



StoryLines

INTERFACE, INC. 2003 ANNUAL REPORT

StoryLines

THE 2003 COLLECTION

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Dear Fellow Shareholders:

The big story at Interface

for 2003 was that we weathered the three-year downturn in the corporate office market and thereby set the stage for a full recovery and growth in new directions. I want to thank all of our employees for this, because it wouldn't have been possible without their dedication and hard work.

Depending on whom you talk to, the decline in the corporate office market was anywhere from 25% to 40% over the past three years. Having about 80% of our business in that segment at the outset, we clearly needed to make some dramatic changes. And we did just that—rationalizing a total of 12 plants, reducing our worldwide staff by 30%, and implementing a program of extensive back-office integration to reduce costs. These efforts have been particularly successful in our broadloom and fabrics businesses. In broadloom, we've lowered the break-even point for Bentley Prince Street so that it is now a profitable operation even though sales levels are down 33%. And our Interface Fabrics Group, which was the hardest hit by the corporate office downturn, has taken out significant costs and is expected to rebound well on the strength of its 50% share of the U.S. office furniture panel market.

While we were enacting these belt-tightening measures, we were also looking at ways to capitalize on our strength: modular carpet.

Modular carpet was invented about 50 years ago and introduced in the U.S. in the 1970s, so you might not think of it as an innovative product. Known throughout most of its history as "carpet tile," it commanded little attention in the marketplace or among carpet manufacturers, with the exception of Interface. Since we began pioneering it in the '70s, we've envisioned an exciting future for modular carpet, believing that it is a superior floorcovering for commercial applications and will inevitably dominate the market someday. Our competitors were probably happy to see us focusing so much of our thinking and resources on modular carpet while they continued rolling out the broadloom. Now even they are beginning to feel the effects of what we predicted, promoted and made possible—the modular explosion.

That term may sound over-the-top, but it's the only way to convey what's happening.

Modular carpet is now redefining the entire worldwide floorcovering business, and as the world's largest and most innovative producer of modular carpet, we stand to benefit enormously from its explosive growth.

For us, that growth is of two types. One involves market segments, such as education, hospitality and healthcare. The other is geographic, reflecting our dramatic progress in such countries as Japan and Australia, our strengthening hold in Europe, and our prospects in China.

Interface is the world's leading manufacturer of modular carpet, not only in sales but also in innovative thinking. In fact, our i2™ product line—a broad extension of our phenomenally successful Entropy® product—is a potent expression of the breakthrough idea of "non-directional" installation that has given architects, designers and customers a whole new set of reasons to join the modular revolution. Interface has been aggressively developing this product category. We're reaping the rewards today: i2 represents 25% of our U.S. modular carpet sales in 2003, and it's our fastest growing product line in Europe. We expect the returns to grow substantially as we continue shaping the modular market, which we expect to double in the U.S. over the next five years.

Segmentation is a big part of our modular story, but our segmentation strategy also encompasses our broadloom, fabrics and service businesses. The strategy itself is not an unusual one, but we've implemented our plan the right way, with the right people in the right places supported by a great team. While we were cutting costs and rationalizing operations, we made top line investments in market research, segment-specific product development, specialized sales staffing and training, and marketing to drive sales.

The corporate office segment is still our mainstay, so we were pleased to see signs of recovery in that market in late 2003. But two years of efforts in segmentation have also given us strong traction in the education, government, retail, hospitality, healthcare and residential markets. Once developed, these segments will help protect Interface from single-

market shockwaves in the future. The numbers in the U.S. alone tell you why: the corporate office carpet market is about \$800 million, but the total commercial carpet market is \$3.3 billion. Another targeted segment, the residential carpet market, amounts to \$11 billion annually in the U.S., making it perhaps the most intriguing. We developed InterfaceFLOR™ modular carpet to appeal to fashion-forward consumers, whom we are reaching with handsome catalogs and an easy-to-use website. InterfaceFLOR is also being successfully test marketed through Lowe's Home Improvement stores. Meanwhile, our broadloom products in the Prince Street House & Home™ Collection are now being sold through select, upscale carpet retailers. In addition, we have a \$10 million residential business in Europe that we're growing using a similar strategy.

Interface is also known for its pursuit of sustainability, thanks largely to our Chairman and founder Ray Anderson. One of the corporate world's most avid spokesmen for earth-friendly business practices, Ray travels the world persuading leaders that sustainable behavior is incredibly good for business, that it is in fact a better way to make a bigger profit. It is increasingly proving to be a strong competitive edge for us. More and more architects and designers are recommending our products to their clients because we are committed to environmental responsibility. A growing number of builders and facilities operators are showing a preference for "green" buildings and products. And researchers tell us that over 50 million Americans set a high priority on doing right by the environment. It all adds up in our favor. Though other carpet makers are now getting on the sustainability bandwagon (which we encourage), Interface is known as the industry leader. This was confirmed recently in two ways. First, Interface was chosen in the *Floor Focus* Top 250 Design Survey 2003 as the company in the industry doing the best job for the environment. We were also honored to receive one of the U.S. Environmental Protection Agency's prestigious Climate Protection Awards for our efforts to protect the environment.

Interface is poised for the turn, and we're going into 2004 confident of our return to profitability. We believe that we will be able to grow our top line in non-corporate segments, that the corporate office market will continue to recover, that fabrics will begin its return to historic profitability levels, that broadloom will leverage its leading brand status to grow its profitability, and that we will be able to continue to lead and shape the modular explosion worldwide.

2004 will be a year of execution for us. Among our objectives are to: exploit the growing strength of modular in various segments; shape emerging markets around the world, such as China, India, Germany and the Middle East; drive the cost-efficient made-to-order model to varying degrees in all our businesses; not be distracted from the corporate office market so that we can continue to dominate there as it rebounds; strengthen our presence in the huge residential market; pay down debt; continue our efforts to minimize SG&A costs, which

we've cut by nearly \$60 million in three years; solve the problem of operating losses in our service business; and build our broadloom and fabrics businesses without compromising our modular efforts.

On the following pages, you'll find stories that illustrate what I'm talking about when I say that Interface has undergone a striking transformation in how we do business and where we're headed. Read them. Talk to us and our customers. And—most important—take a close look at our innovative products. You'll see a company where the main story line is compelling and the next chapter will be better than the last.



Sincerely,

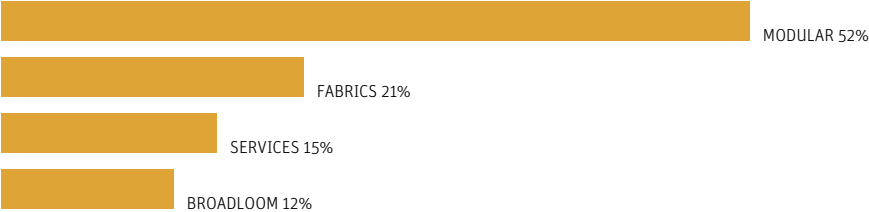
Daniel T. Hendrix
President and Chief Executive Officer

FINANCIAL HIGHLIGHTS*

	FISCAL YEAR ENDED		
(in thousands, except share data)	2003	2002	2001
Net sales	\$ 923,509	\$ 924,084	\$1,058,846
Cost of sales	670,532	659,910	746,320
Gross profit on sales	252,977	264,174	312,526
Selling, general and administrative expenses	231,306	225,569	259,039
Restructuring charges	6,196	23,449	54,577
Operating income (loss)	15,475	15,156	(1,090)
Other expense			
Interest expense	42,820	42,022	35,887
Other	1,280	798	490
Total other expense	44,100	42,820	36,377
Loss from continuing operations before income tax benefit	(28,625)	(27,664)	(37,467)
Income tax benefit	(10,215)	(9,905)	(11,546)
Loss from continuing operations	(18,410)	(17,759)	(25,921)
Loss from discontinued operations, net of tax	(6,022)	(14,525)	(10,366)
Loss on disposal of discontinued operations, net of tax	(8,825)	---	---
Cumulative effect of a change in accounting principle, net of tax	---	(55,380)	---
Net loss	\$ (33,257)	\$ (87,664)	\$ (36,287)
Basic and diluted loss per common share			
Loss from continuing operations	\$ (0.36)	\$ (0.36)	\$ (0.52)
Loss from discontinued operations, net of tax	(0.12)	(0.29)	(0.20)
Loss on disposal of discontinued operations, net of tax	(0.18)	---	---
Cumulative effect of a change in accounting principle	---	(1.10)	---
Net loss	\$ (0.66)	\$ (1.75)	\$ (0.72)
Balance Sheet Data			
Current assets	\$ 358,946	\$ 366,721	\$ 400,247
Current liabilities	190,456	168,912	175,965
Total assets	894,274	863,510	954,754
Long-term debt	---	---	171,827
Senior notes	325,000	325,000	150,000
Senior subordinated notes	120,000	120,000	125,000
Total capitalization	\$ 667,191	\$ 674,078	\$ 755,409

* The balances for the current year and prior years have been adjusted to reflect the discontinued operations of our raised/access flooring business.

2003 CATEGORY SALES BREAKDOWN



2003 NET SALES BY MARKET SEGMENTS



2003 GEOGRAPHIC SALES BREAKDOWN



MANUFACTURING FACILITIES WORLDWIDE

AMERICAS		EUROPE	ASIA-PACIFIC
Cartersville, GA	Newport, ME	Meltham, England	Picton, Australia
LaGrange, GA	East Douglas, MA	Mirfield, England	Bangkok, Thailand
West Point, GA	Grand Rapids, MI	Shelf, England	
Los Angeles, CA	Elkin, NC	Scherpenzeel, Holland	
Guilford, ME	Belleville, Canada	Craigavon, N. Ireland	

QUIETLY IMPROVING TEXAS PUBLIC SCHOOLS by Interface Flooring Systems and the Arlington Independent School District

Head of the

INTERFACE Cubic™ Optic (i2 Collection)

Class

Walk into this elementary school in Arlington, Texas,

at a busy time—at lunch-time, say—and you'll probably notice something unusual. The normally loud and echoing sounds of children are strangely and pleasantly muted. And then you see why. The corridors, the classrooms, the offices, the library . . . all are carpeted in order to enhance the learning environment. And if you look very closely, you may be able to detect that this is not broadloom but modular carpet.

Several schools in the Arlington school district have been carpeted with innovative, random-design products from the Interface i2 Collection, and **noise reduction is only the most obvious of the many benefits school administrators and children in all grade levels are enjoying.**

Officials here were already familiar with how the carpet performed in other Texas public schools, where a full school year's worth of youthful wear and tear had left the durable carpet tiles virtually unscathed. In the course of their decision-making process, school officials also discovered that our modular carpet is easy to keep clean with vacuuming and routine maintenance, that the patented Intersept® treatment protects the carpet against bacteria, mold and mildew, and that any damaged tiles can be quickly replaced by virtually anyone. And, because i2 tiles are designed for non-directional installation without regard to dye lots, replacement tiles blend perfectly with the originals.

They liked how Interface modular carpet looked, too. Seams were not evident, and they felt that the overall effect—combining a nice look with significantly lower noise levels—would help improve the learning environment.

From pre-school centers to the loftiest halls of higher education, Interface modular carpet offers significant advantages over all types of hard flooring systems. Ever since the education market has been identified as a key growth segment, Interface sales representatives have been using success stories like these Texas schools to teach educators how to get more floorcovering performance for their budgeted dollars. With a full complement of appealing broadloom and modular carpet products, a strong sales organization in place, and an excellent reputation for sustainability—which is important to many educators—Interface is well positioned to keep increasing its share in this growing market.





“Our new carpet tiles add to our learning environment, and should be easy to keep beautiful for years to come.”

Jeanne Marie Pakele
Assistant Principal, Bebenssee Elementary

Aisles of

Interface is now actively promoting modular carpet for retail installations worldwide.

But a major American pharmacy chain blazed the trail.

CVS/pharmacy has been using carpet tiles for its retail selling floor since 1978 and probably knows the immediate and long-term benefits better than anyone. They were still a small operation in those days, so they looked at modular carpet as a way to set themselves apart in a competitive field. By switching from conventional hard surface flooring—made of vinyl composition tile, or VCT—they came up with a distinctive look and feel for their stores. According to John Hoyceanyls, CVS's Director of Facility Management for Store and Corporate Properties, "It is one of our key design elements and has an aesthetic impact on our customers' shopping experience." With carpet covering nearly all the retail selling floor space, the CVS store not only looks attractive but is also quieter and has a warmer-feeling atmosphere that is more welcoming for customers.

There are other practical benefits for CVS as well. One is cleanliness. As Hoyceanyls says, "It gives a cleaner appearance, covering the typical sins like scuff marks and dirt." And, because vacuuming usually takes care of any problems, it's easier for store personnel to keep the store neat and clean. In contrast, a VCT floor would show everything and periodic cleaning would require time- and labor-intensive stripping and waxing. Stained or damaged carpet tiles can also be removed and replaced quickly and easily by store personnel, whereas repairing VCT damage would require bringing in an outside crew.

Another area of concern for all retailers is "slips and falls." The typical hard, smooth, waxed surface is more likely to cause customers to lose their footing and fall—a particular problem with the elderly. Modular carpet gives more secure footing for customers and employees alike.

In the beginning, CVS purchased Heuga® tiles imported from Holland. Interface began servicing the CVS account in 1988 when we acquired Heuga, the company that invented carpet tile 50 years ago. As the CVS chain grew, Interface provided more and more modular tiles for the retailer and, before long, also took on the job of installing the carpet in new and renovated CVS stores. In 1997, CVS more than doubled in size with the acquisition of 2,000 stores. In a notable feat of production and installation, Interface managed to carpet every one of those added stores in just 18 months.

Today, CVS has about 4,100 stores across the U.S., and approximately 90% of them are carpeted with our modular tiles. Our CVS experience has enabled us to capture other retail customers. In fact, three of our top ten commercial customers are retailers. Not a bad foothold for Interface in a market that is just beginning to capitalize on the kinds of benefits CVS has enjoyed for 25 years.



Tile

Welcome Change



Every year, about 600,000 visitors enjoy Atlanta hospitality at its best,

as guests at the downtown Hyatt Regency. Whether they come for a major sporting event, for a convention or simply for pleasure, they have certain expectations. Soiled, stained or worn carpet simply will not do. Yet with all that foot traffic, all the luggage, room service and cleaning carts traveling miles every day, all the living and partying that goes on inside this popular establishment, keeping floorcoverings in good shape could be a major maintenance headache. But since they installed modular carpet from Interface, Hyatt Regency staff can spend more time pampering guests and less time dealing with carpet maintenance.

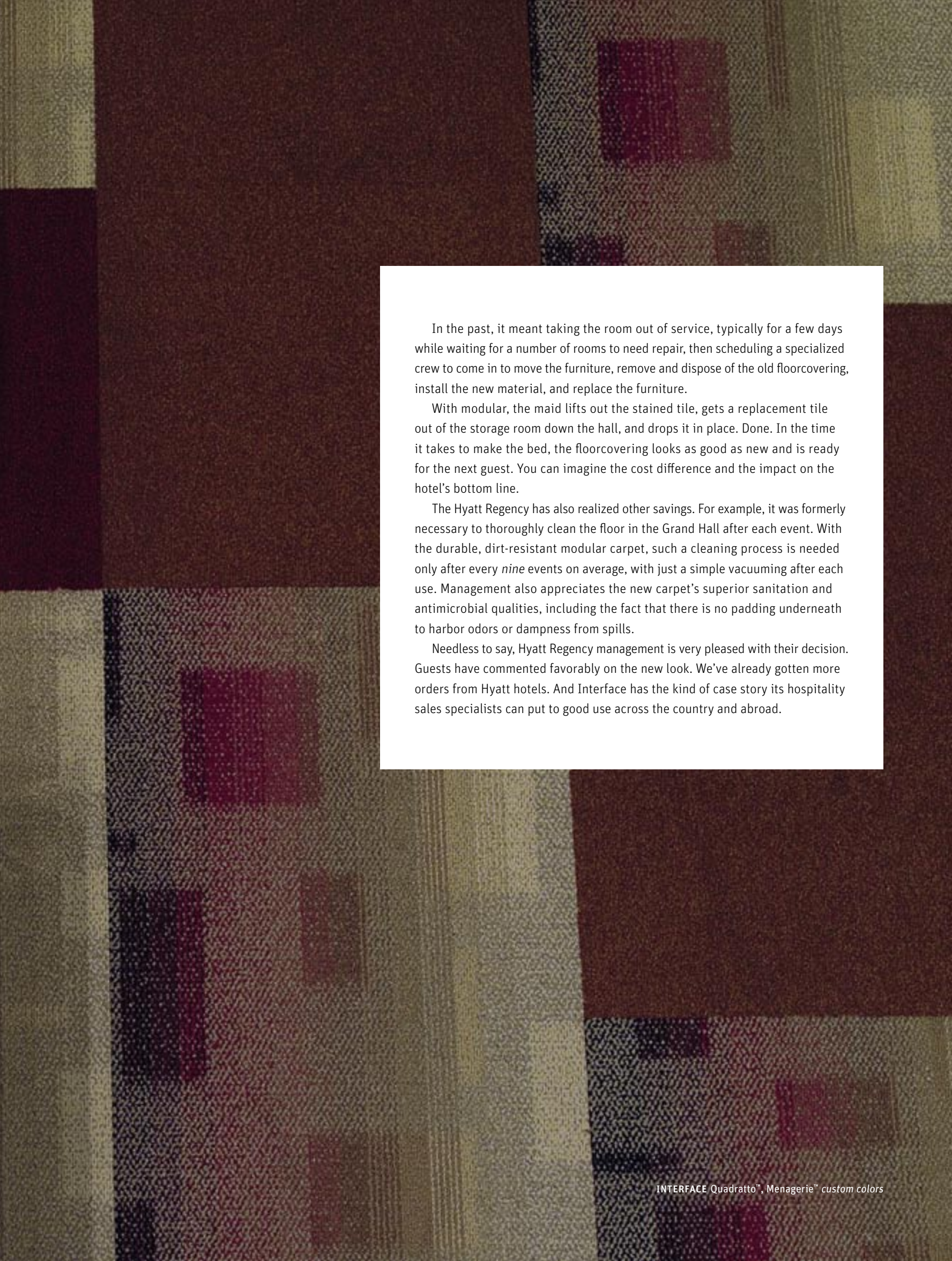
The practical advantages of using modular carpet have been obvious to hotel owners, managers and engineers for some years. Aesthetics were the problem. What looked outstanding in an office setting did not always please the eye in a luxury hotel. Convinced that the hospitality industry was a natural market for modular, Interface turned to its leading designer, David Oakey, to create designs that would appeal to hoteliers and their guests, based on market research. Then, armed with modular products that had the right look, backed up by an array of compelling installation and maintenance selling points, Interface set out to find major hotels planning to renovate soon. The Hyatt Regency Atlanta was the first to respond to the case for Interface modular carpet.

Their commitment was total. **Relying on the turnkey floorcovering service provided by Interface's Re:Source Georgia, the Hyatt had various modular styles and colors installed in over 800 guest rooms, in all the corridors, and in the large Grand Hall—a total of almost 50,000 square yards.**

It would have taken much more traditional floorcovering for the same floorspace because of trimming waste, and installation labor would have been much more time-consuming and disruptive. These initial savings alone would justify the switch to modular, but that's only the beginning of the benefits.

Perhaps the best way to appreciate the ongoing beauty of a hotel carpeted with modular is to imagine what happens when a maid discovers an unsightly stain in the middle of a guest room floor.





In the past, it meant taking the room out of service, typically for a few days while waiting for a number of rooms to need repair, then scheduling a specialized crew to come in to move the furniture, remove and dispose of the old floorcovering, install the new material, and replace the furniture.

With modular, the maid lifts out the stained tile, gets a replacement tile out of the storage room down the hall, and drops it in place. Done. In the time it takes to make the bed, the floorcovering looks as good as new and is ready for the next guest. You can imagine the cost difference and the impact on the hotel's bottom line.

The Hyatt Regency has also realized other savings. For example, it was formerly necessary to thoroughly clean the floor in the Grand Hall after each event. With the durable, dirt-resistant modular carpet, such a cleaning process is needed only after every *nine* events on average, with just a simple vacuuming after each use. Management also appreciates the new carpet's superior sanitation and antimicrobial qualities, including the fact that there is no padding underneath to harbor odors or dampness from spills.

Needless to say, Hyatt Regency management is very pleased with their decision. Guests have commented favorably on the new look. We've already gotten more orders from Hyatt hotels. And Interface has the kind of case story its hospitality sales specialists can put to good use across the country and abroad.

Mall

A COMFORTING CHANGE FOR JAPANESE SHOPPERS by Interface Asia-Pacific and AEON

SHAMPOO BOY

to Mall Carpeting

Shoppers in the Northern

Japanese city of Yamagata encountered something surprising when retail giant AEON Co., LTD. opened a new mall there in August 2001: modular carpet. All public spaces in the mall were covered with Interface modular carpet tiles. This was surprising not only because in Japan, as in most modern countries, mall floors are typically hard-surfaced, but also because winters are harsh and snowy in Yamagata and the floors in a busy mall would take punishing abuse from foot traffic. The results proved that AEON executives knew what they were doing.

Associates at major builder Daiwa House Industry and Benchmark design consultants recommended Interface modular floorcovering for this landmark installation because it offered a unique combination of qualities. In terms of aesthetics and atmosphere, **it transformed what would normally be a noisy commercial space into an area that was quieter and more comforting, giving a home-like feeling.** It was also a highly attractive floorcovering. And it stood up admirably to the abuse, taking winter wet and dirt in stride and lending itself to easy maintenance. AEON was convinced, and they began carpeting malls in earnest, both new installations and renovations.

Today, 30 AEON malls treat shoppers to the cushioned feel of Interface modular carpeting. An installation completed in July 2002 serves as a good illustration of why modular has been so good for business. The Diamond City Itami Shopping Center was built in a suburban area that many people believed could not support such a big mall. But the crowds came, shopped and made it a big success for AEON. The carpet seems to have played a role in that success. According to Interface's General Manager in Japan, Tetsuhide Ko, "So many people come to this shopping mall, so many families with kids—especially on weekends. Normally, Japanese mothers think of hard floors as dangerous, so they tell kids not to play or run on the floor. But on carpet tile, many mothers let their kids play, run and sit on the floor. It's kind of like being in the family room of a home." There's a silver lining for the merchants, too. Ko says that **in interviews shoppers say they do not get as tired on the carpeted floors, and so they stay in the mall longer.** Any retailer can tell you that longer stays mean more sales.

Overall, Interface sales in Japan were up over 10% in 2003, and the growth for all of Asia-Pacific was more than 20%—this in spite of the strong negative impact of the SARS outbreak. Australia led the way with a gratifying 28% increase in 2003 sales. In the mid-1980s, we became the first company to sell carpet tile in China and we're now considered the top brand in that country. We intend to capitalize on our leading position there, increasing our sales and distribution presence in keeping with their burgeoning economy.

In Europe as well as Asia-Pacific, the Heuga brand of modular carpet has injected new life into Interface sales because it hits the price and quality points that many markets in many countries are seeking. The Heuga mid-price strategy is working especially well in Asia, where many customers are perfectly happy with carpet that has a somewhat shorter life cycle. Lower-weight Heuga tiles cost less to manufacture, so they can be economically priced yet still provide solid value to customers and good margins for Interface.



Anthony P. Minite
President, Bentley Prince Street

Hard times in the corporate office market have made us take a long,

hard look at our broadloom business. What we see is actually very encouraging.

First of all, quality and design are keeping Bentley Prince Street in the forefront of carpet manufacturers. This was confirmed by the results of The Top 250 Design Survey 2003, conducted by *Floor Focus* magazine, which is the leading trade publication for the floorcovering industry. Asked who their “favorite carpet manufacturers” are, **the top 250 interior design firms in the U.S. put Bentley Prince Street at the top of the list in both product quality and design.**

We know, too, that broadloom carpet will still account for half the sales in the commercial carpet market. So we’ve analyzed broadloom operations from top to bottom, taking out costs and lowering the break-even point. This means that with a modest recovery in the corporate office market and progress with our segmentation strategy, broadloom can regain historic profitability for us, even with a lower sales base.

Advances in manufacturing efficiencies are impacting the bottom line more quickly, but perhaps the most exciting long-term story at Bentley Prince Street is the segmentation plan. With steady growth of 2003 broadloom sales in segments other than the corporate office market, the near-term targeted sales mix—60% corporate office, 40% in other markets—has already been reached. This will help protect Bentley Prince Street from future corporate down cycles.

One important segment in the plan is healthcare. Realizing that new markets could be captured more effectively with products designed to meet special market needs, Bentley Prince Street conducted a rigorous five-month study of the healthcare market. The result of this market analysis was the Bentley® Chakra™ Collection.

Named in honor of the ancient tradition in which color plays a role in healing, **Chakra broadloom carpet is designed to help healthcare facilities create a more attractive and comforting environment for patients, family members and staff.** Patterns, textures and colors were created to have an original look yet also coordinate well with standardized finishes that are commonly used in a range of healthcare facilities. And the beauty of Chakra is more than skin-deep. The carpet must withstand years of heavy traffic in such locations as hospital corridors, so Bentley Prince Street constructs it of premium branded nylon. The high-performance backing incorporates a moisture barrier that prevents spills from penetrating the backing or reaching the subfloor—where unwanted organisms could breed.

In addition to the healthcare market, Bentley Prince Street is also making steady progress in the education, hospitality, retail and residential markets. To appeal to U.S. consumers, Prince Street House & Home broadloom carpet and area rugs are now being sold in about 350 upscale stores.

Another significant development at Bentley Prince Street is the “third brand strategy.” In addition to the two established brand families—the broad, mid-priced, collections-oriented Bentley brand, and the more classic, high-end Prince Street® brand—the company now offers the value-priced BPS™ Collection. This fills out the complete range of price points, making Bentley Prince Street the single source for meeting all customer needs and also opening the door to price-sensitive markets, such as tenant improvement, real estate developers and building managers.



Healthy Prognosis

Home

GAINING A FOOTHOLD IN THE \$11 BILLION U.S. RESIDENTIAL MARKET by InterfaceFLOR and David Dabill



at Last



Step into any of 16 Lowe's Home Improvement centers in the Atlanta area

and you'll see an exciting new floorcovering option for do-it-yourselfers: InterfaceFLOR modular carpet. Impressed with the product's good looks, easy installation and affordability, Lowe's was interested in test marketing InterfaceFLOR products to determine if sales would be strong enough to merit a nationwide rollout. This is exciting because Lowe's is one of the largest home improvement retailers in the U.S. Initial sales numbers are good and the feedback from Lowe's employees and customers has been very positive.

Most consumers are still either unaware of modular carpet or think of low quality "carpet squares" they've seen in the past. **In order to get a piece of the U.S. residential carpet market—estimated at \$11 billion annually—Interface must promote widespread awareness of InterfaceFLOR.** To do this cost-effectively, the company launched a media blitz in 2003. Not a costly paid advertising campaign, but a well-orchestrated publicity campaign—at virtually no cost to the company—to get InterfaceFLOR products shown and talked about in media that reach large numbers of consumers. As a result, **the total number of media impressions for InterfaceFLOR during 2003 was a stunning 450 million.** The products were featured in magazines such as *PARADE*, *Good Housekeeping*, *U.S. News & World Report*, *Country Living*, *RealSimple*, *Martha Stewart Living*, *Home*, *House Beautiful*, *House & Garden*, *Metropolitan Home* and *ELLE Décor*. They were topics in major newspapers, including *The New York Times*, *Wall Street Journal*, *The Washington Post*, *Chicago Tribune* and *Houston Chronicle*. Coverage on television has also been excellent, with InterfaceFLOR appearing on NBC's "The Today Show," HGTV's "Designer Challenge," MTV's "Crib Crashers," ABC's "The View," Style Network's "All Year Round with Katie Brown," The Learning Channel's "While You Were Out" and "Trading Spaces," CBS's "Livin' It Up with Ali and Jack" and Bravo's "Queer Eye for the Straight Guy." Exposure like this should quickly acquaint consumers with modular carpet in general and InterfaceFLOR in particular.

For InterfaceFLOR, the first customers are the "early adopters" who are trendy, design-conscious and on the lookout for new things. Interface has opened two direct sales channels to reach them. A website—www.interfaceFLOR.com—where browsers are becoming buyers in growing numbers. And a colorful, large-format InterfaceFLOR catalog mailed to a targeted list of about 300,000 consumers. InterfaceFLOR carpet has also been featured in leading upscale third-party catalogs like *Design Within Reach*. Once catalog users have decided which InterfaceFLOR pattern and color to buy, they can either call a toll-free number or go to the website to place their orders.

David Dabill, who lives in Manhattan, is a typical, happy InterfaceFLOR customer. "We had been looking for the 'perfect' flooring solution in two rooms for quite some time," he says. "We decided that InterfaceFLOR might be a good temporary solution. It was so inexpensive and adaptable, we felt we couldn't go wrong." He was pleased with the quick delivery, the ability to play with the patterns, and the easy installation. And the results were so attractive, his InterfaceFLOR turned into more than just a temporary solution. As more and more consumers have experiences like David's, InterfaceFLOR should begin to take its rightful share in the enormous residential market.





Christopher J. Richard
President, Interface Fabrics Group

Interface Fabrics Group is being transformed—in the way we're structured, and in the way we do business with our customers.

Over the years, Interface had acquired a number of fabric companies. As recently as 2002, we were selling fabric through a patchwork of 13 separate companies. Each had its own products, its own salespeople, its own customer relationships, and its own administrative support functions. As long as contract business was good, with the corporate office market consuming large quantities of upholstered furniture and fabric-covered partitioning panels, the need to eliminate redundancies and inefficiencies was less apparent. But when that market collapsed, we knew it was time for aggressive reforms and we reshaped our fabrics management team under new leadership to achieve new objectives quickly.

Today, after 18 months of efforts, **we have completed a rationalization process that consolidated those 13 separate businesses into just two: Interface Fabrics North America and Interface Fabrics Europe.** This consolidation has resulted in a much-needed streamlining of operations without sacrificing deliverables. Our aim is to provide each customer with a single point of contact to access the complete range of Interface fabrics and services in a timely and cost-effective manner.

As in our modular and broadloom carpet businesses, we also began looking beyond our traditional corporate furnishings market. Though fabric sales to OEM customers now seem to be climbing again, we are determined to lessen our dependency on that business. We recognized that there is an excellent opportunity for us to market production services to existing and new customers, and we are now capitalizing on this opportunity with a product-and-service strategy known as TekSolutions®.

Engaged in their own search for cost reductions, many furniture manufacturers are in the market for fabric pieces that have been pre-cut and otherwise modified—with stabilizers, backcoatings, adhesives, fire-resistant or moisture-resistant laminations, or soil retardants—to reduce their own labor, equipment and inventory costs. TekSolutions offers all these services, not only with Interface fabrics but also with fabrics shipped in by customers from other mills. By its nature, TekSolutions enables us to work closely with customers to help them meet their objectives with value-added product-service solutions. **We function more like a partner than a supplier, building strong and mutually beneficial relationships.**

We're broadening our base of future fabrics sales in other ways, too. Analyzing our existing capabilities and resources, we have identified and are aggressively pursuing other fabrics markets. This means translating what we do for the office furniture market to appeal to fabrics buyers in the hospitality, education, healthcare, entertainment, window treatment, automotive and transportation markets.

With a leaner, more cost-efficient organization and an aggressive program of market diversification well under way, Interface Fabrics Group is writing a new and exciting chapter.



Making
the

Cut

Waste



Patrick Bowie
Director of Utilities, City of LaGrange, Georgia

David H. Gustashaw
Vice President of Engineering, Interface Americas

Not

Nine miles from the Interface plant in LaGrange, Georgia, sits a landfill where nature slowly digests garbage and generates methane. Though the process is natural, this type of greenhouse gas actually magnifies the damage to the atmosphere and is a major contributor to global warming.

Now, as a result of Interface's constant search for ways to pursue sustainability, **this environmental problem is being transformed into a new enterprise that will protect the environment, pay off for the City of LaGrange, and reduce operating costs at the Interface plant.**

City officials were already planning to build a bioreactor and retaining wall at the landfill but weren't thinking about putting the landfill gas (LFG) to use. Interface, with alternative energy options somewhat limited by our remote west central Georgia location, saw this as an opportunity not to be missed, so we worked hard to persuade local officials that collecting LFG and transporting it to industrial users was feasible. We also made a firm commitment to be their first customer. Our persistence paid off and soon the LFG will be captured and piped to the industrial park where Interface and others can use this renewable energy. We plan to use it to fire two hot oil heaters and a boiler at our plant beginning in the late summer.

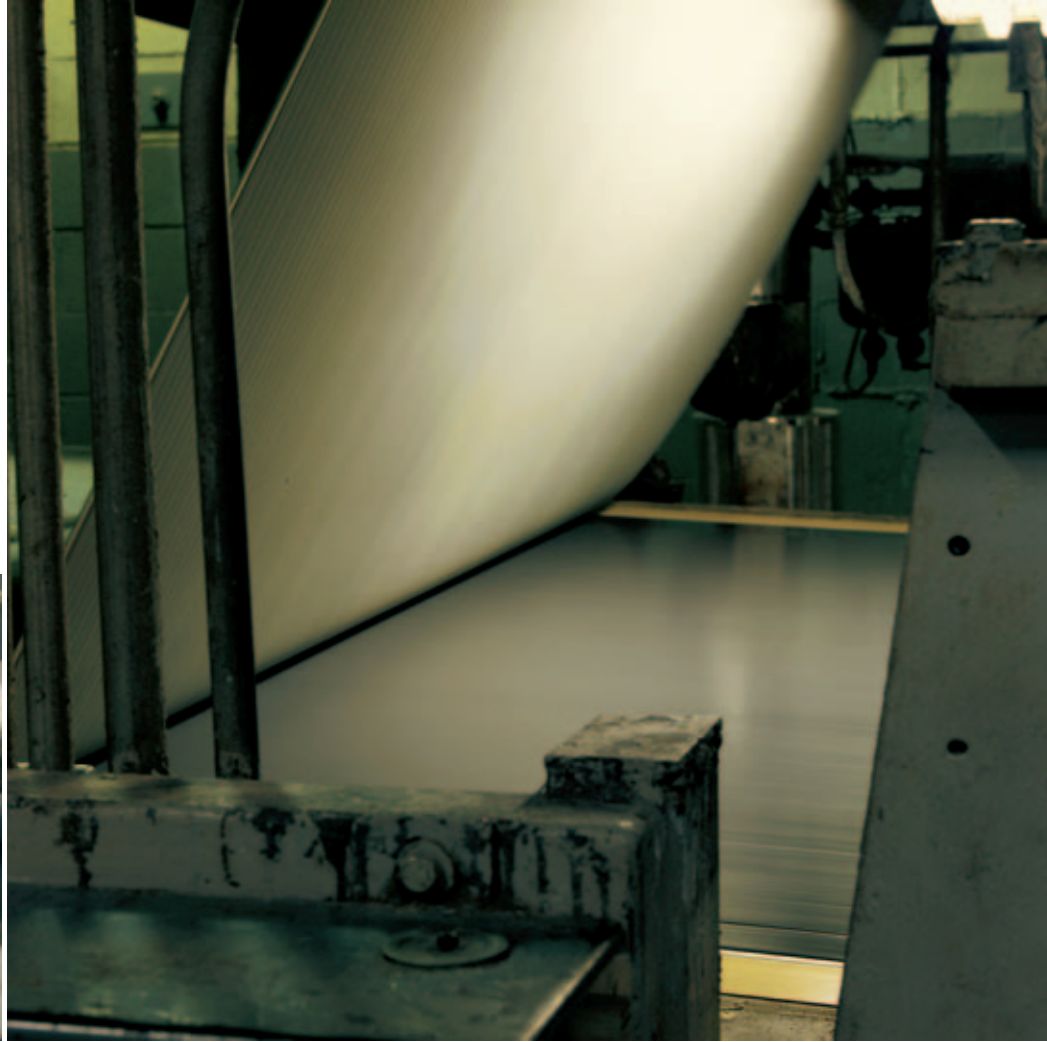
By selling the LFG, the City of LaGrange will improve the local economy while protecting the local environment. The global environment will also benefit from the prevention of the release of this greenhouse gas. And Interface will pay less for the LFG than it would have to pay for natural gas, which will benefit our bottom line.



Every year, the U.S. Environmental Protection Agency presents its **Climate Protection Awards** to a select international group of companies, governments, organizations and individuals for “exemplary efforts and achievements in protecting the climate.” **Interface was honored to be named one of just 12 recipients of this award in 2004.** Our selection, by EPA staff and an international panel of judges, was based in part on our innovative climate neutral programs. One is the Cool Carpet™ option, launched in 2003 to promote climate neutral products and services by giving customers, for a small upcharge, the opportunity to offset all the greenhouse gases emitted during the complete life cycle of the product. This option can be exercised with the purchase of any Interface, Bentley, Prince Street or Heuga brand carpet manufactured in the U.S. or Europe. Our other climate neutral programs include Cool Fuel™, which offsets CO₂ emissions from business auto travel, Cool CO₂mmute™, which offsets Interface employee commuting emissions, and Trees for Travel, which offsets business air travel emissions.

Now that many manufacturers are recognizing the appeal of environmental claims, buyers can be easily confused about the real merits of one product as opposed to another. What products have the least effect on the environment? After an extensive 14-week evaluation by Scientific Certification Systems, an organization respected for giving objective, third-party ratings, **Interface received the carpet industry’s first certification of a modular carpet product as an “Environmentally Preferred Product,”** or EPP. So when customers want to be sure they’re making the right environmental choice, they will find the EPP certification on all Interface products made with INVISTA’s Antron® Legacy or Antron Lumena® face fiber with our recycled GlasBac® RE backing.

This is what we mean when we say, “Doing well by doing good.”



Interface pursues sustainability on seven different fronts.

FRONT ONE: ZERO WASTE Reducing both financial and material waste, including the reduction of raw materials needed to make our products.

FRONT TWO: BENIGN EMISSIONS Identifying and eliminating any hazardous substances in our products and manufacturing processes, and reducing harmful effluents and emissions like greenhouse gases.

FRONT THREE: RENEWABLE ENERGY Minimizing energy consumption and increasing use of non-fossil-fuel-derived energy.

FRONT FOUR: CLOSING THE LOOP Reducing the amount of petroleum-based materials used, and increasing the use of natural and recovered/recycled materials.

FRONT FIVE: RESOURCE-EFFICIENT TRANSPORTATION Implementing innovative packaging technologies while offsetting emissions from business travel, and minimizing emissions from in-bound and out-bound freight.

FRONT SIX: SENSITIVITY HOOK-UP Improving lives and raising awareness of stakeholders through work safety programs, community involvement and investment, and influence.

FRONT SEVEN: REDESIGN COMMERCE Focusing on delivering service and value rather than material, and recovering used materials for recycling.

CUMULATIVE QUEST SAVINGS IN MILLIONS SINCE 1994



TOTAL PERCENT NONRENEWABLE CONTENT IN RAW MATERIALS FOR ALL OF INTERFACE OPERATIONS



BTU'S OF NONRENEWABLE PROCESS ENERGY USED TO MAKE CARPET COMPANY-WIDE



TOTAL METRIC TONS OF CO₂ EMISSIONS FROM STATIONARY COMBUSTION AND ELECTRICITY CONSUMPTION COMPANY-WIDE



OUNCES OF NONRENEWABLE YARN CONSUMED PER SQUARE YARD OF CARPET COMPANY-WIDE



Online

Given finite resources and a company-wide push to trim costs, how can

Interface capture significant interest and sales in new market segments? This is the marketing challenge faced by Tracy Cook, Vice President of Marketing for Interface Flooring Systems and Re:Source Americas. And the task is made even more demanding by the fact that the company has, according to Cook, decided to “dominate, not dabble” in the targeted new segments.

A major part of the solution is the internet. By establishing a strong presence on the web and giving specifiers and end users online tools that are both persuasive and practical, **Interface is penetrating new markets much more cost-effectively than could be done through more traditional marketing channels.**

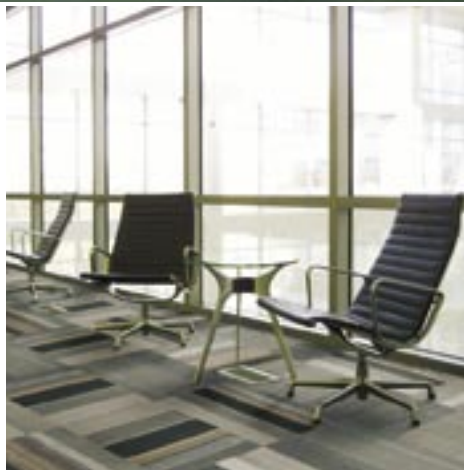
About four years ago, we introduced a robust web site that is now known as “The Market™.” This enables registered users to browse through a large number of “digital swatches” online, review full product specifications, organize selected items into project folders, order samples, check product availability, request quotes and monitor order status. This introduction represented a tremendous step toward maximum use of the internet and digital technologies to acquaint new markets with what Interface offers in broadloom and modular carpet. It spins off new leads for the sales staff as well. Interface also has begun conducting e-mail campaigns designed to drive carefully targeted prospects to The Market.

Our most exciting development online came in late 2003, when registered users of The Market were invited to have a look at something new: Inspired Online™. At this site, designers and end users can see not only what our modular products look like—they can also see what they would look like installed in a choice of settings. Interested in seeing what different styles and colorways would look like in a corporate conference room, in a high school library, in a hotel room, or in a clothing store? Just choose a photographic template from the large Inspired Online archive, then start plugging in modular carpet images to see what effect you get. As helpful as this innovative online visualization tool is, you can now get even closer to seeing what installed product would

Design



INTERFACE Tatami™ custom color



look like in the area you want to carpet. Upload a digital image—of a lobby, a break room, a classroom, or whatever—and within 72 hours an Interface graphics specialist will convert it into a template and post it online for you, so you can now look at various modular products not only in a typical setting but in your actual setting. As Tracy Cook says, Inspired Online gives prospective customers “the power to visualize modular products in place.” And, as the old saying goes, seeing is believing. Designers still want to see a “fuzzy sample” they can hold and feel before making a final decision, but this new sales tool certainly accelerates the process and focuses them on Interface products. Inspired Online will be expanded to include broadloom products in 2004.

Response to this truly inspirational online service has been “phenomenal.” Mandy Nolen, project manager for Inspired Online, reports that hundreds of custom images have been converted already and that the number of new users registering for The Market has increased dramatically, perhaps because of the availability of Inspired Online. This positions us as the industry leader in making innovative digital tools available to design professionals.

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■ Audit Committee Member
● Compensation Committee Member
▲ Nominating Committee Member

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General Counsel and Secretary

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and Treasurer

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Senior Vice President
(President – InterfaceFLOR)

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Finance

E. David Hobbs
Senior Vice President
Operations

Joyce D. LaValle
Senior Vice President
Human Services

Anthony P. Minite
Senior Vice President
(President – Bentley Prince Street)

David L. Prosser
Senior Vice President
(President – Re:Source Americas)

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Operations

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Finance and Sales (Asia)

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Paul Paydos
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Planning and Purchasing

C. Paul Goodall
Vice President
(Managing Director – Camborne)

Mary Alyce Higgins
Vice President
Human Resources

Larissa A.M. Larrabee
Vice President
Finance and Administration

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
Chief Financial Officer
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 20, 2004 at:
Interface, Inc.
2859 Paces Ferry Road
Atlanta, Georgia 30339

TRANSFER AGENT AND DIVIDEND DISBURSING AGENT

EquiServe Trust Company, N.A.
P.O. Box 43023
Providence, Rhode Island 02940-3023

NUMBER OF SHAREHOLDERS OF RECORD AT MARCH 1, 2004

Class A – 938
Class B – 56

CHANGE OF ADDRESS

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

Registrar
EquiServe Trust Company, N.A.
P.O. Box 43023
Providence, Rhode Island 02940-3023

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Atlanta, Georgia

PRINCIPAL LEGAL COUNSEL

Kilpatrick Stockton, LLP
Atlanta, Georgia

CORPORATE ADDRESS

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2859 Paces Ferry Road
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Atlanta, Georgia 30339
TEL (770) 437 6800
FAX (770) 803 6950
www.interfaceinc.com

TICKER SYMBOL

IFSIA (Nasdaq)

FORWARD-LOOKING STATEMENTS

This report contains statements which may constitute “forward-looking statements” under applicable securities laws, including statements regarding the intent, belief, or current expectations of Interface, Inc. (the “Company”) and members of its management team, as well as 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 under the heading “Safe Harbor Compliance Statement for Forward-Looking Statements” in Item 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2003, and are hereby incorporated by reference. The Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

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SYSTEM

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