

Edgar Filing: INTERFACE INC - Form 10-Q/A

INTERFACE INC  
Form 10-Q/A  
August 16, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For Quarterly Period Ended June 30, 2002

Commission File Number 0-12016  
-----

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 [X] No[ ]

Shares outstanding of each of the registrant's classes of common stock at August 8, 2002:

Class -----	Number of Shares -----
Class A Common Stock, \$.10 par value per share	44,168,229
Class B Common Stock, \$.10 par value per share	7,024,698

INTERFACE, INC.

INDEX

PART I. FINANCIAL INFORMATION

Edgar Filing: INTERFACE INC - Form 10-Q/A

Item 1. Financial Statements

Consolidated Condensed Balance Sheets - June 30, 2002  
and December 30, 2001

Consolidated Condensed Statements of Operations - Three Months  
and Six Months Ended June 30, 2002 and July 1, 2001

Consolidated Statements of Comprehensive Income (Loss) - Three  
Months and Six Months Ended June 30, 2002 and July 1, 2001

Consolidated Condensed Statements of Cash Flows - Six Months  
Ended June 30, 2002 and July 1, 2001

Notes to Consolidated Condensed Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition  
and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

-2-

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	JUNE 30, 2002 ---- (UNAUDITED)
ASSETS	
CURRENT ASSETS:	
Cash and Cash Equivalents	\$ 2,257
Accounts Receivable	156,635
Inventories	170,091

Edgar Filing: INTERFACE INC - Form 10-Q/A

Prepaid Expenses	28,772
Deferred Tax Asset	19,018
	-----
TOTAL CURRENT ASSETS	376,773
PROPERTY AND EQUIPMENT, less accumulated depreciation	252,283
GOODWILL	205,080
OTHER ASSETS	72,254
	-----
	\$906,390
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts Payable	\$65,718
Accrued Expenses	91,917
Current Maturities of Long-Term Debt	5
	-----
TOTAL CURRENT LIABILITIES	157,640
LONG-TERM DEBT, less current maturities	6,502
SENIOR NOTES	325,000
SENIOR SUBORDINATED NOTES	125,000
DEFERRED INCOME TAXES and OTHER	26,270
	-----
TOTAL LIABILITIES	640,412
	-----
Minority Interest	4,710
	-----
SHAREHOLDERS' EQUITY:	
Common Stock	5,119
Additional Paid-In Capital	221,245
Retained Earnings	119,706
Accumulated Other Comprehensive Income - Foreign Currency Translation	(73,741)
Minimum pension liability	(11,061)
	-----
TOTAL SHAREHOLDERS' EQUITY	261,268
	-----
	\$906,390
	=====

See accompanying notes to consolidated condensed financial statements.

-3-

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

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

Edgar Filing: INTERFACE INC - Form 10-Q/A

	THREE MONTHS ENDED	
	JUNE 30, 2002	JULY 1, 2001
NET SALES	\$240,593	\$287,285
Cost of Sales	171,075	204,387
GROSS PROFIT ON SALES	69,518	82,898
Selling, General and Administrative Expenses	57,283	71,476
OPERATING INCOME	12,235	11,422
Interest Expense	10,848	9,298
Other Expense	190	2
INCOME BEFORE TAXES ON INCOME	1,197	2,122
Income Tax Expense	420	850
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE	777	1,272
Cumulative Effect of Change in Accounting Principle (net of tax)	--	--
NET INCOME (LOSS)	\$ 777	\$ 1,272
Basic Earnings (Loss) Per Share	\$ .02	\$ .03
DILUTED EARNINGS (LOSS) PER SHARE	\$ .02	\$ .03
Average Shares Outstanding -- Basic	50,158	49,822
Average Shares Outstanding -- Diluted	51,404	50,471

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS)

	THREE MONTHS ENDED		JUNE 30, 2002
	JUNE 30, 2002	JULY 1, 2001	
Net Income (Loss)	\$ 777	\$ 1,272	\$(54,709)
Other Comprehensive Income, Foreign Currency Translation Adjustment	14,355	(5,727)	13,235
Comprehensive Income (Loss)	\$15,132	\$(4,455)	\$(41,474)

## Edgar Filing: INTERFACE INC - Form 10-Q/A

See accompanying notes to consolidated condensed financial statements.

-4-

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

	JUNE 30, 2002 -----	SIX MONTHS ENDED
CASH FLOWS FROM OPERATING ACTIVITIES:	\$13,598	\$ (
INVESTING ACTIVITIES:		
Capital expenditures	(4,690)	(
Other	(1,834)	-
	-----	-
	(6,524)	(
	-----	-
FINANCING ACTIVITIES:		
Net borrowing (reduction) of long-term debt	(175,406)	
Proceeds from issuance of bonds	175,000	
Refinancing costs	(5,470)	
Proceeds from issuance of common stock	1,306	
Issuance/Repurchase of common stock	--	
Dividends paid	(1,532)	
	-----	
	(6,102)	
	-----	
Net cash provided by (used for) operating, investing and financing activities	972	
Effect of exchange rate changes on cash	492	
	-----	
CASH AND CASH EQUIVALENTS:		
Net change during the period	1,464	
Balance at beginning of period	793	
	-----	
Balance at end of period	\$ 2,257	\$
	=====	=

See accompanying notes to consolidated condensed financial statements.

-5-

# Edgar Filing: INTERFACE INC - Form 10-Q/A

## 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 notes to the Company's year-end financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 30, 2001, as filed with the Commission.

The financial information included in this report has been prepared by the Company, without audit, and should not be relied upon to the same extent as audited financial statements. 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.

### NOTE 2 - INVENTORIES

Inventories are summarized as follows:

	June 30, 2002 -----	(In
Finished Goods	\$ 96,470	
Work in Process	36,825	
Raw Materials	36,796	
	-----	
	\$170,091	
	=====	

### NOTE 3 - RESTRUCTURING CHARGES

During 2001, the Company recorded a pre-tax restructuring charge of \$65.1 million. The charge reflected: (i) the withdrawal from the European broadloom market; (ii) the consolidation in the Company's raised/access flooring operations; (iii) the further rationalization of the U.S. broadloom operations; (iv) a worldwide workforce reduction of approximately 838 employees; and (v) the consolidation of certain non-strategic Re:Source Americas operations. The Company initially recorded a charge of \$62.2 million during the third quarter of 2001, and in the fourth quarter of 2001 recorded an additional \$2.9 million charge related to pension benefits for terminated European employees.

Specific elements of the restructuring activities, the related costs and current status of the plan are discussed below.

U.S.

Economic developments had caused a decline in demand for raised/access flooring, panel fabric and certain of the Company's other products. In order to better match the cost structure to the expected revenue base, the Company closed two raised/access flooring plants and one panel fabric plant, eliminated certain product lines, consolidated certain under-performing distribution locations and made other head-count reductions. A charge of approximately \$28.8 million was recorded representing the reduction of carrying value of the related property

Edgar Filing: INTERFACE INC - Form 10-Q/A

and equipment, impairment of intangible assets and other costs to close these operations. Additionally, the Company recorded approximately \$5.3 million of termination benefits associated with the facility closures and other head-count reductions.

Europe

For several years up through 2001, the Company's European broadloom operations had negative returns. The softening global economy during 2001, and the events of September 11, 2001 (which severely impacted consumers of broadloom carpet in the hospitality, leisure and airline businesses) led management to conclude that positive returns from this operation were unlikely for the near future. As a result, the Company elected to divest of this operation. The Company also elected to consolidate certain production and administrative facilities throughout Europe. A charge of approximately \$19.0 million was recorded representing the reduction of carrying value of the related property and equipment, impairment of intangible assets and other costs to close or dispose of these operations. Additionally, the Company recorded approximately \$12.0 million of termination benefits associated with the facility closures.

-6-

A summary of the restructuring activities is presented below:

	U.S.	EUR
	-----	-----
		(IN THO
Facilities consolidation.....	\$ 5,889	\$ 8
Workforce reduction.....	5,266	12
Product rationalization.....	15,735	1
Other impaired assets.....	6,997	9
	-----	-----
	\$ 33,887	\$ 31
	=====	=====

The restructuring charge was comprised of \$24.0 million of cash expenditures for severance benefits and other costs and \$41.1 million of non-cash charges, primarily for the write-down of carrying value and disposal of certain assets.

The termination benefits of \$17.3 million, primarily related to severance costs, are a result of aggregate reductions of approximately 838 employees. The staff reductions as originally planned were expected to be as follows:

	U.S.	EUROP
	-----	-----
Manufacturing.....	243	436
Selling and administrative.....	62	97
	-----	-----
	305	533
	=====	=====

## Edgar Filing: INTERFACE INC - Form 10-Q/A

As a result of the restructuring, approximately 800 employees were terminated through June 30, 2002. The charge for termination benefits and other costs to exit activities incurred during 2001 was reflected as a separately stated charge against operating income. The Company believes the remaining provisions are adequate to complete the plan.

The following table displays the activity within the accrued restructuring liability for the six-month period ended June 30, 2002:

### Termination Benefits

	U.S.	EURO
	-----	-----
		(IN THO
Balance, at December 30, 2001.....	\$ 1,971	\$ 9,
Cash payments.....	(1,854)	(9,
	-----	-----
Balance, at June 30, 2002.....	\$ 117	\$
	=====	=====

### Other Costs to Exit Activities

	U.S.	EUR
	-----	-----
		(IN THO
Balance, at December 30, 2001.....	\$ 1,199	\$ 6
Costs incurred.....	(1,015)	(1
	-----	-----
Balance, at June 30, 2002.....	\$ 184	\$ 4
	=====	=====

### NOTE 4 - EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share is computed by dividing net income (or 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. Basic earnings per share has been computed based upon 50,098,000 shares and 49,920,000 shares outstanding for the six-month periods ended June 30, 2002 and July 1, 2001, respectively. Diluted earnings per share is calculated in a manner consistent with that of basic earnings per share while giving effect to all dilutive potential common shares that were outstanding during the period. Diluted earnings per share has been computed based upon 50,098,000 shares and 50,739,000 shares outstanding for the six-month periods ended June 30, 2002 and July 1, 2001, respectively. During the first six months of 2002, there were vested, unexercised, in the money stock options for 2,642,000 shares. These shares were not included in the computation of the diluted per share amount because the Company was in a net loss position and, thus, any potential common shares were anti-dilutive.



## Edgar Filing: INTERFACE INC - Form 10-Q/A

The following is a reconciliation from basic earnings per share to diluted earnings per share for each of the periods presented:

For the Six-Month Period Ended -----	Net Income -----	Average S Outstand -----
June 30, 2002	\$ (54,709)	50,
Effect of Dilution: Options	--	-----
Diluted	\$ (54,709) =====	50, =====
July 1, 2001	\$ 5,702	49,
Effect of Dilution: Options	--	-----
Diluted	\$ 5,702 =====	50, =====

### NOTE 5 - SEGMENT INFORMATION

Based on the quantitative thresholds specified in SFAS 131, the Company has determined that it has two reportable segments: Floorcovering Products/Services and Interior Fabrics. The Floorcovering Products/Services segment manufactures, installs and services commercial modular and broadloom carpet, and the Interior Fabrics segment manufactures panel and upholstery fabrics.

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, 2001, as filed with the Commission. Segment amounts disclosed are prior to any elimination entries made in consolidation. The chief operating decision maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of interest/other expense and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. 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.

-8-

Segment Disclosures Summary information by segment follows:

(in thousands) -----	Floorcovering Products/Services -----	Interior Fabrics -----	Other (Includ Architectural Pro -----
-------------------------	---	------------------------------	---

Edgar Filing: INTERFACE INC - Form 10-Q/A

Six Months Ended			
June 30, 2002			
Net Sales	\$ 355,792	\$ 104,654	\$ 14,572
Depreciation and amortization	10,223	5,357	409
Operating Income	20,066	3,555	(954)
Total Assets	\$ 649,737	\$ 250,027	\$ 34,591

Six Months Ended			
July 1, 2001			
Net Sales	\$ 445,676	\$ 109,573	\$ 38,547
Depreciation and amortization	15,319	5,985	938
Operating Income	23,088	5,107	(1,117)
Total Assets	\$ 769,304	\$ 224,170	\$ 67,449

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

(in thousands)	Six Months Ended	
	June 30, 2002	July
	-----	-----
DEPRECIATION AND AMORTIZATION		
Total segment depreciation and amortization	\$ 15,989	\$
Corporate depreciation and amortization	2,820	
	-----	-----
Reported depreciation and amortization	\$ 18,809	\$
	=====	=====
OPERATING INCOME		
Total segment operating income	\$ 22,667	\$
Corporate expenses and other reconciling amounts	44	
	-----	-----
Reported operating income	\$ 22,711	\$
	=====	=====
ASSETS		
Total segment assets	\$ 934,355	\$1,
Corporate assets and eliminations	(27,965)	
	-----	-----
Reported total assets	\$ 906,390	\$1,
	=====	=====

NOTE 6 - LONG-TERM DEBT

On January 17, 2002, the Company amended and restated its revolving credit facility. The amendment and restatement, among other things, substituted certain lenders, changed certain covenants, and reduced the maximum borrowing amount to \$100 million. In connection with the amendment and restatement of the

## Edgar Filing: INTERFACE INC - Form 10-Q/A

facility, the Company issued the 10.375% Senior Notes discussed below. The amended facility matures May 15, 2005, subject to a possible extension of that maturity date to January 17, 2007 if the Company meets certain conditions relating to the repayment of long-term debt. Interest is charged at varying rates based on the Company's ability to meet certain performance criteria.

On January 17, 2002, the Company also completed a private offering of \$175 million in 10.375% Senior Notes due 2010. Interest is payable semi-annually on February 1st and August 1st beginning August 1st, 2002. Proceeds from the issuance of these Notes were used to pay down the revolving credit facility. The Notes are guaranteed, jointly and severally, on an unsecured senior basis by certain of the Company's domestic subsidiaries. At any time prior to February 1, 2005, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the proceeds of one or more equity offerings at a redemption price in cash equal to 110 3/8% of the principal amount thereof, plus accrued interest at the redemption date. On June 17, 2002, the Company completed an exchange offer pursuant to which the Notes were exchanged for substantially similar notes registered under the Securities Act.

### NOTE 7 - CHATHAM ENVIRONMENTAL ACCRUAL

Two years ago, the Company acquired certain assets and assumed certain liabilities of the Chatham Manufacturing division ("Chatham") of CMI Industries, Inc. As part of the acquisition, the Company engaged environmental consultants to review potential environmental liabilities at all Chatham properties. Based on their review, the environmental consultants recommended certain environmental remedial actions, including groundwater monitoring, and estimated the costs thereof. Based upon the cost estimates provided by the environmental consultants, as of December 30, 2001, the Company estimated that the range of the net present value of reasonably predictable costs of groundwater monitoring and other remedial actions was between \$7.9 million and \$10.2 million.

There have been two developments which have substantially reduced the estimated cost of environmental remediation associated with Chatham. First, during the quarter ended June 30, 2002, the Company assigned to the Town of Elkin, North Carolina, the Company's right and obligation to acquire from CMI Industries the wastewater treatment facility serving the Chatham properties (although, pursuant to the assignment agreement, the Company still has certain rights and obligations concerning environmental remediation at this site). Second, in conjunction with the aforementioned assignment, the Company determined that the wastewater treatment facility site should be eligible for remediation under the State of North Carolina's "brownfield" program, which generally requires a less stringent degree of remedial action. Subsequently, the State confirmed in writing the site's eligibility under the brownfield program.

As a result, the Company now believes that the estimated range of the net present value of reasonably predictable costs of groundwater monitoring and other remedial actions at Chatham and the wastewater treatment facility is between \$4.0 million and \$6.3 million. As of December 30, 2001, the Company had accrued approximately \$9.0 million, which at that time represented the best estimate available of the net present value of the costs of remedial actions discounted at 6%. In light of the developments described above, the accrual has been reduced to \$5.1 million. The reduction of the accrual was recorded as a reduction of "other expense" in the Statement of Operations during the quarter ended June 30, 2002, as there was no goodwill associated with the Chatham acquisition.

### NOTE 8 - WRITE-DOWN OF CERTAIN ASSETS

In the second quarter of 2002, the Company concluded that certain assets (specifically, accounts receivable and inventory) of Interface Americas Re:Source Technologies, Inc., a subsidiary of the Company which produces

## Edgar Filing: INTERFACE INC - Form 10-Q/A

adhesives and certain specialty chemicals, were overstated by approximately \$3.9 million. As a result, the Company recorded an appropriate charge, which is included in the caption "other expense" in the Statement of Operations, in the second quarter to write down the carrying amount of those assets. The overstatement related to periods prior to the year 2000, and the Company currently is considering whether any such period should be adjusted rather than retaining the charge as taken in the period ended June 30, 2002.

### NOTE 9 - SUPPLEMENTAL GUARANTOR FINANCIAL STATEMENTS

The Guarantor Subsidiaries, which consist of the Company's principal domestic subsidiaries, are guarantors of the Company's 10.375% senior notes due 2010, its 7.3% senior notes due 2008, and its 9.5% senior subordinated notes due 2005. The Supplemental Guarantor Financial Statements are presented herein pursuant to requirements of the Commission.

-10-

### INTERFACE, INC. AND SUBSIDIARIES

#### STATEMENT OF INCOME (LOSS) FOR THE SIX MONTHS ENDED JUNE 30, 2002

	GUARANTOR SUBSIDIARIES	NON- GUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)
	-----	-----	-----
			(IN THOUSANDS)
Net sales	\$ 393,554	\$145,526	\$ --
Cost of sales	303,026	100,195	--
	-----	-----	-----
Gross profit on sales	90,528	45,331	--
Selling, general and administrative expenses	69,829	32,771	10,548
	-----	-----	-----
Operating income (loss)	20,699	12,560	(10,548)
Interest/Other expense	8,279	1,991	11,452
	-----	-----	-----
Income (loss) before taxes on income and equity in income of subsidiaries	12,420	10,569	(22,000)
Income tax (benefit) expense	4,821	3,615	(8,118)
	-----	-----	-----
Income (loss) before change in accounting principle	7,599	6,954	(13,882)
Cumulative effect of change in accounting principle (net of tax)	(33,480)	(21,900)	--
Equity in income (loss) of subsidiaries	--	--	(40,827)
	-----	-----	-----
Net income (loss)	\$ (25,881)	\$ (14,946)	\$ (54,709)
	=====	=====	=====

-11-

Edgar Filing: INTERFACE INC - Form 10-Q/A

BALANCE SHEET

JUNE 30, 2002

	GUARANTOR SUBSIDIARIES -----	NON- GUARANTOR SUBSIDIARIES -----	INTERFACE, INC. (PARENT CORPORATION) -----
			(IN THOUSANDS)
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,918	\$ 4,610	\$ (6,271)
Accounts receivable	115,038	67,649	(26,052)
Inventories	114,842	55,249	---
Prepays and Deferred Tax Assets	10,651	10,875	26,264
	-----	-----	-----
Total current assets	244,449	138,383	(6,059)
Property and equipment			
less accumulated depreciation	166,177	72,448	13,658
Investment in subsidiaries	133,136	(45,437)	830,048
Goodwill	131,849	72,020	1,211
Other assets	9,812	11,162	51,280
	-----	-----	-----
	\$ 685,423	\$ 248,576	\$ 890,138
	=====	=====	=====
LIABILITIES AND COMMON SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 36,093	\$ 29,437	\$ 188
Accrued expenses	27,932	42,155	21,835
	-----	-----	-----
Total current liabilities	64,025	71,592	22,023
Long-term debt, less			
current maturities	6,420	82	---
Senior notes and senior			
subordinated notes	---	---	450,000
Deferred income taxes/other	15,343	(7,018)	17,945
	-----	-----	-----
Total liabilities	85,788	64,656	489,968
Minority interests		4,710	---
	---		
Redeemable preferred stock	57,891	---	---
Common stock	94,145	102,199	5,119
Additional paid-in capital	191,411	12,525	220,141
Retained earnings	257,304	138,331	183,216
Foreign currency translation adjustment	(1,116)	(62,784)	(8,306)
Minimum pension liability	--	(11,061)	---
	-----	-----	-----
	\$ 685,423	\$ 248,576	\$ 890,138
	=====	=====	=====

Edgar Filing: INTERFACE INC - Form 10-Q/A

STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS  
ENDED JUNE 30, 2002

	GUARANTOR SUBSIDIARIES	NON- GUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)
	-----	-----	-----
			(IN THOUSANDS)
Net cash provided by (used for) operating activities	\$ 16,932	\$ 6,585	\$ (9,919)
Cash flows from investing activities:			
Purchase of plant and equipment	( 6,529)	497	1,342
Other assets	(1,603)	---	(231)
	-----	-----	-----
Net cash provided by (used for) investing activities	(8,132)	497	1,111
	-----	-----	-----
Cash flows from financing activities:			
Net borrowings (repayments)	(8,882)	(9,406)	(157,118)
Proceeds from issuance of bonds	---	---	175,000
Refinancing costs	---	---	(5,470)
Proceeds from issuance/ repurchase of common stock	---	---	1,306
Cash dividends paid	---	---	(1,532)
	-----	-----	-----
Net cash provided by (used for) financing activities	(8,882)	(9,406)	12,186
	-----	-----	-----
Effect of exchange rate change on cash	480	12	---
	-----	-----	-----
Net increase (decrease) in cash	398	(2,312)	3,378
Cash at beginning of period	5,846	4,596	(9,649)
	-----	-----	-----
Cash at end of period	\$ 6,244	\$ 2,284	\$ (6,271)
	=====	=====	=====

NOTE 10 - NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board finalized Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations. SFAS 141 also requires the recognition of acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001, and to purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, the reclassification of the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires companies to identify reporting units for the

## Edgar Filing: INTERFACE INC - Form 10-Q/A

purpose of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires a transitional goodwill impairment test within six months from the date of adoption.

-13-

The Company adopted the new standards on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. In the second quarter of 2002, we completed the transitional goodwill impairment test required by SFAS 142. We used an outside consultant to help prepare valuations of our reporting units in accordance with the new standard, and we compared those valuations with the respective book values of the reporting units to determine whether any goodwill impairment existed. In preparing the valuations, we considered past, present and future expected performance, and applied several methods of using those inputs to arrive at the valuations. The test showed goodwill impairment in three of our overseas reporting units and five of our Americas reporting units. In all cases, the impairment primarily was attributable to actual and currently-forecasted revenue and profitability for the reporting unit being lower (consistent with the industry-wide decline in carpet sales and related services) than that anticipated at the time of the acquisition of the reporting unit. The effect of this accounting change (an after-tax charge of \$55.4 million, or \$1.11 per diluted share) has been recorded as the cumulative effect of a change in accounting principle effective the first quarter of fiscal 2002, as required by SFAS 142. The charge had no cash effect, and, as required, is presented net of tax.

In June 2001, the Financial Accounting Standards Board approved the issuance of SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 establishes accounting standards for the recognition and measurement of legal obligations associated with the retirement of tangible long-lived assets and requires recognition of a liability for an asset retirement obligation in the period in which it is incurred. The provisions of this statement are effective for financial statements issued for fiscal years beginning after June 15, 2002. We are in the process of evaluating the impact this standard will have on our financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting for the impairment or disposal of long-lived assets. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. We are in the process of evaluating the impact this standard will have on our financial statements.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145, "Rescission of SFAS No. 4, 44, 64, Amendment of SFAS No. 13, and Technical Corrections." SFAS 4, which was amended by SFAS 64, required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Opinion 30 will now be used to classify those gains and losses. SFAS 13 was amended to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The adoption of SFAS 145 will not have a current

## Edgar Filing: INTERFACE INC - Form 10-Q/A

impact on the Company's consolidated financial statements.

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Generally, SFAS 146 provides that defined exit costs (including restructuring and employee termination costs) are to be recorded on an incurred basis rather than on a commitment basis as is presently required. SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company currently anticipates that adoption of this statement will not have a material impact on its financial statements.

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

#### 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. Those statements include statements regarding the intent, belief or current expectations of the Company and members of its 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. 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 "Safe Harbor Compliance Statement for Forward-Looking Statements" included in Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2001, which discussion is hereby incorporated by reference, including but not limited to the discussion of specific risks and uncertainties under the headings "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," "Sales of our principal products may be affected by cycles in the construction and renovation of commercial and institutional buildings," "Our continued success depends significantly upon the efforts, abilities and continued service of our senior management executives and our design

-14-

consultants," "Our substantial international operations are subject to various political, economic and other uncertainties," "Our Chairman, together with other insiders, currently has sufficient voting power to elect a majority of our Board of Directors," "Large increases in the cost of petroleum-based raw materials, which we are unable to pass through to our customers, could adversely affect us," "Unanticipated termination or interruption of our arrangement with our primary third-party supplier of synthetic fiber could have a material adverse effect on us," "Our Rights Agreement, which is triggered if a third party acquires beneficial ownership of 15% or more of our common stock without our consent, could discourage tender offers or other transactions that could result in shareholders receiving a premium over the market price for our stock." 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.



## Edgar Filing: INTERFACE INC - Form 10-Q/A

### General

The Company's revenues are derived from sales of commercial floorcovering products (primarily modular and broadloom carpet) and related services, interior fabrics, architectural products and other specialty products. During the six-month period ended June 30, 2002, the Company had revenues of \$475.0 million, compared with revenues of \$593.8 million in the comparable period last year. In the first six months of 2002, the Company's implementation of Statement of Financial Accounting Standards ("SFAS") No. 142, entitled "Goodwill and Other Intangible Assets," resulted in a \$55.4 million after-tax write-down, the equivalent of \$1.11 per diluted share, primarily related to the impairment of goodwill. After the cumulative effect of SFAS No. 142, net loss for the six-month period ended June 30, 2002, was \$54.7 million, or \$(1.09) per diluted share. Excluding the cumulative effect of SFAS No. 142, income for the six-month period ended June 30, 2002, was \$0.7 million, or \$0.02 per diluted share, compared with net income of \$5.7 million, or \$0.11 per diluted share, in the comparable period last year.

### Results of Operations

For the three-month and six-month periods ended June 30, 2002, the Company's net sales decreased \$46.7 million (16.3%) and \$118.8 million (20.0%) compared with the same periods in 2001. The decreases were primarily attributable to (i) reduced corporate profits in general, which has led to decreased spending in the commercial interiors market; (ii) the decline of panel fabric sales to certain OEM furniture manufacturers as a result of reduced demand in the commercial interiors market; and (iii) reduced demand for steel panel products made by our raised/access flooring division.

Cost of sales, as a percentage of net sales, remained even at 71.1% for the three-month period ended June 30, 2002, compared with 71.1% in the comparable period in 2001. The Company was able to maintain a stable percentage year-over-year for the three-month period, despite a 16.3% year-over-year decline in net sales. For the six-month period ended June 30, 2002, cost of sales, as a percentage of net sales, increased slightly to 71.4%, compared with 71.1% in the same period in 2001. The stability of the percentage during the three-month period, as well as the slight percentage increase for the six-month period, reflect primarily (i) the under-absorption of fixed manufacturing costs due to lower volume levels, (ii) a flux in our relative sales mix from products which have had traditionally higher margins to those with traditionally lower margins, and (iii) other manufacturing costs associated with scaling production to meet current demand levels. The current year percentages also were favorably affected by the benefits of the 2001 restructuring activities.

Selling, general and administrative expenses, as a percentage of net sales, decreased to 23.8% and 23.8% for the three-month and six-month periods ended June 30, 2002, respectively, compared with 24.9% and 24.1% in the comparable periods in 2001. The percentage decrease primarily reflects benefits from the Company's 2001 restructuring activities, and also reflects an absolute dollar decrease in expenses compared with the same periods in 2001.

For the three-month and six-month periods ended June 30, 2002, interest expense increased \$1.6 million and \$2.4 million, respectively, compared with the same periods in 2001, due primarily to the Company's issuance of Senior Notes in January 2002 and higher interest rates on the Company's revolving credit facility (see below).

### Liquidity and Capital Resources

On January 17, 2002, the Company amended and restated its revolving credit facility. The amendment and restatement, among other things, substituted certain lenders, changed certain covenants, and reduced the maximum borrowing

## Edgar Filing: INTERFACE INC - Form 10-Q/A

amount to \$100 million. In connection with the amendment and restatement of the facility, the Company issued the 10.375% Senior Notes discussed below. The amended facility matures May 15, 2005, subject to a possible extension of that maturity date to January 17, 2007 if the Company

-15-

meets certain conditions relating to the repayment of long-term debt. Interest is charged at varying rates based on the Company's ability to meet certain performance criteria.

On January 17, 2002, the Company also completed a private offering of \$175 million in 10.375% Senior Notes due 2010. Interest is payable semi-annually on February 1st and August 1st beginning August 1st, 2002. Proceeds from the issuance of these Notes were used to pay down the revolving credit facility. On June 17, 2002, the Company completed an exchange offer pursuant to which the Notes were exchanged for substantially similar notes registered under the Securities Act.

The Company's primary source of cash during the six months ended June 30, 2002 was \$13.6 million from operating activities. The primary uses of cash during the six month period ended June 30, 2002 were (i) costs associated with the aforementioned issuance of 10.375% Senior Notes in January 2002, (ii) an increase in prepaid expenses, (iii) \$4.7 million for additions to property and equipment in the Company's manufacturing facilities, and (iv) \$1.5 million for the payment of dividends on outstanding common stock. Management believes that cash provided by operations and long-term loan commitments (including the issue of senior notes) will provide adequate funds for current commitments and other requirements in the foreseeable future; however, certain factors could affect the Company's free cash flow, including, but not limited to, the following factors discussed under the heading "Safe Harbor Compliance Statement for Forward-Looking Statements" in Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2001: "Sales of our principal products may be affected by cycles in the construction and renovation of commercial and institutional buildings," "Our substantial international operations are subject to various political, economic and other uncertainties," "Large increases in the cost of petroleum-based raw materials, which we are unable to pass through to our customers, could adversely affect us," and "Unanticipated termination or interruption of our arrangement with our primary third-party supplier of synthetic fiber could have a material adverse effect on us."

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a result of the scope and volume of its global operations, the Company is exposed to an element of market risk from changes in interest rates and foreign currency exchange rates. The Company's results of operations and financial condition could be impacted by this risk. The Company manages its exposure to market risk through its regular operating and financial activities and, to the extent appropriate, through the use of derivative financial instruments.

The Company employs derivative financial instruments as risk management tools and not for speculative or trading purposes. The Company monitors the use of derivative financial instruments through the use of objective measurable systems, well-defined market and credit risk limits, and timely reports to senior management according to prescribed guidelines. The Company has established strict counterparty credit guidelines and only enters into transactions with financial institutions with a rating of investment grade or

## Edgar Filing: INTERFACE INC - Form 10-Q/A

better. As a result, the Company considers the risk of counterparty default to be minimal.

**Interest Rate Market Risk Exposure.** Changes in interest rates affect the interest paid on certain of the Company's debt. To mitigate the impact of fluctuations in interest rates, management of the Company has developed and implemented a policy to maintain the percentage of fixed and variable rate debt within certain parameters. The Company maintains the fixed/variable rate mix within these parameters either by borrowing on a fixed-rate basis or entering into interest rate swap transactions. In the interest rate swaps, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal linked to LIBOR.

At June 30, 2002, the Company had utilized interest rate swap agreements to effectively convert approximately \$150 million of fixed rate debt into variable rate debt. The Company anticipates that for the remainder of fiscal 2002 it will not utilize swap agreements or other derivative financial instruments to convert variable rate to fixed rate debt, or vice versa.

**Foreign Currency Exchange Market Risk Exposure.** A significant portion of the Company's operations consists of manufacturing and sales activities in foreign jurisdictions. The Company manufactures its products in the U.S., Canada, England, Northern Ireland, the Netherlands, Australia and Thailand, and sells its products in more than 100 countries. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company distributes its products. The Company's 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 the Company's foreign operations with functional currencies other than the U.S. dollar transact business in countries other than the U.S., exchange rate changes between two foreign currencies could

-16-

ultimately impact the Company. Finally, because the Company reports in U.S. dollars on a consolidated basis, foreign currency exchange fluctuations can have a translation impact on the Company's financial position.

To mitigate the short-term effect of changes in currency exchange rates on the Company's sales denominated in foreign currencies, the Company regularly hedges by entering into currency swap contracts to hedge certain firm sales commitments denominated in foreign currencies. In these currency swap agreements, the Company and a counterparty financial institution exchange equal initial principal amounts of two currencies at the spot exchange rate. Over the term of the swap contract, the Company and the counterparty exchange interest payments in their swapped currencies. At maturity, the principal amount is re-swapped, at the contractual exchange rate.

The Company, as of June 30, 2002, recognized a \$13.2 million increase in its foreign currency translation adjustment account compared to December 30, 2001, primarily because of the weakening of the U.S. dollar against the euro.

**Sensitivity Analysis.** For purposes of specific risk analysis, the Company uses sensitivity analysis to measure the impact that market risk may

## Edgar Filing: INTERFACE INC - Form 10-Q/A

have on the fair values of the Company's market sensitive instruments.

To perform sensitivity analysis, the Company assesses 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 June 30, 2002. The market values that result from these computations are compared with the market values of these financial instruments at June 30, 2002. The differences in this comparison are the hypothetical gains or losses associated with each type of risk.

As of June 30, 2002, based on a hypothetical immediate 150 basis point increase in interest rates, with all other variables held constant, the market value of the Company's fixed rate long-term debt would be impacted by a net decrease of \$8.3 million. Conversely, a 150 basis point decrease in interest rates would result in a net increase in the market value of the Company's fixed rate long-term debt of \$9.2 million. At December 30, 2001, a 150 basis point movement would have resulted in the same approximate changes.

As of June 30, 2002, a 10% movement 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 the Company's financial instruments of \$6.7 million or an increase in the fair value of the Company's financial instruments of \$6.7 million. At December 30, 2001, a 10% movement would have resulted in the same changes. As the impact of offsetting changes in the fair market value of the Company's net foreign investments is not included in the sensitivity model, these results are not indicative of the Company's actual exposure to foreign currency exchange risk.

### PART II - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

None

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The Company held its annual meeting of shareholders on May 21, 2002.

-17-

- (b) Not applicable.

- (c) The matters considered at the annual meeting, and the votes cast for, against or withheld, as well as the number of abstentions and broker non-votes, relating to each matter, are

## Edgar Filing: INTERFACE INC - Form 10-Q/A

as follows:

Election of the following directors:

Class A	For
Dianne Dillon-Ridgley	36,957,165
June M. Henton	36,970,389
Christopher G. Kennedy	36,934,211
James B. Miller, Jr.	36,630,137
Thomas R. Oliver	36,941,587

Class B	For
Ray C. Anderson	5,307,334
Carl I. Gable	5,307,334
Daniel T. Hendrix	5,307,334
J. Smith Lanier, II	5,307,334
Leonard G. Saulter	5,307,334
Clarinus C. Th. van Andel	5,307,334

(d) Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed with this report:

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
3.1	Restated Articles of Incorporation (included as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 5, 1998, previously filed with the Commission and incorporated herein by reference).
3.2	Bylaws, as amended and restated (included as Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the quarter ended April 1, 2001, previously filed with the Commission and incorporated hereby by reference).
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.
4.2	Rights Agreement between the Company and Wachovia Bank, N.A., dated as of March 4, 1998, with an effective date of March 16, 1998 (included as Exhibit 10.1A to the Company's registration

## Edgar Filing: INTERFACE INC - Form 10-Q/A

statement on Form 8-A/A dated March 12, 1998, previously filed with the Commission and incorporated herein by reference).

- 4.3 Indenture governing the Company's 9.5% Senior Subordinated Notes due 2005, dated as of November 15, 1995, among the Company, certain U.S. subsidiaries of the Company, as Guarantors, and First Union National Bank of Georgia, as Trustee (included as Exhibit 4.1 to the Company's registration statement on Form S-4, File No. 33-65201, previously filed with the Commission and incorporated herein by reference); and Supplement No. 1 to Indenture, dated as of December 27, 1996 (included as Exhibit 4.2(b) to the Company's Annual Report on Form 10-K for the year ended December 29, 1996, previously filed with the Commission and incorporated herein by reference).

-18-

- 4.4 Form of Indenture governing the Company's 7.3% senior notes due 2008, among the Company, certain U.S. subsidiaries of the Company, as Guarantors, and First Union National Bank, as trustee (included as Exhibit 4.1 to the Company's registration statement on Form S-3/A, File No. 333-46611, previously filed with the Commission and incorporated herein by reference).
- 4.5 Indenture governing the Company's 10.375% Senior Notes due 2010, among the Company, certain U.S. subsidiaries of the Company, as Guarantors, and First Union National Bank, as Trustee (included as Exhibit 4.5 to the Company's Annual Report on Form 10-K for the year ended December 30, 2001 (the "2001 10-K"), previously filed with the Commission and incorporated herein by reference).
- 4.6 Registration Rights Agreement, dated as of January 17, 2002, among the Company, certain U.S. subsidiaries of the Company, as Guarantors, Salomon Smith Barney, Inc. and First Union Securities, Inc. (included as Exhibit 4.6 to the 2001 10-K, previously filed with the Commission and incorporated herein by reference).

- (b) No reports on Form 8-K were filed during the quarter ended June 30, 2002.

-19-

### 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.

Edgar Filing: INTERFACE INC - Form 10-Q/A

INTERFACE, INC.

Date: August 16, 2002

By: /s/ Patrick C. Lynch

-----  
Patrick C. Lynch  
Vice President  
(Principal Financial Officer)

-20-