INTERFACE INC
Form 10-Q
August 09, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For Quarterly Period Ended July 1, 2007

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 x No o

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer 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 x

Shares outstanding of each of the registrant's classes of common stock at August 3, 2007:

Class	Number of Shares
Class A Common Stock, $.10 par value per share	55,057,381
Class B Common Stock, $.10 par value per share	6,486,843

INTERFACE, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	JULY 1, 2007 (UNAUDITED)	DECEMBER 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 89,346	$ 109,157
Accounts Receivable, net	152,034	143,025
Inventories	128,446	112,293
Prepaid and Other Expenses	21,069	21,805
Deferred Income Taxes	6,940	6,829
Assets of Business Held for Sale	92,194	158,322
TOTAL CURRENT ASSETS	490,029	551,431
PROPERTY AND EQUIPMENT, less accumulated depreciation	146,608	134,631
DEFERRED TAX ASSET	77,176	65,841
GOODWILL	137,133	135,610
OTHER ASSETS	48,157	40,827
TOTAL ASSETS	$ 899,103	$ 928,340
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 55,310	$ 49,542
Accrued Expenses	102,488	98,702
Current Portion of Long-Term Debt	79,235	--
Liabilities of Business Held for Sale	22,506	22,934
TOTAL CURRENT LIABILITIES	259,539	171,178
LONG-TERM DEBT, less current maturities	8,765	--
SENIOR NOTES	175,000	276,365
SENIOR SUBORDINATED NOTES	135,000	135,000
DEFERRED INCOME TAXES	8,196	2,058
OTHER	65,211	63,839
TOTAL LIABILITIES	$ 651,711	$ 648,440
Minority Interest	6,493	5,506
Commitments and Contingencies		
SHAREHOLDERS' EQUITY:		
Preferred Stock	--	--
Common Stock	6,146	6,066
Additional Paid-In Capital	329,799	323,132
Retained Earnings (Deficit)	(41,493)	5,217
	(6,654)	(12,847)

Accumulated Other Comprehensive Income - Foreign Currency Translation Adjustment				
Accumulated Other Comprehensive Income - Pension Liability		(46,899)		(47,174)
TOTAL SHAREHOLDERS' EQUITY		240,899		274,394
	$	899,103	$	928,340

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 1, 2007	**JULY 2, 2006**	**JULY 1, 2007**	**JULY 2, 2006**
NET SALES	$ 264,962	$ 223,184	$ 508,454	$ 421,318
Cost of Sales	172,737	147,476	333,001	277,686
GROSS PROFIT ON SALES	92,225	75,708	175,453	143,632
Selling, General and Administrative Expenses	61,332	51,617	118,379	99,455
Loss on Disposition - Specialty Products	--	--	1,873	--
OPERATING INCOME	30,893	24,091	55,201	44,177
Interest Expense	9,161	10,936	18,281	22,168
Other Expense	612	445	1,035	718
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	21,120	12,710	35,885	21,291
Income Tax Expense	7,797	4,234	13,493	7,386
Income from Continuing Operations	13,323	8,476	22,392	13,905
Loss from Discontinued Operations, Net of Tax	(12,325)	(868)	(62,010)	(23,385)
Loss on Disposal of Discontinued Operations, Net of Tax	--	(1,723)	--	(1,723)
NET INCOME (LOSS)	$ 998	$ 5,885	$ (39,618)	$ (11,203)
Earnings (Loss) Per Share - Basic				
Continuing Operations	$ 0.22	$ 0.16	$ 0.37	$ 0.26
Discontinued Operations	(0.20)	(0.02)	(1.03)	(0.44)
Loss on Disposal of Discontinued Operations	--	(0.03)	--	(0.03)
Earnings (Loss) Per Share - Basic	$ 0.02	$ 0.11	$ (0.66)	$ (0.21)
Earnings (Loss) Per Share - Diluted				
Continuing Operations	$ 0.22	$ 0.15	$ 0.36	$ 0.25
Discontinued Operations	(0.20)	(0.01)	(1.00)	(0.43)
Loss on Disposal of Discontinued Operations	--	(0.03)	--	(0.03)
Earnings (Loss) Per Share - Diluted	$ 0.02	$ 0.11	$ (0.64)	$ (0.21)

Common Shares Outstanding - Basic	60,322	53,375	60,210	52,995
Common Shares Outstanding - Diluted	61,571	54,996	61,435	54,548

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 1, 2007	**JULY 2, 2006**	**JULY 1, 2007**	**JULY 2, 2006**
Net Income (Loss)	$ 998	$ 5,885	$ (39,618)	$ (11,203)
Other Comprehensive Income, Foreign Currency Translation Adjustment and Pension Liability Adjustment	2,795	9,694	6,468	11,471
Comprehensive Income (Loss)	$ 3,793	$ 15,579	$ (33,150)	$ 268

See accompanying notes to consolidated condensed financial statements.

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

(IN THOUSANDS)

	SIX MONTHS ENDED	
	JULY 1, 2007	**JULY 2, 2006**
OPERATING ACTIVITIES:		
Net loss	$ (39,618)	$ (11,203)
Loss from discontinued operations	62,010	25,108
Income from continuing operations	22,392	13,905
Adjustments to reconcile income (loss) to cash used in operating activities:		
Loss on disposition of assets - Specialty Products	1,873	--
Depreciation and amortization	11,960	10,822
Deferred income taxes and other	(1,839)	(5,708)
Working capital changes:		
Accounts receivable	(7,949)	(8,893)
Inventories	(16,115)	(18,501)
Prepaid expenses	1,740	(3,068)
Accounts payable and accrued expenses	8,305	5,073
Cash provided by (used in) continuing operations	20,367	(6,370)
Cash provided by (used in) discontinued operations	3,188	(492)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	23,555	(6,862)
INVESTING ACTIVITIES:		
Capital expenditures	(17,947)	(14,267)
Other	(7,163)	(3,973)
Cash used in investing activities of continuing operations	(25,110)	(18,240)
Cash provided by (used in) discontinued operations	(6,015)	27,028
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:	(31,125)	8,788
FINANCING ACTIVITIES:		
Net borrowing of long-term debt	8,743	1,573
Repurchase of senior notes	(22,400)	(30,750)
Proceeds from issuance of common stock	2,773	5,650
Dividends paid	(2,450)	--
Debt issuance costs	--	(679)
CASH USED IN FINANCING ACTIVITIES:	(13,334)	(24,206)
Net cash used in operating, investing and financing activities	(20,904)	(22,280)
Effect of exchange rate changes on cash	1,093	1,230

CASH AND CASH EQUIVALENTS:				
Net change during the period		(19,811)		(21,050)
Balance at beginning of period		109,157		47,275
Balance at end of period	$	89,346	$	26,225

See accompanying notes to consolidated condensed financial statements.

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

NOTE 1 - CONDENSED FOOTNOTES

As contemplated by the Securities and Exchange Commission (the "Commission") instructions to Form 10-Q, the following footnotes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to the Company's year-end financial statements and notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the Commission.

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, the financial information included in this report contains all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results for the interim periods. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The December 31, 2006, consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

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

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

NOTE 2 - SALE OF FABRICS GROUP BUSINESS SEGMENT

In the second quarter of 2007, the Company entered into an agreement to sell its Fabrics Group business segment to a third party. The sale was completed in the third quarter of 2007. The purchase price for the business segment was $70.0 million, subject to working capital and certain other adjustments. Of this $70.0 million, $6.5 million represents deferred compensation which would be remitted to the Company upon the achievement of certain performance criteria by the disposed segment over the next 18 months. At this time, the Company has determined that the receipt of this deferred amount is probable. As described below in Notes 9 and 11, the Company incurred impairment charges of approximately $61.9 million during the first six months of 2007 to reduce the carrying value of the business segment to fair value as represented by the purchase price. In the second quarter, the Company incurred approximately $3.6 million of direct costs to sell the business segment. The major classes of assets and liabilities related to the business segment at July 1, 2007, are accounts receivable of $16.7 million, inventory of $32.0 million, property, plant and equipment of $41.9 million, and accounts payable and accruals of $10.8 million.

In April 2006, subsequent to the end of the first quarter of 2006, the Company sold its European fabrics business for $28.8 million to an entity formed by the business’s management team. An impairment charge of $20.7 million was recorded in the first quarter of 2006 in connection with this sale. The major classes of assets and liabilities related to this disposal group included accounts receivable of $11.9 million, inventory of $11.4 million, property, plant and equipment of $9.5 million and accounts payable of $7.6 million. In the second quarter of 2006, the transaction resulted in a net loss on disposal of $1.7 million.

Current and prior periods have been restated to include the results of operations and related disposal costs, gains and losses for these businesses as discontinued operations. In addition, assets and liabilities of these businesses have been reported in assets and liabilities held for sale for both current and prior periods.

NOTE 3 - INVENTORIES

Inventories are summarized as follows:

	July 1, 2007	December 31, 2006
	(In thousands)	
Finished Goods	$ 73,536	$ 66,991
Work in Process	15,632	13,537
Raw Materials	39,278	31,765
	$ 128,446	$ 112,293

NOTE 4 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) to common shareholders by the weighted average number of shares of Class A and Class B Common Stock outstanding during the period. Shares issued or reacquired during the period have been weighted for the portion of the period that they were outstanding. Diluted earnings (loss) per share is calculated in a manner consistent with that of basic earnings (loss) per share while giving effect to all potentially dilutive common shares that were outstanding during the period. The computation of diluted earnings (loss) per share does not assume conversion or exercise of securities that would have an anti-dilutive effect on earnings (loss) per share. For the quarters ended April 1, 2007, and April 2, 2006, outstanding options to purchase 50,000 and 45,000 shares of common stock, respectively, were not included in the computation of diluted earnings per share as their impact would be anti-dilutive. For the six months ended July 1, 2007 and July 2, 2006, outstanding options to purchase 50,000 and 80,000 shares of common stock, respectively, were not included in the computation of diluted earnings per share as their impact would be anti-dilutive.

For the Three-Month Period Ended	**Net Income**	**Average Shares Outstanding**	**Earnings Per Share**
	(In Thousands Except Per Share Amounts)		
July 1, 2007	$ 998	60,322	$ 0.02
Effect of Dilution:			
Options & Restricted Stock	--	1,249	--
Diluted	$ 998	61,571	$ 0.02
July 2, 2006	$ 5,885	53,375	$ 0.11
Effect of Dilution:			
Options & Restricted Stock	--	1,621	--
Diluted	$ 5,885	54,966	$ 0.11

For the Six-Month Period Ended	**Net Income (Loss)**	**Average Shares Outstanding**	**Earnings (Loss) Per Share**
	(In Thousands Except Per Share Amounts)		
July 1, 2007	$ (39,618)	60,210	$ (0.66)
Effect of Dilution:			
Options & Restricted Stock	--	1,225	0.02
Diluted	$ (39,618)	61,435	$ (0.64)
July 2, 2006	$ (11,203)	52,995	$ (0.21)
Effect of Dilution:			
Options & Restricted Stock	--	1,553	--
Diluted	$ (11,203)	54,548	$ (0.21)

NOTE 5 - SEGMENT INFORMATION

Based on the quantitative thresholds specified in Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company has determined that it has three

reportable segments: (1) the Modular Carpet segment, which includes its InterfaceFLOR, Heuga and FLOR modular carpet businesses, as well as its Intersept antimicrobial sales and licensing program, (2) the Bentley Prince Street segment, which includes its Bentley Prince Street broadloom, modular carpet and area rug businesses, and (3) the Specialty Products segment, which includes Pandel, Inc., a producer of vinyl carpet tile backing and specialty mat and foam products. The majority of the operations of the Specialty Products segment were sold on March 7, 2007. See Note 12 for further information. In June of 2007, the Company entered into an agreement to sell its former Fabrics Group business segment, and has included the operations of this segment in discontinued operations as of July 1, 2007. The sale was completed in the third quarter of 2007. See Note 2 for further information. The former segment known as the Re:Source Network, which primarily encompassed the Company's owned Re:Source dealers that provided carpet installation and maintenance services in the United States, is also reported as discontinued operations in the accompanying consolidated condensed statements of operations.

The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the Commission. Segment amounts disclosed are prior to any elimination entries made in consolidation, except in the case of net sales, where intercompany sales have been eliminated. The chief operating decision maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of allocated corporate expenses, interest/other expense and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. Assets not identifiable to any individual segment are corporate assets, which are primarily comprised of cash and cash equivalents, short-term investments, intangible assets and intercompany amounts, which are eliminated in consolidation.

Segment Disclosures

Summary information by segment follows:

	Modular Carpet	Bentley Prince Street	Specialty Products	Total
		(In thousands)		
Three Months Ended July 1, 2007				
Net sales	$ 225,523	$ 39,439	$ --	$ 264,962
Depreciation and amortization	3,635	467	--	4,102
Operating income	31,619	2,035	--	33,654
Three Months Ended July 2, 2006				
Net sales	$ 186,475	$ 33,932	$ 2,777	$ 223,184
Depreciation and amortization	4,123	603	19	4,745
Operating income (loss)	23,634	1,704	(29)	25,039

	Modular Carpet	Bentley Prince Street	Specialty Products	Total
		(In thousands)		
Six Months Ended July 1, 2007				
Net sales	$ 430,777	$ 75,485	$ 2,192	$ 508,454
Depreciation and amortization	7,179	933	12	8,124
Operating income (loss)	58,381	2,967	(1,733)	59,615
Six Months Ended July 2, 2006				
Net sales	$ 352,358	$ 63,032	$ 5,928	$ 421,318
Depreciation and amortization	7,396	911	37	8,344
Operating income	44,309	2,217	14	46,540

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

	Three Months Ended		**Six Months Ended**	
	July 1, 2007	**July 2, 2006**	**July 1, 2007**	**July 2, 2006**
	(In thousands)		**(In thousands)**	
DEPRECIATION AND AMORTIZATION				
Total segment depreciation and amortization	$ 4,102	$ 4,745	$ 8,124	$ 8,344

Corporate depreciation and amortization	1,404	571	3,836	2,478
Reported depreciation and amortization	$ 5,506	$ 5,316	$ 11,960	$ 10,822
OPERATING INCOME				
Total segment operating income	$ 33,654	$ 25,039	$ 59,615	$ 46,540
Corporate expenses and other reconciling amounts	(2,761)	(948)	(4,414)	(2,363)
Reported operating income	$ 30,893	$ 24,091	$ 55,201	$ 44,177

	July 1, 2007	December 31, 2006
ASSETS	(In thousands)	
Total segment assets	$ 635,210	$ 604,207
Discontinued operations	92,194	158,322
Corporate assets and eliminations	171,699	165,811
Reported total assets	$ 899,103	$ 928,340

NOTE 6 - LONG-TERM DEBT

On June 30, 2006, the Company amended and restated its domestic revolving credit facility. Under the amended credit facility, the maximum aggregate amount of loans and letters of credit available to the Company at any one time was increased from $100 million to $125 million, subject to a borrowing base limitation. The amended credit facility matures on June 30, 2011. The facility includes a domestic U.S. Dollar syndicated loan and letter of credit facility up to the lesser of (1) $125 million, or (2) a borrowing base equal to the sum of specified percentages of eligible property and equipment, accounts receivable, finished goods inventory and raw materials inventory in the U.S. (the percentages and eligibility requirements for the borrowing base are specified in the credit facility), less certain reserves. The previous facility included a multicurrency syndicated loan and letter of credit facility in British pounds, which has been removed from the amended facility.

Interest on borrowings and letters of credit under the amended credit facility is charged at varying rates computed by applying a margin (ranging from 0.0-2.25%) over a baseline rate (such as the prime interest rate or LIBOR), depending on the type of borrowing and our average excess borrowing availability during the most recently completed fiscal quarter. In addition, the Company pays an unused line fee on the facility ranging from 0.25-0.375%, depending on our average excess borrowing availability during the most recently completed fiscal quarter. The facility is secured by substantially all of the assets of Interface, Inc. and its domestic subsidiaries (subject to exceptions for certain immaterial subsidiaries), including all of the stock of its domestic subsidiaries and up to 65% of the stock of its first-tier material foreign subsidiaries. Those collateral documents provide that, if an event of default occurs under the facility, the lenders' collateral agent may, upon the request of the specified percentage of lenders, exercise remedies with respect to the collateral that include foreclosing mortgages on the Company's real estate assets, taking possession of or selling its personal property assets, collecting its accounts receivable, or exercising proxies to take control of the pledged stock of its domestic and first-tier material foreign subsidiaries.

Under the amended credit facility, our negative covenants have been relaxed in several respects, including with respect to the repayment of our other indebtedness and the payment of dividends and limiting their application to Interface, Inc. and its domestic subsidiaries. Additionally, the financial covenants have been amended to delete the senior secured debt coverage ratio and to modify the terms of the sole remaining financial covenant, a fixed charge coverage test. The Company is currently in compliance under the facility and anticipates that it will remain in compliance with the covenants.

As of July 1, 2007, there were zero borrowings and $10.0 million in letters of credit outstanding under the amended facility. As of July 1, 2007, the Company could have incurred $62.7 million of additional borrowings under the facility. The available borrowing limit has been adjusted for the sale of the Fabrics Group business segment, considered probable as of the end of the second quarter 2007.

On March 9, 2007, Interface Europe B.V. (the Company's modular carpet subsidiary based in the Netherlands) and certain of its subsidiaries entered into a Credit Agreement with ABN AMRO Bank N.V. Under the Credit Agreement, ABN AMRO provides a credit facility for borrowings and bank guarantees in varying aggregate amounts over time as

follows:

Time Period	Maximum Amount in Euros *(in millions)*
January 1, 2007 - April 30, 2007	20
May 1, 2007 - September 30, 2007	26
October 1, 2007 - April 30, 2008	15
May 1, 2008 - September 30, 2008	21
October 1, 2008 - April 30, 2009	10
May 1, 2009 - September 30, 2009	16
From October 1, 2009	5

Interest on borrowings under this European facility is charged at varying rates computed by applying a margin of 1% over ABN AMRO's Euro base rate (consisting of the leading refinancing rate as determined from time to time by the European Central Bank plus a debit interest surcharge), which base rate is subject to a minimum of 3.5% per annum. Fees on bank guarantees and documentary letters of credit are charged at a rate of 1% per annum or part thereof on the maximum amount and for the maximum duration of each guarantee or documentary letter of credit issued. An unused line fee of 0.5% per annum is payable with respect to any undrawn portion of the facility. The facility is secured by liens on certain real, personal and intangible property of the Company's principal European subsidiaries. The facility also includes various financial covenants (which require the borrowers to maintain a minimum interest coverage ratio, total debt/EBITDA ratio, and tangible net worth/total assets) and affirmative and negative covenants, and other provisions that restrict the borrowers' ability to take certain actions. As of July 1, 2007, there were approximately €6.7 million (approximately $8.8 million) in borrowings outstanding under this facility, at an approximate rate of interest of 5.75%.

As of July 1, 2007, the estimated fair values (based on then-current market prices) of the 9.5% Senior Subordinated Notes due 2014, the 10.375% Senior Notes due 2010 and the 7.3% Senior Notes due 2008 were $145.5 million, $188.1 million and $86.7 million, respectively.

NOTE 7 - STOCK-BASED COMPENSATION

Stock Option Awards

In the first quarter of fiscal 2006, the Company adopted SFAS No. 123R, "Share-Based Payments," which revises SFAS No. 123, "Accounting for Stock-Based Compensation." This standard requires that the Company measure 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 SFAS No. 123R, the Company is required to select a valuation technique or option pricing model that meets the criteria as stated in the standard, which includes a binomial model and the Black-Scholes model. The Company has elected to use the Black-Scholes model. The adoption of SFAS No. 123R, applying the "modified prospective method," as elected by the Company, requires the Company to value stock options prior to its adoption of SFAS No. 123R under the fair value method and expense these amounts over the remaining vesting period of the stock options. SFAS No. 123R requires 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 six months of 2007 and 2006, the Company recognized stock option compensation costs of $0.2 million in each period. In each of the second quarters of fiscal years 2007 and 2006, the Company recognized stock

option compensation costs of $0.1 million. The remaining unrecognized compensation cost related to unvested awards at July 1, 2007, approximated $0.4 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 six months of fiscal years 2007 and 2006:

	Six Months Ended July 1, 2007	Six Months Ended July 2, 2006
Risk free interest rate	4.73%	4.57%
Expected life	3.25 years	3.11 years
Expected volatility	60%	60%
Expected dividend yield	0.51%	0%

The weighted average grant date fair value of stock options granted during the first six months of fiscal 2007 was $6.99 per share.

The following table summarizes stock options outstanding as of July 1, 2007, as well as activity during the six months then ended:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	1,759,000	$ 6.07
Granted	30,000	15.66
Exercised	518,000	6.35
Forfeited or canceled	19,000	10.44
Outstanding at July 1, 2007 (a)	1,252,000	$ 6.20
Exercisable at July 1, 2007 (b)	1,064,000	$ 5.73

(a) At July 1, 2007, the weighted-average remaining contractual life of options outstanding was 3.3 years.
(b) At July 1, 2007, the weighted-average remaining contractual life of options exercisable was 3.1 years.

At July 1, 2007, the aggregate intrinsic value of options outstanding and options exercisable was $15.2 million and $13.4 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 six months of fiscal years 2007 and 2006 are provided in the following table:

	Six Months Ended	
	July 1, 2007	July 2, 2006
	(In thousands)	
Proceeds from stock options exercised	$ 2,773	$ 5,650
Intrinsic value of stock options exercised	$ 5,772	$ 6,780

Restricted Stock Awards

During the six months ended July 1, 2007, and July 2, 2006, the Company granted restricted stock awards for 277,000 and 394,000 shares, respectively, of Class B common stock. These awards (or a portion thereof) vest with respect to each recipient over a three 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 $3.6 million and $1.6 million for the six months ended July 1, 2007, and July 2, 2006, respectively. SFAS No. 123R requires 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 July 1, 2007, and during the six months then ended:

	Shares	Weighted Average Grant Date Fair Value	
Outstanding at December 31, 2006	1,311,000	$	8.00
Granted	277,000	$	15.00
Vested	620,000	$	8.59
Forfeited or canceled	1,500		8.64
Outstanding at July 1, 2007	966,500	$	9.56

As of July 1, 2007, the unrecognized total compensation cost related to unvested restricted stock was $5.9 million. That cost is expected to be recognized by the end of 2011.

As stated above, SFAS No. 123R requires the Company to estimate forfeitures in calculating the expense relating to stock-based compensation, as opposed to only recognizing these forfeitures and the corresponding reduction in expense as they occur. In prior years, the Company did not estimate the forfeitures of its restricted stock as the expense was recorded. In accordance with the standard, the Company is required to record a cumulative effect of the change in accounting principle to reduce previously recognized compensation for awards not expected to vest (i.e., forfeited or canceled awards). Upon adoption of SFAS No. 123R in the first quarter of 2006, the Company adjusted for this cumulative effect and recognized a reduction in stock-based compensation, which was recorded within the selling, general and administrative expense on the Company's consolidated condensed statement of operations. The adjustment was not recorded as a cumulative effect adjustment, net of tax, because the amount was not material to the consolidated condensed statement of operations.

NOTE 8 - EMPLOYEE BENEFIT PLANS

The following tables provide the components of net periodic benefit cost for the three-month and six-month periods ended July 1, 2007, and July 2, 2006, respectively:

Defined Benefit Retirement Plan (Europe)	**Three Months Ended**				**Six Months Ended**			
		July 1, 2007		**July 2, 2006**		**July 1, 2007**		**July 2, 2006**
	(In thousands)				**(In thousands)**			
Service cost	$	718	$	458	$	1,430	$	904
Interest cost		3,073		2,418		6,118		4,772
Expected return on assets		(3,259)		(2,721)		(6,489)		(5,372)
Amortization of prior service costs		--		--		--		--
Recognized net actuarial (gains)/losses		695		482		1,385		951
Amortization of transition obligation		29		13		57		26
Net periodic benefit cost	$	1,256	$	650	$	2,501	$	1,281

Salary Continuation Plan (SCP)	**Three Months Ended**		**Six Months Ended**	
	July 1, 2007	**July 2, 2006**	**July 1, 2007**	**July 2, 2006**

	(In thousands)		(In thousands)	
Service cost	$ 66	$ 67	$ 132	$ 134
Interest cost	224	212	448	425
Amortization of transition obligation	55	55	110	110
Amortization of prior service cost	12	12	24	24
Amortization of (gain)/loss	72	80	144	160
Net periodic benefit cost	$ 429	$ 426	$ 858	$ 853

NOTE 9 - DISCONTINUED OPERATIONS

As discussed above in Note 2, in the second quarter of 2007, the Company committed to a plan to exit its Fabrics Group business segment, and in the third quarter of 2007, the Company completed the sale. Therefore, the results for the Fabrics Group business segment have been reported as discontinued operations. In connection with this action, the Company also recorded write-downs for the impairment of assets and goodwill of $17.4 million and $44.5 million, respectively, in the first six months of 2007. In connection with the sale, the Company recorded the aforementioned impairments to reduce the carrying value of the business segment to its fair value as of July 1, 2007. In the second quarter of 2007, the Company recorded approximately $3.8 million of direct costs to sell the business segment which had been incurred through the end of the quarter. At this time, the Company also expects to incur approximately $6.0 million of additional costs in connection with the sale of the business segment. These costs are expected to be incurred before the end of 2007.

In 2004, the Company committed to a plan to exit its owned Re:Source dealer businesses and began to dispose of several of the dealer subsidiaries. Therefore, the results for the owned Re:Source dealer businesses, as well as the Company's small Australian dealer and small residential fabrics businesses that management also decided to exit, are reported as discontinued operations.

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

	Three Months Ended		Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(In thousands)		(In thousands)	
Net sales	$ 35,906	$ 35,494		