

2019 Annual Report



Dear Fellow Shareowners,

In the past, these annual reflections have come easily to me, but not this year. As I write this on March 30, 2020, the world is changing dramatically, almost daily. By the time this gets to you, it will have changed even more. It's almost impossible to reflect on 2019 in the context of the stark differences of the here and now, so I want to acknowledge a few things about our business that have become even more clear to me as we manage through the COVID-19 pandemic.

We've been students of adaptation and resilience for a long time due to our sustainability journey. We're leaning heavily into our capacity for both as we continue to make and sell our flooring for our customers who are providing essential services – the number one pharmacy chain in the United States, hospitals and other healthcare facilities, senior living, banks, the transportation companies and the IT companies that help us perform our jobs remotely, and so many more. What we do matters to the people and companies who matter the most right now.

Adaptability is coming into play as we flex our global capacity for carpet tile manufacturing. We envision rolling production across areas of recovery around the globe so that we can continue to serve our customers. Our supply chain is flexible enough to work with us as business ebbs and flows. We are doubling down on cost reduction measures which include a contraction of our employee base, which is undoubtedly the most painful part. Along with all of you reading this, we are hoping to minimize the impacts while looking at both best- and worst-case scenarios.

That said, as I reflect on 2019, I am pleased to report that Interface delivered a successful year and made substantial progress toward our goal to become the world's most valuable interior products and services company. We didn't understand how important the hard work we've done over the past five years would be – it has strengthened and diversified our business, positioning us to better weather this storm. I am proud to be back at the helm, and I am committed to partnering with our talented leadership team to help prove to you that we are built to last.

In 2019, we delivered net sales of \$1.3 billion and adjusted earnings per share of \$1.59, the best in Interface's history.

Sales were up 14% for the year, demonstrating the value of the 2018 nora® acquisition. Organic sales were up 2%, with carpet tile remaining a strong foundation for the company and resilient flooring a key driver of growth. Our LVT products continue to expand our market reach and meet customer needs in all of the industries we serve including office, education, healthcare, multi-family and tenant improvement segments. And while currency headwinds produced a \$4 million negative translation impact on our operating income for the year, we saw positive growth in local currencies in both EMEA and APAC last year.

We also continue to realize savings from our productivity initiatives, reaching adjusted gross profit margin of 40.4% in the fourth quarter of 2019. In addition, we reduced total debt by \$30 million in the fourth quarter and remain committed to our deleveraging strategy.

Sustainability Progress

I want to thank our employees around the globe for helping us meet our 2020 Mission Zero® goals a year early. Our employees are invigorated and committed to our Climate Take Back™ mission and our goal to become a carbon negative enterprise by 2040.

We expanded our Carbon Neutral Floors™ program to include nora products in 2019. With all of the flooring products that we sell now a part of this program, our customers can further reduce the carbon footprint of their own projects, helping us advance our Climate Take Back mission.

The productivity investments at our Troup County manufacturing operations have not only improved efficiency, they have also helped lay the foundation for our new backings system. We expect to introduce new manufacturing innovations later this year that will significantly reduce the carbon footprint of our products and help us deliver on our sustainability goals, while increasing our addressable market with additional bio-based and non-PVC products.

And we continue to receive acknowledgement for these advancements around the world. Just recently, Fast Company recognized Interface as one of the world's most innovative companies for meeting Mission Zero a year early and our work with Carbon Neutral Floors. Additionally, we won awards in 2019 in India and France for our sustainability efforts. We maintained our position as the #1 Green Leader in the 2019 Floor Focus Top 250 Design Leaders survey, and we continue to be recognized as one of the top leaders among household consumer brands in the annual GlobeScan Sustainability Leaders Report. This recognition shows that our mission resonates with both customers and sustainability influencers.

2020 and Beyond

I am excited to be steering this great organization again as CEO and remain optimistic about where we are going as a business, despite the shared challenges we all face with the global COVID-19 pandemic and macroeconomic environment.

We remain focused on driving our strategic agenda and are energized by key building blocks for growth:

- We have a robust pipeline of new product design and innovations in both the hard and soft flooring categories.
- New cutting-edge tufting technology allows us to design products reminiscent of hand-woven and flat-weave rugs that will continue to set us apart from the competition.
- We have renewed focus on key strategic growth opportunities, including segment penetration, particularly in healthcare and education, and we have a diversified pricing strategy to address needs at varying price points.
- We are accelerating cross-selling opportunities across our product portfolio and across market segments, and we remain focused on driving productivity in the selling system.

Our immediate priorities for 2020 focus on supporting the health and welfare of our employees, customers, and partners while maintaining the strength of our business operations and our ability to serve our customers until the COVID-19 situation is behind us. The long-term fundamentals of our business are solid, and our balance sheet is strong. I'm confident that the entrepreneurial spirit of our steadfast team will help us navigate the challenges ahead and drive meaningful growth over the long-term.

As always, I thank you for your continued support, trust, and investment in Interface.



Daniel T. Hendrix



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 29, 2019
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No.: 001-33994

Interface, Inc.

(Exact name of registrant as specified in its charter)

Georgia

58-1451243

(State of incorporation)

(I.R.S. Employer Identification No.)

1280 West Peachtree Street

Atlanta

Georgia

30309

(Address of principal executive offices)

(zip code)

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

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

Title of Each Class

Trading Symbol(s)

Name of Each Exchange on Which Registered:

Common Stock, \$0.10 Par Value Per Share

TILE

Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934. (Check one)

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of June 28, 2019: \$879,270,883 (57,356,222 shares valued at the closing sale price of \$15.33 on June 28, 2019). See Item 12.

Number of shares outstanding of each of the registrant's classes of Common Stock, as of February 18, 2020:

Class

Number of Shares

Common Stock, \$0.10 par value per share

58,299,201

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

Introduction and General

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

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

We are a worldwide leader in design, production and sales of modular carpet, also known as carpet tile. As a global company with a reputation for high quality, reliability and premium positioning, we market modular carpet in over 110 countries under the established brand names *Interface*® and *FLOR*®. In 2017, we globally launched a line of LVT products, which represented our first introduction into a category of products that we call resilient flooring. On August 7, 2018, the Company acquired nora Holding GmbH (“nora”) a global leader in performance flooring and worldwide leader in the rubber flooring category under the established nora brands *norament*® and *noraplan*®.

The nora acquisition is expected to advance the Company’s growth strategy in expanding market segments, particularly in the healthcare, life sciences and education market segments. Similar to Interface, nora operates on an international footprint and the Company expects the acquisition will also allow for geographic sales synergies as well. The results of operations for this acquisition have been consolidated with those of the Company from the acquisition date forward.

Capitalizing on our acquisition of nora, as well as our leadership in modular carpet for the corporate office market segment, we are executing a market diversification strategy to increase our presence and market penetration for modular carpet in non-corporate office market segments, such as government, education, healthcare, hospitality and retail space. As a result of our efforts, our mix of corporate office versus non-corporate office modular carpet and LVT sales in the Americas was 47% and 53%, respectively, for 2019. Company-wide, our mix of corporate office versus non-corporate office modular carpet and LVT sales was 61% and 39%, respectively, in 2019. We believe the appeal and utilization of modular carpet is growing in non-corporate office market segments, and we are using our considerable skills and experience with designing, producing and marketing modular products that make us a market leader in the corporate office segment to support and facilitate our penetration into these segments around the world. Rubber flooring also is an attractive product for non-corporate applications and the acquisition of nora will continue to allow for growth of non-corporate office markets.

Our principal geographic markets are the Americas, Europe and Asia-Pacific, where the percentages of our total net sales were approximately 57%, 29% and 14%, respectively, for fiscal year 2019.

Our Strengths

Our principal competitive strengths include:

Market Leader in Attractive Modular Carpet Segment. We are a global manufacturer and global leader in the commercial carpet tile industry. Modular carpet has become more prevalent across all commercial interior markets as designers, architects and end users have become more familiar with its unique attributes, including its dynamic design capabilities, greater economic value (which includes lower costs as a result of reduced waste in both installation and replacement), and installation ease and speed. We continue to drive this trend with our product innovations and designs discussed below. We believe that we are well positioned to lead and capitalize upon the market for modular carpet, both domestically and around the world.

Established Brands and Reputation for Quality, Reliability and Leadership. Our products are known in the industry for their high quality, reliability and premium positioning in the marketplace, and our established brand names are leaders in the industry. *Interface* is a well-recognized brand name in carpet tile for commercial and institutional use. More generally, we believe that as the appeal and utilization of modular carpet continues to expand into market segments such as government, healthcare, education, hospitality, retail and multi-tenant residential space; our reputation as the pioneer of modular carpet — as well as our established brands and leading market position for modular carpet in the corporate office segment — will enhance our competitive advantage in marketing to the customers in these markets. Our acquisition of nora, which is a global leader in rubber flooring, further strengthens our strong global brand reputation.

Innovative Product Design and Development Capabilities. Our product design and development capabilities have long given us a significant competitive advantage, and we believe they continue to do so as modular carpet's appeal and utilization expand across virtually every market segment and around the globe. One of our design innovations is the introduction of long and narrow rectangular carpet tiles in the shape of planks, and even more narrow versions known as *Skinny Planks*[™]. The use of planks and *Skinny Planks* increases the design versatility of our carpet tile, as these products can create aesthetics (such as a herringbone pattern) that are different from, or enhance, that of our traditional square carpet tiles. Nora also offers design capabilities and a wide variety of color palate options which provide attractive and resilient flooring options to our customers.

The award-winning design firm David Oakey Designs has had a pivotal role in developing many of our innovative product designs, and our long-standing exclusive relationship with David Oakey Designs remains vibrant and augments our internal research, development and design staff. As another example, David Oakey Designs has developed products that are manufactured using state-of-the-art tufting technology which allows us to pinpoint tufts of different colored yarns in virtually any arrangement within a carpet tile. These unique designs are best exemplified by our *Urban Retreat*[®], *Net Effect*[®], *Human Nature*[®] and *World Woven*[®] collections, which are sold throughout our international operations.

Historically, one of our best design innovations is our *i2*[™] modular product line, which includes our popular *Entropy*[®] product for which we received a patent in 2005 on the key elements of its design. The *i2* line introduced and features mergeable dye lots, and includes a number of carpet tile products that are designed to be installed randomly without reference to the orientation of neighboring tiles. The *i2* line offers cost-efficient installation and maintenance, interactive flexibility, and recycled and recyclable materials. Another innovation is our *TacTiles*[®] carpet tile installation system, which uses small squares of adhesive plastic film to connect intersecting carpet tiles, thus eliminating the need for traditional carpet adhesive and resulting in a reduction in installation time and material waste.

Made-to-Order and Custom Products; Global Manufacturing Capabilities. We have a distinct competitive advantage in meeting two principal requirements of the specified products markets we primarily target — that is, providing made-to-order and custom samples quickly, and on-time delivery of made-to-order or customized final products. We also can generate realistic digital samples that allow us to create a virtually unlimited number of new design concepts and distribute them instantly for customer review, while at the same time reducing sampling waste.

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

Our global manufacturing capabilities in modular carpet production are an important component of our strength in these areas, and give us an advantage in serving the needs of multinational corporate customers that require products and services at various locations around the world. Our manufacturing locations across four continents enable us to compete effectively with local producers in our international markets, while giving international customers more favorable delivery times and freight costs.

Recognized Global Leadership in Ecological Sustainability. Our long-standing goal and commitment to be ecologically sustainable — that is, the point at which we are no longer a net “taker” from the earth and do no harm to the biosphere — have emerged as a competitive strength for our business and remain a strategic initiative. It includes *Mission Zero*[®], our global branding initiative, which represents our mission to eliminate any negative impact our company may have on the environment. It also includes a bold new mission called *Climate Take Back*[™], in which we seek to lead the industry in designing and making products in ways that will maintain a climate fit for life. Our acknowledged leadership position and expertise in this area resonate deeply with many of our customers and prospects around the globe, and provide us with a differentiating advantage in competing for business among architects, designers and end users of our products, who often make purchase decisions based on sustainability factors.

Experienced and Motivated Management and Sales Force. An important component of our competitive position is the quality of our management team and its commitment to developing and maintaining an engaged and accountable workforce. Our team is highly skilled and dedicated to guiding our overall growth and expansion into our targeted market segments, while maintaining our leadership in traditional markets and our strong contribution margins. We utilize an internal marketing and predominantly commissioned sales force of more than 1,100 experienced personnel, stationed at over 70 locations in over 30 countries, to market our products and services in person to our customers. Our incentive compensation and our sales and marketing training programs are tailored to promote performance and facilitate leadership by our executives both in strategic areas as well as the Company as a whole.

Our Business Strategy and Principal Initiatives

Our business strategy is to continue to use our leading position in modular carpet and our product design and global made-to-order capabilities as a platform from which to drive acceptance of our modular carpet, LVT products and rubber flooring products across several industry segments, while maintaining our leadership position for modular carpet in the corporate office market segment. These efforts generally are described in the following strategic pillars:

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

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

Penetrate Expanding Geographic Markets for Modular Products. While maintaining our leadership in the corporate office segment, we will continue to build upon our position as the worldwide leader for modular carpet in order to promote sales in all market segments globally. A principal part of our international focus – which utilizes our global marketing capabilities and sales infrastructure – is the significant opportunities in several emerging geographic markets for modular carpet. These emerging markets, such as China, India and Eastern Europe, represent large and growing economies and opportunities for Interface to leverage its brand, experience and skills. Other expanding geographic markets such as Germany are established markets that are transitioning to the use of modular carpet from historically low levels of penetration. Each of these geographic markets represents a significant growth opportunity for our modular carpet business.

Continue to Penetrate Non-Corporate Office Market Segments. We will continue our strategic focus on product design and marketing and sales efforts for non-corporate office market segments such as government, education, healthcare, hospitality, retail and multi-tenant residential space. We began this initiative as part of a market diversification strategy to reduce our exposure to the economic cyclicality of the corporate office segment, and it has become a principal strategy generally for growing our business and enhancing profitability. To implement this strategy, we introduced specialized product offerings tailored to the unique demands of these segments and created targeted selling techniques dedicated to penetrating certain segments.

As part of this strategy, our *FLOR* line of products focuses on the U.S. residential carpet and area rug market segment. These products were specifically created to bring high style modular carpet and rugs to the North American residential market. Historically, we offered *FLOR* in three primary sales channels – catalogs, the Internet, and in our *FLOR* retail stores. In the fourth quarter of 2016, we adopted a restructuring plan that included the closure of *FLOR*’s headquarters office and most retail *FLOR* stores. In 2017, we completed our restructuring plan and now *FLOR* focuses on internet sales as well as crossover sales by our commercial sales force.

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

Continue to Drive Productivity and Invest Strategically. Our supply chain and other productivity initiatives in recent years have improved our cost structure and yielded operating efficiencies. We plan to continue our productivity initiatives to increase profitability by taking advantage of strategic opportunities to invest in systems, processes and personnel that can help us grow our business and increase profitability and value.

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

capacity to increase production levels without significant capital expenditures will further enhance our generation of free cash flow as demand for our products rises.

Sustain Leadership in Product Design and Development. As discussed above, our leadership position for product design and development is a competitive advantage and key strength. Our plank, *Skinny Plank*, and *i2* products and *TacTiles* installation system have confirmed our position as an innovation leader in modular carpet. We will continue initiatives to sustain, augment and capitalize upon that strength to continue to increase our market share in targeted market segments. Our *Mission Zero* and *Climate Take Back* initiatives, which draw upon and promote our sustainability commitment, are part of those initiatives and include placing our *Mission Zero* and *Climate Take Back* logos on many of our marketing and merchandising materials distributed throughout the world.

Challenges

In order to capitalize on our strengths and to implement successfully our business strategy and the principal initiatives discussed above, we will have to handle successfully several challenges that confront us or that affect our industry in general. As discussed in the Risk Factors in Item 1A of this Report, several factors could make it difficult for us, including:

- sales of our principal products have been and may continue to be affected by adverse economic cycles in the renovation and construction of commercial and institutional buildings;
- success of the nora acquisition will depend substantially on our ability to realize the expected synergies and other benefits from combining the Company's legacy business and nora, and nora may not contribute to the revenue and profitability of the combined business as much as we expect;
- we compete with a large number of manufacturers in the highly competitive commercial floorcovering products market, and some of these competitors have greater financial resources than we do;
- our success depends significantly upon the efforts, abilities and continued service of our senior management executives and our principal design consultant, and our loss of any of them could affect us adversely;
- our substantial international operations are subject to various political, economic and other uncertainties that could adversely affect our business results;
- large increases in the cost of petroleum-based raw materials could adversely affect us if we are unable to pass these cost increases through to our customers;
- unanticipated termination or interruption of any of our arrangements with our primary third-party suppliers of synthetic fiber or our sole third party supplier for LVT could have a material adverse effect on us;
- we have a significant amount of indebtedness, which could have important negative consequences to us; and
- some of our competitors who have greater financial resources than we do are adding manufacturing capacity into the industry throughout the world, which could increase the amount of supply in the market, adversely affect pricing in the market, and generate other competitive factors which could adversely impact our sales and profitability.

We believe our business model is strong enough, and our strategic initiatives are properly calibrated, for us to handle these and other challenges we will encounter in our business.

Seasonality

Historically, our first quarter has typically been our slowest quarter while our fourth quarter has typically been our best quarter, with sales generally increasing throughout the course of the fiscal year. However, in recent years, as our sales efforts and results in the education and other market segments have increased and currency fluctuations have impacted us; our second and third quarter sales have sometimes been the highest.

Our Products and Services

Modular Carpet

Interface is the world's largest manufacturer and marketer of modular carpet. Our modular carpet system, which is marketed under the established global brands *Interface* and *FLOR*, utilizes carpet tiles cut in precise, dimensionally stable squares (usually 50 cm x 50 cm) or rectangles (such as planks and *Skinny Planks*) to produce a floorcovering that combines the appearance and texture of traditional soft floorcovering with the advantages of a modular carpet system. Our *GlasBac*® technology employs a fiberglass-reinforced polymeric composite backing that provides dimensional stability and reduces the need for adhesives or fasteners. We also make carpet tiles with a backing containing post-industrial and/or post-consumer recycled materials, which we market under the *GlasBacRE* brand. In addition, we make carpet tile with yarn containing varying degrees of post-consumer nylon, depending on the style and color.

Our carpet tile has become popular for a number of reasons. Carpet tile incorporating our reinforced backing may be easily removed and replaced, permitting rearrangement of furniture without the inconvenience and expense associated with removing, replacing or repairing other soft surface flooring products, including broadloom carpeting. Because a relatively small portion of a carpet installation often receives the bulk of traffic and wear, the ability to rotate carpet tiles between high traffic and low traffic areas and to selectively replace worn tiles can significantly increase the average life and cost efficiency of the floorcovering. In addition, carpet tile facilitates access to sub-floor air delivery systems and telephone, electrical, computer and other wiring by lessening disruption of operations. It also eliminates the cumulative damage and unsightly appearance commonly associated with frequent cutting of conventional carpet as utility connections and disconnections are made. We believe that, within the overall floorcovering market, the worldwide demand for modular carpet is increasing as more customers recognize these advantages.

We use a number of conventional and technologically advanced methods of carpet construction to produce carpet tiles in a wide variety of colors, patterns, textures, pile heights and densities. These varieties are designed to meet both the practical and aesthetic needs of a broad spectrum of commercial interiors – particularly offices, healthcare facilities, airports, educational and other institutions, hospitality spaces, and retail facilities – and residential interiors. Our carpet tile systems permit distinctive styling and patterning that can be used to complement interior designs, to set off areas for particular purposes and to convey graphic information. While we continue to manufacture and sell a substantial portion of our carpet tile in standard styles, most of our modular carpet sales in the Americas and Asia-Pacific are custom or made-to-order products designed to meet customer specifications.

In addition to general uses of our carpet tile, we produce and sell a specially adapted version of our carpet tile for the healthcare facilities market. Our carpet tile possesses characteristics — such as the use of the *Intersept*® antimicrobial, static-controlling nylon yarns, and thermally pigmented, colorfast yarns — which make it suitable for use in these facilities in place of hard surface flooring. Moreover, we launched our *FLOR* line of products to specifically target modular carpet sales to the residential market segment. We also have created modular carpet products specifically designed for each of the education, hospitality and retail market segments.

We also manufacture and sell two-meter roll goods that are structure-backed and offer many of the advantages of both carpet tile and broadloom carpet. These roll goods are often used in conjunction with carpet tiles to create special design effects. Our current principal customers for these products are in the education, healthcare and government market segments.

Modular Resilient Flooring

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

In 2017, we launched our LVT products globally, beginning with the Level Set™ Collection which includes 41 styles of tiles with printed top layers in a variety of aesthetic looks, including natural woodgrains and stones, textured woodgrains, and patterns. These products are modular and come in sizes that match certain of our modular carpet planks and squares. They also are engineered to the same height as our modular carpet, which means better coverage of irregularities in the sub-floor, lower sound transference from floor to floor, and the ability to install our LVT and modular carpet products side by side

without transition strips or layering. In addition, the Level Set Collection is constructed with the same type of backing as our carpet tiles.

Rubber Flooring

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

Other Products and Services

We sell a proprietary antimicrobial chemical compound under the registered trademark *Intersept* that we incorporate in some of our modular carpet products. We also sell our *TacTiles* carpet tile installation system, along with a variety of traditional adhesives and products for carpet installation and maintenance that are manufactured by a third party. We also continue to provide "turnkey" project management services for global accounts and other large customers through our *InterfaceSERVICES*™ business.

Marketing and Sales

We distribute our products through two primary channels: (1) direct sales to end users; and (2) indirect sales through independent contractors or distributors. We have traditionally focused our carpet marketing strategy on major accounts, seeking to build lasting relationships with national and multinational end-users, and on architects, engineers, interior designers, contracting firms, and other specifiers who often make or significantly influence purchasing decisions. While most of our sales are in the corporate office segment, both new construction and renovation, we also emphasize sales in other segments, including retail space, government institutions, schools, healthcare facilities, tenant improvement space, hospitality centers, residences and home office space. Our marketing efforts are enhanced by the established and well-known brand names of our carpet products, including *Interface* and *FLOR*, as well as the strength of the nora rubber flooring brands of *noraplan*® and *norament*®.

An important part of our marketing and sales efforts involves the preparation of custom-made samples of requested carpet designs, in conjunction with the development of innovative product designs and styles to meet the customer's particular needs. In most cases, we can produce samples to customer specifications in less than five days, which significantly enhances our marketing and sales efforts and has increased our volume of higher margin custom or made-to-order sales. In addition, through our websites, we have made it easy to view and request samples of our products. We also use technology which allows us to provide digital, simulated samples of our products, which helps reduce raw material and energy consumption associated with our samples.

We primarily use our internal marketing and sales force to market our carpet products. In order to implement our global marketing efforts, we have product showrooms or design studios in the United States, Canada, Mexico, Brazil, Denmark, England, France, Germany, Spain, the Netherlands, India, Australia, Norway, United Arab Emirates, Russia, Singapore, Hong Kong, Thailand, China and elsewhere. We expect to open offices in other locations around the world as necessary to capitalize on emerging marketing opportunities.

Manufacturing

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

Having several foreign manufacturing operations enables us to supply our customers with carpet from the location offering the most advantageous delivery times, duties and tariffs, exchange rates, and freight expense, and enhances our ability to develop a strong local presence in foreign markets. We believe that the ability to offer consistent products and services on a worldwide basis at attractive prices is an important competitive advantage in servicing multinational customers seeking global supply relationships. We will consider additional locations for manufacturing operations in other parts of the world as necessary to meet the demands of customers in international markets. For our rubber production we have one manufacturing facility, but we have regional warehouses to achieve advantageous delivery times and optimal freight costs.

Our raw materials are generally available from multiple sources – both regionally and globally – with the exception of synthetic fiber (nylon yarn). For yarn, we principally rely upon two major global suppliers, but we also have significant

relationships with at least two other suppliers. Although our number of principal yarn suppliers is limited, we do have the capability to manufacture carpet using face fiber produced from two separate polymer feedstocks – nylon 6 and nylon 6,6 – which provides additional flexibility with respect to yarn supply inputs, if needed. Our global sourcing strategy, including with respect to our principal yarn suppliers and dual polymer manufacturing capability, allows us to help guard against any potential shortages of raw materials or raw material suppliers in a specific polymer supply chain. For rubber flooring, the key polymer raw materials are available from multiple sources and we can source both synthetic and natural rubber depending on product specification and material availability.

We have a flexible-inputs carpet backing line, which we call *Cool Blue*[™], at our modular carpet manufacturing facility in LaGrange, Georgia. Using next generation thermoplastic technology, the custom-designed backing line dramatically improves our ability to keep reclaimed and waste carpet in the production “technical loop,” and further permits us to explore other plastics and polymers as inputs. We also have technology that more cleanly separates the face fiber and backing of reclaimed and waste carpet, thus making it easier to recycle some of its components and providing a purer supply of inputs for the *Cool Blue* process. This technology, which is part of our *ReEntry*^{®2.0} carpet reclamation program, allows us to send some of the reclaimed face fiber back to our fiber supplier to be blended with virgin or other post-industrial materials and extruded into new fiber.

The environmental management systems of our floorcovering manufacturing facilities in LaGrange, Georgia, West Point, Georgia, Northern Ireland, the Netherlands, Thailand, China and Australia are certified under International Standards Organization (ISO) Standard No. 14001. Nora’s manufacturing facility, which is located in Weinheim, Germany, is ISO14001 certified as well and sells the majority of its products with the Blauer Engel label. Blauer Engel is the leading German institute that recognizes products that have environmentally friendly aspects.

Our significant international operations are subject to various political, economic and other uncertainties, including risks of restrictive taxation policies, foreign exchange risk, changing political conditions and governmental regulations. We also receive a substantial portion of our revenues in currencies other than U.S. dollars, which makes us subject to the risks inherent in currency translations. In some markets, we also purchase raw materials in one currency (such as the U.S. dollar or Euro) and sell our products in a local currency which can affect our margins due to foreign currency transaction risk. Although our ability to manufacture and ship products from facilities in several foreign countries reduces the risks of foreign currency fluctuations we might otherwise experience, from time to time we engage in hedging programs intended to reduce those risks.

Competition

We compete, on a global basis, in the sale of our modular carpet products with other carpet manufacturers and manufacturers of vinyl and other types of floorcoverings, including broadloom carpet. Although the industry has experienced significant consolidation, a large number of manufacturers remain in the industry. We believe we are the largest manufacturer of modular carpet in the world. However, a number of domestic and foreign competitors manufacture modular carpet as one segment of their business, and some of these competitors have financial resources greater than ours. In addition, some of the competing carpet manufacturers have the ability to extrude at least some of their requirements for fiber used in carpet products, which decreases their dependence on third party suppliers of fiber.

We believe the principal competitive factors in our primary floorcovering markets are brand recognition, quality, design, service, broad product lines, product performance, marketing strategy, pricing and sustainability. In the corporate office market segment, modular carpet competes with various floorcoverings including broadloom carpet, polished concrete and LVT. We believe the quality, service, design, better and longer average product performance, flexibility (design options, selective rotation or replacement, use in combination with our LVT or roll goods), sustainability and convenience of our modular carpet are our principal competitive advantages.

We believe we have competitive advantages in several other areas as well. First, having both an internal design staff as well as our relationship with David Oakey Designs allows us to introduce numerous innovative and attractive carpet tile and LVT products to our customers. Additionally, we believe that our global carpet tile manufacturing capabilities are an important competitive advantage in serving the needs of multinational corporate customers. We believe that the incorporation of the *Intersept* antimicrobial chemical agent into the backing of some modular carpet products enhances our ability to compete successfully across all of our market segments generally, and specifically with resilient tile in the healthcare market.

In addition, we believe that our sustainability goals are a brand-enhancing, competitive strength as well as a strategic initiative. Our customers are concerned about the environmental and broader ecological implications of their operations and the products they use in them. Our leadership, knowledge and expertise in the area, especially in the “green building” movement and related environmental certification programs, resonate deeply with many of our customers and prospects around the globe. Our modular carpet products historically have had inherent installation and maintenance advantages that

translated into greater efficiency and waste reduction. We are using raw materials and production technologies, such as our *Cool Blue* backing line and our *ReEntry 2.0* reclaimed carpet separation process, that directly reduce the adverse impact of those operations on the environment and limit our dependence on petrochemicals.

Product Design, Research and Development

We maintain an active research, development and design staff of approximately 90 people and also draw on the research and development efforts of our suppliers, particularly in the areas of fibers, yarns and modular carpet backing materials.

Our research and development team provides technical support and advanced materials research and development for us. The team assisted in the development of our post-consumer recycled content, polyvinyl chloride, or PVC, extruded sheet process that has been incorporated into our *GlasBacRE* modular carpet backing. Our post-consumer recycled content PVC extruded sheet exemplifies our commitment to “closing-the-loop” in recycling. This team also developed our *TacTiles* carpet tile installation system, which uses small squares of adhesive plastic film to connect intersecting carpet tiles. The team also helped implement our *Cool Blue* flexible inputs backing line and our *ReEntry 2.0* reclaimed carpet separation technology and post-consumer recycling technology for nylon face fibers. With a goal of supporting sustainable product designs in floorcoverings applications, we continue to evaluate bio-based and renewable polymers for use in our products. Our research and development team also supports the dissemination, consultancies and technical communication of our global sustainability endeavors. This team also provides all biochemical and technical support to *Intersept* antimicrobial chemical product initiatives.

Innovation and increased customization in product design and styling are the principal focus of our product development efforts, and this focus has led to several design breakthroughs such as our plank and Skinny Plank products, as well as our i2 product line. Our carpet design and development team is recognized as an industry leader in carpet design and product engineering for the commercial and institutional markets.

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

David Oakey Designs provides carpet design and consulting services to us pursuant to a consulting agreement, and this firm augments our internal research, development and design staff. David Oakey Designs’ services under the agreement include creating commercial carpet designs for use by our modular carpet businesses throughout the world, and overseeing product development, design and coloration functions for our modular carpet business in North America. The agreement can be terminated by either party upon six months prior written notice to the other party. David Oakey Designs also contributed to our ability to efficiently produce many products from a single yarn system. Our mass customization production approach evolved, in major part, from this concept and increases the number and variety of product designs, which in turn enables us to offer products with competitive margins.

Environmental Initiatives

In the latter part of 1994, we commenced a sustainability strategy within our business that we now call *Mission Zero*, aimed at reducing waste, environmental footprint and costs. *Mission Zero*, which includes our QUEST waste reduction initiative, is directed toward the elimination of energy and raw materials waste in our businesses, and, on a broader and more long-term scale, the practical reclamation — and ultimate restoration — of shared environmental resources.

We have engaged some of the world’s leading authorities on global ecology as environmental advisors. The list of advisors includes: Paul Hawken, author of *The Ecology of Commerce: A Declaration of Sustainability* and *The Next Economy*, and co-author of *Natural Capitalism: Creating the Next Industrial Revolution*; Amory Lovins, energy consultant and co-founder of the Rocky Mountain Institute; Bill Browning, fellow and former director of the Rocky Mountain Institute’s Green Development Services; Janine M. Benyus, author of *Biomimicry*; and Bob Fox, renowned architect.

As more customers in our target markets share our view that sustainability is an important factor in making purchasing and design decisions, and not just good deeds, our acknowledged leadership position should strengthen our brands and provide a differentiated advantage in competing for business. To further raise awareness of our goal of becoming sustainable, we launched our *Mission Zero* global branding initiative, which represents our mission to eliminate any negative impact our companies may have on the environment. In 2016, we launched the *Climate Take Back* initiative, in which we seek to lead

industry in designing and making products in ways that will maintain a climate fit for life. Our *Mission Zero* and *Climate Take Back* logos appear on many of our marketing and merchandising materials distributed throughout the world.

A high point in our pursuit of sustainability was our creation with the Zoological Society of London of a program called *Net-Works*® in which we've worked with communities in the Philippines to collect discarded fishing nets that are damaging a large coral reef, and divert them to our yarn supplier where they are recycled into new carpet fiber. *Net-Works* provides a source of income for members of these communities in the Philippines, while also cleaning up the beaches and waters where they live and work. Our *Net Effect* Collection of carpet tile products, among others, contains yarn that is partly made from the recycled fishing nets collected through the *Net-Works* program. *Net-Works* is a big step in redesigning our supply chain from a linear take-make-waste process toward a closed loop system, and it advances our ultimate goal of becoming a restorative enterprise.

Backlog

Our backlog of unshipped orders was approximately \$177.8 million at February 9, 2020, compared with approximately \$190.4 million at February 10, 2019. Historically, backlog is subject to significant fluctuations due to the timing of orders for individual large projects and currency fluctuations. All of the backlog orders at February 9, 2020 are expected to be shipped during the succeeding six to nine months.

Patents and Trademarks

We own numerous patents in the United States and abroad on floorcovering products and on manufacturing processes. The duration of United States patents is between 14 and 20 years from the date of filing of a patent application or issuance of the patent; the duration of patents issued in other countries varies from country to country. We maintain an active patent and trade secret program in order to protect our proprietary technology, know-how and trade secrets. Although we consider our patents to be very valuable assets, we consider our know-how and technology even more important to our current business than patents, and, accordingly, believe that expiration of existing patents or non-issuance of patents under pending applications would not have a material adverse effect on our operations.

We also own many trademarks in the United States and abroad. In addition to the United States, the primary jurisdictions in which we have registered our trademarks are the European Union, Canada, Australia, New Zealand, Japan, and various countries in Central America, South America and Asia. Some of our more prominent registered trademarks include: *Interface*, *FLOR*, *Intersept*, *GlasBac*, *Mission Zero*, *norament*, *noraplan*, *nTX solution*, *noraplan unita*, *noraplan valua* and *Net-Works*. Trademark registrations in the United States are valid for a period of 10 years and are renewable for additional 10-year periods as long as the mark remains in actual use. The duration of trademarks registered in other jurisdictions varies.

Employees

At December 29, 2019, we employed a total of 4,110 employees worldwide. Of such total, 1,682 were clerical, staff, sales, supervisory and management personnel and 2,428 were manufacturing personnel. We also utilized the services of 225 temporary personnel as of December 29, 2019.

Some of our employees in Australia, the United Kingdom and China are represented by unions. In the Netherlands, a Works Council, the members of which are Interface employees, is required to be consulted by management with respect to certain matters relating to our operations in that country, such as a change in control of Interface Europe B.V. (our modular carpet subsidiary based in the Netherlands), and the approval of the Council is required for some of our actions, including changes in compensation scales or employee benefits. The majority of our employees in Germany are members of a Works Council as well. Our management believes that its relations with the Works Councils, the unions and all of our employees are good.

Environmental Matters

Our operations are subject to laws and regulations relating to the generation, storage, handling, emission, transportation and discharge of materials into the environment. The costs of complying with environmental protection laws and regulations have not had a material adverse impact on our financial condition or results of operations in the past and are not expected to have a material adverse impact in the future. The environmental management systems of our floorcovering manufacturing facilities in LaGrange, Georgia, West Point, Georgia, Northern Ireland, the Netherlands, Thailand, China, Germany and Australia are certified under ISO Standard No. 14001.

Information About Our Executive Officers

Our executive officers, their ages as of December 29, 2019, and their principal positions with us are set forth below. Executive officers serve at the pleasure of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Principal Position(s)</u>
Daniel T. Hendrix	65	President and Chief Executive Officer
David B. Foshee	49	Vice President, General Counsel and Secretary
Bruce A. Hausmann	50	Vice President and Chief Financial Officer
Nigel Stansfield	52	Vice President (President - Europe, Africa, Australia, and Asia)

Mr. Hendrix joined us in 1983 after having worked previously for a national accounting firm. He was promoted to Treasurer in 1984, Chief Financial Officer in 1985, Vice President-Finance in 1986, Senior Vice President in October 1995, Executive Vice President in October 2000, and President and Chief Executive Officer in July 2001. He was elected to the Board in October 1996 and has served on the Executive Committee of the Board since July 2001. In October 2011, Mr. Hendrix was elected as Chairman of the Board of Directors. Mr. Hendrix retired from the positions of President and Chief Executive Officer in March 2017 (while remaining Chairman of the Board), and subsequently was re-elected as President and Chief Executive Officer in January 2020.

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

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

Mr. Stansfield was the Operations Manager for Firth Carpets (our former European broadloom operations) at the time it was acquired by us in 1997. For two years following that acquisition, Mr. Stansfield served as Manufacturing Systems Manager, part of a global project team that designed and implemented manufacturing software systems at seven of our manufacturing plants. In 1999, he returned to Firth Carpets as Operations Director. In 2002, he became a member of our European research and development team focusing on our sustainability initiatives, and in 2004, he became Product and Innovations Director for all of our European Operations. In 2010, he joined our European management team as Senior Vice President of Product, Design and Innovation, before being named Vice President and Chief Innovations Officer for the Company in March 2012. In December 2016, he became President of our business serving Europe, the Middle East and Africa, and in January 2019 he assumed responsibility for the Asia-Pacific region as well.

Available Information

We make available free of charge on or through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Internet address is <http://www.interface.com>. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including the Company) file electronically with the SEC. The SEC's website is <http://www.sec.gov>.

Interface, Inc. was incorporated in 1973 as a Georgia corporation.

Forward-Looking Statements

This report on Form 10-K contains "forward-looking statements" within the meaning of the Securities Act of 1933, the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Words such as "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include statements regarding the intent, belief or current expectations of our management team, as well

as the assumptions on which such statements are based. Any forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by such forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include risks and uncertainties associated with economic conditions in the commercial interiors industry as well as the risks and uncertainties discussed below in Item 1A, "Risk Factors".

ITEM 1A. RISK FACTORS

You should carefully consider the following factors, in addition to the other information included in this Annual Report on Form 10-K and the other documents incorporated herein by reference, before deciding whether to purchase or sell our common stock. Any or all of the following risk factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

Sales of our principal products have been and may continue to be affected by adverse economic cycles in the renovation and construction of commercial and institutional buildings.

Sales of our principal products are related to the renovation and construction of commercial and institutional buildings. This activity is cyclical and has been affected by the strength of a country's or region's general economy, prevailing interest rates and other factors that lead to cost control measures by businesses and other users of commercial or institutional space. The effects of cyclicity upon the corporate office segment tend to be more pronounced than the effects upon the institutional segment. Historically, we have generated more sales in the corporate office segment than in any other market. The effects of cyclicity upon the new construction segment of the market also tend to be more pronounced than the effects upon the renovation segment. These effects may recur and could be more pronounced if global economic conditions do not improve or are weakened.

We compete with a large number of manufacturers in the highly competitive floorcovering products market, and some of these competitors have greater financial resources than we do. We may face challenges competing on price, making investments in our business, or competing on product design.

The floorcovering industry is highly competitive. Globally, we compete for sales of floorcovering products with other carpet manufacturers and manufacturers of other types of floorcovering. Although the industry has experienced significant consolidation, a large number of manufacturers remain in the industry. Moreover, some of our competitors are adding manufacturing capacity into the industry throughout the globe which could increase the amount of supply in the market. Increased capacity at our competitors could result in pricing pressure on our products (including products, like LVT, which may currently carry attractive margins) and less demand for our products, thus adversely affecting both revenues and profitability.

Some of our competitors, including a number of large diversified domestic and foreign companies who manufacture modular carpet and resilient flooring as one segment of their business, have greater financial resources than we do. Competing effectively may require us to make additional investments in our product development efforts, manufacturing facilities, distribution network and sales and marketing activities.

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

Our success depends significantly upon the efforts, abilities and continued service of our senior management executives, our principal design consultant and other key personnel (including sales personnel), and our loss of any of them could affect us adversely.

We believe that our success depends to a significant extent upon the efforts and abilities of our senior management executives. In addition, we rely significantly on the leadership that David Oakey of David Oakey Designs provides to our internal design staff. Specifically, David Oakey Designs provides product design/production engineering services to us under an exclusive consulting contract that contains non-competition covenants. Our agreement with David Oakey Designs can be terminated by either party upon six months prior written notice to the other party. Our business also depends on the recruitment and retention of other key personnel, including strong sales leaders.

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

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

Our substantial international operations are subject to various political, economic and other uncertainties that could adversely affect our business results, including by restrictive taxation or other government regulation and by foreign currency fluctuations.

We have substantial international operations. In 2019, approximately half of our net sales and a significant portion of our production were outside the United States, primarily in Europe and Asia-Pacific. Our corporate strategy includes the expansion and growth of our international business on a worldwide basis. As a result, our operations are subject to various political, economic and other uncertainties, including risks of restrictive taxation policies, changing political conditions and governmental regulations. This includes, for example, the uncertainty surrounding the implementation and effect of the United Kingdom’s exit from the European Union, including changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union. We also make a substantial portion of our net sales in currencies other than U.S. dollars (approximately half of 2019 net sales), which subjects us to the risks inherent in currency translations. The scope and volume of our global operations make it impossible to eliminate completely all foreign currency translation risks as an influence on our financial results. In addition, political unrest, terrorist acts, military conflict and disease outbreaks have increased the risks of doing business abroad generally.

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

In 2016, voters in the U.K. approved an exit from the European Union via a referendum (commonly referred to as “Brexit”). In 2017, the U.K. notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty, and the U.K. exited the European Union on January 31, 2020. A complex and uncertain process of negotiation is taking place to determine trade agreements as well as other aspects of the U.K.’s relationship with the European Union. The uncertainty leading up to and following Brexit has had, and the implementation of Brexit may continue to have, a negative impact on our business and demand for our products in Europe, and particularly in the U.K. The long-term nature of the U.K.’s relationship with the European Union is unclear and there is considerable uncertainty as to when any agreement or long-term relationship strategy, including trade deals, will be agreed to and implemented by the U.K. and the European Union. Brexit could adversely affect European or worldwide political, regulatory, economic or market conditions and could contribute to instability in political institutions and regulatory agencies. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the U.K., the European Union and elsewhere. In addition, Brexit has had a detrimental effect, and could have further detrimental effects, on the value of either or both of the euro and the British pound sterling, which could negatively impact our business (principally from the translation of sales and earnings in those foreign currencies into our reporting currency of U.S. dollars). Such a development could have other unpredictable adverse effects, including a material adverse effect on demand for office space and our flooring products in the U.K. and in Europe if the U.K. exit leads to economic difficulties in Europe.

Our manufacturing and supply chain abilities may be adversely impacted by an extended shutdown of our operations in China due to the recent coronavirus outbreak.

In December 2019, a novel strain of coronavirus began to impact the population of China, and it began to spread globally. In late January 2020, in an effort to contain the spread of the virus, maintain the wellbeing of our employees and in accordance with governmental requirements, we temporarily closed our manufacturing facility in China through February 9, 2020. While

the closure and limitations on movement in the region are expected to be temporary, the duration of the production and supply chain disruption, and related financial impact, cannot be estimated at this time. Should the production facility closure reoccur, or such disruption continue for an extended period of time, the impact on our supply chain in China and globally could have a material adverse effect on our results of operations and cash flows.

The SEC's investigation into our earnings per share ("EPS") calculations and rounding practices could result in potential sanctions or penalties, distraction to our management and result in litigation from third parties, each of which could adversely affect or cause variability in our results of operations and financial condition.

In November 2017, the SEC began an investigation into our EPS calculations and rounding practices. The investigation is ongoing and there can be no assurance that the SEC or another regulatory body will not make further regulatory inquiries or pursue further action that could result in significant costs and expenses including potential sanctions or penalties as well as distraction to management. In addition, the Company may be subject to litigation from third parties related to the matters under review by the SEC. Accordingly, the ongoing SEC investigation and/or any related litigation may give rise to risks and uncertainties that could adversely affect or cause variability in our results of operations and financial condition. Such risks and uncertainties include, but are not limited to, uncertainty as to the scope, timing and ultimate findings of the matters under review by the SEC (collectively, the "investigation"); adverse effects of the investigation, including the potential financial impact on the Company in the event of an adverse outcome and on the market price of the Company's common stock; the costs and expenses of the investigation, including legal fees and possible monetary penalties in the event of an adverse outcome; the risk of potential litigation or regulatory action arising from these matters; the timing of the review by the Company regarding these matters; the potential identification of deficiencies in internal control over financial reporting or disclosure controls and procedures and the impact of the same; and potential reputational damage that the Company may suffer as a result of the matters under investigation.

Large increases in the cost of petroleum-based raw materials could adversely affect us if we are unable to pass these cost increases through to our customers.

Petroleum-based products comprise the predominant portion of the cost of raw materials that we use in manufacturing carpet. Synthetic rubber uses petroleum based products as feedstock as well. While we attempt to match cost increases with corresponding price increases, continued volatility in the cost of petroleum-based raw materials could adversely affect our financial results if we are unable to pass through such price increases to our customers.

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

We depend on a small number of third-party suppliers of synthetic fiber and a single supplier for our LVT products. The unanticipated termination or interruption of any of our supply arrangements with our current suppliers of synthetic fiber (nylon) or sole supplier of LVT, including failure by any third party supplier to meet our product specifications, could have a material adverse effect on us because we do not have the capability to manufacture our own fiber for use in our carpet products or our own LVT. Our suppliers may not be able to meet our demand for a variety of reasons, including our inability to forecast our future needs accurately or a shortfall in production by the supplier for reasons unrelated to us, such as work stoppages, acts of war, terrorism, pandemics, fire, earthquake, energy shortages, flooding or other natural disasters. The primary manufacturing facility of our sole supplier of LVT is located in South Korea, which recently reported an outbreak of the novel coronavirus described above. If any of our supply arrangements with our primary suppliers of synthetic fiber or our sole supplier of LVT is terminated or interrupted, we likely would incur increased manufacturing costs and experience delays in our manufacturing process (thus resulting in decreased sales and profitability) associated with shifting more of our synthetic fiber purchasing to another synthetic fiber supplier or developing new supply chain sources for LVT. A prolonged inability on our part to source synthetic fiber included in our products or LVT on a cost-effective basis could adversely impact our ability to deliver products on a timely basis, which could harm our sales and customer relationships.

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

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

- we may not be able to successfully combine and integrate the businesses on a timely basis, or at all;

- the integration process could divert management’s attention, cause employee or customer attrition or cause other disruption;
- nora may not contribute to the revenues and profitability of the combined business as much as we currently expect; or
- we may not be able to manage the increased indebtedness we have incurred in connection with the acquisition.

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

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

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

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

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

We have a significant amount of indebtedness, which could have important negative consequences to us.

Our significant indebtedness could have important negative consequences to us, including:

- making it more difficult for us to satisfy our obligations with respect to such indebtedness;
- increasing our vulnerability to adverse general economic and industry conditions;
- limiting our ability to obtain additional financing to fund capital expenditures, acquisitions or other growth initiatives, and other general corporate requirements;
- requiring us to dedicate a substantial portion of our cash flow from operations to interest and principal payments on our indebtedness, thereby reducing the availability of our cash flow to fund capital expenditures, acquisitions or other growth initiatives, and other general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage compared to our less leveraged competitors; and
- limiting our ability to refinance our existing indebtedness as it matures.

It is important for you to consider that we have a significant amount of indebtedness. As a consequence of our level of indebtedness, a substantial portion of our cash flow from operations must be dedicated to debt service requirements. In addition, borrowings under our Syndicated Credit Facility have variable interest rates, and therefore our interest expenses will increase if the underlying market rates (upon which the variable interest rates are based) increase. The terms of our Syndicated Credit Facility also limit our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness, pay dividends or make certain other restricted payments or investments in certain situations, consummate certain asset sales, enter into certain transactions with affiliates, create liens, merge or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. They also require us to comply with certain other reporting, affirmative and negative covenants and meet certain financial tests. If we fail to satisfy these tests or comply with these covenants, a default may occur, in which case the lenders could accelerate the debt as well as any other debt to which cross-acceleration or cross-default provisions apply. Our Syndicated Credit Facility matures in August 2023. We cannot assure you that we will be able to renegotiate, refinance or otherwise obtain the necessary funds to satisfy these obligations. If we are unable to refinance our debt or obtain new financing, we would have to consider other options, such as selling assets to meet our debt service obligations and other liquidity needs, or using cash, if available, that would have been used for other business purposes.

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

The market price of our common stock has been volatile and the value of your investment may decline.

The market price of our common stock has been volatile in the past and may continue to be volatile going forward. Such volatility may cause precipitous drops in the price of our common stock on the Nasdaq Global Select Market and may cause your investment in our common stock to lose significant value. As a general matter, market price volatility has had a significant effect on the market values of securities issued by many companies for reasons unrelated to their operating performance. We thus cannot predict the market price for our common stock going forward.

Our earnings in a future period could be adversely affected by non-cash adjustments to goodwill, if a future test of goodwill assets indicates a material impairment of those assets.

As prescribed by accounting standards governing goodwill and other intangible assets, we undertake an annual review of the goodwill asset balance reflected in our financial statements. Our review is conducted during the fourth quarter of the year, unless there has been a triggering event prescribed by applicable accounting rules that warrants an earlier interim testing for possible goodwill impairment. In the past, we have had non-cash adjustments for goodwill impairment as a result of such testings (\$61.2 million in 2008 and \$44.5 million in 2007). A future goodwill impairment test may result in a future non-cash adjustment, which could adversely affect our earnings for any such future period.

Changes to our facilities could disrupt our operations.

From time to time, we make improvements to our physical facilities, or move operations to new ones. Large scale changes or moves could disrupt our normal operations, leading to possible loss of productivity, which may adversely affect our results. We are also making significant investments and modifications to our manufacturing facilities, particularly in LaGrange, Georgia. At times this process can be disruptive, and there is no guarantee that these efforts will yield the financial returns and improvements in the business that we hope to achieve from them. In addition, while these changes are intended to yield stronger financial results, they could potentially adversely affect financial results due to project delays, business disruption as new facilities and equipment come online, and general disruption as we make changes and modifications to our manufacturing facilities and processes.

Our business operations could suffer significant losses from natural disasters, catastrophes, fire, pandemics or other unexpected events.

While we manufacture our products in several facilities and maintain insurance covering our facilities, including business interruption insurance, our manufacturing facilities could be materially damaged by natural disasters, such as floods, tornadoes, hurricanes and earthquakes, or by fire or other unexpected events such as adverse weather conditions, pandemics or other public health crises (such as the recent outbreak of the novel coronavirus described above), or other disruptions to our facilities, supply chain or our customers’ facilities. We could incur uninsured losses and liabilities arising from such events, including damage to our reputation, and/or suffer material losses in operational capacity, which could have a material adverse impact on our business, financial condition and results of operations.

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

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

- facilitate and plan the purchase, management and distribution of, and payment for, inventory and raw materials;
- control our production processes;
- manage and monitor our distribution network and logistics;
- receive, process and ship orders;

- manage billing, collections and payables;
- manage financial reporting; and
- manage payroll and human resources information.

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

- natural disasters, like fires;
- power loss;
- software “bugs”, hardware defects or human error; or
- hacking, computer viruses, malware, ransomware or other cyber attacks.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We maintain our corporate headquarters in Atlanta, Georgia in approximately 42,000 square feet of leased space. The following table lists our principal manufacturing facilities and other material physical locations (some locations are comprised of multiple buildings), all of which we own except as otherwise noted:

Location	Floor Space (Sq. Ft.)
Bangkok, Thailand.....	275,946
Craigavon, N. Ireland ⁽¹⁾	72,200
LaGrange, Georgia.....	669,145
LaGrange, Georgia ⁽¹⁾	351,205
Union City, Georgia ⁽¹⁾	370,000
Valley, Alabama ⁽¹⁾	338,086
Minto, Australia.....	240,000
Scherpenzeel, the Netherlands.....	1,250,960
West Point, Georgia.....	250,000
Salem, New Hampshire ⁽¹⁾	109,129
Weinheim, Germany ⁽¹⁾	831,113
Taicang, China ⁽¹⁾	142,500

(1)Leased.

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

We believe that our manufacturing and distribution facilities and our marketing offices are sufficient for our present operations. We will continue, however, to consider the desirability of establishing additional facilities and offices in other locations around the world as part of our business strategy to meet expanding global market demands. Substantially all of our owned properties in the United States are subject to mortgages, which secure borrowings under our Syndicated Credit Facility.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to legal proceedings, whether arising in the ordinary course of business or otherwise. The disclosure set forth in Note 17 to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K is incorporated by reference herein.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

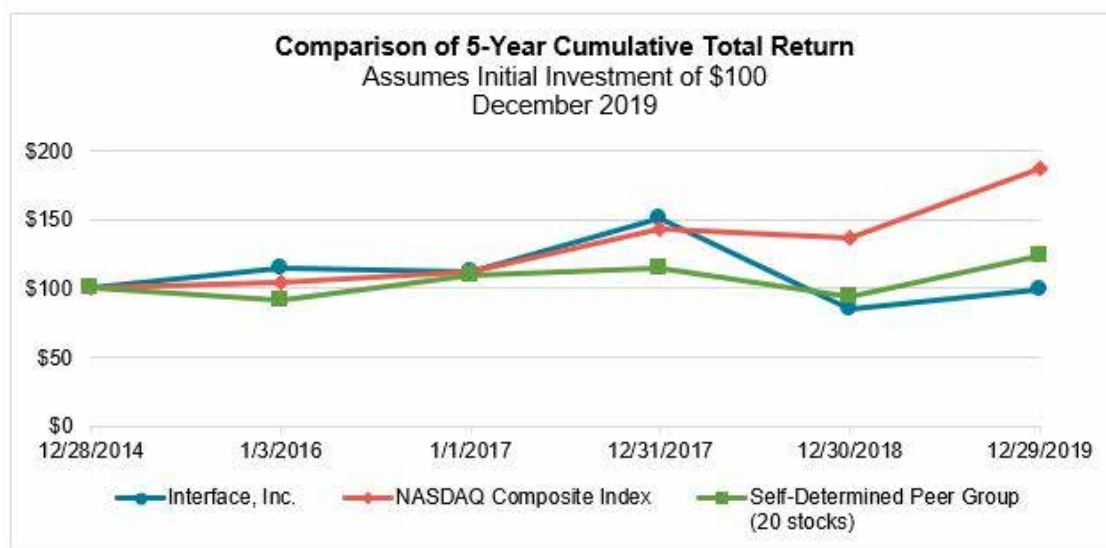
ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is traded on the Nasdaq Global Select Market under the symbol TILE. As of February 18, 2020, we had 635 holders of record of our Common Stock. We estimate that there are in excess of 10,000 beneficial holders of our Common Stock.

Future declaration and payment of dividends is at the discretion of our Board, and depends upon, among other things, our investment policy and opportunities, results of operations, financial condition, cash requirements, future prospects, and other factors that may be considered relevant by our Board at the time of its determination. Such other factors include limitations contained in the agreement for our Syndicated Credit Facility, which specifies conditions as to when any dividend payments may be made. As such, we may discontinue our dividend payments in the future if our Board determines that a cessation of dividend payments is proper in light of the factors indicated above.

Stock Performance

The following graph and table compare, for the five-year period ended December 29, 2019, the Company's total returns to shareholders (stock price plus dividends, divided by beginning stock price) with that of (i) all companies listed on the Nasdaq Composite Index and (ii) our self-determined peer group, assuming an initial investment of \$100 in each on December 28, 2014 (the last day of the fiscal year 2014). In determining its peer group companies, the Company considered various factors, including the potential peer's industry, business model, size and complexity. The Company chose a peer group that it believes provides a robust sample size with minimal revenue dispersion, with companies in similar industries or lines of business or subject to similar economic and business cycles, including companies with a significant international presence that are also focused on sustainability.



	12/28/14	1/3/16	1/1/17	12/31/17	12/30/18	12/29/19
Interface, Inc.	\$100	\$115	\$112	\$152	\$86	\$100
NASDAQ Composite Index	\$100	\$104	\$112	\$144	\$137	\$187
Self-Determined Peer Group (20 Stocks)	\$100	\$91	\$110	\$115	\$94	\$123

Notes to Performance Graph

- (1) The lines represent annual index levels derived from compound daily returns that include all dividends.
- (2) The indices are re-weighted daily, using the market capitalization on the previous trading day.
- (3) If the annual interval, based on the fiscal year-end, is not a trading day, the preceding trading day is used.
- (4) The index level was set to \$100 as of December 28, 2014 (the last day of fiscal year 2014).
- (5) The Company's fiscal year ends on the Sunday nearest December 31.
- (6) The following companies are included in the Self-Determined Peer Group depicted above: Acuity Brands, Inc.; Albany International Corp.; Apogee Enterprises, Inc.; Armstrong Flooring, Inc.; Armstrong World Industries, Inc.; Caesarstone Ltd.; FLIR Systems, Inc.; Gentherm Incorporated; H. B. Fuller Company; Harsco Corporation; Herman Miller, Inc.; HNI Corporation; Kimball International, Inc.; Knoll, Inc.; Masonite International Corporation; Materion Corporation; P. H. Glatfelter Company; Steelcase Inc.; Unifi, Inc.; and Welbilt, Inc.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Issuer Purchases of Equity Securities

The following table contains information with respect to purchases made by or on behalf of the Company, or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during our fourth quarter ended December 29, 2019:

Period⁽¹⁾	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
September 30 - October 31, 2019	—	\$ —	—	\$ —
November 1 – 30, 2019 ⁽²⁾	502	16.77	—	—
December 1 – 29, 2019 ⁽²⁾	902	14.47	—	—
Total	1,404	\$ 15.29	—	\$ —

⁽¹⁾ The monthly periods identified above correspond to the Company's fiscal fourth quarter of 2019, which commenced September 30, 2019 and ended December 29, 2019.

⁽²⁾ Includes shares acquired by the Company from employees to satisfy income tax withholding obligations in connection with the vesting of previous equity awards.

ITEM 6. SELECTED FINANCIAL DATA

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net sales	\$ 1,343,029	\$ 1,179,573	\$ 996,443	\$ 958,617	\$ 1,001,863
Cost of sales	817,575	755,216	610,422	589,973	618,974
Operating income ⁽¹⁾	130,903	76,379	111,571	87,153	113,593
Net income ⁽²⁾	79,200	50,253	53,246	54,162	72,418
Income from continuing operations per common share attributable to Interface, Inc.					
Basic	\$ 1.34	\$ 0.84	\$ 0.86	\$ 0.83	\$ 1.10
Diluted	\$ 1.34	\$ 0.84	\$ 0.86	\$ 0.83	\$ 1.10
Average Shares Outstanding					
Basic	58,943	59,544	61,996	65,098	66,027
Diluted	58,948	59,566	62,040	65,136	66,075
Cash dividends per common share	\$ 0.26	\$ 0.26	\$ 0.25	\$ 0.22	\$ 0.18
Property additions	74,647	54,857	30,474	28,071	27,188
Depreciation and amortization	53,623 ⁽³⁾	53,580 ⁽³⁾	37,508	36,505	44,751
Working capital	\$ 284,860	\$ 335,292	\$ 254,221	\$ 311,799	\$ 245,391
Total assets	1,423,049	1,284,644	800,600	835,439	756,549
Total long-term debt	596,200	618,581	229,928	270,347	213,531
Shareholders’ equity	368,202	354,663	330,091	340,729	342,366
Current ratio ⁽⁴⁾	2.1	2.5	2.4	3.0	2.6

- (1) The following charges and items are included in our operating income. In 2019 we recorded restructuring and other charges of \$12.9 million and purchase accounting amortization of \$5.9 million. In 2018, we recorded restructuring and asset impairment charges of \$20.5 million, purchase accounting amortization of \$32.1 million in connection with the nora acquisition, and nora transaction costs of \$5.3 million. In 2017, we recorded restructuring and asset impairment charges of \$7.3 million. In 2016, we recorded restructuring and asset impairment charges of \$19.8 million.
- (2) Included in 2018 net income are tax benefits of \$6.7 million due to the finalization of our analysis of the U.S. Tax Cuts and Jobs Act. Included in 2017 net income are provisional tax charges of \$15.2 million due to the U.S. Tax Cuts and Jobs Act. Please see Item 8, Note 16 “Income Taxes” for further discussion of these charges. Also included in 2018 net income is \$4.2 million in other expense for nora transaction costs.
- (3) 2019 includes stock compensation amortization of \$8.7 million and excludes purchase accounting amortization of \$5.9 million. 2018 includes stock compensation amortization of \$14.5 million and excludes purchase accounting amortization of \$32.1 million.
- (4) Current ratio is the ratio of current assets to current liabilities.

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

General

Our revenues are derived from sales of floorcovering products, primarily modular carpet, luxury vinyl tile ("LVT") and starting in August 2018, rubber flooring products. Our business, as well as the commercial interiors industry in general, is cyclical in nature and is impacted by economic conditions and trends that affect the markets for commercial and institutional business space. The commercial interiors industry, including the market for floorcovering products, is largely driven by reinvestment by corporations into their existing businesses in the form of new fixtures and furnishings for their workplaces. In significant part, the timing and amount of such reinvestments are impacted by the profitability of those corporations. As a result, macroeconomic factors such as employment rates, office vacancy rates, capital spending, productivity and efficiency gains that impact corporate profitability in general, also affect our business.

Most of our sales are to customers in the corporate office market segment, but we also focus our marketing and sales efforts on non-corporate office segments to reduce somewhat our exposure to economic cycles that affect the corporate office market segment more adversely, as well as to capture additional market share. In the Americas, our mix of corporate office versus non-corporate office modular carpet and LVT sales was 47% and 53%, respectively, for 2019. Company-wide, our mix of corporate office versus non-corporate office modular carpet and LVT sales was 61% and 39%, respectively, in 2019.

On August 7, 2018, the Company completed the acquisition of nora for a purchase price of €385.1 million, or \$447.2 million at the exchange rate as of the transaction date, including acquired cash of €40.0 million (\$46.5 million) for a net purchase price of €345.1 million (\$400.7 million). Nora is an industry leader in the rubber flooring market, and this acquisition is expected to advance the Company's growth strategy in expanding market segments, particularly in the healthcare, life sciences and education market segments. Similar to Interface, nora operates on an international footprint and the Company expects the acquisition will also allow for geographic sales synergies as well. During fiscal 2019, the Company continued to expand into these market segments as the sales of rubber flooring products were primarily in the healthcare, education and transportation market segments.

During 2019, we had net sales of \$1,343.0 million, up 13.9% compared to \$1,179.6 million in 2018. Operating income for 2019 was \$130.9 million compared to \$76.4 million in 2018. Net income for 2019 was \$79.2 million, or \$1.34 per share, compared to \$50.3 million, or \$0.84 per share, in 2018. The 2019 period included the results of the acquired nora business for the full fiscal year, \$5.9 million of purchase accounting amortization in connection with the nora acquisition, and \$12.9 million of restructuring and other charges. The 2018 period included the results on the nora acquisition from August 7, 2018 to the end of the 2018 fiscal year.

During 2018, we had net sales of \$1,179.6 million, up 18.4% compared to \$996.4 million in 2017. Operating income for 2018 was \$76.4 million as compared to \$111.6 million in 2017. Net income for 2018 was \$50.3 million, or \$0.84 per share, compared with \$53.2 million, or \$0.86 per share, in 2017. The 2018 period included the results of the acquired nora business from August 7 through the end of the year, including nora net sales of \$112.6 million during that stub period. These results included amortization related to the fair value of inventory acquired of \$26.7 million, and amortization of acquired intangible assets of \$5.4 million. 2018 also includes \$9.5 million related to nora transaction expenses. Also included in our results for 2018 were \$20.5 million of restructuring and asset impairment charges as well as \$6.7 million of tax benefits related to the finalization of our analysis of the U.S. Tax Cuts and Jobs Act enacted in 2017. Please see Item 8, Note 16 "Income Taxes" for further discussion of these tax benefits.

Restructuring Plans

On December 23, 2019, the Company committed to a new restructuring plan that continues to focus on efforts to improve efficiencies and decrease costs across its worldwide operations, and more closely align its operating structure with its business strategy. The plan involves a reduction of approximately 105 employees and early termination of two office leases. As a result of this plan, the Company recorded a pre-tax restructuring charge in the fourth quarter of 2019 of approximately \$9.0 million. The charge is comprised of severance expenses (\$8.8 million) and lease exit costs (\$0.2 million). The restructuring plan is expected to result in future cash expenditures of approximately \$9.0 million for payment of the employee severance and lease exit costs, as described above. The Company expects to complete the restructuring plan in fiscal year 2020, and expects the plan to yield annualized savings of approximately \$6.0 million. A portion of the annualized savings is expected to be realized on the income statement in fiscal year 2020, with the remaining portion of the annualized savings expected to be realized in fiscal year 2021.

On December 29, 2018, the Company committed to a new restructuring plan in its continuing efforts to improve efficiencies and decrease costs across its worldwide operations, and more closely align its operating structure with its business strategy. The plan involved (i) a restructuring of its sales and administrative operations in the United Kingdom, (ii) a reduction of approximately 200 employees, primarily in the Europe and Asia-Pacific geographic regions, and (iii) the write-down of certain underutilized and impaired assets that included information technology assets and obsolete manufacturing equipment. As a result of this plan, the Company recorded a pre-tax restructuring and asset impairment charge in the fourth quarter of 2018 of approximately \$20.5 million. The charge was comprised of severance expenses (approximately \$10.8 million), impairment of assets (approximately \$8.6 million) and other items (approximately \$1.1 million). The charge was expected to result in future cash expenditures of \$12 million, primarily for severance payments (approximately \$10.8 million). The restructuring plan was substantially complete at the end of fiscal 2019. The Company redeployed the savings toward the funding of sales and strategic growth initiatives in 2019, yielding negligible net savings on the Company's income statement. In connection with the 2018 restructuring plan, the Company recorded \$0.7 million of additional lease exit costs in the third quarter of 2019, and in the fourth quarter of 2019 the Company adjusted its expected severance expenses and recognized a decrease in restructuring costs of \$1.7 million.

In the first quarter of 2017, the Company recorded a restructuring charge of \$7.3 million, which was related to a previous restructuring plan announced in 2016, primarily related to exit costs associated with the closure of various FLOR retail stores. The 2017 charge was comprised of lease exit costs of \$3.4 million, asset impairment charges of \$3.3 million and severance charges of \$0.6 million. The restructuring plan was substantially completed in 2017.

Analysis of Results of Operations

The following discussion and analyses reflect the factors and trends discussed in the preceding sections.

Net sales denominated in currencies other than the U.S. dollar were approximately 49% in 2019, 49% in 2018, and 46% in 2017. Because we have such substantial international operations, we are impacted, from time to time, by international developments that affect foreign currency transactions. In 2019, the weakening of the Euro, British pound, Australian dollar, Canadian dollar and Chinese renminbi against the U.S. dollar had a negative impact on our net sales and operating income. In 2018, the strengthening of the Euro and British pound against the U.S. dollar had a positive impact on our net sales and operating income. In 2017, the strengthening of the Euro, Australian dollar and Canadian dollar had a positive impact on our net sales and operating income.

The following table presents the amounts (in U.S. dollars) by which the exchange rates for translating Euros, British pounds, Australian dollars and Canadian dollars into U.S. dollars have affected our net sales and operating income during the past three years:

	2019	2018	2017
	<i>(in millions)</i>		
Impact of changes in foreign currency on net sales.....	\$ (26.2)	\$ 8.4	\$ 5.5
Impact of changes in foreign currency on operating income.....	(3.9)	1.2	1.0

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

	Fiscal Year		
	2019	2018	2017
Net sales	100.0%	100.0%	100.0%
Cost of sales	60.9	64.0	61.3
Gross profit on sales	39.1	36.0	38.7
Selling, general and administrative expenses	28.4	27.8	26.8
Restructuring, asset impairment and other charges	1.0	1.7	0.7
Operating income	9.7	6.5	11.2
Interest/Other expense	2.2	1.8	1.1
Income before income tax expense	7.5	4.7	10.1
Income tax expense	1.7	0.4	4.7
Net income	5.8	4.3	5.3

Net Sales

Below we provide information regarding our net sales and analyze those results for each of the last three fiscal years. Fiscal years 2019, 2018, and 2017 were 52-week periods.

	Fiscal Year			Percentage Change	
	2019	2018	2017	2019 compared with 2018	2018 compared with 2017
	<i>(in thousands)</i>				
Net Sales	\$ 1,343,029	\$ 1,179,573	\$ 996,443	13.9%	18.4%

Net sales for 2019 compared with 2018

For 2019, our net sales increased \$163.5 million (13.9%) as compared to 2018. As discussed above, the 2019 period included revenue from the nora acquisition for the full fiscal year. The 2018 period included nora revenue only from the acquisition date on August 7, 2018 to the end of the 2018 fiscal year of \$112.6 million during that stub period. The increase in net sales was primarily volume related and not materially impacted by changing prices. Fluctuations in currency exchange rates had a negative impact on our year-over-year sales comparison of approximately \$26.2 million, meaning that if currency levels had remained constant year over year our 2019 sales would have been higher by this amount. On a geographic basis, including the impact of the nora acquisition, we experienced sales growth across all our regions. Sales in the Americas were up 11.0%, sales in Europe were up 23.0% as reported in U.S. dollars, and sales in Asia-Pacific were up 8.5%.

The sales increase of 11.0% in the Americas in 2019 was due primarily to the impact of the nora acquisition and growth from our luxury vinyl tile (“LVT”) products. The legacy Americas carpet and LVT business grew approximately 3.6% for the year. This increase in the legacy business was due to increased sales in the corporate office market segment (up 8.6%) as well as increases in the healthcare (up 18.2%) and education (up 7.6%) market segments. These legacy sales increases were partially offset by a decline in the retail market segment (down 24.6%).

In Europe, sales in the region were up in both U.S. dollars (23.0%) and local currency (29.1%). This increase was due primarily to the impact of the nora acquisition and growth from our LVT products offset by weakening of the Euro and British pound against the U.S. dollar. The legacy European carpet and LVT business declined 2.7% on a U.S. dollar basis, but grew 2.6% in local currency. The sales growth in local currency in the legacy European business was most pronounced in the corporate office segment (up 6.9%). The decline in legacy sales on a U.S. dollars basis was primarily due to the weakening of the Euro and British pound against the U.S. dollar.

In Asia-Pacific, sales increased 8.5% primarily due to the impact of the nora acquisition and growth in our LVT products. This sales increase was partially offset by the weakening of the Australian dollar and lower sales in Australia. The legacy Asia-Pacific carpet and LVT business declined 3.9% on a U.S. dollar basis, but increased 0.1% in local currency. The sales decline in the legacy Asia-Pacific business was primarily in the corporate (down 5.7%) and government (down 17.9%) market segments, partially offset by increases in the retail market segment (up 12.0%).

Net sales for 2018 compared with 2017

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

The sales increase of 16.0% in the Americas in 2018 was due primarily to the impact of the nora acquisition. The legacy Interface Americas carpet and LVT business grew approximately 8% for the year. This increase in the legacy business was due to an increase in the corporate office market segment (up 9%) as well as increases in the retail (up 18%) and hospitality (up 7%) market segments. The increase in retail was due to the performance of our *Interface SERVICES™* business, which had a larger percentage of its sales in the retail segment. These legacy sales increases were partially offset by a decline in the government (down 10%) market segment.

In Europe, sales in the region were up in both U.S. dollars (29.7%) and local currency (25.0%). This sales increase was due primarily to the impact of the nora acquisition, growth in our LVT products and the strengthening of the Euro and British pound against the U.S. dollar. The legacy Interface European carpet and LVT business grew 9% on a U.S. dollar basis, and 5% in local currency. The sales growth in the legacy Interface European business was most pronounced in the corporate office (up 9%), retail (up 11%), healthcare (up 15%), and hospitality (up 34%) market segments.

In Asia-Pacific, sales increased 9.7% primarily due to the impact of the nora acquisition and growth in our LVT products. This sales increase was partially offset by the weakening of the Australian dollar and lower sales in Australia. The legacy Interface Asia-Pacific carpet and LVT business grew 1% on a U.S. dollar basis and 2% in local currency. Within the region on a legacy Interface basis, Asia sales increased 8% while Australia sales decreased 5% as translated into U.S. dollars. The sales growth in the legacy Asia-Pacific business was primarily in the hospitality (up 5%) and healthcare (up 6%) market segments, partially offset by decreases in government (down 32%) and retail (down 3%) market segments.

Cost and Expenses

The following table presents our overall cost of sales and selling, general and administrative (“SG&A”) expenses during the past three years:

Cost and Expenses	Fiscal Year			Percentage Change	
	2019	2018	2017	2019	2018
	<i>(in thousands)</i>			compared with 2018	compared with 2017
Cost of Sales.....	\$ 817,575	\$ 755,216	\$ 610,422	8.3%	23.7%
Selling, General and Administrative Expenses	381,604	327,449	267,151	16.5%	22.6%

For 2019, our costs of sales increased \$62.4 million (8.3%) compared to 2018. Included in 2019 are costs of sales for the acquired nora business for the full year, which includes purchase accounting amortization of \$5.9 million related to acquired intangible assets. Fluctuations in currency exchange rates had a 1.8% positive impact on the year-over-year comparison. In absolute dollars, the increase in costs of sales was a result of higher sales for 2019 as compared to 2018, as well as the full year impact of the acquired nora business. As a percentage of sales, our costs of sales decreased to 60.9% in 2019 versus 64.0% in 2018. This decrease was primarily due to productivity initiatives and the nora non-recurring inventory step-up amortization which occurred in 2018, but did not recur in 2019.

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

For 2019, our SG&A expenses increased \$54.2 million (16.5%) versus 2018. Included in the 2019 period were a full year of SG&A expenses for the acquired nora business versus only a stub period of approximately five months in 2018. Fluctuations in currency rates had a 1.5% favorable impact on SG&A expenses. The increase in SG&A expenses during the year was primarily due to (1) higher selling expenses for the full year impact in 2019 of the acquired nora business, (2) higher year-over-year legal expenses of \$3.5 million related to the SEC matter discussed in Note 17 – “Commitments and Contingencies”, and (3) higher selling expenses related to bringing the Company’s global sales organization together for a meeting to accelerate the nora integration, advance our selling system transformation, and engage the sales force in the Company’s sustainability mission. These increases were partially offset by lower stock compensation expense of \$5.8 million compared to prior year. As a percentage of sales, SG&A expenses increased to 28.4% in 2019 versus 27.8% in 2018.

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

Interest Expense

For 2019, our interest expense increased \$10.2 million to \$25.6 million, versus \$15.4 million in 2018. This increase was a result of higher outstanding borrowings incurred in August 2018 to complete the nora acquisition offset slightly by lower average interest rates on our borrowings (our average borrowing rate for 2019 was 3.27% as compared to 3.50% for 2018). Our interest rate swaps, entered into in 2017 and 2019, had approximately \$0.2 million impact on interest expense for 2019.

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

Tax

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

As of December 31, 2017, the Company recorded a provisional tax expense of \$3.5 million related to the remeasurement of its net deferred tax asset and a provisional tax expense of \$11.7 million related to the one-time transition toll tax. As of December 30, 2018, the Company completed the accounting of remeasuring its net deferred tax asset which resulted in a \$1.7 million decrease to the previously recorded provisional amount and completed its assessment of the one-time transition toll tax which resulted in a \$5.0 million decrease to the previously recorded provisional amount. See Note 16 – “Income Taxes” to the consolidated financial statements in Item 8 for further information on the financial statement impact of the Tax Act.

Our effective tax rate in 2019 was 22.2%, compared with an effective tax rate of 8.6% in 2018. The increase in our effective tax rate in 2019 compared to 2018 was primarily due to the nonrecurring \$6.7 million tax benefit realized in 2018 related to the impacts of the Tax Act as discussed above. In addition, there was a net increase in our effective tax rate in 2019 due to less U.S. federal and foreign tax credits which was partially offset by a reduction in non-deductible expenses, favorable change in unrecognized tax benefits and a higher portion of income earned in foreign jurisdictions not subject to U.S. state income taxes.

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

Liquidity and Capital Resources

General

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

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

On August 7, 2018, our Syndicated Credit Facility was amended and restated in connection with our acquisition of nora. Please see Note 9 – “Long-Term Debt” and Note 19 – “Acquisition of Nora” in Item 8 for additional information.

At December 29, 2019, we had \$81.3 million in cash. Approximately \$2.9 million of this cash was located in the U.S., and the remaining \$78.4 million was located outside of the U.S. The cash located outside of the U.S. is indefinitely reinvested in the respective jurisdictions (except as identified below). We believe that our strategic plans and business needs, particularly for working capital needs and capital expenditure requirements in Europe, Asia, and Australia, support our assertion that a portion of our cash in foreign locations will be reinvested and remittance will be postponed indefinitely. Of the \$78.4 million of cash in foreign jurisdictions, approximately \$3.6 million represents earnings which we have determined are not permanently reinvested, and as such we have provided for foreign withholding and U.S. state income taxes on these amounts in accordance with applicable accounting standards.

As of December 29, 2019, we had \$602.5 million of borrowings and \$2.2 million in letters of credit outstanding under our amended and restated Syndicated Credit Facility. Of those borrowings outstanding, \$581.6 million were term loan borrowings and \$20.9 million were revolving loan borrowings. As of December 29, 2019, we had additional borrowing capacity of \$276.9 million under our amended and restated Syndicated Credit Facility and \$9.5 million of borrowings under our other credit facilities in place at other non-U.S. subsidiaries.

We have approximately \$162.8 million in contractual cash obligations due by the end of fiscal year 2020, which includes, among other things, pension cash contributions, interest payments on our debt and lease commitments. Based on current interest rates and debt levels, we expect our aggregate interest expense for 2020 to be between \$24 million and \$25 million. We estimate aggregate capital expenditures in 2020 to be between \$50 million and \$60 million, although we are not committed to these amounts.

It is important for you to consider that we have a significant amount of indebtedness. Our amended and restated Syndicated Credit Facility matures in August of 2023. We cannot assure you that we will be able to renegotiate or refinance any of our debt on commercially reasonable terms, or at all. If we are unable to refinance our debt or obtain new financing, we would have to consider other options, such as selling assets to meet our debt service obligations and other liquidity needs, or using cash, if available, that would have been used for other business purposes.

It is also important for you to consider that borrowings under our Syndicated Credit Facility comprise the substantial majority of our indebtedness, and that these borrowings are based on variable interest rates (as described below) that expose the Company to the risk that short-term interest may increase. We have, however, entered into interest rate swap transactions to fix the variable interest rate with respect to \$250 million of the term loan borrowings under the Syndicated Credit Facility. For information regarding the current variable interest rates of these borrowings, the potential impact on our interest expense from hypothetical increases in short term interest rates, and the interest rate swap transaction, please see the discussion in Item 7A of this Report.

Syndicated Credit Facility

On August 7, 2018, we amended and restated our Syndicated Credit Facility (the “Facility”) in connection with the nora Holding GmbH (“nora”) acquisition. The purpose of the amended and restated Facility was to fund the nora purchase price and related fees and expenses of the acquisition, and to increase the credit available to us and our subsidiaries following the closing of the nora acquisition in view of the larger enterprise. At December 29, 2019, the amended and restated Facility provided to us and certain of our subsidiaries a multicurrency revolving loan facility up to \$300 million, as well as other U.S. denominated and multicurrency term loans.

On December 18, 2019, the Company amended its Facility, with certain of its wholly-owned foreign subsidiaries as co-borrowers. The primary purpose of this amendment was to allow the Company to make various intercompany transactions.

In connection with the amended and restated Facility as discussed above, we recorded \$8.8 million of debt issuance costs associated with the new term loans that are reflected as a reduction of long-term debt in accordance with applicable accounting standards. As these fees are expensed over the life of the outstanding borrowing, the debt balance will increase by the same amount as the fees that are expensed. As of December 29, 2019 outstanding debt issuance costs are \$6.3 million.

Interest Rates and Fees

Interest on base rate loans is charged at varying rates computed by applying a margin ranging from 0.25% to 1.25%, depending on the Company's consolidated net leverage ratio as of the most recently completed fiscal quarter. Interest on LIBOR-based loans and fees for letters of credit are charged at varying rates computed by applying a margin over the applicable LIBOR rate, depending on the Company's consolidated net leverage ratio as of the most recently completed fiscal quarter. Interest on multi-currency-based loans and fees for letters of credit are charged at varying rates computed by applying a margin ranging from 1.25% to 2.25% over the applicable Eurocurrency rate, depending on the Company's consolidated net leverage ratio as of the most recently completed fiscal quarter. In addition, the Company pays a commitment fee ranging from 0.20% to 0.35% per annum (depending on the Company's consolidated net leverage ratio as of the most recently completed fiscal quarter) on the unused portion of the Facility.

Covenants

The Facility contains standard and customary covenants for agreements of this type, including various reporting, affirmative and negative covenants. Among other things, these covenants limit our ability to:

- create or incur liens on assets;
- make acquisitions of or investments in businesses (in excess of certain specified amounts);
- engage in any material line of business substantially different from the Company's current lines of business;
- incur indebtedness or contingent obligations;
- sell or dispose of assets (in excess of certain specified amounts);
- pay dividends or repurchase our stock (in excess of certain specified amounts);
- repay other indebtedness prior to maturity unless we meet certain conditions; and
- enter into sale and leaseback transactions.

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

- Consolidated Net Leverage Ratio: Must be no greater than 4.25:1.00, subject to a step-down as described in the Facility Agreement.
- Consolidated Interest Coverage Ratio: Must be no less than 2.25:1.00.

Events of Default

If we breach or fail to perform any of the affirmative or negative covenants under the Facility, or if other specified events occur (such as a bankruptcy or similar event or a change of control of Interface, Inc. or certain subsidiaries, or if we breach or fail to perform any covenant or agreement contained in any instrument relating to any of our other indebtedness exceeding \$20 million), after giving effect to any applicable notice and right to cure provisions, an event of default will exist. If an event of default exists and is continuing, the lenders' Administrative Agent may, and upon the written request of a specified percentage of the lender group shall:

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

Collateral

Pursuant to an Amended and Restated Security and Pledge Agreement, the Facility is secured by substantially all of the assets of Interface, Inc. and our domestic subsidiaries (subject to exceptions for certain immaterial subsidiaries), including all of the stock of our domestic subsidiaries and up to 65% of the stock of our first-tier material foreign subsidiaries. If an event of default occurs under the Facility, the lenders' Administrative Agent may, upon the request of a specified percentage

of lenders, exercise remedies with respect to the collateral, including, in some instances, foreclosing mortgages on real estate assets, taking possession of or selling personal property assets, collecting accounts receivables, or exercising proxies to take control of the pledged stock of domestic and first-tier material foreign subsidiaries.

As of December 29, 2019, we had outstanding \$581.6 million of term loan borrowing and \$20.9 million of revolving loan borrowings under the Facility, and had \$2.2 million in letters of credit outstanding under the Facility. As of December 29, 2019, the weighted average interest rate on borrowings outstanding under the Facility was 3.27%.

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

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

In the third quarter of 2017 and first quarter of 2019, we entered into interest rate swap transactions that fixed the variable interest rate with respect to \$100 million and \$150 million, respectively, of the term loan borrowings under the Syndicated Credit Facility. For additional information, please see Item 7A and Note 9 entitled “Long-Term Debt” in Item 8 of this Report.

Analysis of Cash Flows

We ended 2019 with \$81.3 million in cash, an increase of \$0.3 million during the year. The most significant uses of cash in 2019 were (1) repayments on our Syndicated Credit Facility of \$111.7 million offset by borrowings of \$90 million, (2) capital expenditures of \$74.6 million, (3) \$25.2 million to repurchase 1.6 million shares of the Company’s outstanding common stock, and (3) dividend payments of \$15.4 million. These uses were offset by cash flow from operations of \$141.8 million, primarily generated from (1) net income of \$79.2 million, (2) \$19.4 million for increases in accounts payable and accrued expenses, and (3) \$2.6 million due to a decrease in inventories. These sources of cash were reduced by working capital uses of (1) \$9.7 million due to increases in prepaid expenses and (2) \$0.9 million due to increases in accounts receivable.

We ended 2018 with \$81.0 million in cash, a decrease of \$6.0 million during the year. During 2018, we borrowed \$462.8 million of new term loan debt to finance the acquisition of nora. The cash purchase price for nora, net of cash acquired, was \$400.7 million. Other than the nora purchase transaction, the most significant uses of cash in 2018 were (1) repayments on our Syndicated Credit Facility of \$64.5 million, (2) capital expenditures of \$54.9 million, (3) dividend payments of \$15.5 million and (4) \$14.5 million of cash used to repurchase our common stock. These uses were offset by cash flow generated by operations of \$91.8 million. Our cash flow from operations was primarily generated by net income of \$50.3 million. This net income was offset by working capital uses, primarily \$18.8 million for an increase in inventory and \$15.5 million due to increases in prepaid and other current assets. The Company generated cash of \$9.9 million for increases in accounts payable and accrued expenses. In addition to working capital generation of cash, the Company also borrowed \$17 million under its Syndicated Credit Facility during 2018.

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

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

Funding Obligations

We have various contractual obligations that we must fund as part of our normal operations. The following table discloses aggregate information about our contractual obligations and the periods in which payments are due. The amounts and time periods are measured from December 29, 2019.

	Total Payments Due	Payments Due by Period			
		Less than 1 year	1-3 years <i>(in thousands)</i>	3-5 years	More than 5 years
Long-Term Debt Obligations ⁽¹⁾	\$ 602,516	\$ 31,022	\$ 62,044	\$ 509,450	\$ —
Operating and Finance Lease Obligations ⁽²⁾	152,828	23,202	32,425	21,841	75,360
Expected Interest Payments ⁽³⁾	87,142	23,876	43,034	20,232	—
Unconditional Purchase Obligations ⁽⁴⁾	70,071	65,514	4,518	37	2
Pension Cash Obligations ⁽⁵⁾	139,413	19,146	25,667	26,420	68,180
Total Contractual Cash Obligations ⁽⁶⁾	<u>\$ 1,051,970</u>	<u>\$ 162,760</u>	<u>\$ 167,688</u>	<u>\$ 577,980</u>	<u>\$ 143,542</u>

- (1) Total long-term debt in the consolidated balance sheet includes a reduction for unamortized debt issuance costs of \$6.3 million which are excluded from the long-term debt obligations in the table above.
- (2) Operating and finance lease obligations represent undiscounted future lease payments.
- (3) Expected interest payments to be made in future periods reflect anticipated interest payments related to the \$581.6 million of Term Loan borrowings outstanding and the \$20.9 million of revolving loan borrowings outstanding under our Syndicated Credit Facility as of December 29, 2019. We have also assumed in the presentation above that these borrowings will remain outstanding until maturity with the exception of the required amortization payments for our Term Loan A borrowings.
- (4) Unconditional purchase obligations do not include unconditional purchase obligations that are included as liabilities in our Consolidated Balance Sheet. Our capital expenditure commitments of approximately \$63.3 million are included in the table above.
- (5) We have three foreign defined benefit plans and a domestic salary continuation plan. We have presented above the estimated cash obligations that will be paid under these plans over the next ten years. Such amounts are based on several estimates and assumptions and could differ materially should the underlying estimates and assumptions change. Our domestic salary continuation plan and the nora plan are unfunded plans, and we do not currently have any commitments to make contributions to these plans. However, we do use insurance instruments to hedge our exposure under the salary continuation plan. Contributions to our other employee benefit plans are at our discretion.
- (6) The above table does not reflect unrecognized tax benefits of \$25.5 million, the timing of which payments are uncertain. See Note 16 entitled “Income Taxes” in Item 8 of this Report for further information.

Critical Accounting Policies

The policies discussed below are considered by management to be critical to an understanding of our consolidated financial statements because their application places the most significant demands on management’s judgment, with financial reporting results relying on estimations about the effects of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. For all of these policies, management cautions that future events may not develop as forecasted, and the best estimates routinely require adjustment.

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

trends, and other industry specific metrics. If actual market value is less favorable than that estimated by management, additional write-downs may be required.

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

We evaluate the recoverability of these deferred tax assets by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. We use our historical experience and our short and long-term business forecasts to provide insight. Further, our global business portfolio gives us the opportunity to employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established. As of December 29, 2019, and December 30, 2018, we had state net operating loss carryforwards of \$87.6 million and \$96.1 million, respectively. Certain of these state net operating loss carryforwards are reserved with a valuation allowance because, based on the available evidence, we believe it is more likely than not that we would not be able to utilize those deferred tax assets in the future. The remaining year-end 2019 amounts are expected to be fully recoverable within the applicable statutory expiration periods. If the actual amounts of taxable income differ from our estimates, the amount of our valuation allowance could be materially impacted.

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

During the fourth quarters of 2019, 2018 and 2017, we performed the annual goodwill impairment test. We perform this test at the reporting unit level. For our reporting units which carried a goodwill balance as of December 29, 2019, no impairment of goodwill was indicated. As of December 29, 2019, if our estimates of the fair value of our reporting units were 10% lower, we believe no additional goodwill impairment would have existed. However, the Company has experienced significant competitive pressure in fiscal 2019 along with volatility in the company stock price. As such, it is reasonably possible that such circumstances along with a recent acquisition may together warrant the need to write down the value of goodwill in the near term.

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

We estimate our reserves for inventory obsolescence by continuously examining our inventories to determine if there are indicators that carrying values exceed net realizable values. Experience has shown that significant indicators that could require the need for additional inventory write-downs are the age of the inventory, the length of its product life cycles, anticipated demand for our products and current economic conditions. While we believe that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and we could experience additional inventory write-downs in the future. Our inventory reserve on December 29, 2019 and December 30, 2018, was \$28.3 million and \$28.1 million, respectively. To the extent that actual obsolescence of our inventory differs from our estimate by 10%, our 2019 net income would be higher or lower by approximately \$2.2 million, on an after-tax basis.

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

<u>Foreign Defined Benefit Plans</u>	Increase (Decrease) in Projected Benefit Obligation
	<i>(in millions)</i>
1% increase in actuarial assumption for discount rate	\$ (46.8)
1% decrease in actuarial assumption for discount rate	\$ 60.4
<u>Domestic Salary Continuation Plan</u>	Increase (Decrease) in Projected Benefit Obligation
	<i>(in millions)</i>
1% increase in actuarial assumption for discount rate	\$ (3.2)
1% decrease in actuarial assumption for discount rate	\$ 3.9

Allowances for Doubtful Accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. Estimating this amount requires us to analyze the financial strengths of our customers. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. By its nature, such an estimate is highly subjective, and it is possible that the amount of accounts receivable that we are unable to collect may be different than the amount initially estimated. Our allowance for doubtful accounts on December 29, 2019 and December 30, 2018, was \$3.8 million and \$3.5 million, respectively. To the extent the actual collectability of our accounts receivable differs from our estimates by 10%, our 2019 net income would be higher or lower by approximately \$0.3 million, on an after-tax basis, depending on whether the actual collectability was better or worse, respectively, than the estimated allowance.

Product Warranties. We typically provide limited warranties with respect to certain attributes of our carpet products (for example, warranties regarding excessive surface wear, edge ravel and static electricity) for periods ranging from ten to twenty years, depending on the particular carpet product and the environment in which the product is to be installed. Similar limited warranties are provided on certain attributes of our rubber and LVT products, typically for a period of 5 to 15 years. We typically warrant that any services performed will be free from defects in workmanship for a period of one year following completion. In the event of a breach of warranty, the remedy typically is limited to repair of the problem or replacement of the affected product. We record a provision related to warranty costs based on historical experience and periodically adjust these provisions to reflect changes in actual experience. Our warranty and sales allowance reserve on December 29, 2019 and December 30, 2018, was \$3.9 million and \$3.5 million, respectively. Actual warranty expense incurred could vary significantly from amounts that we estimate. To the extent the actual warranty expense differs from our estimates by 10%, our 2019 net income would be higher or lower by approximately \$0.3 million, on an after-tax basis, depending on whether the actual expense is lower or higher, respectively, than the estimated provision.

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

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

of the business, and the appropriate risk-adjusted discount rate used to discount the projected cash flows. At December 29, 2019 intangible assets, net of amortization, were approximately \$89.1 million. The final residual value assigned to goodwill related to the nora acquisition was \$201.9 million, at the acquisition date exchange rate. We completed our final valuation of the assets acquired and liabilities assumed at the acquisition date in the second quarter of 2019.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

We employ derivative financial instruments as risk management tools and not for speculative or trading purposes. We monitor the use of derivative financial instruments through objective measurable systems, well-defined market and credit risk limits, and timely reports to senior management according to prescribed guidelines. We have established strict counter-party credit guidelines and enter into transactions only with financial institutions with a rating of investment grade or better. As a result, we consider the risk of counter-party default to be minimal.

Interest Rate Market Risk Exposure

Changes in interest rates affect the interest paid on certain of our debt. To mitigate the impact of fluctuations in interest rates, our management monitors interest rates and has developed and implemented a policy to maintain the percentage of fixed and variable rate debt within certain parameters, subject to approval by our Board of Directors. In 2017 and 2019, the Company entered into interest rate swap transactions with regard to a portion of its term loan debt. The Company’s interest rate swaps are designated and qualify as cash flow hedges of forecasted interest payments. The Company reports the effective portion of the fair value gain or loss on the swaps as a component of other comprehensive income (or other comprehensive loss). The aggregate notional amount of the swaps as of December 29, 2019 was \$250 million.

Foreign Currency Exchange Market Risk Exposure

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

At December 29, 2019, we recognized an \$11.7 million decrease in our foreign currency translation adjustment account compared with December 30, 2018, because of the weakening of the Euro, British pound and Australian dollar against the U.S. dollar in 2019.

Sensitivity Analysis

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

To perform sensitivity analysis, we assess the risk of loss in fair values associated with the impact of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments. The market value of instruments affected by interest rate and foreign currency exchange rate risk is computed based on the present value of future cash flows as impacted by the changes in the rates attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest and foreign currency exchange rates in effect at December 29, 2019. The values that result from these computations are then compared with the market values of the financial instruments. The differences are the hypothetical gains or losses associated with each type of risk.

Interest Rate Risk

Our weighted average interest rate for our outstanding borrowings in 2019 and 2018 was 3.27% and 3.50%, respectively.

As discussed above, our Syndicated Credit Facility is comprised of a combination of term loan and revolving loan borrowings. The following table summarizes our market risks associated with our debt obligations as of December 29, 2019. For debt obligations, the table presents principal cash flows and related weighted average interest rates by year of maturity. Variable interest rates presented for variable-rate debt represent the weighted average interest rate on our Syndicated Credit Facility borrowings as of December 29, 2019.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
	(in thousands)						
Rate-Sensitive Liabilities							
Long-term Debt:							
Variable Rate.....	\$ 31,022	\$ 31,022	\$ 31,022	\$ 509,450	\$ —	\$ 602,516	\$ 602,516

An increase in our effective interest rate of 1% would increase annual interest expense by approximately \$3.3 million. We will continue to review our exposure to interest rate fluctuations and evaluate whether we should continue to manage such exposures through our current and any future interest rate swap transactions.

As of December 29, 2019, a 100 bps decrease or increase in interest rates would result in a decrease or increase in the fair value of our interest rate swaps of approximately \$7.3 million.

Foreign Currency Exchange Rate Risk

As of December 29, 2019, a 10% decrease or increase in the levels of foreign currency exchange rates against the U.S. dollar, with all other variables held constant, would result in a decrease in the fair value of our short-term financial instruments (primarily cash, accounts receivable and accounts payable) of \$12.4 million or an increase in the fair value of our financial instruments of \$15.1 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS**

	FISCAL YEAR		
	2019	2018	2017
	<i>(in thousands, except per share data)</i>		
Net sales	\$ 1,343,029	\$ 1,179,573	\$ 996,443
	<u>817,575</u>	<u>755,216</u>	<u>610,422</u>
Gross profit on sales	525,454	424,357	386,021
Selling, general and administrative expenses	381,604	327,449	267,151
Restructuring, asset impairment and other charges	<u>12,947</u>	<u>20,529</u>	<u>7,299</u>
Operating income	<u>130,903</u>	<u>76,379</u>	<u>111,571</u>
Interest expense	25,656	15,436	7,128
Other expense	<u>3,431</u>	<u>5,952</u>	<u>3,904</u>
Income before income tax expense	101,816	54,991	100,539
Income tax expense	<u>22,616</u>	<u>4,738</u>	<u>47,293</u>
Net income	<u>\$ 79,200</u>	<u>\$ 50,253</u>	<u>\$ 53,246</u>
Net income per share – basic	<u>\$ 1.34</u>	<u>\$ 0.84</u>	<u>\$ 0.86</u>
Net income per share – diluted	<u>\$ 1.34</u>	<u>\$ 0.84</u>	<u>\$ 0.86</u>
Basic weighted average common shares outstanding	58,943	59,544	61,996
Diluted weighted average common shares outstanding	58,948	59,566	62,040

See accompanying notes to consolidated financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	FISCAL YEAR		
	2019	2018	2017
		<i>(in thousands)</i>	
Net income	\$ 79,200	\$ 50,253	\$ 53,246
Other comprehensive income (loss), after tax			
Foreign currency translation adjustment.....	(11,652)	(22,544)	31,579
Cash flow hedge (losses) gains	(5,489)	422	904
Pension liability adjustment.....	(13,090)	12,944	(1,692)
Comprehensive income	\$ 48,969	\$ 41,075	\$ 84,037

See accompanying notes to consolidated financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	END OF FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 81,301	\$ 80,989
Accounts receivable, net	177,482	179,004
Inventories, net	253,584	258,657
Prepaid expenses and other current assets	35,768	40,229
Total current assets	548,135	558,879
Property, plant and equipment, net	324,585	292,888
Operating lease right-of-use assets	107,044	—
Deferred tax asset	19,683	15,601
Goodwill and intangibles, net	346,474	343,542
Other assets	77,128	73,734
Total assets	\$ 1,423,049	\$ 1,284,644
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 75,687	\$ 66,301
Accrued expenses	140,652	125,971
Current portion of operating lease liabilities	15,914	—
Current portion of long-term debt	31,022	31,315
Total current liabilities	263,275	223,587
Long-term debt	565,178	587,266
Operating lease liabilities	91,829	—
Deferred income taxes	35,550	26,488
Other long-term liabilities	99,015	92,640
Total liabilities	1,054,847	929,981
Commitments and contingencies		
Shareholders' equity		
Preferred stock	—	—
Common stock	5,842	5,951
Additional paid-in capital	250,306	270,269
Retained earnings	286,056	222,214
Accumulated other comprehensive loss – foreign currency translation	(113,139)	(101,487)
Accumulated other comprehensive income – cash flow hedge	(4,163)	1,326
Accumulated other comprehensive loss – pension liability	(56,700)	(43,610)
Total shareholders' equity	368,202	354,663
Total liabilities and shareholders' equity	\$ 1,423,049	\$ 1,284,644

See accompanying notes to consolidated financial statements.

INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FISCAL YEAR		
	2019	2018	2017
OPERATING ACTIVITIES:		<i>(in thousands)</i>	
Net income	\$ 79,200	\$ 50,253	\$ 53,246
Adjustments to reconcile income to cash provided by operating activities			
Depreciation and amortization	44,932	39,084	30,261
Stock compensation amortization expense.....	8,691	14,496	7,247
Loss on disposal of impaired assets	—	8,569	—
Enactment of U.S. Tax Cuts and Jobs Act expenses (benefit)	—	(6,739)	15,174
Bad debt expense.....	1,206	222	219
Deferred income taxes and other.....	(9,497)	(11,709)	8,154
Amortization of acquired intangible assets	5,903	5,387	—
Amortization of acquired inventory step-up.....	—	26,666	—
Working capital changes:			
Accounts receivable	(930)	(10,113)	(10,313)
Inventories.....	2,573	(18,784)	(13,629)
Prepaid expenses and other current assets.....	(9,691)	(15,501)	1,019
Accounts payable and accrued expenses.....	19,381	9,936	11,975
Cash provided by operating activities	<u>141,768</u>	<u>91,767</u>	<u>103,353</u>
INVESTING ACTIVITIES:			
Capital expenditures.....	(74,647)	(54,857)	(30,474)
Cash paid for business, net of cash acquired.....	—	(400,697)	—
Other	425	(131)	(614)
Cash used in investing activities	<u>(74,222)</u>	<u>(455,685)</u>	<u>(31,088)</u>
FINANCING ACTIVITIES:			
Revolving loan borrowing.....	90,000	17,000	25,000
Revolving loan repayments.....	(87,664)	(64,504)	(57,014)
Term loan borrowing.....	—	462,847	—
Term loan repayments.....	(24,028)	(14,162)	(15,000)
Repurchase of common stock	(25,154)	(14,485)	(91,576)
Dividends paid	(15,358)	(15,471)	(15,487)
Tax withholding payments for share-based compensation.....	(3,278)	(1,187)	(1,479)
Debt issuance costs	—	(8,806)	(1,427)
Proceeds from issuance of common stock.....	60	294	—
Other	(1,255)	—	—
Cash (used in) provided by financing activities	<u>(66,677)</u>	<u>361,526</u>	<u>(156,983)</u>
Net cash provided by (used in) operating, investing and financing activities.....	869	(2,392)	(84,718)
Effect of exchange rate changes on cash.....	(557)	(3,656)	6,083
CASH AND CASH EQUIVALENTS:			
Net increase (decrease)	312	(6,048)	(78,635)
Balance, beginning of year.....	80,989	87,037	165,672
Balance, end of year.....	<u>\$ 81,301</u>	<u>\$ 80,989</u>	<u>\$ 87,037</u>

See accompanying notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Principles of Consolidation

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

Use of Estimates

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

Revenue Recognition

Effective January 1, 2018, the Company adopted a new accounting standard with regard to revenue from customers. The core principle of this standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. The Company elected the modified retrospective approach for adoption of this new standard, as is allowed by the standard. The Company did not have any significant impact from this standard as of the date of the adoption.

Revenue Recognized from Contracts with Customers

Contracts with customers typically take the form of invoices for purchase of materials from the Company. Customer payment terms vary by region and are typically less than 60 days. The performance obligation is the delivery of these materials to the customer’s control. During 2019 and 2018, approximately 98% and 97% of the Company’s total revenue, respectively, was produced from the sale of carpet, resilient flooring, rubber flooring, and related products (TacTiles installation materials, etc.) and the revenue from sales of these products is recognized upon shipment, or in certain cases, upon delivery to the customer. The transaction price for these sales is readily identifiable. The remaining revenue for 2019 and 2018 of 2% and 3%, respectively, was generated from the installation of carpet and other flooring-related material.

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

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

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

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

Performance Obligations

As noted above, the Company primarily generates revenue through the sale of flooring material to end users either upon shipment or upon arrival of the product at its destination. In these instances, there typically is no other obligation to the customers other than the delivery of flooring material with the exception of warranty. The Company does offer a warranty to its customers which guarantees certain on-floor performance characteristics and warrants against manufacturing defects. The warranty is not a service warranty, and there is no ability to separate the warranty obligation from the sale of the flooring or purchase them separately. The Company's incidence of warranty claims is extremely low, with less than 0.5% of revenue in claims on an annual basis for the last three fiscal years. Given the nature of the warranty as well as the financial impact, the Company has determined that there is no need to identify this warranty as a separate performance obligation and the Company will continue to account for warranty on an accrual basis.

For the Company's installation business, the sales of carpet and other flooring materials and installation services are separate deliverables which under the revenue recognition requirements should be characterized as separate performance obligations. Prior to the adoption of the new accounting standard, the Company historically had not separated these obligations and had accounted for these installation projects on a completed contract basis. The nature of the installation projects is such that the vast majority – an amount in excess of 90% of these installation projects – are completed in less than 5 days. The Company's largest installation customers are retail and corporate customers, and these are on a project-by-project basis and are short-term installations. The Company has evaluated these projects at the end of the reporting period and recorded revenue in accordance with the accounting standards for projects which were underway as of the end of 2019.

Costs to Obtain Contracts

The Company pays sales commissions to many of its sales personnel based upon their selling activity. These are direct costs associated with obtaining the contracts and are expensed as the revenue is earned. As these commissions become payable upon shipment (or in certain cases delivery) of product, the commission is earned as the revenue is recognized. There are no other material costs the Company incurs as part of obtaining the sales contract.

Shipping and Handling

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

Research and Development

Research and development costs are expensed as incurred and are included in selling, general and administrative expenses and cost of sales in the consolidated statements of operations. Research and development expense was \$17.8 million, \$16.4 million, and \$14.0 million for the years 2019, 2018 and 2017, respectively.

Cash, Cash Equivalents and Short-Term Investments

Highly liquid investments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months and less than one year are classified as short-term investments. Significant concentrations of credit risk may arise from the Company's cash maintained at various banks, as from time to time cash balances may exceed the FDIC limits. The Company did not hold any significant amounts of cash equivalents and short-term investments at December 29, 2019 and December 30, 2018.

Cash payments for interest amounted to approximately \$22.7 million, \$13.8 million, and \$6.3 million for the years 2019, 2018, and 2017, respectively. 2019 includes cash payments for interest related to the Company's finance lease liabilities. Income tax payments amounted to approximately \$34.8 million, \$29.5 million and \$19.1 million for the years 2019, 2018 and 2017, respectively. During the years 2019, 2018 and 2017, the Company received income tax refunds of \$1.9 million, \$0.8 million and \$0.1 million, respectively.

Inventories

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

Management estimates its reserves for inventory obsolescence by continuously examining its inventories to determine if there are indicators that carrying values exceed net realizable values. Experience has shown that significant indicators that could require the need for additional inventory write-downs are the age of the inventory, the length of its product life cycles, anticipated demand for the Company's products, and current economic conditions. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the Company could experience additional inventory write-downs in the future.

Rebates

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

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

Leases

We record a right-of-use asset and lease liability for operating and finance leases once a contract that contains a lease is executed and we have the right to control the use of the leased asset. The right-of-use asset is measured as the present value of the lease obligation. The discount rate used to calculate the present value of the lease liability was the Company's incremental borrowing rate, which is based on the estimated rate for a fully collateralized borrowing that fully amortizes over a similar lease term at the commencement date and for the applicable geographical region.

We made an accounting policy election to exclude leases with an initial term of 12 months or less from the calculation of the right-of-use asset and lease liability recorded on the consolidated condensed balance sheet. These leases primarily represent month-to-month operating leases for vehicles and office equipment where we were reasonably certain that we would not elect an option to extend the lease. We also made an accounting policy election not to separate lease and non-lease components for all asset classes and will account for the lease payments as a single component.

Property and Equipment and Long-Lived Assets

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives: buildings and improvements – ten to forty years; and furniture and equipment – three to twelve years. Interest costs for the construction/development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Company capitalized net interest costs on qualifying expenditures of approximately \$2.1 million, \$0.7 million, and \$0.6 million for the fiscal years 2019, 2018 and 2017, respectively. Depreciation expense amounted to approximately \$41.5 million, \$37.6 million, and \$29.5 million for the years 2019, 2018, and 2017 respectively. Depreciation expense recorded to costs of sales in the consolidated statements of operations was \$26.3 million, \$21.8 million, and \$14.8 million for the years 2019, 2018, and 2017, respectively. Depreciation expense recorded in SG&A expenses in the consolidated statements of operations was \$15.2 million, \$15.8 million, and \$14.7 million, for the years 2019, 2018, and 2017, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flow is less than the carrying amount of

the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. Repair and maintenance costs are charged to operating expense as incurred.

Goodwill and Other Intangible Assets

In connection with the nora acquisition on August 7, 2018, the Company recognized goodwill of \$201.9 million and acquired intangible assets of \$103.3 million. Goodwill includes all purchase price accounting adjustments of approximately \$18.6 million related to additional liabilities that existed at the acquisition date. Goodwill and intangible assets were assigned pro-rata to the Company's three operating segments. None of the goodwill is expected to be deductible for income tax purposes.

As of December 29, 2019, and December 30, 2018, the net carrying amount of goodwill was \$257.4 million and \$245.8 million, respectively. Other intangible assets were \$89.1 million and \$97.7 million as of December 29, 2019 and December 30, 2018, respectively. Amortization expense related to intangible assets during the years 2019, 2018 and 2017 was \$5.9 million, \$5.4 million and \$0.7 million, respectively and are recorded in cost of sales in the consolidated statements of operations.

During the fourth quarters of 2019, 2018 and 2017, as of the last day of the third quarter of each year, the Company performed the annual goodwill impairment test. The Company performs this test at the reporting unit level, which is one level below the segment level for the Flooring segment. In performing the impairment testing, the Company prepared valuations of reporting units on both a market comparable methodology and an income methodology, and those valuations were compared with the respective carrying values of the reporting units to determine whether any goodwill impairment existed. In preparing the valuations, past, present and future expectations of performance were considered. The annual testing indicated no potential of goodwill impairment in any of the years presented.

Each of the Company's reporting units maintained fair values in excess of their respective carrying values as of the measurement date, and therefore no impairment was indicated as a result of the impairment testing. As of December 29, 2019, if the Company's estimates of the fair values of its reporting units which carry a goodwill balance were 10% lower, the Company still believes no goodwill impairment would have existed. However, the Company has experienced significant competitive pressure in fiscal 2019 along with volatility in the company stock price. As such, it is reasonably possible that such circumstances along with a recent acquisition may together warrant the need to write down the value of goodwill in the near term.

The changes in the carrying amounts of goodwill for the years ended December 29, 2019 and December 30, 2018 are as follows (in thousands):

BALANCE DECEMBER 31, 2018	ACQUISITIONS	PURCHASE PRICE ACCOUNTING ADJUSTMENTS	IMPAIRMENT <i>(in thousands)</i>	FOREIGN CURRENCY TRANSLATION	BALANCE DECEMBER 29, 2019
\$ 245,815	\$ —	\$ 17,181	\$ —	\$ (5,557)	\$ 257,439

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

Product Warranties

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

the event of a breach of warranty, the remedy typically is limited to repair of the problem or replacement of the affected product.

The Company records a provision related to warranty costs based on historical experience and periodically adjusts these provisions to reflect changes in actual experience. Warranty and sales allowance reserves amounted to \$3.9 million and \$3.5 million as of December 29, 2019 and December 30, 2018, respectively, and are included in “Accrued Expenses” in the accompanying consolidated balance sheets.

Income Taxes

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

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

For uncertain tax positions, the Company applies the provisions of relevant authoritative guidance, which requires application of a “more likely than not” threshold to the recognition and derecognition of tax positions. The Company’s ongoing assessments of the more likely than not outcomes of tax authority examinations and related tax positions require significant judgment and can increase or decrease the Company’s effective tax rate as well as impact operating results. For further information, see Note 16 entitled “Income Taxes.”

Fair Values of Financial Instruments

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

Translation of Foreign Currencies

The financial position and results of operations of the Company’s foreign subsidiaries are measured using local currencies as the functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each year-end. Income and expense items are translated at average exchange rates for the year. The resulting translation adjustments are recorded in the foreign currency translation adjustment account. In the event of a divestiture of a foreign subsidiary, the related foreign currency translation results are reversed from equity to income. Foreign exchange translation gains (losses) were (\$11.7) million, (\$22.5) million, and \$31.6 million for the years 2019, 2018 and 2017, respectively.

Earnings per Share

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

Stock-Based Compensation

The Company has stock-based employee compensation plans, which are described more fully in Note 13 entitled “Shareholders' Equity.”

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model. However, there were no stock options granted in 2019, 2018 or 2017.

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

Derivative Financial Instruments

Derivatives are recognized on the balance sheet at fair value. For derivatives that meet the criteria as designated cash flow hedges, the effective portion of changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. Derivative liabilities are recorded in accrued expenses and derivative assets are recorded in other current assets in the consolidated balance sheet.

Pension Benefits

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

Allowances for Doubtful Accounts

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

Reclassifications

Certain prior period amounts have been reclassified to conform to current year financial statement presentation. These reclassifications had no effect on reported income, comprehensive income, cash flows, or shareholders' equity as previously reported.

Fiscal Year

The Company's fiscal year is the 52 or 53 week period ending on the Sunday nearest December 31. All references herein to "2019," "2018," and "2017," mean the fiscal years ended December 29, 2019, December 30, 2018, and December 31, 2017, respectively. Fiscal years 2019, 2018 and 2017 were each comprised of 52 weeks.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

On December 31, 2018, the Company adopted Accounting Standards Codification ("ASC") Topic 842, "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 Company adopted the new lease standard using the modified retrospective approach and recorded operating lease right-of-use assets and operating lease liabilities for approximately \$115.0 million respectively, with no cumulative-effect adjustment to retained earnings. The Company elected to apply the practical expedients allowed by the standard, which resulted in the Company not having to reassess whether expired or existing contracts contained a lease as well as retaining the historical classification of our leases. The Company also elected the hindsight practical expedient in evaluating lessee options and elected to combine lease and non-lease components in calculating the right-of-use asset and lease liability for all leases, except data center assets. See Note 11 entitled "Leases" for additional information.

On December 31, 2018 the Company adopted, Accounting Standards Update ("ASU") 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which addresses a narrow-scope financial reporting issue that arose as a consequence of the U.S. Tax Cuts and Jobs Act. The former guidance required that deferred tax liabilities and assets be adjusted for a change in tax laws or rates with the effect included in income from continuing operations in the

reporting period that includes the enactment date. That guidance was applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income (rather than in net income), such as amounts related to benefit plans and hedging activity. As a result, the tax effects of items within accumulated other comprehensive income do not reflect the appropriate tax rate (the difference is referred to as stranded tax effects). The new guidance allows for a reclassification of these amounts to retained earnings, thereby eliminating these stranded tax effects. The adoption of this standard did not have a material effect on the Company's consolidated financial statements as the Company did not elect to reclassify stranded tax effects into retained earnings.

On December 31, 2018, the Company adopted ASU 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting." This standard requires that the accounting treatment for non-employee share-based payments for goods or services be consistent with current accounting for employee share-based payments, including measurement of awards at grant-date fair value and the application of probability to evaluate performance conditions. This standard also eliminates the current GAAP requirement to reassess the classification of non-employee share-based payments awards upon vesting. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes." The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of ASC Topic 740 by clarifying and amending existing guidance. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating the impact of adoption of this standard, but does not anticipate that the adoption will have a material effect on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Changes to the Disclosure Requirements for Fair Value Measurement." This standard eliminates the current requirement to disclose the amount or reason for transfers between level 1 and level 2 of the fair value hierarchy and the requirement to disclose the valuation methodology for level 3 fair value measurements. The standard includes additional disclosure requirements for level 3 fair value measurements, including the requirement to disclose the changes in unrealized gains and losses in other comprehensive income during the period and permits the disclosure of other relevant quantitative information for certain unobservable inputs. The new guidance is effective for interim and annual periods beginning after December 15, 2019. The Company does not anticipate that the adoption of the new standard will have a material effect on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Internal-Use Software – Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement." This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement service contract with the guidance to capitalize implementation costs of internal use software. The ASU also requires that the costs for implementation activities during the application development phase be capitalized in a hosting arrangement service contract, and costs during the preliminary and post implementation phase are expensed. The new guidance is effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of adoption of this standard, but does not anticipate that the adoption will have a material effect on its consolidated financial statements.

In December 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other," that provides for the elimination of Step 2 from the goodwill impairment test. Under the new guidance, impairment charges are recognized to the extent the carrying amount of a reporting unit exceeds its fair value with certain limitations. The new guidance is effective for any annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company does not anticipate that the adoption of the new standard will have a material effect on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments -- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU requires a financial asset (including trade receivables) to be presented at the net amount expected to be collected through the use of valuation allowances for credit losses. The income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. The new standard provides both a modified retrospective or prospective adoption method. The Company does not expect the adoption of this ASU to have a significant impact on its consolidated financial statements, due to the short-term nature of its trade accounts receivable.

NOTE 3 – REVENUE RECOGNITION

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

Revenue from sales of carpet, modular resilient flooring, rubber flooring, and other flooring-related material was approximately 98% of total revenue for 2019. The remaining 2% of revenue was generated from the installation of carpet and other flooring-related material.

Disaggregation of Revenue

For 2019, revenue from the Company's customers is broken down by geography as follows:

Geography	Percentage of Net Sales
Americas	56.4%
Europe.....	29.3%
Asia-Pacific	14.3%

NOTE 4 – RECEIVABLES

The Company has adopted credit policies and standards intended to reduce the inherent risk associated with potential increases in its concentration of credit risk due to increasing trade receivables from sales to owners and users of commercial office facilities and with specifiers such as architects, engineers and contracting firms. Management believes that credit risks are further moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of December 29, 2019 and December 30, 2018, the allowance for bad debts amounted to \$3.8 million and \$3.5 million, respectively, for all accounts receivable of the Company. Reserves for warranty and returns allowances amounted to \$3.9 million and \$3.5 million as of December 29, 2019 and December 30, 2018, respectively.

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements of Plan Assets

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

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Inputs to the valuation methodology include:
 - quoted prices for similar assets in active markets;
 - quoted prices for identical or similar assets in inactive markets;
 - inputs other than quoted prices that are observable for the asset; and
 - inputs that are derived principally or corroborated by observable data by correlation or other
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

As of December 29, 2019 and December 30, 2018, the Company had approximately \$23.3 million and \$24.3 million, respectively, of Company-owned life insurance, which is measured on a readily determinable cash surrender value on a

recurring basis. This Company-owned life insurance is classified as a Level 2 asset within the fair value hierarchy. Due to the short maturity of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, their carrying values approximate fair value. As of December 29, 2019, the carrying value of the Company's borrowings under its Syndicated Credit Facility approximates fair value as the Facility bears interest rates that are similar to existing market rates. The fair value of the Company's derivative instruments is determined using discounted cash flow valuation models. The significant inputs used in these models are readily available in public markets, or can be derived from other observable market transactions, and therefore are classified as Level 2 within the fair value hierarchy.

NOTE 6 – INVENTORIES

Inventories are summarized as follows:

	END OF FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
Finished goods.....	\$ 184,336	\$ 180,847
Work-in-process.....	13,152	17,762
Raw materials.....	<u>56,096</u>	<u>60,048</u>
Inventory, Net.....	<u>\$ 253,584</u>	<u>\$ 258,657</u>

Reserves for inventory obsolescence amounted to \$28.3 million and \$28.1 million as of December 29, 2019 and December 30, 2018, respectively, and have been netted against amounts presented above.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	END OF FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
Land.....	\$ 17,777	\$ 16,870
Buildings.....	148,833	143,725
Equipment ⁽¹⁾	<u>615,149</u>	<u>565,251</u>
	781,759	725,846
Accumulated depreciation and amortization ⁽²⁾	<u>(457,174)</u>	<u>(432,958)</u>
Property, plant and equipment.....	<u>\$ 324,585</u>	<u>\$ 292,888</u>

(1) 2019 includes \$5.9 million of leased equipment.

(2) 2019 includes \$0.9 million of accumulated amortization on leased equipment.

The estimated cost to complete construction-in-progress at December 29, 2019, was approximately \$57.2 million.

NOTE 8 – ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	END OF FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
Compensation.....	\$ 86,696	\$ 80,877
Interest.....	1,485	374
Restructuring.....	11,445	11,907
Taxes.....	16,809	14,539
Accrued purchases.....	4,910	5,329
Warranty and sales allowances.....	3,853	3,495
Other.....	15,454	9,450
Accrued Expenses.....	<u>\$ 140,652</u>	<u>\$ 125,971</u>

NOTE 9 – LONG-TERM DEBT

Syndicated Credit Facility

On August 7, 2018, the Company amended and restated its Syndicated Credit Facility (the “Facility”) in connection with the nora acquisition. The purpose of the amended and restated Facility was to fund the nora purchase price and related fees and expenses of the acquisition, and to increase the credit available to the Company and its subsidiaries following the closing of the nora acquisition in view of the larger enterprise. At December 29, 2019, the amended and restated Facility provided to the Company and certain of its subsidiaries a multicurrency revolving loan facility up to \$300.0 million, as well as other U.S. denominated and multicurrency term loans.

On December 18, 2019, the Company amended its Facility, with certain of its wholly-owned foreign subsidiaries as co-borrowers. The purpose of this amendment was to provide for certain provisions, including but not limited to the following:

- the amendment of certain covenants in the Facility to add new exceptions which will allow the Company and its subsidiaries to accomplish certain intercompany investments and other intercompany transactions desired to be made by the Company and its subsidiaries, and
- amendments to add provisions relating to treatment of certain qualified financial contracts, to modify certain existing provisions dealing with the replacement of LIBOR as a benchmark interest rate with an alternative benchmark rate in the event that LIBOR in the future ceases to be available as a benchmark rate.

Interest Rates and Fees

Interest on base rate loans is charged at varying rates computed by applying a margin ranging from 0.25% to 1.25%, depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter. Interest on LIBOR-based loans and fees for letters of credit are charged at varying rates computed by applying a margin over the applicable LIBOR rate, depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter. Interest on multi-currency-based loans and fees for letters of credit are charged at varying rates computed by applying a margin ranging from 1.25% to 2.25% over the applicable Eurocurrency rate, depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter. In addition, the Company pays a commitment fee ranging from 0.20% to 0.35% per annum (depending on the Company’s consolidated net leverage ratio as of the most recently completed fiscal quarter) on the unused portion of the Facility.

Covenants

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

- create or incur liens on assets;
- make acquisitions of or investments in businesses (in excess of certain specified amounts);

- engage in any material line of business substantially different from the Company's current lines of business;
- incur indebtedness or contingent obligations;
- sell or dispose of assets (in excess of certain specified amounts);
- pay dividends or repurchase the Company's stock (in excess of certain specified amounts);
- repay other indebtedness prior to maturity unless the Company meets certain conditions; and
- enter into sale and leaseback transactions.

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

- Consolidated Net Leverage Ratio: Must be no greater than 4.25:1.00, subject to a step-down as described in the Facility Agreement.
- Consolidated Interest Coverage Ratio: Must be no less than 2.25:1.00.

Events of Default

If the Company breaches or fails to perform any of the affirmative or negative covenants under the Facility, or if other specified events occur (such as a bankruptcy or similar event or a change of control of Interface, Inc. or certain subsidiaries, or if the Company breaches or fails to perform any covenant or agreement contained in any instrument relating to any of the Company's other indebtedness exceeding \$20 million), after giving effect to any applicable notice and right to cure provisions, an event of default will exist. If an event of default exists and is continuing, the lenders' Administrative Agent may, and upon the written request of a specified percentage of the lender group shall:

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

Collateral

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

As of December 29, 2019, the Company had outstanding \$581.6 million of term loan borrowing and \$20.9 million of revolving loan borrowings under the Facility, and had \$2.2 million in letters of credit outstanding under the Facility. As of December 29, 2019, the weighted average interest rate on borrowings outstanding under the Facility was 3.27%.

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

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

Interest Rate Risk Management

In the third quarter of 2017 and the first quarter of 2019, the Company entered into interest rate swap transactions to fix the variable interest rate on a portion of its term loan borrowings in order to manage a portion of its exposure to interest rate fluctuations. The Company's objective and strategy with respect to these interest rate swaps is to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability to cash flows relating to interest payments on a portion of its outstanding debt. The Company is meeting its objective by hedging the risk of changes in its cash flows (interest payments) attributable to changes in LIBOR, the designated benchmark interest rate being hedged (the "hedged risk"), on an amount of the Company's debt principal equal to the outstanding swap notional amounts.

Other Lines of Credit

Subsidiaries of the Company have an aggregate of the equivalent of \$9.5 million of other lines of credit available at interest rates ranging from 2.0% to 6.0%. As of December 29, 2019 and December 30, 2018, there were no borrowings outstanding under these lines of credit.

Borrowing Costs

In connection with the amended and restated Facility on August 7, 2018, as discussed above, the Company recorded \$8.8 million of debt issuance costs associated with the new term loans, which are reflected as a reduction of long-term debt in accordance with applicable accounting standards. These fees are amortized straight-line, which approximates the effective interest method, over the life of the outstanding borrowing, the debt balance will increase by the same amount as the fees that are amortized. As of December 29, 2019, the unamortized debt costs recorded as a reduction of long-term debt was \$6.3 million.

Other deferred borrowing costs, which include underwriting, legal and other direct costs related to the issuance of revolving debt, net of accumulated amortization, were \$1.3 million and \$1.8 million, as of December 29, 2019 and December 30, 2018, respectively. These amounts are included in other long term assets in the Company's consolidated balance sheets. The Company amortizes these costs over the life of the related debt. Expenses related to such costs for the years 2019, 2018, and 2017 amounted to \$0.4 million, \$0.5 million, and \$0.5 million, respectively for each of those years.

Future Maturities

The aggregate maturities of borrowings for each of the five fiscal years subsequent to 2019 are as follows:

<u>FISCAL YEAR</u>	<u>AMOUNT</u> <i>(in thousands)</i>
2020.....	\$ 31,022
2021.....	31,022
2022.....	31,022
2023.....	509,450
2024.....	—
Thereafter.....	—
Total Debt.....	<u>\$ 602,516</u>

Total long-term debt in the consolidated balance sheet includes a reduction for unamortized debt issuance costs of \$6.3 million which are excluded from the maturities table above.

NOTE 10 – DERIVATIVE INSTRUMENTS

Interest Rate Risk Management

In the third quarter of 2017 and the first quarter of 2019, the Company entered into interest rate swap transactions in notional amounts of \$100 million and \$150 million, respectively, to fix the variable interest rate on a portion of its term loan borrowing in order to manage a portion of its exposure to interest rate fluctuations. The Company's objective and strategy with respect to this interest rate swap is to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability to cash flows relating to interest payments on a portion of its outstanding debt. The Company is meeting its objective by hedging the risk of changes in its cash flows (interest payments) attributable to changes in LIBOR, the designated benchmark interest rate being hedged (the "hedged risk"), on an amount of the Company's debt principal equal to the outstanding swap notional amounts.

Cash Flow Interest Rate Swap

Both of the interest rate swaps described above are designated and qualify as cash flow hedges of forecasted interest payments. The Company reports the changes in fair value of the swaps as a component of other comprehensive income (or other comprehensive loss). The aggregate notional amount of the swaps as of December 29, 2019 was \$250 million.

Forward Contracts

Our nora operations, from time to time, are party to currency forward contracts designed to hedge the cash flow risk of intercompany sales from the manufacturing facility in Europe to the Americas. The Company's objective and strategy with respect to these currency forward contracts is to protect the Company against adverse fluctuations in currency rates by reducing its exposure to variability in cash flows related to receipt of payment on intercompany sales. The Company is meeting its objective by hedging the risk of changes in its cash flows (intercompany payments for inventory) attributable to changes in the U.S. dollar/Euro exchange rate (the "hedged risk"). Changes in fair value attributable to components other than exchange rates will be excluded from the assessment of effectiveness and amortized to earnings on a straight-line basis. Changes in fair value related to the effective portion of these contracts will be reflected as a component of other comprehensive income (or other comprehensive loss). As of December 29, 2019, all foreign currency forward contracts have expired.

The table below sets forth the fair value of derivative instruments as of December 29, 2019 (in thousands):

	Asset Derivatives as of		Liability Derivatives as of	
	December 29, 2019		December 29, 2019	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative instruments designated as hedging instruments:				
Foreign currency contracts.....	Other current assets	\$ —	Accrued expenses	\$ —
Interest rate swap contract.....	Other current assets	—	Accrued expenses	5,801
		<u>\$ —</u>		<u>\$ 5,801</u>

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

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

There was no significant impact to earnings from the changes in fair value of derivatives designated as cash flow hedges or from amounts excluded from the assessment of hedge effectiveness during 2019. We expect that approximately \$1.6 million related to cash flow hedges will be reclassified from accumulated other comprehensive income as an increase to interest expense in the next 12 months.

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

	Fiscal Year	Fiscal Year	Fiscal Year
	2019	2018	2017
		<i>(in thousands)</i>	
Foreign currency contracts gain (loss)	\$ 468	\$ (468)	\$ —
Interest rate swap contracts (loss) gain.....	(5,957)	890	904
(Loss) gain recognized in accumulated other comprehensive income	<u>\$ (5,489)</u>	<u>\$ 422</u>	<u>\$ 904</u>

The following table summarizes the gains and losses reclassified from accumulated other comprehensive income into earnings during 2019 (in thousands):

	<u>Statement of Operations Location</u>	<u>Fiscal Year 2019</u>
		<i>(in thousands)</i>
Foreign currency contracts (loss)	Cost of sales	\$ (450)
Interest rate swap contracts gain.....	Interest expense	151
Total		<u>\$ (299)</u>

NOTE 11 – LEASES

General

On December 31, 2018, the Company adopted the new lease standard using the transition methodology allowed by the standard to initially apply the new lease guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The comparative prior year periods presented in these financial statements continue to be in accordance with previous GAAP. We have operating and finance leases for manufacturing equipment, corporate offices, showrooms, distribution facilities, design centers, as well as computer and office equipment. Our leases have terms ranging from 1 to 20 years, some of which may include options to extend the lease term for up to 5 years, and certain leases may include an option to terminate the lease. Our lease terms may include these options to extend or terminate a lease when it is reasonably certain that we will exercise that option.

As of December 29, 2019, there were no significant right-of-use assets and lease obligations from leases that had not commenced as of the end of fiscal 2019.

The table below represents a summary of the balances recorded in the consolidated balance sheet related to our leases as of December 29, 2019:

	<u>December 29, 2019</u>	
	<i>(In thousands)</i>	
<u>Balance Sheet Location</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
Operating lease right-of-use assets.....	<u>\$ 107,044</u>	
Current portion of operating lease liabilities	\$ 15,914	
Operating lease liabilities	<u>91,829</u>	
Total operating lease liabilities	<u>\$ 107,743</u>	
Property and equipment.....		<u>\$ 5,007</u>
Accrued expenses		\$ 1,489
Other long-term liabilities		<u>1,673</u>
Total finance lease liabilities		<u>\$ 3,162</u>

Lease Costs

	Fiscal Year
	2019
	<i>(In thousands)</i>
Lease cost	
Finance lease cost:	
Amortization of right-of-use assets	\$ 890
Interest on lease liabilities	51
Operating lease cost	24,246
Short-term lease cost	2,057
Variable lease cost	3,665
Total lease cost	<u>\$ 30,909</u>

Other supplemental information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from finance leases	\$ 51
Operating cash flows from operating leases	22,597
Financing cash flows from finance leases	1,255
Right-of-use assets obtained in exchange for new finance lease liabilities	2,240
Right-of-use assets obtained in exchange for new operating lease liabilities	12,655

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

	December 29,
	2019
Weighted-average remaining lease term – finance leases (in years)	2.76
Weighted-average remaining lease term – operating leases (in years)	10.60
Weighted-average discount rate – finance leases	2.06%
Weighted-average discount rate – operating leases	5.86%

Maturity Analysis

Maturity analysis of lease payments under non-cancellable leases were as follows:

<u>Fiscal Year</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
	<i>(In thousands)</i>	
2020	\$ 21,659	\$ 1,543
2021	17,264	861
2022	13,825	475
2023	11,504	290
2024	9,959	88
Thereafter	75,360	—
Total future minimum lease payments (undiscounted)	149,571	3,257
Less: Present value discount	(41,828)	(95)
Total lease liability	<u>\$ 107,743</u>	<u>\$ 3,162</u>

Practical Expedients and Policy Elections

The Company elected the package of practical expedients permitted under the transition guidance of the new lease standard, which, among other things, allows us to carry forward the historical lease classification and not reassess any initial direct costs for existing leases. In addition, we elected the hindsight practical expedient to determine the lease term, which allows us to use hindsight when considering the impact of options to extend or terminate a lease as well as the option to purchase the underlying asset.

NOTE 12 – PREFERRED STOCK

The Company is authorized to designate and issue up to 5,000,000 shares of \$1.00 par value preferred stock in one or more series and to determine the rights and preferences of each series, to the extent permitted by the Articles of Incorporation, and to fix the terms of such preferred stock without any vote or action by the shareholders. The issuance of any series of preferred stock may have an adverse effect on the rights of holders of common stock and could decrease the amount of earnings and assets available for distribution to holders of common stock. In addition, any issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of the Company. As of December 29, 2019 and December 30, 2018, there were no shares of preferred stock issued.

NOTE 13 – SHAREHOLDERS' EQUITY

The Company is authorized to issue 120 million shares of \$0.10 par value Common Stock. The Company's Common Stock is traded on the Nasdaq Global Select Market under the symbol TILE.

The Company paid cash dividends totaling \$0.26 per share in 2019, \$0.26 per share in 2018, and \$0.25 per share in 2017, to each share of Common Stock. The future declaration and payment of dividends is at the discretion of the Company's Board, and depends upon, among other things, the Company's investment policy and opportunities, results of operations, financial condition, cash requirements, future prospects, and other factors that may be considered relevant at the time of the Board's determination. Such other factors include limitations contained in the agreement for its Syndicated Credit Facility, which specifies conditions as to when any dividend payments may be made. As such, the Company may discontinue its dividend payments in the future if its Board determines that a cessation of dividend payments is proper in light of the factors indicated above.

In 2016, the Company adopted a share purchase program to authorize the repurchase of up to \$50 million of common stock. This program had no specific expiration date. During the first three months of 2017, the Company completed the \$50 million repurchase program. In the second quarter of 2017, the Company adopted a new share repurchase program in which the Company was authorized to repurchase up to \$100 million of its outstanding shares of common stock. The program had no specific expiration date.

Pursuant to the above-described programs, the Company has repurchased shares in the past three years as follows. During 2017, the Company repurchased and retired 4,628,300 shares of common stock at a weighted average purchase price of \$19.76 per share. During 2018, the Company repurchased and retired a combined total of 615,000 shares under these plans, at an average purchase price of \$23.54 per share. During 2019, the Company repurchased and retired a combined total of 1,556,000 shares under these plans, at an average purchase price of \$16.13 per share. As of December 29, 2019, the Company had completed the authorized share repurchase program.

All treasury stock is accounted for using the cost method.

The following tables depict the activity in the accounts which make up shareholders equity for the years 2019, 2018, and 2017.

	<u>SHARES</u>	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>PENSION LIABILITY</u>	<u>FOREIGN CURRENCY TRANSLATION ADJUSTMENT</u>	<u>CASH FLOW HEDGE</u>
	<i>(in thousands)</i>						
Balance, at December 30, 2018.....	59,508	\$ 5,951	\$ 270,269	\$ 222,214	\$ (43,610)	\$ (101,487)	\$ 1,326
Net income	—	—	—	79,200	—	—	—
Stock issuances under employee plans	511	51	636	—	—	—	—
Other issuances of common stock.....	223	22	3,900	—	—	—	—
Unamortized stock compensation expense related to stock awards..	—	—	(4,139)	—	—	—	—
Cash dividends paid.....	—	—	—	(15,358)	—	—	—
Forfeitures and compensation expense related to stock awards..	(270)	(26)	4,638	—	—	—	—
Share repurchases	(1,556)	(156)	(24,998)	—	—	—	—
Pension liability adjustment.....	—	—	—	—	(13,090)	—	—
Foreign currency translation adjustment...	—	—	—	—	—	(11,652)	—
Cash flow hedge unrealized gain.....	—	—	—	—	—	—	(5,489)
Balance, at December 29, 2019	<u>58,416</u>	<u>\$ 5,842</u>	<u>\$ 250,306</u>	<u>\$ 286,056</u>	<u>\$ (56,700)</u>	<u>\$ (113,139)</u>	<u>\$ (4,163)</u>

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

Stock Options

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

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

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

All outstanding stock options vested prior to 2015 and therefore there were no stock option compensation expenses during 2019, 2018 or 2017.

The following table summarizes stock options outstanding as of December 29, 2019, as well as activity during the previous fiscal year:

	Shares	Weighted Average Exercise Price
Outstanding at December 30, 2018	42,500	\$ 9.56
Granted.....	—	—
Exercised.....	(10,000)	4.31
Forfeited or canceled.....	(5,000)	4.31
Outstanding at December 29, 2019 (a).....	<u>27,500</u>	<u>\$ 12.43</u>
Exercisable at December 29, 2019 (b).....	<u>27,500</u>	<u>\$ 12.43</u>

(a) At December 29, 2019, the weighted-average remaining contractual life of options outstanding was less than 1 year.

(b) At December 29, 2019, the weighted-average remaining contractual life of options exercisable was less than 1 year.

At December 29, 2019, the aggregate intrinsic values of in-the-money options outstanding and options exercisable were \$0.1 million and \$0.1 million, respectively (the intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option).

Restricted Stock Awards

During fiscal years 2019, 2018 and 2017, the Company granted restricted stock awards totaling 223,500, 194,000, and 253,000 shares, respectively, of Common Stock. These awards (or a portion thereof) vest with respect to each recipient over a one to five year period from the date of grant, provided the individual remains in the employment or service of the Company as of the vesting date. Additionally, these shares (or a portion thereof) could vest earlier in the event of a change in control of the Company, or upon involuntary termination without cause.

Compensation expense related to awards of restricted stock was \$3.3 million, \$4.1 million and \$2.8 million for 2019, 2018 and 2017, respectively. These grants are made primarily to executive-level personnel at the Company and, as a result, no compensation costs have been capitalized. The Company estimates forfeitures for restricted stock and reduces compensation expense accordingly. The Company has reduced its expense by the assumed forfeiture rate and will evaluate actual experience against the assumed forfeiture rate going forward. The forfeiture rate has been developed using historical data regarding actual forfeitures as well as an estimate of future expected forfeitures under our restricted stock grants.

The following table summarizes restricted stock outstanding as of December 29, 2019, as well as activity during the previous fiscal year:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 30, 2018	549,000	\$ 27.65
Granted.....	223,500	17.54
Vested.....	(241,200)	18.41
Forfeited or canceled.....	(63,100)	19.88
Outstanding at December 29, 2019	<u>468,200</u>	<u>\$ 28.63</u>

As of December 29, 2019, the unrecognized total compensation cost related to unvested restricted stock was \$3.4 million. That cost is expected to be recognized by the end of 2022.

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

Performance Share Awards

In each of the years 2017-2019, the Company issued awards of performance shares to certain employees. These awards vest based on the achievement of certain performance-based goals over a performance period of one to three years, subject to the employee's continued employment through the last date of the performance period, and will be settled in shares of our common stock or in cash at the Company's election. The number of shares that may be issued in settlement of the performance shares to the award recipients may be greater (up to 200%) or lesser than the nominal award amount depending on actual performance achieved as compared to the performance targets set forth in the awards. The expense related to these performance shares is captured in selling, general and administrative expense on the consolidated statement of operations.

The following table summarizes the performance shares outstanding as of December 29, 2019, as well as the activity during the year:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 30, 2018	759,500	\$ 20.17
Granted.....	344,500	17.54
Vested.....	(360,000)	19.63
Forfeited or canceled.....	(232,000)	18.10
Outstanding at December 29, 2019	<u>512,000</u>	<u>\$ 19.71</u>

Compensation expense related to the performance shares for 2019, 2018, and 2017 was \$5.4 million, \$10.4 million and \$4.5 million, respectively. Unrecognized compensation expense related to these performance shares was approximately \$3.1 million as of December 29, 2019. That cost is expected to be recognized by the end of 2022.

The tax benefit recognized with respect to restricted stock and performance shares was \$1.4 million, \$2.4 million, and \$2.6 million in 2019, 2018, and 2017, respectively.

NOTE 14 – EARNINGS PER SHARE

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

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

	Fiscal Year		
	2019	2018	2017
Earnings per share:			
Basic earnings per share			
Distributed earnings	\$ 0.26	\$ 0.26	\$ 0.25
Undistributed earnings.....	1.08	0.58	0.61
	<u>\$ 1.34</u>	<u>\$ 0.84</u>	<u>\$ 0.86</u>
Diluted earnings per share			
Distributed earnings	\$ 0.26	\$ 0.26	\$ 0.25
Undistributed earnings.....	1.08	0.58	0.61
	<u>\$ 1.34</u>	<u>\$ 0.84</u>	<u>\$ 0.86</u>

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

	Fiscal Year		
	2019	2018	2017
		(in millions)	
Net income attributable to participating securities	\$ 0.6	\$ 0.5	\$ 0.4

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

	Fiscal Year		
	2019	2018	2017
		(in thousands)	
Weighted Average Shares Outstanding	58,475	58,995	61,528
Participating Securities	468	549	468
Shares for Basic Earnings Per Share	58,943	59,544	61,996
Dilutive Effect of Stock Options	5	22	44
Shares for Diluted Earnings Per Share	58,948	59,566	62,040

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

NOTE 15 – RESTRUCTURING AND OTHER CHARGES

For fiscal years 2019, 2018, and 2017 the Company recorded restructuring, asset impairment, and other charges of \$12.9 million, \$20.5 million, and \$7.3 million, respectively, in the consolidated statements of operations. The 2019 charge of \$12.9 million includes \$5.0 million of other non-cash charges unrelated to the 2019 exit activity and a net \$1.0 million reduction in restructuring costs related to the 2018 restructuring plan. As of December 29, 2019 the total restructuring reserve was \$11.4 million for both the 2019 and 2018 restructuring plans. Below is a discussion of restructuring activities by year.

2019 Restructuring Plan

On December 23, 2019, the Company committed to a new restructuring plan that continues to focus on efforts to improve efficiencies and decrease costs across its worldwide operations, and more closely align its operating structure with its business strategy. The plan involved a reduction of approximately 105 employees and early termination of two office leases. As a result of this plan, the Company recorded a pre-tax restructuring charge in the fourth quarter of 2019 of approximately \$9.0 million. The charge is comprised of severance expenses (\$8.8 million) and lease exit costs (\$0.2 million.)

The restructuring plan is expected to result in future cash expenditures of approximately \$9.0 million for payment of the employee severance and lease exit costs, as described above. The Company expects to complete the restructuring plan in fiscal year 2020, and expects the plan to yield annualized savings of approximately \$6.0 million. A portion of the annualized savings is expected to be realized on the income statement in fiscal year 2020, with the remaining portion of the annualized savings expected to be realized in fiscal year 2021.

A summary of the 2019 restructuring activities is presented below:

	Charged to Expenses 2019	Deductions 2019	Charged to Other Accounts 2019	Balance at December 29, 2019
Workforce Reduction	\$ 8,827	\$ 193	\$ —	\$ 8,634
Other Exit Costs	188	—	49	139
Total	<u>\$ 9,015</u>	<u>\$ 193</u>	<u>\$ 49</u>	<u>\$ 8,773</u>

Other Non-Cash Charges

On December 23, 2019, unrelated to the restructuring activity discussed above, the Company recorded other non-cash charges of approximately \$5.0 million primarily related to adjusting the carrying value of certain insurance related assets. These charges are recorded in restructuring and other charges in the 2019 consolidated statement of operations.

2018 Restructuring Plan

On December 29, 2018, the Company committed to a new restructuring plan in its continuing efforts to improve efficiencies and decrease costs across its worldwide operations, and more closely align its operating structure with its business strategy. The plan involved (i) a restructuring of its sales and administrative operations in the United Kingdom, (ii) a reduction of approximately 200 employees, primarily in the Europe and Asia-Pacific geographic regions, and (iii) the write-down of certain underutilized and impaired assets that include information technology assets and obsolete manufacturing equipment.

As a result of this plan, the Company recorded a pre-tax restructuring and asset impairment charge in the fourth quarter of 2018 of approximately \$20.5 million. The charge was comprised of severance expenses (approximately \$10.8 million), impairment of assets (approximately \$8.6 million) and other items (approximately \$1.1 million). The charge was expected to result in future cash expenditures of \$12.0 million, primarily for severance payments (approximately \$10.8 million). The restructuring plan was substantially completed at the end of fiscal 2019. The Company redeployed essentially all of the anticipated savings toward the funding of sales and strategic growth initiatives, yielding negligible net savings on the Company's income statement.

In the third quarter of 2019, the Company recorded \$0.7 million of restructuring charges related to additional lease exit costs in connection with the restructuring plan announced on December 29, 2018. In the fourth quarter of 2019, the Company adjusted its previously recorded severance expenses in connection with the 2018 restructuring plan and recognized a reduction in restructuring costs of \$1.7 million in 2019.

A summary of these 2018 restructuring activities is presented below:

	Balance at Beginning of Year	Deductions 2019	Charged to Expenses 2019	Balance at December 29, 2019
		<i>(in thousands)</i>		
Workforce Reduction	\$ 10,763	\$ 7,122	\$ (1,743)	\$ 1,898
Other Exit Costs	1,144	1,042	672	774
Total	<u>\$ 11,907</u>	<u>\$ 8,164</u>	<u>\$ (1,071)</u>	<u>\$ 2,672</u>

2016 Restructuring Plan and 2017 Charge

In the fourth quarter of 2016, the Company committed to a separate restructuring plan. The plan involved (i) a substantial restructuring of the FLOR business model that included closure of its headquarters office and most retail FLOR stores, (ii) a reduction of approximately 70 FLOR employees and a number of employees in the commercial carpet tile business, primarily in the Americas and Europe regions, and (iii) the write-down of certain underutilized and impaired assets that included information technology assets, intellectual property assets, and obsolete manufacturing, office and retail store equipment. As a result of this plan, the Company incurred pre-tax restructuring and asset impairment charges of \$19.8 million in the fourth quarter of 2016 and \$7.3 million in the first quarter of 2017. This plan was completed at the end of fiscal year 2018.

NOTE 16 – INCOME TAXES

Income before taxes on income consisted of the following:

	FISCAL YEAR		
	2019	2018	2017
		<i>(in thousands)</i>	
U.S. operations	\$ 46,463	\$ 35,728	\$ 53,407
Foreign operations	55,353	19,263	47,132
Income before taxes	<u>\$ 101,816</u>	<u>\$ 54,991</u>	<u>\$ 100,539</u>

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

	FISCAL YEAR		
	2019	2018	2017
	<i>(in thousands)</i>		
Current expense/(benefit):			
Federal.....	\$ 8,414	\$ (3,549)	\$ 10,245
Foreign.....	14,513	14,548	11,923
State.....	2,312	2,628	1,414
Current expense.....	<u>25,239</u>	<u>13,627</u>	<u>23,582</u>
Deferred expense/(benefit):			
Federal.....	(625)	2,145	20,467
Foreign.....	(2,198)	(11,228)	1,214
State.....	200	194	2,030
Deferred expense/(benefit).....	<u>(2,623)</u>	<u>(8,889)</u>	<u>23,711</u>
Total income tax expense.....	<u>\$ 22,616</u>	<u>\$ 4,738</u>	<u>\$ 47,293</u>

The Company's effective tax rate was 22.2%, 8.6% and 47.0% for fiscal years 2019, 2018 and 2017, respectively. The following summary reconciles income taxes at the U.S. federal statutory rate of 21% applicable for 2019 and 2018 and 35% applicable for 2017 to the Company's actual income tax expense:

	FISCAL YEAR		
	2019	2018	2017
	<i>(in thousands)</i>		
Income taxes at U.S. federal statutory rate.....	\$ 21,381	\$ 11,548	\$ 35,189
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal tax effect.....	2,321	2,228	2,055
Non-deductible business expenses.....	933	1,352	695
Non-deductible employee compensation.....	1,453	2,566	80
Tax effects of Company owned life insurance.....	(636)	235	(1,295)
Tax effects of Tax Act:			
One-time transition tax on foreign earnings.....	—	(5,000)	11,707
Remeasurement of net Deferred Tax Asset.....	—	(1,739)	3,467
Tax effects of undistributed earnings from foreign subsidiaries not deemed to be indefinitely reinvested.....	(183)	61	523
Foreign and U.S. tax effects attributable to foreign operations.....	783	(2,226)	(4,575)
Valuation allowance effect – NOL.....	133	(79)	(858)
Federal tax credits.....	(700)	(2,863)	(632)
Changes in unrecognized tax benefits.....	(3,324)	(1,010)	874
Other.....	455	(335)	63
Income tax expense.....	<u>\$ 22,616</u>	<u>\$ 4,738</u>	<u>\$ 47,293</u>

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

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

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

Remeasurement of Deferred Tax Assets and Liabilities: As of December 31, 2017, the Company recorded a provisional tax expense of \$3.5 million related to the remeasurement of its net deferred tax asset to reflect the change in corporate tax rate from 35% to 21%. As of December 30, 2018, the Company had completed the accounting of remeasuring its net deferred tax asset which resulted in a \$1.7 million decrease to the previously recorded provisional amount.

Deferred income taxes for the years ended December 29, 2019 and December 30, 2018, reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
Deferred tax assets		
Lease liability	\$ 29,782	\$ —
Net operating loss carryforwards	3,090	2,349
Derivative instruments	1,638	—
Deferred compensation	20,194	18,945
Inventory	3,200	4,712
Prepays, accruals and reserves	7,935	6,473
Pensions	9,229	4,290
Other	71	—
Deferred tax asset (gross)	75,139	36,769
Valuation allowance on net operating loss carryforwards	(971)	(1,067)
Deferred tax asset (net)	<u>\$ 74,168</u>	<u>\$ 35,702</u>
Deferred tax liabilities		
Property and equipment	\$ 23,770	\$ 24,871
Intangible assets	33,760	18,699
Lease asset	29,301	—
Foreign currency	3,026	2,357
Foreign withholding taxes on unremitted earnings	178	348
Other	—	314
Deferred tax liabilities	<u>90,035</u>	<u>46,589</u>
Net deferred tax liabilities	<u>\$ 15,867</u>	<u>\$ 10,887</u>

Management believes, based on the Company’s history of taxable income and expectations for the future, that it is more likely than not that future taxable income will be sufficient to fully utilize the federal deferred tax assets at December 29, 2019.

During the year ended December 29, 2019, significant changes to the Company’s deferred tax balances included a \$17.2 million increase in intangible deferred liability primarily related to its acquisition of nora.

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

The Company had approximately \$7.5 million in foreign net operating losses for which the Company applied a valuation allowance against \$0.9 million of such losses. The Company had approximately \$87.6 million in state net operating loss

carryforwards relating to continuing operations with expiration dates through 2035. The Company has provided a valuation allowance against \$14.6 million of such losses, which the Company does not expect to utilize. In addition, the Company has approximately \$36.0 million in state net operating loss carryforwards relating to discontinued operations against which a full valuation allowance has been provided.

As of December 29, 2019, and December 30, 2018, non-current deferred tax assets were reduced by approximately \$2.8 million and \$2.8 million, respectively, of unrecognized tax benefits.

Historically, the Company has not provided for U.S. federal and state income taxes on the undistributed accumulated earnings of its foreign subsidiaries, with the exception of its Canada subsidiaries, because such earnings were deemed to be permanently reinvested. Due to the passage of the Tax Act on December 22, 2017, the Company was required to recognize U.S. taxes as a result of the one-time transition tax on the higher of its accumulated earnings as of November 2, 2017, or December 31, 2017.

Although the one-time transition tax on unrepatriated post-1986 accumulated earnings and profits of certain non-U.S. subsidiaries, the GILTI provisions and the dividends received deduction created as a result of the Tax Act generally eliminates additional U.S. federal income taxes on dividends from our foreign subsidiaries, the Company continues to assert that all of its undistributed earnings in its non-U.S. subsidiaries, excluding subsidiaries within Canada, are indefinitely reinvested outside of the U.S. The Company expects that domestic cash resources will be sufficient to fund its domestic operations and cash commitments in the future. In the event the Company determines not to continue to assert that all or part of its undistributed earnings in its non-U.S. subsidiaries are permanently reinvested, an actual repatriation from its non-U.S. subsidiaries could still be subject to additional foreign withholding and U.S. state taxes, the determination of which is not practicable.

The Company's federal income tax returns are subject to examination for the years 2016 to the present. In addition, certain federal tax attribute carryovers established since 2001 could be adjusted as these amounts are still subject to examination.

The Company files returns in numerous state and local jurisdictions and in general it is subject to examination by the state tax authorities for the years 2014 to the present. The Company files returns in numerous foreign jurisdictions and in general it is subject to examination by the foreign tax authorities for the years 2008 to the present.

During a check of the 2015 tax return of the Company's UK subsidiary, Her Majesty's Revenue & Customs ("HMRC") issued a discovery assessment for the years 2012 through 2014 related to its intra-group financing arrangement. The discovery assessment is currently under appeal. HMRC has extended its check to tax year 2016, however, it has not issued an assessment beyond the 2014 tax year. Management believes it is reasonably possible HMRC may propose additional assessments for tax years 2015 & 2016; but does not anticipate the adjustments related to its intra-group financing arrangement would result in a material change to its financial position. The Company will continue to evaluate the recognition criteria for unrecognized tax benefits as it relates to the HMRC review; however, as of December 29, 2019, recognition thresholds had not been met.

As of December 29, 2019, and December 30, 2018, the Company had \$25.5 million and \$28.1 million, respectively, of unrecognized tax benefits. It is reasonably possible that approximately \$10.5 million of unrecognized tax benefits may be recognized within the next 12 months due to a lapse of statute of limitations.

If any of the \$25.5 million of unrecognized tax benefits as of December 29, 2019 are recognized, there would be a favorable impact on the Company's effective tax rate in future periods. If the unrecognized tax benefits are not favorably settled, \$22.7 million of the total amount of unrecognized tax benefits would require the use of cash in future periods. The Company recognizes accrued interest and income tax penalties related to unrecognized tax benefits as a component of income tax expense. As of December 29, 2019, the Company had accrued interest and penalties of \$2.9 million, which is included in the total unrecognized tax benefit noted above. The timing of the ultimate resolution of the Company's tax matters and the payment and receipt of related cash is dependent on a number of factors, many of which are outside the Company's control.

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

	FISCAL YEAR		
	2019	2018	2017
		<i>(in thousands)</i>	
Balance at beginning of year	\$ 28,143	\$ 29,221	\$ 27,888
Increases related to tax positions taken during the current year..	318	671	627
Increases related to tax positions taken during the prior years....	1,093	180	709
Decreases related to tax positions taken during the prior years...	(2,809)	—	—
Decreases related to settlements with taxing authorities	—	—	—
Decreases related to lapse of applicable statute of limitations	(1,266)	(1,861)	(462)
Changes due to foreign currency translation	7	(68)	459
Balance at end of year	<u>\$ 25,486</u>	<u>\$ 28,143</u>	<u>\$ 29,221</u>

NOTE 17 – COMMITMENTS AND CONTINGENCIES

From time to time, the Company is a party to legal proceedings, whether arising in the ordinary course of business or otherwise. Some of the proceedings the Company is involved in are summarized below.

SEC Investigation

The Company received a letter in November 2017 from the Securities & Exchange Commission (the “SEC”) requesting that the Company voluntarily provide information and documents in connection with an investigation into the Company’s historical quarterly earnings per share (“EPS”) calculations and rounding practices during the period 2014-2017. The Company subsequently received several subpoenas from the SEC requesting additional documents and information. In the fourth quarter of 2018, the Company conducted at the SEC’s request an internal investigation into these and other related issues for seven quarters in 2015, 2016 and 2017.

On April 23, 2019, Gregory J. Bauer, the Company’s Vice President and Chief Accounting Officer, went on paid administrative leave from the Company after it was learned that in 2018 in the process of collecting materials from 2015, 2016 and 2017 for production to the SEC, he added certain notes to those materials that were then produced to the SEC. The Company believes at this time, however, that the after-the-fact inclusion of these notes had no impact on the EPS calculations that are the subject of the above-described investigation or on subsequent EPS calculations.

Since the inception of the investigation, the Company has cooperated and continues to cooperate with the SEC’s investigation.

Lawsuit by Former CEO in Connection with Termination

On January 19, 2020, the Company’s Board of Directors voted to terminate for cause the employment of Jay D. Gould, then President and Chief Executive Officer, effective immediately, for violations of the Company’s working environment policies. He remains a member of the Board of Directors of the Company.

On February 14, 2020, Mr. Gould filed a lawsuit against the Company in the United States District Court of the Northern District of Georgia, *Gould v. Interface, Inc.*, Case No. 1:20-cv-00695. In his lawsuit, Mr. Gould asserts several claims against the Company in connection with his termination, including that the termination was a wrongful retaliation against Mr. Gould and breached his employment contract with the Company, that public statements made by the Company in connection with his termination defamed Mr. Gould (two counts) and that the Company’s investigation into Mr. Gould’s conduct that preceded the termination was negligently performed. Among other unspecified relief, Mr. Gould seeks \$10 million in damages for the breach contract claim and \$100 million for each of the other four claims, as well as attorneys’ fees.

The Company believes the lawsuit is without merit and intends to defend vigorously against it.

NOTE 18 – EMPLOYEE BENEFIT PLANS

Defined Contribution and Deferred Compensation Plans

The Company has a 401(k) retirement investment plan (“401(k) Plan”), which is open to all eligible U.S. employees with at least six months of service. The 401(k) Plan calls for Company matching contributions on a sliding scale based on the level of the employee’s contribution. The Company may, at its discretion, make additional contributions to the 401(k) Plan based on the attainment of certain performance targets by its subsidiaries. The Company’s matching contributions are funded bi-monthly and totaled approximately \$3.3 million, \$3.2 million, and \$3.0 million for the years 2019, 2018, and 2017, respectively. No discretionary contributions were made in 2019, 2018, or 2017.

Under the Company’s nonqualified savings plans (“NSPs”), the Company provides eligible employees the opportunity to enter into agreements for the deferral of a specified percentage of their compensation, as defined in the NSPs. The NSPs call for Company matching contributions on a sliding scale based on the level of the employee’s contribution. The obligations of the Company under such agreements to pay the deferred compensation in the future in accordance with the terms of the NSPs are unsecured general obligations of the Company. Participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company has established a rabbi trust to hold, invest and reinvest deferrals and contributions under the NSPs. If a change in control of the Company occurs, as defined in the NSPs, the Company will contribute an amount to the rabbi trust sufficient to pay the obligation owed to each participant. Deferred compensation in connection with the NSPs totaled \$31.9 million and \$28.7 million at December 29, 2019 and December 30, 2018, respectively. The Company invests the deferrals in insurance instruments with readily determinable cash surrender values. The value of the insurance instruments was \$30.1 million and \$26.4 million as of December 29, 2019 and December 30, 2018, respectively.

Foreign Defined Benefit Plans

The Company has trustee defined benefit retirement plans which cover many of its European employees. The benefits under these defined benefit retirement plans are generally based on years of service and the employee’s average monthly compensation. In connection with the nora acquisition on August 7, 2018, the Company acquired an additional defined benefit plan, which covers certain employees in Germany (the “nora Plan”). The nora plan has no plan assets. The Company uses a year-end measurement date for the plans, which is the closest practical date to the Company’s fiscal year end.

On December 31, 2019, a plan amendment was executed to eliminate future service accruals in the Dutch defined benefit plan. The Dutch plan will remain in existence and continue to pay vested benefits. The reduction in future benefit accruals resulted in a curtailment of the plan. Participants in the Dutch plan will no longer accrue benefits under the plan after December 31, 2019, and will participate in an industry-wide multi-employer plan beginning in fiscal year 2020. Although the Dutch plan is frozen to new participants, vested benefits prior to the curtailment will continue to be accounted for in accordance with applicable accounting standards for defined benefit plans. The Dutch plan is financed by assets held in an insurance contract. The guarantee provision included in the insurance contract, that existed to fund any shortfall between the fair value of plan investments and the benefit obligation, expired on December 31, 2019. The Company will fund the cost to guarantee vested benefits and this amount will be recorded as an obligation on the Company’s Consolidated Balance Sheet.

The curtailment of the Dutch plan resulted in a decrease to the projected benefit obligation with an offsetting actuarial gain recognized in accumulated other comprehensive income of approximately \$2.4 million in fiscal 2019. The accumulated net actuarial loss for the Dutch plan, after the impact of the curtailment, was \$16.7 million at December 29, 2019. This amount will be reclassified out of accumulated other comprehensive income and increase pension expense over the life expectancy of vested participants when the actuarial loss exceeds the 10% corridor. The curtailment also resulted in a \$0.5 million reclassification of prior service cost from accumulated other comprehensive income, which was recognized as a reduction of pension expense in fiscal 2019.

As discussed above, the Company still has an obligation to pay vested benefits in the frozen Dutch plan. As of December 29, 2019, the under-funded status of the Dutch plan, after the impact of the curtailment, of \$8.7 million is recorded on the Consolidated Balance Sheet in other long-term liabilities.

Pension expense was \$2.3 million, \$1.7 million, and \$1.9 million for the years 2019, 2018 and 2017, respectively. Plan assets are primarily invested in insurance contracts and equity and fixed income securities. As of December 29, 2019, for the European plans, the Company had a net liability recorded of \$48.4 million, an amount equal to their underfunded status, and had recorded in Other Comprehensive Income an amount equal to \$47.6 million (net of taxes of approximately \$16.6 million) related to the future amounts to be recorded in net post-retirement benefit costs.

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

	FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 285,508	\$ 320,548
Service cost	1,589	1,112
Interest cost	5,676	5,467
Benefits and expenses paid	(13,034)	(11,850)
Business combinations	—	36,903
Actuarial loss (gain)	37,409	(53,753)
Curtailment gain	(2,421)	—
Member contributions	221	233
Currency translation adjustment	(107)	(13,152)
Benefit obligation, end of year	<u>\$ 314,841</u>	<u>\$ 285,508</u>
Change in plan assets		
Plan assets, beginning of year	\$ 249,313	\$ 307,166
Actual return on assets	24,999	(37,495)
Company contributions	3,954	4,095
Benefits paid	(13,034)	(11,850)
Currency translation adjustment	1,218	(12,603)
Plan assets, end of year	<u>\$ 266,450</u>	<u>\$ 249,313</u>
Reconciliation to balance sheet		
Funded status benefit asset/(liability)	<u>\$ (48,391)</u>	<u>\$ (36,195)</u>
Amounts recognized in accumulated other comprehensive income (after tax)		
Unrecognized actuarial loss	\$ 47,561	\$ 37,141
Unamortized prior service credits	—	(437)
Total amount recognized	<u>\$ 47,561</u>	<u>\$ 36,704</u>
Accumulated Benefit Obligation	\$ 314,841	\$ 284,581

The pension liability above includes non-current liabilities of \$48.4 million and \$35.3 million as of December 29, 2019 and December 30, 2018, respectively.

The above disclosure represents the aggregation of information related to the Company's three defined benefit plans which cover many of its European employees. As of December 29, 2019 and December 30, 2018, one of these plans, which primarily covers certain employees in the United Kingdom (the "UK Plan"), had assets in excess of the accumulated benefit obligation. The nora Plan is an unfunded defined benefit plan and the accumulated benefit obligation exceeded plan assets. The following table summarizes this information as of December 29, 2019 and December 30, 2018.

	END OF FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
UK Plan		
Projected Benefit Obligation	\$ 170,958	\$ 157,351
Accumulated Benefit Obligation	170,958	157,351
Plan Assets	174,156	158,990

Dutch Plan		
Projected Benefit Obligation	\$ 100,996	\$ 91,837
Accumulated Benefit Obligation	100,996	90,910
Plan Assets	92,294	90,323

Nora Plan		
Projected Benefit Obligation	\$ 42,887	\$ 36,320
Accumulated Benefit Obligation	42,887	36,320
Plan Assets	—	—

	FISCAL YEAR		
	2019	2018	2017
	<i>(in thousands)</i>		
Components of net periodic benefit cost			
Service cost	\$ 1,589	\$ 1,112	\$ 1,628
Interest cost	5,676	5,467	5,559
Expected return on plan assets	(5,561)	(6,234)	(6,496)
Amortization of prior service cost	63	(27)	(34)
Amortization of net actuarial (gains)/losses	991	1,394	1,287
Curtailment gain	(453)	—	—
Net periodic benefit cost	<u>\$ 2,305</u>	<u>\$ 1,712</u>	<u>\$ 1,944</u>

During 2019, other comprehensive income was impacted after tax by approximately \$10.9 million comprised of actuarial loss of approximately \$11.4 million and amortization of \$0.5 million.

	FISCAL YEAR		
	2019	2018	2017
Weighted average assumptions used to determine net periodic benefit cost			
Discount rate	1.9%	1.9%	2.0%
Expected return on plan assets	2.1%	1.8%	2.3%
Rate of compensation	1.75%	1.75%	1.75%
Weighted average assumptions used to determine benefit obligations			
Discount rate	1.7%	2.5%	2.2%
Rate of compensation	1.75%	1.75%	1.75%

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

The investment objectives of the foreign defined benefit plans are to maximize the return on the investments without exceeding the limits of the prudent pension fund investment, to ensure that the assets would be sufficient to exceed minimum funding requirements, and to achieve a favorable return against the performance expectation based on historic and projected rates of return over the short term. The goal is to optimize the long-term return on plan assets at a moderate level of risk, by balancing higher-returning assets, such as equity securities, with less volatile assets, such as fixed income securities. The assets are managed by professional investment firms and performance is evaluated periodically against specific benchmarks. The plans' net assets did not include the Company's own stock at December 29, 2019 or December 30, 2018.

Dutch Plan Assets and Indexation Benefit

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

Both the vested benefit amounts as well as amounts related to the discretionary indexation benefits under the Dutch Plan are paid pursuant to an insurance contract with a private insurer (the “Contract”). The Plan itself is financed by investment assets held within the Contract. Prior to December 31, 2019, the Contract guaranteed payment of vested benefits, regardless of whether Plan assets held through the Contract were ultimately sufficient to pay vested amounts, and also provided for payment of the indexation amount on a contingent basis if the actual return on Dutch Plan assets were sufficient to pay it. This type of insurance arrangement is common in The Netherlands, although not necessarily common in other jurisdictions. After the plan curtailment on December 31, 2019, as discussed above, any shortfall in plan assets to pay vested benefits will be funded by the Company.

As it relates to the indexation benefit for 2017 and 2016, prior actual and future projected returns on Dutch Plan assets had been determined to be sufficient to provide for the indexation benefit for these years, therefore the Company and the insurer agreed that it was appropriate to provide the indexation benefit under the Contract. The indexation benefit became payable by the insurer under the Contract, and consequently was recorded as a Plan asset. The corresponding obligation to pay the indexation amount to pensioners thus became a pension liability. During 2018, the Company and the insurer, based on the expected future returns under the investment assets included in the insurance contract, determined that the indexation was not probable and was not included as an asset and liability as of the end of 2018.

As of December 31, 2017, this indexation liability and corresponding asset was \$32.7 million. The inclusion or exclusion of this amount does not have any impact on the funded status of the plan, as both the indexation asset and liability are recorded at the same amount. This indexation asset, along with the remainder of the assets under the Dutch Plan, are identified as Level Three assets under the fair value hierarchy.

Under the express terms of the Contract, contract value is the greater of (i) the value of the discounted vested benefits of the Dutch Plan (i.e., the benefit amount guaranteed by the insurance company), and (ii) the fair value of the underlying investment assets held by the insurance company under the Contract. As between those two values, the former was the greater for 2019 and 2018 and this represents the plan assets as shown above for the Dutch Plan. However, as explained above, the Contract also will pay the indexation benefit if sufficient assets are available, which the Company believes not to be probable as of the end of 2019 based on recent returns. This indexation was considered probable as of the end of 2018, and the Company believed that it was appropriate to include the value of the indexation payments, that were added to the vested benefit amounts. As explained above, these indexation benefits will be paid out of the Contract if asset returns continue to exceed expectations. At December 30, 2018, the asset returns were not of an expected amount to allow for indexation and the Company can, at any time, remove this indexation benefit. The removal of the indexation asset is presented as a negative return on assets, and the removal of the indexation liability is represented by a change in actuarial assumptions in the company’s presentation of 2018 projected benefit obligation. The indexation benefit for 2019 is not significant.

The Company’s actual weighted average asset allocations for 2019 and 2018, and the targeted asset allocation for 2020, of the foreign defined benefit plans by asset category, are as follows:

	FISCAL YEAR		
	2020	2019	2018
	Target Allocation	Percentage of Plan Assets at Year End	
Asset Category:			
Equity Securities	15% — 20%	3%	16%
Debt and Debt Securities.....	35% — 45%	61%	44%
Short-term investments	—% — —%	1%	3%
Other investments	40% — 50%	35%	37%
	100%	100%	100%

The following table sets forth by level within the fair value hierarchy the foreign defined benefit plans' assets at fair value, as of December 29, 2019 and December 30, 2018. The nora plan is currently unfunded. As required by accounting standards, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As noted above, the Dutch pension plan assets as represented by the insurance contract are classified as a Level 3 asset and included in the "Other" asset category.

	Pension Plan Assets by Category as of December 29, 2019		
	Dutch Plan	UK Plan	Total
		<i>(in thousands)</i>	
Level 1.....	\$ —	\$ 64,151	\$ 64,151
Level 2.....	—	87,047	87,047
Level 3.....	92,294	22,958	115,252
Total	\$ 92,294	\$ 174,156	\$ 266,450

	Pension Plan Assets by Category as of December 30, 2018		
	Dutch Plan	UK Plan	Total
		<i>(in thousands)</i>	
Level 1.....	\$ —	\$ 79,146	\$ 79,146
Level 2.....	—	60,913	60,913
Level 3.....	90,323	18,931	109,254
Total	\$ 90,323	\$ 158,990	\$ 249,313

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

Asset Class	FISCAL YEAR 2019		
	Level 1	Level 2	Level 3
		<i>(in thousands)</i>	
Equity Securities	\$ 8,143	\$ —	\$ —
Debt and Debt Securities.....	54,686	87,047	19,996
Short-term investments ⁽¹⁾	1,322	—	—
Other investments ⁽²⁾	—	—	95,256
	\$ 64,151	\$ 87,047	\$ 115,252

Asset Class	FISCAL YEAR 2018		
	Level 1	Level 2	Level 3
		<i>(in thousands)</i>	
Equity Securities	\$ 39,392	\$ —	\$ —
Debt and Debt Securities.....	33,134	60,913	16,012
Short-term Investments ⁽¹⁾	6,620	—	—
Other Investments ⁽²⁾	—	—	93,242
	\$ 79,146	\$ 60,913	\$ 109,254

(1) Short-term investments are generally invested in interest-bearing accounts.

(2) Other investments is comprised of insurance contracts.

With the exception of the Dutch Plan assets as discussed above, the assets identified as level 3 above in 2019 and 2018 relate to insured annuities and direct lending assets held by the UK Plan. The fair value of these assets was calculated using the present value of the future cash flows due under the insurance annuities and for the direct lending assets the value is based on the asset value from the latest available valuation with adjustments for any drawdowns and distribution payments made between the valuation date and the reporting date. The table below indicates the change in value related to these level 3 assets during 2019 and 2018:

	FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
Balance of level 3 assets, beginning of year	\$ 109,254	\$ 150,977
Actual return on plan assets	5,463	(37,610)
Purchases, sales and settlements, net	663	—
Assets transferred into level 3	2,101	696
Translation adjustment	(2,229)	(4,809)
Ending Balance of level 3 assets	<u>\$ 115,252</u>	<u>\$ 109,254</u>

During 2020, the Company expects to contribute \$4.4 million to the plans. It is anticipated that future benefit payments for the foreign defined benefit plans will be as follows:

FISCAL YEAR	EXPECTED PAYMENTS	
	<i>(in thousands)</i>	
2020	\$	10,671
2021		10,772
2022		10,836
2023		11,068
2024		11,292
2025-2029		58,556

Domestic Defined Benefit Plan

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

The tables presented below set forth the required disclosures in accordance with applicable accounting standards, and amounts recognized in the consolidated financial statements related to the domestic SCP. There is no service cost component of the change in benefit obligation in 2019 and 2018 as there are no longer any active participants in the plan.

	FISCAL YEAR	
	2019	2018
	<i>(in thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 29,142	\$ 31,919
Interest cost	1,154	1,082
Benefits paid	(2,030)	(2,030)
Actuarial loss (gain)	3,474	(1,829)
Benefit obligation, end of year	<u>\$ 31,740</u>	<u>\$ 29,142</u>

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

	2019	2018
		<i>(in thousands)</i>
Current liabilities	\$ 2,030	\$ 2,030
Non-current liabilities	29,710	27,112
Total benefit obligation	<u>\$ 31,740</u>	<u>\$ 29,142</u>

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

	2019	2018
		<i>(in thousands)</i>
Unrecognized actuarial loss	\$ 9,139	\$ 6,906

The accumulated benefit obligation related to the SCP was \$31.7 million and \$29.1 million as of December 29, 2019 and December 30, 2018, respectively. The SCP is currently unfunded; as such, the benefit obligations disclosed are also the benefit obligations in excess of the plan assets. The Company uses insurance instruments to help limit its exposure under the SCP.

	2019	2018	2017
		<i>(in thousands, except for assumptions)</i>	
Assumptions used to determine net periodic benefit cost			
Discount rate	4.10%	3.50%	3.85%
Rate of compensation	—	—	—
Assumptions used to determine benefit obligations			
Discount rate	3.05%	4.10%	3.50%
Rate of compensation	—	—	—
Components of net periodic benefit cost			
Service cost	\$ —	\$ —	\$ —
Interest cost	1,154	1,082	1,256
Amortizations	375	464	364
Net periodic benefit cost	<u>\$ 1,529</u>	<u>\$ 1,546</u>	<u>\$ 1,620</u>

The changes in other comprehensive income during 2019 related to the SCP as a result of plan activity and valuation were approximately \$2.2 million, after tax, primarily comprised of a net loss during the period of \$2.5 million and amortization of loss of \$0.3 million.

During 2019, the Company contributed \$2.0 million in the form of direct benefit payments for its domestic SCP. It is anticipated that future benefit payments for the SCP will be as follows:

<u>FISCAL YEAR</u>	<u>EXPECTED PAYMENTS</u> <i>(in thousands)</i>
2020.....	\$ 2,030
2021.....	2,030
2022.....	2,030
2023.....	2,030
2024.....	2,030
2025-2029	9,624

NOTE 19 – ACQUISITION OF NORA

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

On August 7, 2018, the Company completed the acquisition of nora for a purchase price of €385.1 million, or \$447.2 million at the exchange rate as of the transaction date, including acquired cash of €40.0 million (\$46.5 million) for a net purchase price of €345.1 million (\$400.7 million).

Nora is an industry leader in the rubber flooring market, and this acquisition is expected to advance the Company’s growth strategy in expanding market segments, particularly in the healthcare, life sciences and education market segments. Similar to Interface, nora operates on an international footprint and the Company expects the acquisition will also allow for geographic sales synergies as well.

The transaction was accounted for as a business combination using the acquisition method of accounting, which requires, among other things, that assets acquired and liabilities assumed be recorded at their fair market values as of the acquisition date. The results of operations for this acquisition have been consolidated with those of the Company from the acquisition date forward. Tangible assets and liabilities of nora systems GmbH were valued as of the acquisition date using a market analysis, and intangible assets were valued using a discounted cash flow analysis. During the second quarter of 2019, the Company recognized a measurement period adjustment to adjust provisional amounts initially recorded for assumed deferred tax liabilities. This measurement period adjustment resulted in an increase to assumed deferred tax liabilities of \$17.2 million and a corresponding increase to goodwill. The fair values of the assets acquired and liabilities assumed are now final and include all measurement period adjustments.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. These amounts were finalized during the second quarter 2019.

	<u>As of August 7, 2018</u> <i>(In thousands)</i>
Assets acquired (excluding goodwill)	\$ 359,335
Liabilities assumed.....	<u>(114,049)</u>
Net assets acquired.....	245,286
Purchase price	<u>447,192</u>
Goodwill, excess of purchase price	<u>\$ 201,906</u>

Acquired intangible assets of \$103.3 million include \$60.8 million of trademarks and tradenames that are not subject to amortization and will instead be subject to annual impairment testing, or more frequent testing should there be a significant

change in business conditions. The remaining intangible assets include developed technology of \$39.1 million that will be amortized on a straight-line basis over the estimated useful life of 7 years and backlog of \$3.4 million that will be amortized on a straight-line basis over the estimated useful life of six months. The acquired inventory includes a step-up of inventory to fair value of approximately \$26.6 million which will be recognized in earnings over the expected turns of the inventory. This step-up of inventory to fair value was fully amortized by the end of 2018.

As of December 29, 2019, recognized goodwill of \$192.7 million and net intangible assets of \$89.1 million were assigned pro-rata to the Company's three operating segments. None of the goodwill is expected to be deductible for income tax purposes.

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

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

Pro Forma Consolidated Statement of Operations
(In thousands)

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

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

NOTE 20 – SEGMENT INFORMATION

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

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

Summary information by operating segment follows:

	AMERICAS	EUROPE	ASIA- PACIFIC	TOTAL
	<i>(in thousands)</i>			
<u>2019</u>				
Net Sales	\$ 757,112	\$ 393,194	\$ 192,723	\$ 1,343,029
Depreciation and amortization	12,917	18,452	8,302	39,671
Total assets	728,683	618,375	200,251	1,547,309
<u>2018</u>				
Net Sales	\$ 682,261	\$ 319,677	\$ 177,635	\$ 1,179,573
Depreciation and amortization	13,732	12,862	8,567	35,161
Total assets	482,510	546,758	200,684	1,229,952
<u>2017</u>				
Net Sales	\$ 588,052	\$ 246,399	\$ 161,992	\$ 996,443
Depreciation and amortization	13,548	6,049	8,662	28,259

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

	FISCAL YEAR ENDED		
	2019	2018	2017
	<i>(in thousands)</i>		
DEPRECIATION AND AMORTIZATION			
Total segment depreciation and amortization.....	\$ 39,671	\$ 35,161	\$ 28,259
Corporate depreciation and amortization	5,261	3,923	2,002
Reported depreciation and amortization.....	<u>\$ 44,932</u>	<u>\$ 39,084</u>	<u>\$ 30,261</u>
ASSETS			
Total segment assets.....	\$ 1,547,309	\$ 1,229,952	
Corporate assets	141,942	123,100	
Eliminations	(266,202)	(68,408)	
Reported total assets.....	<u>\$ 1,423,049</u>	<u>\$ 1,284,644</u>	

The Company has a large and diverse customer base, which includes numerous customers located in foreign countries. No single unaffiliated customer accounted for more than 10% of total sales in any year during the past three years. Sales to customers in foreign markets in 2019, 2018 and 2017 were approximately 49%, 49% and 48%, respectively, of total net sales. These sales were primarily to customers in Europe, Canada, Asia, Australia and Latin America. With the exception of the United States, no one country represented more than 10% of the Company's net sales. Revenue and long-lived assets related to operations in the United States and other countries are as follows:

	FISCAL YEAR		
	2019	2018	2017
	<i>(in thousands)</i>		
SALES TO UNAFFILIATED CUSTOMERS⁽¹⁾			
United States	\$ 681,868	\$ 600,093	\$ 514,783
Foreign countries.....	661,161	579,480	481,660
Net sales	<u>\$ 1,343,029</u>	<u>\$ 1,179,573</u>	<u>\$ 996,443</u>
LONG-LIVED ASSETS⁽²⁾			
United States	\$ 132,390	\$ 88,336	
Foreign countries.....	192,195	204,552	
Total long-lived assets.....	<u>\$ 324,585</u>	<u>\$ 292,888</u>	

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

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

NOTE 21 – QUARTERLY DATA AND SHARE INFORMATION (UNAUDITED)

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

	FISCAL YEAR 2019			
	FIRST QUARTER ⁽¹⁾	SECOND QUARTER ⁽²⁾	THIRD QUARTER ⁽³⁾	FOURTH QUARTER ⁽⁴⁾
	<i>(in thousands, except per share data)</i>			
Net sales	\$ 297,688	\$ 357,507	\$ 348,352	\$ 339,482
Gross profit.....	115,398	138,590	135,762	135,704
Net income	7,059	29,499	26,210	16,432
Basic income per share.....	\$ 0.12	\$ 0.50	\$ 0.45	\$ 0.28
Diluted income per share.....	\$ 0.12	\$ 0.50	\$ 0.45	\$ 0.28
Share prices				
High	\$ 19.40	\$ 17.22	\$ 15.84	\$ 17.68
Low	\$ 13.87	\$ 14.30	\$ 10.37	\$ 13.32

- (1) Results for the first quarter of 2019 include purchase accounting amortization of \$1.9 million.
- (2) Results for the second quarter of 2019 include purchase accounting amortization of \$1.3 million.
- (3) Results for the third quarter of 2019 include purchase accounting amortization of \$1.3 million and restructuring and other charges of \$0.7 million.
- (4) Results for the fourth quarter of 2019 include purchase accounting amortization of \$1.3 million and restructuring and other charges of \$12.3 million.

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

- (1) Results for the second quarter of 2018 include transaction related expenses of \$5.8 million.
- (2) Results for the third quarter of 2018 include purchase accounting amortization of \$20.3 million and transaction related expenses of \$2.4 million.
- (3) Results for the fourth quarter of 2018 include tax benefit of \$6.7 million as a result of the finalization of the Company's analysis of the U.S. Tax Cuts and Jobs Act, as well as restructuring and asset impairment charges of \$20.5 million. Results for the fourth quarter of 2018 include purchase accounting amortization of \$11.8 million and transaction related expense of \$1.2 million.

NOTE 22 – ITEMS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME

During 2019, 2018, and 2017, the Company reclassified \$1.0 million, \$1.8 million, and \$1.6 million, respectively, out of accumulated other comprehensive income related to the Company's defined benefit retirement plans and salary continuation plan. These reclassifications were included in the selling, general and administrative expenses line item of the Company's consolidated statement of operations. Other reclassifications out of accumulated other comprehensive income related to currency forward contracts are discussed in Note 10 entitled "Derivative Instruments".

NOTE 23 – SUBSEQUENT EVENTS

On January 19, 2020, the Company's Board of Directors voted to terminate for cause the employment of then President and Chief Executive Officer, Jay Gould. As of December 29, 2019, the Company had accrued compensation expense for bonuses and equity awards to this individual. Because the termination was for cause, the Company is not obligated to pay these amounts, and the Company consequently expects to reverse \$4.4 million in accrued expenses related to these obligations in the first quarter of 2020.

As disclosed in Note 17, subsequent to his termination, the former officer filed a lawsuit against the Company alleging, among other things, that the termination was unlawfully retaliatory and constituted a breach of his employment contract, and that the Company defamed him in connection with the termination.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Interface, Inc. and Subsidiaries
Atlanta, Georgia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Interface, Inc. and Subsidiaries (the “Company”) as of December 29, 2019 and December 30, 2018, the related consolidated statements of operations, comprehensive income, and cash flows for each of the three years in the period ended December 29, 2019, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 29, 2019 and December 30, 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 29, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 26, 2020 expressed an unqualified opinion thereon.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases during the year ended December 29, 2019 due to the adoption of the Accounting Standards Codification (“ASC”) Topic 842, *Leases* (“ASC 842”).

Basis for Opinion

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

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill Impairment Assessment

As described in Note 1, the Company's net consolidated goodwill was \$257.4 million as of December 29, 2019, which is tested for impairment annually or when impairment indicators exist. The Company prepared valuations of its reporting units using both a market approach and an income approach. The determination of the fair value of the reporting units requires management to make significant estimates and assumptions related to forecasts of future revenue, operating margins, and discount rates.

We identified the valuation of certain reporting units during the annual impairment assessment of goodwill as a critical audit matter. The principal considerations for our determination are: (i) certain of the Company's reporting units had relatively lower excess fair value over book value and, as such, are more sensitive to management's estimates, (ii) inherent uncertainties exist related to the Company's forecasts and how various political, economic and other uncertainties could affect the Company's forecasted assumptions of revenue, gross margin, and earnings included in the income approach, and (iii) the general downward trend in certain market multiples of guideline public companies as of the 2019 impairment testing date which resulted in a lower valuation based on the market approach analysis. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of controls related to management's forecasting process, including controls over the data, inputs, and assumptions utilized to determine the fair value of the Company's reporting units, including revenue growth rates, gross margin, and earnings.
- Evaluating the reasonableness of assumptions used in management's income approach analysis by comparing the forecasts to: (i) historical results, and (ii) Company's internal communications to management and the Board of Directors.
- Reconciling the estimated fair value of the Company's reporting units, as determined using the market and the income approaches, to the indicated market capitalization of the Company as a whole.
- Utilizing personnel with specialized knowledge and skill in valuation to assist in: (i) testing the underlying source information utilized in the market approach, (ii) assessing the appropriateness and relative weighting of valuation methods, (iii) testing the mathematical accuracy of the Company's calculations, (iv) evaluating the reasonableness of the discount rate used in the income approach, and (v) evaluating the reasonableness of certain assumptions used in the market approach.

/s/ BDO USA, LLP

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

Atlanta, Georgia

February 26, 2020

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Interface, Inc. and Subsidiaries
Atlanta, Georgia

Opinion on Internal Control over Financial Reporting

We have audited Interface, Inc. and Subsidiaries' (the "Company's") internal control over financial reporting as of December 29, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 29, 2019 and December 30, 2018, the related consolidated statements of operations, comprehensive income, and cash flows for each of the three years in the period ended December 29, 2019, and the related notes and schedules and our report dated February 26, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP

Atlanta, Georgia

February 26, 2020

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 29, 2019 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control – Integrated Framework (2013)." Based on that assessment, management concluded that, as of December 29, 2019, our internal control over financial reporting was effective based on those criteria.

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

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information contained under the captions "Nomination and Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Meetings and Committees of the Board" in our definitive Proxy Statement for our 2020 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2019 fiscal year, is incorporated herein by reference. Pursuant to Instruction 3 to Paragraph (b) of Item 401 of Regulation S-K, information relating to our executive officers is included in Item 1 of this Report.

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

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the captions "Executive Compensation and Related Items," "Compensation Discussion and Analysis," "Compensation Committee Report," "Compensation Committee Interlocks and Insider Participation," and "Potential Payments upon Termination or Change in Control" in our definitive Proxy Statement for our 2020 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2019 fiscal year, is incorporated herein by reference.

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

The information contained under the captions “Principal Shareholders and Management Stock Ownership” and “Equity Compensation Plan Information” in our definitive Proxy Statement for our 2020 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2019 fiscal year, is incorporated herein by reference.

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

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

The information contained under the captions “Certain Relationships and Related Transactions” and “Director Independence” in our definitive Proxy Statement for our 2020 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2019 fiscal year, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained under the captions “Audit and Non-Audit Fees” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors” in our definitive Proxy Statement for our 2020 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2019 fiscal year, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

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

Consolidated Statements of Operations and Comprehensive Income — fiscal years ended December 29, 2019, December 30, 2018 and December 31, 2017.

Consolidated Balance Sheets — December 29, 2019 and December 30, 2018.

Consolidated Statements of Cash Flows — fiscal years ended December 29, 2019, December 30, 2018 and December 31, 2017.

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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

2. Financial Statement Schedule

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

Schedule II — Valuation and Qualifying Accounts and Reserves

3. Exhibits

The following exhibits are included as part of this Report:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
2.1	Share Purchase and Transfer Agreement dated June 14, 2018 by and among the Company, Interface BV, DealCo Luxembourg II S.à r.l. and nora Management III Beteiligungs GmbH & Co. KG (included as Exhibit 2.1 to the Company's current report on Form 8-K filed on June 14, 2018, previously filed with the Commission and incorporated herein by reference).
3.1	Restated Articles of Incorporation and accompanying Clarification Certificate (included as Exhibit 3.1 to the Company's quarterly report on Form 10-Q filed on May 10, 2012, previously filed with the Commission and incorporated herein by reference).
3.2	Bylaws, as amended and restated February 22, 2017 (included as Exhibit 3.1 to the Company's current report on Form 8-K filed on February 27, 2017, previously filed with the Commission and incorporated herein by reference).
4.1	Description of the Company's Securities.
10.1	Salary Continuation Plan, dated May 7, 1982 (included as Exhibit 10.20 to the Company's registration statement on Form S-1, File No. 2-82188, previously filed with the Commission and incorporated herein by reference).*
10.2	Form of Salary Continuation Agreement, dated as of January 1, 2008 (as used for Daniel T. Hendrix) (included as Exhibit 99.5 to the Company's current report on Form 8-K filed on January 7, 2008, previously filed with the Commission and incorporated herein by reference).*
10.3	Interface, Inc. Omnibus Stock Incentive Plan (as amended and restated effective February 18, 2015) (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on May 20, 2015, previously filed with the Commission and incorporated herein by reference); Form of Restricted Stock Agreement, as used for executive officers (included as Exhibit 10.5 to the Company's annual report on Form 10-K for the year ended December 30, 2007, previously filed with the Commission and incorporated herein by reference); Form of Performance Share Agreement (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on January 20, 2016, previously filed with the Commission and incorporated herein by reference); Form of Restricted Stock Agreement, as used for executive officers (included as Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed on May 11, 2017, previously filed with the Commission and incorporated herein by reference); Form of Performance Share Agreement for executive officers (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q filed on May 11, 2017, previously filed with the Commission and incorporated herein by reference); and Form of Restricted Stock Agreement, as used for directors (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q filed on May 11, 2017, previously filed with the Commission and incorporated herein by reference).*
10.4	Interface, Inc. Executive Bonus Plan, as amended October 28, 2015 (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on October 28, 2015, previously filed with the Commission and incorporated herein by reference).*
10.5	Interface, Inc. Nonqualified Savings Plan (as amended and restated effective January 1, 2002) (included as Exhibit 10.4 to the Company's annual report on Form 10-K for the year ended December 30, 2001, previously filed with the Commission and incorporated herein by reference); First Amendment thereto, dated as of December 20, 2002 (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 2003, previously filed with the Commission and incorporated herein by reference); Second Amendment thereto, dated as of December 30, 2002 (included as Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 2003, previously filed with the Commission and incorporated herein by reference); Third Amendment thereto, dated as of May 8, 2003 (included as Exhibit 10.6 to the Company's annual report on Form 10-K for the year ended December 28, 2003 (the "2003 10-K"), previously filed with the Commission and incorporated herein by reference); and Fourth Amendment thereto, dated as of December 31, 2003 (included as Exhibit 10.7 to the 2003 10-K, previously filed with the Commission and incorporated herein by reference).*
10.6	Employment Agreement of Daniel T. Hendrix dated as of March 3, 2017 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on April 6, 2017, previously filed with the Commission and incorporated herein by reference).*

- 10.7 Amended and Restated Employment and Change in Control Agreement of Jay D. Gould dated as of March 3, 2017 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on April 14, 2017, previously filed with the Commission and incorporated herein by reference).*
- 10.8 Split Dollar Insurance Agreement, dated February 21, 1997, between the Company and Daniel T. Hendrix (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 4, 1998, previously filed with the Commission and incorporated herein by reference); and Amendment thereto, dated December 29, 2008 (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on January 2, 2009, previously filed with the Commission and incorporated herein by reference).*
- 10.9 Form of Indemnity Agreement of Director (as used for directors of the Company) (included as Exhibit 99.1 to the Company's current report on Form 8-K filed on November 30, 2005, previously filed with the Commission and incorporated herein by reference).*
- 10.10 Form of Indemnity Agreement of Officer (as used for certain officers of the Company, including Daniel T. Hendrix and Jay D. Gould) (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on November 30, 2005, previously filed with the Commission and incorporated herein by reference).*
- 10.11 Interface, Inc. Long-Term Care Insurance Plan and related Summary Plan Description (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on December 20, 2005, previously filed with the Commission and incorporated herein by reference).*
- 10.12 Interface, Inc. Nonqualified Savings Plan II, as amended and restated effective January 1, 2009 (included as Exhibit 10.18 to the Company's annual report on Form 10-K for the year ended December 30, 2012 (the "2012 10-K"), previously filed with the Commission and incorporated herein by reference; First Amendment thereto, dated February 26, 2009 (included as Exhibit 10.19 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); Second Amendment thereto, dated December 9, 2009 (included as Exhibit 10.20 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); Third Amendment thereto, dated April 15, 2010 (included as Exhibit 10.21 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference); and Fourth Amendment thereto, dated August 9, 2012 (included as Exhibit 10.22 to the 2012 10-K, previously filed with the Commission and incorporated herein by reference).*
- 10.13 Amended and Restated Security and Pledge Agreement, dated as of August 8, 2017, among Interface, Inc., certain subsidiaries of the Company as obligors, and Bank of America, N.A. as Administrative Agent (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on August 9, 2017, previously filed with the Commission and incorporated herein by reference).
- 10.14 Second Amended and Restated Security and Pledge Agreement, dated as of August 7, 2018, among Interface, Inc., certain subsidiaries of the Company as obligors, and Bank of America, N.A. as Administrative Agent.
- 10.15 Severance Protection Arrangement for Bruce A. Hausmann (included in Item 5.02 of the Company's current report on Form 8-K filed on March 13, 2017, previously filed with the Commission and incorporated herein by reference).*
- 10.16 Form of 2018 Restricted Stock Agreement for executive officers (included as Exhibit 10.1 to the Company's quarterly report on Form 10-Q filed on May 11, 2018, previously filed with the Commission and incorporated herein by reference).*
- 10.17 Form of 2018 Performance Share Agreement for executive officers (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q filed on May 11, 2018, previously filed with the Commission and incorporated herein by reference).*
- 10.18 Employment Offer Letter to Bruce A. Hausmann (included as Exhibit 10.3 to the Company's quarterly report on Form 10-Q filed on May 11, 2018, previously filed with the Commission and incorporated herein by reference).*
- 10.19 Employment Offer Letter to J. Chadwick Scales (included as Exhibit 10.4 to the Company's quarterly report on Form 10-Q filed on May 11, 2018, previously filed with the Commission and incorporated herein by reference).*
- 10.20 Severance Protection and Change in Control Agreement of Matthew J. Miller dated as of April 3, 2018 (included as Exhibit 99.2 to the Company's current report on Form 8-K filed on April 25, 2018, previously filed with the Commission and incorporated herein by reference).*
- 10.21 First Restatement Agreement, dated as of July 20, 2018, among Interface, Inc., certain subsidiaries of the Company as borrowers, certain subsidiaries of the Company as guarantors, Bank of America, N.A. as Administrative Agent, and the other lenders party thereto. (included as Exhibit 10.1 to the Company's current report on Form 8-K filed on July 26, 2018, previously filed with the Commission and incorporated herein by reference.)

10.22	First Amendment to Second Amended and Restated Syndicated Facility Agreement, dated as of December 18, 2019 (included as Exhibit 99.1 to the Company’s current report on Form 8-K filed on December 23, 2019, previously filed with the Commission and incorporated herein by reference.)
21	Subsidiaries of the Company.
23	Consent of BDO USA, LLP.
24	Power of Attorney (see signature page of this Report).
31.1	Certification of Chief Executive Officer with respect to the Company’s Annual Report on Form 10-K for the fiscal year ended December 29, 2019.
31.2	Certification of Chief Financial Officer with respect to the Company’s Annual Report on Form 10-K for the fiscal year ended December 29, 2019.
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Executive Officer with respect to the Company’s Annual Report on Form 10-K for the fiscal year ended December 29, 2019.
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Financial Officer with respect to the Company’s Annual Report on Form 10-K for the fiscal year ended December 29, 2019.
101.INS	XBRL Instance Document – The Instance Document does not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL 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
104	The cover page from this Annual Report on Form 10-K for the year ended December 29, 2019, formatted in Inline XBRL

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

ITEM 16. FORM 10-K SUMMARY

None.

INTERFACE, INC. AND SUBSIDIARIES

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	COLUMN A BALANCE, AT BEGINNING OF YEAR	COLUMN B CHARGED TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS <i>(in thousands)</i>	COLUMN D DEDUCTIONS (DESCRIBE) (B)	COLUMN E BALANCE, AT END OF YEAR
Allowance for Doubtful Accounts: Year Ended:					
December 29, 2019	\$ 3,540	\$ 881	\$ —	\$ 628	\$ 3,793
December 30, 2018	3,493	1,848	—	1,801	3,540
December 31, 2017	3,780	635	—	922	3,493

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

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

	COLUMN A BALANCE, AT BEGINNING OF YEAR	COLUMN B CHARGED TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS (B)	COLUMN D DEDUCTIONS (DESCRIBE) (C)	COLUMN E BALANCE, AT END OF YEAR
Restructuring Reserve: Year Ended:					
December 29, 2019	\$ 11,907	\$ 7,944	\$ 49	\$ 8,357	\$ 11,445
December 30, 2018	2,568	11,961	8,569	2,622	11,907
December 31, 2017	10,291	3,999	3,300	3,724	2,568

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

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

(C) Cash payments.

	COLUMN A BALANCE, AT BEGINNING OF YEAR	COLUMN B CHARGED TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS (DESCRIBE) (B)	COLUMN E BALANCE, AT END OF YEAR
	<i>(in thousands)</i>				
Warranty and Sales					
Allowances Reserves :					
Year ended:					
December 29, 2019	\$ 3,495	\$ 1,519	\$ —	\$ 1,161	\$ 3,853
December 30, 2018	4,111	1,074	—	1,690	3,495
December 31, 2017	5,529	2,071	—	3,489	4,111

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

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

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

SIGNATURES

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

Date: February 26, 2020

INTERFACE, INC.

By: /s/ DANIEL T. HENDRIX
Daniel T. Hendrix
President and Chief Executive Officer

POWER OF ATTORNEY

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

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

Interface[®]

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(\$ in millions, except per share amounts)

ORGANIC SALES			
	2018	2019	
Net Sales as Reported (GAAP)	\$1,180	\$1,343	
Impact of Changes in Currency	-	26	
nora net sales adjustment (1)	-	(166)	
Organic Sales	\$1,180	\$1,204	

ADJUSTED GROSS PROFIT				
	Q4 2018	Q4 2019	2018	2019
Gross Profit as Reported (GAAP)	\$122	\$136	\$424	\$526
Purchase Accounting Amortization	12	1	32	6
Adjusted Gross Profit	\$134	\$137	\$457	\$531

ADJUSTED DILUTED EPS			
	2018	2019	
Diluted Earnings per Share as Reported (GAAP)	\$0.84	\$1.34	
Purchase Accounting Amortization	0.38	0.08	
Transaction Related Expenses	0.12	-	
Tax Act Expense (Benefit)	(0.11)	-	
Restructuring, Asset Impairment and Other Charges	0.26	0.17	
Adjusted Diluted Earnings per Share	\$1.49	\$1.59	

(1) Nora net sales adjustment to exclude sales in 2019 as the 2018 comparative period excluded nora activity

The non-GAAP measures included in this annual report may be different from similarly titled non-GAAP measures used by other companies, and should not be used as a substitute for, or considered superior to, GAAP measures. Reconciliations to the most directly comparable GAAP measures appears above.

Board of Directors

Daniel T. Hendrix
Chairman of the Board and
Chief Executive Officer
Interface, Inc.



John P. Burke
Chief Executive Officer
Trek Bicycle Corporation



Dwight Gibson
President, Food & Beverage
and Industrial Segments
SPX FLOW, Inc.



Jay D. Gould
Former President and
Chief Executive Officer
Interface, Inc.

Christopher G. Kennedy
Chairman
Joseph P. Kennedy Enterprises, Inc.



Joseph Keough
Chairman and Chief Executive Officer
Wood Partners



Catherine M. Kilbane
Retired Senior Vice President
and General Counsel
The Sherwin-Williams Company



K. David Kohler
President and Chief Executive Officer
Kohler Co.



James B. Miller, Jr.
Executive Chairman
Ameris Bancorp

Sheryl D. Palmer
Chairman and Chief Executive Officer
Taylor Morrison Home Corporation



- ▶ Lead Independent Director
- ◆ Executive Committee Member
- Audit Committee Member
- Compensation Committee Member
- ▲ Nominating & Governance Committee Member

Executive Officers

Daniel T. Hendrix
President and
Chief Executive Officer

David B. Foshee
Vice President, General Counsel
and Secretary

Bruce A. Hausmann
Vice President and
Chief Financial Officer

Nigel W. Stansfield
Vice President
(President – Europe, Africa, Asia and Australia)

Shareholder Information

Form 10-K

A copy of the Company's Annual Report on Form 10-K, filed each year with the Securities and Exchange Commission, may be obtained by shareholders without charge by writing to:

Mr. Bruce A. Hausmann
Chief Financial Officer
Interface, Inc.
1280 West Peachtree Street NW
Atlanta, Georgia 30309

Annual Meeting:

The annual meeting of shareholders will be at 11:00 am EDT on May 22, 2020 at: Interface, Inc.
1280 West Peachtree Street NW
Atlanta, Georgia 30309

Transfer Agent and Dividend
Disbursing Agent:

Computershare
462 S. 4th Street, Suite 1600
Louisville, KY 40202
1 800 254 5196 (U.S. & Canada)
1 781 575 2879 (Foreign)

Number of shareholders of record
at March 13, 2020: 634

Change of Address:

Please direct all changes of address or inquiries as to how your account is listed to:

Computershare
462 S. 4th Street, Suite 1600
Louisville, KY 40202
1 800 254 5196 (U.S. & Canada)
1 781 575 2879 (Foreign)

Independent Registered
Public Accounting Firm:

BDO USA, LLP
Atlanta, Georgia

Principal Legal Counsel:

Kilpatrick Townsend & Stockton LLP
Atlanta, Georgia

Corporate Address:

Interface, Inc.
1280 West Peachtree Street NW
Atlanta, Georgia 30309
tel (770) 437 6800
fax (770) 319 6270
www.interface.com

Ticker Symbol:

TILE (Nasdaq)

Forward-Looking Statements:

This report contains statements which may constitute "forward-looking statements" under applicable securities laws, including statements regarding the intent, belief, or current expectations of Interface, Inc. (the "Company") and members of its management team, as well as assumptions on which such statements are based. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may 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 are set forth in Item 1A ("Risk Factors") of the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2019, and are 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.

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