INTERFACE INC
Form 10-Q
August 07, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For Quarterly Period Ended June 29, 2008

Commission File Number 0-12016

INTERFACE, INC.
(Exact name of registrant as specified in its charter)

GEORGIA (State or other jurisdiction of incorporation or organization)	58-1451243 (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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

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

Yes o No þ

Shares outstanding of each of the registrant's classes of common stock at July 30, 2008:

Class	Number of Shares

Class A Common Stock, $.10 par value per share	56,245,357
Class B Common Stock, $.10 par value per share	6,808,587

INTERFACE, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	JUNE 29, 2008 (UNAUDITED)	DECEMBER 30, 2007
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 83,616	$ 82,375
Accounts Receivable, net	175,263	178,625
Inventories	152,039	125,789
Prepaid and Other Expenses	23,273	18,985
Deferred Income Taxes	6,345	5,863
Assets of Business Held for Sale	4,566	4,792
TOTAL CURRENT ASSETS	445,102	416,429
PROPERTY AND EQUIPMENT, less accumulated depreciation	170,618	161,874
DEFERRED TAX ASSET	57,947	60,942
GOODWILL	148,561	142,471
OTHER ASSETS	57,102	53,516
TOTAL ASSETS	$ 879,330	$ 835,232
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 64,531	$ 57,243
Accrued Expenses	117,049	120,388
Current Portion of Long-Term Debt	--	--
Liabilities of Business Held for Sale	44	220
TOTAL CURRENT LIABILITIES	181,624	177,851
LONG-TERM DEBT, less current maturities	--	--
SENIOR NOTES	175,000	175,000
SENIOR SUBORDINATED NOTES	135,000	135,000
DEFERRED INCOME TAXES	8,457	7,413
OTHER	37,135	38,852
TOTAL LIABILITIES	537,216	534,116
Minority Interest	7,547	6,974
Commitments and Contingencies		
SHAREHOLDERS' EQUITY:		
Preferred Stock	--	--
Common Stock	6,300	6,184

Additional Paid-In Capital		337,910		332,650
Retained Earnings (Deficit)		9,039		(15,159)
Accumulated Other Comprehensive Income – Foreign Currency Translation Adjustment		11,833		1,270
Accumulated Other Comprehensive Income – Pension Liability		(30,515)		(30,803)
TOTAL SHAREHOLDERS' EQUITY		334,567		294,142
	$	879,330	$	835,232

See accompanying notes to consolidated condensed financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 29, 2008	JULY 1, 2007	JUNE 29, 2008	JULY 1, 2007
NET SALES	$ 295,005	$ 264,962	$ 556,741	$ 508,454
Cost of Sales	189,712	172,737	357,182	333,001
GROSS PROFIT ON SALES	105,293	92,225	199,559	175,453
Selling, General and Administrative Expenses	71,857	61,332	135,152	118,379
Loss on Disposition – Specialty Products	--	--	--	1,873
OPERATING INCOME	33,436	30,893	64,407	55,201
Interest Expense	8,108	9,161	15,936	18,281
Other Expense	248	612	611	1,035
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	25,080	21,120	47,860	35,885
Income Tax Expense	9,204	7,797	17,862	13,493
Income from Continuing Operations	15,876	13,323	29,998	22,392
Loss from Discontinued Operations, Net of Tax	--	(12,325)	--	(62,010)
Loss on Disposal of Discontinued Operations, Net of Tax	--	--	--	--
NET INCOME (LOSS)	$ 15,876	$ 998	$ 29,998	$ (39,618)
Earnings (Loss) Per Share – Basic				
Continuing Operations	$ 0.26	$ 0.22	$ 0.49	$ 0.37
Discontinued Operations	--	(0.20)	--	(1.03)
Loss on Disposal of Discontinued Operations	--	--	--	--
Earnings (Loss) Per Share – Basic	$ 0.26	$ 0.02	$ 0.49	$ (0.66)
Earnings (Loss) Per Share – Diluted				
Continuing Operations	$ 0.26	$ 0.22	$ 0.48	$ 0.36
Discontinued Operations	--	(0.20)	--	(1.00)
Loss on Disposal of Discontinued Operations	--	--	--	--
Earnings (Loss) Per Share – Diluted	$ 0.26	$ 0.02	$ 0.48	$ (0.64)
Common Shares Outstanding – Basic	61,523	60,322	61,425	60,210
Common Shares Outstanding – Diluted	62,065	61,571	62,098	61,435

See accompanying notes to consolidated condensed financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

(IN THOUSANDS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 29, 2008	JULY 1, 2007	JUNE 29, 2008	JULY 1, 2007
Net Income (Loss)	$ 15,876	$ 998	$ 29,998	$ (39,618)
Other Comprehensive Income (Loss), Foreign Currency Translation Adjustment and Pension Liability Adjustment	(1,910)	2,795	10,851	6,468
Comprehensive Income (Loss)	$ 13,966	$ 3,793	$ 40,849	$ (33,150)

See accompanying notes to consolidated condensed financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 29, 2008	SIX MONTHS ENDED JULY 1, 2007
OPERATING ACTIVITIES:		
Net Income (Loss)	$ 29,998	$ (39,618)
Loss from Discontinued Operations	--	62,010
Income from Continuing Operations	29,998	22,392
Adjustments to Reconcile Income to Cash Provided by Operating Activities:		
Loss on Disposition of Assets – Specialty Products	--	1,873
Depreciation and Amortization	11,984	11,960
Deferred Income Taxes and Other	3,086	(1,839)
Working Capital Changes:		
Accounts Receivable	7,085	(7,949)
Inventories	(23,330)	(16,115)
Prepaid Expenses	(3,703)	1,740
Accounts Payable and Accrued Expenses	(3,923)	8,305
Cash Provided by Continuing Operations	21,197	20,367
Cash Provided by Discontinued Operations	--	3,188
CASH PROVIDED BY OPERATING ACTIVITIES:	21,197	23,555
INVESTING ACTIVITIES:		
Capital Expenditures	(14,079)	(17,947)
Other	(4,434)	(7,163)
Cash Used in Investing Activities of Continuing Operations	(18,513)	(25,110)
Cash Used in Discontinued Operations	--	(6,015)
CASH USED IN INVESTING ACTIVITIES:	(18,513)	(31,125)
FINANCING ACTIVITIES:		
Net Borrowing of Long-Term Debt	--	8,743
Repurchase of Senior Notes	--	(22,400)
Proceeds from Issuance of Common Stock	946	2,773
Dividends Paid	(3,778)	(2,450)
CASH USED IN FINANCING ACTIVITIES:	(2,832)	(13,334)
Net Cash Used in Operating, Investing and Financing Activities	(148)	(20,904)

Effect of Exchange Rate Changes on Cash		1,389		1,093
CASH AND CASH EQUIVALENTS:				
Net Change During the Period		1,241		(19,811)
Balance at Beginning of Period		82,375		109,157
Balance at End of Period	$	83,616	$	89,346

See accompanying notes to consolidated condensed financial statements.

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 financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended December 30, 2007, 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 December 30, 2007, 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.

In 2004, the Company committed to a plan to exit its owned Re:Source dealer businesses (as well as a small Australian dealer business and a small residential fabrics business) and began to dispose of several of the dealer subsidiaries. In addition, as described below in Note 2, the Company has sold its Fabrics Group business segment. The results of operations and related disposal costs, gains and losses for these businesses are classified as discontinued operations for all periods presented.

Additionally, certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 – SALE OF FABRICS GROUP BUSINESS SEGMENT

In the second quarter of 2007, the Company entered into an agreement to sell its Fabrics Group business segment to a third party. The sale was completed in the third quarter of 2007. The purchase price for the business segment was $67.2 million, after working capital and certain other adjustments. Of this $67.2 million, $6.5 million represents deferred compensation which would be remitted to the Company upon the achievement of certain performance criteria by the disposed segment over the 18 months following the sale. At this time, the Company has determined that the receipt of this deferred amount is probable. As described below in Notes 9 and 10, the Company incurred impairment charges of approximately $61.9 million during the first six months of 2007 (of which $13.6 million was incurred in the second quarter of 2007) to reduce the carrying value of the business segment to fair value as represented by the purchase price. In the second and third quarters of 2007, the Company incurred approximately $12.4 million of direct costs to sell the business segment ($3.6 million of which was incurred in the second quarter of 2007). The major classes of assets and liabilities related to the business segment at disposition were accounts receivable of $15.2 million, inventory of $32.7 million, property, plant and equipment of $36.5 million, and accounts payable and accruals of $11.4 million.

Prior periods have been restated to include the results of operations and related disposal costs, gains and losses for this business segment as discontinued operations. In addition, assets and liabilities of this business segment have been reported in assets and liabilities held for sale for all reported periods.

NOTE 3 – INVENTORIES

Inventories are summarized as follows:

	June 29, 2008	December 30, 2007
	(In thousands)	
Finished Goods	$ 104,826	$ 77,036
Work in Process	19,033	17,347
Raw Materials	28,180	31,406
	$ 152,039	$ 125,789

NOTE 4 – EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) to common shareholders by the weighted average number of shares of Class A and Class B Common Stock outstanding during the period. Shares issued or reacquired during the period have been weighted for the portion of the period that they were outstanding. Diluted earnings (loss) per share is calculated in a manner consistent with that of basic earnings (loss) per share while giving effect to all potentially dilutive common shares that were outstanding during the period. The computation of diluted earnings (loss) per share does not assume conversion or exercise of securities that would have an anti-dilutive effect on earnings (loss) per share. For the quarters ended June 29, 2008, and July 1, 2007, outstanding options to purchase 195,000 and 50,000 shares of common stock, respectively, were not included in the computation of diluted earnings per share as their impact would be anti-dilutive. For the six months ended June 29, 2008 and July 1, 2007, outstanding options to purchase 195,000 and 50,000 shares of common stock, respectively, were not included in the computation of diluted earnings per share as their impact would be anti-dilutive.

For the Three-Month Period Ended	Net Income	Average Shares Outstanding	Earnings Per Share
	(In Thousands Except Per Share Amounts)		
June 29, 2008	$ 15,876	61,523	$ 0.26
Effect of Dilution:			
Options and Restricted Stock	--	542	--
Diluted	$ 15,876	62,065	$ 0.26
July 1, 2007	$ 998	60,322	$ 0.02
Effect of Dilution:			
Options and Restricted Stock	--	1,249	--
Diluted	$ 998	61,571	$ 0.02

For the Six-Month Period Ended	Net Income (Loss)	Average Shares Outstanding	Earnings (Loss) Per Share
	(In Thousands Except Per Share Amounts)		
June 29, 2008	$ 29,998	61,425	$ 0.49
Effect of Dilution:			
Options and Restricted Stock	--	673	(0.01)
Diluted	$ 29,998	62,098	$ 0.48
July 1, 2007	$ (39,618)	60,210	$ (0.66)
Effect of Dilution:			
Options and Restricted Stock	--	1,225	0.02
Diluted	$ (39,618)	61,435	$ (0.64)

NOTE 5 – SEGMENT INFORMATION

Based on the quantitative thresholds specified in Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company has determined that it has three reportable segments: (1) the Modular Carpet segment, which includes its InterfaceFLOR, Heuga and FLOR modular carpet businesses, as well as its Intersept antimicrobial sales and licensing program, (2) the Bentley Prince Street segment, which includes its Bentley Prince Street broadloom, modular carpet and area rug businesses, and (3) the Specialty Products segment, which includes Pandel, Inc., a producer of vinyl carpet tile backing and specialty mat and foam products. The majority of the operations of the Specialty Products segment were sold on March 7, 2007 (see Note 11 for further information). In June of 2007, the Company entered into an agreement to sell its former Fabrics Group business segment, and the sale was completed in the third quarter of 2007 (see Note 2 for further information). Accordingly, the Company has included the operations of the former Fabrics Group business segment in discontinued operations. The former segment known as the Re:Source Network, which primarily encompassed the Company's owned Re:Source dealers that provided carpet installation and maintenance services in the United States, is also reported as discontinued operations in the accompanying consolidated condensed statements of operations.

The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2007, as filed with the Commission. Segment amounts disclosed are prior to any elimination entries made in consolidation, except in the case of net sales, where intercompany sales have been eliminated. The chief operating decision-maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of allocated corporate expenses, interest/other expense and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. Assets not identifiable to any individual segment are corporate assets, which are primarily comprised of cash and cash equivalents, short-term investments, intangible assets and intercompany amounts, which are eliminated in consolidation.

Segment Disclosures

Summary information by segment follows:

	Modular Carpet	Bentley Prince Street	Specialty Products	Total
		(In thousands)		
Three Months Ended June 29, 2008				
Net Sales	$ 259,313	$ 35,692	--	$ 295,005
Depreciation and Amortization	3,767	632	--	4,399
Operating Income	35,367	200	--	35,567
Three Months Ended July 1, 2007				
Net Sales	$ 225,523	$ 39,439	--	$ 264,962
Depreciation and Amortization	3,635	467	--	4,102
Operating Income	31,619	2,035	--	33,654

	Modular Carpet	Bentley Prince Street	Specialty Products	Total
		(In thousands)		
Six Months Ended June 29, 2008				
Net Sales	$ 485,386	$ 71,355	--	$ 556,741
Depreciation and Amortization	7,360	1,140	--	8,500
Operating Income	66,233	1,789	--	68,022
Six Months Ended July 1, 2007				
Net Sales	$ 430,777	$ 75,485	$ 2,192	$ 508,454
Depreciation and Amortization	7,179	933	12	8,124
Operating Income (Loss)	58,381	2,967	(1,733)	59,615

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

	Three Months Ended	Six Months Ended

	June 29, 2008	July 1, 2007	June 29, 2008	July 1, 2007
	(In thousands)		(In thousands)	
DEPRECIATION AND AMORTIZATION				
Total segment depreciation and amortization	$ 4,399	$ 4,102	$ 8,500	$ 8,124
Corporate depreciation and amortization	1,090	1,404	3,484	3,836
Reported depreciation and amortization	$ 5,489	$ 5,506	$ 11,984	$ 11,960
OPERATING INCOME				
Total segment operating income	$ 35,567	$ 33,654	$ 68,022	$ 59,615
Corporate expenses and other reconciling amounts	(2,131)	(2,761)	(3,615)	(4,414)
Reported operating income	$ 33,436	$ 30,893	$ 64,407	$ 55,201

	June 29, 2008	December 30, 2007
ASSETS		