

2000 FINANCIAL SUMMARY

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This report contains statements which may constitute "forward-looking statements" under applicable securities laws, including statements regarding the intent, belief or current expectations of Interface, Inc. (the "Company") and members of its management team, as well as the assumptions on which such statements are based. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those contemplated by such forward-looking statements. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements are set forth in the Safe Harbor Compliance Statement for Forward-Looking Statements included as Exhibit 99.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, and are hereby incorporated by reference. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

GENERAL

For 2000, the Company had net sales and net income of \$1.284 billion and \$17.3 million, respectively. Net sales were made up of sales of floorcovering products (primarily modular and broadloom carpet) and related services (\$951.7 million), interior fabrics sales (\$252.7 million) and raised/access flooring and other specialty product sales (\$79.6 million), accounting for 74.1%, 19.7% and 6.2% of total sales, respectively. The Company achieved a compound annual growth rate in its net sales and net income, excluding restructuring charges, of 5.1% and 3.8%, respectively, over the five-year period from 1996 to 2000.

The Company's business, as well as the commercial interiors market in general, is somewhat cyclical in nature. The Company's financial performance in recent years has been strongly tied to U.S. demand for its products and services. The commercial interiors market as a whole and the broadloom carpet market, in particular, experienced decreased demand levels during 1999, which continued into the first quarter of 2000. A significant sustained downturn in the market could impair the Company's growth.

The Company's growth could also be impaired by international developments. Specifically, the weakening of the euro against the U.S. dollar has adversely affected the translation of European revenue levels to U.S. dollars during 1999 and 2000.

During 2000, the Company recorded a pre-tax restructuring charge of \$21.0 million. The charge reflects: (i) the integration of the U.S. broadloom operations; (ii) the consolidation of certain administrative, manufacturing, and back-office functions; (iii) the divestiture of certain non-strategic Re:Source service network operations; and (iv) the abandonment of manufacturing equipment utilized in the production of discontinued product lines. The foregoing resulted in an aggregate headcount reduction in the U.S. and Europe of 425 people. The restructuring charge is comprised of \$12.8 million of cash expenditures for severance benefits and relocation costs and \$8.2 million of non-cash charges, primarily for the write-down of impaired assets. The Company substantially completed the restructuring by year end. The restructuring is expected to yield annual cost savings of approximately \$15 million; however, the amount of any actual costs savings could be affected by the factors discussed under the headings "Cyclical Nature of Industry" and "Risks of Foreign Operations," in particular, in Exhibit 99.1. Further discussion on the restructuring charge appears in the notes to the consolidated financial statements on page 51.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table presents, as a percentage of net sales, certain items included in the Company's consolidated statements of income.

	Fiscal Year Ended		
	2000	1999	1998
Net sales	100.0%	100.0%	100.0%
Cost of sales	69.8	68.9	66.2
Gross profit on sales	30.2	31.1	33.8
Selling, general and administrative expenses	23.2	24.8	24.8
Restructuring charge	1.6	.1	2.0
Operating income	5.4	6.2	7.0
Other expense	3.1	3.1	3.2
Income before taxes on income	2.3	3.1	3.8
Taxes on income	1.0	1.2	1.5
Net income	1.3	1.9	2.3

Fiscal 2000 Compared With Fiscal 1999

The Company's net sales increased \$55.7 million (4.5%) compared with 1999. The increase is attributable primarily to increased sales volume within (i) the Company's interior fabrics segment as a result of the acquisition of certain assets of the Chatham Manufacturing division of CMI Industries, Inc.; (ii) the Company's modular floorcovering business in the U.S., Europe and Asia; and (iii) the Company's architectural products division in the U.S. These increases were somewhat offset by (i) decreased sales volume in the Company's broadloom operations in the U.S. and Europe; (ii) the planned reduction of sales volume in the Company's Re:Source service network as it focuses on profitability; and (iii) the decline in value of the euro against the U.S. dollar.

Cost of sales as a percentage of net sales increased to 69.8% in 2000 compared to 68.9% in 1999.

The increase was attributable to (i) increased raw material prices, (ii) manufacturing inefficiencies in our U.S. and European broadloom operations, and (iii) the increase in the relative sales by the Company's architectural products division and Chatham operations, which historically have had lower gross profit margins than the Company's other product sales.

Selling, general and administrative expenses as a percentage of net sales declined to 23.2% in 2000 from 24.8% in 1999. The decrease was attributable to (i) the Company's cost reduction efforts through the introduction of the shared services approach in the Americas, and (ii) the inclusion of recently acquired companies which have historically had lower SG&A costs as a percentage of sales.

Other expense increased \$.7 million in 2000 compared to 1999, due primarily to the non-recurring gain realized in 1999 as a result of the divestiture of certain operating assets of the Company.

The effective tax rate was 42.0% for 2000, compared to 38.0% in 1999. The increase in the effective rate was primarily due to the write-off of certain non-deductible amounts as part of the restructuring charge taken in the first quarter of 2000, and lower pre-tax income in 2000.

As a result of the aforementioned factors, excluding the restructuring charge, the Company's net income increased 38% to \$31.8 million in 2000 versus \$23.5 million in 1999. Further discussion of the restructuring charge appears in the notes to the consolidated financial statements on page 52.

Fiscal 1999 Compared With Fiscal 1998

The Company's net sales decreased \$52.9 million (4.1%) compared with 1998. The decrease was attributable primarily to (i) the divestiture of Joseph Hamilton & Seaton, Ltd., a U.K. wholesale distributor,

(ii) decreased sales volume of products and related services in the Company's broadloom floorcovering operations, due to soft market conditions, and (iii) the weakness of the euro against the U.S. dollar. These decreases were offset somewhat by increased sales volume at (i) the Company's Asia-Pacific division due mostly to the economic recovery in Asia and (ii) the Company's architectural products division.

Cost of sales as a percentage of net sales increased to 68.9% in 1999 compared to 66.2% in 1998. The increase was attributable to (i) lower sales volumes which caused a lower absorption of overhead costs, and (ii) a shift in sales mix towards a greater service component, which traditionally has had lower gross margins.

Selling, general and administrative expenses as a percentage of net sales were 24.8% in 1999, unchanged from 1998 despite lower sales in 1999. The Company's improved cost containment measures worldwide were offset by costs associated with the integration of the Re:Source service network and expenses associated with the separation of certain senior officers from Interface Americas.

Other expense decreased \$2.1 million in 1999, due primarily to immaterial gains achieved as a result of the divestiture of certain operating assets of the Company.

The effective tax rate was 38.0% for 1999, compared to 39.3% in 1998. The decrease in the effective rate was primarily due to the shift in pre-tax income levels to geographic regions which traditionally have lower statutory tax rates.

As a result of the aforementioned factors, the Company's net income decreased 21.1% to \$23.5 million in 1999 versus \$29.8 million in 1998.

During the fourth quarter of 1998, the Company recorded a pre-tax restructuring charge in the amount of \$25.3 million related to plant closures and consolidations of operations in Asia, Europe and the U.S., which resulted in an aggregate head count reduction of approximately 253 salaried and hourly employees and the write-down and disposal of certain assets.

During 1999, the restructuring activities were largely completed. Further discussion of the restructuring charge appears in the notes to the consolidated financial statements on page 53.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of cash over the last three fiscal years have been funds provided by operating activities, proceeds from the issuance (net of repurchases) of Common Stock, and proceeds from additional long-term debt. In 2000, operating activities generated \$71.4 million of cash compared with \$71.1 million and \$71.9 million in 1999 and 1998, respectively.

The primary uses of cash during the last three fiscal years have been (i) acquisitions of businesses, (ii) additions to property and equipment at the Company's manufacturing facilities, (iii) cash dividends, (iv) expenditures related to the Company's share repurchase program, and (v) repayments on debt and lines of credit. For the three years ended December 31, 2000, acquisitions of businesses (net of dispositions) required \$91.6 million, the aggregate additions to property and equipment required cash expenditures of \$113.0 million, dividends required \$27.2 million, share repurchases required \$20.0 million and repayments on debt and lines of credit required \$691.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company has in effect a share repurchase program, pursuant to which it is authorized to repurchase up to 4,000,000 shares of Class A Common Stock in the open market. As of December 31, 2000, the Company had repurchased an aggregate of 2,794,813 shares of Class A Common Stock under this program, at prices ranging from \$3.41 to \$16.78.

At the end of fiscal 2000, the Company estimated capital expenditure requirements for 2001 of approximately \$30 million and had purchase commitments of approximately \$9.5 million for 2001. Management believes that cash provided by operations and long-term loan commitments will provide adequate funds for current commitments and other requirements in the foreseeable future.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

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

Interest Rate Market Risk Exposure

Changes in interest rates affect the interest paid on certain of the Company's debt. To mitigate the impact of fluctuations in interest rates, management of the Company has developed and implemented a policy to maintain the percentage of fixed and variable rate debt within certain parameters. The Company currently maintains 65% and 35% of its total long-term debt in fixed and variable interest rates, respectively.

Foreign Currency Exchange Market Risk Exposure

A significant portion of the Company's operations consists of manufacturing and sales activities in foreign jurisdictions. The Company manufactures its products in the U.S., Canada, England, Northern Ireland, the Netherlands, Australia and Thailand, and sells its products in more than 100 countries. As a result, the Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company distributes its products. The Company's operating results are exposed to changes in exchange rates between the U.S. dollar and many other currencies, including the British pound sterling, Canadian dollar, Australian dollar, Thai baht, Japanese yen, and the euro. When the U.S. dollar strengthens against a foreign currency, the value of anticipated sales in those currencies decreases, and vice-versa. Additionally, to the extent the Company's foreign operations with functional currencies other than the U.S. dollar transact business in countries other than the U.S., exchange rate changes between two foreign currencies could ultimately impact the Company. Finally, because the Company reports in U.S. dollars on a consolidated basis, foreign currency exchange fluctuations can have a translation impact on the Company's financial position.

The Company had no outstanding agreements to hedge fluctuations in interest or foreign currency exchange rates as of December 31, 2000. The Company believes that, at this time, such hedges are not necessary. During 1998, the Company restructured its borrowing facilities which provided for multicurrency loan agreements resulting in the Company's ability to borrow funds in the countries in which the funds are expected to be utilized. Further, the advent of the euro has provided additional currency stability within the Company's European markets. As such, these events have provided the Company natural hedges on currency fluctuations. Interest rate management swap agreements have also become unnecessary given the structure of the Company's unsecured \$300 million revolving credit facility, which charges interest at varying rates based on the Company's ability to meet certain performance criteria.

At December 31, 2000, the Company recognized a \$19.3 million decrease in its foreign currency translation adjustment account compared to January 2, 2000, because of the weakening of certain currencies against the U.S. dollar. The decrease was associated primarily with the Company's investments in certain foreign subsidiaries located within the U.K. and continental Europe.

Sensitivity Analysis

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

To perform sensitivity analysis, the Company assesses the risk of loss in fair values associated with the impact of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments. The market value of instruments affected

by interest rate and foreign currency exchange rate risk is computed based on the present value of future cash flows as impacted by the changes in the rates attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest and foreign currency exchange rates in effect at December 31, 2000. The values that result from these computations are then compared with the market values of the financial instruments. The differences are the hypothetical gains or losses associated with each type of risk.

Interest Rate Risk

Based on a hypothetical immediate 150 basis point increase in interest rates, with all other variables held constant, the market value of the Company's fixed rate long-term debt would be impacted by a net decrease of \$14.6 million. Conversely, a 150 basis point decrease in interest rates would result in a net increase in the market value of the Company's fixed rate long-term debt of \$15.2 million.

Foreign Currency Exchange Rate Risk

As of December 31, 2000, a 10% decrease or increase in the levels of foreign currency exchange rates against the U.S. dollar, with all other variables held constant, would result in a decrease in the fair value of the Company's financial instruments of \$7.5 million or an increase in the fair value of the Company's financial instruments of \$7.4 million. As the impact of offsetting changes in the fair market value of the Company's net foreign investments is not included in the sensitivity model, these results are not indicative of the Company's actual exposure to foreign currency exchange risk.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Interpretation No. 44 clarifies the application of APB No. 25 to the definition of an employee for purposes of applying APB No. 25, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequences of various modifications to the terms of a previously fixed stock option or award and the accounting for an exchange of stock compensation awards in a business combination. This interpretation did not have a material impact on the Company's consolidated financial statements.

Pursuant to the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," the Company has reviewed its accounting policies for the recognition of revenue. SAB No. 101 was required to be implemented in fourth quarter 2000. SAB No. 101 provides guidance on applying generally accepted accounting principles to revenue recognition in financial statements. The Company's policies for revenue recognition are consistent with the views expressed within SAB No. 101.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes new accounting and reporting standards for derivative financial instruments and for hedging activities. SFAS 133 requires an entity to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the entity's rights or obligations under the applicable derivative contract. The Company will designate

each derivative as belonging to one of several possible categories, based on the intended use of the derivative. The recognition of changes in the fair value of a derivative that affects the income statement will depend on the intended use of the derivative. If the derivative does not qualify as a hedging instrument, the gain or loss on the derivative will be recognized currently in earnings. If the derivative qualifies for special hedge accounting, the gain or loss on the derivative will either (i) be recognized in income along with an offsetting adjustment to the basis of the item being hedged or (ii) be deferred in other comprehensive income and reclassified to earnings in the same period or periods which the hedged transaction affects. SFAS 137 delayed the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, Amendment of SFAS 133," liberalized the application of SFAS 133 in a number of areas. The Company adopted the new standards on January 1, 2001, and does not expect the new standards to have a significant impact on its results of operations or financial position.

Effective January 1, 2001, the Company adopted SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of SFAS 125." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities and revises the accounting standards for securitizations and transfers of financial assets and collateral. Management does not expect the adoption to have a material effect on the Company's results of operations and financial position. This standard also required new disclosures in 2000. Such requirements were not applicable to the Company.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Year Ended		
(in thousands, except share data)	2000	1999	1998
Net sales	\$1,283,948	\$1,228,239	\$1,281,129
Cost of sales	895,944	846,124	847,660
Gross profit on sales	388,004	382,115	433,469
Selling, general and administrative expenses	297,948	304,553	318,495
Restructuring charges	21,047	1,131	25,283
Operating income	69,009	76,431	89,691
Other expense			
Interest expense	38,500	39,372	36,705
Other	670	(914)	3,875
Total other expense	39,170	38,458	40,580
Income before taxes on income	29,839	37,973	49,111
Taxes on income	12,518	14,428	19,288
Net income	17,321	23,545	29,823
Earnings per common share			
Basic	\$ 0.34	\$ 0.45	\$ 0.58
Diluted	\$ 0.34	\$ 0.45	\$ 0.56

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Fiscal Year Ended		
(in thousands)	2000	1999	1998
Net income	\$17,321	\$23,545	\$29,823
Other comprehensive income			
Foreign currency translation adjustment	(19,281)	(22,003)	(3,513)
Minimum pension liability adjustment	—	6,399	(6,399)
Comprehensive income (loss)	\$ (1,960)	\$ 7,941	\$19,911

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(in thousands)	2000	1999
Assets		
Current		
Cash	\$ 7,861	\$ 2,548
Accounts receivable	204,886	203,550
Inventories	198,063	176,918
Prepaid expenses	22,765	27,845
Deferred income taxes	13,533	9,917
Total current assets	447,108	420,778
Property and equipment	258,245	253,436
Miscellaneous	64,840	75,509
Excess of cost over net assets acquired	264,656	278,772
	\$1,034,849	\$1,028,495
Liabilities and Shareholders' Equity		
Current liabilities		
Notes payable	\$ —	\$ 4,173
Accounts payable	97,874	90,318
Accrued expenses	107,467	107,287
Current maturities of long-term debt	808	1,974
Total current liabilities	206,149	203,752
Long-term debt, less current maturities	146,550	125,144
Senior notes	150,000	150,000
Senior subordinated notes	125,000	125,000
Deferred income taxes	29,551	33,395
Total liabilities	657,250	637,291
Minority interest	5,164	2,012
Shareholders' equity		
Preferred stock	—	—
Common stock	5,831	5,902
Additional paid-in capital	218,261	222,373
Retained earnings	241,400	233,322
Foreign currency translation adjustment	(72,952)	(53,671)
Treasury stock, 7,493 and 7,300 shares, respectively	(20,105)	(18,734)
Total shareholders' equity	372,435	389,192
	\$1,034,849	\$1,028,495

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
(in thousands)	2000	1999	1998
Operating Activities			
Net income	\$ 17,321	\$ 23,545	\$ 29,823
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	50,625	45,789	42,586
Restructuring charges	8,210	—	12,265
Deferred income taxes	(7,209)	3,950	(8,362)
Working capital changes			
Accounts receivable	3,160	(15,954)	4,972
Inventories	(9,172)	16,559	(21,296)
Prepaid expenses	3,272	(2,314)	3,235
Accounts payable and accrued expenses	5,225	(509)	8,677
	71,432	71,066	71,900
Investing Activities			
Capital expenditures	(30,495)	(37,278)	(45,227)
Net proceeds from dispositions/cash paid for acquisitions of businesses	(29,872)	9,826	(71,504)
Other	(10,876)	(24,393)	(16,485)
	(71,243)	(51,845)	(133,216)
Financing Activities			
Borrowings on long-term debt	211,323	148,900	198,080
Principal repayments on long-term debt	(186,850)	(134,459)	(343,607)
Proceeds from issuance of senior notes	—	—	146,991
Expenditures under share repurchase program	(6,842)	(10,615)	(2,535)
Borrowings (repayments) under lines of credit	(4,173)	(22,115)	(684)
Proceeds from issuance of common stock	496	1,044	70,630
Dividends paid	(9,243)	(9,453)	(8,499)
	4,711	(26,698)	60,376
Net cash provided (used) by operating, investing, and financing activities	4,900	(7,477)	(940)
Effect of exchange rate changes on cash	413	115	638
Cash			
Net increase (decrease)	5,313	(7,362)	(302)
Balance, beginning of year	2,548	9,910	10,212
Balance, end of year	\$ 7,861	\$ 2,548	\$ 9,910

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a recognized leader in the worldwide commercial interiors market, offering floorcoverings, fabrics, specialty products and services. The Company manufactures modular and broadloom carpet focusing on the high quality, designer-oriented sector of the market, and provides specialized carpet replacement, installation, and maintenance services. The Company also produces interior fabrics and upholstery products. Additionally, the Company produces raised/access flooring systems; provides chemicals used in various rubber and plastic products; offers Intersept®, a proprietary antimicrobial used in a number of interior finishes; and sponsors the EnviroSense Consortium in its mission to address workplace environmental issues.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions are eliminated.

Use of Estimates

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

Inventories

Inventories are valued at the lower of cost (standards which approximate actual cost on a first-in, first-out basis) or market.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives: buildings and improvements—ten to fifty years; furniture and equipment—three to twelve years. Interest costs for the construction/development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Company capitalized net interest costs of approximately \$0.5 million, \$0.4 million, and \$1.0 million for the years ended 2000, 1999, and 1998, respectively. Depreciation expense amounted to approximately \$37.9 million, \$32.4 million, and \$31.9 million for the years ended 2000, 1999, and 1998, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flow is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Excess of Cost Over Net Assets Acquired

Excess of cost over net assets acquired is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Excess of cost over net assets acquired is amortized on a straight-line basis over the periods benefited, principally twenty-five to forty years. Accumulated amortization amounted to approximately \$78.5 million and \$69.1 million at December 31, 2000 and January 2, 2000, respectively.

The Company's operational policy for the assessment and measurement of any impairment in the value of excess of cost over net assets acquired, which is other than temporary, is to evaluate the recoverability and remaining life and determine whether it should be completely or partially written off or the amortization period accelerated. The Company will recognize an impairment if undiscounted estimated future operating cash flows of the acquired business are determined to be less than the carrying amount. The amount of impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

Taxes on Income

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

Revenue Recognition

Revenue is recognized on the sale of products or services when the products are shipped or the services are performed, all significant contractual obligations have been satisfied, and the collection of the resulting receivable is reasonably assured. Revenues and estimated profits on long-term performance contracts are recognized under the percentage of completion method of accounting using the cost-to-cost methodology. Profit estimates are revised

periodically based upon changes in facts. Any losses identified on contracts are recognized immediately.

Pursuant to the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," the Company has reviewed its accounting policies for the recognition of revenue. SAB No. 101 was required to be implemented in fourth quarter 2000. SAB No. 101 provides guidance on applying generally accepted accounting principles to revenue recognition in financial statements. The Company's policies for revenue recognition are consistent with the views expressed within SAB No. 101.

Cash, Cash Equivalents, and Short-Term Investments

Highly liquid investments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months and less than one year are classified as short-term investments.

At December 31, 2000 and January 2, 2000, checks issued against future deposits totaled approximately \$11.0 million and \$22.0 million, respectively. Cash payments for interest amounted to approximately \$41.4 million, \$36.6 million, and \$30.7 million, for the years ended 2000, 1999, and 1998, respectively. Income tax payments amounted to approximately \$11.8 million, \$6.1 million, and \$17.3 million, for the years ended 2000, 1999, and 1998, respectively.

Fair Values of Financial Instruments

Fair values of cash and cash equivalents, short-term investments and short-term debt approximate cost due to the short period of time to maturity. Fair values of long-term investments, debt, swaps, forward currency contracts and currency options are based on quoted market prices or pricing models using current market rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Translation of Foreign Currencies

The financial position and results of operations of the Company's foreign subsidiaries are measured generally using local currencies as the functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each year-end. Income and expense items are translated at average exchange rates for the year. The resulting translation adjustments are recorded in the foreign currency translation adjustment account. In the event of a divestiture of a foreign subsidiary, the related foreign currency translation results are reversed from equity to income. Foreign currency exchange gains and losses are included in income.

Derivative Financial Instruments

The Company uses various financial instruments, including derivative financial instruments, for purposes other than trading. The Company does not enter into derivative financial instruments for speculative purposes. Derivatives, used as a part of the Company's risk management strategy, are designated at inception as hedges, and are measured for effectiveness both at inception and on an ongoing basis. Gains and losses on hedges of existing assets or liabilities are included in the carrying amounts of those assets or liabilities and are ultimately recognized in income as part of those carrying amounts. Gains or losses related to qualifying hedges of firm commitments or anticipated transactions are also deferred and are recognized in income or as adjustments of carrying amounts when the hedged transaction occurs.

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes new accounting and reporting standards for derivative financial instruments and for hedging

activities. SFAS 133 requires an entity to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the entity's rights or obligations under the applicable derivative contract. The Company will designate each derivative as belonging to one of several possible categories, based on the intended use of the derivative. The recognition of changes in the fair value of a derivative that affects the income statement will depend on the intended use of the derivative. If the derivative does not qualify as a hedging instrument, the gain or loss on the derivative will be recognized currently in earnings. If the derivative qualifies for special hedge accounting, the gain or loss on the derivative will either (i) be recognized in income along with an offsetting adjustment to the basis of the item being hedged or (ii) be deferred in other comprehensive income and reclassified to earnings in the same period or periods which the hedged transaction affects. SFAS 137 delayed the effective date of SFAS 133 to fiscal years beginning after June 15, 2000. SFAS 138, "Accounting For Certain Derivative Instruments and Certain Hedging Activities, Amendment of SFAS 133," liberalized the application of SFAS 133 in a number of areas. The Company adopted the new standards on January 1, 2001, and does not expect the new standards to have a significant impact on its results of operations or financial position.

Fiscal Year

The Company's fiscal year is the 52 or 53 week period ending on the Sunday nearest December 31. All references herein to "2000," "1999," and "1998," mean the fiscal years ended December 31, 2000, January 2, 2000, and January 3, 1999, respectively. Fiscal years 2000 and 1999 were comprised of 52 weeks, while 1998 was comprised of 53 weeks.

Reclassifications

Certain reclassifications have been made to the 1999 and 1998 financial statements to conform to the 2000 presentation.

BUSINESS ACQUISITIONS AND DIVESTITURES

During May 2000, the Company acquired certain assets and assumed certain liabilities of the Chatham Manufacturing division of CMI Industries, Inc. ("Chatham") for a purchase price of \$25.0 million in cash and assumption of certain liabilities of approximately \$13.8 million. Chatham, located in Elkin, North Carolina, manufactures fabric for the furniture industry. This transaction has been accounted for as a purchase, and, accordingly, the results of operations of the acquired company since its acquisition date have been included within the consolidated financial statements of the Company.

As part of the Chatham acquisition, the Company engaged environmental consultants to review potential environmental liabilities at all Chatham properties. Based on their review, the environmental consultants recommended certain environmental remedial actions, including groundwater monitoring, and estimated the costs thereof. The Company is currently taking steps to implement the recommended actions at Chatham. Based upon the cost estimates provided by the environmental consultants, the Company believes that the estimated range of the net present value of reasonably predictable costs of groundwater monitoring and other remedial actions is between \$9.6 million and \$11.7 million. The Company believes that the net present value of the expense for the ongoing groundwater monitoring will be approximately \$3.3 million in the aggregate for the first ten years and \$1.8 million in the aggregate for the following twenty years. The Company believes that the net

present value of the cost of other remedial actions will be approximately \$5.5 million in the aggregate. At December 31, 2000, the Company has accrued approximately \$10.6 million, which represents the best estimate available of the net present value of these costs discounted at 6%.

The following table presents the expected undiscounted payments over the next five years and the aggregate amount thereafter associated with the liability at December 31, 2000:

Fiscal Year	(in thousands)
2001	\$ 1,744
2002	450
2003	462
2004	476
2005	490
Thereafter	9,192
	\$12,814
Amount representing interest	(2,259)
	\$10,555

Costs incurred during 2000 were insignificant. Actual costs incurred will depend upon numerous factors, including (i) the actual method and results of the remedial actions; (ii) the outcome of negotiations with regulatory authorities; (iii) changes in environmental laws and regulations; (iv) technological developments and advancements; and (v) the years of remedial activity required. Based on the information currently available, the Company does not expect that any unrecorded liability related to the above matters would materially affect the consolidated financial position or results of operations of the Company. Environmental accruals are routinely reviewed as events and developments warrant and are subjected to a comprehensive annual review.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2000, the Company acquired Teknit, Ltd., a United Kingdom company with a Michigan subsidiary, which manufactures three-dimensional knitted fabrics for the office furniture industry, for a purchase price of \$3.9 million in cash. This transaction has been accounted for as a purchase, and, accordingly, the results of operations of the acquired company since its acquisition date have been included within the consolidated financial statements. The purchase price exceeded the fair value of the net assets acquired by approximately \$3.7 million and is being amortized over 40 years.

During 2000, the Company sold a service company for approximately \$.9 million in cash and \$1.3 million in the form of a loan. The Company recognized the related immaterial gain associated with this divestiture within other expense in the consolidated statements of income.

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

During 1999, the Company purchased six service companies, all located in the U.S. As consideration for the acquisitions, the Company issued common stock valued at approximately \$.8 million and paid \$2.0 million in cash. All transactions have been accounted for as purchases, and, accordingly, the results of operations of the acquired companies since their acquisition dates have been included

within the consolidated financial statements. The aggregate purchase price exceeded the fair value of the net assets acquired by approximately \$1.2 million and is being amortized over 25 years.

RECEIVABLES

The Company, through a separate single purpose corporate entity, Interface Securitization Corporation ("ISC"), maintains an agreement with a financial institution to sell commercial receivables in amounts up to \$65 million. Cash proceeds from the sale and securitization of these receivables were \$51.0 million and \$41.6 million in 2000 and 1999, respectively. No significant gain or loss resulted from these transactions. The Company expects recourse amounts associated with the aforementioned sale and securitization activities to be minimal and has adequate reserves to cover potential losses. Prior to December 2000, the Company had a similar agreement with another financial institution and ISC. The uncollected receivables sold at December 31, 2000 and January 2, 2000 amounted to \$54.0 million and \$40.0 million, respectively. The assets of ISC are available first and foremost to satisfy the claims of its creditors.

Effective January 1, 2001, the Company adopted SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of SFAS No. 125." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities and revises the accounting standards for securitizations and transfers of financial assets and collateral. Management does not expect the adoption to have a material effect on the Company's results of operations and financial position. This standard also required new disclosures in 2000. Such requirements were not applicable to the Company.

The Company has adopted credit policies and standards intended to reduce the inherent risk associated with potential increases in its concentration of credit risk due to increasing trade receivables from sales to owners and users of commercial office facilities and with specifiers such as architects, engineers and contracting firms. Management believes that credit risks are further moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. As of December 31, 2000 and January 2, 2000, the allowance for bad debts amounted to approximately \$8.7 million and \$8.8 million, respectively, for all accounts receivable of the Company.

INVENTORIES

Inventories are summarized as follows:

(in thousands)	2000	1999
Finished goods	\$101,411	\$100,967
Work-in-process	40,939	29,057
Raw materials	55,713	46,894
	\$198,063	\$176,918

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(in thousands)	2000	1999
Land	\$ 13,677	\$ 14,652
Buildings	136,901	131,398
Equipment	339,507	316,870
Construction-in-progress	12,136	23,046
	502,221	485,966
Accumulated depreciation	(243,976)	(232,530)
	\$258,245	\$253,436

The estimated cost to complete construction-in-progress for which the Company was committed at December 31, 2000 was approximately \$9.5 million.

ACCRUED EXPENSES

Accrued expenses are summarized as follows:

(in thousands)	2000	1999
Taxes	\$ 9,305	\$ 5,723
Compensation	38,701	41,030
Interest	5,416	5,959
Environmental	10,555	—
Other	43,490	54,575
	\$107,467	\$107,287

BORROWINGS

Long-Term Debt

Long-term debt consisted of the following:

(in thousands)	Interest rate at Dec. 31, 2000	2000	1999
Revolving credit facilities			
U.S. dollar	7.7%	\$ 87,750	\$ 64,700
Japanese yen	1.3%	8,000	8,000
British pound sterling	6.7%	34,455	40,296
Euro	5.6%	6,660	2,517
Other	4.0–7.5%	10,493	11,605
Total long-term debt		147,358	127,118
Less current maturities		(808)	(1,974)
		\$146,550	\$125,144

The Company maintains an unsecured \$300 million revolving credit facility which matures June 30, 2003. Interest is charged at varying rates based on the Company's ability to meet certain performance criteria.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The facility requires prepayment from specified excess cash flows or proceeds from certain asset sales and maintenance of certain financial ratios, and governs the ability of the Company to, among other things, encumber assets and pay dividends. Long-term debt recorded in the accompanying balance sheets approximates fair value based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities.

Future maturities of long-term debt are based on fixed payments (amounts could be higher if excess cash flows or asset sales require prepayment of debt under the credit agreements). Annual maturities (in thousands of dollars) of long-term debt outstanding at December 31, 2000 are as follows: 2001—\$808; 2002—\$949; 2003—\$137,589; 2004—\$426; 2005—\$426; Thereafter—\$7,160.

7.3% Senior Notes

In April of 1998, the Company issued \$150 million in 7.3% Senior Notes due 2008. Interest is payable semi-annually on April 1 and October 1.

The Senior Notes are unsecured, senior subordinated notes and are guaranteed, jointly and severally, by certain of the Company's domestic subsidiaries. The Senior Notes are redeemable, in whole or in part, at the option of the Company, at any time or from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed or (ii) the sum of the present value of the remaining scheduled payments, discounted on a semi-annual basis at the treasury rate plus 50 basis points, plus, in the case of each of (i) and (ii) above, accrued interest to the date of redemption.

At December 31, 2000 and January 2, 2000, the estimated fair value of these notes based on then current market prices was approximately \$140.3 million and \$117.3 million, respectively.

9.5% Senior Subordinated Notes

The Company has outstanding \$125 million in 9.5% Senior Subordinated Notes due 2005. Interest is payable semi-annually on May 15 and November 15.

The Notes are guaranteed, jointly and severally, on an unsecured senior subordinated basis by certain of the Company's domestic subsidiaries. The Notes became redeemable for cash after November 15, 2000 at the Company's option, in whole or in part, initially at a redemption price equal to 104.75% of the principal amount, declining to 100% of the principal amount on November 15, 2003, plus accrued interest thereon to the date fixed for redemption. At December 31, 2000 and January 2, 2000, the estimated fair value of these notes based on then current market prices was approximately \$126.9 million and \$115.4 million, respectively.

PREFERRED STOCK

The Company is authorized to create and issue up to 5,000,000 shares of \$1.00 par value Preferred Stock in one or more series and to determine the rights and preferences of each series, to the extent permitted by the Articles of Incorporation, and to fix the terms of such preferred stock without any vote or action by the shareholders. The issuance of any series of preferred stock may have an adverse effect on the rights of holders of common stock and could decrease the amount of earnings and assets available for distribution to holders of common stock.

In addition, any issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of the Company.

Preferred Share Purchase Rights

The Company has previously issued one purchase right (a "Right") in respect of each outstanding share of Common Stock. Each Right entitles the registered holder to purchase from the Company one two-hundredth of a share (a "Unit") of Series B Participating Cumulative Preferred Stock (the "Series B Preferred Stock").

The Rights may have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that acquires (without the consent of the Company's Board of Directors) more than 15% of the outstanding shares of Common Stock or if other specified events occur without the Rights having been redeemed or in the event of an exchange of the Rights for Common Stock as permitted under the Shareholder Rights Plan.

The dividend and liquidation rights of the Series B Preferred Stock are designed so that the value of one one-hundredth of a share of Series B Preferred Stock issuable upon exercise of each Right will approximate the same economic value as one share of Common Stock, including voting rights. The exercise price per Right is \$90, subject to adjustment. Shares of Series B Preferred Stock will entitle the holder to a minimum preferential dividend of \$1.00 per share, but will entitle the holder to an aggregate dividend payment of 200 times the dividend declared on each share of Common Stock. In the event of liquidation, each share of Series B Preferred Stock

will be entitled to a minimum preferential liquidation payment of \$1.00, plus accrued and unpaid dividends and distributions thereon, but will be entitled to an aggregate payment of 200 times the payment made per share of Common Stock. In the event of any merger, consolidation or other transaction in which Common Stock is exchanged for or changed into other stock or securities, cash or other property, each share of Series B Preferred Stock will be entitled to receive 200 times the amount received per share of Common Stock. Series B Preferred Stock is not convertible into Common Stock.

Each share of Series B Preferred Stock will be entitled to 200 votes on all matters submitted to a vote of the shareholders of the Company, and shares of Series B Preferred Stock will generally vote together as one class with the Common Stock and any other voting capital stock of the Company on all matters submitted to a vote of the Company's shareholders. While the Company's Class B Common Stock remains outstanding, holders of Series B Preferred Stock will vote as a single class with the Class A Common Stockholders for election of directors.

Further, whenever dividends on the Series B Preferred Stock are in arrears in an amount equal to six quarterly payments, the Series B Preferred Stock, together with any other shares of preferred stock then entitled to elect directors, shall have the right, as a single class, to elect one director until the default has been cured. The Rights expire on March 15, 2008 unless extended or unless the Rights are earlier redeemed or exchanged by the Company.

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SHAREHOLDERS' EQUITY

Common Stock

The Company is authorized to issue 80 million shares of \$.10 par value Class A Common Stock and 40 million shares of \$.10 par value Class B Common Stock. Class A and Class B Common Stock have identical voting rights except for the election or removal of directors. Holders of Class B Common Stock are entitled as a class to elect a majority of the Board of Directors. Under the terms of the Class B Common Stock, its special voting rights to elect a majority of the Board members would terminate irrevocably if the total outstanding shares of Class B Common Stock ever comprises less than ten percent of the Company's total issued and outstanding shares of Class A and Class B Common Stock. On December 31, 2000, the outstanding Class B shares constituted approximately 14.0% of the total outstanding shares of Class A and Class B Common Stock. The Company's Class A Common Stock is traded in the over-the-counter market under the symbol IFSIA and is quoted on Nasdaq. The Company's Class B Common Stock is not publicly traded. Class B Common Stock is convertible into Class A Common Stock on a one-for-one basis. Both classes of Common Stock share in dividends available to common shareholders. Cash dividends on Common Stock were \$.18 per share for the years ended 2000 and 1999 and \$.165 per share for the year ended 1998.

Stock Split

On May 19, 1998, the shareholders of the Company approved an increase in the number of authorized shares of Class A Common Stock from 40 million to 80 million. The increase was necessary to affect a two-for-one stock split which was declared by the Board of Directors on June 15, 1998. Shareholders of record as of June 1, 1998 received one additional share for each share held. All references to share and per share data prior to the second quarter of 1998 have been restated to reflect this stock split. The table presented below reflects the actual share amounts outstanding for each period presented.

Stock Repurchase Program

During 1998, the Company adopted a share repurchase program, pursuant to which it was authorized to repurchase up to 2,000,000 shares of Class A Common Stock in the open market through May 19, 2000. During 2000, the authorized share repurchase amount was increased to 4,000,000 shares and the program was extended through May 19, 2002. During 2000, the Company repurchased 1,177,313 shares of Class A Common Stock under this program, at prices ranging from \$3.41 to \$8.94 per share. This is compared to the repurchase of 1,442,500 shares of Class A Common Stock at prices ranging from \$4.50 to \$9.94 per share during 1999 and the repurchase of 175,000 shares of Class A Common Stock at prices ranging from \$12.86 to \$16.78 during 1998. All treasury stock is accounted for using the cost method.

The following table shows changes in common shareholders' equity.

(in thousands)	Class A		Class B		Additional Paid-In Capital	Retained Earnings	Minimum Pension Liability	Foreign Currency Translation Adjustment
	Shares	Amount	Shares	Amount				
Balance, at December 28, 1997	24,986	\$2,499	2,769	\$277	\$161,584	\$197,906	\$ —	\$(28,155)
Net income	—	—	—	—	—	29,823	—	—
Conversion of common stock	333	33	(333)	(33)	—	—	—	—
Stock issuance under employee plans	677	68	—	—	5,107	—	—	—
Other issuances of common stock	1,343	134	367	36	68,237	—	—	—
Cash dividends paid	—	—	—	—	—	(8,499)	—	—
Minimum pension liability adjustment	—	—	—	—	—	—	(6,399)	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	(3,513)
Two-for-one stock split	26,881	2,688	2,811	281	(2,969)	—	—	—
Balance, at January 3, 1999	54,220	\$5,422	5,614	\$561	\$231,959	\$219,230	\$(6,399)	\$(31,668)
Net income	—	—	—	—	—	23,545	—	—
Conversion of common stock	(190)	(19)	190	19	—	—	—	—
Stock issuances and forfeitures under employee plans, inclusive of tax benefit of \$15	274	27	(402)	(40)	(2,498)	—	—	—
Other issuances of common stock	85	9	912	91	10,414	—	—	—
Cash dividends paid	—	—	—	—	—	(9,453)	—	—
Unamortized stock compensation related to restricted stock awards	—	—	—	—	(8,784)	—	—	—
Compensation expense related to restricted stock awards	—	—	—	—	1,070	—	—	—
Forfeiture and vesting of restricted stock awards	—	—	—	—	3,664	—	—	—
Retirement of treasury stock	(1,678)	(168)	—	—	(13,452)	—	—	—
Minimum pension liability adjustment	—	—	—	—	—	—	6,399	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	(22,003)
Balance, at January 2, 2000	52,711	\$5,271	6,314	\$631	\$222,373	\$233,322	\$ —	\$(53,671)

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

(in thousands)	Class A		Class B		Additional Paid-In Capital	Retained Earnings	Minimum Pension Liability	Foreign Currency Translation Adjustment
	Shares	Amount	Shares	Amount				
Balance, at January 2, 2000	52,711	\$5,271	6,314	\$631	\$222,373	\$233,322	\$ —	\$(53,671)
Net income	—	—	—	—	—	17,321	—	—
Conversion of common stock	(602)	(60)	602	60	—	—	—	—
Stock issuances under employee plans	56	6	25	3	581	—	—	—
Other issuances of common stock	33	3	162	16	787	—	—	—
Retirement of treasury stock	(984)	(99)	—	—	(5,363)	—	—	—
Cash dividends paid	—	—	—	—	—	(9,243)	—	—
Unamortized stock compensation expense related to restricted stock awards	—	—	—	—	(719)	—	—	—
Compensation expense related to restricted stock awards	—	—	—	—	602	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	(19,281)
Balance, at December 31, 2000	51,214	\$5,121	7,103	\$710	\$218,261	\$241,400	\$ —	\$(72,952)

Stock Options

The Company has an Omnibus Stock Incentive Plan (“Omnibus Plan”) under which a committee of the Board of Directors is authorized to grant directors and key employees, including officers, options to purchase the Company’s common stock. Options are exercisable for shares of Class A or Class B Common Stock at a price not less than 100% of the fair market value on the date of grant. The options generally become exercisable 20% per year over a five-year period from the date of the grant, and the options generally expire ten years from the date of the grant. An aggregate of 3,600,000 shares of Common Stock not previously authorized for issuance under any plan, plus the number of shares subject to outstanding stock options granted under predecessor plans minus the number of shares issued on or after the effective date pursuant to the exercise of such outstanding stock options granted under predecessor plans, were initially available to be issued under the Omnibus Plan.

The following tables summarize stock option activity under the Omnibus Plan and predecessor plans:

	Number of Shares	Weighted Average Exercise Price
Outstanding at Dec. 28, 1997	3,498,000	\$ 7.31
Granted	651,000	14.15
Exercised	(677,000)	6.70
Forfeited or canceled	(68,000)	6.81
Outstanding at Jan. 3, 1999	3,404,000	\$ 8.75
Granted	576,000	7.84
Exercised	(324,000)	6.20
Forfeited or canceled	(50,000)	15.26
Outstanding at Jan. 2, 2000	3,606,000	\$ 8.74
Granted	1,642,000	4.98
Exercised	(93,000)	6.36
Forfeited or canceled	(1,256,000)	10.97
Outstanding at Dec. 31, 2000	3,899,000	\$ 6.53
	Number of Shares	Weighted Average Exercise Price
Options exercisable		
December 31, 2000	1,732,000	\$ 7.30
January 2, 2000	1,916,000	\$ 7.63

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at Dec. 31, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Dec. 31, 2000	Average Exercise Price
\$ 3.69 – \$ 6.88	2,241,000	7.99	\$ 5.02	754,000	\$ 5.85
7.00 – 9.56	1,472,000	6.93	8.20	880,000	8.06
10.06 – 14.44	186,000	7.46	11.35	98,000	11.48
	3,899,000	7.57	\$ 6.53	1,732,000	\$ 7.30

The weighted average fair value of options, calculated using the Black-Scholes option-pricing model, granted during 2000 and 1999 is \$2.55 and \$2.12 per share, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation," but applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans. Compensation expense related to stock option plans described above was immaterial for 2000, 1999, and 1998.

If the Company had elected to recognize compensation cost based on the fair value at the grant dates for options issued under the plans described above, consistent with the method prescribed by SFAS 123, net income applicable to common shareholders and earnings per share would have been changed to the pro forma amounts indicated below:

(in thousands except share data)	Fiscal Year Ended		
	2000	1999	1998
Net income			
as reported	\$17,321	\$23,545	\$29,823
pro forma	15,295	22,185	28,366
Basic earnings per share			
as reported	\$ 0.34	\$ 0.45	\$ 0.58
pro forma	0.30	0.42	0.55
Diluted earnings per share			
as reported	\$ 0.34	\$ 0.45	\$ 0.56
pro forma	0.30	0.42	0.53

The fair value of stock options used to compute pro forma net income and earnings per share disclosures is the estimated present value at grant date using the Black-Scholes option pricing model with the following weighted average assumptions for 2000, 1999, and 1998: Dividend yield of 2.1% in 2000, 3.6% in 1999 and 1.9% in 1998; expected volatility of 40% in 2000, 31% in 1999 and 30% in 1998; a risk-free interest rate of 6.38% in 2000, 5.72% in 1999 and 5.46% in 1998; and an expected option life of 6.5 years in 2000 and 6.0 years in 1999 and 1998.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Interpretation No. 44 clarifies the application of APB No. 25 to the definition of an employee for purposes of applying APB No. 25, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequences of various modifications to the terms of a previously fixed stock option or award and the accounting for an exchange of stock compensation awards in a business combination. This interpretation did not have a material impact on the Company's consolidated financial statements.

Restricted Stock Awards

During fiscal years 2000, 1999 and 1998, restricted stock awards were granted for 161,514, 310,563 and 212,412 shares, respectively, of Class B Common Stock. These shares vest with respect to each employee after a nine-year period from the date of grant, provided the individual remains in the employment of the Company as of the vesting date. Additionally, these shares could vest upon the attainment of certain share performance criteria; in the event of a change in control of the Company; or, in the case of the 204,984 awards granted in 1997 that have neither vested nor been forfeited, upon involuntary termination. Compensation expense relating to these grants was approximately \$602,000, \$1,070,000 and \$760,000 during 2000, 1999, and 1998, respectively. During 2000 and 1999, shares were issued, and, as a result, unamortized stock compensation for the value of the awards was recorded as a reduction to additional paid-in capital. Due to severance agreements offered during 1999, 247,647 shares were forfeited and 210,538 shares became vested (of which 109,818 were repurchased by the Company). During 1998, 26,000 shares were canceled. At December 31,

2000 and January 2, 2000, stock awards for 625,176 and 463,662 shares of Class B Common Stock remained outstanding, respectively.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares of Class A and Class B Common Stock outstanding during each year. Shares issued during the year and shares reacquired during the year are weighted for the portion of the year that they were outstanding. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

The following is a reconciliation from basic earnings per share to diluted earnings per share for each of the last three years:

(in thousands, except earnings per share)	Net Income	Weighted Average Shares Outstanding	Earnings Per Share
2000			
Basic	\$17,321	50,558	\$.34
Effect of dilution: Stock options and awards		266	
Diluted	\$17,321	50,824	\$.34
1999			
Basic	\$23,545	52,562	\$.45
Effect of dilution: Stock options and awards		241	
Diluted	\$23,545	52,803	\$.45
1998			
Basic	\$29,823	51,808	\$.58
Effect of dilution: Stock options and awards		1,927	
Diluted	\$29,823	53,735	\$.56

In 2000 and 1999, 2,461,383 and 1,817,309 stock options, respectively, were excluded from the computation of diluted earnings per share due to their antidilutive effect.

RESTRUCTURING CHARGES

2000 Restructuring

During 2000, the Company recorded a pre-tax restructuring charge of \$21.0 million. The charge reflects: (i) the integration of the U.S. broadloom operations; (ii) the consolidation of certain administrative and back-office functions; (iii) the divestiture of certain non-strategic Re:Source Americas operations; and (iv) the abandonment of manufacturing equipment utilized in the production of discontinued product lines.

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

U.S.

Historically, the Company has operated two manufacturing facilities to produce its Bentley and Prince Street brands of broadloom carpet. These facilities, which were located in Cartersville, Georgia, and City of Industry, California, have recently been operating at less than full capacity. In the first quarter of 2000, the Company decided to integrate these two facilities to reduce excess capacity. As a result, the facility in Cartersville, Georgia, was closed and the manufacturing operations were relocated and integrated into the facility in City of Industry, California. A charge of \$4.1 million was recorded representing the cost of consolidating these facilities and the reduction of carrying value of the related property and equipment, inventories and other related assets. Additionally, the company recorded approximately \$4.6 million of termination benefits associated with the facility closure.

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Between 1996 and 1999 the Company created a distribution channel through the acquisition of twenty-nine service companies located throughout the U.S. Since that time two of these businesses have failed to achieve satisfactory operating income levels. During 2000, the Company elected to divest of these under-performing operations. As a result, a charge of approximately \$7.6 million was recorded representing the reduction of carrying value of the related property and equipment, impairment of intangible assets and other costs to close or dispose of these operations.

Europe

Recent economic developments in Europe necessitated an organizational re-alignment. During fiscal year 2000, the European operations were reorganized in order to adapt to these changes. As a result, certain manufacturing, selling and administrative positions were eliminated. The Company recorded approximately \$3.7 million of termination benefits related to this reorganization.

A summary of the restructuring activities which were planned as of April 2, 2000 is presented below:

(in thousands)	U.S.	Europe	Total
Termination benefits	\$ 4,637	\$3,732	\$ 8,369
Impairment of property, plant and equipment	1,750	—	1,750
Facilities consolidation	2,358	—	2,358
Divestiture of operations, including impairment of intangible assets	7,618	—	7,618
	\$16,363	\$3,732	\$20,095

The restructuring charge was comprised of \$11.9 million of cash expenditures for severance benefits and other costs and \$8.2 million of non-cash charges, primarily for the write-down of impaired assets.

The termination benefits of \$8.4 million, primarily related to severance costs, resulted from aggregate expected reductions of 175 employees. The staff reductions as originally planned were expected to be as follows:

	U.S.	Europe	Total
Manufacturing	63	21	84
Selling and administrative	59	32	91
	122	53	175

As a result of the restructuring, a total of 425 employees were terminated through December 31, 2000. There will not be any further terminations as a result of the restructuring. The charge for termination benefits and other costs to exit activities incurred during 2000 was reflected as a separately stated charge against operating income. During the fourth quarter of 2000 the Company recorded an additional charge of \$.95 million related to the terminations. The Company believes the remaining provisions are adequate to complete the plan.

The following table displays the components of the accrued restructuring liability for the period ended December 31, 2000:

Termination Benefits

(in thousands)	U.S.	Europe	Total
Balance, at April 2, 2000	\$ 4,637	\$3,732	\$ 8,369
Additional expense	952	—	952
Payments	(5,463)	(3,732)	(9,195)
Balance, at December 31, 2000	\$ 126	\$ —	\$ 126

Other Costs to Exit Activities

(in thousands)	U.S.	Europe	Total
Balance, at April 2, 2000	\$11,726	\$ —	\$11,726
Payments	(11,239)	—	(11,239)
Balance, at December 31, 2000	\$ 487	\$ —	\$ 487

1998 Restructuring

In the fourth quarter of 1998, the Company recorded a pre-tax restructuring charge of \$25.3 million. The charge was initiated in response to (i) the slow-down in the Asian economy coupled with the severe decline in value of most Asia/Pacific currencies; (ii) the Company's decision to exit the commodity-end products business in Japan; (iii) the implementation of the Company's shared services strategy in the U.K.; (iv) the closure of a fabrics manufacturing facility in North Carolina and a non-woven carpet manufacturing facility in the U.K.; and (v) the abandonment of manufacturing equipment utilized in the production of an abandoned product line within the Company's U.S. floorcovering operations. Specific elements of the restructuring activities, the related costs, and the current status of the plan are discussed below.

Floorcoverings

Asia/Pacific

In reaction to the economic slowdown in the Asia region, the severe decline in most Asia/Pacific currencies, the lack of demand for local production, and the exiting of the commodity-end products business in Japan, the Company decided to consolidate its floorcovering manufacturing operations. As a result, the Company decided to liquidate its Shanghai operation. Where possible, certain manu-

facturing assets were transferred to manufacturing locations in Thailand and Australia. During 1998, a charge in the amount of approximately \$7.2 million was recorded representing the reduction in carrying value of the manufacturing facility, related property and equipment, inventories, and other related assets. Pre-opening costs, intangible assets (including land rights), and other miscellaneous assets totaling approximately \$1.9 million were completely written off as future economic benefit was unlikely.

The Company had underachieved in Japan throughout the 1990s. Poor economic conditions had resulted in an eroding base of business and the Company had been unable to profitably compete with the volume-based local manufacturers at the commodity-end of the market. The Company's strategy to exit the commodity-end of the Japanese market required several actions: (i) termination of relationships with commodity oriented distributors, most of whom were financially dependent on the Company; (ii) downsizing of the Japan operations, including the termination of personnel; and (iii) relocation of existing office space. The downsized operation now focuses on selling high-end, designer-specified products targeted towards a multinational customer base. The head-count reduction in Japan was completed by the end of 1998. Costs related to the termination of commodity distributor relationships and abandonment of certain related intangible assets and inventory totaled approximately \$3.5 million.

Europe

Weak economic conditions in the U.K. translated into slowing demand for the Company's products. Additionally, the Company had made several acquisitions

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in the U.K., offering the opportunity to reorganize the various acquired business units to utilize a shared services approach to manufacturing and back office support functions. As a result, the Company's manufacturing facility in Heckmondwike was closed and certain property and equipment located at this facility was written off in anticipation of this action. The remaining operations were transferred to a nearby facility. The modification of activities at the Company's Craigavon facility also resulted in the termination or relocation of other operations. The above noted actions resulted in significant headcount reductions within the U.K.

U.S.

A charge totaling approximately \$1.6 million was recorded to reduce the carrying value of manufacturing equipment utilized in the production of an abandoned product line to estimated salvage value.

Interior Fabrics

The Interior Fabrics Group's restructuring plan was comprised of the following actions: (i) the Company ceased manufacturing operations in Greensboro, North Carolina, and transferred certain personnel and operations to an existing facility in Dudley, Massachusetts; (ii) the European fabric operations were restructured by integrating the Camborne, Guilford, and Glenside operating units into a single manufacturing facility; and (iii) the Company abandoned its warehousing operations in Singapore and Malaysia, in favor of establishing exclusive distributor arrangements. These decisions were prompted by the opportunity to assimilate recently acquired entities as well as a response to recent poor economic conditions in Asia. The aforementioned restructuring plans resulted in significant headcount reductions and abandonment of property, equipment and inventory.

A summary of the restructuring activities which were planned as of January 3, 1999 is presented below:

(in thousands)	Asia/Pacific		Europe		U.S.		Totals		Grand Total
	Floor-coverings	Fabrics	Floor-coverings	Fabrics	Floor-coverings	Fabrics	Floor-coverings	Fabrics	
Termination benefits	\$ 1,438	\$ —	\$4,323	\$1,123	\$ —	\$ 750	\$ 5,761	\$1,873	\$ 7,634
Property, plant and equipment	7,098	—	1,119	66	1,600	500	9,817	566	10,383
Intangible assets	2,049	—	—	—	—	—	2,049	—	2,049
Inventory	652	—	—	453	—	—	652	453	1,105
Contract obligation	—	—	505	—	—	—	505	—	505
Other costs	3,180	—	—	27	—	400	3,180	427	3,607
	\$14,417	\$ —	\$5,947	\$1,669	\$1,600	\$1,650	\$21,964	\$3,319	\$25,283

The restructuring charge was comprised of \$13.0 million of cash expenditures for severance benefits and other costs and \$12.3 million of non-cash charges, primarily for the write-down of impaired assets. Termination benefits of \$7.6 million, primarily related to severance costs, resulted from an aggregate expected reduction of 287 employees. The staff reductions as originally planned were expected to be as follows:

	Asia/Pacific		Europe		U.S.		Totals		Grand Total
	Floor-coverings	Fabrics	Floor-coverings	Fabrics	Floor-coverings	Fabrics	Floor-coverings	Fabrics	
Manufacturing	49	—	83	—	—	100	132	100	232
Selling and administrative	25	—	7	11	—	12	32	23	55
	74	—	90	11	—	112	164	123	287

As a result of the restructuring, a total of 253 employees were terminated. There will not be any further terminations as a result of the restructuring. The charge for termination benefits and other costs to exit activities incurred during 1999 and 1998 was reflected as a separately stated charge against operating income.

The following table displays the components of the accrued restructuring liability:

Termination Benefits

	Asia/Pacific		Europe		U.S.		Totals		Grand Total
(in thousands)	Floor-coverings	Fabrics	Floor-coverings	Fabrics	Floor-coverings	Fabrics	Floor-coverings	Fabrics	
Balance, at January 3, 1999	\$600	\$ —	\$2,367	\$18	\$ —	\$ 750	\$2,967	\$ 768	\$3,735
Additional expense	—	—	767	—	—	705	767	705	1,472
Payments	(600)	—	(2,246)	(18)	—	(1,455)	(2,846)	(1,473)	(4,319)
Reversal of over-accrual	—	—	(672)	—	—	—	(672)	—	(672)
Balance, at January 2, 2000	—	—	216	—	—	—	216	—	216
Payments	—	—	(216)	—	—	—	(216)	—	(216)
Balance, at December 31, 2000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Other Costs to Exit Activities

	Asia/Pacific		Europe		U.S.		Totals		Grand Total
(in thousands)	Floor-coverings	Fabrics	Floor-coverings	Fabrics	Floor-coverings	Fabrics	Floor-coverings	Fabrics	
Balance, at January 3, 1999	\$1,361	\$ —	\$505	\$33	\$ —	\$400	\$1,866	\$433	\$2,299
Additional expense	—	—	—	—	—	331	—	331	331
Payments	(1,111)	—	(505)	(33)	—	(731)	(1,616)	(764)	(2,380)
Balance, at January 2, 2000	250	—	—	—	—	—	250	—	250
Payments	(250)	—	—	—	—	—	(250)	—	(250)
Balance, at December 31, 2000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TAXES ON INCOME

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

	Fiscal Year Ended		
(in thousands)	2000	1999	1998
Current:			
Federal	\$12,719	\$ 3,868	\$13,769
Foreign	5,805	4,493	8,460
State	2,052	2,210	3,070
	20,576	10,571	25,299
Deferred (reduction):			
Federal	(5,458)	3,620	(3,032)
Foreign	(1,484)	2,120	(2,171)
State	(1,116)	(1,883)	(808)
	(8,058)	3,857	(6,011)
	\$12,518	\$14,428	\$19,288

Income before taxes on income consisted of the following:

	Fiscal Year Ended		
(in thousands)	2000	1999	1998
U.S. operations	\$16,762	\$ 7,434	\$30,353
Foreign operations	13,077	30,539	18,758
	\$29,839	\$37,973	\$49,111

Deferred income taxes for the years ended December 31, 2000 and January 2, 2000 reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

At December 31, 2000, the Company's foreign subsidiaries had approximately \$5.4 million in net operating losses available for an unlimited carry-forward period. Additionally, the Company had approximately \$70 million in state net operating losses expiring at various times through 2015.

The sources of the temporary differences and their effect on the net deferred tax liability are as follows:

	2000		1999	
(in thousands)	Assets	Liabilities	Assets	Liabilities
Basis differences of property and equipment	\$ —	\$30,760	\$ —	\$27,259
Net operating loss carry-forwards	5,179	—	5,962	—
Other differences in basis of assets and liabilities	15,895	—	4,329	—
	\$21,074	\$30,760	\$10,291	\$27,259

The effective tax rate on income before taxes differs from the U.S. statutory rate. The following summary reconciles taxes at the U.S. statutory rate with the effective rates:

	Fiscal Year Ended		
	2000	1999	1998
Taxes on income at U.S. statutory rate	35.0%	35.0%	35.0%
Increase in taxes resulting from:			
State income taxes, net of federal benefit	2.0	1.0	3.0
Amortization of excess of cost over net assets acquired and related purchase accounting adjustments	12.7	7.9	5.8
Foreign and U.S. tax effects attributable to foreign operations	(5.5)	(6.4)	(3.2)
Other	(2.2)	0.5	(1.3)
Taxes on income at effective rates	42.0%	38.0%	39.3%

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$46 million at December 31, 2000. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation. Withholding taxes of approximately \$1.2 million would be payable upon remittance of all previously unremitted earnings at December 31, 2000.

HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company has employed the use of derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest and foreign currency exchange rates. While these hedging instruments were subject to fluctuations in value, such fluctuations were generally offset by the fluctuations in values of the underlying exposures being hedged. The Company has not held or issued derivative financial instruments for trading purposes. The Company has historically monitored the use of derivative financial instruments through the use of objective measurable systems, well-defined market and credit risk limits, and timely reports to senior management according to prescribed guidelines. The Company has established strict counter-party credit guidelines and has entered into transactions only with financial institutions of investment grade or better. As a result, the Company has historically considered the risk of counter-party default to be minimal.

Interest Rate Management

In order to maintain the percentage of fixed and variable rate debt within certain parameters, the Company has previously entered into interest rate swap agreements. In these swaps, the Company agreed to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal linked to LIBOR. Any differences paid or received on interest rate swap agreements were recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation. As of December 31, 2000 and January 2, 2000, the Company had no outstanding interest rate management swap agreements.

Foreign Currency Exchange Rate Management

The purpose of the Company's foreign currency hedging activities was to reduce the risk that the eventual local currency inflows resulting from sales to foreign customers would be adversely affected by changes in exchange rates.

The Company entered into currency swap contracts to hedge certain firm sales commitments denominated in foreign currencies. Net gains and losses were deferred and recognized in income in the same period which the hedged transaction affected. As of December 31, 2000 and January 2, 2000, the Company had no outstanding foreign currency management swap agreements.

As mentioned above, the Company had no outstanding agreements to hedge fluctuations in interest and foreign currency exchange rates as of December 31, 2000. The Company believes that, at this time, such hedges are not necessary. During 1998, the Company restructured its borrowing facilities which provided for multicurrency loan agreements resulting in the

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Company's ability to borrow funds in the countries in which the funds are expected to be utilized. Further, the advent of the euro has provided additional currency stability within the Company's European markets. As such, these events have provided the Company natural hedges on currency fluctuations. Interest rate management swap agreements have also become unnecessary given the structure of the Company's unsecured \$300 million revolving credit facility, which charges interest at varying rates based on the Company's ability to meet certain performance criteria.

COMMITMENTS AND CONTINGENCIES

The Company leases certain marketing, production and distribution facilities and equipment. At December 31, 2000, aggregate minimum rent commitments under operating leases with initial or remaining terms of one year or more consisted of the following:

Fiscal Year	(in thousands)
2001	\$21,646
2002	17,316
2003	12,892
2004	9,677
2005	5,926
Thereafter	25,453
	<u>\$92,910</u>

Rental expense amounted to approximately \$23.6 million, \$17.5 million, and \$17.1 million for the fiscal years ended 2000, 1999, and 1998, respectively.

EMPLOYEE BENEFIT PLANS

The Company has a 401(k) retirement investment plan ("401(k) Plan"), which is open to all otherwise eligible U.S. employees with at least six months of service. The 401(k) Plan calls for Company matching contributions on a sliding scale based on the level of the employee's contribution. The Company may, at

its discretion, make additional contributions to the Plan based on the attainment of certain performance targets by its subsidiaries. The Company's matching contributions are funded monthly and totaled approximately \$2.7 million, \$1.7 million and \$1.6 million for the years ended 2000, 1999 and 1998, respectively. The Company's discretionary contributions totaled \$4.0 million, \$2.3 million, and \$3.5 million for the years ended 2000, 1999, and 1998, respectively.

Under the Interface, Inc. Nonqualified Savings Plan ("NSP"), the Company will provide eligible employees the opportunity to enter into agreements for the deferral of a specified percentage of their compensation, as defined in the NSP. The obligations of the Company under such arrangements to pay the deferred compensation in the future in accordance with the terms of the NSP will be unsecured general obligations of the Company. Participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company has established a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the NSP. If a change in control of the Company occurs, as defined in the NSP, the Company will contribute an amount to the Rabbi Trust sufficient to pay the obligation owed to each Participant. Deferred compensation in connection with the NSP totaled \$5.5 million which was invested in cash and marketable securities at December 31, 2000.

The Company has trustee defined benefit retirement plans ("Plans") which cover many of its European employees. The benefits are generally based on years of service and the employee's average monthly compensation. Pension expense was \$2.3 million, \$3.3 million and \$4.2 million for the years ended 2000, 1999 and 1998, respectively. Plan assets are primarily invested in equity and fixed income securities.

The table presented below sets forth the funded status of the Company's significant domestic and foreign defined benefit plans and required disclosures in accordance with SFAS 132.

(in thousands)	Fiscal Year Ended	
	2000	1999
Change in benefit obligation		
Benefit obligation, beginning of year	\$123,489	\$114,689
Service cost	4,004	3,665
Interest cost	7,224	6,549
Benefits paid	(4,489)	(7,089)
Actuarial (gain) loss	(901)	10,938
Member contributions	1,079	1,153
Currency translation adjustment	(8,989)	(6,416)
Benefit obligation, end of year	\$121,417	\$123,489
Change in plan assets		
Plan assets, beginning of year	\$131,345	\$105,571
Actual return on assets	105	31,099
Company contributions	999	7,247
Member contributions	1,079	1,153
Benefits paid	(4,489)	(7,089)
Administration expenses	(615)	(455)
Currency translation adjustment	(9,418)	(6,181)
Plan assets, end of year	\$119,006	\$131,345

(in thousands)	2000	1999
Reconciliation to Balance Sheet		
Funded status	\$(2,411)	\$7,857
Unrecognized actuarial loss	9,680	816
Unrecognized prior service cost	170	227
Unrecognized transition adjustment	677	859
Net amount recognized	\$ 8,116	\$9,759
Amounts recognized in the consolidated balance sheets—		
Prepaid benefit cost	\$ 8,116	\$9,759

(in thousands, except for weighted average assumptions)	Fiscal Year Ended	
	2000	1999
Weighted average assumptions		
Discount rate	6.4%	6.0%
Expected return on plan assets	7.5%	7.1%
Rate of compensation	4.2%	3.9%
Components of net periodic benefit cost		
Service cost	\$4,004	\$3,665
Interest cost	7,224	6,549
Expected return on plan assets	(9,115)	(7,328)
Amortization of prior service costs	39	233
Amortization of transition obligation	125	144
Net periodic benefit cost	\$2,277	\$3,263

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

The table presented below sets forth the required disclosures in accordance with SFAS 132 and amounts recognized in the consolidated financial statements related to the SCP.

(in thousands, except for weighted average assumptions)	Fiscal Year Ended	
	2000	1999
Change in benefit obligation		
Benefit obligation, beginning of year	\$8,338	\$7,723
Service cost	196	300
Interest cost	705	605
Benefits paid	(463)	(290)
Actuarial loss	707	—
Benefit obligation, end of year	\$9,483	\$8,338
Weighted average assumptions		
Discount rate	8%	8%
Rate of compensation	4%	5%
Components of net periodic benefit cost		
Service cost	\$ 196	\$ 300
Interest cost	705	605
Amortization of transition obligation	259	259
Net periodic benefit cost	\$1,160	\$1,164

SEGMENT INFORMATION

The Company has two reportable segments, Floorcovering Products/Services and Interior Fabrics. The Floorcovering Products/Services segment manufactures, installs and services commercial modular and commercial broadloom carpet while the Interior Fabrics segment manufactures panel and upholstery fabrics.

The accounting policies of the operating segments are the same as those described in Summary of Significant Accounting Policies. 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 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 an individual segment are corporate assets, which are primarily comprised of cash and cash equivalents, short-term investments, intangible assets and intercompany receivables and loans (which are eliminated in consolidation).

Segment Disclosures

Summary information by segment follows:

(in thousands)	Floorcovering Products/Services	Interior Fabrics	Other	Total
2000				
Net sales	\$ 951,664	\$252,732	\$79,552	\$1,283,948
Depreciation and amortization	33,702	9,732	2,124	45,558
Operating income	35,426	28,275	4,543	68,244
Total Assets	834,101	216,718	65,842	1,116,661
1999				
Net sales	\$ 974,003	\$197,120	\$57,116	\$1,228,239
Depreciation and amortization	28,657	11,081	2,100	41,838
Operating income	55,054	21,306	(186)	76,174
Total assets	821,382	205,169	47,624	1,074,175
1998				
Net sales	\$1,018,992	\$213,280	\$48,857	\$1,281,129
Depreciation and amortization	27,810	10,422	2,007	40,239
Operating income	66,976	24,775	(2,257)	89,494
Total assets	942,978	216,590	47,905	1,207,473

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in thousands)	Fiscal Year Ended		
	2000	1999	1998
Depreciation and Amortization			
Total segment depreciation and amortization	\$ 45,558	\$ 41,838	\$ 40,239
Corporate depreciation and amortization	5,067	3,951	2,347
Reported depreciation and amortization	\$ 50,625	\$ 45,789	\$ 42,586
Operating Income			
Total segment operating income	\$ 68,244	\$ 76,174	\$ 89,494
Corporate expenses and eliminations	765	257	197
Reported operating income	\$ 69,009	\$ 76,431	\$ 89,691
Assets			
Total segment assets	\$1,116,661	\$1,074,175	\$1,207,473
Corporate assets and eliminations	(81,812)	(45,680)	(170,609)
Reported total assets	\$1,034,849	\$1,028,495	\$1,036,864

Enterprise-wide Disclosures

Revenue and long-lived assets related to operations in the U.S. and other foreign countries are as follows:

(in thousands)	Fiscal Year Ended		
	2000	1999	1998
Sales to Unaffiliated Customers¹			
United States	\$ 880,477	\$ 805,112	\$ 836,715
United Kingdom	204,078	194,132	206,111
Other foreign countries	199,393	228,995	238,303
Net sales	\$1,283,948	\$1,228,239	\$1,281,129
Long-Lived Assets²			
United States	\$ 180,318	\$ 172,024	\$ 165,450
United Kingdom	46,919	47,953	46,347
Netherlands	12,391	12,279	11,595
Other foreign countries	18,617	21,180	21,920
Total long-lived assets	\$ 258,245	\$ 253,436	\$ 245,312

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

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

QUARTERLY DATA AND SHARE INFORMATION (UNAUDITED)

The following table sets forth, for the fiscal periods indicated, selected consolidated financial data and information regarding the market price per share of the Company's Class A Common Stock. The prices represent the reported high and low closing sale prices.

	Fiscal Year Ended 2000			
(in thousands, except share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$293,218	\$323,725	\$336,663	\$330,342
Gross profit	88,666	97,545	101,700	100,091
Net income (loss)	(8,804)	7,042	9,759	9,322
Earnings per common share				
Basic	\$ (0.17)	\$ 0.14	\$ 0.19	\$ 0.19
Diluted	(0.17)	0.14	0.19	0.18
Dividends per common share	\$ 0.045	\$ 0.045	\$ 0.045	\$ 0.045
Share prices				
High	\$ 5 ⁹ / ₁₆	\$ 4 ³ / ₈	\$ 7 ³¹ / ₃₂	\$ 10
Low	4	3 ³ / ₃₂	3 ¹⁵ / ₁₆	6 ²¹ / ₃₂

	Fiscal Year Ended 1999			
(in thousands, except share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$307,866	\$305,452	\$304,246	\$310,675
Gross profit	96,608	95,659	94,340	95,508
Net income	5,606	6,329	5,259	6,351
Earnings per common share				
Basic	\$ 0.11	\$ 0.12	\$ 0.10	\$ 0.12
Diluted	0.11	0.12	0.10	0.12
Dividends per common share	\$ 0.045	\$ 0.045	\$ 0.045	\$ 0.045
Share prices				
High	\$ 10 ¹ / ₁₆	\$ 11 ⁶ / ₃₂	\$ 9 ¹⁴ / ₁₆	\$ 5 ¹² / ₃₂
Low	7 ¹ / ₂	6 ¹⁴ / ₁₆	4 ⁹ / ₁₆	4 ¹ / ₆₄

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

	Year Ended 2000				
(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Net sales	\$1,029,452	\$380,195	\$ —	\$(125,699)	\$1,283,948
Cost of sales	756,778	264,865	—	(125,699)	895,944
Gross profit on sales	272,674	115,330	—	—	388,004
Selling, general and administrative expenses	189,311	87,754	20,883	—	297,948
Restructuring charge	16,815	3,732	500	—	21,047
Operating income	66,548	23,844	(21,383)	—	69,009
Other expense (income)					
Interest expense	18,181	6,781	13,538	—	38,500
Other	(73)	743	—	—	670
Total other expense	18,108	7,524	13,538	—	39,170
Income before taxes on income and equity in income of subsidiaries	48,440	16,320	(34,921)	—	29,839
Taxes on income (benefit)	13,110	4,842	(5,434)	—	12,518
Equity in income of subsidiaries	—	—	46,808	(46,808)	—
Net income	\$ 35,330	\$ 11,478	\$17,321	\$ (46,808)	\$ 17,321

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

	Year Ended 1999				
(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Net sales	\$970,959	\$383,385	\$ —	\$(126,105)	\$1,228,239
Cost of sales	714,452	257,777	—	(126,105)	846,124
Gross profit on sales	256,507	125,608	—	—	382,115
Selling, general and administrative expenses	186,203	88,678	29,672	—	304,553
Restructuring charge	1,036	95	—	—	1,131
Operating income	69,268	36,835	(29,672)	—	76,431
Other expense (income)					
Interest expense	13,660	6,853	18,859	—	39,372
Other	(2,559)	1,645	—	—	(914)
Total other expense	11,101	8,498	18,859	—	38,458
Income before taxes on income and equity in income of subsidiaries	58,167	28,337	(48,531)	—	37,973
Taxes on income (benefit)	22,103	6,465	(14,140)	—	14,428
Equity in income of subsidiaries	—	—	57,936	(57,936)	—
Net income	\$ 36,064	\$ 21,872	\$23,545	\$ (57,936)	\$ 23,545

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

	Year Ended 1998				
(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Net sales	\$1,008,051	\$448,569	\$ —	\$(175,491)	\$1,281,129
Cost of sales	713,520	309,631	—	(175,491)	847,660
Gross profit on sales	294,531	138,938	—	—	433,469
Selling, general and administrative expenses	214,629	93,469	10,397	—	318,495
Restructuring charge	3,250	22,033	—	—	25,283
Operating income	76,652	23,436	(10,397)	—	89,691
Other expense (income)					
Interest expense	14,054	7,021	15,630	—	36,705
Other	4,730	(855)	—	—	3,875
Total other expense	18,784	6,166	15,630	—	40,580
Income before taxes on income and equity in income of subsidiaries	57,868	17,270	(26,027)	—	49,111
Taxes on income (benefit)	22,742	6,787	(10,241)	—	19,288
Equity in income of subsidiaries	—	—	45,608	(45,608)	—
Net income	\$ 35,126	\$ 10,483	\$29,822	\$ (45,608)	\$ 29,823

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

	December 31, 2000				
(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Assets					
Current					
Cash	\$ 4,469	\$ 3,953	\$ (561)	\$ —	\$ 7,861
Accounts receivable	177,641	77,992	(50,747)	—	204,886
Inventories	135,722	62,341	—	—	198,063
Miscellaneous	12,912	11,743	11,643	—	36,298
Total current assets	330,744	156,029	(39,665)	—	447,108
Property and equipment, less accumulated depreciation	164,255	77,927	16,063	—	258,245
Investments in subsidiaries	91,675	7,065	870,867	(969,607)	—
Miscellaneous	2,418	22,085	40,337	—	64,840
Excess of cost over net assets acquired	172,908	90,692	1,056	—	264,656
	\$762,000	\$353,798	\$888,658	\$(969,607)	\$1,034,849
Liabilities and Shareholders' Equity					
Current liabilities	\$124,137	\$ 66,584	\$ 15,428	\$ —	\$ 206,149
Long-term debt, less current maturities	6,659	44,141	370,750	—	421,550
Deferred income taxes	17,802	3,371	8,378	—	29,551
Total liabilities	148,598	114,096	394,556	—	657,250
Minority interests	—	5,164	—	—	5,164
Shareholders' equity					
Preferred stock	57,891	—	—	(57,891)	—
Common stock	94,144	102,199	5,808	(196,320)	5,832
Additional paid-in capital	191,431	12,525	217,946	(203,641)	218,261
Retained earnings	270,699	160,814	280,393	(470,506)	241,400
Foreign currency translation adjustment	(763)	(41,000)	(10,045)	(21,144)	(72,952)
Treasury stock	—	—	—	(20,105)	(20,105)
Total shareholders' equity	613,402	234,538	494,102	(969,607)	372,435
	\$762,000	\$353,798	\$888,658	\$(969,607)	\$1,034,849

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

	January 2, 2000				
(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Assets					
Current					
Cash	\$ 4,137	\$ 6,412	\$ (8,001)	\$ —	\$ 2,548
Accounts receivable	170,248	71,569	(38,267)	—	203,550
Inventories	110,186	66,732	—	—	176,918
Miscellaneous	10,871	20,425	6,466	—	37,762
Total current assets	295,442	165,138	(39,802)	—	420,778
Property and equipment, less accumulated depreciation	151,956	81,312	20,168	—	253,436
Investments in subsidiaries	38,100	9,758	861,459	(909,317)	—
Miscellaneous	12,118	24,367	39,024	—	75,509
Excess of cost over net assets acquired	183,942	91,241	3,589	—	278,772
	\$681,558	\$371,816	\$884,438	\$(909,317)	\$1,028,495
Liabilities and Shareholders' Equity					
Current liabilities	91,559	83,888	28,305	—	203,752
Long-term debt, less current maturities	6,529	37,915	355,700	—	400,144
Deferred income taxes	15,006	6,111	12,278	—	33,395
Total liabilities	113,094	127,914	396,283	—	637,291
Minority interests	—	2,012	—	—	2,012
Shareholders' equity					
Preferred stock	57,891	—	—	(57,891)	—
Common stock	94,145	102,199	5,902	(196,344)	5,902
Additional paid-in capital	191,411	12,525	222,373	(203,936)	222,373
Retained earnings	229,217	154,597	265,641	(416,133)	233,322
Foreign currency translation adjustment	(4,200)	(27,431)	(5,761)	(16,279)	(53,671)
Treasury stock	—	—	—	(18,734)	(18,734)
Total shareholders' equity	568,464	241,890	488,155	(909,317)	389,192
	\$681,558	\$371,816	\$884,438	\$(909,317)	\$1,028,495

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

January 3, 1999

(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Assets					
Current					
Cash	\$ 6,145	\$ 5,234	\$ (1,469)	\$ —	\$ 9,910
Accounts receivable	139,718	80,276	(25,191)	—	194,803
Inventories	131,749	67,589	—	—	199,338
Miscellaneous	8,138	17,386	8,949	—	34,473
Total current assets	285,750	170,485	(17,711)	—	438,524
Property and equipment, less accumulated depreciation	151,782	79,862	13,668	—	245,312
Investments in subsidiaries	37,030	871	791,289	(829,190)	—
Miscellaneous	11,733	8,791	29,535	—	50,059
Excess of cost over net assets acquired	187,412	112,650	2,907	—	302,969
	\$673,707	\$372,659	\$819,688	\$(829,190)	\$1,036,864
Liabilities and Shareholders' Equity					
Current liabilities	117,311	102,059	5,742	—	225,112
Long-term debt, less current maturities	8,342	41,622	337,687	—	387,651
Deferred income taxes	15,085	6,037	2,360	—	23,482
Total liabilities	140,738	149,718	345,789	—	636,245
Minority interests	—	1,795	—	—	1,795
Shareholders' equity					
Preferred stock	57,891	—	—	(57,891)	—
Common stock	94,145	102,199	5,983	(196,344)	5,983
Additional paid-in capital	191,411	12,525	231,959	(203,936)	231,959
Retained earnings	193,153	132,580	242,119	(348,622)	219,230
Foreign currency translation adjustment	(3,631)	(19,759)	(6,162)	(2,116)	(31,668)
Minimum pension liability	—	(6,399)	—	—	(6,399)
Treasury stock	—	—	—	(20,281)	(20,281)
Total shareholders' equity	532,969	221,146	473,899	(829,190)	398,824
	\$673,707	\$372,659	\$819,688	\$(829,190)	\$1,036,864

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

	Year Ended 2000				
(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Cash flows from operating activities	\$50,417	\$33,537	\$(12,522)	—	\$71,432
Cash flows from investing activities:					
Purchase of plant and equipment	(19,661)	(10,834)	—	—	(30,495)
Acquisitions, net of cash acquired	(25,307)	(4,565)	—	—	(29,872)
Other	(1,135)	(21,010)	11,269	—	(10,876)
	(46,103)	(36,409)	11,269	—	(71,243)
Cash flows from financing activities:					
Net borrowings (repayments)	(3,982)	—	24,282	—	20,300
Proceeds from issuance of common stock	—	—	496	—	496
Cash dividends paid	—	—	(9,243)	—	(9,243)
Repurchase of common shares	—	—	(6,842)	—	(6,842)
	(3,982)	—	8,693	—	4,711
Effect of exchange rate changes on cash	—	413	—	—	413
Net increase (decrease) in cash	332	(2,459)	7,440	—	5,313
Cash, at beginning of year	4,137	6,412	(8,001)	—	2,548
Cash, at end of year	\$ 4,469	\$ 3,953	\$ (561)	—	\$ 7,861

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

	Year Ended 1999				
(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Cash flows from operating activities	\$22,336	\$32,036	\$16,694	—	\$71,066
Cash flows from investing activities:					
Purchase of plant and equipment	(21,413)	(7,813)	(8,052)	—	(37,278)
Acquisitions, net of cash acquired	—	—	9,826	—	9,826
Other	1,626	3,390	(29,409)	—	(24,393)
	(19,787)	(4,423)	(27,635)	—	(51,845)
Cash flows from financing activities:					
Net borrowings (repayments)	(4,557)	(26,550)	23,433	—	(7,674)
Proceeds from issuance of common stock	—	—	1,044	—	1,044
Cash dividends paid	—	—	(9,453)	—	(9,453)
Repurchase of common shares	—	—	(10,615)	—	(10,615)
	(4,557)	(26,550)	4,409	—	(26,698)
Effect of exchange rate changes on cash	—	115	—	—	115
Net increase (decrease) in cash	(2,008)	1,178	(6,532)	—	(7,362)
Cash, at beginning of year	6,145	5,234	(1,469)	—	9,910
Cash, at end of year	\$ 4,137	\$ 6,412	\$ (8,001)	—	\$ 2,548

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

	Year Ended 1998				
(in thousands)	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Interface, Inc. (Parent Corporation)	Consolidation & Elimination Entries	Consolidated Totals
Cash flows from operating activities	\$48,243	\$51,909	\$(28,252)	—	\$ 71,900
Cash flows from investing activities:					
Purchase of plant and equipment	(26,669)	(16,839)	(1,719)	—	(45,227)
Acquisitions, net of cash acquired	—	—	(71,504)	—	(71,504)
Other	3,174	(11,070)	(8,589)	—	(16,485)
	(23,495)	(27,909)	(81,812)	—	(133,216)
Cash flows from financing activities:					
Net borrowings (repayments)	(22,964)	(25,906)	49,650	—	780
Proceeds from issuance of common stock	—	—	70,630	—	70,630
Cash dividends paid	—	—	(8,499)	—	(8,499)
Repurchase of common shares	—	—	(2,535)	—	(2,535)
	(22,964)	(25,906)	109,246	—	60,376
Effect of exchange rate changes on cash	—	638	—	—	638
Net increase (decrease) in cash	1,784	(1,268)	(818)	—	(302)
Cash, at beginning of year	4,361	6,502	(651)	—	10,212
Cash, at end of year	\$ 6,145	\$ 5,234	\$ (1,469)	—	\$ 9,910

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Interface, Inc. is responsible for the accuracy and consistency of all the information contained in the annual report, including the accompanying consolidated financial statements. The statements have been prepared to conform with the generally accepted accounting principles appropriate to the circumstances of the Company. The statements include amounts based on estimates and judgments as required.

Interface maintains an effective internal control structure. It consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority and comprehensive systems and control procedures. We believe this structure provides reasonable assurance that transactions are executed in accordance with management authorization, and that they are appropriately recorded in order to permit preparation of financial statements in conformity with generally accepted accounting principles and to adequately safeguard, verify, and maintain accountability of assets. An important element of the control environment is an ongoing internal audit program.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, reviews the scope of the audits and findings of the independent certified public accountants. The Audit Committee meets periodically and privately with the independent accountants, with our internal auditors, as well as with management, to review accounting, auditing, internal control structure, and financial reporting matters.

BDO Seidman, LLP, the Company's independent certified public accountants, have audited the financial statements prepared by management. Their opinion on the financial statements is presented as follows.



Ray C. Anderson
Chairman of the Board, President and
Chief Executive Officer



Daniel T. Hendrix
Executive Vice President,
Chief Financial Officer and Treasurer

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Interface, Inc. and subsidiaries as of December 31, 2000 and January 2, 2000, and the related consolidated statements of income and comprehensive income (loss) and cash flows for each of the three fiscal years in the period ended December 31, 2000. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Interface, Inc. and its subsidiaries as of December 31, 2000 and January 2, 2000, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.



Atlanta, Georgia
February 20, 2001



SELECTED FINANCIAL INFORMATION

(in thousands, except share data)	2000	1999	1998	1997	1996
Annual Operating Data					
Net sales	\$1,283,948	\$1,228,239	\$1,281,129	\$1,135,290	\$1,002,176
Cost of sales	895,944	846,124	847,660	755,734	684,455
Operating income	69,009	76,431	89,691	97,801	78,689
Net income	17,321	23,545	29,823	37,514	26,395
Earnings per common share					
Basic	\$ 0.34	\$ 0.45	\$ 0.58	\$ 0.79	\$ 0.62
Diluted	\$ 0.34	\$ 0.45	\$ 0.56	\$ 0.76	\$ 0.60
Average Shares Outstanding					
Basic	50,558	52,562	51,808	47,416	40,121
Diluted	50,824	52,803	53,735	49,302	41,315
Cash dividends per common share	\$ 0.18	\$ 0.18	\$ 0.165	\$ 0.135	\$ 0.1225
Property additions ¹	46,406	37,278	66,145	51,489	40,387
Depreciation and amortization	50,625	45,789	42,586	38,605	35,305
Balance Sheet Data					
Working capital	\$ 240,959	\$ 217,026	\$ 213,412	\$ 183,403	\$ 189,584
Total assets	1,034,849	1,028,495	1,036,864	929,563	862,546
Total long-term debt	422,358	402,118	390,437	392,250	382,272
Shareholders' equity	372,435	389,192	398,824	316,365	273,118
Book value per share	7.33	7.52	7.60	6.55	6.28
Current ratio	2.2	2.1	1.9	2.0	2.2

¹ Includes property and equipment obtained in acquisition of business.

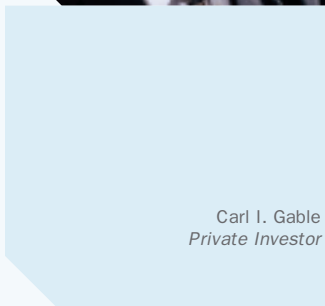
BOARD OF DIRECTORS



Ray C. Anderson
*Chairman of the Board, President
and Chief Executive Officer*



Daniel T. Hendrix
*Executive Vice President,
Chief Financial Officer
and Treasurer*



Carl I. Gable
Private Investor



Dr. June M. Henton
*Dean of the School of Human
Sciences, Auburn University*



J. Smith Lanier II
Chairman, J. Smith Lanier & Co.



Christopher G. Kennedy
*President, Merchandise Mart
Properties, Inc.*



Don H. Lee (Emeritus)
*Senior Vice President
(Retired) Interface, Inc.*





James B. Miller Jr.
Chairman and
Chief Executive Officer,
Fidelity National Corporation



Thomas R. Oliver
Chairman and Chief Executive
Officer, Bass Hotels and Resorts



Dianne Dillon-Ridgley
U.N. Representative, World YWCA
(Geneva, Switzerland)



Don E. Russell (Emeritus)
Senior Vice President
(Retired) Interface, Inc.



Leonard G. Saulter
Senior Vice President
(Retired) Interface, Inc.



Clarinus C. Th. van Andel
Law Partner (Retired),
Schut and Grosheide
(Amsterdam, the Netherlands)

OPERATING TEAM



Daniel T. Hendrix
*Executive Vice President,
Chief Financial Officer
and Treasurer*



Michael D. Bertolucci, Ph.D.
*Senior Vice President
(Research & Development)*

Robert A. Coombs
*Vice President
(Europe/Asia-Pacific
Floorcoverings)*



Brian L. DeMoura
Senior Vice President (Fabrics)



John R. Wells
*Senior Vice President
(Americas Floorcoverings)*



Raymond S. Willoch
*Senior Vice President,
General Counsel and
Corporate Secretary*



EXECUTIVE OFFICERS

INTERFACE, INC.

Ray C. Anderson
*Chairman of the Board,
President and
Chief Executive Officer*

Daniel T. Hendrix
*Executive Vice President,
Chief Financial Officer
and Treasurer*

Michael D. Bertolucci, Ph.D
Senior Vice President

Brian L. DeMoura
Senior Vice President

John R. Wells
Senior Vice President

Raymond S. Willoch
*Senior Vice President,
General Counsel and
Corporate Secretary*

Robert A. Coombs
Vice President

Keith J. Armstrong
Assistant Vice President, Tax

Kevin C. Gallagher
Assistant Vice President, Legal

Mary Ellen Huckabee
Assistant Secretary

Patrick C. Lynch
Corporate Controller

Keith E. Wright
Assistant Treasurer

Interface Research Corporation

Michael D. Bertolucci, Ph.D
President

INTERFACE AMERICAS HOLDINGS, INC.

John R. Wells
*President and
Chief Executive Officer*

R. Kim Headrick
*Senior Vice President,
Finance and
Information Services*

Joyce D. LaValle
*Senior Vice President,
Human Services*

Oliver W. (Mac) McGowan
*Senior Vice President,
Manufacturing Technologies*

[Bentley Mills, Inc.
Prince Street, Inc.
Interface Flooring
Systems, Inc.](#)

Gregory E. Colando
President

[Re:Source Americas
Enterprises, Inc.](#)

Kenneth R. Reiser
President

[Interface Architectural
Resources, Inc.](#)

James A. Johnson
President

INTERFACE OVERSEAS HOLDINGS, INC.

Robert A. Coombs
*President and
Chief Executive Officer*

Jan Hasselman
*Senior Vice President,
Finance*

Lindsey Parnell
*Senior Vice President,
Operations*

Ton Raaphorst
*Senior Vice President,
Sales and Marketing*

Han van Beers
*Senior Vice President,
Human Resources and Legal*

[Firth Carpets Ltd.](#)

Patrick Riley
Managing Director

[Interface Australia Pty. Ltd.](#)

Stephen Macready
Managing Director

[Interface Deutschland
G.m.b.H.](#)

Peter Farber
Managing Director

[Interface Europe S.A.](#)

Gilbert Pivoly
Managing Director

[Interface Heuga
Singapore Pte. Ltd.](#)

Michael See
Managing Director

INTERFACE FABRICS GROUP, INC.

Brian L. DeMoura
*President and
Chief Executive Officer*

Benjamin E. Dever
*Vice President,
Finance and Administration*

Mary Alyce Higgins
*Vice President,
Human Resources*

Paul Paydos
*Vice President,
Technical Services*

[Guilford of Maine, Inc.](#)

Paul D. Mahaffey
*Vice President,
Operations*

[Guilford of Maine Marketing Co.](#)

Margaret M. Dunford
President

[Chatham, Inc.](#)

J. Derrill Rice
President

[Intek, Inc.](#)

Raymond Ogden
President

[Toltec Fabrics, Inc.](#)

Barbara A. Nymark
President

[Camborne Holdings Ltd.](#)

C. Paul Goodall
Managing Director

SHAREHOLDER INFORMATION

FORM 10-K

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

Mr. Patrick C. Lynch
Corporate Controller
Interface, Inc.
2859 Paces Ferry Road
Suite 2000
Atlanta, Georgia 30339

ANNUAL MEETING

The annual meeting of shareholders will be at 3:00 p.m. on May 22, 2001 at:

Interface, Inc.
2859 Paces Ferry Road
Atlanta, Georgia 30339

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT

EquiServe, L.P.
P.O. Box 43010
Providence, RI 02940-3010

NUMBER OF SHAREHOLDERS OF RECORD AT MARCH 19, 2001

Class A—373
Class B—55

CHANGE OF ADDRESS

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

Registrar
EquiServe, L.P.
P.O. Box 43010
Providence, RI 02940-3010

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

BDO Seidman, LLP
Atlanta, Georgia

PRINCIPAL LEGAL COUNSEL

Kilpatrick Stockton, LLP
Atlanta, Georgia

CORPORATE ADDRESS

Interface, Inc.
2859 Paces Ferry Road
Suite 2000
Atlanta, Georgia 30339
770.437.6800 tel
770.803.6950 fax
www.interfaceinc.com

TICKER SYMBOL

IFSIA (Nasdaq)

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