

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For Quarterly Period Ended October 1, 2000

Commission File Number 0-12016

INTERFACE, INC.

(Exact name of registrant as specified in its charter)

GEORGIA

(State or other jurisdiction of  
incorporation or organization)

58-1451243

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

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

(Address of principal executive offices and zip code)

(770) 437-6800

(Registrant's telephone number, including area code)

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

Shares outstanding of each of the registrant's classes of common stock at November 9, 2000:

<u>Class</u>	<u>Number of Shares</u>
Class A Common Stock, \$.10 par value per share	44,004,797
Class B Common Stock, \$.10 par value per share	7,029,796

INTERFACE, INC.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

<u>ASSETS</u>	OCTOBER 1, <u>2000</u> (Unaudited)	JANUARY 2, <u>2000</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 6,384	\$ 2,548
Accounts Receivable	219,796	203,550
Inventories	194,639	176,918
Prepaid Expenses	37,361	27,845
Deferred Tax Asset	<u>10,117</u>	<u>9,917</u>
TOTAL CURRENT ASSETS	468,297	420,778
PROPERTY AND EQUIPMENT, less		
accumulated depreciation	253,330	253,436
EXCESS OF COST OVER NET ASSETS ACQUIRED	265,456	278,772
OTHER ASSETS	<u>52,950</u>	<u>75,509</u>
	<u>\$1,040,033</u>	<u>\$1,028,495</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Notes Payable	\$ 550	\$ 4,173
Accounts Payable	97,389	90,318
Accrued Expenses	121,387	107,287
Current Maturities of Long-Term Debt	<u>991</u>	<u>1,974</u>
TOTAL CURRENT LIABILITIES	220,317	203,752
LONG-TERM DEBT, less current maturities		
SENIOR NOTES	144,103	125,144
SENIOR SUBORDINATED NOTES	150,000	150,000
DEFERRED INCOME TAXES and OTHER	125,000	125,000
	<u>32,418</u>	<u>33,395</u>
TOTAL LIABILITIES	671,838	637,291
Minority Interest	5,391	2,012
Common Stock	5,808	5,902
Additional Paid-In Capital	217,946	222,373
Retained Earnings	234,390	233,322
Accumulated Other Comprehensive Income - Foreign Currency Translation	(77,594)	(53,671)
Treasury Stock, 7,200 and 7,300 shares, respectively, at cost	<u>(17,746)</u>	<u>(18,734)</u>
	<u>\$1,040,033</u>	<u>\$1,028,495</u>

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	<u>THREE MONTHS ENDED</u>		<u>NINE MONTHS ENDED</u>	
	OCTOBER 1, <u>2000</u>	OCTOBER 3, <u>1999</u>	OCTOBER 1, <u>2000</u>	OCTOBER 3, <u>1999</u>
<b>Net Sales</b>	\$ 336,663	\$ 304,246	\$ 953,606	\$ 917,564
Cost of Sales	<u>234,963</u>	<u>209,906</u>	<u>665,695</u>	<u>630,956</u>
<b>Gross Profit on Sales</b>	101,700	94,340	287,911	286,608
Selling, General and Administrative Expenses	76,517	75,643	223,104	227,741
Restructuring Charge	<u>—</u>	<u>—</u>	<u>20,095</u>	<u>—</u>
<b>Operating Income</b>	25,183	18,697	44,712	58,867
Interest Expense	9,697	9,238	28,815	28,024
Other Expense (Income) - Net	<u>(306)</u>	<u>760</u>	<u>461</u>	<u>2,660</u>
<b>Income before Taxes on Income</b>	15,792	8,699	15,436	28,183
Income Tax Expense	<u>6,033</u>	<u>3,440</u>	<u>7,438</u>	<u>10,989</u>
<b>Net Income</b>	<u>\$ 9,759</u>	<u>\$ 5,259</u>	<u>\$ 7,998</u>	<u>\$ 17,194</u>
Basic Earnings Per Share	<u>\$ .19</u>	<u>\$ .10</u>	<u>\$ .16</u>	<u>\$ .33</u>
<b>Diluted Earnings Per Share</b>	<u>\$ .19</u>	<u>\$ .10</u>	<u>\$ .16</u>	<u>\$ .33</u>
Average Shares Outstanding -- Basic	<u>51,241</u>	<u>52,829</u>	<u>51,503</u>	<u>52,906</u>
Average Shares Outstanding -- Diluted	<u>51,620</u>	<u>52,829</u>	<u>51,585</u>	<u>52,906</u>

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS)

	<u>THREE MONTHS ENDED</u>		<u>NINE MONTHS ENDED</u>	
	OCTOBER 1, <u>2000</u>	OCTOBER 3, <u>1999</u>	OCTOBER 1, <u>2000</u>	OCTOBER 3, <u>1999</u>
Net Income	\$ 9,759	\$ 5,259	\$ 7,998	\$ 17,194
Other Comprehensive Income, Foreign Currency Translation Adjustment	<u>(15,418)</u>	<u>6,663</u>	<u>(23,923)</u>	<u>675</u>
<b>Comprehensive Income (Loss)</b>	<u>\$ (5,659)</u>	<u>\$ 11,922</u>	<u>\$ (15,925)</u>	<u>\$ 17,869</u>

See accompanying notes to consolidated condensed financial statements.

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

	<u>NINE MONTHS ENDED</u>	
	<u>OCTOBER 1,</u> <u>2000</u>	<u>OCTOBER 3,</u> <u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	<u>\$ 37,580</u>	<u>\$ 11,984</u>
INVESTING ACTIVITIES:		
Capital expenditures	(15,055)	(22,349)
Acquisitions/Divestiture of businesses	(31,000)	6,217
Other	<u>4,219</u>	<u>(8,458)</u>
	<u>(41,836)</u>	<u>(24,590)</u>
FINANCING ACTIVITIES:		
Net borrowing of long-term debt	19,913	30,519
Issuance/Repurchase of common stock	(4,483)	(7,921)
Dividends paid	<u>(6,955)</u>	<u>(7,107)</u>
	<u>8,475</u>	<u>15,491</u>
Net cash provided by operating, investing and financing activities	4,219	2,885
Effect of exchange rate changes on cash	<u>(383)</u>	<u>(1,859)</u>
CASH AND CASH EQUIVALENTS:		
Net change during the period	3,836	1,026
Balance at beginning of period	<u>2,548</u>	<u>9,910</u>
Balance at end of period	<u>\$6,384</u>	<u>\$10,936</u>

See accompanying notes to consolidated condensed financial statements.

INTERFACE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1 - CONDENSED FOOTNOTES

As contemplated by the Securities and Exchange Commission (the "Commission") instructions to Form 10-Q, the following footnotes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to the notes to the Company's year-end financial statements contained in its Annual Report to Shareholders for the fiscal year ended January 2, 2000, as filed with the Commission.

The financial information included in this report has been prepared by the Company, without audit, and should not be relied upon to the same extent as audited financial statements. In the opinion of management, the financial information included in this report contains all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results for the interim periods. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year.

NOTE 2 - INVENTORIES

Inventories are summarized as follows:

	(In thousands)	
	October 1, <u>2000</u>	January 2, <u>2000</u>
Finished Goods	\$102,160	\$100,967
Work in Process	42,540	29,057
Raw Materials	<u>49,939</u>	<u>46,894</u>
	<u>\$194,639</u>	<u>\$176,918</u>

NOTE 3 - BUSINESS ACQUISITIONS AND DIVESTITURES

During the third quarter of 2000, the Company acquired Teknit, Ltd., a United Kingdom company with a Michigan subsidiary, which manufactures three-dimensional knits for the office furniture industry, for a purchase price of \$3.9 million in cash. The transaction was accounted for as a purchase, and, accordingly, the results of operations have been included within the consolidated financial statements as of the acquisition date.

During the second quarter of 2000, the Company acquired the furniture fabric assets of the Chatham Manufacturing division of CMI Industries, Inc. for a purchase price of approximately \$27 million in cash. The transaction was accounted for as a purchase and, accordingly, the results of operations have been included within the consolidated financial statements as of the acquisition date.

During 1999, the Company sold two operating entities which had been acquired as part of the December 1997 acquisition of the European floorcovering businesses of Readicut International plc. Joseph Hamilton & Seaton, Ltd., a distributor of private label carpet, was sold for approximately \$11.2 million in cash during February 1999. In November 1999, the Company also sold its 40% interest in Vebe Floorcoverings BV, a manufacturer of needlepunch carpet, for \$8 million in the form of a promissory note. The Company recognized the related immaterial loss and gain, respectively, associated with these divestitures within other expense.

During 1999, the Company purchased six service companies, all located in the U.S. As consideration for the acquisitions, the Company issued common stock valued at approximately \$.8 million and paid \$2.0 million in cash. All such transactions have been accounted for as purchases and, accordingly, the results of operations of the acquired companies since their acquisition dates have been included within the consolidated financial statements. The excess of the purchase price over the fair value of the net assets acquired was approximately \$1.2 million and is being amortized over 25 years.

NOTE 4 - RESTRUCTURING CHARGE

In the first quarter of 2000, the Company recorded a pre-tax restructuring charge of \$20.1 million. The charge reflects: (i) the consolidation of certain administrative, manufacturing, and back-office functions; (ii) the divestiture of certain non-strategic Re:Source Americas operations; and (iii) the abandonment of manufacturing equipment utilized in the production of discontinued product lines.

A summary of the completed and planned restructuring activities as of October 1, 2000 is as follows:

(In Thousands)	U.S.	Europe	Grand Total
Termination Benefits	\$ 5,637	\$ 3,732	\$ 9,369
Property, Plant & Equipment	1,750	-	1,750
Intangible Assets	2,000	-	2,000
Facilities Consolidation	2,358	-	2,358
Divestiture of Non-Strategic Re:Source Operations	<u>4,618</u>	<u>-</u>	<u>4,618</u>
	<u>\$16,363</u>	<u>\$ 3,732</u>	<u>\$20,095</u>

The restructuring charge is comprised of \$9.4 million of cash expenditures for severance benefits and other costs and \$11.7 million of non-cash charges, primarily for the write-down of impaired assets.

The termination benefits of \$9.4 million, primarily related to severance costs, are a result of aggregate reductions to date of 175 employees and an additional headcount reduction of approximately 223 people starting in November. The staff reductions are expected to be as follows:

	U.S.	Europe	Total
Manufacturing	286	21	307
Selling and Administrative	<u>59</u>	<u>32</u>	<u>91</u>
	<u>345</u>	<u>53</u>	<u>398</u>

The Company anticipates that the restructuring will be completed by year end. The restructuring is expected to yield annual cost savings of approximately \$15 million.

#### NOTE 5 - STOCK REPURCHASE PROGRAM

During 1998, the Company adopted a share repurchase program, pursuant to which it was authorized to repurchase up to 2,000,000 shares of Class A Common Stock in the open market through May 19, 2000 (since extended to May 19, 2002). This amount was increased to 4,000,000 shares subsequent to January 2, 2000. During the first nine months of 2000, the Company has repurchased 884,813 shares of Class A Common Stock under this program, at prices ranging from \$3.42 to \$7.06 per share. This is compared to the repurchase of 1,442,500 shares of Class A Common Stock at prices ranging from \$4.50 to \$9.94 during 1999. All treasury stock is accounted for using the cost method.

#### NOTE 6 - EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of shares of Class A and Class B Common Stock outstanding during the period. Shares issued or reacquired during the period have been weighted for the portion of the period that they were outstanding. Basic earnings per share has been computed based upon 51,503,000 shares and 51,773,000 shares outstanding for the nine-month period ended October 1, 2000 and October 3, 1999, respectively. Diluted earnings per share is calculated in a manner consistent with that of basic earnings per share while giving effect to all dilutive potential common shares that were outstanding during the period. Diluted earnings per share has been computed based upon 51,585,000 shares and 52,916,000 shares outstanding for the nine-month period ended October 1, 2000 and October 3, 1999, respectively.

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

(In Thousands Except Per Share Amounts)

For the Nine-Month Period Ended	Net Income	Average Shares Outstanding	Earnings Per Share
October 1, 2000	\$ 7,998	51,503	\$ .16
Effect of Dilution: Options	<u>—</u>	<u>82</u>	
Diluted	<u>\$ 7,998</u>	<u>51,585</u>	<u>\$ .16</u>
October 3, 1999	\$ 17,194	52,906	\$ .33
Effect of Dilution: Options	<u>—</u>	<u>—</u>	
Diluted	<u>\$17,194</u>	<u>52,906</u>	<u>\$ .33</u>

#### NOTE 7 - SEGMENT INFORMATION

During 1998, the Company adopted SFAS 131 which establishes standards for the way that public business enterprises report information about operating segments in their financial statements. The standard defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker aggregates operating segments based on the type of products produced by the segment. Based on the quantitative thresholds specified in SFAS 131, the Company has determined that it has two reportable segments. The two reportable segments are Floorcovering Products/Services and Interior Fabrics. The Floorcovering Products/Services segment manufactures, installs and services commercial modular and broadloom carpet, and the Interior Fabrics segment manufactures panel and upholstery fabrics.

The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies as contained in the Company's Annual Report to Shareholders for the fiscal year ended January 2, 2000, as filed with the Commission. Segment amounts disclosed are prior to any elimination entries made in consolidation. The chief operating decision maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of allocated corporate expenses, interest expense and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. Assets not identifiable to any individual segment are corporate assets, which are primarily comprised of cash and cash equivalents, short-term investments, intangible assets and intercompany amounts, which are eliminated in consolidation.



*Segment Disclosures*

Summary information by segment follows:

<i>(in thousands)</i>	Floorcovering Products/Services	Interior Fabrics	Other (Includes Architectural Products)	Total
<hr/>				
Nine Months Ended				
October 1, 2000				
Net sales	\$ 711,588	\$ 187,367	\$54,651	\$ 953,606
Depreciation and amortization	21,139	7,419	1,453	30,011
Operating income	27,095	19,264	2,165	48,524
Total assets	834,969	214,216	51,964	1,101,149
<hr/>				
Nine Months Ended				
October 3, 1999				
Net sales	\$ 729,625	\$ 147,172	\$ 40,767	\$ 917,564
Depreciation and amortization	22,388	6,868	1,431	30,687
Operating income	48,254	16,845	(86)	65,013
Total assets	960,749	210,825	46,952	1,218,526

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

<i>(in thousands)</i>	<u>Nine Months Ended</u>	
	October 1, 2000	October 3, 1999
<hr/>		
DEPRECIATION AND AMORTIZATION		
Total segment depreciation and amortization	\$ 30,011	\$30,687
Corporate depreciation and amortization	<u>3,199</u>	<u>588</u>
Reported depreciation and amortization	\$ 33,210	\$31,275
<hr/>		
OPERATING INCOME		
Total segment operating income	\$ 48,524	\$65,013
Corporate expenses and other reconciling amounts	<u>(3,812)</u>	<u>(6,146)</u>
Reported operating income	\$ 44,712	\$58,867
<hr/>		
ASSETS		
Total segment assets	\$ 1,101,149	\$1,218,526
Corporate assets and eliminations	<u>(61,116)</u>	<u>(166,322)</u>
Reported total assets	\$ 1,040,033	\$1,052,204

NOTE 8 - SUPPLEMENTAL GUARANTOR FINANCIAL STATEMENTS

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

INTERFACE, INC. AND SUBSIDIARIES

STATEMENT OF INCOME (LOSS)  
FOR THE NINE MONTHS ENDED OCTOBER 1, 2000

	<u>GUARANTOR SUBSIDIARIES</u>	<u>NON- GUARANTOR SUBSIDIARIES</u>	<u>INTERFACE, INC. (PARENT CORPORATION)</u>	<u>CONSOLIDATION AND ELIMINATION ENTRIES</u>	<u>CONSOLIDATED TOTALS</u>
	(IN THOUSANDS)				
Net sales	\$ 761,460	\$284,422	\$ -	\$ (92,276)	\$ 953,606
Cost of sales	<u>562,950</u>	<u>195,021</u>	<u>-</u>	<u>(92,276)</u>	<u>665,695</u>
Gross profit on sales	198,510	89,401	-	-	287,911
Selling, general and administrative expenses	135,731	68,326	19,047	-	223,104
Restructuring Charge	<u>16,363</u>	<u>3,732</u>	<u>-</u>	<u>-</u>	<u>20,095</u>
Operating Income	46,416	17,343	(19,047)	-	44,712
Other expense	<u>13,691</u>	<u>6,932</u>	<u>8,653</u>	<u>-</u>	<u>29,276</u>
Income before taxes on income and equity in income of subsidiaries	32,725	10,411	(27,700)	-	15,436
Taxes on income	11,801	4,194	(8,557)	-	7,438
Equity in income of subsidiaries	<u>-</u>	<u>-</u>	<u>27,141</u>	<u>(27,141)</u>	<u>-</u>
Net income (loss) applicable to common shareholders	<u>\$ 20,924</u>	<u>\$ 6,217</u>	<u>\$ 7,998</u>	<u>\$ (27,141)</u>	<u>\$ 7,998</u>

BALANCE SHEET  
OCTOBER 1, 2000

	<u>GUARANTOR SUBSIDIARIES</u>	NON- <u>GUARANTOR SUBSIDIARIES</u>	<u>INTERFACE, INC. (PARENT CORPORATION)</u>	<u>CONSOLIDATION AND ELIMINATION ENTRIES</u>	<u>CONSOLIDATED TOTALS</u>
	(IN THOUSANDS)				
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 5,610	\$ 774	\$ -	\$ -	\$ 6,384
Accounts receivable	171,038	86,252	(37,494)	-	219,796
Inventories	134,987	59,652	-	-	194,639
Miscellaneous	<u>15,092</u>	<u>26,082</u>	<u>6,304</u>	<u>-</u>	<u>47,478</u>
Total current assets	326,727	172,760	(31,190)	-	468,297
Property and equipment					
less accumulated depreciation	163,914	72,758	16,658	-	253,330
Investment in subsidiaries	40,305	7,087	890,632	(938,024)	-
Other assets	1,670	5,812	45,468	-	52,950
Excess of cost over net assets acquired	<u>175,856</u>	<u>86,077</u>	<u>3,523</u>	<u>-</u>	<u>265,456</u>
	<u>\$ 708,472</u>	<u>\$ 344,494</u>	<u>\$ 925,091</u>	<u>\$ (938,024)</u>	<u>\$ 1,040,033</u>
<b>LIABILITIES AND COMMON SHAREHOLDERS' EQUITY</b>					
<b>Current Liabilities:</b>					
Notes payable	\$ 550	\$ -	\$ -	\$ -	\$ 550
Accounts payable	47,164	34,947	15,278	-	97,389
Accrued expenses	46,616	23,891	50,880	-	121,387
Current maturities of long-term debt	<u>23</u>	<u>968</u>	<u>--</u>	<u>-</u>	<u>991</u>
Total current liabilities	94,353	59,806	66,158	-	220,317
Long-term debt, less current maturities	6,506	44,922	92,675	--	144,103
Senior notes and senior subordinated notes	-	-	275,000	-	275,000
Deferred income taxes/other	14,797	5,343	12,278	-	32,418
Minority interests	<u>-</u>	<u>5,391</u>	<u>-</u>	<u>-</u>	<u>5,391</u>
Total liabilities	115,656	115,462	446,111	-	677,229
Redeemable preferred stock	57,891	-	-	(57,891)	-
Common stock	94,145	102,199	5,808	(196,344)	5,808
Additional paid-in capital	191,411	12,525	217,946	(203,936)	217,946
Retained earnings	249,759	160,814	263,074	(439,257)	234,390
Foreign currency translation adjustment income	(390)	(46,506)	(7,848)	(22,850)	(77,594)
Treasury stock, 7,200,000 Class A shares, at cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,746)</u>	<u>(17,746)</u>
	<u>\$ 708,472</u>	<u>\$ 344,494</u>	<u>\$ 925,091</u>	<u>\$ (938,024)</u>	<u>\$ 1,040,033</u>

STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS  
ENDED OCTOBER 1, 2000

	<u>GUARANTOR</u> <u>SUBSIDIARIES</u>	NON- <u>GUARANTOR</u> <u>SUBSIDIARIES</u>	INTERFACE, INC. (PARENT CORPORATION) (IN THOUSANDS)	CONSOLIDATION AND ELIMINATION ENTRIES	<u>CONSOLIDATED</u> <u>TOTALS</u>
Net cash provided by (used for) operating activities	\$ 19,043	\$ (2,777)	\$ 21,314	\$ —	\$ 37,580
Cash flows from investing activities:					
Purchase of plant and equipment	(10,483)	(4,572)	—	—	(15,055)
Acquisitions, net of cash acquired	—	—	(31,000)	—	(31,000)
Other assets	<u>(7,064)</u>	<u>(5,867)</u>	<u>17,150</u>	<u>—</u>	<u>4,219</u>
Net cash provided by (used for) investing activities	<u>(17,547)</u>	<u>(10,439)</u>	<u>(13,850)</u>	<u>—</u>	<u>(41,836)</u>
Cash flows from financing activities:					
Net borrowings (repayments)	(23)	7,961	11,975	—	19,913
Proceeds from issuance/repurchase of common stock	—	—	(4,483)	—	(4,483)
Cash dividends paid	<u>—</u>	<u>—</u>	<u>(6,955)</u>	<u>—</u>	<u>(6,955)</u>
Net cash provided by (used for) financing activities	<u>(23)</u>	<u>7,961</u>	<u>537</u>	<u>—</u>	<u>8,475</u>
Effect of exchange rate change on cash	<u>—</u>	<u>(383)</u>	<u>—</u>	<u>—</u>	<u>(383)</u>
Net increase (decrease) in cash	1,473	(5,638)	8,001	—	3,836
Cash at beginning of period	<u>4,137</u>	<u>6,412</u>	<u>(8,001)</u>	<u>—</u>	<u>2,548</u>
Cash at end of period	<u>\$ 5,610</u>	<u>\$ 774</u>	<u>\$ 0</u>	<u>\$ —</u>	<u>\$ 6,384</u>

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

### Forward-Looking Statements

This report contains statements which may constitute "forward-looking statements" under applicable securities laws, including statements regarding the intent, belief or current expectations of the Company and members of its management team, as well as the assumptions on which such statements are based. Any 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 the Safe Harbor Compliance Statement for Forward-Looking Statements included as Exhibit 99.1 to the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2000 ("Exhibit 99.1"), 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.

### General

The Company's revenues are derived from sales of commercial floorcovering products (primarily modular and broadloom carpet) and related services, interior fabrics, and architectural products and other specialty products. During the nine month period ended October 1, 2000, the Company had revenues of \$953.6 million and net income of \$21.9 million, or \$.43 per diluted share, before a non-recurring, pre-tax restructuring charge of \$20.1 million (\$.27 per diluted share after tax), compared to revenues of \$917.6 million and net income of \$17.2 million, or \$.33 per diluted share, in the comparable period last year.

In the first quarter of 2000, the Company recorded a pre-tax restructuring charge of \$20.1 million. The charge reflects: (i) the consolidation of certain administrative, manufacturing, and back-office functions; (ii) the divestiture of certain non-strategic Re:Source Americas dealer operations; and (iii) the abandonment of manufacturing equipment utilized in the production of discontinued product lines. The foregoing resulted in an aggregate headcount reduction in the U.S. and Europe of approximately 175 people, and will result in an additional headcount reduction in the U.S., starting in November, of approximately 223 people. The restructuring charge is comprised of \$9.4 million of cash expenditures for severance benefits and relocation costs and \$11.7 million of non-cash charges, primarily for the write-down of impaired assets. The Company anticipates that the restructuring will be completed by year end. The restructuring is expected to yield annual cost savings of approximately \$15 million; however, the amount of any actual cost savings could be affected by the factors discussed under the headings "Cyclical Nature of Industry" and "Risks of Foreign Operations," in particular, in Exhibit 99.1.

### Results of Operations

For the three-month and nine-month periods ended October 1, 2000, the Company's net sales increased \$32.4 million (10.7%) and \$36.0 million (3.9%) compared with the same periods in 1999. The third quarter increase was primarily attributable to increased sales volume in the Company's (i) U.S. carpet tile operations, which is up 20% from the comparable period in the prior year, (ii) U.S. Fabrics operations, as the industry recovers from the dampening effect of Y2K, and due to initial sales from the furniture fabrics business of the Chatham Manufacturing division of CMI Industries, Inc., which business was acquired in the second quarter, (iii) Southeast Asia operations, which continue to show improvement as the economies in that region recover, and (iv) architectural products division. The increase was offset somewhat by (i) a continued decline in sales of broadloom carpet in the United Kingdom, as Firth took steps to rebuild its sales force and reposition itself in that market by shifting its focus to corporate accounts and by reducing its emphasis on the hospitality and transportation market segments, (ii) the focus at Re:Source Americas on increasing profitability which resulted in declining certain jobs with lower margins, and (iii) the continued decline of the Euro and British pound sterling against the U.S. dollar.

Cost of sales, as a percentage of net sales, increased to 69.8% for both the three-month and nine-month periods ended October 1, 2000, compared to 69.0% and 68.8% for the comparable periods in 1999. The increase was primarily attributable to (i) the failure to fully absorb overhead expenses in the Company's broadloom operations, (ii) the increase in the relative sales by the Company's architectural products division and Chatham operations, which historically have had lower gross profit margins than the Company's other product sales, and (iii) quality consistency problems in the Company's broadloom operations during the first half of 2000.

Selling, general and administrative expenses, as a percentage of net sales, declined to 22.7% and 23.4% for the three and nine month periods ended October 1, 2000, respectively, compared to 24.9% and 24.8% in the same periods in 1999, primarily as a result of the Company's recent restructuring activities, as well as the consolidation of certain of its operations in Interface Americas through a "shared services" approach.

For the three-month and nine-month periods ended October 1, 2000, interest expense increased \$.5 million and \$.8 million, respectively, compared to the same periods in 1999, due primarily to higher overall levels of bank debt resulting from the Chatham acquisition during the second quarter of 2000.

#### Liquidity and Capital Resources

The Company's primary source of cash during the nine months ended October 1, 2000 was \$19.9 million from long-term financing. The primary uses of cash during the nine month period ended October 1, 2000 were (i) \$31.0 million for the acquisition of the furniture fabrics businesses of Chatham and Teknik, LTD, (ii) \$15.1 million for additions to property and equipment in the Company's manufacturing facilities, and (iii) \$4.5 million for the payment of dividends. Management believes that cash provided by operations and long-term loan commitments will provide adequate funds for current commitments and other requirements in the foreseeable future; however, those factors discussed under the headings "Cyclical Nature of the Industry," "Strong Competition," "Risks of Foreign Operations," "Reliance on Petroleum-Based Raw Materials," and "Reliance on Third Party for Supply of Fibers," in particular, in Exhibit 99.1 could affect the Company's free cash flow.

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

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

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

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

At October 1, 2000, the Company had utilized interest rate swap agreements to effectively convert approximately \$43.7 million of variable rate debt to fixed rate debt. The Company anticipates that for the balance of fiscal 2000 it will utilize swap agreements or other derivative financial instruments to convert comparable amounts of variable rate to fixed rate debt.

*Foreign Currency Exchange Market Risk Exposure.* A significant portion of the Company's operations consists of manufacturing and sales activities in foreign jurisdictions. The Company manufactures its products in the U.S., Canada, England, Northern Ireland, the Netherlands, Australia and Thailand, and sells its products in more than 100 countries. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company distributes its products. The Company's operating results are exposed to changes in exchange rates between the U.S. dollar and many other currencies, including the Dutch guilder, British pound sterling, German mark, French franc, Canadian dollar, Australian dollar, Thai baht, Japanese yen, and, since the beginning of 1999, the euro. When the U.S. dollar strengthens against a foreign currency, the value of anticipated sales in those currencies decreases, and vice-versa. Additionally, to the extent the Company's foreign operations with functional currencies other than the U.S. dollar transact business in countries other than the U.S., exchange rate changes between two foreign currencies could ultimately impact the Company. Finally, because the Company

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

To mitigate the short-term effect of changes in currency exchange rates on the Company's sales denominated in foreign currencies, the Company regularly hedges by entering into currency swap contracts to hedge certain firm sales commitments denominated in foreign currencies. In these currency swap agreements, the Company and a counterparty financial institution exchange equal initial principal amounts of two currencies at the spot exchange rate. Over the term of the swap contract, the Company and the counterparty exchange interest payments in their swapped currencies. At maturity, the principal amount is reswapped, at the contractual exchange rate. At October 1, 2000, the contracts served to hedge firmly committed sales in Dutch guilders and Japanese yen. The contracts generally have maturity dates of fifteen to twenty-four months.

At October 1, 2000, the Company had approximately \$10.5 million (notional amount) of foreign currency hedge contracts outstanding. The Company expects to hedge a comparable notional amount for the balance of fiscal 2000. The Company, as of October 1, 2000, recognized a \$23.9 million increase in its foreign currency translation adjustment account compared to January 2, 2000 because of the weakening of certain currencies against the U.S. dollar and the transition to the euro as the local reporting currency in Europe.

*Sensitivity Analysis.* For purposes of specific risk analysis, the Company uses sensitivity analysis to measure the impact that market risk may have on the fair values of the Company's market sensitive instruments.

To perform sensitivity analysis, the Company assesses the risk of loss in fair values associated with the impact of hypothetical changes in interest rates and foreign currency exchange rates on market sensitive instruments. The market value of instruments affected by interest rate and foreign currency exchange rate risk is computed based on the present value of future cash flows as impacted by the changes in the rates attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest and foreign currency exchange rates in effect at October 1, 2000. The market values that result from these computations are compared with the market values of these financial instruments at October 1, 2000. The differences in this comparison are the hypothetical gains or losses associated with each type of risk.

As of October 1, 2000, based on a hypothetical immediate 150 basis point increase in interest rates, with all other variables held constant, the market value of the Company's fixed rate long-term debt would be impacted by a net decrease of \$15.7 million. Conversely, a 150 basis point decrease in interest rates would result in a net increase in the market value of the Company's fixed rate long-term debt of \$25.9 million. At January 2, 2000, a 150 basis point movement would have resulted in the same approximate changes.

As of October 1, 2000, a 10% movement in the levels of foreign currency exchange rates against the U.S. dollar, with all other variables held constant, would result in a decrease in the fair value of the Company's financial instruments of \$1.3 million or an increase in the fair value of the Company's financial instruments of \$1.1 million. At January 2, 2000, a 10% movement would have resulted in the same changes. As the impact of offsetting changes in the fair market value of the Company's net foreign investments is not included in the sensitivity model, these results are not indicative of the Company's actual exposure to foreign currency exchange risk.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

*Collins & Aikman Litigation.* On October 28, 1998, Collins & Aikman Floorcoverings, Inc. ("CAF") -- in the wake of receiving "cease and desist" letters from the Company demanding that CAF cease manufacturing certain carpet products that the Company believes infringe upon certain of its copyrighted product designs -- filed a lawsuit against the Company asserting that certain of the Company's products, primarily its Caribbean™ design product line, infringed on certain of CAF's alleged copyrighted product designs. The lawsuit, which is pending in the United States District Court for the Northern District of Georgia, Atlanta Division, Civil Action No. 1:98-CV-2069, sought injunctive relief and claimed unspecified monetary damages. The lawsuit also asserts other claims against the Company and certain other parties, including for alleged tortious interference by the Company with CAF's contractual relationship with the Roman Oakey, Inc. design firm, now known as David Oakey Designs, Inc.

On September 28, 1998, the Company filed its answer denying all the claims asserted by CAF, and also asserting counterclaims against CAF for copyright infringement. The Company believes the claims asserted by CAF are unfounded and subject to meritorious defenses, and it is defending vigorously all the claims. Until recently (see below), discovery had been limited by Court order to matters relating to CAF's motion for preliminary injunction. Both the Company and CAF filed motions for partial summary judgment. A Court-ordered mediation in August, 1999 did not lead to a resolution of the disputes between the parties.

On March 31, 2000, the Court granted partial summary judgment to the Company and David Oakey Designs on all but one of CAF's copyright claims, holding that David Oakey, not CAF, owned the designs that were the basis of those claims. On the remaining copyright claim, which involves the Company's very successful Caribbean product, the Court denied both the Company's and CAF's motions for partial summary judgment, and also denied, without a hearing, CAF's motion for preliminary injunction on this claim. The Court ordered the parties back into mediation and stayed all activity in the case pending its completion. Presently, the mediation is scheduled for December 11-12, 2000. If the case is not resolved, discovery will resume on the remaining claims in this case, including CAF's tort claims and the Company's and David Oakey's copyright infringement claims against CAF.

The Company's insurers have denied coverage under the Company's insurance policies, which annually would otherwise provide up to \$100 million of coverage. On June 8, 1999, the Company filed suit against the insurers to challenge that denial. That lawsuit is pending in the United States District Court for the Northern District of Georgia, Atlanta Division, Civil Action No. 1:99-CV-1485. On January 20, 2000, the Company filed a motion for partial summary judgment to enforce the insurer's obligation to defend the Company against the claims by CAF. The insurer cross-moved for summary judgment on this issue. On August 15, 2000, the Court granted the Company's motion and denied the insurers' cross-motion, ordering the insurers to pay the Company's costs of defense in this action to date, and to pay these costs going forward. These motions did not address the insurers' obligation to indemnify the Company in the event of a finding of liability against the Company.

Both the CAF infringement lawsuit and the Company's insurance coverage lawsuit involve complex legal and factual issues, and while the Company believes strongly in the merits of its legal positions, it is impossible to predict with accuracy the outcome of either such litigation matter at this stage. The Company intends to continue its aggressive pursuit of its positions in both actions.

*Tate Litigation.* On August 24, 2000, Tate Access Floors, Inc. ("Tate") filed suit against the Company's raised/access flooring subsidiary, Interface Architectural Resources, Inc. ("IAR"), alleging that a feature of IAR's popular Bevel Edge flooring panel infringes a patent held by Tate. On November 3, 2000, Tate filed a motion seeking a preliminary injunction to require IAR to cease manufacturing the Bevel Edge product pending resolution of the suit on the merits. The preliminary injunction hearing is scheduled for December 20, 2000. The Company believes that IAR's Bevel Edge product does not infringe the Tate patent and that IAR's defenses to this action are meritorious. The Company intends to defend this action vigorously.

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

None

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

## ITEM 5. OTHER INFORMATION

After quarter end, the Company announced that Daniel T. Hendrix, then Senior Vice President and Chief Financial Officer, will become President and Chief Executive Officer of the Company effective July 1, 2001. Ray C. Anderson, currently Chairman of the Board, President and CEO, will resign his executive positions of President and CEO effective June 30, 2001, and will continue as Chairman of the Board. Mr. Hendrix was named Executive Vice President for the interim period.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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



EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
3.1	Restated Articles of Incorporation (included as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended October 5, 1998, previously filed with the Commission and incorporated herein by reference).
3.2	Bylaws, as amended (included as Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the quarter ended April 1, 1990, previously filed with the Commission and incorporated herein by reference).
4.1	See Exhibits 3.1 and 3.2 for provisions in the Company's Articles of Incorporation and Bylaws defining the rights of holders of Common Stock of the Company.
4.2	Rights Agreement between the Company and Wachovia Bank, N.A., dated as of March 4, 1998, with an effective date of March 16, 1998 (included as Exhibit 10.1A to the Company's registration statement on Form 8-A/A dated March 12, 1998, previously filed with the Commission and incorporated herein by reference).
4.3	Indenture governing the Company's 9.5% Senior Subordinated Notes due 2005, dated as of November 15, 1995, among the Company, certain U.S. subsidiaries of the Company, as Guarantors, and First Union National Bank of Georgia, as Trustee (included as Exhibit 4.1 to the Company's registration statement on Form S-4, File No. 33-65201, previously filed with the Commission and incorporated herein by reference); and Supplement No. 1 to Indenture, dated as of December 27, 1996 (included as Exhibit 4.2(b) to the Company's Annual Report on Form 10-K for the year ended December 29, 1996, previously filed with the Commission and incorporated herein by reference).
4.4	Form of Indenture governing the Company's 7.3% senior notes due 2008, among the Company, certain U.S. subsidiaries of the Company, as Guarantors, and First Union National Bank, as trustee (included as Exhibit 4.1 to the Company's registration statement on Form S-3/A, File No. 333-46611, previously filed with the Commission and incorporated herein by reference).
27.1	Financial Data Schedule (for SEC use only).
(b)	No reports on Form 8-K were filed during the quarter ended October 1, 2000.

SIGNATURE

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

Date: November 15, 2000

INTERFACE, INC.

By:           /s/ Daniel T. Hendrix            
Daniel T. Hendrix  
Executive Vice President  
(Principal Financial Officer)

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
27.1	Financial Data Schedule.