INTERFACE INC
Form 10-Q
November 10, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarterly Period Ended October 2, 2016

Commission File Number 001-33994

INTERFACE, INC.

(Exact name of registrant as specified in its charter)

GEORGIA	58-1451243
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2859 PACES FERRY ROAD, SUITE 2000, ATLANTA, GEORGIA 30339

(Address of principal executive offices and zip code)

(770) 437-6800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

Yes No

Shares outstanding of each of the registrant's classes of common stock at November 4, 2016:

Class	Number of Shares
Common Stock, $.10 par value per share	64,790,912

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERFACE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

(IN THOUSANDS)

	Oct. 2, 2016 **(UNAUDITED)**	**Jan. 3, 2016**
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 113,729	$75,696
Accounts Receivable, net	128,740	130,322
Inventories	164,199	161,174
Prepaid Expenses and Other Current Assets	22,682	22,490
Deferred Income Taxes	8,935	8,726
TOTAL CURRENT ASSETS	438,285	398,408
PROPERTY AND EQUIPMENT, less accumulated depreciation	213,574	211,489
DEFERRED TAX ASSET	7,815	20,110
GOODWILL	65,356	63,890
OTHER ASSETS	62,510	62,652
TOTAL ASSETS	$ 787,540	$756,549
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 48,377	$52,834
Accrued Expenses	90,494	88,933
Current Portion of Long-Term Debt	15,000	11,250
TOTAL CURRENT LIABILITIES	153,871	153,017
LONG TERM DEBT	202,612	202,281
DEFERRED INCOME TAXES	8,504	10,505
OTHER	45,056	48,380
TOTAL LIABILITIES	410,043	414,183
Commitments and Contingencies		
SHAREHOLDERS’ EQUITY:		

Preferred Stock	0	0
Common Stock	6,479	6,570
Additional Paid-In Capital	359,063	370,327
Retained Earnings	139,297	100,270
Accumulated Other Comprehensive Loss – Foreign Currency Translation Adjustment	(87,684)	(91,511)
Accumulated Other Comprehensive Loss – Pension Liability	(39,658)	(43,290)
TOTAL SHAREHOLDERS' EQUITY	377,497	342,366
	$ 787,540	$756,549

See accompanying notes to consolidated condensed financial statements.

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INTERFACE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		**NINE MONTHS ENDED**	
	Oct. 2, 2016	**Oct. 4, 2015**	**Oct. 2, 2016**	**Oct. 4, 2015**
NET SALES	$248,349	$254,686	$719,110	$755,227
Cost of Sales	155,431	156,720	440,434	470,577
GROSS PROFIT ON SALES	92,918	97,966	278,676	284,650
Selling, General and Administrative Expenses	67,175	66,664	200,108	198,729
OPERATING INCOME	25,743	31,302	78,568	85,921
Interest Expense	1,654	1,348	4,763	5,026
Other Expense	739	657	1,072	1,483
INCOME BEFORE INCOME TAX EXPENSE	23,350	29,297	72,733	79,412
Income Tax Expense	7,446	9,170	23,278	25,241
NET INCOME	$15,904	$20,127	$49,455	$54,171
Earnings Per Share – Basic	$0.25	$0.31	$0.76	$0.82
Earnings Per Share – Diluted	$0.25	$0.31	$0.76	$0.82
Common Shares Outstanding – Basic	64,805	65,854	65,285	66,091
Common Shares Outstanding – Diluted	64,842	65,907	65,322	66,139

See accompanying notes to consolidated condensed financial statements.

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INTERFACE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(IN THOUSANDS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	Oct. 2, 2016	**Oct. 4, 2015**	**Oct. 2, 2016**	**Oct. 4, 2015**
Net Income	$15,904	$20,127	$49,455	$54,171
Other Comprehensive Income (Loss), Foreign Currency Translation Adjustment	2,759	(8,408)	3,827	(28,647)
Other Comprehensive Income, Pension Liability Adjustment	834	796	3,632	1,441
Comprehensive Income	$19,497	$12,515	$56,914	$26,965

See accompanying notes to consolidated condensed financial statements.

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INTERFACE, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN THOUSANDS)

	NINE MONTHS ENDED	
	Oct. 2, 2016	**Oct. 4, 2015**
OPERATING ACTIVITIES:		
Net Income	$49,455	$54,171
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	22,474	23,188
Stock Compensation Amortization Expense	3,390	10,928
Deferred Income Taxes and Other	5,049	15,403
Working Capital Changes:		
Accounts Receivable	1,449	17,852
Inventories	(454)	(28,670)
Prepaid Expenses and Other Current Assets	(1,008)	(377)
Accounts Payable and Accrued Expenses	(6,123)	196
CASH PROVIDED BY OPERATING ACTIVITIES:	74,232	92,691
INVESTING ACTIVITIES:		
Capital Expenditures	(20,912)	(23,734)
Other	1,140	(80)
CASH USED IN INVESTING ACTIVITIES:	(19,772)	(23,814)
FINANCING ACTIVITIES:		
Borrowing of Long-Term Debt	20,329	0
Repayment of Long-Term Debt	(17,500)	(28,000)
Repurchase of Common Stock	(10,443)	(10,469)
Proceeds from Issuance of Common Stock	0	359
Dividends Paid	(10,429)	(8,592)
CASH USED IN FINANCING ACTIVITIES:	(18,043)	(46,702)
Net Cash Provided By Operating, Investing and Financing Activities	36,417	22,175

Effect of Exchange Rate Changes on Cash	1,616	(3,339)
CASH AND CASH EQUIVALENTS:		
Net Change During the Period	38,033	18,836
Balance at Beginning of Period	75,696	54,896
Balance at End of Period	$113,729	$73,732

See accompanying notes to consolidated condensed financial statements.

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INTERFACE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1 – CONDENSED FOOTNOTES

As contemplated by the Securities and Exchange Commission (the “Commission”) instructions to Form 10-Q, the following footnotes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to the Company’s year-end audited consolidated financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended January 3, 2016, as filed with the Commission.

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, the financial information included in this report contains all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results for the interim periods. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The January 3, 2016 consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. The first nine months of 2016 were comprised of 39 weeks, while the first nine months of 2015 were comprised of 40 weeks. Each of the third quarters of 2016 and 2015 were comprised of 13 weeks.

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

NOTE 2 – INVENTORIES

Inventories are summarized as follows:

	Oct. 2, 2016	**Jan. 3, 2016**
	(In thousands)	
Finished Goods	$106,891	$101,697
Work in Process	9,975	9,865
Raw Materials	47,333	49,612

$164,199	$161,174

NOTE 3 – EARNINGS PER SHARE

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

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

	Three Months Ended		**Nine Months Ended**	
	Oct. 2, 2016	**Oct. 4, 2015**	**Oct. 2, 2016**	**Oct. 4, 2015**
Earnings Per Share				
Basic Earnings Per Share				
Distributed Earnings	$0.06	$0.05	$0.10	$0.13
Undistributed Earnings	0.19	0.26	0.66	0.69
Total	$0.25	$0.31	$0.76	$0.82
Diluted Earnings Per Share				
Distributed Earnings	$0.06	$0.05	$0.10	$0.13
Undistributed Earnings	0.19	0.26	0.66	0.69
Total	$0.25	$0.31	$0.76	$0.82
Basic Earnings Per Share	$0.25	$0.31	$0.76	$0.82
Diluted Earnings Per Share	$0.25	$0.31	$0.76	$0.82

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

	Three Months Ended		**Nine Months Ended**	
	Oct. 2, 2016	**Oct. 4, 2015**	**Oct. 2, 2016**	**Oct. 4, 2015**
		(In millions)		
Net Income	$0.1	$0.5	$0.4	$ 1.2

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

	Three Months Ended		**Nine Months Ended**	
	Oct. 2, 2016	**Oct. 4, 2015**	**Oct. 2, 2016**	**Oct. 4, 2015**
		(In thousands)		
Weighted Average Shares Outstanding	64,241	64,359	64,721	64,596
Participating Securities	564	1,495	564	1,495
Shares for Basic Earnings Per Share	64,805	65,854	65,285	66,091
Dilutive Effect of Stock Options	37	53	37	48
Shares for Diluted Earnings Per Share	64,842	65,907	65,322	66,139

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

NOTE 4 – LONG-TERM DEBT

Syndicated Credit Facility

The Company has a syndicated credit facility (the “Facility”) pursuant to which the lenders provide to the Company and certain of its subsidiaries a multicurrency revolving credit facility and provide to the Company a term loan. The facility matures in October of 2019. Interest on base rate loans is charged at varying rates computed by applying a margin depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter. Interest on LIBOR-based loans and fees for letters of credit are charged at varying rates computed by applying a margin over the applicable LIBOR rate, depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter. In addition, the Company pays a commitment fee per annum (depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter) on the unused portion of the Facility.

As of October 2, 2016, the Company had outstanding $190.0 million of term loan borrowing and $27.6 million of revolving loan borrowings under the Facility, and had $4.0 million in letters of credit outstanding under the Facility. As of October 2, 2016, the weighted average interest rate on borrowings outstanding under the Facility was 2.2%.

Beginning in the fourth quarter of 2015, the Company became required to make quarterly amortization payments of the term loan borrowing. The amortization payments are due on the last day of the calendar quarter. The payment amount for each of the first three quarters of 2016 is $2.5 million per quarter. The quarterly amortization payment amount increases to $3.75 million on December 31, 2016.

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.

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Other Lines of Credit

Subsidiaries of the Company have an aggregate of the equivalent of $14.8 million of other lines of credit available at interest rates ranging from 2.5% to 6.5%. As of October 2, 2016, there were no borrowings outstanding under these lines of credit.

NOTE 5 – STOCK-BASED COMPENSATION

Stock Option Awards

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

All outstanding stock options vested prior to the end of 2013, and therefore there was no stock option compensation expense in the first nine months of 2015 or 2016.

As of October 2, 2016, there were 87,500 stock options outstanding and exercisable, at an average exercise price of $8.75 per share. There were no stock options granted in 2016 or 2015. There were no exercises or forfeitures of stock options in the first nine months of 2016. The aggregate intrinsic value of the outstanding and exercisable stock options was $0.7 million as of October 2, 2016.

Restricted Stock Awards

During the nine months ended October 2, 2016 and October 4, 2015, the Company granted restricted stock awards for 272,000 and 597,000 shares of common stock, respectively. Awards of restricted stock (or a portion thereof) vest with respect to each recipient over a two to three-year period from the date of grant, provided the individual remains in the employment or service of the Company as of the vesting date. Additionally, certain awards (or a portion thereof) could vest earlier upon the attainment of certain performance criteria, in the event of a change in control of the Company, or upon involuntary termination without cause.

Compensation expense related to restricted stock grants was $2.4 million and $10.9 million for the nine months ended October 2, 2016 and October 4, 2015, respectively. Accounting standards require that the Company estimate forfeitures for restricted stock and reduce compensation expense accordingly. The Company has reduced its expense by the assumed forfeiture rate and will evaluate experience against this forfeiture rate going forward.

The following table summarizes restricted stock outstanding as of October 2, 2016, as well as activity during the nine months then ended:

	Restricted Shares	**Weighted Average Grant Date Fair Value**
Outstanding at January 3, 2016	1,470,000	$ 17.92
Granted	272,000	17.36
Vested	1,004,000	18.47
Forfeited or canceled	174,000	16.71
Outstanding at October 2, 2016	564,000	$ 17.04

As of October 2, 2016, the unrecognized total compensation cost related to unvested restricted stock was $5.6 million. That cost is expected to be recognized by the end of 2019.

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Performance Share Awards

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

The following table summarizes the performance shares outstanding as of October 2, 2016, as well as the activity during the nine months then ended:

	Performance Shares	**Weighted Average Grant Date Fair Value**
Outstanding at January 3, 2016	0	$ 0
Granted	441,000	17.23
Vested	3,500	17.22
Forfeited or canceled	7,500	17.22
Outstanding at October 2, 2016	430,000	$ 17.23

Compensation expense related to the performance shares for the nine months ended October 2, 2016 was $1.0 million. Unrecognized compensation expense related to these performance shares was approximately $6.5 million as of October 2, 2016. No performance shares were granted or outstanding during 2015.

NOTE 6 – EMPLOYEE BENEFIT PLANS

The following tables provide the components of net periodic benefit cost for the three-month and nine-month periods ended October 2, 2016, and October 4, 2015, respectively:

	Three Months Ended	**Nine Months Ended**

Defined Benefit Retirement Plan (Europe)	**Oct. 2, 2016**	**Oct. 4, 2015**	**Oct. 2, 2016**	**Oct. 4, 2015**
	(In thousands)		**(In thousands)**	
Service cost	$260	$265	$781	$799
Interest cost	1,610	2,124	5,058	6,328
Expected return on assets	(1,876)	(2,279)	(5,880)	(6,791)
Amortization of prior service costs	9	8	27	25
Recognized net actuarial losses	169	244	537	725
Net periodic benefit cost	$172	$362	$523	$1,086

	Three Months Ended		**Nine Months Ended**	
Salary Continuation Plan (SCP)	**Oct. 2, 2016**	**Oct. 4, 2015**	**Oct. 2, 2016**	**Oct. 4, 2015**
	(In thousands)		**(In thousands)**	
Service cost	$110	$148	$330	$445
Interest cost	317	278	952	834
Amortization of loss	203	131	608	392
Net periodic benefit cost	$630	$557	$1,890	$1,671

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NOTE 7 – SEGMENT INFORMATION

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

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

	AMERICAS	**EUROPE**	**ASIA-PACIFIC**	**TOTAL**
	(in thousands)			
Three Months Ended October 2, 2016:				
Net Sales	$147,500	$62,682	$ 38,167	$248,349
Depreciation and amortization	3,635	1,253	2,213	7,101
Total assets	235,591	270,106	191,691	697,388
Three Months Ended October 4, 2015:				
Net Sales	$152,710	$66,440	$ 35,536	$254,686
Depreciation and amortization	3,836	1,309	2,193	7,338
Nine Months Ended October 2, 2016:				
Net Sales	$426,677	$181,904	$ 110,529	$719,110
Depreciation and amortization	10,903	3,824	6,598	21,325
Nine Months Ended October 4, 2015:				
Net Sales	$450,299	$197,220	$ 107,708	$755,227
Depreciation and amortization	11,656	3,745	6,855	22,256

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

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DEPRECIATION AND AMORTIZATION	**Three Months Ended October 2, 2016**	**October 4, 2015**
	(In thousands)	
Total segment depreciation and amortization	$7,101	$ 7,338
Corporate depreciation and amortization	413	311
Reported depreciation and amortization	$7,514	$ 7,649

DEPRECIATION AND AMORTIZATION	**Nine Months Ended October 2, 2016**	**October 4, 2015**
	(In thousands)	
Total segment depreciation and amortization	$21,325	$22,256
Corporate depreciation and amortization	1,149	932
Reported depreciation and amortization	$22,474	$23,188

ASSETS	**October 2, 2016**
	(In thousands)
Total segment assets	$ 697,388
Corporate assets and eliminations	90,152
Reported total assets	$ 787,540

NOTE 8 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest amounted to $4.0 million and $4.8 million for the nine months ended October 2, 2016 and October 4, 2015, respectively. Income tax payments amounted to $9.9 million and $5.9 million for the nine months ended October 2, 2016 and October 4, 2015, respectively.

NOTE 9 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In January 2015, the FASB issued an accounting standard which eliminates the concept of extraordinary items from generally accepted accounting principles. The standard does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. The standard is effective for interim and annual periods in fiscal years beginning after December 15, 2015. The adoption of this standard did not have any impact on our financial condition or results of operations.

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

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

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

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

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

NOTE 10 – INCOME TAXES

Accounting standards require that all tax positions be analyzed using a two-step approach. The first step requires an entity to determine if a tax position is more-likely-than-not to be sustained upon examination. In the second step, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more-likely-than-not to be realized upon ultimate settlement. In the first nine months of 2016, the Company decreased its liability for unrecognized tax benefits by $0.1 million. As of October 2, 2016, the Company had accrued approximately $28.2 million for unrecognized tax benefits. In accordance with applicable accounting standards, the Company's deferred tax asset as of October 2, 2016 reflects a reduction for $14.2 million of these unrecognized tax benefits.

NOTE 11 – ITEMS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME

During the first nine months of 2016, the Company did not reclassify any significant amounts out of accumulated other comprehensive income. The reclassifications that occurred in that period were primarily comprised of $1.2 million related to the Company's defined benefit retirement plan and salary continuation plan. These reclassifications were included in the selling, general and administrative expenses line item of the Company's consolidated condensed statement of operations.

NOTE 12 – REPURCHASE OF COMMON STOCK

In the fourth quarter of 2014, the Company announced a program to repurchase up to 500,000 shares of common stock per fiscal year, commencing with the 2014 fiscal year. In the second quarter of 2016, the Company amended the share purchase program to authorize the repurchase of up to $50 million of common stock. This amended program has no specific expiration date. During the first nine months of 2016, the Company repurchased and retired 662,500 shares of common stock at a weighted average purchase price of $15.73 per share.

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

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016, under Item 7 of that Form 10-K. Our discussions here focus on our results during the quarter and nine months ended, or as of, October 2, 2016, and the comparable periods of 2015 for comparison purposes, and, to the extent applicable, any material changes from the information discussed in that Form 10-K or other important intervening developments or information since that time. These discussions should be read in conjunction with that Form 10-K for more detailed and background information.

Forward-Looking Statements

This report contains statements which may constitute "forward-looking statements" within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include risks and uncertainties associated with economic conditions in the commercial interiors industry, as well as the risks and uncertainties discussed under the heading "Risk Factors" included in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2016, which discussion is hereby incorporated by reference. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

General

During the quarter ended October 2, 2016, we had net sales of $248.3 million, compared with net sales of $254.7 million in the third quarter last year. During the first nine months of fiscal year 2016, we had net sales of $719.1 million, compared with net sales of $755.2 million in the first nine months of last year. Fluctuations in currency exchange rates had negative impacts on our sales and operating income in the 2016 reported periods, compared with the prior year periods. The following table presents the amounts (in U.S. dollars) by which the exchange rates for converting foreign currencies into U.S. dollars have negatively affected our net sales and operating income for the three months and nine months ended October 2, 2016. The impacts of changes in foreign currency presented in the tables are calculated based on applying the prior year period's average foreign currency exchange rates to the current year period.

Impact of Changes in Foreign Currency on:	**Three Months Ended October 2, 2016**	**Nine Months Ended October 2, 2016**
	(In millions)	
Net sales	(1.7)	(8.1)
Operating income	(0.1)	(0.5)

During the third quarter of 2016, we had net income of $15.9 million, or $0.25 per share. During the third quarter of 2015, we had net income of $20.1 million, or $0.31 per share. During the nine months ended October 2, 2016, we had net income of $49.4 million, or $0.76 per share. During the nine months ended October 4, 2015, we had net income of $54.2 million, or $0.82 per share.

The first nine months of 2016 were comprised of 39 weeks, while the first nine months of 2015 were comprised of 40 weeks. (The additional week was in the first quarter of 2015.) This is a factor in certain of the comparisons discussed in this Item 2.

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Results of Operations

The following table presents, as a percentage of net sales, certain items included in our Consolidated Condensed Statements of Operations for the three-month and nine-month periods ended October 2, 2016, and October 4, 2015, respectively:

	Three Months Ended		**Nine Months Ended**	
	Oct. 2, 2016	**Oct. 4, 2015**	**Oct. 2, 2016**	**Oct. 4, 2015**
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	62.6	61.5	61.2	62.3
Gross profit on sales	37.4	38.5	38.8	37.7
Selling, general and administrative expenses	27.0	26.2	27.8	26.3
Operating income	10.4	12.3	10.9	11.4
Interest/Other expenses	1.0	0.8	0.8	0.9
Income before tax expense	9.4	11.5	10.1	10.5
Income tax expense	3.0	3.6	3.2	3.3
Net income	6.4	7.9	6.9	7.2

Net Sales

Below we provide information regarding net sales, and analyze those results, for the three-month and nine-month periods ended October 2, 2016, and October 4, 2015, respectively.

	Three Months Ended		**Percentage**
	Oct. 2, 2016	**Oct. 4, 2015**	**Change**
	(In thousands)		
Net Sales	$248,349	$254,686	(2.5%)

	Nine Months Ended		**Percentage**
			Change

	Oct. 2, 2016	Oct. 4, 2015	
	(In thousands)		
Net Sales	$719,110	$755,227	(4.8%)

For the quarter ended October 2, 2016, net sales decreased $6.3 million (2.5%) versus the comparable period in 2015. As noted above, on a consolidated basis, currency fluctuations did not have a significant impact on the comparison, as weakness in the British Pound was offset by a recovery in the Australian Dollar and the Euro. On a geographic basis, we experienced sales declines in the Americas (down 3.4%) and Europe (5.7%), while sales in our Asia-Pacific region increased 7.4%. In the Americas, the decrease in sales was almost entirely attributable to a decline in the corporate office market (down 10%), and was a result of customer deferrals of projects in this segment. This decrease was offset partially by a 1% increase in non-office segments, with increases in the hospitality (up 19%) and healthcare (up 13%) market segments negated by a decrease in the government segment (down 16%). Our direct-to-consumer FLOR business experienced a 1% sales increase for the third quarter versus the comparable period in 2015. In Europe, the economic and political uncertainty surrounding the Brexit referendum was the primary driver of the sales decline, as the decrease was most severe in the United Kingdom and was partially offset by increases in Central and Southern Europe, with Germany leading the way in growth. On a segment basis, the European sales decline was most significant in the corporate office market with a 3% decline; however, with the exception of the hospitality market segment (up 33%), all other market segments were down for the quarter with education (down 20%) being the most significant. The sales increases in Asia-Pacific were primarily experienced in Australia (up 10%), China (up 21%) and India (up 5%), offset by a decline of 13% in Southeast Asia, Japan and Korea. On a segment basis, the increase in Asia-Pacific sales for the quarter was due to a 11% increase in the corporate office segment, offset by a decline of 4% in non-office segments.

For the nine months ended October 2, 2016, net sales decreased 36.1 million (4.8%) versus the comparable period in 2015. Fluctuations in currency had a small impact on the comparison; if currency rates had remained consistent from the first nine months of 2015, the decease would have been approximately $8.1 million less. On a geographic basis, we experienced sales declines in the Americas (down 5.2%) and Europe (down 8%), partially offset by an increase of 2.6% in our Asia-Pacific business. In the Americas, the sales decline was most significant in the first six months of the year, when sales were down 6% year over year. The decline on a year-to-date basis was due to lower sales in the corporate office market (down 6%). Other than the hospitality (up 15%) and healthcare (up 9%) market segments, all other market segments experienced a decline for the first nine months of 2016 as compared to the first nine months of 2015. In Europe, the decline was again due primarily to uncertainty leading up to and after the Brexit vote, as well as other geopolitical and other socio-economic issues. The decline in Europe was most significant in the corporate office market segment (down 8%) as well as the education market segment (down 30%). These declines were offset by smaller increases in the retail (up 12%) and hospitality (up 26%) market segments. The sales increase in Asia-Pacific was due to a strong corporate office market (up 9%) and government market segment (up over 80%). These increases were partially offset by decreases in other non-office markets in Asia-Pacific, with the retail (down 39%), education (down 16%) and hospitality (down 31%) market segments having the most significant negative impact.

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Cost and Expenses

The following tables present, on a consolidated basis for our operations, our overall cost of sales and selling, general and administrative expenses for the three-month and nine-month periods ended October 2, 2016, and October 4, 2015, respectively:

Cost and Expenses	**Three Months Ended**		**Percentage**
	Oct. 2, 2016	**Oct. 4, 2015**	**Change**
	(In thousands)		
Cost of sales	$155,431	$156,720	(0.8%)
Selling, general and administrative expenses	67,175	66,664	0.7%
Total	$222,606	$223,384	(0.3%)

Cost and Expenses	**Nine Months Ended**		**Percentage**
	Oct. 2, 2016	**Oct. 4, 2015**	**Change**
	(In thousands)		
Cost of sales	$440,434	$470,577	(6.4%)
Selling, general and administrative expenses	200,108	198,729	0.7%
Total	$640,542	$669,306	(4.3%)

For the three months ended October 2, 2016, our cost of sales decreased $1.3 million (0.8%) versus the comparable period in 2015. Fluctuations in currency exchange rates did not have a significant impact on the comparison between periods. Despite the decrease in absolute dollars, as a percentage of sales, our cost of sales increased in the third quarter of 2016 to 62.6%, versus 61.5% the third quarter of 2015. This percentage increase was attributable entirely to our Americas business unit, as both our European and Asia-Pacific regions experienced decreases in cost of sales as a percentage of sales for the third quarter of 2016 compared to the corresponding period in 2015. The reasons for the increase in cost of sales as a percentage of sales in the Americas were (1) a transition to a new centralized warehouse and distribution center in the region, which led to additional costs during the transition period, and (2) lower manufacturing volume and, as a result, less absorption of fixed costs. We expect these additional costs related to the warehouse centralization efforts to subside by the end of the fourth quarter of 2016. The decreases in cost of sales as a percentage of sales in Europe and Asia-Pacific are a direct result of better manufacturing efficiencies and lower raw material costs in these regions.

For the nine months ended October 2, 2016, our cost of sales decreased $30.1 million (6.4%) versus the corresponding period in 2015. Fluctuations in currency exchange rates did not have a significant impact on the comparison between

periods. The first nine months of 2016 showed improvement as a percentage of sales due to lower raw materials costs, higher average selling prices and a mix shift towards higher margin accretive products, such as skinny planks. These decreases to cost of sales were partially offset, however, by the factors discussed above in the Americas for the third quarter of 2016 with regard to additional costs associated with our transition to centralized warehouse and distribution center and lower absorption of fixed costs on lower production volume. In total, as a percentage of sales, our cost of sales declined to 61.2% for the nine-month period ended October 2, 2016, versus 62.3% for the corresponding period in 2015. As discussed above, we expect the additional warehouse centralization costs in the Americas to subside by the end of the fourth quarter of 2016.

For the three months ended October 2, 2016, our selling, general and administrative expenses increased $0.5 million (0.7%) versus the comparable period in 2015. Fluctuations in currency exchange rates did not have a significant impact on the comparison between periods. The increase in selling, general and administrative expenses was due entirely to higher marketing expense for the third quarter of 2016 of approximately $1.0 million. These additional expenses were primarily related to the rollout of our modular resilient flooring (luxury vinyl tile) products, which are hard surface flooring products that complement our modular carpet products, as well as additional marketing expenses related to our core modular carpet offerings. These increases were offset by lower selling costs of approximately $0.5 million due to lower sales activity for the quarter. Due to the slight overall increase in expenses discussed above, as well as lower sales levels, as a percentage of sales our selling, general and administrative expenses increased to 27.0% for the three months ended October 2, 2016, compared to 26.2% for the three months ended October 4, 2015. Our selling, general and administrative expenses did have a small sequential decline as a percentage of sales from the second quarter of 2016, when they were 27.1% of sales.

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For the nine months ended October 4, 2016, our selling, general and administrative expenses increased $1.4 million (0.7%) versus the comparable period in 2015. Fluctuations in currency exchange rates did not have a significant impact on the comparison between periods. The largest driver of this increase was higher marketing expenses of $5.4 million due to strategic marketing initiatives including our modular resilient flooring projects as well as global marketing and branding initiatives. Selling expenses also increased by approximately $0.9 million for the first nine months of 2016 as compared to the prior year period due to personnel additions in the Americas, primarily in the first six months of 2016. These increases were offset by approximately $5.0 million of lower administrative costs, primarily as a result of lower levels of share-based payments and incentives as performance targets are not expected to be met to the same level in 2016 as in 2015. Due to the above factors and the decline in sales, as a percentage of sales our selling, general and administrative expenses increased to 27.8% for the first nine months of 2016, versus 26.3% for same period in 2015.

Interest Expense

For the three-month period ended October 2, 2016, our interest expense increased $0.3 million to $1.7 million, from $1.3 million in the third quarter of 2015. This increase was due to a slightly higher weighted average borrowing rate for the 2016 period versus that of the 2015 period. For the nine-month period ended October 2, 2016, our interest expense decreased $0.2 million to $4.8 million, from $5.0 million in the comparable period last year. The decrease was due to lower average daily outstanding borrowings under our Syndicated Credit Facility, primarily during the first six months of 2016 as compared to the corresponding period of 2015.

Liquidity and Capital Resources

General

At October 2, 2016, we had $113.7 million in cash. At that date, we had outstanding $190.0 million of term loan borrowings, $27.6 million of revolving loan borrowings and $4.0 million in letters of credit under our Syndicated Credit Facility. As of October 2, 2016, we could have incurred $218.4 million of additional borrowings under our Syndicated Credit Facility. In addition, we could have incurred an additional $14.8 million of borrowings under our other lines of credit in place at other non-U.S. subsidiaries.

It is also important for you to consider that borrowings under our Syndicated Credit Facility comprise essentially all of our indebtedness, and that these borrowings are based on variable interest rates (as described above) that expose the Company to the risk that short-term interest rates may increase. For information regarding the current variable interest rates of these borrowings and the potential impact on our interest expense from hypothetical increases in short term

interest rates, please see Note 4 in Part I, Item 1 of this report and the discussion under the heading “Interest Rate Risk” in Item 7A of our Annual Report on Form 10-K for the year ended January 3, 2016.

Analysis of Cash Flows

We exited the quarter ended October 2, 2016 with $113.7 million in cash, an increase of $38.0 million during the first nine months of the year. The increase in cash was due to cash flow from operating activities of $74.2 million in the first nine months of 2016. The factors driving the increase in cash from operating activities were (1) $49.5 million of net income for the year-to-date period, and (2) $1.5 million due to a decrease in accounts receivable. The increase in cash from operating activities was partially offset by a use of $6.1 million for a reduction in accounts payable and accruals. We also borrowed $20.3 million under our Syndicated Credit Facility during the nine months ended October 2, 2016, but repaid $17.5 million of borrowings during this time, for a net cash increase of $2.8 million from this borrowing activity. Our other primary uses of cash during the first nine months of 2016 were (1) $20.9 million of capital expenditures, (2) $10.4 million used to repurchase and retire 662,500 shares of our outstanding common stock, and (3) $10.4 million for the payment of dividends.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our discussion below in this Item 3 is based upon the more detailed discussions of our market risk and related matters included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016 under Item 7A of that Form 10-K. Our discussion here focuses on the period ended October 2, 2016, and any material changes from (or other important intervening developments since the time of) the information discussed in that Form 10-K. This discussion should be read in conjunction with that Form 10-K for more detailed and background information.

At October 2, 2016, we recognized a $3.8 million increase in our foreign currency translation adjustment account compared to January 3, 2016, primarily because of the weakening of the U.S. dollar against certain foreign currencies, particularly 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.

Because the debt outstanding under our Syndicated Credit Facility has variable interest rates based on an underlying prime lending rate or LIBOR rate, we do not believe changes in interest rates would have any significant impact on the fair value of that debt instrument. Changes in the underlying prime lending rate or LIBOR rate would, however, impact the amount of our interest expense. For a discussion of these hypothetical impacts on our interest expense, please see the discussion in Item 7A of our Annual Report on Form 10-K for the year ended January 3, 2016.

As of October 2, 2016, a 10% decrease or increase in the levels of foreign currency exchange rates against the U.S. dollar, with all other variables held constant, would result in a decrease in the fair value of our financial instruments of $13.1 million or an increase in the fair value of our financial instruments of $16.0 million, respectively. As the impact of offsetting changes in the fair market value of our net foreign investments is not included in the sensitivity model, these results are not indicative of our actual exposure to foreign currency exchange risk.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer and our Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Act"), pursuant to Rule 13a-14(c) under the Act. Based on that evaluation, our Chairman and Chief Executive Officer and our Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There are no material changes in risk factors in the third quarter of 2016. For a discussion of risk factors, see Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed with this report:

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Definition Linkbase Document.

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SIGNATURE

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

	INTERFACE, INC.
Date: November 10, 2016	By: /s/ Patrick C. Lynch Patrick C. Lynch Senior Vice President (Principal Financial Officer)

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EXHIBITS INCLUDED HEREWTIH

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101.DEF	XBRL Taxonomy Definition Linkbase Document.