INTERFACE INC
Form 10-Q
November 12, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For Quarterly Period Ended October 3, 2010

Commission File Number 001-33994

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

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

2859 PACES FERRY ROAD, SUITE 2000, ATLANTA, GEORGIA 30339
(Address of principal executive offices and zip code)

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

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

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

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

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

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

Shares outstanding of each of the registrant's classes of common stock at November 5, 2010:

Class	Number of Shares
Class A Common Stock, $.10 par value per share	57,034,132
Class B Common Stock, $.10 par value per share	7,244,052

INTERFACE, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	OCT. 3, 2010 (UNAUDITED)	JAN. 3, 2010
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 80,854	$115,363
Accounts Receivable, Net	140,759	129,833
Inventories	133,774	112,249
Prepaid Expenses and Other Current Assets	24,727	19,649
Deferred Income Taxes	9,175	9,379
Assets of Business Held for Sale	1,500	1,500
TOTAL CURRENT ASSETS	390,789	387,973
PROPERTY AND EQUIPMENT, Less Accumulated Depreciation	166,093	162,269
DEFERRED TAX ASSET	42,295	44,210
GOODWILL	76,951	80,519
OTHER ASSETS	54,801	52,268
TOTAL ASSETS	$ 730,929	$727,239
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 48,962	$35,614
Accrued Expenses	111,249	101,143
Current Portion of Long-Term Debt	--	14,586
TOTAL CURRENT LIABILITIES	160,211	151,343
SENIOR NOTES	146,127	145,184
SENIOR SUBORDINATED NOTES	110,000	135,000
DEFERRED INCOME TAXES	7,079	7,029
OTHER	41,102	42,502
TOTAL LIABILITIES	464,519	481,058
Commitments and Contingencies		
SHAREHOLDERS' EQUITY:		
Preferred Stock	--	--
Common Stock	6,423	6,328
Additional Paid-In Capital	348,580	343,348
Retained Earnings (Deficit)	(35,187)	(55,332)
Accumulated Other Comprehensive Income – Foreign Currency Translation Adjustment	(24,307)	(24,057)

Accumulated Other Comprehensive Income – Pension Liability	(32,231)	(33,186)
TOTAL SHAREHOLDERS' EQUITY – Interface, Inc.	263,278	237,101
Non-Controlling Interest in Subsidiary	3,132	9,080
TOTAL SHAREHOLDERS' EQUITY	266,410	246,181
	$ 730,929	$ 727,239

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	OCT. 3, 2010	OCT. 4, 2009	OCT. 3, 2010	OCT. 4, 2009
NET SALES	$252,724	$218,364	$696,502	$628,969
Cost of Sales	163,244	145,952	453,514	424,282
GROSS PROFIT ON SALES	89,480	72,412	242,988	204,687
Selling, General and Administrative Expenses	61,441	53,487	176,597	160,122
Income from Litigation Settlements	--	--	--	(5,926)
Restructuring Charge	--	--	3,131	7,627
OPERATING INCOME	28,039	18,925	63,260	42,864
Interest Expense	8,409	9,537	25,346	24,936
Bond Retirement Expenses	--	--	1,085	6,096
Other Expense	463	156	1,008	56
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	19,167	9,232	35,821	11,776
Income Tax Expense	6,825	3,542	13,365	5,661
Income from Continuing Operations	12,342	5,690	22,456	6,115
Loss from Discontinued Operations, Net of Tax	--	--	--	(650)
NET INCOME	12,342	5,690	22,456	5,465
Income Attributable to Non-Controlling Interest in Subsidiary	(264)	(233)	(876)	(495)
NET INCOME ATTRIBUTABLE TO INTERFACE, INC.	$12,078	$5,457	$21,580	$4,970
Earnings (Loss) Per Share Attributable to Interface, Inc. Common Shareholders – Basic				
Continuing Operations	$0.19	$0.09	$0.34	$0.09
Discontinued Operations	--	--	--	(0.01)
Earnings (Loss) Per Share Attributable to Interface, Inc. Common Shareholders – Basic	$0.19	$0.09	$0.34	$0.08
Earnings (Loss) Per Share Attributable to Interface, Inc. Common Shareholders – Diluted				
Continuing Operations	$0.19	$0.09	$0.34	$0.09

Discontinued Operations	--	--	--	(0.01)
Earnings (Loss) Per Share Attributable to Interface, Inc. Common Shareholders – Diluted	$0.19	$0.09	$0.34	$0.08
Common Shares Outstanding – Basic	64,025	63,190	63,623	63,197
Common Shares Outstanding – Diluted	64,578	63,487	64,106	63,258

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	OCT. 3, 2010	OCT. 4, 2009	OCT. 3, 2010	OCT. 4, 2009
Net Income	$12,342	$5,690	$22,456	$5,465
Other Comprehensive Income, Foreign Currency Translation Adjustment and Pension Liability Adjustment	23,247	6,832	1,786	18,353
Comprehensive Income	$35,589	$12,522	$24,242	$23,818
Comprehensive Income Attributable to Non-Controlling Interest in Subsidiary	(1,081)	(353)	(1,957)	(739)
Comprehensive Income Attributable to Interface, Inc.	$34,508	$12,169	$22,285	$23,079

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS)

	NINE MONTHS ENDED	
	OCT. 3, 2010	OCT. 4, 2009
OPERATING ACTIVITIES:		
Net Income	$22,456	$5,465
Loss from Discontinued Operations	--	650
Income from Continuing Operations	22,456	6,115
Adjustments to Reconcile Income to Cash Provided by Operating Activities:		
Premiums Paid to Repurchase Senior Notes	792	5,264
Depreciation and Amortization	19,253	18,856
Deferred Income Taxes and Other	(167)	(3,863)
Working Capital Changes:		
Accounts Receivable	(10,069)	27,535
Inventories	(20,453)	13,457
Prepaid Expenses	(7,404)	(1,104)
Accounts Payable and Accrued Expenses	27,196	(20,399)
CASH PROVIDED BY OPERATING ACTIVITIES:	31,604	45,861
INVESTING ACTIVITIES:		
Capital Expenditures	(18,443)	(9,897)
Other	(1,816)	1,370
CASH USED IN INVESTING ACTIVITIES:	(20,259)	(8,527)
FINANCING ACTIVITIES:		
Borrowing of Long-Term Debt	--	144,452
Repurchase of Senior and Senior Subordinated Notes	(39,586)	(138,002)
Debt Issuance Costs	--	(6,161)
Premiums Paid to Repurchase Senior and Senior Subordinated Notes	(792)	(5,264)
Proceeds from Issuance of Common Stock	1,803	58
Dividends Paid to Interface, Inc. Shareholders	(1,435)	(478)
Dividends Paid to Joint Venture Partner	(7,904)	--
CASH USED IN FINANCING ACTIVITIES:	(47,914)	(5,395)
Net Cash Provided by (Used in) Operating, Investing and Financing Activities	(36,569)	31,939
Effect of Exchange Rate Changes on Cash	2,060	2,242

CASH AND CASH EQUIVALENTS:		
Net Change During the Period	(34,509)	34,181
Balance at Beginning of Period	115,363	71,757
Balance at End of Period	$80,854	$105,938

See accompanying notes to consolidated condensed financial statements.

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

NOTE 1 – CONDENSED FOOTNOTES

As contemplated by the Securities and Exchange Commission (the "Commission") instructions to Form 10-Q, the following footnotes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to the Company's year-end financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended January 3, 2010, as filed with the Commission.

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, the financial information included in this report contains all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results for the interim periods. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The January 3, 2010, consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

As described below in Note 9, the Company has sold its Fabrics Group business segment. The results of operations and related disposal costs, gains and losses for this business are classified as discontinued operations for all periods presented.

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

NOTE 2 – INVENTORIES

Inventories are summarized as follows:

	Oct. 3, 2010	Jan. 3, 2010
	(In thousands)	
Finished Goods	$77,593	$65,478
Work in Process	18,776	15,764
Raw Materials	37,405	31,007
	$133,774	$112,249

NOTE 3 – EARNINGS (LOSS) PER SHARE

The Company computes basic earnings (loss) per share ("EPS") attributable to common shareholders by dividing income from continuing operations attributable to common shareholders, income from discontinued operations attributable to common shareholders and net income attributable to Interface, Inc. common shareholders, by the weighted average common shares outstanding, including participating securities outstanding, during the period as discussed below. Diluted EPS reflects the potential dilution beyond shares for basic EPS that could occur if securities or other contracts to issue common stock were exercised, converted into common stock or resulted in the issuance of common stock that would have shared in the Company's earnings. Income attributable to non-controlling interest in subsidiary is included in the calculation of basic and diluted EPS from continuing operations.

In the first quarter of 2009, the Company adopted a newly issued accounting standard, which requires the Company to include all unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, in the number of shares outstanding in basic and diluted EPS calculations when the inclusion of these shares would be dilutive. As a result, the Company has included all of its outstanding restricted stock awards in the calculation of basic and diluted EPS for all periods presented. This accounting standard also requires additional disclosure of EPS for common stock and unvested share-based payment awards, separately disclosing distributed and undistributed earnings. Distributed earnings represent 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. Unvested share-based amounts of restricted stock are paid dividends equally with all other shares of common stock. The following table shows distributed and undistributed earnings:

	Three Months Ended		Nine Months Ended	
	Oct. 3, 2010	Oct. 4, 2009	Oct. 3, 2010	Oct. 4, 2009
Earnings Per Share from Continuing Operations				
Basic Earnings Per Share Attributable to Common Shareholders:				
Distributed Earnings	$0.01	$0.01	$0.02	$0.01
Undistributed Earnings	0.18	0.08	0.32	0.08
Total	$0.19	$0.09	$0.34	$0.09
Diluted Earnings Per Share Attributable to Common Shareholders:				
Distributed Earnings	$0.01	$0.01	$0.02	$0.01
Undistributed Earnings	0.18	0.08	0.32	0.08
Total	$0.19	$0.09	$0.34	$0.09
Earnings (Loss) Per Share from Discontinued Operations				
Basic and Diluted Earnings (Loss) Per Share Attributable to Common Shareholders:				
Distributed Earnings	$--	$--	$--	$--
Undistributed Earnings (Loss)	--	--	--	(0.01)
Total	$--	$--	$--	$(0.01)
Basic Earnings Per Share	$0.19	$0.09	$0.34	$0.08
Diluted Earnings Per Share	$0.19	$0.09	$0.34	$0.08

The following table presents income from continuing operations and net income attributable to Interface, Inc. that was attributable to participating securities:

	Three Months Ended		Nine Months Ended	
	Oct. 3, 2010	Oct. 4, 2009	Oct. 3, 2010	Oct. 4, 2009
	(In millions)			
Income from Continuing Operations	$0.3	$0.1	$0.6	$0.1
Net Income Attributable to Interface, Inc.	0.3	0.1	0.6	0.1

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

	Three Months Ended		Nine Months Ended	
	Oct. 3, 2010	Oct. 4, 2009	Oct. 3, 2010	Oct. 4, 2009
	(In thousands)			
Weighted Average Shares Outstanding	62,284	61,796	61,882	61,803

Participating Securities	1,741	1,394	1,741	1,394
Shares for Basic Earnings Per Share	64,025	63,190	63,623	63,197
Dilutive Effect of Stock Options	553	297	483	61
Shares for Diluted Earnings Per Share	64,578	63,487	64,106	63,258

For the quarters ended October 3, 2010, and October 4, 2009, options to purchase 389,000 and 292,000 shares of common stock, respectively, were not included in the computation of diluted earnings per share as their impact would be anti-dilutive. For the nine-month periods ended October 3, 2010 and October 4, 2009, options to purchase 404,000 and 1,358,000 shares of common stock, respectively, were not included in the computation of diluted earnings per share as their impact would be anti-dilutive.

NOTE 4 – SEGMENT INFORMATION

Based on the quantitative thresholds specified in applicable accounting standards, the Company has determined that it has two reportable segments: (1) the Modular Carpet segment, which includes its InterfaceFLOR, Heuga and FLOR modular carpet businesses, as well as its Intersept antimicrobial sales and licensing program, and (2) the Bentley Prince Street segment, which includes its Bentley Prince Street broadloom, modular carpet and area rug businesses. In 2007, the Company sold its former Fabrics Group business segment (see Note 9 for further information). Accordingly, the Company has included the operations of the former Fabrics Group business segment in discontinued operations.

The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2010, as filed with the Commission. Segment amounts disclosed are prior to any elimination entries made in consolidation, except in the case of net sales, where intercompany sales have been eliminated. The chief operating decision-maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of allocated corporate expenses, interest/other expense and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. The nine-month period ended October 4, 2009 includes $5.9 million of income at the corporate level from litigation settlements. Assets not identifiable to any individual segment are corporate assets, which are primarily comprised of cash and cash equivalents, short-term investments, intangible assets and intercompany amounts, which are eliminated in consolidation.

Segment Disclosures

Summary information by segment follows:

	Modular Carpet	Bentley Prince Street	Total
		(In thousands)	
Three Months Ended October 3, 2010			
Net Sales	$226,513	$ 26,211	$252,724
Depreciation and Amortization	4,251	538	4,789
Operating Income	29,450	45	29,495
Three Months Ended October 4, 2009			
Net Sales	$194,107	$ 24,257	$218,364
Depreciation and Amortization	4,534	586	5,120
Operating Income (Loss)	20,292	(1,024)	19,268

	Modular Carpet	Bentley Prince Street	Total
		(In thousands)	
Nine Months Ended October 3, 2010			
Net Sales	$623,215	$73,287	$696,502
Depreciation and Amortization	12,668	1,660	14,328
Operating Income (Loss)	72,004	(2,511)	69,493

Nine Months Ended October 4, 2009			
Net Sales	$557,127	$71,842	$628,969
Depreciation and Amortization	13,153	1,847	15,000
Operating Income (Loss)	44,442	(5,981)	38,461

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

	Three Months Ended		Nine Months Ended	
	Oct. 3, 2010	Oct. 4, 2009	Oct. 3, 2010	Oct. 4, 2009
	(In thousands)		(In thousands)	
DEPRECIATION AND AMORTIZATION				
Total segment depreciation and amortization	$4,789	$5,120	$14,328	$15,000
Corporate depreciation and amortization	1,562	1,691	4,925	3,856
Reported depreciation and amortization	$6,351	$6,811	$19,253	$18,856
OPERATING INCOME				
Total segment operating income	$29,495	$19,268	$69,493	$38,461
Corporate income, expenses and other reconciling amounts	(1,456)	(343)	(6,233)	4,403
Reported operating income	$28,039	$18,925	$63,260	$42,864

	Oct. 3, 2010	Jan. 3, 2010
ASSETS	(In thousands)	
Total segment assets	$605,210	$561,948
Discontinued operations	1,500	1,500
Corporate assets and eliminations	124,219	163,791
Reported total assets	$730,929	$727,239

NOTE 5 – LONG-TERM DEBT

11 3/8% Senior Secured Notes

On June 5, 2009, the Company completed an offering of $150 million aggregate principal amount of 11 3/8% Senior Secured Notes due 2013 (the “Senior Secured Notes”). Interest on the Senior Secured Notes is payable semi-annually on May 1 and November 1. The Senior Secured Notes are guaranteed, jointly and severally, on a senior secured basis by certain of the Company’s domestic subsidiaries. The Senior Secured Notes are secured by a second-priority lien on substantially all of the Company’s and certain of the Company’s domestic subsidiaries’ assets that secure the Company’s domestic revolving credit facility (discussed below) on a first-priority basis.

The Senior Secured Notes were sold at a price of 96.301% of their face value, resulting in $144.5 million of gross proceeds. The $5.5 million original issue discount is being amortized over the life of the notes through interest expense.

The Company may redeem all or a part of the Senior Secured Notes from time to time at a price equal to 100% of the principal amount plus a make-whole premium. Prior to May 1, 2012, the Company may redeem up to 35% of the Senior Secured Notes with cash proceeds from specified equity offerings at a price equal to 111.375% of the principal amount, plus accrued and unpaid interest, if any, to the date of redemption. As of October 3, 2010, the balance of the Senior Secured Notes outstanding, net of the remaining unamortized original issue discount, was approximately $146.1 million. The estimated fair value of the Senior Secured Notes as of October 3, 2010, based on then current market prices, was $171.8 million.

10.375% Senior Notes

On February 1, 2010, the Company repaid the remaining balance of $14.6 million of these notes at maturity.

9.5% Senior Subordinated Notes

As of October 3, 2010, the Company had outstanding $110.0 million in 9.5% Senior Subordinated Notes due 2014. The estimated fair value of the 9.5% Senior Subordinated Notes as of October 3, 2010, based on then current market prices, was $113.3 million. During the first quarter of 2010, the Company redeemed $25.0 million aggregate principal amount of these notes at a price equal to 103.167% of the face value of the notes. Accordingly, the premium paid in connection with this redemption was approximately $0.8 million. In addition, the Company wrote off the portion of the unamortized debt issuance costs related to the redeemed bonds, an amount equal to $0.3 million. These expenses are contained in the “Bond Retirement Expenses” line item in our consolidated condensed statements of operations.

Tender Offer

On November 3, 2010, the Company announced the commencement of a tender offer relating to all of its outstanding Senior Secured Notes and Senior Subordinated Notes and a solicitation of consents from the holders of the notes to amend the indentures governing the notes. The tender offer is scheduled to expire at 11:59 P.M., Eastern Time, on December 2, 2010, unless extended or earlier terminated, and the consent solicitation is scheduled to expire at 5:00 P.M., Eastern Time, on November 17, 2010, unless extended or earlier terminated.

Credit Facilities

The Company maintains a domestic revolving credit agreement (the “Facility”) that provides a maximum aggregate amount of $100 million of loans and letters of credit available to us at any one time (subject to a borrowing base) with an option for us to increase that maximum aggregate amount to $150 million (upon the satisfaction of certain conditions, and subject to a borrowing base). The Company is presently in compliance with all covenants under the Facility and anticipates that it will remain in compliance with the covenants for the foreseeable future. As of October 3, 2010, there were zero borrowings and $8.1 million in letters of credit outstanding under the Facility. As of October 3, 2010, the Company could have incurred $62.6 million of additional borrowings under the Facility.

Interface Europe B.V. (the Company’s modular carpet subsidiary based in the Netherlands) and certain of its subsidiaries maintain a Credit Agreement with ABN AMRO Bank N.V. Under this Credit Agreement, ABN AMRO provides a credit facility, until further notice, for borrowings and bank guarantees in varying aggregate amounts over time. As of October 3, 2010, there were no borrowings outstanding under this facility, and the Company could have incurred €20 million (approximately $27.3 million) of additional borrowings under the facility.

Other non-U.S. subsidiaries of the Company have an aggregate of the equivalent of $11.4 million of lines of credit available. As of October 3, 2010, there were no borrowings outstanding under these lines of credit.

NOTE 6 – STOCK-BASED COMPENSATION

Stock Option Awards

In accordance with accounting standards, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period in which the employee is required to provide the services – the requisite service period (usually the vesting period) – in exchange for the award. The grant date fair value for options and similar instruments will be estimated using option pricing models. Under applicable 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 stock compensation expense by the assumed forfeiture rate and will evaluate experience against this forfeiture rate going forward.

During the first nine months of 2010 and 2009, the Company recognized stock option compensation costs of $1.1 million and $1.0 million, respectively. In the third quarters of 2010 and 2009, the Company recognized stock option compensation costs of $0.4 million and $0.4 million, respectively. The remaining unrecognized compensation cost related to unvested stock option awards at October 3, 2010, approximated $1.6 million, and the weighted average period of time over which this cost will be recognized is approximately two years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants issued in the first nine months of fiscal years 2010 and 2009:

	Nine Months Ended Oct. 3, 2010		Nine Months Ended Oct. 4, 2009	
Risk free interest rate	2.09	%	1.6	%
Expected life	5.5 years		5.5 years	
Expected volatility	61	%	61	%
Expected dividend yield	0.3	%	2.6	%

The weighted average grant date fair value of stock options granted during the first nine months of fiscal 2010 was $6.79 per share.

The following table summarizes stock options outstanding as of October 3, 2010, as well as activity during the nine months then ended:

	Shares	Weighted Average Exercise Price
Outstanding at January 3, 2010	1,576,000	$5.75
Granted	239,000	12.43
Exercised	437,000	4.43
Forfeited or canceled	32,500	6.29
Outstanding at October 3, 2010	1,345,500	$7.19
Exercisable at October 3, 2010	592,000	$7.95

At October 3, 2010, the aggregate intrinsic value of in-the-money options outstanding and options exercisable was $10.0 million and $4.0 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).

Cash proceeds and intrinsic value related to total stock options exercised during the first nine months of fiscal years 2010 and 2009 are provided in the following table:

	Nine Months Ended	
	Oct. 3, 2010	Oct. 4, 2009
	(In millions)	
Proceeds from stock options exercised	$1.8	$0.1
Intrinsic value of stock options exercised	$3.9	$0.2

For the nine months ended October 3, 2010 and October 4, 2009, the Company recognized a tax benefit with regard to stock options of $0.2 million and $0.2 million, respectively.

Restricted Stock Awards

During the nine months ended October 3, 2010, and October 4, 2009, the Company granted restricted stock awards for 529,000 and 27,000 shares, respectively, of Class B common stock. These awards (or a portion thereof) vest with respect to each recipient over a two 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 upon the attainment of certain performance criteria, in the event of a change in control of the Company, or upon involuntary termination without cause.

Compensation expense related to restricted stock grants was $1.9 million and $1.5 million for the nine months ended October 3, 2010, and October 4, 2009, respectively. Accounting standards require that the Company estimate forfeitures for restricted stock and reduce compensation expense accordingly. The Company has reduced its expense by the assumed forfeiture rate and will evaluate experience against this forfeiture rate going forward.

The following table summarizes restricted stock activity as of October 3, 2010, and during the nine months then ended:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 3, 2010	1,394,000	$13.04
Granted	529,000	12.22
Vested	183,000	7.67
Forfeited or canceled	--	--
Outstanding at October 3, 2010	1,740,000	$12.22

As of October 3, 2010, the unrecognized total compensation cost related to unvested restricted stock was $13.8 million. That cost is expected to be recognized by the end of 2015.

For the nine months ended October 3, 2010 and October 4, 2009, the Company recognized a tax benefit with regard to restricted stock of $0.5 million and $0.1 million, respectively.

NOTE 7 – EMPLOYEE BENEFIT PLANS

The following tables provide the components of net periodic benefit cost for the three-month and nine-month periods ended October 3, 2010, and October 4, 2009, respectively:

	Three Months Ended		Nine Months Ended	
Defined Benefit Retirement Plan (Europe)	Oct. 3, 2010	Oct. 4, 2009	Oct. 3, 2010	Oct. 4, 2009
	(In thousands)		(In thousands)	
Service cost	$88	$584	$266	$1,655
Interest cost	2,715	2,786	8,094	7,921
Expected return on assets	(2,772)	(2,685)	(8,264)	(7,642)
Amortization of prior service costs	22	22	66	62
Recognized net actuarial (gains)/losses	413	466	1,226	1,326
Net periodic benefit cost	$466	$1,173	$1,388	$3,322

	Three Months Ended		Nine Months Ended	
Salary Continuation Plan (SCP)	Oct. 3, 2010	Oct. 4, 2009	Oct. 3, 2010	Oct. 4, 2009
	(In thousands)		(In thousands)	
Service cost	$86	$81	$257	$243
Interest cost	280	271	841	812
Amortization of transition obligation	55	55	164	164
Amortization of prior service cost	12	12	36	36
Amortization of loss	68	70	205	209
Net periodic benefit cost	$501	$489	$1,503	$1,464

NOTE 8 – RESTRUCTURING CHARGES

2010 Restructuring Charge

In the first quarter of 2010, the Company adopted a restructuring plan primarily related to workforce reduction in its European modular carpet operations. This reduction was in response to the continued challenging economic climate in that region. Smaller amounts were incurred in connection with restructuring activities in the Americas. A total of approximately 50 employees were affected by this restructuring plan. In connection with this plan, the Company recorded a pre-tax restructuring charge of $3.1 million. Substantially all of this charge involves cash expenditures, primarily severance expenses. It is anticipated that this restructuring plan will generate annual savings of approximately $3.2 million. Actions and expenses related to this plan were substantially completed in the first quarter of 2010.

A summary of these restructuring activities is presented below:

	Total Restructuring Charge	Costs Incurred in 2010	Balance at Oct. 3, 2010
		(In thousands)	
Workforce reduction	$3,131	$1,859	$1,272

The table below details these restructuring activities by segment:

	Modular Carpet	Bentley Prince Street	Corporate	Total
		(In thousands)		
Total amounts expected to be incurred	$2,951	$180	$--	$3,131
Cumulative amounts incurred to date	1,679	180	--	1,859
Total amounts incurred in the nine-month period ended October 3, 2010	1,679	180	--	1,859

2009 Restructuring Plan

In the first quarter of 2009, the Company adopted a restructuring plan, primarily comprised of a further reduction in the Company's worldwide employee base by a total of approximately 290 employees and continuing actions taken to better align fixed costs with demand for its products on a global level. In connection with the plan, the Company recorded a pre-tax restructuring charge of $5.7 million, comprised of $4.0 million of employee severance expense and $1.7 million of other exit costs (primarily costs to exit the Canadian manufacturing facilities, lease exit costs and other costs). Approximately $5.2 million of the restructuring charge involves cash expenditures, primarily severance expense. In the second quarter of 2009, the Company recorded an additional $1.9 million restructuring charge as a continuation of this plan. The charge in the second quarter of 2009 was due to approximately 80 additional employee reductions, and related entirely to employee severance expense.

A summary of these restructuring activities is presented below:

	Total Restructuring Charges	Costs Incurred in 2009	Costs Incurred In 2010	Balance at Oct. 3, 2010
		(In thousands)		
Facilities consolidation	$970	$970	$--	$--
Workforce reduction	5,873	3,920	1,671	282
Other charges	784	784	--	--
	$7,627	$5,674	$1,671	$282

The table below details these restructuring activities by segment:

	Modular Carpet	Bentley	Corporate	Total

		Prince Street		
		(In thousands)		
Total amounts expected to be incurred	$6,865	$762	$--	$7,627
Cumulative amounts incurred to date	6,583	762	--	7,345
Total amounts incurred in the nine-month period ended October 3, 2010	1,671	--	--	1,671

NOTE 9 – DISCONTINUED OPERATIONS

In 2007, the Company sold its Fabrics Group business segment. All activity related to this business has been included in discontinued operations. Assets and liabilities of this business segment have been reported in assets and liabilities held for sale for all reported periods.

Summary operating results for the above-described discontinued operations are as follows:

	Three Months Ended		Nine Months Ended	
	Oct. 3, 2010	Oct. 4, 2009	Oct. 3, 2010	Oct. 4, 2009
	(In thousands)		(In thousands)	
Net sales	$ --	$ --	$ --	$ --
Loss on operations before taxes on income	--	--	--	(1,000)
Tax benefit	--	--	--	350
Loss on operations, net of tax	--	--	--	(650)

The loss on operations for the nine months ended October 4, 2009 reflects charges taken to reduce the carrying value of long-lived assets to their approximate fair market value.

Assets and liabilities, including reserves, related to the above-described discontinued operations that were held for sale consist of the following:

	Oct. 3, 2010	Jan. 3, 2010
	(In thousands)	
Current assets	$--	$ --
Property and equipment	1,500	1,500
Other assets	--	--
Current liabilities	--	--
Other liabilities	--	--

NOTE 10 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest amounted to $21.2 million and $27.9 million for the nine months ended October 3, 2010, and October 4, 2009, respectively. Income tax payments amounted to $10.8 million and $14.4 million for the nine months ended October 3, 2010, and October 4, 2009, respectively.

NOTE 11 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") issued new accounting guidance to require additional fair value related disclosures. It also clarified existing fair value disclosure guidance about the level of disaggregation and about inputs and valuation techniques. This new guidance was effective for the first reporting period beginning after December 15, 2009 except for certain disclosure requirements effective for the first reporting period beginning after December 15, 2010. The adoption of this standard did not have any significant impact on the Company's consolidated financial statements.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. Specifically, the new standard requires an entity to allocate consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In the absence of vendor-specific objective evidence or third party evidence of the selling prices, consideration must be allocated to the deliverables based on management's best estimate of the selling prices. In addition, the new standard eliminates the use of the residual method of allocation. The standard will be effective for the Company in the first quarter of 2011. Early adoption is permitted. The Company is currently evaluating the impact, if any, that the adoption of this standard may have on its consolidated financial statements.

In June 2009, the FASB issued a new standard which changes the consolidation model for variable interest entities. This standard requires companies to qualitatively assess the determination of the primary beneficiary of a variable interest entity ("VIE") based on whether the company (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the company. The standard was effective for the Company as of January 4, 2010. The adoption of this standard did not have any significant impact on the Company's consolidated financial statements.

NOTE 12 – INCOME TAXES

Accounting standards require that all tax positions be analyzed using a two-step approach. The first step requires an entity to determine if a tax position is more-likely-than-not to be sustained upon examination. In the second step, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more-likely-than-not to be realized upon ultimate settlement. In the first nine months of 2010, the Company increased its liability for unrecognized tax benefits by $0.3 million. As of October 3, 2010, the Company had approximately $9.9 million accrued for unrecognized tax benefits.

NOTE 13 – DIVIDEND TO NON-CONTROLLING INTEREST PARTNER

In the third quarter of 2010, the Company's Thailand manufacturing joint venture paid dividends on a pro rata basis to its shareholders, including a dividend to the non-controlling interest partner in the joint venture. All operations, assets and liabilities of this joint venture are currently and have been previously consolidated by the Company. The dividend paid to the non-controlling interest partner was $7.9 million and had the effect of lowering the non-controlling interest in subsidiary balance as presented in the Company's balance sheet.

On November 3, 2010, the Company purchased the shares of the Thailand manufacturing joint venture that were held by the non-controlling interest partner for approximately $4.3 million. After this purchase, the Company now owns all of the shares of the Thailand venture.

NOTE 14 – SUPPLEMENTAL CONDENSED CONSOLIDATING GUARANTOR FINANCIAL STATEMENTS

The Guarantor Subsidiaries, which consist of the Company's principal domestic subsidiaries, are guarantors of the Company's 11 3/8% Senior Secured Notes due 2013 and its 9.5% Senior Subordinated Notes due 2014. These guarantees are full and unconditional. The Supplemental Guarantor Financial Statements are presented herein pursuant to requirements of the Commission.

INTERFACE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED OCTOBER 3, 2010

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION AND ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(IN THOUSANDS)		
Net sales	$448,398	$ 351,527	$ --	$ (103,423)	$ 696,502
Cost of sales	332,637	224,300	--	(103,423)	453,514
Gross profit on sales	115,761	127,227	--	--	242,988
Selling, general and administrative expenses	74,812	82,795	18,990	--	176,597
Restructuring charges	418	2,713	--	--	3,131
Operating income (loss)	40,531	41,719	(18,990)	--	63,260
Interest/Other expense	18,726	8,059	(431)	--	26,354
Bond retirement expenses	--	--	1,085	--	1,085
Income (loss) before taxes on income and equity in income of subsidiaries	21,805	33,660	(19,644)	--	35,821
Income tax expense (benefit)	8,559	13,069	(8,263)	--	13,365
Equity in income (loss) of subsidiaries	--	--	32,961	(32,961)	--
Income (loss) from continuing operations	13,246	20,591	21,580	(32,961)	22,456
Loss on discontinued operations, net of tax	--	--	--	--	--
Net income (loss)	13,246	20,591	21,580	(32,961)	22,456
Income attributable to non-controlling interest in subsidiary	--	(876)	--	--	(876)
Net income (loss) attributable to Interface, Inc.	$13,246	$ 19,715	$ 21,580	$ (32,961)	$ 21,580

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED OCTOBER 3, 2010

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION AND ELIMINATION ENTRIES	CONSOLIDATED TOTALS
	(IN THOUSANDS)				
Net sales	$174,146	$ 120,587	$ --	$ (42,009)	$ 252,724
Cost of sales	128,177	77,076	--	(42,009)	163,244
Gross profit on sales	45,969	43,511	--	--	89,480
Selling, general and administrative expenses	26,707	28,926	5,808	--	61,441
Restructuring charges	--	--	--	--	--
Operating income (loss)	19,262	14,585	(5,808)	--	28,039
Interest/Other expense	7,186	3,572	(1,886)	--	8,872
Income (loss) before taxes on income and equity in income of subsidiaries	12,076	11,013	(3,922)	--	19,167
Income tax expense (benefit)	4,360	3,881	(1,416)	--	6,825
Equity in income (loss) of subsidiaries	--	--	14,584	(14,584)	--
Income (loss) from continuing operations	7,716	7,132	12,078	(14,584)	12,342
Loss on discontinued operations, net of tax	--	--	--	--	--
Net income (loss)	7,716	7,132	12,078	(14,584)	12,342
Income attributable to non-controlling interest in subsidiary	--	(264)	--	--	(264)
Net income (loss) attributable to Interface, Inc.	$7,716	$ 6,868	$ 12,078	$ (14,584)	$ 12,078

CONDENSED CONSOLIDATING BALANCE SHEET

OCTOBER 3, 2010

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION AND ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(IN THOUSANDS)		
ASSETS					
Current Assets:					
Cash and cash equivalents	$234	$ 48,489	$ 32,131	$ --	$ 80,854
Accounts receivable	63,900	75,537	1,322	--	140,759
Inventories	66,816	66,958	--	--	133,774
Prepaids and deferred income taxes	8,695	17,304	7,903	--	33,902
Assets of business held for sale	--	1,500	--	--	1,500
Total current assets	139,645	209,788	41,356	--	390,789
Property and equipment less accumulated depreciation	75,169	85,645	5,279	--	166,093
Investment in subsidiaries	289,057	195,828	46,657	(531,542)	--
Goodwill	6,954	69,997	--	--	76,951
Other assets	8,576	13,145	75,375	--	97,096
	$519,401	$ 574,403	$ 168,667	$ (531,542)	$ 730,929
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:	$53,200	$ 88,358	$ 18,653	$ --	$ 160,211
Senior secured notes and senior subordinated notes	--	--	256,127	--	256,127
Deferred income taxes	1,615	10,455	(4,991)	--	7,079
Other	2,204	10,558	28,340	--	41,102
Total liabilities	57,019	109,371	298,129	--	464,519
Common stock	94,145	102,199	6,423	(196,344)	6,423
Additional paid-in capital	249,302	12,525	348,580	(261,827)	348,580
Retained earnings (deficit)	120,396	392,613	(475,933)	(72,263)	(35,187)
Foreign currency translation adjustment	(1,461)	(16,161)	(5,577)	(1,108)	(24,307)
Pension liability	--	(29,276)	(2,955)	--	(32,231)
Non-controlling interest in subsidiary	--	3,132	--	--	3,132
	$519,401	$ 574,403	$ 168,667	$ (531,542)	$ 730,929

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS
ENDED OCTOBER 3, 2010

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION AND ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(IN THOUSANDS)		
Net cash provided by (used in) operating activities	$20,008	$ 17,322	$ (9,290)	$ 3,564	$ 31,604
Cash flows from investing activities:					
Purchase of plant and equipment	(7,950)	(8,808)	(1,685)	--	(18,443)
Other	(98)	(61)	(1,657)	--	(1,816)
Net cash used for investing activities	(8,048)	(8,869)	(3,342)	--	(20,259)
Cash flows from financing activities:					
Repurchase of Senior and Senior Subordinated Notes	--	--	(39,586)	--	(39,586)
Other	(12,275)	4,812	11,027	(3,564)	--
Proceeds from issuance of common stock	--	--	1,803	--	1,803
Premiums paid to repurchase Senior and Senior Subordinated Notes	--	--	(792)	--	(792)
Dividends paid to Interface, Inc. shareholders	--	--	(1,435)	--	(1,435)
Dividends paid to joint venture partner	--	(7,904)	--	--	(7,904)
Net cash used in financing activities	(12,275)	(3,092)	(28,983)	(3,564)	(47,914)
Effect of exchange rate change on cash	4	2,056	--	--	2,060
Net increase (decrease) in cash	(311)	7,417	(41,615)	--	(34,509)
Cash at beginning of period	545	41,072	73,746	--	115,363
Cash at end of period	$234	$ 48,489	$ 32,131	$ --	$ 80,854

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

Our discussions below in this Item 2 are based upon the more detailed discussions about our business, operations and financial condition included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2010, under Item 7 of that Form 10-K. Our discussions here focus on our results during the quarter and nine months ended, or as of, October 3, 2010, and the comparable periods of 2009 for comparison purposes, and, to the extent applicable, any material changes from the information discussed in that Form 10-K or other important intervening developments or information since that time. These discussions should be read in conjunction with that Form 10-K for more detailed and background information.

Forward-Looking Statements

This report contains statements which may constitute "forward-looking statements" within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include risks and uncertainties associated with economic conditions in the commercial interiors industry as well as the risks and uncertainties discussed under the heading "Risk Factors" included in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2010, which discussion is hereby incorporated by reference. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

11 3/8% Senior Secured Notes

On June 5, 2009, we completed an offering of $150 million aggregate principal amount of 11 3/8% Senior Secured Notes due 2013 (the "Senior Secured Notes"). Interest on the Senior Secured Notes is payable semi-annually on May 1 and November 1. The Senior Secured Notes are guaranteed, jointly and severally, on a senior secured basis by certain of our domestic subsidiaries. The Senior Secured Notes are secured by a second-priority lien on substantially all of our and certain of our domestic subsidiaries' assets that secure our domestic revolving credit facility (discussed below) on a first-priority basis.

The Senior Secured Notes were sold at a price of 96.301% of their face value, resulting in $144.5 million of gross proceeds. The $5.5 million original issue discount is being amortized over the life of the notes through interest expense. After deducting the initial purchasers' discount and other fees and expenses associated with the sale, net proceeds were $139.5 million. We used $132.9 million of those net proceeds to repurchase $127.2 million aggregate principal amount of our 10.375% Senior Notes due 2010 pursuant to a tender offer we conducted. (Included in the $132.9 million used to repurchase the $127.2 million aggregate principal amount of 10.375% Senior Notes was a purchase price premium of $5.7 million). In addition, we used $4.5 million of the net proceeds to pay accrued interest on the $127.2 million aggregate principal amount of the 10.375% Senior Notes due 2010 that we repurchased. The remaining $2.1 million of the net proceeds was used to repay a portion of the 10.375% Senior Notes due 2010 that were fully repaid at maturity in February of 2010.

Partial Redemption of 9.5% Senior Subordinated Notes due 2014

In the first quarter of 2010, we redeemed $25 million aggregate principal amount of our 9.5% Senior Subordinated Notes (the "Senior Subordinated Notes") at a price equal to 103.167% of the face value of the notes, plus accrued interest to the redemption date.

Tender Offer

On November 3, 2010, we announced the commencement of a tender offer relating to all of our outstanding Senior Secured Notes and Senior Subordinated Notes and a solicitation of consents from the holders of the notes to amend the indentures governing the notes. The tender offer is scheduled to expire at 11:59 P.M., Eastern Time, on December 2, 2010, unless extended or earlier terminated, and the consent solicitation is scheduled to expire at 5:00 P.M., Eastern Time, on November 17, 2010, unless extended or earlier terminated.

Restructuring Plans

2010 Restructuring Plan

In the first quarter of 2010, we adopted a restructuring plan primarily related to workforce reduction in our European modular carpet operations. This reduction was in response to the continued challenging economic climate in that region. Smaller amounts were incurred in connection with restructuring activities in the Americas. A total of approximately 50 employees were affected by this restructuring plan. In connection with this plan, we recorded a pre-tax restructuring charge of $3.1 million. Substantially all of this charge involves cash expenditures, primarily severance expenses. It is anticipated that this restructuring plan will generate annual savings of approximately $3.2 million. Actions and expenses related to this plan were substantially completed in the first quarter of 2010.

2009 Restructuring Plan

In the first quarter of 2009, we adopted a restructuring plan, primarily comprised of a further reduction in our worldwide employee base by a total of approximately 290 employees and continuing actions taken to better align fixed costs with demand for our products on a global level. In connection with the plan, we recorded a pre-tax restructuring charge of $5.7 million, comprised of $4.0 million of employee severance expense and $1.7 million of other exit costs (primarily costs to exit the Canadian manufacturing facilities, lease exit costs and other costs). In the second quarter of 2009, we recorded an additional $1.9 million restructuring charge as a continuation of this plan. The charge in the second quarter of 2009 was due to approximately 80 additional employee reductions, and related entirely to employee severance expense. Actions and expenses related to this plan were substantially completed in the first six months of 2009.

Discontinued Operations

In 2007, we sold our Fabrics Group business segment. In accordance with applicable accounting standards, we have reported the results of operations for the former Fabrics Group business segment for all periods reflected herein, as “discontinued operations.” Consequently, our discussion of revenues or sales and other results of operations (except for net income or loss amounts), including percentages derived from or based on such amounts, excludes this discontinued operation unless we indicate otherwise.

Our discontinued operations had no net sales and a loss of $0.7 million in the nine-month period ended October 4, 2009 (these results are included in our statements of operations as part of the “Loss from Discontinued Operations, Net of Taxes”). Our discontinued operations had no net sales or income or loss in the three-month and nine-month periods ended October 3, 2010.

General

During the quarter ended October 3, 2010, we had net sales of $252.7 million, compared with net sales of $218.4 million in the third quarter last year. Fluctuations in currency exchange rates negatively impacted 2010 third quarter sales by 1% (approximately $2.5 million), compared with the prior year period. During the first nine months of fiscal 2010, we had net sales of $696.5 million, compared with net sales of $629.0 million in the first nine months of last year. Fluctuations in currency exchange rates positively impacted sales in the first nine months of 2010 by 2% (approximately $11 million), compared with the prior year period.

Included in our results for the nine months ended October 3, 2010 is $1.1 million of bond retirement expenses (comprised of $0.8 million of premiums and $0.3 million of write-offs of unamortized debt issuance costs) related to the partial redemption of our 9.5% Senior Subordinated Notes discussed above. Also included in the nine-month period ended October 3, 2010 is $3.1 million of restructuring charges, as described above.

Included in our results for the nine-month period ended October 4, 2009 is $6.1 million of costs related to the tender offer for our 10.375% Senior Notes in the second quarter of 2009. In addition, this nine-month period also includes income of $5.9 million related to settlements of litigation.

During the third quarter of 2010, we had net income attributable to Interface, Inc. of $12.1 million, or $0.19 per diluted share, compared with net income attributable to Interface, Inc. of $5.5 million, or $0.9 per diluted share, in the third quarter last year. Income from continuing operations in the third quarter of 2010 was $12.3 million, or $0.19 per diluted share, compared with income from continuing operations of $5.7 million, or $0.09 per diluted share, in the third quarter of 2009.

During the nine months ended October 3, 2010, we had net income attributable to Interface, Inc. of $21.6 million, or $0.34 per diluted share, compared with net income attributable to Interface, Inc. of $5.0 million, or $0.08 per diluted share, in the first nine months of last year. Income from continuing operations was $22.5 million, or $0.34 per diluted share, in the nine months ended October 3, 2010, compared with income from continuing operations of $6.1 million, or $0.09 per diluted share, in the first nine months of 2009.

Results of Operations

The following table presents, as a percentage of net sales, certain items included in our Consolidated Condensed Statements of Operations for the three-month and nine-month periods ended October 3, 2010, and October 4, 2009, respectively:

	Three Months Ended				Nine Months Ended			
	Oct. 3, 2010		Oct. 4, 2009		Oct. 3, 2010		Oct. 4, 2009	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales	64.6		66.8		65.1		67.5	
Gross profit on sales	35.4		33.2		34.9		32.5	
Selling, general and administrative expenses	24.3		24.5		25.4		25.5	
Income from litigation settlements	--		--		--		(0.9	)
Restructuring charge	--		--		0.4		1.2	
Operating income	11.1		8.7		9.1		6.8	
Bond retirement expenses	--		--		0.2		1.0	
Interest/Other expenses	3.5		4.4		3.8		4.0	
Income from continuing operations before tax expense	7.6		4.2		5.1		1.9	
Income tax expense	2.7		1.6		1.9		0.9	
Income from continuing operations	4.9		2.6		3.2		1.0	
Discontinued operations, net of tax	--		--		--		0.1	
Net income	4.9		2.6		3.2		0.9	
Net income attributable to Interface, Inc.	4.8		2.5		3.1		0.8	

Below we provide information regarding net sales for each of our operating segments, and analyze those results for the three-month and nine-month periods ended October 3, 2010, and October 4, 2009, respectively.

Net Sales by Business Segment

Net sales by operating segment and for our company as a whole were as follows for the three-month and nine-month periods ended October 3, 2010, and October 4, 2009, respectively:

	Three Months Ended	Percentage

Net Sales By Segment	Oct. 3, 2010	Oct. 4, 2009	Change
	(In thousands)		
Modular Carpet	$ 226,513	$ 194,107	16.7 %
Bentley Prince Street	26,211	24,257	8.1 %
Total	$ 252,724	$ 218,364	15.7 %

	Nine Months Ended		Percentage
Net Sales By Segment	Oct. 3, 2010	Oct. 4, 2009	Change
	(In thousands)		
Modular Carpet	$ 623,215	$ 557,127	11.9 %
Bentley Prince Street	73,287	71,842	2.0 %
Total	$ 696,502	$ 628,969	10.7 %

Modular Carpet Segment. For the quarter ended October 3, 2010, net sales for the Modular Carpet segment increased $32.4 million (16.7%) versus the comparable period in 2009. On a geographic basis, we experienced increases in net sales in the Americas, Europe and Asia-Pacific (up 12%, 11% and 49%, respectively) for the quarter ended October 3, 2010, versus the comparable period in 2009. (The sales increase in Europe in local currency was 22%.) These increases are primarily attributable to the improving economic climates in those regions. Sales growth in the Americas is attributable to the improving corporate office market segment (up 29%) as well as the success of our end market diversification strategy. With the exception of retail market segment (down 20%), all non-office markets in the Americas saw growth in the quarter. The sales increase in Europe was led by the corporate office (up 13% in U.S. dollars and 25% in local currency) and government (up 10% in U.S. dollars and 22% in local currency) market segments. These increases in Europe were offset somewhat by a decline in the healthcare market segment (down 47% in U.S. dollars and 42% in local currency). The sales growth in Asia-Pacific was due primarily to the strength in the corporate office market (up 38%) and education market segment (up over 100%). With the exception of the hospitality market segment (down 22%), all Asia-Pacific market segments saw increases in the period.

Our new modular carpet plant in China is currently under construction and we expect it to become fully operational during the fourth quarter of 2010.

For the nine months ended October 3, 2010, net sales for the Modular Carpet segment increased $66.1 million (11.9%) versus the comparable period in 2009. On a geographic basis, we experienced increases in net sales in the Americas, Europe and Asia-Pacific (up 10%, 1% and 51%, respectively) for the nine months ended October 3, 2010, versus the comparable period in 2009. (The sales increase in Europe in local currency was 5%.) These increases are primarily attributable to the improving economic climates in those regions. Sales growth in the Americas is due to the continued recovery in the corporate office market (up 24%) as well as increases in the education (up 4%) and hospitality (up 21%) market segments. These increases were somewhat offset by a decline in the retail market segment (down 8%). The sales increase in Europe was led by the corporate office (up 1% in U.S. dollars and 5% in local currency), retail (up 19% in U.S. dollars and 25% in local currency) and hospitality (up 18% in U.S. dollars and 22% in local currency) market segments. These increases were mitigated by declines in the government (down 3% in U.S. dollars, up 2% in local currency) and healthcare (down 34% in U.S. dollars and 31% in local currency) market segments. The sales growth in Asia-Pacific was across all market segments.

Bentley Prince Street Segment. In our Bentley Prince Street segment, net sales for the quarter ended October 3, 2010 increased $2.0 million (8.1%) versus the comparable period in 2009. The increase was due to the strength of the corporate office (up 12%) and government (up 27%) market segments. These increases were somewhat offset by declines in the healthcare (down 51%) and residential (down 30%) market segments.

For the nine months ended October 3, 2010, net sales for the Bentley Prince Street segment increased $1.4 million (2.0%) versus the comparable period in 2009. During this period, Bentley Prince Street saw increases in the government (up 41%) and corporate office (up 6%) market segments and decreases in the healthcare (down 30%) and residential (down 58%) market segments.

Costs and Expenses

Company Consolidated. The following table presents, on a consolidated basis for our operations, our overall cost of sales and selling, general and administrative expenses for the three-month and nine-month periods ended October 3, 2010, and October 4, 2009, respectively:

Cost and Expenses	Three Months Ended Oct. 3, 2010	Oct. 4, 2009	Percentage Change
	(In thousands)		
Cost of sales	$ 163,244	$ 145,952	11.8 %
Selling, general and administrative expenses	61,441	53,487	14.9 %
Total	$ 224,685	$ 199,439	12.7 %