

INTERFACE INC
Form 10-K
February 28, 2019

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended December 30, 2018

Commission File No.: 001-33994

Interface, Inc.

(Exact name of registrant as specified in its charter)

Georgia
(State of incorporation)

58-1451243
(I.R.S. Employer Identification No.)

1280 West Peachtree Street
Atlanta, Georgia

30309

Edgar Filing: INTERFACE INC - Form 10-K

(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:

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

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 Data 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)

Edgar Filing: INTERFACE INC - Form 10-K

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:

<u>Class</u>	<u>Number of Shares</u>
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.

1

Table of Contents

TABLE OF CONTENTS

<u>PART I</u>	3
<u>ITEM 1. BUSINESS</u>	3
<u>ITEM 1A. RISK FACTORS</u>	13
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	17
<u>ITEM 2. PROPERTIES</u>	18
<u>ITEM 3. LEGAL PROCEEDINGS</u>	18
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	18
<u>PART II</u>	18
<u>ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	18
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	21
<u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	22
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	33
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	35
<u>CONSOLIDATED STATEMENTS OF OPERATIONS</u>	35
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	36
<u>CONSOLIDATED BALANCE SHEETS</u>	37
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	38
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	39
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	74
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	75
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	76
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	76
<u>ITEM 9B. OTHER INFORMATION</u>	76
<u>PART III</u>	76
<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	76
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	77
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	77
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	77
<u>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	77
<u>PART IV</u>	77
<u>ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	77
<u>ITEM 16. FORM 10-K SUMMARY</u>	81
<u>SIGNATURES</u>	84

Table of Contents

PART I

ITEM 1. BUSINESS

Introduction and General

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

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.

Table of Contents

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.

Table of Contents

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 cyclicalities 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

<u>Name</u>	<u>Age</u>	<u>Principal Position(s)</u>
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)

Table of Contents

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.

Table of Contents

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 cyclicalities 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 cyclicalities 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.

Table of Contents

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.

Table of Contents

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;

Table of Contents

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.

Table of Contents

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.

Table of Contents**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 MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER 5. 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.

Table of Contents**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.

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.

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.

Table of Contents**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.

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

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

	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

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 (1) 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.

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 (2) 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.

Table of Contents

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

General

Our revenues are derived from sales of floorcovering products, primarily modular carpet, 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.

Table of Contents

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
	<i>(in millions)</i>		
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)

Edgar Filing: INTERFACE INC - Form 10-K

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
	<i>(in thousands)</i>				
Net Sales	\$1,179,573	996,443	\$958,617	18.4%	3.9%

Table of Contents

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 foot 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 foot 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 foot 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.

Table of Contents

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	
	<i>(in thousands)</i>					
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.

Table of Contents

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.

Table of Contents

Liquidity and Capital Resources

General

In our business, we require cash and other liquid assets primarily to purchase raw materials and to pay other manufacturing costs, in addition to funding normal course SG&A expenses, anticipated capital expenditures, interest expense and potential special projects. We generate our cash and other liquidity requirements primarily from our operations and from borrowings or letters of credit under our Syndicated Credit Facility discussed below.

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.

Table of Contents

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%.

Table of Contents

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.

Table of Contents***Funding Obligations***

We have various contractual obligations that we must fund as part of our normal operations. The following table discloses aggregate information about our contractual obligations and the periods in which payments are due. The amounts and time periods are measured from December 30, 2018.

	Total	Payments Due by Period			
	Payments	Less than	1-3 years	3-5 years	More than
	Due	1 year			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.

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

(2) 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.

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

(4) 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 contract with the customer.

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

Table of Contents

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

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

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

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

We evaluate the recoverability of these deferred tax assets by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. We use our historical experience and our short and long-term business forecasts to provide insight. Further, our global business portfolio gives us the opportunity to employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established. As of December 30, 2018 and December 31, 2017, we had state net operating loss carryforwards of \$96.1 million and \$108.6 million, respectively. Certain of these state net operating loss carryforwards are reserved with a valuation allowance because, based on the available evidence, we believe it is more likely than not that we would not be able to utilize those deferred tax assets in the future. The remaining year-end 2018 amounts are expected to be fully recoverable within the applicable statutory expiration periods. If the actual amounts of taxable income differ from our estimates, the amount of our valuation allowance could be materially impacted.

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

During the fourth quarters of 2018, 2017 and 2016, we performed the annual goodwill impairment test. We perform this test at the reporting unit level. For our reporting units which carried a goodwill balance as of December 30, 2018, no impairment of goodwill was indicated. As of December 30, 2018, if our estimates of the fair value of our reporting units were 10% lower, we believe no additional goodwill impairment would have existed.

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

We estimate our reserves for inventory obsolescence by continuously examining our inventories to determine if there are indicators that carrying values exceed net realizable values. Experience has shown that significant indicators that could require the need for additional inventory write-downs are the age of the inventory, the length of its product life cycles, anticipated demand for our products and current economic conditions. While we believe that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and we could experience additional inventory write-downs in the future. Our inventory reserve on December 30, 2018 and December 31, 2017, was \$28.1 million and \$20.4 million, respectively. To the extent that actual obsolescence of our inventory differs from our estimate by 10%, our 2018 net income would be higher or lower by approximately \$1.9 million, on an after-tax basis.

Table of Contents

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

	Increase (Decrease) in Projected Benefit Obligation (in millions)
<u>Foreign Defined Benefit Plans</u>	
1% increase in actuarial assumption for discount rate	\$ (43.7)
1% decrease in actuarial assumption for discount rate	\$ 47.3

	Increase (Decrease) in Projected Benefit Obligation (in millions)
<u>Domestic Salary Continuation Plan</u>	
1% increase in actuarial assumption for discount rate	\$ (2.8)
1% decrease in actuarial assumption for discount rate	\$ 3.4

Environmental Remediation. We provide for environmental remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Remediation liabilities are accrued based on estimates of known environmental exposures and are discounted in certain instances. We regularly monitor the progress of environmental remediation. Should studies indicate that the cost of remediation is to be more than previously estimated, an additional accrual would be recorded in the period in which such determination is made. As of December 30, 2018, no significant amounts were provided for remediation liabilities.

Allowances for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. Estimating this amount requires us to analyze the financial strengths of our customers. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. By its nature, such an estimate is highly subjective, and it is possible that the amount of accounts receivable that we are unable to collect may be different than the amount initially estimated. Our allowance for doubtful accounts on December 30, 2018 and December 31, 2017, was \$3.5 million and \$3.5 million, respectively. To the extent the actual collectability of our accounts receivable differs from our estimates by 10%, our 2018 net income would be higher or lower by approximately \$0.3 million, on an after-tax basis, depending on whether the actual collectability was better or worse, respectively, than the estimated allowance.

Product Warranties. We typically provide limited warranties with respect to certain attributes of our carpet products (for example, warranties regarding excessive surface wear, edge ravel and static electricity) for periods ranging from ten to twenty years, depending on the particular carpet product and the environment in which the product is to be installed. Similar limited warranties are provided on certain attributes of our rubber and LVT products, typically for a period of 5 to 15 years. We typically warrant that any services performed will be free from defects in workmanship for a period of one year following completion. In the event of a breach of warranty, the remedy typically is limited to repair of the problem or replacement of the affected product. We record a provision related to warranty costs based on historical experience and periodically adjust these provisions to reflect changes in actual experience. Our warranty and sales allowance reserve on December 30, 2018 and December 31, 2017, was \$3.5 million and \$4.1 million, respectively. Actual warranty expense incurred could vary significantly from amounts that we estimate. To the extent the actual warranty expense differs from our estimates by 10%, our 2018 net income would be higher or lower by approximately \$0.3 million, on an after-tax basis, depending on whether the actual expense is lower or higher, respectively, than the estimated provision.

Acquisition. We are required to estimate the fair value of the assets acquired and liabilities assumed in business combinations as of the acquisition date, including identified intangible assets. The amount of purchase price paid in excess of the net assets acquired is recorded as goodwill. The fair values are estimated in accordance with accounting standards which define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair values of the net assets acquired are determined primarily using Level 3 inputs (inputs that are unobservable to the marketplace participant).

Table of Contents

The most significant of the fair value estimates is related to intangible assets not subject to amortization and intangible assets subject to amortization. We have \$103.3 million of acquired intangible assets in connection with the nora acquisition. This amount of intangible assets was determined based primarily on nora's projected cash flows. The projected cash flows include various assumptions, including the timing of projects embedded in backlog, success in securing future business, profitability of the business, and the appropriate risk-adjusted discount rate used to discount the projected cash flows. The preliminary residual value assigned to goodwill was \$184.7 million.

We completed our preliminary valuation of the assets acquired and liabilities assumed at the acquisition date, and our estimate of these values remained preliminary on December 30, 2018. Therefore, these provisional amounts are subject to change as we continue to evaluate information required to complete the valuations throughout the measurement period, which will extend into the third quarter of 2019.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

Please see Item 8, Note 2 entitled "Recent Accounting Pronouncements" for discussion of these items.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

We employ derivative financial instruments as risk management tools and not for speculative or trading purposes. We monitor the use of derivative financial instruments through objective measurable systems, well-defined market and

credit risk limits, and timely reports to senior management according to prescribed guidelines. We have established strict counter-party credit guidelines and enter into transactions only with financial institutions with a rating of investment grade or better. As a result, we consider the risk of counter-party default to be minimal.

Interest Rate Market Risk Exposure

Changes in interest rates affect the interest paid on certain of our debt. To mitigate the impact of fluctuations in interest rates, our management monitors interest rates and has developed and implemented a policy to maintain the percentage of fixed and variable rate debt within certain parameters, subject to approval by our Board of Directors. In 2017, the Company entered into an interest rate swap transaction with regard to a portion of its term loan debt. The Company's interest rate swap is designated and qualifies as a cash flow hedge of forecasted interest payments. The Company reports the effective portion of the fair value gain or loss on the swap as a component of other comprehensive income (or other comprehensive loss). Gains or losses (if any) on any ineffective portion of derivative instruments in cash flow hedging relationships are recorded in the period in which they occur as a component of other expense (or other income) in the Consolidated Statement of Operations. There were no such gains or losses in 2018. The aggregate notional amount of the swap as of December 30, 2018 was \$100 million.

Foreign Currency Exchange Market Risk Exposure

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

Table of Contents

At December 30, 2018, we recognized a \$22.5 million decrease in our foreign currency translation adjustment account compared with December 31, 2017, because of the strengthening of the U.S. dollar against certain foreign currencies during 2018, particularly the Euro and the Australian dollar.

Sensitivity Analysis

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

To perform sensitivity analysis, we assess the risk of loss in fair values associated with the impact of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments. The market value of instruments affected by interest rate and foreign currency exchange rate risk is computed based on the present value of future cash flows as impacted by the changes in the rates attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest and foreign currency exchange rates in effect at December 30, 2018. The values that result from these computations are then compared with the market values of the financial instruments. The differences are the hypothetical gains or losses associated with each type of risk.

Interest Rate Risk

Our weighted average interest rate for our outstanding borrowings in 2018 and 2017 was 3.50% and 3.0%, respectively.

As discussed above, our Syndicated Credit Facility is comprised of a combination of term loan and revolving loan borrowings. The following table summarizes our market risks associated with our debt obligations as of December 30, 2018. For debt obligations, the table presents principal cash flows and related weighted average interest rates by year of maturity. Variable interest rates presented for variable-rate debt represent the weighted average interest rate on our Syndicated Credit Facility borrowings as of December 30, 2018.

	2019	2020	2021	2022	Thereafter	Total	Fair Value
	(in thousands)						
Rate-Sensitive Liabilities							
Long-term Debt:							

Edgar Filing: INTERFACE INC - Form 10-K

Variable Rate	\$31,315	\$31,315	\$31,315	\$31,315	\$493,321	\$618,581	\$618,581	
Variable Interest Rate	3.5	%	3.5	%	3.5	%	3.5	%

An increase in our effective interest rate of 1% would increase annual interest expense by approximately \$6.2 million. We will continue to review our exposure to interest rate fluctuations and evaluate whether we should continue to manage such exposures through our current and any future interest rate swap transactions.

As of December 30, 2018, a 10% decrease or increase in the fair market value of the Company's cash flow interest rate swap would lead to a decrease or increase in the recorded asset value of \$0.2 million.

Foreign Currency Exchange Rate Risk

As of December 30, 2018, a 10% decrease or increase in the levels of foreign currency exchange rates against the U.S. dollar, with all other variables held constant, would result in a decrease in the fair value of our short-term financial instruments (primarily cash, accounts receivable and accounts payable) of \$12.9 million or an increase in the fair value of our financial instruments of \$15.8 million, respectively. As the impact of offsetting changes in the fair market value of our net foreign investments is not included in the sensitivity model, these results are not indicative of our actual exposure to foreign currency exchange risk.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****INTERFACE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	FISCAL YEAR		
	2018	2017	2016
	<i>(in thousands, except per share data)</i>		
Net sales	\$1,179,573	\$996,443	\$958,617
Cost of sales	755,216	610,422	589,973
Gross profit on sales	424,357	386,021	368,644
Selling, general and administrative expenses	327,449	267,151	261,703
Restructuring and asset impairment charges	20,529	7,299	19,788
Operating income	76,379	111,571	87,153
Interest expense	15,436	7,128	6,130
Other expense	5,952	3,904	1,887
Income before income tax expense	54,991	100,539	79,136
Income tax expense	4,738	47,293	24,974
Net income	\$50,253	\$53,246	\$54,162
Net income per share – basic	\$0.84	\$0.86	\$0.83
Net income per share – diluted	\$0.84	\$0.86	\$0.83
Basic weighted average common shares outstanding	59,544	61,996	65,098
Diluted weighted average common shares outstanding	59,566	62,040	65,136

See accompanying notes to consolidated financial statements.

Table of Contents

INTERFACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	FISCAL YEAR		
	2018	2017	2016
	<i>(in thousands)</i>		
Net income	\$50,253	\$53,246	\$54,162
Other comprehensive income (loss), after tax			
Foreign currency translation adjustment	(22,544)	31,579	(19,011)
Cash flow hedge change in net unrealized gains (losses)	422	904	0
Pension liability adjustment	12,944	(1,692)	(11,572)
Comprehensive income	\$41,075	\$84,037	\$23,579

See accompanying notes to consolidated financial statements.

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

	END OF FISCAL YEAR	
	2018	2017
	<i>(in thousands)</i>	
ASSETS		
Current		
Cash and cash equivalents	\$80,989	\$87,037
Accounts receivable, net	179,004	142,808
Inventories, net	258,657	177,935
Prepaid expenses and other current assets	40,229	23,087
Total current assets	558,879	430,867
Property and equipment, net	292,888	212,645
Deferred tax asset	15,601	18,003
Goodwill and intangibles, net	343,542	68,754
Other assets	73,734	70,331
Total assets	\$1,284,644	\$800,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$66,301	\$50,672
Accrued expenses	125,971	110,974
Current portion of long-term debt	31,315	15,000
Total current liabilities	223,587	176,646
Long term debt	587,266	214,928
Deferred income taxes	26,488	6,935
Other	92,640	72,000
Total liabilities	929,981	470,509
Commitments and contingencies		
Shareholders' equity		
Preferred stock	0	0
Common stock	5,951	5,981
Additional paid-in capital	270,269	271,271
Retained earnings	222,214	187,432
Accumulated other comprehensive loss – foreign currency translation	(101,487)	(78,943)
Accumulated other comprehensive income – cash flow hedge	1,326	904
Accumulated other comprehensive loss – pension liability	(43,610)	(56,554)

Edgar Filing: INTERFACE INC - Form 10-K

Total shareholders' equity	354,663	330,091
Total liabilities and shareholders' equity	\$ 1,284,644	\$ 800,600

See accompanying notes to consolidated financial statements.

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

	FISCAL YEAR		
	2018	2017	2016
	<i>(in thousands)</i>		
OPERATING ACTIVITIES:			
Net income	\$50,253	\$53,246	\$54,162
Adjustments to reconcile income to cash provided by operating activities			
Depreciation and amortization	39,084	30,261	30,632
Stock compensation amortization expense	14,496	7,247	5,873
Loss on disposal of impaired assets	8,569	0	0
Enactment of U.S. Tax Cuts and Jobs Act expenses (benefit)	(6,739)	15,174	0
Bad debt expense	222	219	145
Deferred income taxes and other	(11,709)	8,154	468
Amortization of acquired intangible assets	5,387	0	0
Amortization of acquired inventory step-up	26,666	0	0
Working capital changes:			
Accounts receivable	(10,113)	(10,313)	(372)
Inventories	(18,784)	(13,629)	2,686
Prepaid expenses and other current assets	(15,501)	1,019	(7,720)
Accounts payable and accrued expenses	9,936	11,975	12,184
Cash provided by operating activities	91,767	103,353	98,058
INVESTING ACTIVITIES:			
Capital expenditures	(54,857)	(30,474)	(28,071)
Cash paid for business, net of cash acquired	(400,697)	0	0
Other	(131)	(614)	1,642
Cash used in investing activities	(455,685)	(31,088)	(26,429)
FINANCING ACTIVITIES:			
Revolving loan borrowing	17,000	25,000	87,400
Revolving loan repayments	(64,504)	(57,014)	(17,575)
Term loan borrowing	462,847	0	0
Term loan repayments	(14,162)	(15,000)	(12,500)
Repurchase of common stock	(14,485)	(91,576)	(18,496)
Dividends paid	(15,471)	(15,487)	(14,285)
Tax Withholding Payments for Share-Based Compensation	(1,187)	(1,479)	(4,895)
Debt issuance costs	(8,806)	(1,427)	0
Proceeds from issuance of common stock	294	0	0
Cash provided by (used in) financing activities	361,526	(156,983)	19,649
Net cash provided by (used in) operating, investing and financing activities	(2,392)	(84,718)	91,278
Effect of exchange rate changes on cash	(3,656)	6,083	(1,302)

CASH AND CASH EQUIVALENTS:

Net increase (decrease)	(6,048)	(78,635)	89,976
Balance, beginning of year	87,037	165,672	75,696
Balance, end of year	\$80,989	\$87,037	\$165,672

See accompanying notes to consolidated financial statements.

Table of Contents

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a recognized leader in the worldwide commercial interiors market, offering modular carpet, luxury vinyl tile (“LVT”) and rubber flooring products. The Company manufactures modular carpet focusing on the high quality, designer-oriented sector of the market, sources LVT from a third party and focuses on the same sector of the market, and provides specialized carpet replacement, installation and maintenance services. Additionally, the Company offers *Intersept*, a proprietary antimicrobial used in a number of interior finishes. The Company also offers resilient rubber flooring since its acquisition of nora Holding GmbH on August 7, 2018.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All of our subsidiaries are wholly-owned, and we are not a party to any joint venture, partnership or other variable interest entity that would potentially qualify for consolidation. All material intercompany accounts and transactions are eliminated.

Use of Estimates

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

Revenue Recognition

Effective January 1, 2018, the Company adopted a new accounting standard with regard to revenue from customers. The core principle this standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following

steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The Company elected the modified retrospective approach for adoption of this new standard, as is allowed by the standard. The Company did not have any significant impact from this standard as of the date of the adoption.

Revenue Recognized from Contracts with Customers

100% of the Company's revenue is due to contracts with its customers. These contracts typically take the form of invoices for purchase of materials from the Company. Customer payment terms vary by region and are typically less than 60 days. 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, rubber flooring, and related products (TacTiles installation materials, etc.) and the revenue from sales of these products is recognized upon shipment, or in certain cases upon delivery to the customer. The transaction price for these sales is readily identifiable.

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

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

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

Table of Contents

Performance Obligations

As noted above, the Company primarily generates revenue through the sale of flooring material to end users either upon shipment or upon arrival of the product at its destination. In these instances, there typically is no other obligation to the customers other than the delivery of flooring material with the exception of warranty. The Company does offer a warranty to its customers which guarantees certain on-floor performance characteristics and warrants against manufacturing defects. The warranty is not a service warranty, and there is no ability to separate the warranty obligation from the sale of the flooring or purchase them separately. The Company's incidence of warranty claims is extremely low, with less than 0.3% of revenue in claims on an annual basis for the last three fiscal years. Given the nature of the warranty as well as the financial impact, the Company has determined that there is no need to identify this warranty as a separate performance obligation and the Company will continue to account for warranty on an accrual basis.

For the Company's installation business, the sales of carpet and other flooring materials and installation services are separate deliverables which under the revenue recognition requirements should be characterized as separate performance obligations. The Company historically has not separated these obligations and has accounted for these installation projects on a completed contract basis. The nature of the installation projects is such that the vast majority – an amount in excess of 90% of these installation projects – are completed in less than 5 days. The Company's largest installation customers are retail and corporate customers, and these are on a project-by-project basis and are short term installations. The Company has evaluated these projects at the end of the reporting period and recorded revenue in accordance with the accounting standards for projects which were underway as of the end of 2018.

Costs to Obtain Contracts

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

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

and timing of net sales for any period if management makes different estimates.

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

Research and Development

Research and development costs are expensed as incurred and are included in the selling, general and administrative expense caption in the consolidated statements of operations. Research and development expense was \$16.4 million, \$14.0 million, and \$14.3 million for the years 2018, 2017 and 2016, respectively.

Cash, Cash Equivalents and Short-Term Investments

Highly liquid investments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months and less than one year are classified as short-term investments. The Company did not hold any significant amounts of cash equivalents and short-term investments at December 30, 2018 and December 31, 2017.

Cash payments for interest amounted to approximately \$13.8 million, \$6.3 million, and \$5.5 million for the years 2018, 2017, and 2016, respectively. Income tax payments amounted to approximately \$29.5 million, \$19.1 million and \$12.8 million for the years 2018, 2017 and 2016, respectively. During the years 2018, 2017 and 2016, the Company received income tax refunds of \$0.8 million, \$0.1 million and \$0.2 million, respectively.

Inventories

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

Management estimates its reserves for inventory obsolescence by continuously examining its inventories to determine if there are indicators that carrying values exceed net realizable values. Experience has shown that significant

indicators that could require the need for additional inventory write-downs are the age of the inventory, the length of its product life cycles, anticipated demand for the Company's products, and current economic conditions. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the Company could experience additional inventory write-downs in the future.

Rebates

The Company has agreements to receive cash consideration from certain of its vendors, including rebates and cooperative marketing reimbursements. The amounts received from its vendors are generally presumed to be a reduction of the prices the Company pays for their products and, therefore, such amounts are reflected as either a reduction of cost of sales in the accompanying consolidated statements of operations, or, if the product inventory is still on hand at the reporting date, it is reflected as a reduction of "Inventories" on the accompanying consolidated balance sheets. Vendor rebates are typically dependent upon reaching minimum purchase thresholds. The Company evaluates the likelihood of reaching purchase thresholds using past experience and current year forecasts. When rebates can be reasonably estimated and receipt becomes probable, the Company records a portion of the rebate as the Company makes progress towards the purchase threshold.

Table of Contents

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

Assets and Liabilities of Businesses Held for Sale

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

Property and Equipment and Long-Lived Assets

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives: buildings and improvements – ten to forty years; and furniture and equipment – three to twelve years. Interest costs for the construction/development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Company capitalized net interest costs on qualifying expenditures of approximately \$0.7 million, \$0.6 million, and \$0.5 million for the fiscal years 2018, 2017 and 2016, respectively. Depreciation expense amounted to approximately \$37.6 million, \$29.5 million, and \$30.1 million for the years 2018, 2017, and 2016 respectively.

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

Goodwill and Other Intangible Assets

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as acquisitions. Accumulated amortization amounted to approximately \$77.3 million at both December 30, 2018 and December 31, 2017, and cumulative impairment losses recognized were \$212.6 million as of both December 30, 2018 and December 31, 2017.

In connection with the nora acquisition on August 7, 2018, the Company recognized goodwill of \$184.7 million and acquired intangible assets of \$103.3 million. Goodwill includes subsequent purchase price accounting adjustments of approximately \$1.4 million related to additional liabilities that existed at the acquisition date. These assets were assigned pro-rata to the Company's three operating segments. None of the goodwill is expected to be deductible for income tax purposes.

As of December 30, 2018, and December 31, 2017, the net carrying amount of goodwill was \$245.8 million and \$68.8 million, respectively. Other intangible assets were \$97.7 million and \$0.6 million as of December 30, 2018 and December 31, 2017, respectively. Amortization expense related to intangible assets during the years 2018, 2017 and 2016 was \$5.4 million, \$0.7 million and \$0.5 million, respectively.

The Company capitalizes patent defense costs when it determines that a successful defense is probable. Any patent defense costs are amortized over the remaining useful life of the patent. During 2016, the Company determined that approximately \$3.4 million of patent defense costs related to our *TacTiles*® carpet tile installation system should be impaired as a successful defense was deemed no longer probable. This impairment is included in "Restructuring and Asset Impairment Charges" in our consolidated statement of operations.

During the fourth quarters of 2018, 2017 and 2016, as of the last day of the third quarter of each year, the Company performed the annual goodwill impairment test required by applicable accounting standards. The Company performs this test at the reporting unit level, which is one level below the segment level for the Flooring segment. In effecting the impairment testing, the Company prepared valuations of reporting units on both a market comparable methodology and an income methodology in accordance with the applicable standards, and those valuations were compared with the respective book values of the reporting units to determine whether any goodwill impairment existed. In preparing the valuations, past, present and future expectations of performance were considered. The annual testing indicated no potential of goodwill impairment in any of the years presented.

Each of the Company's reporting units maintained fair values in excess of their respective carrying values as of the measurement date, and therefore no impairment was indicated during the impairment testing. As of December 30, 2018, if the Company's estimates of the fair values of its reporting units which carry a goodwill balance were 10% lower, the Company still believes no goodwill impairment would have existed.

Table of Contents

The changes in the carrying amounts of goodwill for the year ended December 30, 2018 are as follows (in thousands):

BALANCE	PURCHASE		FOREIGN		BALANCE
JANUARY	ACQUISITIONS	PRICE	IMPAIRMENT	CURRENCY	DECEMBER
1,	ACCOUNTING				30,
2018	ADJUSTMENTS			TRANSLATION	2018
	<i>(in thousands)</i>				
\$ 68,754	\$ 183,348	\$ 1,377	\$ 0	\$ (7,664	) \$ 245,815

Product Warranties

The Company typically provides limited warranties with respect to certain attributes of its carpet products (for example, warranties regarding excessive surface wear, edge ravel and static electricity) for periods ranging from ten to twenty years, depending on the particular carpet product and the environment in which it is to be installed. Similar limited warranties are provided on certain attributes of its rubber and LVT products, typically for a period of 5 to 15 years. The Company typically warrants that services performed will be free from defects in workmanship for a period of one year following completion. In the event of a breach of warranty, the remedy typically is limited to repair of the problem or replacement of the affected product.

The Company records a provision related to warranty costs based on historical experience and periodically adjusts these provisions to reflect changes in actual experience. Warranty and sales allowance reserves amounted to \$3.5 million and \$4.1 million as of December 30, 2018 and December 31, 2017, respectively, and are included in “Accrued Expenses” in the accompanying consolidated balance sheets.

Taxes on Income

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

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

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

For uncertain tax positions, the Company applies the provisions of relevant authoritative guidance, which requires application of a “more likely than not” threshold to the recognition and derecognition of tax positions. The Company’s ongoing assessments of the more likely than not outcomes of tax authority examinations and related tax positions require significant judgment and can increase or decrease the Company’s effective tax rate as well as impact operating results. For further information, see Note 15 entitled “Taxes on Income.”

Fair Values of Financial Instruments

Fair values of cash and cash equivalents and short-term debt approximate cost due to the short period of time to maturity. Fair values of debt are based on quoted market prices or pricing models using current market rates and classified as level 2 within the fair value hierarchy.

Translation of Foreign Currencies

The financial position and results of operations of the Company’s foreign subsidiaries are measured using local currencies as the functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each year-end. Income and expense items are translated at average exchange rates for the year. The resulting translation adjustments are recorded in the foreign currency translation adjustment account. In the event of a divestiture of a foreign subsidiary, the related foreign currency translation results are reversed from equity to income. Foreign currency exchange gains and losses are included in net income (loss). Foreign exchange translation gains (losses) were (\$22.5) million, \$31.6 million, and (\$19.0) million for the years 2018, 2017 and 2016, respectively.

Table of Contents

Income (Loss) Per Share

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

Stock-Based Compensation

The Company has stock-based employee compensation plans, which are described more fully in Note 12 entitled “Shareholders’ Equity”.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. However, there were no stock options granted in 2018, 2017 or 2016.

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

Derivative Financial Instruments

Accounting standards require a company to recognize all derivatives on the balance sheet at fair value. Derivatives that do not meet the criteria of an accounting hedge must be adjusted to fair value through income. If the derivative is a fair value hedge, changes in the fair value of the hedged assets, liabilities or firm commitments are recognized through earnings. If the derivative is a cash flow hedge, the effective portion of changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative’s change in fair value is immediately recognized in earnings. In 2017, the Company entered into an interest rate swap instrument that is a designated cash flow hedge. See further discussion of this instrument below in Note 10 entitled “Derivative Instruments”. The recently acquired nora operations are party to currency forward contracts designed to hedge the cash flow risk of intercompany sales from the manufacturing facility in Europe to the Americas. The Company’s objective and strategy with respect to these currency forward contracts is to protect the Company against adverse fluctuations in currency rates by reducing its exposure to variability in cash flows related to receipt of payment on intercompany sales. See further discussion of this instrument below in Note 10 entitled “Derivative Instruments”.

Pension Benefits

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

Environmental Remediation

The Company provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Remediation liabilities are accrued based on estimates of known environmental exposures and are discounted in certain instances. The Company regularly monitors the progress of environmental remediation. Should studies indicate that the cost of remediation is to be more than previously estimated, an additional accrual would be recorded in the period in which such determination is made. As of December 30, 2018, and December 31, 2017, no significant amounts were provided for remediation liabilities.

Table of Contents

Allowances for Doubtful Accounts

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

Reclassifications

Certain prior period amounts have been reclassified to conform to current year financial statement presentation. These reclassifications had no effect on reported income, comprehensive income, cash flows, or shareholders' equity as previously reported. Total assets as previously reported was impacted by the adoption of an accounting standard addressing the treatment of deferred taxes as discussed below.

Fiscal Year

The Company's fiscal year is the 52 or 53 week period ending on the Sunday nearest December 31. All references herein to "2018," "2017," and "2016," mean the fiscal years ended December 30, 2018, December 31, 2017, and January 1, 2017, respectively. Fiscal years 2018, 2017 and 2016 were each comprised of 52 weeks.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

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

initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, the comparative periods presented in the financial statements would continue to be in accordance with current GAAP. The Company adopted the new lease standard on December 31, 2018, using this methodology and will provide the required disclosures in its first quarterly report on form 10-Q of 2019.

Upon adoption, the Company elected the package of practical expedients permitted under the transition guidance of the new lease standard, which among other things, allows us to carryforward the historical lease classification. In addition, we elected the hindsight practical expedient to determine the lease term, which allows us to use hindsight when considering the impact of options to extend or terminate the lease as well as the option to purchase the underlying asset. We made an accounting policy election to exclude leases with an initial term of 12 months or less from the calculation of the right-of-use asset and lease liability recorded on the Balance Sheet. We will recognize lease costs related to short-term leases in the Consolidated Statements of Operations on a straight-line basis over the lease term. We also made an accounting policy election not to separate lease and non-lease components for all asset classes and will account for the lease payments as a single component.

We have operating and finance leases for manufacturing equipment, distribution facilities, corporate offices, design centers, showrooms, as well as computer and office equipment. Our leases have remaining lease terms ranging from 1 to 12 years. The Company is finalizing the evaluation of the December 31, 2018 impact and estimates a material increase of lease-related assets and liabilities, ranging from \$80 million to \$100 million in the consolidated balance sheet. The impact to the Company's consolidated statements of income, consolidated statements of cash flows and debt covenants is not expected to be material.

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

Table of Contents

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

In June 2018, the FASB issued a new accounting standard to address non-employee share-based payments. This standard will require that the accounting treatment for non-employee share-based payments for goods or services be consistent with current GAAP for employee share-based payments, including measurement of awards at grant-date fair value and the application of probability to evaluate performance conditions. This standard will also eliminate the current GAAP requirement to reassess the classification of non-employee share-based payments awards upon vesting. The new guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this standard, but does not anticipate that the adoption will have a material effect on its consolidated financial statements.

In August 2018, the FASB issued a new accounting standard that modifies disclosure requirements related to fair value measurements. This standard eliminates the current requirement to disclose the amount or reason for transfers between level 1 and level 2 of the fair value hierarchy and the requirement to disclose the valuation methodology for level 3 fair value measurements. The standard includes additional disclosure requirements for level 3 fair value measurements, including the requirement to disclose the changes in unrealized gains and losses in other comprehensive income during the period and permits the disclosure of other relevant quantitative information for certain unobservable inputs. The new guidance is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted. The Company does not anticipate that the adoption of the new standard will have a material effect on its consolidated financial statements.

In August 2018, the FASB issued a new accounting standard that changes the disclosure requirements for defined benefit retirement plans. This standard eliminates the current requirement to disclose amounts in accumulated other comprehensive income that are expected to be recognized in net periodic benefit expense in the next fiscal year. The standard requires additional disclosures for an entity to explain the reasons for significant gains and losses related to changes in the benefit obligation for the period and clarifies current guidance for disclosures where projected benefit obligations or accumulated benefit obligations exceed the fair value of plan assets. The new guidance is effective for annual periods ending after December 15, 2020. Early adoption is permitted. The Company has elected to early adopt this standard in the fourth quarter of 2018 and there was no material effect on its consolidated financial statements.

In August 2018, the FASB issued a new accounting standard to align the requirements for capitalizing implementation costs incurred in a hosting arrangement service contract with the guidance to capitalize implementation costs of internal use software. This standard requires that the costs for implementation activities during the application development phase be capitalized in a hosting arrangement service contract, and costs during the preliminary and post implementation phase are expensed. The new guidance is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of adoption of this standard, but does not anticipate that the adoption will have a material effect on its consolidated financial statements.

NOTE 3 – REVENUE RECOGNITION

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

Table of Contents

Revenue from sales of carpet, modular resilient flooring, rubber flooring, and other flooring-related material was approximately 97% of total revenue for 2018. The remaining 3% of revenue was generated from the installation of carpet and other flooring-related material.

Disaggregation of Revenue

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

Geography Percentage of Net Sales

Americas 57.80%

Europe 27.10%

Asia-Pacific 15.10%

Impairment Losses

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

Table of Contents

NOTE 4 – RECEIVABLES

The Company has adopted credit policies and standards intended to reduce the inherent risk associated with potential increases in its concentration of credit risk due to increasing trade receivables from sales to owners and users of commercial office facilities and with specifiers such as architects, engineers and contracting firms. Management believes that credit risks are further moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of December 30, 2018, and December 31, 2017, the allowance for bad debts amounted to \$3.5 million and \$3.5 million, respectively, for all accounts receivable of the Company. Reserves for warranty and returns allowances amounted to \$3.5 million and \$4.1 million as of December 30, 2018 and December 31, 2017, respectively.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company does not have significant assets and liabilities measured at fair value on a recurring basis under applicable accounting standards as of the end of 2018. The Company does have approximately \$24.3 million of Company-owned life insurance which is measured on readily determinable cash surrender value on a recurring basis. This Company-owned life insurance is classified as a level 2 asset within the fair value hierarchy. Due to the short maturity of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, their carrying values approximate fair value. As of December 30, 2018, the carrying value of the Company's borrowings under its Syndicated Credit Facility approximates fair value as the Facility bears interest rates that are similar to existing market rates. The Company does hedge its interest rate exposure on \$100 million of borrowings on the Syndicated Credit Facility and this cash flow hedge is measured at fair value. See discussion of this instrument below in Note 10 entitled "Derivative Instruments".

NOTE 6 – INVENTORIES

Inventories are summarized as follows:

END OF FISCAL
YEAR

	2018	2017
	<i>(in thousands)</i>	
Finished goods	\$180,847	\$115,512
Work-in-process	17,762	13,022
Raw materials	60,048	49,401
Inventory, Net	\$258,657	\$177,935

Reserves for inventory obsolescence amounted to \$28.1 million and \$20.4 million as of December 30, 2018 and December 31, 2017, respectively, and have been netted against amounts presented above.

Table of Contents**NOTE 7 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	END OF FISCAL YEAR	
	2018	2017
	<i>(in thousands)</i>	
Land	\$16,870	\$17,743
Buildings	143,725	130,919
Equipment	565,251	371,300
	725,846	519,962
Accumulated depreciation	(432,958)	(307,317)
Property and Equipment	\$292,888	\$212,645

The estimated cost to complete construction-in-progress at December 30, 2018, was approximately \$92.2 million.

NOTE 8 – ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	END OF FISCAL YEAR	
	2018	2017
	<i>(in thousands)</i>	
Compensation	\$80,877	\$71,760
Interest	374	362
Restructuring	11,907	2,568
Taxes	14,539	19,948
Accrued purchases	5,329	4,569
Warranty and sales allowances	3,495	4,111
Other	9,450	7,656

Accrued Expenses	\$125,971	\$110,974
------------------	-----------	-----------

Other non-current liabilities include pension liability of \$62.4 million and \$43.3 million as of December 30, 2018 and December 31, 2017, respectively (see the discussion below in Note 17 entitled “Employee Benefit Plans”).

NOTE 9 – BORROWINGS

Syndicated Credit Facility

On August 7, 2018, the Company amended and restated its Syndicated Credit Facility (the “Facility”) in connection with the 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 the Company and its 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 the Company and certain of its subsidiaries a multicurrency revolving loan facility up to \$300 million, as well as other U.S. denominated and multicurrency term loans.

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.

Table of Contents

Covenants

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

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

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

Consolidated Net Leverage Ratio: Must be no greater than 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 the Company breaches or fails to perform any of the affirmative or negative covenants under the Facility, or if other specified events occur (such as a bankruptcy or similar event or a change of control of Interface, Inc. or certain subsidiaries, or if the Company breaches or fails to perform any covenant or agreement contained in any instrument relating to any of the Company's other indebtedness exceeding \$20 million), after giving effect to any applicable notice and right to cure provisions, an event of default will exist. If an event of default exists and is continuing, the lenders' Administrative Agent may, and upon the written request of a specified percentage of the lender group shall:

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

Collateral

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

As of December 30, 2018, the Company 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%.

Under the amended and restated Facility, the Company is required to make quarterly amortization payments of the term loan borrowings, which commenced in the fourth quarter of 2018. The amortization payments are due on the last day of the calendar quarter.

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

Table of Contents

Interest Rate Risk Management

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

Cash Flow Interest Rate Swap

The Company's interest rate swap is designated and qualifies as a cash flow hedge of forecasted interest payments. The Company reports the effective portion of the fair value gain or loss on the swap as a component of other comprehensive income (or other comprehensive loss). Gains or losses (if any) on any ineffective portion of derivative instruments in cash flow hedging relationships are recorded in the period in which they occur as a component of other expense (or other income) in the consolidated statement of operations. There were no such gains or losses in 2018. The aggregate notional amount of the swap as of December 30, 2018 was \$100 million.

As of December 30, 2018, the fair value of the cash flow interest rate swap asset was \$1.8 million and was recorded in other assets in the Company's consolidated balance sheet. Gains and losses on the interest rate swap are not significant and are included in the operating activities section in the Company's consolidated statement of cash flows.

Other Lines of Credit

Subsidiaries of the Company have an aggregate of the equivalent of \$9.5 million of other lines of credit available at interest rates ranging from 2.5% to 6.5%. As of December 30, 2018, and December 31, 2017, there were no borrowings outstanding under these lines of credit.

Borrowing Costs

In connection with the amended and restated Facility as discussed above, the Company 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. As of December 30, 2018, the unamortized debt costs recorded as a reduction of long-term debt was \$8.1 million.

Other deferred borrowing costs, which include underwriting, legal and other direct costs related to the issuance of revolving debt, net of accumulated amortization, were \$1.8 million and \$2.3 million, as of December 30, 2018 and December 31, 2017, respectively. These amounts are included in other long term assets in the Company's consolidated balance sheets. The Company amortizes these costs over the life of the related debt. Expenses related to such costs for the years 2018, 2017, and 2016 amounted to \$0.5 million for each of those years.

Future Maturities

The aggregate maturities of borrowings for each of the five fiscal years subsequent to 2018 are as follows:

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
	<i>(in thousands)</i>
2019	\$ 31,315
2020	31,315
2021	31,315
2022	31,315
2023	493,321
Thereafter	0
Total Debt	\$ 618,581

Table of Contents

NOTE 10 – DERIVATIVE INSTRUMENTS

Interest Rate Risk Management

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

Cash Flow Interest Rate Swap

The Company's interest rate swap is designated and qualifies as a cash flow hedge of forecasted interest payments. The Company reports the effective portion of the fair value gain or loss on the swap as a component of other comprehensive income (or other comprehensive loss). Gains or losses (if any) on any ineffective portion of derivative instruments in cash flow hedging relationships are recorded in the period in which they occur as a component of other expense (or other income) in the Consolidated Statement of Operations and as a component of operating activities in the Consolidated Statement of Cash Flows. The aggregate notional amount of the swap as of December 30, 2018 was \$100 million.

Forward Contracts

The recently acquired nora operations are party to currency forward contracts designed to hedge the cash flow risk of intercompany sales from the manufacturing facility in Europe to the Americas. The Company's objective and strategy with respect to these currency forward contracts is to protect the Company against adverse fluctuations in currency rates by reducing its exposure to variability in cash flows related to receipt of payment on intercompany sales. The Company is meeting its objective by hedging the risk of changes in its cash flows (intercompany payments for inventory) attributable to changes in the U.S. dollar/Euro exchange rate (the "hedged risk"). Changes in fair value attributable to components other than exchange rates will be excluded from the assessment of effectiveness and amortized to earnings on a straight-line basis. Changes in fair value related to the effective portion of these contracts will be reflected as a component of other comprehensive income (or other comprehensive loss). A portion of these forward contracts expire each month, with the final contract expiring in September of 2019. These contracts cover approximately 70% of the expected intercompany sales activity between the nora European manufacturing facility and

Edgar Filing: INTERFACE INC - Form 10-K

the U.S. subsidiary and at this time the Company believes these are probable transactions given historical performance as well as budget projections. As of December 30, 2018, the notional value of these forward currency contracts and the future intercompany sales these instruments hedge was approximately \$36 million.

The table below sets forth the fair value of derivative instruments as of December 30, 2018 (in thousands):

	Asset Derivatives as of December 30, 2018		Liability Derivatives as of December 30, 2018	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative instruments designated as hedging instruments:				
Foreign currency contracts	Other current assets	\$651	Other current liabilities	--
Interest rate swap contract	Other current assets	1,794	Other current liabilities	--
		\$2,445		--

The table below sets forth the fair value of derivative instruments as of December 31, 2017 (in thousands):

	Asset Derivatives as of December 31, 2017		Liability Derivatives as of December 31, 2017	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative instruments designated as hedging instruments:				
Interest rate swap contract	Other current assets	\$ 904	Other current liabilities	--

Table of Contents

There was no significant impact to earnings from the changes in fair value of derivatives designated as cash flow hedges or from amounts excluded from the assessment of hedge effectiveness during 2018. There was no significant impact from the reclassification of hedged items from accumulated other comprehensive income during 2018. The amount of hedged items expected to be reclassified from accumulated other comprehensive income in the next 12 months is approximately \$0.6 million.

The following table summarizes the pre-tax impact that changes in the fair value of derivatives designated as cash flow hedges and included in the assessment of hedge effectiveness had on accumulated other comprehensive income during 2018 (in thousands):

	Gain (Loss) Recognized in Accumulated Other Comprehensive Income
<u>2018</u>	
Foreign currency contracts	\$ (468)
Interest rate swap contract	\$ 890

NOTE 11 – PREFERRED STOCK

The Company is authorized to designate and issue up to 5,000,000 shares of \$1.00 par value preferred stock in one or more series and to determine the rights and preferences of each series, to the extent permitted by the Articles of Incorporation, and to fix the terms of such preferred stock without any vote or action by the shareholders. The issuance of any series of preferred stock may have an adverse effect on the rights of holders of common stock and could decrease the amount of earnings and assets available for distribution to holders of common stock. In addition, any issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of the Company. As of December 30, 2018 and December 31, 2017, there were no shares of preferred stock issued.

NOTE 12 – SHAREHOLDERS' EQUITY

Prior to March 5, 2012, the Company had two classes of common stock – Class A Common Stock and Class B Common Stock. On March 5, 2012, the number of issued and outstanding shares of Class B Common Stock

constituted less than 10% of the aggregate number of issued and outstanding shares of the Company's Class A Common Stock and Class B Common Stock, as the cumulative result of varied transactions that caused the conversion of shares of Class B Common Stock into shares of Class A Common Stock. Accordingly, the Class A Common Stock and Class B Common Stock are now, irrevocably from March 5, 2012, a single class of Common Stock in all respects. Following the March 5, 2012 event, the Company is authorized to issue 120 million shares of \$0.10 par value Common Stock.

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

The Company paid cash dividends totaling \$0.26 per share in 2018, \$0.25 per share in 2017, and \$0.22 per share in 2016, to each share of Common Stock. The future declaration and payment of dividends is at the discretion of the Company's Board, and depends upon, among other things, the Company's investment policy and opportunities, results of operations, financial condition, cash requirements, future prospects, and other factors that may be considered relevant at the time of the Board's determination. Such other factors include limitations contained in the agreement for its Syndicated Credit Facility, which specifies conditions as to when any dividend payments may be made. As such, the Company may discontinue its dividend payments in the future if its Board determines that a cessation of dividend payments is proper in light of the factors indicated above.

On October 7, 2014, the Company announced a program to repurchase up to 500,000 shares of common stock per fiscal year, commencing with the 2014 fiscal year. On November 19, 2015, the Board of Directors amended the program to provide that the 500,000 shares of common stock previously approved for repurchases for the 2016 fiscal year may be repurchased by the Company, in management's discretion, during the period commencing on November 19, 2015 and ending at the conclusion of fiscal year 2016. In 2016, the Company adopted a share purchase program to authorize the repurchase of up to \$50 million of common stock. This program had no specific expiration date. During the first three months of 2017, the Company completed the \$50 million repurchase program. In the second quarter of 2017, the Company adopted a new share repurchase program in which the Company is authorized to repurchase up to \$100 million of its outstanding shares of common stock. The program has no specific expiration date.

Table of Contents

Pursuant to the above-described programs, the Company has repurchased shares in the past three years as follows. During 2016, the Company repurchased and retired 1,177,600 shares of common stock at a weighted average purchase price of \$15.68 per share. During 2017, the Company repurchased and retired a combined total of 4,628,300 shares under these plans, at an average purchase price of \$19.76 per share. During 2018, the Company repurchased and retired a combined total of 615,000 shares under these plans, at an average purchase price of \$23.54 per share. As of December 30, 2018, the Company had approximately \$25.1 million of availability remaining to purchase shares under the repurchase program put in place in 2017.

All treasury stock is accounted for using the cost method.

The following tables depict the activity in the accounts which make up shareholders equity for the years 2016-2018.

	ADDITIONALRETAINED					FOREIGN
	SHARES	AMOUNT	PAID-IN	EARNINGS	PENSION	CURRENCY
			CAPITAL	(DEFICIT)	LIABILITY	TRANSLATION
	ADJUSTMENT					
	(in thousands)					
Balance, at January 3, 2016	65,701	\$ 6,570	\$ 370,327	\$ 100,270	\$ (43,290)	\$ (91,511)
Net income	0	0	0	54,162	0	0
Stock issuances under employee plans	17	2	251	0	0	0
Other issuances of common stock	277	28	4,726	0	0	0
Unamortized stock compensation expense related to restricted stock awards	0	0	(4,754)	0	0	0
Cash dividends paid	0	0	0	(14,285)	0	0
Forfeitures and compensation expense related to stock awards	(579)	(58)	979	0	0	0
Share Repurchases	(1,178)	(118)	(18,378)	0	0	0
Pension liability adjustment	0	0	0	0	(11,572)	0
Foreign currency translation adjustment	0	0	0	0	0	(19,011)
Windfall tax benefit - share-based payment awards	0	0	6,300	0	0	0
Other	0	0	0	91	0	0
Balance, at January 1, 2017	64,238	\$ 6,424	\$ 359,451	\$ 140,238	\$ (54,862)	\$ (110,522)

	ADDITIONAL RETAINED				FOREIGN		CASH FLOW
	SHARES	AMOUNT	PAID-IN	EARNINGS	PENSION	CURRENCY	
			CAPITAL	(DEFICIT)	LIABILITY	TRANSLATION	HEDGE
	ADJUSTMENT						
	<i>(in thousands)</i>						
Balance, at January 1, 2017	64,238	\$ 6,424	\$ 359,451	\$ 140,238	\$ (54,862)	\$ (110,522)	\$ 0
Net income	0	0	0	53,246	0	0	0
Stock issuances under employee plans	36	4	508	0	0	0	0
Other issuances of common stock	253	25	4,507	0	0	0	0
Unamortized stock compensation expense related to restricted stock awards	0	0	(4,532)	0	0	0	0
Cash dividends paid	0	0	0	(15,487)	0	0	0
Forfeitures and compensation expense related to stock awards	(93)	(9)	5,574	0	0	0	0
Share Repurchases	(4,628)	(463)	(91,113)	0	0	0	0
Pension liability adjustment	0	0	0	0	(1,692)	0	0
Foreign currency translation adjustment	0	0	0	0	0	31,579	0
Cash flow hedge unrealized gain (loss)	0	0	0	0	0	0	904
Windfall tax benefit - share-based payment awards	0	0	(3,124)	0	0	0	0
Adoption of new accounting standard - share-based payment awards	0	0	0	9,435	0	0	0
Balance, at December 31, 2017	59,806	\$ 5,981	\$ 271,271	\$ 187,432	\$ (56,554)	\$ (78,943)	\$ 904

Table of Contents

	ADDITIONAL		RETAINED		PENSION	FOREIGN CURRENCY	CASH
	SHARES	AMOUNT	PAID-IN	EARNINGS	LIABILITY	TRANSLATION	FLOW
			CAPITAL	(DEFICIT)		ADJUSTMENT	HEDGE
	<i>(in thousands)</i>						
Balance, at December 31, 2017	59,806	\$ 5,981	\$ 271,271	\$ 187,432	\$ (56,554)	\$ (78,943)	\$ 904
Net income	0	0	0	50,253	0	0	0
Stock issuances under employee plans	224	22	476	0	0	0	0
Other issuances of common stock	182	18	4,809	0	0	0	0
Unamortized stock compensation expense related to restricted stock awards	0	0	(4,710)	0	0	0	0
Cash dividends paid	0	0	0	(15,471)	0	0	0
Forfeitures and compensation expense related to stock awards	(89)	(9)	12,847	0	0	0	0
Share Repurchases	(615)	(61)	(14,424)	0	0	0	0
Pension liability adjustment	0	0	0	0	12,944	0	0
Foreign currency translation adjustment	0	0	0	0	0	(22,544)	0
Cash flow hedge unrealized gain	0	0	0	0	0	0	422
Balance, at December 30, 2018	59,508	\$ 5,951	\$ 270,269	\$ 222,214	\$ (43,610)	\$ (101,487)	\$ 1,326

Stock Options

The Company has an Omnibus Stock Incentive Plan (“Omnibus Plan”) under which a committee of independent directors is authorized to grant directors and key employees, including officers, options to purchase the Company’s Common Stock. Options are exercisable for shares of Common Stock at a price not less than 100% of the fair market value on the date of grant. The options become exercisable either immediately upon the grant date or ratably over a time period ranging from one to five years from the date of the grant. The Company’s options expire at the end of time periods ranging from three to ten years from the date of the grant.

In May 2015, the shareholders approved an amendment and restatement of the Omnibus Plan. This amendment and restatement extended the term of the Omnibus Plan until February 2025, and set the number of shares authorized for issuance or transfer on or after the effective date of the amendment and restatement at 5,161,020 shares, except that each share issued pursuant to an award other than a stock option reduces the number of such authorized shares by 1.33 shares.

Accounting standards require that the Company measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair market value of the award. That cost will be recognized over the period in which the employee is required to provide the services – the requisite service period (usually the vesting period) – in exchange for the award. The grant date fair value for options and similar instruments will be estimated using option pricing models. Under accounting standards, the Company is required to select a valuation technique or option pricing model. The Company uses the Black-Scholes model. Accounting standards require that the Company estimate forfeitures for stock options and reduce compensation expense accordingly. The Company has reduced its expense by the assumed forfeiture rate and will evaluate actual experience against the assumed forfeiture rate going forward. This expense reduction is not significant to the Company.

All outstanding stock options vested prior to 2015 and therefore there were no stock option compensation expenses during 2018, 2017 or 2016.

Table of Contents

The following table summarizes stock options outstanding as of December 30, 2018, as well as activity during the previous fiscal year:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2017	82,500	\$ 8.53
Granted	0	0
Exercised	40,000	7.43
Forfeited or cancelled	0	0
Outstanding at December 30, 2018 (a)	42,500	\$ 9.56
Exercisable at December 30, 2018 (b)	42,500	\$ 9.56

(a) At December 30, 2018, the weighted-average remaining contractual life of options outstanding was 1.0 years.

(b) At December 30, 2018, the weighted-average remaining contractual life of options exercisable was 1.0 years.

At December 30, 2018, the aggregate intrinsic values of in-the-money options outstanding and options exercisable were \$0.2 million and \$0.2 million, respectively (the intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option).

The range of exercise prices of the remaining stock options is from \$4.31 to \$12.43 per option.

Restricted Stock Awards

During fiscal years 2018, 2017 and 2016, the Company granted restricted stock awards totaling 194,000, 253,000, and 277,000 shares, respectively, of Common Stock. These awards (or a portion thereof) vest with respect to each recipient over a two to five year period from the date of grant, provided the individual remains in the employment or service of the Company as of the vesting date. Additionally, these shares (or a portion thereof) could vest earlier in the event of a change in control of the Company, or upon involuntary termination without cause.

Compensation expense related to awards of restricted stock was \$4.1 million, \$2.8 million and \$4.7 million for 2018, 2017 and 2016, respectively. These grants are made primarily to executive-level personnel at the Company and, as a result, no compensation costs have been capitalized. The Company estimates forfeitures for restricted stock and reduces compensation expense accordingly. The Company has reduced its expense by the assumed forfeiture rate and will evaluate actual experience against the assumed forfeiture rate going forward. The forfeiture rate has been developed using historical data regarding actual forfeitures as well as an estimate of future expected forfeitures under our restricted stock grants.

The following table summarizes restricted stock outstanding as of December 30, 2018, as well as activity during the previous fiscal year:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2018	463,000	\$ 17.79
Granted	194,000	25.57
Vested	83,500	17.75
Forfeited or cancelled	24,500	20.41
Outstanding at December 30, 2018	549,000	\$ 27.65

As of December 30, 2018, the unrecognized total compensation cost related to unvested restricted stock was \$4.2 million. That cost is expected to be recognized by the end of 2021.

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

Table of Contents*Performance Share Awards*

In each of the years 2016-2018, the Company issued awards of performance shares to certain employees. These awards vest based on the achievement of certain performance-based goals over a performance period of one to three years, subject to the employee's continued employment through the last date of the performance period, and will be settled in shares of our common stock or in cash at the Company's election. The number of shares that may be issued in settlement of the performance shares to the award recipients may be greater (up to 200%) or lesser than the nominal award amount depending on actual performance achieved as compared to the performance targets set forth in the awards. The expense related to these performance shares is captured in selling, general and administrative expense on the consolidated statement of operations.

The following table summarizes the performance shares outstanding as of December 30, 2018, as well as the activity during the year:

	Performance Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2018	669,500	\$ 17.51
Granted	261,000	25.69
Vested	134,000	17.72
Forfeited or canceled	37,000	19.93
Outstanding at December 30, 2018	759,500	\$ 20.17

Compensation expense related to the performance shares for 2018, 2017, and 2016 was \$10.4 million, \$4.5 million and \$1.2 million, respectively. Unrecognized compensation expense related to these performance shares was approximately \$4.0 million as of December 30, 2018.

The tax benefit recognized with respect to restricted stock and performance shares was \$2.4 million, \$2.6 million, and \$2.0 million in 2018, 2017, and 2016, respectively.

NOTE 13 – INCOME (LOSS) PER SHARE

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

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

	Fiscal Year		
	2018	2017	2016
Earnings per share:			
Basic earnings per share			
Distributed earnings	\$0.26	\$0.25	\$0.22
Undistributed earnings	0.58	0.61	0.61
	\$0.84	\$0.86	\$0.83
Diluted earnings per share			
Distributed earnings	\$0.26	\$0.25	\$0.22
Undistributed earnings	0.58	0.61	0.61
	\$0.84	\$0.86	\$0.83

Table of Contents

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

	Fiscal Year		
	2018	2017	2016
	<i>(in millions)</i>		
Net income attributable to participating securities	\$0.5	\$0.4	\$0.4

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

	Fiscal Year		
	2018	2017	2016
	<i>(in thousands)</i>		
Weighted Average Shares Outstanding	58,995	61,528	64,593
Participating Securities	549	468	505
Shares for Basic Earnings Per Share	59,544	61,996	65,098
Dilutive Effect of Stock Options	22	44	38
Shares for Diluted Earnings Per Share	59,566	62,040	65,136

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

NOTE 14 – RESTRUCTURING CHARGES

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 \$12.0 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.

A summary of these 2018 restructuring activities is presented below:

	Total Restructuring Charge	Costs Incurred in 2018	Balance at Dec. 30, 2018
	<i>(in thousands)</i>		
Workforce Reduction	\$ 10,816	\$ 53	\$ 10,763
Asset Impairment	8,569	8,569	0
Other Exit Costs	1,144	0	1,144

In the fourth quarter of 2016, the Company 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 this plan, the Company incurred pre-tax restructuring and asset impairment charges of \$19.8 million in the fourth quarter of 2016 and \$7.3 million in the first quarter of 2017.

Table of Contents

A summary of these 2016 and 2017 restructuring activities is presented below:

	Total				Balance
	Restructuring	Costs	Costs	Costs	at
	Charge	Incurring	Incurring	Incurring	Dec.
		in 2016	in 2017	in 2018	30,
					2018
	(in thousands)				
Workforce Reduction	\$ 10,652	\$ 1,451	\$ 6,633	\$ 2,568	\$ 0
Asset Impairment	11,319	8,019	3,300	0	0
Lease Exit Costs	5,116	27	5,089	0	0

NOTE 15 – TAXES ON INCOME

On December 22, 2017, the 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 for the year beginning January 1, 2018 and created a modified territorial tax system with a one-time mandatory “transition toll tax” on previously unrepatriated foreign earnings. It also applies restrictions on the deductibility of interest expense, allows for immediate capital expensing of certain qualified property, eliminates the domestic manufacturing deduction, applies a broader application of compensation limitations and creates a new minimum tax on earnings of foreign subsidiaries.

In accordance with SEC Staff Bulletin No. 118 (“SAB 118”), the Company recorded certain provisional estimates for the impact of the Tax Act as of December 31, 2017. Under the transitional provisions of SAB 118, the Company had a one-year measurement period to complete the accounting for the initial tax effects of the Tax Act. During the year ended December 30, 2018, the Company completed its accounting for the provisional estimates of the Tax Act and finalized its measurement period adjustments related to the one-time transition tax and remeasurement of its net deferred tax asset, as further discussed below. While the Company’s accounting for the recorded impact of the Tax Act is deemed complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the IRS could impact the amounts in future periods.

Impacts of Deemed Repatriation: The Tax Act imposed a one-time transition tax on unrepatriated post-1986 accumulated earnings and profits of certain foreign subsidiaries (“E&P”). As of December 31, 2017, the Company recorded a provisional tax expense of \$11.7 million related to the one-time transition tax. As of December 30, 2018, the Company has completed its assessment of the one-time transition tax which resulted in a \$5.0 million decrease to

the previously recorded provisional amount. The Company elected to pay its transition tax over the eight-year period provided in the Tax Act.

Remeasurement of Deferred Tax Assets and Liabilities: 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 to reflect the change in corporate tax rate from 35% to 21%. As of December 30, 2018, the Company has completed the accounting of remeasuring its net deferred tax asset which resulted in a \$1.7 million decrease to the previously recorded provisional amount.

Beginning in 2018, the Tax Act includes two new U.S. tax base erosion provisions, the global intangible low-taxed income (“GILTI”) provisions and the base-erosion and anti-abuse tax (“BEAT”) provisions. The Company has elected to account for tax effects of GILTI in the period when incurred, and therefore has not provided any deferred tax impacts of GILTI in its consolidated financial statements.

Income before taxes on income consisted of the following:

	FISCAL YEAR		
	2018	2017	2016
	<i>(in thousands)</i>		
U.S. operations	\$35,728	\$53,407	\$38,357
Foreign operations	19,263	47,132	40,779
Income before taxes	\$54,991	\$100,539	\$79,136

Table of Contents

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

	FISCAL YEAR		
	2018	2017	2016
	<i>(in thousands)</i>		
Current expense/(benefit):			
Federal	\$(3,549)	\$10,245	\$6,886
Foreign	14,548	11,923	12,934
State	2,628	1,414	1,633
Current expense	13,627	23,582	21,453
Deferred expense/(benefit):			
Federal	2,145	20,467	6,186
Foreign	(11,228)	1,214	(1,937)
State	194	2,030	(728)
Deferred expense	(8,889)	23,711	3,521
Total income tax expense	\$4,738	\$47,293	\$24,974

The Company's effective tax rate was 8.6%, 47.0% and 31.6% for fiscal years 2018, 2017 and 2016, respectively. The following summary reconciles income taxes at the U.S. federal statutory rate of 21% applicable for 2018 and 35% applicable for 2017 and 2016 to the Company's actual income tax expense:

	FISCAL YEAR		
	2018	2017	2016
	<i>(in thousands)</i>		
Income taxes at U.S. federal statutory rate	\$11,548	\$35,189	\$27,698
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax effect	2,304	2,677	1,861
Non-deductible business expenses	1,352	695	538
Non-deductible employee compensation	2,566	80	361
Tax effects of Company owned life insurance	235	(1,295)	(199)
Tax effects of Tax Act:			
One-time transition tax on foreign earnings	(5,000)	11,707	0
Remeasurement of net Deferred Tax Asset	(1,739)	3,467	0
Tax effects of undistributed earnings from foreign subsidiaries not deemed to be indefinitely reinvested	61	523	463
Foreign and U.S. tax effects attributable to foreign operations	(3,756)	(4,537)	(3,963)
Valuation allowance effect – State NOL	(79)	(858)	(1,272)
Federal tax credits	(2,439)	(442)	(494)

Other	(315)	87	(19)
Income tax expense	\$4,738	\$47,293	\$24,974

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

	FISCAL YEAR	
	2018	2017
	<i>(in thousands)</i>	
Deferred tax asset (non-current asset)	\$15,601	\$18,003
Deferred income taxes (non-current liabilities)	(26,488)	(6,935)
Total net deferred taxes	\$(10,887)	\$11,068

Table of Contents

Deferred income taxes for the years ended December 30, 2018 and December 31, 2017, reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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

	2018		2017	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	<i>(in thousands)</i>			
Basis differences of property and equipment	\$0	\$ 24,871	\$0	\$ 13,281
Basis difference of intangible assets	0	18,699	0	1,157
Foreign currency	0	2,357	0	2,597
Net operating loss carryforwards	2,349	0	2,468	0
Valuation allowances on net operating loss carryforwards	(1,067)	0	(1,186)	0
Federal tax credits	0	0	3,227	0
Deferred compensation	18,945	0	20,220	0
Basis difference of inventory	4,712	0	634	0
Basis difference of prepaids, accruals and reserves	6,473	0	1,777	0
Pensions	4,290	0	2,408	0
Foreign withholding taxes on unremitted earnings	0	348	0	909
Basis difference of other assets and liabilities	0	314	0	536
	\$35,702	\$ 46,589	\$29,548	\$ 18,480

During the year ended December 30, 2018, significant changes to the Company's deferred tax balances included an \$18.0 million increase in intangible deferred liability primarily related to its acquisition of nora.

Management believes, based on the Company's history of taxable income and expectations for the future, that it is more likely than not that future taxable income will be sufficient to fully utilize the federal deferred tax assets at December 30, 2018.

The Company had approximately \$96.1 million in state net operating loss carryforwards relating to continuing operations with expiration dates through 2035. The Company has provided a valuation allowance against \$16.3 million of such losses, which the Company does not expect to utilize. In addition, the Company has approximately \$43.0 million in state net operating loss carryforwards relating to discontinued operations against which a full valuation allowance has been provided.

As of December 30, 2018, and December 31, 2017, non-current deferred tax assets were reduced by approximately \$2.8 million and \$3.3 million, respectively, of unrecognized tax benefits.

Although the one-time transition tax on unrepatriated post-1986 accumulated earnings and profits of certain non-U.S. subsidiaries and the territorial tax system created as a result of the Tax Act generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, the Company continues to assert that all of its undistributed earnings of \$376 million in its non-U.S. subsidiaries, excluding subsidiaries within Canada, is indefinitely reinvested outside of the U.S.

In the event the Company determines not to continue to assert that all or part of its undistributed earnings in its non-U.S. subsidiaries are permanently reinvested, an actual repatriation from its non-U.S. subsidiaries could still be subject to additional foreign withholding and U.S. state taxes, the determination of which is not practicable.

The Company's federal income tax returns are subject to examination for the years 2003 to the present. The Company files returns in numerous state and local jurisdictions and in general it is subject to examination by the state tax authorities for the years 2013 to the present. The Company files returns in numerous foreign jurisdictions and in general it is subject to examination by the foreign tax authorities for the years 2007 to the present.

Table of Contents

As of December 30, 2018, and December 31, 2017, the Company had \$28.1 million and \$29.2 million, respectively, of unrecognized tax benefits. If the \$28.1 million of unrecognized tax benefits as of December 30, 2018 are recognized, there would be a favorable impact on the Company's effective tax rate in future periods. If the unrecognized tax benefits are not favorably settled, \$25.4 million of the total amount of unrecognized tax benefits would require the use of cash in future periods. The Company recognizes accrued interest and income tax penalties related to unrecognized tax benefits as a component of income tax expense. As of December 30, 2018, the Company had accrued interest and penalties of \$1.3 million, which is included in the total unrecognized tax benefit noted above.

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

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

	FISCAL YEAR		
	2018	2017	2016
	<i>(in thousands)</i>		
Balance at beginning of year	\$29,221	\$27,888	\$28,271
Increases related to tax positions taken during the current year	671	627	690
Increases related to tax positions taken during the prior years	180	709	148
Decreases related to tax positions taken during the prior years	0	0	(695)
Decreases related to settlements with taxing authorities	0	0	0
Decreases related to lapse of applicable statute of limitations	(1,861)	(462)	(403)
Changes due to foreign currency translation	(68)	459	(123)
Balance at end of year	\$28,143	\$29,221	\$27,888

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The Company leases certain production, distribution and marketing facilities and equipment. At December 30, 2018, aggregate minimum rent commitments under operating leases with initial or remaining terms of one year or more consisted of the following:

FISCAL YEAR **AMOUNT**
 (in
 thousands)

Edgar Filing: INTERFACE INC - Form 10-K

2019	\$ 26,113
2020	22,066
2021	16,453
2022	8,692
2023	5,186
Thereafter	15,237

Rental expense amounted to approximately \$28.5 million, \$22.0 million, and \$24.5 million for the years 2018, 2017, and 2016, respectively.

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

Table of Contents

NOTE 17 – EMPLOYEE BENEFIT PLANS

Defined Contribution and Deferred Compensation Plans

The Company has a 401(k) retirement investment plan (“401(k) Plan”), which is open to all otherwise eligible U.S. employees with at least six months of service. The 401(k) Plan calls for Company matching contributions on a sliding scale based on the level of the employee’s contribution. The Company may, at its discretion, make additional contributions to the 401(k) Plan based on the attainment of certain performance targets by its subsidiaries. The Company’s matching contributions are funded bi-monthly and totaled approximately \$3.2 million, \$3.0 million, and \$3.1 million for the years 2018, 2017, and 2016, respectively. No discretionary contributions were made in 2018, 2017, or 2016.

Under the Company’s nonqualified savings plans (“NSPs”), the Company provides eligible employees the opportunity to enter into agreements for the deferral of a specified percentage of their compensation, as defined in the NSPs. The NSPs call for Company matching contributions on a sliding scale based on the level of the employee’s contribution. The obligations of the Company under such agreements to pay the deferred compensation in the future in accordance with the terms of the NSPs are unsecured general obligations of the Company. Participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company has established a rabbi trust to hold, invest and reinvest deferrals and contributions under the NSPs. If a change in control of the Company occurs, as defined in the NSPs, the Company will contribute an amount to the rabbi trust sufficient to pay the obligation owed to each participant. Deferred compensation in connection with the NSPs totaled \$28.7 million and \$31.9 million at December 30, 2018 and December 31, 2017, respectively. The Company invests the deferrals in insurance instruments with readily determinable cash surrender values. The value of the insurance instruments was \$26.4 million and \$28.0 million as of December 30, 2018 and December 31, 2017, respectively.

Foreign Defined Benefit Plans

The Company has trustee defined benefit retirement plans which cover many of its European employees. In connection with the nora acquisition on August 7, 2018, we acquired an additional defined benefit plan, which covers certain employees in Germany (the “nora Plan”). The benefits under all defined benefit retirement plans are generally based on years of service and the employee’s average monthly compensation. Pension expense was \$1.7 million, \$1.9 million, and \$1.2 million for the years 2018, 2017 and 2016, respectively. Plan assets are primarily invested in insurance contracts and equity and fixed income securities. The nora plan has no plan assets. The Company uses a year-end measurement date for the plans. As of December 30, 2018, for the European plans, the Company had a net liability recorded of \$36.2 million, an amount equal to their underfunded status, and has recorded in Other Comprehensive Income an amount equal to \$36.7 million (net of taxes of approximately \$12 million) related to the future amounts to be recorded in net post-retirement benefit costs.

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

	FISCAL YEAR	
	2018	2017
	<i>(in thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year Close File	\$ 320,548	\$ 277,813
Service cost	1,112	1,628
Interest cost	5,467	5,559
Benefits and expenses paid	(11,850)	(10,267)
Business combinations	36,903	0
Actuarial loss (gain)	(53,753)	13,351
Member contributions	233	262
Currency translation adjustment	(13,152)	32,202
Benefit obligation, end of year	\$ 285,508	\$ 320,548
Change in plan assets		
Plan assets, beginning of year	\$ 307,166	\$ 258,365
Actual return on assets	(37,495)	25,691
Company contributions	4,095	2,812
Benefits paid	(11,850)	(10,267)
Currency translation adjustment	(12,603)	30,565
Plan assets, end of year	\$ 249,313	\$ 307,166
Reconciliation to balance sheet		
Funded status benefit asset/(liability)	\$(36,195)	\$(13,382)
Net amount recognized	\$(36,195)	\$(13,382)
Amounts recognized in accumulated other comprehensive income (after tax)		
Unrecognized actuarial loss	\$ 37,141	\$ 48,443
Unamortized prior service costs	(437)	(471)
Total amount recognized	\$ 36,704	\$ 47,972
Accumulated Benefit Obligation	\$ 284,581	\$ 313,257

Table of Contents

The above disclosure represents the aggregation of information related to the Company's three defined benefit plans which cover many of its European employees. As of December 30, 2018, one of these plans, which primarily covers certain employees in the United Kingdom (the "UK Plan"), had assets in excess of the accumulated benefit obligation. The Nora Plan is an unfunded defined benefit plan and the accumulated benefit obligation exceeded plan assets. As of December 31, 2017, the UK Plan had an accumulated benefit obligation in excess of the plan assets and the Dutch Plan had assets in excess of the accumulated benefit obligation. The following table summarizes this information as of December 30, 2018 and December 31, 2017.

	END OF FISCAL YEAR	
	2018	2017
	<i>(in thousands)</i>	
UK Plan		
Projected Benefit Obligation	\$157,351	\$190,992
Accumulated Benefit Obligation	157,351	190,992
Plan Assets	158,990	179,322

Dutch Plan		
Projected Benefit Obligation	\$91,837	\$129,554
Accumulated Benefit Obligation	90,910	122,265
Plan Assets	90,323	127,844

Nora Plan		
Projected Benefit Obligation	\$36,320	0
Accumulated Benefit Obligation	36,320	0
Plan Assets	0	0

	FISCAL YEAR		
	2018	2017	2016
	(in thousands)		
Components of net periodic benefit cost			
Service cost	\$1,112	\$1,628	\$1,032
Interest cost	5,467	5,559	6,580
Expected return on plan assets	(6,234)	(6,496)	(7,553)
Amortization of prior service cost	(27)	(34)	33
Amortization of net actuarial (gains)/losses	1,394	1,287	1,076
Net periodic benefit cost	\$1,712	\$1,944	\$1,168

During 2018, other comprehensive income was impacted pre-tax by approximately \$11.3 million comprised of actuarial gain of approximately \$9.9 million and amortization of \$1.4 million.

	FISCAL YEAR		
	2018	2017	2016
Weighted average assumptions used to determine net periodic benefit cost			
Discount rate	1.9 %	2.0 %	2.7 %
Expected return on plan assets	1.8 %	2.3 %	3.1 %
Rate of compensation	1.75 %	1.75 %	2.0 %
Weighted average assumptions used to determine benefit obligations			
Discount rate	2.5 %	2.2 %	2.3 %
Rate of compensation	1.75 %	1.75 %	2.0 %

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

The investment objectives of the foreign defined benefit plans are to maximize the return on the investments without exceeding the limits of the prudent pension fund investment, to ensure that the assets would be sufficient to exceed minimum funding requirements, and to achieve a favorable return against the performance expectation based on historic and projected rates of return over the short term. The goal is to optimize the long-term return on plan assets at a moderate level of risk, by balancing higher-returning assets, such as equity securities, with less volatile assets, such as fixed income securities. The assets are managed by professional investment firms and performance is evaluated periodically against specific benchmarks. The plans' net assets did not include the Company's own stock at December 30, 2018 or December 31, 2017.

Table of Contents

Dutch Plan Assets and Indexation Benefit

As is common in Dutch pension plans, the Dutch Plan includes a provision for discretionary benefit increases termed “indexation.” The indexation benefit is meant to adjust pension benefits for cost-of-living increases, similar to U.S. consumer price index-based cost-of-living adjustments for U.S. retirement plans. The indexation benefit is not guaranteed, and is only provided for and paid out if sufficient assets are available due to favorable asset returns.

Both the vested benefit amounts as well as amounts related to the discretionary indexation benefits under the Dutch Plan are paid pursuant to an insurance contract with a private insurer (the “Contract”). The Plan itself is financed by investment assets held within the Contract. The Contract guarantees payment of vested amounts, regardless of whether Plan assets held through the Contract are ultimately sufficient to pay vested amounts, and also provides for payment of the indexation amount on a contingent basis if the actual return on Dutch Plan assets is sufficient to pay it. This type of insurance arrangement is common in The Netherlands, although not necessarily common in other jurisdictions.

Because the prior actual and future projected returns on Dutch Plan assets had been determined to be sufficient to provide for the indexation benefit, in 2017 and 2016, the Company and the insurer agreed that it was appropriate to provide the indexation benefit under the Contract. The indexation benefit thus becomes an amount payable by the insurer under the Contract, and consequently is recorded as a Plan asset. The corresponding obligation to pay the indexation amount to pensioners thus became a pension liability. During 2018, the Company and the insurer, based on the expected future returns under the investment assets included in the insurance contract, determined that the indexation was not probable and was not included as an asset and liability as of the end of 2018. As of December 31, 2017, this indexation liability and corresponding asset was \$32.7 million. The inclusion or exclusion of this amount does not have any impact on the funded status of the plan, as both the indexation asset and liability are recorded at the same amount. This indexation asset, along with the remainder of the assets under the Dutch Plan, are identified as Level Three assets under the fair value hierarchy.

Under the express terms of the Contract, contract value is the greater of (i) the value of the discounted vested benefits of the Dutch Plan (i.e., the benefit amount guaranteed by the insurance company), and (ii) the fair value of the underlying investment assets held by the insurance company under the Contract. As between those two values, the former was the greater for 2018 and 2017 and this represents the plan assets as shown above for the Dutch Plan. However, as explained above, the Contract also will pay the indexation benefit if sufficient assets are available, which the Company believes not to be probable as of the end of 2018 based on recent returns. This indexation was considered probable as of the end of 2017, and the Company believed that it was appropriate to include the value of the indexation payments, that were added to the vested benefit amounts. As explained above, these indexation benefits will be paid out of the Contract if asset returns continue to exceed expectations. At December 30, 2018, the asset returns are not of an expected amount to allow for indexation and the Company can, at any time, remove this indexation benefit. The removal of the indexation asset is presented as a negative return on assets, and the removal of the indexation liability is represented by a change in actuarial assumptions in the company’s presentation of 2018 projected benefit obligation.

The Company's actual weighted average asset allocations for 2018 and 2017, and the targeted asset allocation for 2019, of the foreign defined benefit plans by asset category, are as follows:

	FISCAL YEAR			
	2019	2018	2017	
Asset Category:	Target	Percentage of		
	Allocation	Plan Assets		
		at Year End		
Equity Securities	15% - 20%	16%	16%	
Debt and Debt Securities	35% - 45%	35%	32%	
Other	40% - 50%	49%	52%	
	100%	100%	100%	

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

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

The following table sets forth by level within the fair value hierarchy the foreign defined benefit plans' assets at fair value, as of December 30, 2018 and December 31, 2017. The nora plan is currently unfunded. As required by accounting standards, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As noted above, the Dutch pension plan assets as represented by the insurance contract are classified as a Level 3 asset and included in the "Other" asset category.

**Pension Plan Assets by
Category as of December 30,
2018**

	Dutch Plan	UK Plan	Total
	<i>(in thousands)</i>		
Level 1	\$0	\$79,146	\$79,146
Level 2	0	60,913	60,913
Level 3	90,323	18,931	109,254
Total	\$90,323	\$158,990	\$249,313

**Pension Plan Assets by Category
as of December 31, 2017**

	Dutch Plan	UK Plan	Total
	<i>(in thousands)</i>		
Level 1	\$0	\$ 87,521	\$87,521
Level 2	0	68,668	68,668
Level 3	127,844	23,133	150,977
Total	\$127,844	\$ 179,322	\$307,166

Table of Contents

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

Asset Class	2018		
	Level 1	Level 2	Level 3
	<i>(in thousands)</i>		
Equity Securities	\$39,392	\$ 0	\$0
Debt and Debt Securities	33,134	38,619	16,012
Other (including cash)	6,620	22,294	93,242
	\$79,146	\$ 60,913	\$ 109,254

Asset Class	2017		
	Level 1	Level 2	Level 3
	<i>(in thousands)</i>		
Equity Securities	\$48,285	\$ 0	\$0
Debt and Debt Securities	36,780	41,381	19,883
Other (including cash)	2,456	27,287	131,094
	\$87,521	\$ 68,668	\$ 150,977

With the exception of the Dutch Plan assets as discussed above, the assets identified as level 3 above in 2018 and 2017 relate to insured annuities and direct lending assets held by the UK Plan. The fair value of these assets was calculated using the present value of the future cash flows due under the insurance annuities and for the direct lending assets the value is based on the asset value from the latest available valuation with adjustments for any drawdowns and distribution payments made between the valuation date and the reporting date. The table below indicates the change in value related to these level 3 assets during 2018 and 2017:

	2018	2017
	<i>(in thousands)</i>	<i>(in thousands)</i>
Balance of level 3 assets, beginning of year	\$ 150,977	\$ 127,953
Interest cost	1,682	2,633
Benefits paid	(4,090)	(3,728)
Assets transferred in to (out of) Level 3	696	(2,089)
Actuarial gain (loss)	(35,202)	8,753
Translation adjustment	(4,809)	17,455
Ending Balance of level 3 assets	\$ 109,254	\$ 150,977

During 2019, the Company expects to contribute \$4.2 million to the plans. It is anticipated that future benefit payments for the foreign defined benefit plans will be as follows:

<u>FISCAL YEAR</u>	EXPECTED PAYMENTS (in thousands)
2019	\$ 9,762
2020	9,989
2021	10,251
2022	10,356
2023	10,635
2024-2028	55,231

Table of Contents**Domestic Defined Benefit Plan**

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

The tables presented below set forth the required disclosures in accordance with applicable accounting standards, and amounts recognized in the consolidated financial statements related to the domestic SCP. There is no service cost component of the change in benefit obligation in 2018 and 2017 as there are no longer any active participants in the plan.

	FISCAL YEAR	
	2018	2017
	<i>(in thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year	\$31,919	\$29,700
Interest cost	1,082	1,256
Benefits paid	(2,030)	(1,943)
Actuarial loss (gain)	(1,829)	2,906
Benefit obligation, end of year	\$29,142	\$31,919

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

	2018	2017
	<i>(in thousands)</i>	
Current liabilities	\$2,030	\$2,030

Non-current liabilities	27,112	29,889
Total benefit obligation	\$29,142	\$31,919

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

	2018	2017
	<i>(in thousands)</i>	
Unrecognized actuarial loss	\$6,906	\$8,582

The accumulated benefit obligation related to the SCP was \$29.1 million and \$31.9 million as of December 30, 2018 and December 31, 2017, respectively. The SCP is currently unfunded; as such, the benefit obligations disclosed are also the benefit obligations in excess of the plan assets. The Company uses insurance instruments to help limit its exposure under the SCP.

Table of Contents

	2018	2017	2016
	<i>(in thousands, except for assumptions)</i>		
Assumptions used to determine net periodic benefit cost			
Discount rate	3.50 %	3.85 %	4.25 %
Rate of compensation	-	-	4.0 %
Assumptions used to determine benefit obligations			
Discount rate	4.1 %	3.5 %	3.85 %
Rate of compensation	-	-	4.0 %
Components of net periodic benefit cost			
Service cost	\$0	\$0	\$440
Interest cost	1,082	1,256	1,269
Amortizations	464	364	811
Net periodic benefit cost	\$1,546	\$1,620	\$2,520

The changes in other comprehensive income during 2018 related to the SCP as a result of plan activity and valuation were approximately \$1.7 million, after tax, primarily comprised of a net loss during the period of \$1.4 million and amortization of loss of \$0.3 million.

During 2018, the Company contributed \$2.0 million in the form of direct benefit payments for its domestic SCP. It is anticipated that future benefit payments for the SCP will be as follows:

<u>FISCAL YEAR</u>	<u>EXPECTED PAYMENTS</u>
	<i>(in thousands)</i>
2019	\$ 2,030
2020	2,030
2021	2,030
2022	2,030
2023	2,030
2024-2028	9,791

NOTE 18 – ACQUISITION OF NORA

On June 14, 2018, the Company entered into a share purchase and transfer agreement to acquire the issued and outstanding shares of nora, nora's outstanding third-party debt, and receivables related to nora's shareholder loans. Nora is the holding company for a Germany-based manufacturer and multinational marketer of resilient floor coverings, including rubber flooring. In connection with the signing of the nora share purchase and transfer agreement, the Company entered into a derivative instrument to address the foreign currency risk associated with a portion of the nora purchase price. This option instrument did not qualify for hedge accounting, and the mark-to-market expense of \$2.8 million to record the instrument at fair value at the end of the second quarter of 2018 was recorded in other expense in our consolidated statement of operations during the second quarter. The option instrument had a notional value of €315 million (or approximately \$364 million as of the end of the second quarter of 2018) and an initial maturity of 120 days. Upon completion of the nora acquisition as discussed below, the option instrument was terminated and the Company recognized a loss of approximately \$1.4 million upon termination, which was recorded in other expense in our Consolidated Condensed Statement of Operations during the third quarter of 2018.

Table of Contents

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.

The transaction was accounted for as a business combination using the acquisition method of accounting, which requires, among other things, that assets acquired and liabilities assumed be recorded at their fair market values as of the acquisition date. The results of operations for this acquisition have been consolidated with those of the Company from the acquisition date forward. Tangible assets and liabilities of nora systems GmbH were valued as of the acquisition date using a market analysis, and intangible assets were valued using a discounted cash flow analysis. As of December 30, 2018, the estimated fair values of the assets acquired and liabilities assumed are not final. The provisional amount for assumed tax liabilities are subject to revision.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The amounts represent a provisional measurement of the fair values, and is therefore subject to change:

	As of August 7 th , 2018 (In thousands)
Assets acquired (excluding goodwill)	\$ 359,335
Liabilities assumed	(96,868)
Net assets acquired	262,467
Purchase price	447,192
Goodwill, excess of purchase price	\$ 184,725

Acquired intangible assets of \$103.3 million include \$60.8 million of trademarks and tradenames that are not subject to amortization and will instead be subject to annual impairment testing, or more frequent testing should there be a significant change in business conditions. The remaining intangible assets include developed technology of \$39.1 million that will be amortized on a straight-line basis over the estimated useful life of 7 years and backlog of \$3.4 million that will be amortized on a straight-line basis over the estimated useful life of six months. The acquired inventory includes a step-up of inventory to fair value of approximately \$26.6 million which will be recognized in

earnings over the expected turns of the inventory. This step-up of inventory to fair value was fully amortized by the end of 2018.

As of December 30, 2018, recognized goodwill of \$184.7 million and net intangible assets of \$97.7 million were assigned pro-rata to the Company's three operating segments. Goodwill includes subsequent purchase price accounting adjustments of approximately \$1.4 million related to additional liabilities that existed at the acquisition date. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of acquired accounts receivable was \$31.0 million with the gross value being \$32.8 million. The Company expects approximately \$1.8 million to be uncollectible.

The Company recognized \$9.5 million of transaction costs related to the nora acquisition for 2018. Approximately \$5.3 million of these expenses are included in selling, general and administrative expenses in the consolidated statement of operations and \$4.2 million are included in other expenses related to the derivative instrument the Company used to address the foreign currency risk associated with a portion of the nora purchase price. The Company also recognized \$8.8 million of debt issuance costs in connection with the amended and restated Syndicated Credit Facility, which were recorded as a reduction of long-term debt in the consolidated balance sheet.

The amounts of revenue and net loss of nora included in the Company's consolidated statements of operations from the acquisition date to December 30, 2018 are as follows (in thousands):

Revenue	\$ 112,563
Net loss	(20,030)

Table of Contents

The following represents the pro forma consolidated statement of operations as if nora had been included in the consolidated results of the Company as of January 1, 2017. These are estimated for pro forma purposes only and do not necessarily reflect the results had nora been included as of the beginning of 2018 and 2017.

Pro Forma Consolidated Statement of
Operations
(In thousands)

	2018	2017
Revenue	\$ 1,340,449	\$ 1,229,766
Net income	96,909	48,655

Pro forma net income for 2018 excludes any transaction related costs as these are non-recurring costs for the combined Company.

NOTE 19 – ENTERPRISE-WIDE DISCLOSURES

Based on applicable accounting standards, the Company has determined that it has three operating segments – namely, the Americas, Europe and Asia-Pacific geographic regions. Pursuant to accounting standards, the Company has aggregated the three operating segments into one reporting segment because they have similar economic characteristics, and the operating segments are similar in all of the following areas: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) the nature of the regulatory environment. Nora results are included in the 2018 figures as of the date of acquisition through the end of 2018, and are included in our operating segments based on the geographic split of the operations.

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

Summary information by operating segment follows:

AMERICAS	ASIA-	TOTAL
----------	-------	-------

Edgar Filing: INTERFACE INC - Form 10-K

EUROPE PACIFIC

(in thousands)

2018

Net Sales	\$682,261	\$319,677	\$177,635	\$1,179,573
Depreciation and amortization	13,732	12,862	8,567	35,161
Total assets	482,510	546,758	200,684	1,229,952

2017

Net Sales	\$588,052	\$246,399	\$161,992	\$996,443
Depreciation and amortization	13,548	6,049	8,662	28,259
Total assets	272,883	253,519	193,555	719,957

2016

Net Sales	\$568,138	\$241,463	\$149,016	\$958,617
Depreciation and amortization	14,639	5,698	8,729	29,066

Table of Contents

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

	FISCAL YEAR ENDED		
	2018	2017	2016
	(in thousands)		
DEPRECIATION AND AMORTIZATION			
Total segment depreciation and amortization	\$35,161	\$28,259	\$29,066
Corporate depreciation and amortization	3,923	2,002	1,566
Reported depreciation and amortization	\$39,084	\$30,261	\$30,632
ASSETS			
Total segment assets	\$1,229,952	\$719,957	
Corporate assets and eliminations	54,692	80,643	
Reported total assets	\$1,284,644	\$800,600	

The Company has a large and diverse customer base, which includes numerous customers located in foreign countries. No single unaffiliated customer accounted for more than 10% of total sales in any year during the past three years. Sales to customers in foreign markets in 2018, 2017 and 2016 were approximately 49%, 48% and 48%, respectively, of total net sales. These sales were primarily to customers in Europe, Canada, Asia, Australia and Latin America. With the exception of the United States, no one country represented more than 10% of the Company's net sales. Revenue and long-lived assets related to operations in the United States and other countries are as follows:

	FISCAL YEAR		
	2018	2017	2016
	(in thousands)		
SALES TO UNAFFILIATED CUSTOMERS ⁽¹⁾			
United States	\$600,093	\$514,783	\$501,206
United Kingdom	65,406	57,391	58,266
Australia	83,034	87,591	78,141
Germany	75,958	36,696	30,968
China	43,708	28,279	31,340
Other foreign countries	311,374	271,703	258,696
Net sales	\$1,179,573	\$996,443	\$958,617
LONG-LIVED ASSETS ⁽²⁾			
United States	\$88,336	\$76,557	
United Kingdom	6,288	7,902	
Netherlands	49,935	55,132	

Edgar Filing: INTERFACE INC - Form 10-K

Germany	83,874	0
Australia	38,928	45,067
Thailand	15,124	16,543
China	6,703	8,361
Other foreign countries	3,700	3,083
Total long-lived assets	\$292,888	\$212,645

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

⁽²⁾ Long-lived assets include tangible assets physically located in foreign countries.

Table of Contents**NOTE 20 – QUARTERLY DATA AND SHARE INFORMATION (UNAUDITED)**

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

	FISCAL YEAR 2018			
	FIRST	SECOND	THIRD	FOURTH
	QUARTER	QUARTER ⁽¹⁾	QUARTER ⁽²⁾	QUARTER ⁽³⁾
	<i>(in thousands, except per share data)</i>			
Net sales	\$240,563	\$ 283,626	\$ 318,325	\$ 337,059
Gross profit	93,582	109,148	99,945	121,682
Net income (loss)	15,084	20,602	8,172	6,395
Basic income per share	\$0.25	\$ 0.35	\$ 0.14	\$ 0.11
Diluted income per share	\$0.25	\$ 0.35	\$ 0.14	\$ 0.11
Share prices				
High	\$26.25	\$ 26.10	\$ 24.50	\$ 23.50
Low	\$22.10	\$ 21.25	\$ 21.70	\$ 13.45

(1) Results for the second quarter of 2018 include transaction related expenses of \$5.8 million.

(2) Results for the third quarter of 2018 include purchase price accounting amortization of \$20.3 million and transaction related expenses of \$2.4 million.

Results for the fourth quarter of 2018 include tax benefit of \$6.7 million as a result of the finalization of the Company's analysis of the U.S. Tax Cuts and Jobs Act, as well as restructuring and asset impairment charges of \$20.5 million. Results for the fourth quarter of 2018 include purchase price accounting amortization of \$11.8 million and transaction related expense of \$1.2 million.

	FISCAL YEAR 2017			
	FIRST	SECOND	THIRD	FOURTH
	QUARTER	QUARTER	QUARTER	QUARTER ⁽²⁾

Edgar Filing: INTERFACE INC - Form 10-K

(in thousands, except per share data)

Net sales	\$221,102	\$ 251,700	\$ 257,431	\$ 266,210
Gross profit	87,802	97,897	98,544	101,778
Net income	8,547	20,938	19,439	4,322

Basic income per share	\$0.13	\$ 0.33	\$ 0.32	\$ 0.07
------------------------	--------	---------	---------	---------

Diluted income per share	\$0.13	\$ 0.33	\$ 0.32	\$ 0.07
--------------------------	--------	---------	---------	---------

Share prices

High	\$19.93	\$ 21.05	\$ 22.60	\$ 25.70
Low	\$17.18	\$ 18.15	\$ 18.30	\$ 21.21

(1) Results for the first quarter of 2017 include restructuring and asset impairment charges of \$7.3 million.

(2) Results for the fourth quarter of 2017 include tax charges of \$15.2 million as a result of the U.S. Tax Cuts and Jobs Act.

Table of Contents

NOTE 21 – ITEMS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME

During 2018, the Company did not reclassify any significant amounts out of accumulated other comprehensive income. The only significant reclassifications that occurred in that period were comprised of \$1.8 million related to the Company's defined retirement benefit plans and salary continuation plan. These reclassifications were included in the selling, general and administrative expenses line item of the Company's consolidated statement of operations.

Table of Contents

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Interface, Inc. and Subsidiaries

Atlanta, Georgia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Interface, Inc. and Subsidiaries (the “Company”) as of December 30, 2018 and December 31, 2017, the related consolidated statements of operations, comprehensive income, and cash flows for each of the three years in the period ended December 30, 2018, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 30, 2018 and December 31, 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 30, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We are uncertain as to the year we began serving consecutively as the auditor of the Company's financial statements; however, we are aware that we have been the Company's auditor consecutively since at least 1981.

Atlanta, Georgia

February 28, 2019

Table of Contents

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Interface, Inc. and Subsidiaries

Atlanta, Georgia

Opinion on Internal Control over Financial Reporting

We have audited Interface, Inc. and Subsidiaries' (the "Company's") internal control over financial reporting as of December 30, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 30, 2018 and December 31, 2017, the related consolidated statements of operations, comprehensive income, and cash flows for each of the three years in the period ended December 30, 2018, and the related notes and schedule, and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an

understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As indicated in the accompanying Item 9A, Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of nora Holding GmbH (nora), which was acquired on August 7, 2018, and which is included in the consolidated balance sheet of the Company as of December 30, 2018, and the related consolidated statements of operations, comprehensive income, and cash flows for the year then ended. Nora constituted 23% of consolidated total assets as of December 30, 2018, and 9% of consolidated revenues for the year ended December 30, 2018. Management did not assess the effectiveness of internal control over financial reporting of nora because of the timing of the acquisition, which was completed on August 7, 2018. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of nora.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP

Atlanta, Georgia

February 28, 2019

75

Table of Contents

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, pursuant to Rule 13a-14(c) under the Act. Based on that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report.

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

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

U.S. Securities and Exchange Commission guidance allows companies to exclude acquisitions from management's report on internal control over financial reporting for the first year after the acquisition when it is not possible to conduct an assessment. In August 2018, Interface, Inc. completed the acquisition of nora Holding GmbH (nora). Nora is a wholly owned subsidiary. Due to nora's global operations, management has excluded nora from the annual assessment of the effectiveness of internal control over financial reporting as of December 30, 2018. Nora represents 23 percent of consolidated total assets and 9 percent of consolidated revenues of Interface, Inc. as of and for the year ended December 30, 2018.

Our management assessed the effectiveness of our internal control over financial reporting as of December 30, 2018 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in

“Internal Control – Integrated Framework (2013).” Based on that assessment, management concluded that, as of December 30, 2018, our internal control over financial reporting was effective based on those criteria.

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

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information contained under the captions “Nomination and Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Meetings and Committees of the Board” in our definitive Proxy Statement for our 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2018 fiscal year, is incorporated herein by reference. Pursuant to Instruction 3 to Paragraph (b) of Item 401 of Regulation S-K, information relating to our executive officers is included in Item 1 of this Report.

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

Table of Contents

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the captions “Executive Compensation and Related Items,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Compensation Committee Interlocks and Insider Participation,” and “Potential Payments upon Termination or Change in Control” in our definitive Proxy Statement for our 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2018 fiscal year, is incorporated herein by reference.

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

The information contained under the captions “Principal Shareholders and Management Stock Ownership” and “Equity Compensation Plan Information” in our definitive Proxy Statement for our 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2018 fiscal year, is incorporated herein by reference.

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

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

The information contained under the captions “Certain Relationships and Related Transactions” and “Director Independence” in our definitive Proxy Statement for our 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2018 fiscal year, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained under the captions “Audit and Non-Audit Fees” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors” in our definitive Proxy Statement for our 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2018 fiscal year, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

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

Consolidated Statements of Operations and Comprehensive Income — fiscal years ended December 30, 2018, December 31, 2017 and January 1, 2017.

Consolidated Balance Sheets — December 30, 2018 and December 31, 2017.

Consolidated Statements of Cash Flows — fiscal years ended December 30, 2018, December 31, 2017 and January 1, 2017.

Table of Contents

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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

2. Financial Statement Schedule

The following Consolidated Financial Statement Schedule of Interface, Inc. and subsidiaries is included as part of this Report (see the pages immediately preceding the signatures in this Report).

Schedule II — Valuation and Qualifying Accounts and Reserves

3. Exhibits

The following exhibits are included as part of this Report:

Exhibit

Description of Exhibit

Number

- | | |
|-----|--|
| 2.1 | <u>Share Purchase and Transfer Agreement dated June 14, 2018 by and among the Company, Interface BV, DealCo Luxembourg II S.à r.l. and nora Management III Beteiligungs GmbH & Co. KG (included as Exhibit 2.1 to the Company's current report on Form 8-K filed on June 14, 2018, previously filed with the Commission and incorporated herein by reference).</u> |
| 3.1 | <u>Restated Articles of Incorporation and accompanying Clarification Certificate (included as Exhibit 3.1 to the Company's quarterly report on Form 10-Q filed on May 10, 2012, previously filed with the Commission and incorporated herein by reference).</u> |
| 3.2 | <u>Bylaws, as amended and restated February 22, 2017 (included as Exhibit 3.1 to the Company's current report on Form 8-K filed on February 27, 2017, previously filed with the Commission and incorporated herein by reference).</u> |

- 4.1 See Exhibits 3.1 and 3.2 for provisions in the Company's Articles of Incorporation and Bylaws defining the rights of holders of Common Stock of the Company.
- 10.1 Salary Continuation Plan, dated May 7, 1982 (included as Exhibit 10.20 to the Company's registration statement on Form S-1, File No. 2-82188, previously filed with the Commission and incorporated herein by reference).*
- 10.2 Form of Salary Continuation Agreement, dated as of January 1, 2008 (as used for Daniel T. Hendrix) (included as Exhibit 99.5 to the Company's current report on Form 8-K filed on January 7, 2008, previously filed with the Commission and incorporated herein by reference).*
- 10.3 Interface, Inc. Omnibus Stock Incentive Plan (as amended and restated effective February 18, 2015) (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on May 20, 2015, previously filed with the Commission and incorporated herein by reference); Form of Restricted Stock Agreement, as used for executive officers (included as Exhibit 10.5 to the Company's annual report on Form 10-K for the year ended December 30, 2007, previously filed with the Commission and incorporated herein by reference); Form of Performance Share Agreement (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on January 20, 2016, previously filed with the Commission and incorporated herein by reference); Form of Restricted Stock Agreement, as used for executive officers (included as Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed on May 11, 2017, previously filed with the Commission and incorporated herein by reference); Form of Performance Share Agreement for executive officers (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q filed on May 11, 2017, previously filed with the Commission and incorporated herein by reference); and Form of Restricted Stock Agreement, as used for directors (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q filed on May 11, 2017, previously filed with the Commission and incorporated herein by reference).*
- 10.4 Interface, Inc. Executive Bonus Plan, as amended October 28, 2015 (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on October 28, 2015, previously filed with the Commission and incorporated herein by reference).*

Table of Contents

- Interface, Inc. Nonqualified Savings Plan (as amended and restated effective January 1, 2002) (included as Exhibit 10.4 to the Company's annual report on Form 10-K for the year ended December 30, 2001, previously filed with the Commission and incorporated herein by reference); First Amendment thereto, dated as of December 20, 2002 (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 2003, previously filed with the Commission and incorporated herein by reference); Second
- 10.5 Amendment thereto, dated as of December 30, 2002 (included as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 2003, previously filed with the Commission and incorporated herein by reference); Third Amendment thereto, dated as of May 8, 2003 (included as Exhibit 10.6 to the Company's annual report on Form 10-K for the year ended December 28, 2003 (the "2003 10-K"), previously filed with the Commission and incorporated herein by reference); and Fourth Amendment thereto, dated as of December 31, 2003 (included as Exhibit 10.7 to the 2003 10-K, previously filed with the Commission and incorporated herein by reference).*
- Employment Agreement of Daniel T. Hendrix dated as of March 3, 2017 (included as Exhibit 99.1 to the
- 10.6 Company's current report on Form 8-K filed on April 6, 2017, previously filed with the Commission and incorporated herein by reference).*
- Amended and Restated Employment and Change in Control Agreement of Jay D. Gould dated as of March 3,
- 10.7 2017 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on April 14, 2017, previously filed with the Commission and incorporated herein by reference).*
- Split Dollar Insurance Agreement, dated February 21, 1997, between the Company and Daniel T. Hendrix
- 10.8 (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 4, 1998, previously filed with the Commission and incorporated herein by reference); and Amendment thereto, dated December 29, 2008 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on January 2, 2009, previously filed with the Commission and incorporated herein by reference).*
- Form of Indemnity Agreement of Director (as used for directors of the Company) (included as Exhibit 99.1 to
- 10.9 the Company's current report on Form 8-K filed on November 30, 2005, previously filed with the Commission and incorporated herein by reference).*
- Form of Indemnity Agreement of Officer (as used for certain officers of the Company, including Daniel T.
- 10.10 Hendrix and Jay D. Gould) (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on November 30, 2005, previously filed with the Commission and incorporated herein by reference).*
- Interface, Inc. Long-Term Care Insurance Plan and related Summary Plan Description (included as Exhibit 99.2
- 10.11 to the Company's current report on Form 8-K filed on December 20, 2005, previously filed with the Commission and incorporated herein by reference).*
- Interface, Inc. Nonqualified Savings Plan II, as amended and restated effective January 1, 2009 (included as
- Exhibit 10.18 to the Company's annual report on Form 10-K for the year ended December 30, 2012 (the "2012
- 10.12 10-K"), previously filed with the Commission and incorporated herein by reference; First Amendment thereto, dated February 26, 2009 (included as Exhibit 10.19 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); Second Amendment thereto, dated December 9, 2009 (included as Exhibit 10.20 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); Third Amendment thereto, dated April 15, 2010 (included as Exhibit 10.21 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); and Fourth Amendment thereto, dated August 9, 2012 (included as Exhibit 10.22 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference).*
- Amended and Restated Syndicated Facility Agreement, dated as of August 8, 2017, among Interface, Inc.,
- certain subsidiaries of the Company as borrowers, certain subsidiaries of the Company as guarantors, Bank of
- 10.13 America, N.A. as Administrative Agent, and the other lenders party thereto (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on August 9, 2017, previously filed with the Commission and incorporated herein by reference).
- 10.14—

Amended and Restated Security and Pledge Agreement, dated as of August 8, 2017, among Interface, Inc., certain subsidiaries of the Company as obligors, and Bank of America, N.A. as Administrative Agent (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on August 9, 2017, previously filed with the Commission and incorporated herein by reference).

10.15 Severance Protection Arrangement for Bruce A. Hausmann (included in Item 5.02 of the Company's current report on Form 8-K filed on March 13, 2017, previously filed with the Commission and incorporated herein by reference.)*

Table of Contents

10.16	<u>Form of 2018 Restricted Stock Agreement for executive officers (included as Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed on May 11, 2018, previously filed with the Commission and incorporated herein by reference).*</u>
10.17	<u>Form of 2018 Performance Share Agreement for executive officers (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q filed on May 11, 2018, previously filed with the Commission and incorporated herein by reference).*</u>
10.18	<u>Employment Offer Letter to Bruce A. Hausmann (included as Exhibit 10.3 to the Company's quarterly report on Form 10-Q filed on May 11, 2018, previously filed with the Commission and incorporated herein by reference).*</u>
10.19	<u>Employment Offer Letter to J. Chadwick Scales (included as Exhibit 10.4 to the Company's quarterly report on Form 10-Q filed on May 11, 2018, previously filed with the Commission and incorporated herein by reference).*</u>
10.20	<u>Employment and Change in Control Agreement of Robert A. Coombs dated May 15, 2015 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on May 19, 2015, previously filed with the Commission and incorporated herein by reference).*</u>
10.21	<u>Severance Protection and Change in Control Agreement of Matthew J. Miller dated as of April 3, 2018 (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on April 25, 2018, previously filed with the Commission and incorporated herein by reference).*</u>
10.22	<u>Commitment Letter dated June 14, 2018 by Bank of America, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated in favor of Interface, Inc. (included as Exhibit 10.1 to the Company's current report on Form 8-K filed on June 14, 2018, previously filed with the Commission and incorporated herein by reference.)</u>
10.23	<u>Amended and Restated Commitment Letter dated June 20, 2018 by Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated and JPMorgan Chase Bank, N.A. in favor of Interface, Inc. (included as Exhibit 10.1 to the Company's current report on Form 8-K filed on June 21, 2018, previously filed with the Commission and incorporated herein by reference.)</u>
10.24	<u>First Restatement Agreement, dated as of July 20, 2018, among Interface, Inc., certain subsidiaries of the Company as borrowers, certain subsidiaries of the Company as guarantors, Bank of America, N.A. as Administrative Agent, and the other lenders party thereto. (included as Exhibit 10.1 to the Company's current report on Form 8-K filed on July 26, 2018, previously filed with the Commission and incorporated herein by reference.)</u>
21	<u>Subsidiaries of the Company.</u>
23	<u>Consent of BDO USA, LLP.</u>
24	<u>Power of Attorney (see signature page of this Report).</u>
31.1	<u>Certification of Chief Executive Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2018.</u>
31.2	<u>Certification of Chief Financial Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2018.</u>
32.1	<u>Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Executive Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2018.</u>
32.2	<u>Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Financial Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2018.</u>
101.INS	<u>XBRL Instance Document</u>
101.SCH	<u>XBRL Taxonomy Extension Schema Document</u>
101.CAL	<u>XBRL Taxonomy Extension Calculation Linkbase Document</u>
101.LAB	<u>XBRL Taxonomy Extension Label Linkbase Document</u>

101.PRE ~~XBRL~~ Taxonomy Presentation Linkbase Document

101.DEF ~~XBRL~~ Taxonomy Definition Linkbase Document

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

Table of Contents

ITEM 16. FORM 10-K SUMMARY

None.

81

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

	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	BALANCE AT	CHARGED TO	CHARGED TO	DEDUCTIONS (DESCRIBE) (B)	BALANCE, AT
	BEGINNING OF YEAR	COSTS AND EXPENSES (A)	OTHER ACCOUNTS		END OF YEAR
	<i>(in thousands)</i>				
Allowance for Doubtful Accounts:					
Year Ended:					
December 30, 2018	\$3,493	\$ 1,848	\$ 0	\$ 1,801	\$ 3,540
December 31, 2017	3,780	635	0	922	3,493
January 1, 2017	4,479	(243)	0	456	3,780

(A) Includes changes in foreign currency exchange rates as well as the addition of the nora reserves since the acquisition date.

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

	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	BALANCE AT	CHARGED TO	CHARGED TO		
	BEGINNING	COSTS AND	OTHER	DEDUCTIONS	BALANCE, AT
	OF YEAR	EXPENSES (A)	ACCOUNTS(B)	(DESCRIBE) (C)	END OF YEAR
	(in thousands)				
Restructuring Reserve:					
Year Ended:					
December 30, 2018	\$2,568	\$ 11,961	\$ 8,569	\$ 2,622	\$ 11,907
December 31, 2017	10,291	3,999	3,300	3,724	2,568
January 1, 2017	104	11,769	8,019	1,582	10,291

(A) Includes changes in foreign currency exchange rates as well as the nora reserves since the acquisition date.

(B) Direct reduction of asset carrying value, not included in restructuring reserve.

(C) Cash payments.

Table of Contents

	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	BALANCE AT	CHARGED TO	CHARGED	DEDUCTIONS (DESCRIBE) (B)	BALANCE, AT
	BEGINNING OF YEAR	COSTS AND EXPENSES (A)	TO OTHER ACCOUNTS		END OF YEAR
	<i>(in thousands)</i>				
Warranty and Sales Allowances Reserves :					
Year ended:					
December 30, 2018	\$4,111	\$ 1,074	\$ 0	\$ 1,690	\$ 3,495
December 31, 2017	5,529	2,071	0	3,489	4,111
January 1, 2017	4,759	3,149	0	2,379	5,529

(A) Includes changes in foreign currency exchange rates as well as the nora reserves since the acquisition date.

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

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

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 28, 2019 **INTERFACE, INC.**

By: /s/ JAY D. GOULD
 Jay D. Gould
Chief Executive Officer

POWER OF ATTORNEY

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

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

Signature	Capacity	Date
/s/ DANIEL T. HENDRIX Daniel T. Hendrix	Chairman of the Board and Director	February 28, 2019
/s/ JAY D. GOULD Jay D. Gould	President, Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2019
/s/ BRUCE A. HAUSMANN Bruce A. Hausmann	Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2019
/s/ GREGORY J. BAUER Gregory J. Bauer	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 28, 2019

Edgar Filing: INTERFACE INC - Form 10-K

/s/ JOHN P. BURKE John P. Burke	Director	February 28, 2019
/s/ ANDREW B. COGAN Andrew B. Cogan	Director	February 28, 2019
/s/ CHRISTOPHER G. KENNEDY Christopher G. Kennedy	Director	February 28, 2019
/s/ CATHERINE M. KILBANE Catherine M. Kilbane	Director	February 28, 2019
/s/ K. DAVID KOHLER K. David Kohler	Director	February 28, 2019
/s/ ERIN A. MATTS Erin A. Matts	Director	February 28, 2019
/s/ JAMES B. MILLER, JR. James B. Miller, Jr.	Director	February 28, 2019
/s/ SHERYL D. PALMER Sheryl D. Palmer	Director	February 28, 2019

Table of Contents

85