrowing, the debt balance will increase by the same amount as the fees that are expensed.

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Interest Rates and Fees

Interest on base rate loans is charged at varying rates computed by applying a margin ranging from 0.25% to 1.25%, 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. Interest on multi-currency-based loans and fees for letters of credit are charged at varying rates computed by applying a margin ranging from 1.25% to 2.25% over the applicable Eurocurrency 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.

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);
- engage in any material line of business substantially different from the Company's current lines of business;
- 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 4.50:1.00, subject to certain step-downs as described in the Facility agreement.
- Consolidated Interest Coverage Ratio: Must be no less than 2.25:1.00.

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 an Amended and Restated Security and Pledge Agreement, 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 December 30, 2018, we had outstanding $616.1 million of term loan borrowing and $10.6 million of revolving loan borrowings under the Facility, and had $3.6 million in letters of credit outstanding under the Facility. As of December 30, 2018, the weighted average interest rate on borrowings outstanding under the Facility was 3.50%.

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Under the amended and restated Facility, we are required to make quarterly amortization payments of the Term Loan A borrowings, which commenced in the fourth quarter of 2018. The amortization payments are due on the last day of the calendar quarter.

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

In the third quarter of 2017, we entered into an interest rate swap transaction that fixed the variable interest rate with respect to $100 million of the term loan borrowings under the Syndicated Credit Facility. For additional information, please see Item 7A and Note 9 entitled “Borrowings” in Item 8 of this Report.

Analysis of Cash Flows

We ended 2018 with $81.0 million in cash, a decrease of $6.0 million during the year. During 2018, we borrowed $463 million of new term loan debt to finance the acquisition of nora. The cash purchase price for nora, net of cash acquired, was $400.7 million. Other than the nora purchase transaction, the most significant uses of cash in 2018 were (1) repayments on our Syndicated Credit Facility of $64.5 million, (2) capital expenditures of $54.9 million, (3) dividend payments of $15.5 million and (4) $14.5 million of cash use to repurchase our common stock. These uses were offset by cash flow generated by operations of $91.8 million. Our cash flow from operations was primarily generated by net income of $50.3 million. This net income was offset by working capital uses, primarily $18.7 million for an increase in inventory and $15.5 million due to increases in prepaid and other current assets. The Company generated cash of $9.9 million during 2018 due to an increase in accounts payable and accrued expenses. In addition to working capital generation of cash, the Company also borrowed $17 million under its Syndicated Credit Facility during 2018.

We ended 2017 with $87.0 million in cash, a decrease of $78.6 million during the year. The most significant decrease in cash was due to our share repurchase program which used $91.6 million of cash to repurchase and retire 4.6 million shares of our outstanding common stock, pursuant to our established share repurchase plans. We also used $72.0 million of cash to repay outstanding borrowings under our Syndicated Credit Facility (including $15.0 million of required amortization payments under our term loan), as well as $15.5 million for the payment of dividends. We borrowed $25.0 million during 2017 under our Syndicated Credit Facility. Outside of these financing activities, we also used cash of $30.5 million for capital expenditures during 2017. These uses of cash were partially offset by cash flow from operations of $103.4 million. The significant components of cash flow from operations were (1) net income of $53.2 million, and (2) a $12.0 million increase in accruals and accounts payable. Cash flow from operations was partially offset by (1) an increase of accounts receivable of $10.3 million, and (2) an increase in inventory of $13.6 million. Included in cash flow from operations is a $15.2 million add-back to net income related to the non-cash charge recorded in 2017 in connection with the Tax Act. A portion of this impact (an estimated $9.8 million) will result in cash expenditures over the next eight years as is allowed by the Tax Act. However, this estimated amount could change as the Company completes its analysis of the Tax Act over the course of 2018.

We exited 2016 with $165.7 million in cash, an increase of $90.0 million during the year. The most significant increase in cash was $87.4 million of borrowings under our Syndicated Credit Facility. Outside of these borrowings, our cash flow from operating activities of $98.1 million was the most significant factor in our cash generation. The significant components of this cash flow from operations were (1) net income of $54.2 million, (2) a $12.2 million increase in accounts payable and accruals, and (3) a $2.7 million decrease in inventory. These increases were partially offset by a $7.7 million increase in prepaid expenses and other assets. Other primary uses of cash during 2016 were (1) capital expenditures of $28.1 million, (2) $18.5 million used to repurchase and retire 1.2 million shares of our outstanding common stock pursuant to our established share repurchase plan, (3) $17.6 million of repayments under our Syndicated Credit Facility, (4) $14.3 million for the payment of dividends, and (5) $12.5 million for repayment of term loan borrowings under our Syndicated Credit Facility as required by the applicable amortization schedule.

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

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 December 30, 2018.

	Payments Due by Period				
	Total Payments Due	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(in thousands)				
Long-Term Debt Obligations	$618,581	$31,315	$62,630	$524,636	$0
Operating Lease Obligations(1)	93,747	26,113	38,519	13,878	15,237
Expected Interest Payments(2)	113,531	26,907	49,178	37,446	0
Unconditional Purchase Obligations(3)	6,725	5,144	1,545	36	0
Pension Cash Obligations(4)	130,325	15,952	24,300	25,051	65,022
Total Contractual Cash Obligations(5)	$962,909	$105,431	$176,172	$601,047	$80,259

(1) Our capital lease obligations are insignificant.

(2) Expected interest payments to be made in future periods reflect anticipated interest payments related to the $616.1 million of Term Loan A borrowings outstanding and the $10.6 million of revolving loan borrowings outstanding under our Syndicated Credit Facility as of December 30, 2018. We have also assumed in the presentation above that these borrowings will remain outstanding until maturity with the exception of the required amortization payments for our Term Loan A borrowings.

(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 three 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 and the nora plan are unfunded plans, and we do not currently have any commitments to make contributions to these plans. 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 $28.1 million, the timing of which payments are uncertain. See Note 15 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. 100% of the Company's revenue is due to contracts with its customers. These contracts typically take the form of invoices for purchase of materials from the Company. The performance obligation is the delivery of these materials to customer control. Nearly 97% of the Company's current revenue is produced from the sale of carpet, resilient flooring and related products (TacTiles installation materials, etc.) and the revenue from sales of these products is recognized upon shipment, or in certain cases upon delivery to the customer. The transaction price for these sales is readily identifiable.

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