INTERFACE INC
Form 424B2
November 07, 2006

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Filed Pursuant to Rule 424(b)(2)
Registration No. 333-134168

PROSPECTUS SUPPLEMENT
(To Prospectus Dated May 15, 2006)

5,000,000 Shares

Class A Common Stock
$14.65 per share

We are selling 5,000,000 shares of our Class A common stock. We have granted the underwriters an option to purchase up to 750,000 additional shares of Class A common stock to cover over-allotments.

Our Class A common stock is quoted on the Nasdaq Global Market under the symbol IFSIA . The last reported sale price for our Class A common stock on the Nasdaq Global Market on November 6, 2006 was $14.79 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 10.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$ 14.6500	$ 73,250,000
Underwriting Discount	$ 0.8424	$ 4,211,875
Proceeds to Interface (before expenses)	$ 13.8076	$ 69,038,125

The underwriters expect to deliver the shares to purchasers on or about November 10, 2006.

Citigroup

Raymond James

Stifel Nicolaus

SunTrust Robinson Humphrey

BB&T Capital Markets

November 6, 2006

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This prospectus supplement is part of a registration statement that we filed with the Securities and Exchange Commission, using a shelf registration process. Under this shelf process, we may sell any combination of the securities described in the registration statement in one or more offerings. We have provided to you in this prospectus supplement a description of the common stock we are now offering. Unless the context indicates otherwise, all references in this prospectus supplement to we, our, us, or the company refer to Interface, Inc. and its subsidiaries on a consolidated basis.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement or the documents to which we have referred you or information that is contained in any free writing prospectus we may authorize to be delivered to you. We have not authorized anyone to provide you with information that is different from such information. If anyone provides you with different information, you should not rely on it. We have not, and the underwriters have not, authorized anyone to provide you with different information. We, and the underwriters, are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained or incorporated by reference in this prospectus supplement is accurate only as of the date of each document regardless of the time of delivery of this prospectus supplement or any sale of these securities. In case there are any differences or inconsistencies between this prospectus supplement and the information incorporated by reference, you should rely on the information in the document with the latest date.

References to our website have been provided for textual reference only, and information on our website does not constitute part of this prospectus supplement. This prospectus supplement is not an offer to sell or the

solicitation of an offer to buy our common stock in any circumstances or jurisdiction where the offer or sale is not permitted.

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SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all the information that you should consider before investing. You should read the entire prospectus supplement carefully, including the section entitled Risk Factors and our financial statements and the accompanying notes incorporated by reference into this prospectus supplement.

The Company

We are the worldwide leader in design, production and sales of modular carpet. Our global market share of the specified carpet tile segment is approximately 35%, which we believe is more than double that of our nearest competitor. In recent years, modular carpet sales growth in the floorcovering industry has significantly outpaced the growth of the overall industry, as architects, designers and end users increasingly recognized the unique and superior attributes of modular carpet, including its dynamic design capabilities, greater economic value (which includes lower costs as a result of reduced waste in both installation and replacement), and installation ease and speed. Our Modular Carpet segment sales, which do not include modular carpet sales in our Bentley Prince Street segment, grew from $442 million to $646 million during the 2002 to 2005 period, representing a 13.5% compound annual growth rate.

We are also a leading manufacturer and marketer of other products for the commercial interiors industry, including broadloom carpet, panel fabrics and upholstery fabrics. Our *Bentley Prince Street*® brand is the leader in the high-end, designer-oriented sector in the broadloom market segment, where custom design and high quality are the principal specifying and purchasing factors. Our Fabrics Group includes the leading U.S. manufacturer of panel fabrics for use in open plan office furniture systems, with a market share we believe to be approximately 50%, and the leading manufacturer of contract upholstery fabrics sold to office furniture manufacturers in the United States, with a market share we believe to be approximately 30%.

As a global company with a reputation for high quality, reliability and premium positioning, we market products in over 100 countries under established brand names such as *InterfaceFLOR*®*, Heuga*®*, Bentley Prince Street* and *FLOR*™ in modular carpet; *Bentley Prince Street* and *Prince Street House and Home*™ in broadloom carpet; *Guilford of Maine*®*, Chatham*® and *Terratex*® in interior fabrics and upholstery products; and *Intersept*® in antimicrobial chemicals. Our principal geographic markets are the Americas, Europe and Asia-Pacific, where our sales were approximately 62%, 31% and 7%, respectively, of total net sales for fiscal year 2005.

Capitalizing on our leadership in modular carpet for the corporate office segment, we embarked on a segmentation strategy in 2001 to increase our presence and market share for modular carpet sales in non-corporate office market segments, such as government, healthcare, hospitality, education and retail space, which combined are almost twice the size of the approximately $1 billion U.S. corporate office segment. In 2003, we expanded our segmentation strategy to target the approximately $11 billion U.S. residential market segment for carpet. As a result, our mix of corporate office versus non-corporate office modular carpet sales in the Americas shifted to 48% and 52%, respectively, for the first six months of 2006 compared to 64% and 36%, respectively, in 2001. We believe the appeal and utilization of modular carpet is reaching a tipping point of acceptance in each of these non-corporate office segments, and we are using our considerable skills and experience with designing, producing and marketing modular products that make us the market leader in the corporate office segment to support and facilitate our penetration into these new segments around the world.

Our modular carpet leadership, strong business model and segmentation strategy, implementation of strategic restructuring initiatives we commenced in 2000, and sustained strategic investments in innovative product concepts and designs enabled us to weather successfully the unprecedented downturn, both in severity and duration, that affected the commercial interiors industry from 2001 to 2003. As a result, we were well-positioned to capitalize on improved market conditions when the commercial interiors industry began to recover in 2004. From 2003 to 2005, we increased our net sales from $766.5 million to

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$985.8 million, a 13.4% compound annual growth rate. We increased our net sales from $481.3 million in the first six months of 2005 to $509.3 million in the first six months of 2006, notwithstanding the April 2006 sale of our European fabrics business, which had net sales of $62.8 million in 2005. We expect further improvements in net sales and other related value measurements as we build upon our core strengths and strategies.

Our Strengths

Our principal competitive strengths include:

Market Leader in Attractive Modular Carpet Segment. We are the world s leading manufacturer of carpet tile with a market share in the specified carpet tile segment (which is the segment where architects and designers are heavily involved in specifying , or selecting, the carpet) of approximately 35%, which we believe is more than double that of our nearest competitor. Modular carpet has become more prevalent across all commercial interiors markets as designers, architects and end users become more familiar with its unique attributes. We are driving this trend with our product innovations and designs discussed below, and we expect that this trend will continue. According to the 2006 *Floor Focus* interiors industry survey of the top 250 designers in the United States, carpet tile was ranked as the number one hot product for the eighth consecutive year. We believe that we are well positioned to lead and capitalize upon the continued shift to modular carpet both domestically and around the world.

Established Brands and Reputation for Quality, Reliability and Leadership. Our products are known in the industry for their high quality, reliability and premium positioning in the marketplace. Our established brand names in carpets and interior fabrics are leaders in the industry. The 2006 *Floor Focus* survey ranked an Interface brand first or second in each of the five survey categories for carpet: design, quality, service, performance and value. Interface companies also ranked first and fourth in the category of best overall business experience for carpet companies in this survey. On the international front, *Heuga* is one of the well recognized brand names in carpet tiles for commercial, institutional and residential use. *Guilford of Maine, Chatham* and *Terratex* are leading brand names in their respective markets for commercial interior fabrics. More generally, as the appeal and utilization of modular carpet continues to expand into new market segments such as education, hospitality and retail space, our reputation as the inventor and pioneer of modular carpet as well as our established brands and leading market position for modular carpet in the corporate office segment will enhance our competitive advantage in marketing to the customers in these new markets.

Innovative Product Design and Development Capabilities. Our product design and development capabilities have long given us a significant competitive advantage, and they continue to do so as modular carpet s appeal and utilization expand across virtually every market segment and around the globe. One of our best design innovations is our *i2*™ modular product line, which includes our popular *Entropy*® product for which we received a patent in 2005 on the key elements of its design. The *i2* line introduced and features random patterning designs (which allow for mergeable dye lots and permit initial installation and replacement without regard to the directional orientation of the carpet tiles), cost-efficient installation and maintenance, interactive flexibility, and recycled and recyclable materials. Our *i2* line of products, which now comprises more than 30% of our total U.S. modular carpet business, represents a differentiated category of smart, environmentally sensitive and stylish modular carpet, and *Entropy* has become the fastest growing product in our history. The award-winning design firm David Oakey Designs, Inc. had a pivotal role in developing our *i2* product line, and our long-standing exclusive relationship with David Oakey Designs remains vibrant and augments our internal research, development and design staff. Another recent innovation is our patent-pending *TacTiles*™ carpet tile installation system, which uses small squares of adhesive plastic film to connect intersecting carpet tiles, thus eliminating the need for traditional carpet adhesive resulting in a reduction in installation time and waste materials.

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Make-to-Order and Global Manufacturing Capabilities. The success of our modernization and restructuring of operations over the past several years gives us a distinct competitive advantage in meeting two principal requirements of the specified products markets we primarily target that is, providing custom samples quickly and on-time delivery of customized final products. We also can generate realistic digital samples that allow us to create a virtually unlimited number of new design concepts and distribute them instantly for customer review, while at the same time reducing sampling waste. Approximately 85% of our modular carpet products in the United States and Asia-Pacific markets are now made-to-order and we are increasing our made-to-order production in Europe as well. Our make-to-order capabilities not only enhance our marketing and sales, they significantly improve our inventory turns. Our global manufacturing capabilities in modular carpet production are an important component of this strength, and give us an advantage in serving the needs of multinational corporate customers that require products and services at various locations around the world. Our manufacturing locations across four continents enable us to compete effectively with local producers in our international markets, while giving international customers more favorable delivery times and freight costs.

Recognized Global Leadership in Ecological Sustainability. Our long-standing goal and commitment to be ecologically sustainable that is, the point at which we are no longer a net taker from the earth and do no harm to the biosphere has emerged as a competitive strength for our business and remains a strategic initiative. It now includes *Mission Zero*tm, our recently launched global branding initiative, which represents our mission to eliminate any negative impact our companies may have on the environment by the year 2020. Our acknowledged leadership position and expertise in this area resonate deeply with many of our customers and prospects around the globe, and provide us a differentiating advantage in competing for business among architects, designers and end users of our products, who increasingly make purchase decisions based on green factors. The 2006 *Floor Focus* survey, which named us the top company among the Green Leaders and gave our carpet tile the top honors for Green Kudos , found that 74% of such designers consider sustainability an added benefit and 20% consider it a make or break issue when deciding what products to recommend or purchase.

Strong Operating Leverage Position. Our operating leverage, which we define as our ability to realize profit on incremental sales, is strong and allows us to increase earnings at a higher rate than our rate of increase in net sales. Our operating leverage position is primarily a result of (1) the specified, high-end nature and premium positioning of our principal products in the marketplace, and (2) the mix of fixed and variable costs in our manufacturing processes that allows us to increase production of most of our products without significant incremental increases in fixed costs. For example, while net sales from our Modular Carpet segment increased from $442.3 million in 2002 to $646.2 million in 2005, our operating income from that segment increased from $42.0 million (9.5% of net sales) in 2002 to $77.4 million (12.0% of net sales) in 2005.

Experienced and Motivated Management and Sales Force. An important component of our competitive position is the quality of our management team and its commitment to developing and maintaining an engaged and accountable work force. Our team is highly skilled and dedicated to guiding our overall growth and expansion into our targeted market segments, while maintaining our leadership in traditional markets and our high contribution margins. We utilize an internal marketing and predominantly commissioned sales force of approximately 660 experienced personnel, stationed at over 70 locations in over 30 countries, to market our products and services in person to our customers. We have also developed special features for our incentive compensation and our sales and marketing training programs in order to promote performance and facilitate leadership by our executives in strategic areas.

Our Business Strategy and Principal Initiatives

Our business strategy is (1) to continue to use our leading position in the modular carpet segment and our product design and global make-to-order capabilities as a platform from which to drive acceptance of modular carpet products across industry segments, while maintaining our leadership position in the corporate office market segment, and (2) to return to our historical profit levels in the high-end, designer-oriented sector of the broadloom carpet market and in the interior fabrics market. We will seek to increase revenues and profitability by capitalizing on the above strengths and pursuing the following key strategic initiatives:

Continue to Penetrate Non-Corporate Office Market Segments. In both our floorcoverings and fabrics businesses, we will continue our focus on product design and marketing and sales efforts on non-corporate office market segments such as government, education, healthcare, hospitality, retail and residential space. We began this initiative as part of our market segmentation strategy in 2001 primarily to reduce our exposure to the more severe economic cyclicality of the corporate office segment, and we have shifted our mix of corporate office versus non-corporate office modular carpet sales in the Americas to 48% and 52%, respectively, for the first six months of 2006 from 64% and 36%, respectively, in fiscal 2001. To implement this strategy, we:

- introduced specialized product offerings tailored to the unique demands of these segments, including specific designs, functionalities and prices;
- created special sales teams dedicated to penetrating these segments at a high level, with a focus on specific customer accounts rather than geographic territories; and
- realigned incentives for our corporate office segment sales force generally in order to encourage their efforts, and where appropriate, to assist our penetration of these other segments.

As part of this strategy, we launched our *FLOR* and *Prince Street House and Home* lines of products in 2003 to focus on the approximately $11 billion U.S. residential carpet market segment. These products were specifically created to bring high style modular and broadloom floorcovering to the U.S. residential market. *FLOR* is offered in over 1,200 Lowe s stores, many specialty retailers, over the Internet and in a number of major retail catalogs. Through such direct and indirect retailing, *FLOR* sales have grown dramatically, more than doubling from 2004 to 2005. *Prince Street House and Home* brings new colors and patterns to the high-end consumer market with a collection of broadloom carpet and rugs sold through hundreds of retail stores and interior designers. Through a new agreement between our *FLOR* brand and Martha Stewart Living Omnimedia, we expect to further our penetration of the U.S. residential market with a line of Martha Stewart-branded carpet tiles that we anticipate offering in the second half of 2007. Through our Heuga Home division, we have been marketing modular carpet to the residential segment in select international markets since 2003. We plan to increase our focus on such international residential soft floorcovering markets, the size of which we believe to be approximately $2.3 billion in Western Europe alone.

In our fabrics business, we successfully penetrated the automotive fabrics market in the fourth quarter of 2005, receiving our first order for product. We believe this new market for our fabrics products has significant potential for growth and profitability for our U.S. fabrics business.

Penetrate Expanding Geographic Markets for Modular Products. The popularity of modular carpet continues to increase compared with other floorcovering products across most markets, internationally as well as in the United States. While maintaining our leadership in the corporate office segment, we will continue to build upon our position as the worldwide leader for modular carpet in order to promote sales in all market segments globally. A principal part of our international focus which utilizes our global marketing capabilities and sales infrastructure is the significant opportunities in several emerging geographic markets for modular carpet. Some of these markets, such as China, India and Eastern Europe, represent large and growing economies that are essentially new markets for modular carpet products. Others, such as Germany, are established markets that are transitioning to the use of modular products from historically low levels of penetration by modular carpet. Each of these emerging markets represents a significant growth opportunity for our modular carpet business. Our initiative to penetrate these markets will include drawing upon our internationally recognized *Heuga* brand. For example, we successfully introduced a mid-priced *Heuga* brand into Asia in 2003, and we plan similar products for other regions while also marketing products based on our *i2* line.

Continue to Minimize Expenses and Invest Strategically. We have steadily trimmed costs from our operations for several years through multiple and sometimes painful initiatives, which has made us leaner today and for the future. Our historical supply chain and other cost containment initiatives have improved our cost structure and yielded the operating efficiencies we sought. While we still seek to minimize our expenses in order to increase profitability, we will also take advantage of strategic opportunities to invest in systems, processes and personnel that can help us grow our business and increase profitability and value.

Sustain Leadership in Product Design and Development. As discussed above, our leadership position for product design and development is a competitive advantage and key strength, especially in the modular carpet segment, where our *i2* products and recent *TacTiles* installation system have confirmed our position as an innovation leader. We will continue initiatives to sustain and augment that strength, and to capitalize upon it to continue to increase our market share in targeted market segments. Our *Mission Zero* global branding initiative, which draws upon and promotes our ecological sustainability commitment, is part of those initiatives and includes placing our *Mission Zero* logo on many of our marketing and merchandising materials distributed throughout the world.

Recent Developments

On October 25, 2006, we announced our unaudited operating results for the quarter and nine months ended October 1, 2006.

Net sales in the 2006 third quarter rose 11.0% to $270.6 million from $243.9 million in the year ago period. As previously announced, we sold our European fabrics business during the 2006 second quarter. Excluding sales from this business in both periods, our net sales for the 2006 third quarter were $270.6 million, a 18.4% increase compared with $228.5 million in the third quarter of 2005. We increased our net sales in the nine months ended October 1, 2006, by 7.6% to $779.9 million from $725.2 million in the year ago period. Excluding sales from our divested European fabrics business in both periods, our net sales for the nine-month period were $762.6 million, a 12.6% increase compared with $677.1 million in the first nine months of 2005.

Operating income for the 2006 third quarter was $25.0 million, versus $20.5 million in the year ago period, an increase of 21.9%. Excluding results from the European fabrics business in both periods, operating income for the third quarter of 2006 was $25.0 million, versus operating income of $19.6 million a year ago, an increase of 27.6%. Operating income for the first nine months of 2006 was $42.8 million, versus operating income of $58.9 million in the first nine months of 2006. Excluding the results of the European fabrics business from both periods and one-time items during the 2006 period (the one-time items in 2006 were a charge for impairment of goodwill of $20.7 million, restructuring charges of $3.3 million, and a loss of $1.7 million on the divestiture of the European fabrics business), operating income in the 2006 nine-month period was $67.4 million, versus $56.5 million a year ago, an increase of 19.3%.

Net income for the 2006 third quarter was $9.1 million, or $0.17 per diluted share, versus net income of $5.1 million, or $0.10 per diluted share in the third quarter a year ago, an increase of 78.4%. For the 2006 nine-month period, we reported a net loss of $2.1 million, or $0.04 per diluted share, versus a net loss of $4.5 million, or $0.08 per diluted share in the 2005 nine-month period. Included in our results for the first nine months of 2006 are an impairment of goodwill of $20.7 million (or $0.39 per diluted share after tax), restructuring charges of $3.3 million (or $0.04 per diluted share after tax), a loss on the divestiture of the European fabrics business of $1.7 million (or $0.03 per diluted share after tax), and other expenses of $0.9 million (or $0.01 per diluted share after tax) for premiums paid in connection with our repurchase of $38.5 million of our 7.30% Senior Notes due 2008. Our results for the first nine months of 2005 included a loss from discontinued operations of $14.7 million (or $0.28 per diluted share after tax), a loss on disposal of discontinued operations of $1.9 million (or $0.03 per diluted share after tax), and a tax charge related to the repatriation of foreign earnings of approximately $1.6 million (or $0.03 per diluted share).

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Our order growth during the third quarter reflects a 20% increase over the level for the comparable period in 2005, to $287.0 million from $240.1 million, and is the highest level achieved for any quarter since 2000. Our backlog of unshipped orders (excluding discontinued operations and the divested European fabrics business) was approximately $132.1 million at October 1, 2006, compared with approximately $98.7 million at October 2, 2005.

Between July 2, 2006 and November 6, 2006, we have repurchased $7.7 million of our 7.30% Senior Notes due 2008.

Our reconciliation of the above non-GAAP performance measures to their respective comparable GAAP performance measures (and related discussion of why we use these non-GAAP measures) is provided in our Form 8-K (and filed pursuant to Item 8.01 thereof) dated October 25, 2006, which reconciliation and discussion are incorporated herein by reference. See Incorporation by Reference . The reconciliation and discussion are also available on the investor relations portion of our Internet website at http://www.interfaceinc.com.

Interface, Inc., a Georgia corporation, began operations in 1973. Our principal offices are located at 2859 Paces Ferry Road, Suite 2000, Atlanta, Georgia 30339, where our telephone number is (770) 437-6800.

In this prospectus supplement, we use (without the ownership notation after the initial use) several of our trademarks including: *Bentley Prince Street*®, *B&W*™, *Chatham*®, *Cool Blue*™, *Entropy*®, *Fatigue Fighter*®, *FLOR*™, *FR-701*®, *GlasBac*®, *GlasBac*® *Re*, *Guilford*®, *Guilford of Maine*®, *Heuga*®, *i2*™, *Intercell*®, *InterfaceFLOR*®, *Intersept*®, *Mad About Plaid*™, *Mission Zero*™, *NexStep*®, *Prince Street House and Home*™, *Proscenium*™, *Re:Source*®, *TacTiles*™, *TekSolutions*® and *Terratex*®. All brand names or other trademarks appearing in this prospectus supplement are the property of their respective holders.

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The Offering

Class A common stock offered	5,000,000	shares
Shares to be outstanding after the offering:		
Class A common stock	53,092,710	shares
Class B common stock	6,739,262	shares
	59,831,972	shares

Use of proceeds	We intend to use the net proceeds that we receive from this offering to repay some of our outstanding debt and may use a portion of such proceeds for general corporate purposes.
Nasdaq Global Market symbol	IFSIA

The number of shares that will be outstanding after this offering is based on 48,092,710 shares of Class A common stock and 6,739,262 shares of Class B common stock outstanding as of November 3, 2006, and excludes shares issuable upon the exercise of the underwriters option to purchase 750,000 additional shares of Class A common stock to cover over-allotments and 1,843,125 shares of common stock (which may be Class A or Class B common stock) reserved for issuance upon the exercise of outstanding stock options granted pursuant to our stock incentive plans.

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Summary Financial Data

We derived the summary consolidated financial data presented below from our audited consolidated financial statements and the notes thereto for the years indicated and our unaudited interim consolidated financial statements and the notes thereto for the six-month periods indicated. In our opinion, the unaudited financial information contains all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for such periods. The results for the six months ended July 2, 2006, may not be indicative of results to be achieved for the entire fiscal year. You should read the summary financial data presented below together with those audited and unaudited consolidated financial statements and the notes thereto, which are included in our Annual Report on Form 10-K for the year ended January 1, 2006, and our Quarterly Report on Form 10-Q for the quarter ended July 2, 2006, respectively, both of which are incorporated by reference into this prospectus supplement.

In addition to other information discussed there, you should note that, in the fourth quarter of 2002, we decided to discontinue the operations related to our U.S. raised access flooring business. Substantially all of the assets related to these operations were sold in the third quarter of 2003. In the third quarter of 2004, we also decided to discontinue the operations related to our *Re:Source*® dealer businesses, as well as the operations of a small Australian dealer business and a small residential fabrics business. In the second quarter of 2006, we sold our European fabrics business. In connection with the sale, we recorded a pre-tax non-cash charge of $20.7 million for the impairment of goodwill in the first quarter of 2006, and we recorded a $1.7 million loss on that divestiture in the second quarter of 2006. For the first quarter of 2006, the European fabrics business generated revenue of $17.3 million and an operating loss (after the $20.7 million goodwill impairment charge) of $19.6 million. The balances have been adjusted to reflect the discontinued operations of these businesses (but not the European fabrics divestiture).

	As of and For the Year Ended					As of and For the Six Months Ended	
	December 30, 2001	December 29, 2002	December 28, 2003	January 2, 2005	January 1, 2006	July 3, 2005	July 2, 2006
	(In thousands, except per share amounts)						
Statement of Operations Data:							
Net sales	$ 875,881	$ 745,317	$ 766,494	$ 881,658	$ 985,766	$ 481,260	$ 509,312
Cost of sales	613,859	522,119	543,251	616,297	681,069	332,893	349,163
Operating income(1)	4,494	24,889	31,351	60,742	82,001	38,393	17,771
Income (loss) from continuing operations	(21,769)	(10,605)	(8,012)	6,440	17,966	6,863	(11,176)
Loss from discontinued operations	(14,518)	(21,679)	(16,420)	(58,815)	(14,791)	(14,525)	(27)
Loss on disposal of discontinued operations			(8,825)	(3,027)	(1,935)	(1,935)	
Cumulative effect of a change in accounting principle(2)		(55,380)					
Net income (loss)	(36,287)	(87,664)	(33,257)	(55,402)	1,240	(9,597)	(11,203)
Income (loss) from continuing operations per common share							
Basic	$ (0.43)	$ (0.21)	$ (0.16)	$ 0.13	$ 0.35	$ 0.13	$ (0.21)

Diluted	(0.43)	(0.21)	(0.16)	0.12	0.34	0.13	(0.21)
Average Shares Outstanding							
Basic	50,099	50,194	50,282	50,682	51,551	51,362	52,995
Diluted	50,099	50,194	50,282	52,171	52,895	52,622	52,995
Statement of Cash Flows Data:							
Depreciation and amortization(3)	$ 40,369	$ 32,684	$ 34,141	$ 33,336	$ 31,455	$ 16,194	$ 15,931
Capital expenditures(4)	26,424	14,022	16,203	15,783	25,478	5,832	16,083

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	As of and For the Year Ended					As of and For the Six Months Ended	
	December 30, 2001	December 29, 2002	December 28, 2003	January 2, 2005	January 1, 2006	July 3, 2005	July 2, 2006
	(In thousands)						
Balance Sheet Data:							
Cash and cash equivalents	$ 788	$ 23,557	$ 2,890	$ 22,164	$ 51,312	$ 22,441	$ 27,347
Working capital	291,132	275,075	247,725	228,842	209,512	217,076	204,799
Total assets	954,754	852,048	879,670	869,798	838,990	855,348	814,238
Total long-term debt(5)	448,494	445,000	445,000	460,000	458,000	469,824	428,823
Total shareholders equity	302,475	224,171	218,733	194,178	172,076	164,149	179,941
Segment Data:							
Modular Carpet segment sales	$ 484,755	$ 442,287	$ 473,724	$ 563,397	$ 646,213	$ 317,208	$ 352,358
Modular Carpet segment operating income	42,797	41,960	45,828	63,888	77,351	37,874	44,309
Modular Carpet segment operating margin	8.8%	9.5%	9.7%	11.3%	12.0%	11.9%	12.6%

(1) Includes a $3.3 million restructuring charge and a $20.7 million goodwill impairment charge in the six months ended July 2, 2006, and includes restructuring charges of $6.2 million, $22.5 million, and $54.6 million in years 2003, 2002, and 2001, respectively. We initiated three separate restructuring plans during 2002, 2001 and 2000. The 2003 charge was recognized with respect to the restructuring plan initiated in 2002. For further analysis of these restructuring plans and charges, see Notes to Consolidated Financial Statements Restructuring Charges , which are included in our Annual Report on Form 10-K for the year ended January 1, 2006 and Notes to Consolidated Condensed Financial Statements Restructuring , which are included in our Quarterly Report on Form 10-Q for the quarter ended July 2, 2006, respectively, both of which are incorporated by reference into this prospectus supplement.

(2) In 2002, we recognized an impairment charge of $55.4 million (after-tax) related to our adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets . For more information, see Notes to Consolidated Financial Statements Summary of Significant Accounting Policies , which are included in our Annual Report on Form 10-K for the year ended January 1, 2006, which is incorporated by reference into this prospectus supplement.

(3) We ceased amortization of goodwill with the adoption of SFAS No. 142 Goodwill and Other Intangible Assets effective December 31, 2001.

(4) Includes property and equipment obtained in acquisitions of businesses.

(5) Total long-term debt does not include debt related to receivables sold under our receivables securitization program, which was terminated in June 2003. As of December 30, 2001, and December 29, 2002, we had sold receivables of $34.0 million and $30.0 million, respectively.

RISK FACTORS

You should carefully consider the following factors, in addition to the other information included in this prospectus supplement, before making an investment in our securities. Any or all of the risk factors could have a material adverse effect on our business, financial condition, results of operation and prospects.

We compete with a large number of manufacturers in the highly competitive commercial floorcovering products market, and some of these competitors have greater financial resources than we do.

The commercial floorcovering industry is highly competitive. Globally, we compete for sales of floorcovering products with other carpet manufacturers and manufacturers of other types of floorcovering. Although the industry has experienced significant consolidation, a large number of manufacturers remain in the industry. Some of our competitors, including a number of large diversified domestic and foreign companies who manufacture modular carpet as one segment of their business, have greater financial resources than we do.

Sales of our principal products have been and may continue to be affected by adverse economic cycles in the renovation and construction of commercial and institutional buildings.

Sales of our principal products are related to the renovation and construction of commercial and institutional buildings. This activity is cyclical and has been affected by the strength of a country s or region s general economy, prevailing interest rates and other factors that lead to cost control measures by businesses and other users of commercial or institutional space. The effects of cyclicality upon the corporate office segment tend to be more pronounced than the effects upon the institutional segment. Historically, we have generated more sales in the corporate office segment than in any other market. The effects of cyclicality upon the new construction segment of the market also tend to be more pronounced than the effects upon the renovation segment. The adverse cycle during the years 1999 through 2003 significantly lessened the overall demand for commercial interiors products, which adversely affected our business during those years. These effects may recur and could be more pronounced if the global economy does not improve or is further weakened.

Our success depends significantly upon the efforts, abilities and continued service of our senior management executives and our principal design consultant, and our loss of any of them could affect us adversely.

We believe that our success depends to a significant extent upon the efforts and abilities of our senior management executives. In addition, we rely significantly on the leadership that David Oakey of David Oakey Designs provides to our internal design staff. Specifically, David Oakey Designs provides product design/production engineering services to us under an exclusive consulting contract that contains non-competition covenants. Our current agreement with David Oakey Designs extends to April 2011. The loss of any of these key persons could have an adverse impact on our business.

Our substantial international operations are subject to various political, economic and other uncertainties that could adversely affect our business results, including by restrictive taxation or other government regulation and by foreign currency fluctuations.

We have substantial international operations. In fiscal 2005, approximately 43% of our net sales and a significant portion of our production were outside the United States, primarily in Europe and Asia-Pacific. Our corporate strategy includes the expansion and growth of our international business on a worldwide basis. As a result, our operations are subject to various political, economic and other uncertainties, including risks of restrictive taxation policies, changing political conditions and governmental regulations. We also make a substantial portion of our net sales in currencies other than U.S. dollars (approximately 43% of 2005 net sales), which subjects us to the risks inherent in currency translations. The scope and volume of our global operations make it impossible to eliminate completely all foreign currency translation risks as an influence on our financial results.

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Large increases in the cost of petroleum-based raw materials could adversely affect us if we are unable to pass these cost increases through to our customers.

Petroleum-based products comprise the predominant portion of the cost of raw materials that we use in manufacturing. While we attempt to match cost increases with corresponding price increases, continued large increases in the cost of petroleum-based raw materials could adversely affect our financial results if we are unable to pass through such price increases to our customers.

Unanticipated termination or interruption of any of our arrangements with our primary third-party suppliers of synthetic fiber could have a material adverse effect on us.

Invista Inc., a subsidiary of Koch Industries, Inc., currently supplies approximately 46% of our requirements for synthetic fiber (nylon), which is the principal raw material that we use in our carpet products. In addition, other of our businesses have a high degree of dependence on their third party suppliers of synthetic fiber for certain products or markets. The unanticipated termination or interruption of any of our supply arrangements with our current suppliers could have a material adverse effect on us because of the cost and delay associated with shifting more business to another supplier. We do not have a long-term supply agreement with Invista.

We have a significant amount of indebtedness, which could have important negative consequences to us.

Our substantial indebtedness could have important negative consequences to us, including:

- making it more difficult for us to satisfy our obligations with respect to such indebtedness;
- increasing our vulnerability to adverse general economic and industry conditions;
- limiting our ability to obtain additional financing to fund capital expenditures, acquisitions or other growth initiatives, and other general corporate requirements;
- requiring us to dedicate a substantial portion of our cash flow from operations to interest and principal payments on our indebtedness, thereby reducing the availability of our cash flow to fund capital expenditures, acquisitions or other growth initiatives, or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage compared to our less leveraged competitors; and
- limiting our ability to refinance our existing indebtedness as it matures.

The market price of our common stock has been volatile and may continue to be volatile after the offering, and the value of your investment may decline.

The market price of our Class A common stock has been volatile in the past and may continue to be volatile after the offering. Such volatility may cause precipitous drops in the price of our Class A common stock on the Nasdaq Global Market and may cause your investment in our common stock to lose significant value. As a general matter, market price volatility has had a significant effect on the market values of securities issued by many companies for reasons unrelated to their operating performance. Therefore, we cannot predict the market price for our common stock after the offering.

Our earnings in a future period could be adversely affected by non-cash adjustments to goodwill, if a future test of goodwill assets indicates a material impairment of those assets.

As prescribed by Statement of Financial Accounting Standards No. 142, we undertake an annual review of the goodwill asset balance reflected in our financial statements. Our review is conducted during the fourth quarter of the year, unless there has been a triggering event prescribed by applicable accounting rules that warrants an earlier interim testing for possible goodwill impairment. In the past, we have had non-cash adjustments for goodwill impairment as a result of such testings ($20.7 million in 2006,

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$29.0 million in 2004 and $55.4 million in 2002). A future goodwill impairment test may result in a future non-cash adjustment, which could adversely affect our earnings for any such future period.

Our Chairman, together with other insiders, currently has sufficient voting power to elect a majority of our Board of Directors.

Our Chairman, Ray C. Anderson, beneficially owns approximately 52% of our outstanding Class B common stock. The holders of the Class B common stock are entitled, as a class, to elect a majority of our Board of Directors. Therefore, Mr. Anderson, together with other insiders, has sufficient voting power to elect a majority of the Board of Directors. On all other matters submitted to the shareholders for a vote, the holders of the Class B common stock generally vote together as a single class with the holders of the Class A common stock. Mr. Anderson s beneficial ownership of the outstanding Class A and Class B common stock combined is approximately 7%.

Our Rights Agreement could discourage tender offers or other transactions for our stock that could result in shareholders receiving a premium over the market price for our stock.

Our Board of Directors adopted a Rights Agreement in 1998 pursuant to which holders of our common stock will be entitled to purchase from us a fraction of a share of our Series B Participating Cumulative Preferred Stock if a third party acquires beneficial ownership of 15% or more of our common stock without our consent. In addition, the holders of our common stock will be entitled to purchase the stock of an Acquiring Person (as defined in the Rights Agreement) at a discount upon the occurrence of triggering events. These provisions of the Rights Agreement could have the effect of discouraging tender offers or other transactions that could result in shareholders receiving a premium over the market price for our common stock.

FORWARD-LOOKING STATEMENTS

This prospectus supplement (and other documents to which it refers) contains statements about future events and expectations which are characterized as forward-looking statements. Words such as may , could , would , should , believes , expects , anticipates , estimates , intends , plans , targets , objectives , seek , strive , negatives similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on management s beliefs, assumptions and expectations of our future economic performance, taking into account the information currently available to our management. They are expressions based on historical fact, but do not guarantee future performance. Forward-looking statements involve risks, uncertainties and assumptions and certain other factors that may cause our actual results, performance or financial condition to differ materially from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. Factors that could contribute to these differences include those discussed in Risk Factors and in other sections of this prospectus supplement. We qualify any forward-looking statements entirely by these cautionary factors.

We believe these forward-looking statements are reasonable, but we caution that you should not place undue reliance on these forward-looking statements, because our future results and shareholder values may differ materially from those expressed or implied by these forward-looking statements. We do not intend to update any forward-looking statement, whether written or oral, relating to the matters discussed in this prospectus supplement.

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of our Class A common stock in this offering will be approximately $68.5 million, based on the public offering price of $14.65 per share, after deducting the underwriting discount and our estimated offering expenses. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately $78.9 million.

We currently intend to use the net proceeds from this offering to repurchase a portion of our outstanding 7.30% Senior Notes due 2008, 10.375% Senior Notes due 2010 or 91/2% Senior Subordinated Notes due 2014. Such repurchases may be made within the next 12 months as we seek to take advantage of favorable buying opportunities in the market. Considering the maturity date and current market price of the 7.30% Senior Notes and other factors, we currently expect to repurchase a portion of the 7.30% Senior Notes prior to making repurchases of the other series. However, we will continue to monitor the market prices for all series and may adjust our repurchase strategy as market conditions change and applicable restrictions permit. Prior to making any repurchases, however, we will apply the net proceeds from this offering to repay all or a portion of our outstanding indebtedness under our $125 million revolving credit facility. We may later reborrow amounts under the revolving credit facility in order to make the repurchases of the debt securities described above.

Pending the above ultimate use of the net proceeds, we intend to invest the funds in short-term, interest-bearing investment grade or government securities. Our management will retain broad discretion in the use of net proceeds of this offering, and we may use some or all of the net proceeds for general corporate purposes, if management believes market conditions or other factors make it imprudent to implement our current intention to repurchase outstanding debt securities.

At October 1, 2006, there was $109.5 million principal amount outstanding of our 7.30% Senior Notes due 2008, $175.0 million principal amount outstanding of our 10.375% Senior Notes due 2010 and $135.0 million 91/2% principal amount outstanding of our Senior Subordinated Notes due 2014. At that date, there was $21.5 outstanding under our revolving credit facility, which matures on June 30, 2011, bearing interest at varying rates related to LIBOR or the prime interest rate (which rate on that date was 7.59% on a weighted average basis).

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PRICE RANGE OF OUR COMMON STOCK

Our Class A common stock is traded on the Nasdaq Global Market under the symbol IFSIA . Our Class B common stock is not publicly traded but is convertible into Class A common stock on a one-for-one basis. The following table sets forth for the periods indicated the high and low sales prices of our Class A common stock on the Nasdaq Global Market. No dividends were paid on common stock for the periods indicated.

	High	Low
2004		
First Quarter	$ 8.63	$ 5.82
Second Quarter	9.35	5.90
Third Quarter	8.76	6.87
Fourth Quarter	10.84	7.41
2005		
First Quarter	$ 10.04	$ 6.35
Second Quarter	8.37	5.70
Third Quarter	10.65	7.60
Fourth Quarter	9.02	7.51
2006		
First Quarter	$ 14.31	$ 8.05
Second Quarter	15.70	9.89
Third Quarter	13.83	10.12
Fourth Quarter (through November 6, 2006)	15.05	12.31

The last sale price of the Class A common stock on November 6, 2006, was $14.79, as reported by the Nasdaq Global Market. As of November 3, 2006, we had 763 holders of record of our Class A common stock and 74 holders of record of our Class B common stock. We believe that there are in excess of 4,000 beneficial holders of our Class A common stock.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of July 2, 2006, on an actual basis and as adjusted (1) to reflect actual interim borrowing and debt securities repurchase transactions, and (2) to give effect to the issuance of the common stock offered hereby, at the offering price of $14.65 per share, and our application of the estimated net proceeds from this offering, assuming no exercise of the underwriters over-allotment option. You should read this table in conjunction with the information contained in our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended January 1, 2006 and our Quarterly Report on Form 10-Q for the quarter ended July 2, 2006, both of which are incorporated by reference into this prospectus supplement.

	As of July 2, 2006		
	Actual	Interim Debt Transactions(1)	As Adjusted(2)
	(In thousands)		
Cash and cash equivalents	$ 27,347	$ 27,347	$ 27,347
Long-term debt (including current maturities):			
Revolving credit facility(3)	$ 1,573	$ 11,787	$
7.30% Senior Notes due 2008	117,250	109,500	52,749
10.375% Senior Notes due 2010	175,000	175,000	175,000
91/2% Senior Subordinated Notes due 2014	135,000	135,000	135,000
Total long-term debt	428,823	431,287	362,749
Minority interest	4,869	4,869	4,869
Total shareholders equity	179,941	179,941	248,479
Total capitalization	$ 613,633	$ 616,097	$ 616,097

(1) Between July 2, 2006 and November 6, 2006, we borrowed an additional net aggregate of $10.2 million under our revolving credit facility and we repurchased $7.7 million of our 7.30% Senior Notes due 2008. All other amounts remain as reported at July 2, 2006.

(2) Reflects the borrowing and debt securities repurchase transactions discussed in note (1) and assumes we apply all of the net proceeds to repay the resulting outstanding balance under our revolving credit facility, and to repurchase (without the payment of any premium) a portion of our 7.30% Senior Notes due 2008. As described under Use of Proceeds , depending on market conditions and other factors, management may instead repurchase a portion of our 10.375% Senior Notes due 2010 or our 91/2% Senior Subordinated Notes due 2014, or may use net proceeds for general corporate purposes, if management determines that it is prudent to do so.

(3) Our maximum borrowing capacity under the revolving credit facility is $125 million. As of July 2, 2006, we had approximately $91.8 million of borrowing availability under the facility based on the borrowing base. As of

July 2, 2006, we had approximately $1.6 million in borrowings and $11.4 million in letters of credit outstanding under the revolving credit facility. As a result of our post-July 2 transactions under the facility, at November 6, 2006, there was approximately $11.8 million in borrowings and $10.4 million in letters of credit outstanding under the revolving credit facility.

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SELECTED FINANCIAL DATA

We derived the summary consolidated financial data presented below from our audited consolidated financial statements and the notes thereto for the years indicated and our unaudited interim consolidated financial statements and the notes thereto for the six-month periods indicated. In our opinion, the unaudited financial information contains all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for such periods. The results for the six months ended July 2, 2006, may not be indicative of results to be achieved for the entire fiscal year. You should read the summary financial data presented below together with those audited and unaudited consolidated financial statements and the notes thereto, which are included in our Annual Report on Form 10-K for the year ended January 1, 2006, and our Quarterly Report on Form 10-Q for the quarter ended July 2, 2006, respectively, both of which are incorporated by reference into this prospectus supplement.

In addition to other information discussed there, you should note that, in the fourth quarter of 2002, we decided to discontinue the operations related to our U.S. raised access flooring business. Substantially all of the assets related to these operations were sold in the third quarter of 2003. In the third quarter of 2004, we also decided to discontinue the operations related to our *Re:Source* dealer businesses, as well as the operations of a small Australian dealer business and a small residential fabrics business. In the second quarter of 2006, we sold our European fabrics business. In connection with the sale, we recorded a pre-tax non-cash charge of $20.7 million for the impairment of goodwill in the first quarter of 2006, and we recorded a $1.7 million loss on that divestiture in the second quarter of 2006. For the first quarter of 2006, the European fabrics business generated revenue of $17.3 million and an operating loss (after the $20.7 million goodwill impairment charge) of $19.6 million. The balances have been adjusted to reflect the discontinued operations of these businesses (but not the European fabrics divestiture).

	As of and For the Year Ended					As of and For the Six Months Ended	
	December 30, 2001	December 29, 2002	December 28, 2003	January 2, 2005	January 1, 2006	July 3, 2005	July 2, 2006
	(In thousands, except per share amounts)						
Statement of Operations Data:							
Net sales	$ 875,881	$ 745,317	$ 766,494	$ 881,658	$ 985,766	$ 481,260	$ 509,312
Cost of sales	613,859	522,119	543,251	616,297	681,069	332,893	349,163
Operating income(1)	4,494	24,889	31,351	60,742	82,001	38,393	17,771
Income (loss) from continuing operations	(21,769)	(10,605)	(8,012)	6,440	17,966	6,863	(11,176)
Loss from discontinued operations	(14,518)	(21,679)	(16,420)	(58,815)	(14,791)	(14,525)	(27)
Loss on disposal of discontinued operations			(8,825)	(3,027)	(1,935)	(1,935)	
Cumulative effect of a change in accounting principle(2)		(55,380)					
Net income (loss)	(36,287)	(87,664)	(33,257)	(55,402)	1,240	(9,597)	(11,203)
Income (loss) from continuing operations per							

common share							
Basic	$ (0.43)	$ (0.21)	$ (0.16)	$ 0.13	$ 0.35	$ 0.13	$ (0.21)
Diluted	(0.43)	(0.21)	(0.16)	0.12	0.34	0.13	(0.21)
Average Shares Outstanding							
Basic	50,099	50,194	50,282	50,682	51,551	51,362	52,995
Diluted	50,099	50,194	50,282	52,171	52,895	52,622	52,995
Statement of Cash Flows Data:							
Depreciation and amortization(3)	$ 40,369	$ 32,684	$ 34,141	$ 33,336	$ 31,455	$ 16,194	$ 15,931
Capital expenditures(4)	26,424	14,022	16,203	15,783	25,478	5,832	16,083

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	As of and For the Year Ended					As of and For the Six Months Ended	
	December 30, 2001	December 29, 2002	December 28, 2003	January 2, 2005	January 1, 2006	July 3, 2005	July 2, 2006
				(In thousands)			
Balance Sheet Data:							
Cash and cash equivalents	$ 788	$ 23,557	$ 2,890	$ 22,164	$ 51,312	$ 22,441	$ 27,347
Working capital	291,132	275,075	247,725	228,842	209,512	217,076	204,799
Total assets	954,754	852,048	879,670	869,798	838,990	855,348	814,238
Total long-term debt(5)	448,494	445,000	445,000	460,000	458,000	469,824	428,823
Total shareholders equity	302,475	224,171	218,733	194,178	172,076	164,149	179,941
Segment Data:							
Modular Carpet segment sales	$ 484,755	$ 442,287	$ 473,724	$ 563,397	$ 646,213	$ 317,208	$ 352,358
Modular Carpet segment operating income	42,797	41,960	45,828	63,888	77,351	37,874	44,309
Modular Carpet segment operating margin	8.8%	9.5%	9.7%	11.3%	12.0%	11.9%	12.6%

(1) Includes a $3.3 million restructuring charge and a $20.7 million goodwill impairment charge in the six months ended July 2, 2006, and includes restructuring charges of $6.2 million, $22.5 million, and $54.6 million in years 2003, 2002, and 2001, respectively. We initiated three separate restructuring plans during 2002, 2001 and 2000. The 2003 charge was recognized with respect to the restructuring plan initiated in 2002. For further analysis of these restructuring plans and charges, see Notes to Consolidated Financial Statements Restructuring Charges , which are included in our Annual Report on Form 10-K for the year ended January 1, 2006, and Notes to Consolidated Condensed Financial Statements Restructuring , which are included in our Quarterly Report on Form 10-Q for the quarter ended July 2, 2006, respectively, both of which are incorporated by reference into this prospectus supplement.

(2) In 2002, we recognized an impairment charge of $55.4 million (after-tax) related to our adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets . For more information, see Notes to Consolidated Financial Statements Summary of Significant Accounting Policies , which are included in our Annual Report on Form 10-K for the year ended January 1, 2006, which is incorporated by reference into this prospectus supplement.

(3) We ceased amortization of goodwill with the adoption of SFAS No. 142 Goodwill and Other Intangible Assets effective December 31, 2001.

(4) Includes property and equipment obtained in acquisitions of businesses.

(5) Total long-term debt does not include debt related to receivables sold under our receivables securitization program, which was terminated in June 2003. As of December 30, 2001, and December 29, 2002, we had sold receivables of $34.0 million and $30.0 million, respectively.

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

General

Our revenues are derived from sales of floorcovering products (primarily modular and broadloom carpet), interior fabrics and other specialty products. Our commercial interiors business, as well as the commercial interiors industry in general, is cyclical in nature and is impacted by economic conditions and trends that affect the markets for commercial and institutional business space. The commercial interiors industry is largely driven by reinvestment by corporations into their existing businesses in the form of new fixtures and furnishings for their workplaces. In significant part, the timing and amount of such reinvestments are impacted by the profitability of those corporations. As a result, macroeconomic factors such as employment rates, office vacancy rates, capital spending, productivity and efficiency gains that impact corporate profitability in general, also affect our businesses.

During the past several years, we have successfully focused more of our marketing and sales efforts on non-corporate office segments to reduce somewhat our exposure to economic cycles that affect the corporate office market segment more adversely, as well as to capture additional market share. Our mix of corporate office versus non-corporate office modular carpet sales in the Americas has shifted over the past several years to 48% and 52%, respectively, for the first six months of 2006 compared with 64% and 36%, respectively, in 2001. We expect a further shift in the future as we continue to implement our segmentation strategy.

During the years 1999 through 2003 (except for a modest rebound during the latter portion of 2000), the commercial interiors industry as a whole, and the broadloom carpet market in particular, experienced decreased demand levels. The general downturn in the domestic and international economy that characterized most of 2001, 2002 and 2003 further adversely affected the commercial interiors industry, especially in the U.S. corporate office market segment. These conditions significantly impaired our growth and operating profitability during those years. During 2004, and particularly in the second half of the year, the commercial interiors industry began recovering from the downturn, which led to improved sales and operating profitability for us. That recovery continued at a gradual pace throughout 2005 and the first half of 2006.

Repatriation of Earnings of Foreign Subsidiaries

Pursuant to the provisions of the American Jobs Creation Act of 2004, we repatriated an aggregate of $35.9 million of earnings from foreign subsidiaries during 2005 in order to take advantage of a special opportunity to repatriate the funds at a substantially reduced tax rate. Consequently, we recorded aggregate tax charges of $3.4 million, or $0.06 per diluted share, during 2005 related to the repatriation.

Discontinued Operations

Re:Source Dealer Businesses

During the years leading up to 2004, our owned *Re:Source* dealer businesses, which were part of a broader network comprised of both owned and aligned dealers that sell and install floorcovering products, experienced decreased sales volumes and intense pricing pressure, primarily as a result of the economic downturn in the commercial interiors industry. As a result, in 2004, we decided to exit our owned *Re:Source* dealer businesses and began to dispose of several of our dealer subsidiaries. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we have reported the results of operations for the owned *Re:Source* dealer businesses (as well as the results of operations of a small Australian dealer business and a small residential fabrics business that we also decided to exit), for all periods reflected herein, as discontinued operations . Consequently, our discussion of revenues or sales and other results of operations (except for net income or loss amounts), including percentages derived from or based on such amounts, excludes these discontinued operations unless we indicate otherwise.

In the third quarter of 2005, we completed the last in a series of nine transactions by which we sold nine of our owned *Re:Source* dealer businesses. The nine dealer businesses sold were part of the fifteen *Re:Source* dealer businesses that we owned at the time our plan to exit the owned dealer businesses was announced in 2004. Eight of the nine businesses were sold to either the general managers of the respective businesses or an entity in which the general manager participated, and the other business was sold to our aligned , but not owned, dealer in the relevant geographic region. The aggregate net consideration we received in connection with the sales was $9.7 million plus the purchasers assumption of various liabilities and obligations. Of that dollar amount, an aggregate of $7.5 million was paid in cash at the closings, with the remainder of $2.2 million payable pursuant to promissory notes at interest rates ranging from prime to 12% and with maturities ranging from one to three years. We have terminated all ongoing operations of the other six owned dealer businesses, and in some cases we are completing their wind-down through subcontracting arrangements. In the first quarter of 2006, we sold certain assets relating to our aligned dealer network, and we are discontinuing its operations as well. During the first six months of 2005, we recorded a loss of $1.9 million ($1.6 million of which was recorded during the second quarter of 2005) in connection with the disposal of certain of these businesses.

These discontinued operations had net sales of $1.5 million and $9.4 million in the three-month periods ended July 2, 2006, and July 3, 2005, respectively, and had net sales of $2.0 million and $26.7 million in the six-month periods ended July 2, 2006, and July 3, 2005, respectively (these results are included in our statements of operations as part of the Loss from Discontinued Operations, Net of Taxes). Loss on operations of these businesses, net of tax, was $0.0 million and $6.8 million in the three-month periods ended July 2, 2006, and July 3, 2005, respectively, and $0.0 million and $11.1 million in the six-month periods ended July 2, 2006, and July 3, 2005, respectively. We recorded a $3.5 million write-down ($3.0 million of which was recorded during the second quarter of 2005), net of taxes, for the impairment of assets during the first six months of 2005, to adjust the carrying value of the assets of these businesses to their net realizable value.

U.S. Raised/Access Flooring Business

In the fourth quarter of 2002, we decided to discontinue our operation of our U.S. raised/access flooring business, which had experienced a significant decline in demand, primarily due to decreased spending by technology companies. We completed the sale of substantially all of its assets to a third party in September 2003. We have reported the results of operations for the U.S. raised/access flooring business, for all periods reflected herein, as discontinued operations. As a result, our discussion of revenues or sales and other results of operations (except for net income or loss amounts), including percentages derived from or based on such amounts, excludes the results of our U.S. raised/access flooring business unless we indicate otherwise.

Our U.S. raised/access flooring business represented revenues of $13.6 million in year 2003 (these results are included in our consolidated statements of operations as part of Loss from Discontinued Operations, Net of Tax). Loss from operations of that business, net of tax, was $3.9 million in year 2003. In addition, in the third quarter of 2003, we recorded an after-tax loss of $8.8 million in connection with disposition of the assets. These discontinued operations had no impact in 2005 or 2004.

Impact of Strategic Restructuring Initiatives

We recorded a pre-tax restructuring charge of $3.3 million in the first quarter of 2006. The charge reflected: (1) the closure of our fabrics manufacturing facility in East Douglas, Massachusetts, and consolidation of those operations into our facility in Elkin, North Carolina; (2) workforce reduction at the East Douglas, Massachusetts facility; and (3) a reduction in carrying value of another fabrics facility and other assets. The restructuring charge was comprised of $0.3 million of cash expenditures for severance benefits and other similar costs, and $3.0 million of non-cash charges, primarily for the write-down of carrying value and disposal of assets. These restructuring activities are expected to reduce excess capacity in our fabrics dyeing and finishing operations and improve overall manufacturing efficiency, and are expected to be substantially completed by the end of 2006. We believe the restructuring will yield cost savings of approximately $2.0 million in 2006, and $3.6 million annually thereafter.

We incurred a pre-tax restructuring charge in 2003 of $6.2 million, as we implemented various initiatives to reduce our operating costs and strengthen our ability to generate free cash flow. No restructuring charges were incurred during 2005 or 2004. The 2003 restructuring charge reflected:

- continuation of the consolidation and rationalization commenced in 2002 with respect to our fabrics manufacturing facilities in Aberdeen, North Carolina; East Douglas, Massachusetts; and Great Harwood, England; and

- a reduction in force and consolidation of our corporate research and development operation.

The charge was comprised of $4.5 million of cash expenditures for severance benefits and other costs, and $1.7 million of non-cash charges, primarily for the write-down of the carrying value and disposal of certain assets. These initiatives are producing the strategic results we targeted, in that we have reduced our cost structure and have strengthened our cash flow position.

Further discussion about the restructuring charges appears in the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended January 1, 2006, and Notes to Consolidated Condensed Financial Statements contained in our Quarterly Report on Form 10-Q for the three months ending July 2, 2006, both of which are incorporated by reference into this prospectus supplement.

Goodwill Impairment Write-Down

In April 2006, subsequent to the end of the first quarter of 2006, we sold our European fabrics business (Camborne Holdings Limited) for approximately $28.8 million to an entity formed by the business management team. In connection with the sale, we recorded a pre-tax non-cash charge of $20.7 million for the impairment of goodwill in the first quarter of 2006, and we recorded a $1.7 million loss on disposal of the business in the second quarter of 2006. For the first quarter of 2006, the European fabrics business generated revenue of $17.3 million and operating loss (after the $20.7 million goodwill impairment charge) of $19.6 million.

During the fourth quarters of each of the years 2003 to 2005, we performed the annual goodwill impairment tests required by SFAS No. 142, Goodwill and Other Intangible Assets . In effecting the impairment testing, we used an outside consultant to help prepare valuations of reporting units in accordance with the applicable standards, and those valuations were compared with the respective book values of the reporting units to determine whether any goodwill impairment existed. In preparing the valuations, past, present and future expectations of performance were considered. No impairment was indicated in our continuing operations during these years. However, an after-tax impairment charge of $29.0 million was recorded in fiscal year 2004 related to our discontinued *Re:Source* dealer businesses.

Results of Operations

The following discussion and analyses reflect the factors and trends discussed in the preceding sections. In addition, we believe our performance during 2003 and (to some extent) 2004 reflects the unprecedented downturn experienced by the commercial interiors industry in general during that time, which we discuss elsewhere.

During the six months ended July 2, 2006, we had net sales of $509.3 million, compared with net sales of $481.3 million in the first six months of last year.

During the second quarter of 2006, after the loss on disposal of our European fabrics business described below, we had net income of $5.9 million, or $0.11 per diluted share, compared with a net loss of $7.4 million, or $0.14 per diluted share, in the second quarter of 2005. The 2005 second quarter results included a loss from discontinued operations (net of tax) of $9.8 million, or $0.19 per diluted share, and a loss on disposal of discontinued operations (net of tax) of $1.6 million, or $0.03 per diluted share.

During the first six months of 2006, the goodwill impairment, restructuring charge and European fabrics disposal loss described below led to our net loss of $11.2 million, or $0.21 per diluted share, compared with a net loss of $9.6 million, or $0.18 per diluted share, in the comparable period last year. Our net loss for the first six months of 2005 included a loss from discontinued operations (net of tax) of $14.5 million, or $0.28 per diluted share, and a loss on disposal of discontinued operations (net of tax) of $1.9 million, or $0.03 per diluted share.

At July 2, 2006, we recognized an $11.5 million decrease in our foreign currency translation adjustment account compared to January 1, 2006, primarily because of the strengthening of the U.S. dollar against the euro.

Our net sales that were denominated in currencies other than the U.S. dollar were approximately 43% in year 2005 and approximately 36% in each of years 2004 and 2003. Because we have such substantial international operations, we are impacted, from time to time, by international developments that affect foreign currency transactions. For example, the performance of the euro against the U.S. dollar, for purposes of the translation of European revenues into U.S. dollars, favorably affected our reported results in 2003 and 2004, when the euro was strengthening relative to the U.S. dollar. In 2005, however, when the euro weakened relative to the U.S. dollar, the translation of European revenues into U.S. dollars adversely affected our reported results. The following table presents the amount (in U.S. dollars) by which the exchange rates for converting euros into U.S. dollars have affected our net sales and operating income during the periods indicated:

	Six Months Ended		**Fiscal Year**		
	7/2/06	**7/3/05**	**2005**	**2004**	**2003**
			(In millions)		
Net Sales	$ (5.6)	$ 5.2	$ (0.3)	$ 21.9	$ 36.6
Operating Income	(0.5)	0.3	(0.1)	1.4	1.5

All amounts above for all periods exclude our discontinued operations, primarily comprised of our U.S. raised/access flooring business (which we sold in September 2003) and our owned *Re:Source* dealer businesses (which we exited during 2004-2005).

The following table presents, as a percentage of net sales, certain items included in our Consolidated Statements of Operations for the periods indicated:

	Six Months Ended		**Fiscal Year**		
	7/2/06	**7/3/05**	**2005**	**2004**	**2003**
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	68.6	69.2	69.1	69.9	70.9
Gross profit on sales	31.4	30.8	30.9	30.1	29.1
Selling, general and administrative expenses	22.9	22.9	22.6	23.2	24.2
Impairment of goodwill	4.1				
Restructuring charges	0.6				0.8
Loss on disposal European fabrics	0.3				
Operating income	3.5	8.0	8.3	6.9	4.1

Interest/Other expense	4.6	5.0	4.7	5.7	5.7
Income (loss) from continuing operations before tax	(1.1)	3.0	3.6	1.2	(1.6)
Income tax expense (benefit)	1.1	1.6	1.8	0.5	(0.6)
Income (loss) from continuing operations	(2.2)	1.4	1.8	0.7	(1.0)
Discontinued operations, net of tax		(3.0)	(1.5)	(6.7)	(2.1)
Loss on disposal		(0.4)	(0.2)	(0.3)	(1.2)
Net income (loss)	(2.2)	(2.0)	0.1	(6.3)	(4.3)

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Below, we provide information regarding net sales for each of our four operating segments, and analyze those results for each of the last three fiscal years and for the six months ended July 3, 2005, and July 2, 2006, respectively. Fiscal year 2004 was a 53-week period, while fiscal years 2005 and 2003 were 52-week periods. The 53 weeks in 2004 versus the 52 weeks in 2005 and 2003 are a factor in certain of the comparisons reflected below.

Net Sales by Business Segment

We currently classify our businesses into the following four operating segments for reporting purposes:

Modular Carpet segment, which includes our *InterfaceFLOR*, *Heuga* and *FLOR* modular carpet businesses, and also includes our *Intersept* antimicrobial chemical sales and licensing program;

Bentley Prince Street segment, which includes our *Bentley Prince Street* broadloom, modular carpet and area rug businesses;

Fabrics Group segment, which includes all of our fabrics businesses worldwide; and

Specialty Products segment, which includes our subsidiary Pandel, Inc., a producer of vinyl carpet tile backing and specialty mat and foam products.

Net sales by operating segment and for our company as a whole were as follows for the three-month and six-month periods ended July 2, 2006, and July 3, 2005, respectively:

Net Sales By Segment	Three Months Ended 7/2/06	Three Months Ended 7/3/05	Percentage Change	Six Months Ended 7/2/06	Six Months Ended 7/3/05	Percentage Change
	(In thousands)			(In thousands)		
Modular Carpet	$ 186,475	$ 163,681	13.9%	$ 352,358	$ 317,208	11.1%
Bentley Prince Street	33,932	29,468	15.1%	63,032	57,530	9.6%
Fabrics Group	35,494	49,545	(28.4)%	87,994	98,007	(10.2)%
Specialty Products	2,777	3,851	(27.9)%	5,928	8,515	(30.4)%
Total	$ 258,678	$ 246,545	4.9%	$ 509,312	$ 481,260	5.8%

Net sales by operating segment and for our company as a whole were as follows for the 2005, 2004 and 2003 fiscal years:

Net Sales By Segment	Fiscal Year 2005	Fiscal Year 2004	Fiscal Year 2003	Percentage Change 2005 Compared with 2004	Percentage Change 2004 Compared with 2003
	(In thousands)				
Modular Carpet	$ 646,213	$ 563,397	$ 473,724	14.7%	18.9%
Bentley Prince Street	125,167	119,058	109,940	5.1%	8.3%
Fabrics Group	198,842	186,408	173,539	6.7%	7.4%