

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 001-38070

Floor & Decor Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

2500 Windy Ridge Parkway SE Atlanta, Georgia

(Address of Principal Executive Offices)

27-3730271

(I.R.S. Employer Identification No.)

30339

(Zip Code)

Registrant's telephone number, including area code **(404) 471-1634**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value per share	FND	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the Registrant's Common Stock held by non-affiliates as of June 25, 2020, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was \$5.0 billion. There were 104,396,523 shares of Common Stock outstanding as of February 22, 2021.

Documents Incorporated by Reference:

Portions of the Registrant's proxy statement for the Annual Meeting of Shareholders to be filed pursuant to Regulation 14A of the Exchange Act on or before April 30, 2021, are incorporated by reference into Part III of this Form 10-K. Except as expressly incorporated by reference, the Registrant's proxy statement shall not be deemed to be part of this report.

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PART I

FORWARD LOOKING STATEMENTS.

The discussion in this Annual Report on Form 10-K (this “Annual Report”), including under Item 1A, “Risk Factors” of Part I and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of Part II, contains forward-looking statements. All statements other than statements of historical fact contained in this Annual Report, including statements regarding our future operating results and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements are based on management’s current expectations and assumptions regarding the Company’s business, the economy and other future conditions, including the impact of natural disasters on sales. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “seeks,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “budget,” “potential” or “continue” or the negative of these terms or other similar expressions.

The forward-looking statements contained in this Annual Report are only predictions. Although we believe that the expectations reflected in the forward-looking statements in this Annual Report are reasonable, we cannot guarantee future events, results, performance or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements in this Annual Report, including, without limitation, those factors described in Item 1A, “Risk Factors” of Part I of this Annual Report, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of Part II of this Annual Report, and elsewhere in the Company’s filings with the Securities and Exchange Commission (the “SEC”). Some of the key factors that could cause actual results to differ from our expectations include the following:

- an overall decline in the health of the economy, the hard surface flooring industry, consumer spending and the housing market; including as a result of the novel coronavirus (“COVID-19”) pandemic;
- a pandemic, such as COVID-19, or other natural disaster or unexpected event, and its impact on our suppliers, customers, employees, lenders, ability to operate our distribution centers and stores or our future financial and operating results;
- our failure to successfully anticipate consumer preferences and demand;
- our inability to manage our growth;
- our inability to manage costs and risks relating to new store openings;
- geopolitical risks that impact our ability to import from foreign suppliers;
- our dependence on foreign imports for the products we sell, which may include the impact of tariffs;
- suppliers may sell similar or identical products to our competitors;
- competition from other stores and internet-based competition;
- any disruption in our distribution capabilities, including from difficulties operating our distribution centers;
- fluctuations in commodity, material, transportation and energy costs;
- our failure to execute our business strategy effectively and deliver value to our customers;
- our inability to manage our inventory obsolescence, shrinkage and damage;
- our inability to find available locations for our stores on terms acceptable to us;
- our inability to maintain sufficient levels of cash flow or liquidity to meet growth expectations;
- violations of laws and regulations applicable to us or our suppliers;
- our inability to obtain merchandise on a timely basis at prices acceptable to us;
- our failure to adequately protect against security breaches involving our information technology systems and customer information;
- the resignation, incapacitation or death of any key personnel;
- our inability to find, train and retain key personnel; and
- restrictions imposed by our indebtedness on our current and future operations.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The forward-looking statements contained in this Annual Report speak only as of the date hereof. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. If a change to the events and circumstances reflected in our forward-looking statements occurs, our business, financial condition, and operating results may vary materially from those expressed in our forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events or otherwise.

ITEM 1. BUSINESS.

Except where the context suggests otherwise, the terms “Floor & Decor Holdings, Inc.,” “Floor & Decor,” the “Company,” “we,” “us,” and “our” refer to Floor & Decor Holdings, Inc., a Delaware corporation, together with its consolidated subsidiaries.

Our fiscal year is the 52- or 53-week period ending on the Thursday preceding December 31. The following discussion contains references to fiscal 2016, fiscal 2017, fiscal 2018, fiscal 2019, fiscal 2020, and fiscal 2021, which represent our fiscal years ended or ending, as applicable, December 29, 2016, December 28, 2017, December 27, 2018, December 26, 2019, December 31, 2020, and December 30, 2021. Fiscal 2016, fiscal 2017, fiscal 2018, fiscal 2019, and fiscal 2021 are 52-week periods, and fiscal 2020 is a 53-week period.

Our Company

Founded in 2000, Floor & Decor is a high-growth, differentiated, multi-channel specialty retailer of hard surface flooring and related accessories with 133 warehouse-format stores and two small design studios across 31 states. We believe that we offer the industry’s broadest in-stock, trend-right assortment of tile, wood, laminate, vinyl, and natural stone flooring along with decorative and installation accessories at everyday low prices positioning us as the one-stop destination for our customers’ entire hard surface flooring needs. We appeal to a variety of customers, including general contractors, professional installers and other commercial businesses (“Pro”), Do It Yourself customers (“DIY”) and customers who buy the products for professional installation (“Buy it Yourself” or “BIY”). We believe the majority of our BIY customers are homeowners. Our Pro customers are loyal, shop often and help promote our brand. The combination of our category and product breadth, low prices, in-stock inventory in project-ready quantities, proprietary credit offerings, integrated website and app, free design services, free storage options and dedicated customer service positions us to gain share in the attractive Pro customer segment. We believe our DIY customers spend significant time planning their projects while conducting extensive research in advance. We provide our customers with the education and inspiration they need before making a purchase through our differentiated online and in-store experience.

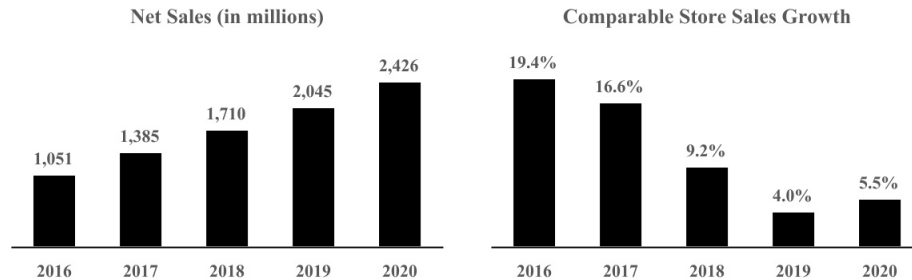
Our warehouse-format stores, which average approximately 78,000 square feet, are typically larger than any of our specialty retail flooring competitors’ stores. Other large format home improvement retailers only allocate a small percentage of their floor space to hard surface flooring and accessories. When our customers walk into a Floor & Decor store for the first time, we believe they are amazed by our visual presentation, our store size, our everyday low prices and the breadth and depth of our merchandise. We believe that our inspiring design studios, creative and informative visual merchandising, and accessible price points greatly enhance our customers’ experience. Our stores are easy to navigate and designed to interactively showcase the wide array of designs and product styles a customer can create with our flooring and decorative accessories. We engage our customers both through our trained store associates and designers who can assist in narrowing choices and making the process of home renovation easier, as well as our staff dedicated to serving Pro customers. By carrying a deep level of in-stock hard surface flooring inventory and wide range of tools and accessories, we seek to offer our customers immediate availability on everything they need to complete their entire flooring or remodeling project. In addition to our stores, our website *FloorandDecor.com* showcases our products, offers informational training and design ideas and has our products available for sale, which a customer can pick up in-store or have delivered. Our ability to purchase directly from manufacturers through our direct sourcing model enables us to be fast to market with a balanced assortment of bestseller and unique, hard to find items that are the latest trend-right products. We believe these factors create a differentiated value proposition for Floor & Decor and drive customer loyalty with our Pro, DIY and BIY hard surface flooring customers in our markets, as evidenced by our track record of consistent comparable store sales growth, which has averaged 10.9% over the last five years. Based on these characteristics, we believe Floor & Decor is redefining and expanding the addressable market size of the hard surface flooring category and that we have an opportunity to significantly expand our store base to approximately 400 stores nationwide within the next 8-10 years, as described in more detail below.

Our Company was founded in 2000 by our Vice Chairman Vincent West, who opened the first Floor & Decor store in Atlanta, Georgia, with the vision of being the low-price leader for hard surface flooring. As we have grown, we have implemented a customer-focused and decentralized approach to managing our business. We provide our store leadership and regional operating teams with regular training and sophisticated information technology systems. We also train and incentivize our store associates to deliver a superior experience to our customers. Taken together, these elements create a customer-centric culture that helps us achieve our operational and financial goals.

Over the last several years, we have invested significant resources across our business and infrastructure to support innovation and growth. We believe that these investments will continue to strengthen our customer value proposition and further differentiate Floor & Decor from our competition, positioning us for continued market share gains. We have made significant investments in product innovation across all categories, improving our assortment and seeking to provide more value to our Pro, DIY and BIY customers. We have also invested in e-commerce, technology and personnel to support our stores. We believe that our investments in our business will continue to improve our customer value proposition, differentiating us and strengthening our competitive advantage.

We believe our strong financial results are a reflection of our consistent and disciplined culture of innovation and reinvestment, creating a differentiated business model in the hard surface flooring category, as evidenced by the following:

- twelve years of comparable store sales growth averaging 13.1% per year (and averaging 10.9% per year for fiscal 2016 to fiscal 2020) with a 5.5% increase in fiscal 2020 compared to 4.0% for fiscal 2019;
- store base expansion from 69 warehouse-format stores at the end of fiscal 2016 to 133 warehouse-format stores and two small-format design studios at the end of fiscal 2020, representing a compound annual growth rate (“CAGR”) of 17.8%; we added 13 warehouse-format stores during fiscal 2020, which was an 11% growth in warehouse stores compared to fiscal 2019;
- total net sales growth from \$1.05 billion to \$2.43 billion from fiscal 2016 to fiscal 2020, representing a CAGR of 23.3%;
- net income growth from \$43.0 million to \$195.0 million from fiscal 2016 to fiscal 2020, representing a CAGR of 45.9%;



For additional discussion of our fiscal 2020 financial results, see Item 7 “Management's Discussion and Analysis of Financial Condition and Results of Operations.”

Our Competitive Strengths

We believe our strengths, described below, set us apart from our competitors and are the key drivers of our success.

Unparalleled Customer Value Proposition. Our customer value proposition is a critical driver of our business. The key components include:

- *Differentiated Assortment Across a Wide Variety of Hard Surface Flooring Categories.* Our stores are generally larger than those of our specialty retail flooring competitors, and we allocate substantially more square footage to hard surface flooring and accessories than other large format home improvement retailers. We believe we have the most comprehensive in-stock, trend-right product assortment in the industry within our categories with on average approximately 4,100 stock keeping units (“SKUs”) in each store which, based on our market experience, is a far greater in-stock offering than any other flooring retailer. Additionally, we customize our product assortment at the store level for the regional preferences of each market. We have an ongoing product line review process across all categories that allows us to identify and interpret emerging trends in hard surface flooring. We work with our suppliers to quickly introduce new products and styles in our stores. We appeal to a wide range of customers through our “good/better/best” merchandise selection, as well as through our broad range of product styles from classic to modern, as well as new trend-right products. We consistently innovate with proprietary brands and products that appeal to certain customers with over 60 proprietary brands, including AquaGuard®, DuraLux®, and NuCore®.
- *Low Prices.* We provide everyday low prices in the retail hard surface flooring market. Our merchandising and individual store teams competitively shop each market so that we can offer our flooring products and related accessories at low prices. We also work with our vendors to identify and create new, affordable products in categories traditionally considered high-end to further democratize hard surface flooring by providing a greater number of options to a larger customer base. We believe we are unique in our industry in employing an “everyday low price” strategy, where we strive to offer our products at consistently everyday low prices throughout the year instead of engaging in frequent promotional activities. Our ability to provide these low prices is supported by our direct-sourcing model, which strives to eliminate third-party intermediaries and shortens time to market. We believe this strategy creates trust with our Pro, DIY and BIY customers because they consistently receive low prices at Floor & Decor without having to wait for a sale or negotiate to obtain the lowest price.

- *One-Stop Project Destination with Immediate Availability.* We carry an extensive range of products, including flooring and decorative accessories, as well as installation accessories such as thin set, underlayment, grout and tools, to fulfill a customer’s entire flooring project. More recently, we added adjacent categories such as vanities, bathroom accessories, frameless glass in the bathroom, and customized countertops for the kitchen. Our large in-stock assortment, including decorative and installation accessories, differentiates us from our competitors. Our stores stock job-size quantities to immediately fulfill a customer’s entire flooring project. In the instance where a product is not available in the store, our four regional distribution centers and neighboring stores can quickly ship the product to meet a customer’s needs. On average, each warehouse-format store carries approximately 4,100 SKUs, which equates to 1.2 million square feet of flooring products or \$2.5 million of inventory at cost. Customers also have access to all of our inventory for in-store pick up or delivery through *FloorandDecor.com*.

Unique and Inspiring Shopping Environment. Our stores average approximately 78,000 square feet and are typically designed with warehouse features including high ceilings, clear signage, bright lighting and industrial racking and are staffed with knowledgeable store associates. We offer an easy-to-navigate store layout with clear lines of sight and departments organized by our major product categories of tile, wood, laminate, vinyl, natural stone, decorative accessories and installation accessories and smaller, adjacent categories for the bathroom and kitchen. We believe our unique signage, which clearly displays individual product features and benefits, improves the ease of shopping and facilitates customer decision making. We use merchandise displays and point of sale marketing throughout our stores to highlight product features, benefits and design elements. These features educate and enable customers to visualize how the product would look in their homes or businesses. Furthermore, we encourage customers to interact with our merchandise, to experiment with potential designs and to see the actual product they will purchase, an experience that is not possible in flooring stores that do not carry in-stock inventory in project-ready quantities. The majority of our stores have design studios that showcase project ideas to further inspire our customers, and we employ experienced designers in all of our stores to provide free design consulting. Additionally, we provide a robust online experience for potential customers on *FloorandDecor.com*. For our DIY customers, we also offer weekly “how-to” installation classes on Saturdays. We believe inspiring and educating customers within our stores and on our website provides us with a significant competitive advantage in serving our customers.

Extensive Service Offerings to Enhance the Pro Customer Experience. Our focus on meeting the unique needs of the Pro customer, and by extension the BIY customer, drives our sales mix for Pro and BIY customers, which we believe represents a higher percentage than our competitors. We generate approximately 70% of our sales from homeowners and 30% of our sales from Pros; however, when looking at who determines where to shop, the Pro influences 40% of our sales while homeowners influence 60% our sales. We also estimate that approximately 85% of these flooring purchases will involve a Pro installation. We provide an efficient one-stop shopping experience for our Pro customers, offering low prices on a broad selection of high-quality flooring products, deep inventory levels to support immediate availability of our products, financial credit, free storage for purchased inventory, the convenience of early store hours and, in most stores, separate entrances for merchandise pick-up. We also offer Design Services to our Pro customer to support them in servicing their customers. Additionally, each store has a dedicated Pro sales force with technology to service our Pro customer more efficiently, and we have Pro Zones, which are areas offering a variety of services to Pro customers, in a majority of our stores. We have a Pro loyalty rewards program, which provides business-building tools and awards points based on purchases. We believe rewarding our Pro customers through this program improves their loyalty to Floor & Decor, and by serving the needs of Pro customers, we drive repeat and high-ticket purchases, customer referrals, and brand awareness from this attractive and loyal customer segment. We offer commercial credit terms to some of our larger Pro customers, and in late 2020, we added a unique commercial credit card offering for our Pros’.

Decentralized Culture with an Experienced Store-Level Team and Emphasis on Training. We have a decentralized culture that empowers managers at the store and regional levels to make key decisions to maximize the customer experience. Our store managers, who carry the title Chief Executive Merchant (“CEM”), have significant flexibility to customize product mix, pricing, marketing, merchandising, visual displays and other elements in consultation with their regional leaders. We create or implement localized assortments that are not only trend forward but often create trends in the industry, which we believe differentiates us from our national competitors that tend to have standard assortments across markets. Throughout the year, we train all of our employees on a variety of topics, including product knowledge, sales strategies, leadership and store operations. Our store managers and store department managers are an integral part of our company, and many have over 15 years of relevant industry experience in retail. We have made important investments in the training and development of our people, including the creation of a full time training department. Approximately 70% of our new store management positions are filled through internal promotions, including 96% of our CEMs. We also have incentive compensation programs and an employee stock purchase plan for all employees, regardless of position or title. We train prospective store managers at our CEM Leadership Workshop, which is part of an extensive training program. Once a year, we hold a week long training session with our senior management, regional directors and store managers, where we focus on the upcoming year’s strategic priorities to keep our entire business aligned. We believe our decentralized culture and coordinated training foster an organization aligned around providing a superior customer experience, ultimately contributing to higher net sales and profitability.

Sophisticated, Global Supply Chain. Our merchandising team has developed direct sourcing relationships with manufacturers and quarries in 24 countries. Through these relationships, we believe we understand the best places to procure our various product categories. We currently source our products from more than 220 vendors worldwide and have developed long-term relationships with many of them. We often collaborate with our vendors to design and manufacture products for us to address emerging customer preferences that we observe in our stores and markets. We procure the majority of our products directly from the manufacturers, which eliminates additional costs from exporters, importers, wholesalers and distributors. We believe direct sourcing is a key competitive advantage, as many of our specialty retail flooring competitors are too small to have the scale or the resources to work directly with suppliers. We have established a Global Sourcing and Compliance Department to, among other things, enhance our policies and procedures with respect to addressing compliance with appropriate regulatory bodies, including compliance with the requirements of the Lacey Act of 1900 (as amended, the “Lacey Act”), the California Air Resources Board (“CARB”) and the Environmental Protection Agency (“EPA”). Our Compliance Department also addresses compliance with Floor & Decor’s supplier compliance policies, such as specifications and packaging of the products we purchase. We also utilize third-party consultants for audits, testing and surveillance to ensure product safety and compliance. Additionally, we have invested in technology and personnel to collaborate throughout the entire supply chain process to support our direct sourcing model, which has improved our ability to find, manage and source trend-right merchandise quickly and at lower costs, allowing us to offer products at low prices while maintaining attractive gross margins.

Highly Experienced Management Team with a Proven Track Record. Led by our Chief Executive Officer, Tom Taylor, our management team brings substantial expertise from leading retailers and other companies across various core functions, including store operations, merchandising, marketing, real estate, e-commerce, supply chain management, finance, legal and information technology. Tom Taylor, who joined us in 2012, spent 23 years at The Home Depot, where he served as Executive Vice President of Merchandising and Marketing with responsibility for all stores in the United States and Mexico. Over the course of his career at The Home Depot, Tom Taylor helped expand the store base from fewer than 15 stores to over 2,000 stores. Our President, Lisa Laube, has over 30 years of merchandising and leadership experience with leading specialty retailers, including as President of Party City. Our Executive Vice President and Chief Financial Officer, Trevor Lang, brings more than 25 years of accounting and finance experience, including 19 years of Chief Financial Officer and Vice President of Finance experience at public companies, including the Chief Financial Officer and Chief Administrative Officer of Zumiez Inc. Our entire management team drives our organization with a focus on strong merchandising, superior customer experience, expanding our store footprint, and fostering a strong, decentralized culture. We believe our management team is an integral component of our achieving strong financial results.

Our Growth Strategy

We expect to continue to drive our strong net sales and profit growth through the following strategies:

Open Stores in New and Existing Markets. We believe there is an opportunity to significantly expand our store base in the United States from 133 warehouse-format stores currently to approximately 400 stores nationwide over the next 8-10 years based on our internal research with respect to housing density, demographic data, competitor concentration and other variables in both new and existing markets. We plan to target new store openings in both new and existing, adjacent and underserved markets. We have a disciplined approach to new store development, based on an analytical, research-driven site selection method and a rigorous real estate approval process. We believe our new store model delivers strong financial results and returns on investment, targeting net sales on average of \$12 million to \$15 million and approximately \$2.5 million in four-wall adjusted EBITDA before pre-opening expenses in the first year, pre-tax payback in approximately two and a half to three and a half years and cash-on-cash returns of approximately 50% in the third year. Over the past several years, we have made significant investments in personnel, information technology, supply chain, warehouse infrastructure, and connected customer strategies to support our current growth and the expansion of our stores. We intend to grow our store base by approximately 20% annually for the next several years. The performance of our new stores opened over the last three years, the performance of our older stores over that same time frame, our disciplined real estate strategy, and the track record of our management team in successfully opening retail stores support our belief in the significant store expansion opportunity.

Increase Comparable Store Sales. We expect to grow our comparable store sales by continuing to offer our customers a dynamic and expanding selection of compelling, value-priced hard surface flooring and accessories while maintaining strong service standards for our customers. We regularly introduce new products into our assortment through our category product line review process, including collaboration with our vendors to bring to market innovative products such as waterproof rigid core vinyl and water-resistant laminates. Because almost 60% of our stores have been opened for less than five years, we believe they will continue to drive comparable store sales growth as they ramp to maturity. We believe that we can continue to enhance our customer experience by focusing on service, optimizing sales and marketing strategies, investing in store staff and infrastructure, remodeling existing stores and improving visual merchandising and the overall aesthetic appeal of our stores. We also believe that growing our proprietary credit offering, Pro and designer strategies, further integrating connected customer strategies, and enhancing other key information technology, will contribute to increased comparable store sales. As we increase awareness of Floor & Decor's brand, we believe there is a significant opportunity to gain additional market share, especially from independent flooring retailers and large format home improvement retailers. We are also adding adjacent categories that align with flooring projects like vanities, bathroom accessories, frameless glass in the bathroom, and customized countertops for the kitchen. We believe the combination of these initiatives plus the expected growth of the hard surface flooring category described in more detail under "Our Industry" below will continue to drive strong comparable store sales growth.

Expand Our "Connected Customer" Experience. Floor & Decor's online experience allows our Pro, BIY and DIY customers to explore our product selection and design ideas before and after visiting our stores and offers the convenience of making online purchases for delivery or pick up in-store. We believe our online platform reflects our brand attributes and provides a powerful tool to educate, inspire and engage our consumers, and we view our website and multi-channel strategies as leading our brand. Our research indicates that approximately 80% of customers who shopped at Floor & Decor in the last two years have visited our website. We continuously invest in our connected customer strategies to improve how our customers experience our brand. For example, we regularly update our website, which provides our customers with inspirational vignettes, videos, products, a room visualizer, and education. Additional initiatives include: (i) implementing our new Customer Relationship Management ("CRM") to obtain a single view of our customers, (ii) developing personalized content based on location, purchase and browsing history, (iii) developing more relevant content and improved search and purchasing tools to help customers add decorative and installation accessories and (iv) creating frequently asked questions to help customers choose the best product for their jobs. We believe this reinforces our unique customer value proposition and ultimately drives sales. Our e-commerce sales represented approximately 19% of our total net sales for fiscal 2020. While the hard surface flooring category has a relatively low penetration of e-commerce sales due to the nature of the product, we believe our connected customer presence represents an attractive growth opportunity to drive consumers to Floor & Decor.

Continue to Invest in the Pro and Commercial Customer. We believe our differentiated focus on Pro customers has created a competitive advantage for us and will continue to drive our net sales growth. We will invest in gaining and retaining Pro customers due to their frequent and high-ticket purchases, loyalty, and propensity to refer other potential customers. We have made important investments in the Pro services regional team, including the addition of Regional Pro Directors, to better recruit and train the Pro services team in each store. We have also invested in new technology, such as integrated CRM software, to help us further penetrate and grow our Pro business, dedicated phone lines for our Pro customers to call and text, commercial credit and open account terms, jobsite delivery, a dedicated website for Pro customers, training on technical flooring installation solutions, and tools to facilitate large commercial jobs sourced throughout the store. Recently, we introduced an industry leading Pro credit card with terms and tools that help our professional customers manage their business better. We plan to further invest in initiatives to increase speed of service, improve financing solutions, leverage technology, elevate our Pro branding, dedicate additional store staffing to support Pro customers, and enhance the in-store experience for our Pro customers. We have implemented a “Pro Zone” in a majority of our stores that focuses on the specific needs of the Pro customer as well as a Pro loyalty program in all of our stores. Additionally, we communicate our value proposition and various Pro-focused offerings by hosting a number of Pro networking events. Building on our success in serving the Pro customer, in 2016 we entered the adjacent commercial sales channel, thereby increasing the size of the addressable market we serve. Our commercial effort, which we have branded Floor & Decor Commercial, features a commercial sales team that targets corporate customers, large scale multi-family developers, large home builders, hotels, restaurants, and retailers with large flooring needs. We believe Pro customers will continue to be an integral part of our sales growth, and Floor & Decor Commercial will provide incremental revenue and profit opportunities in the future.

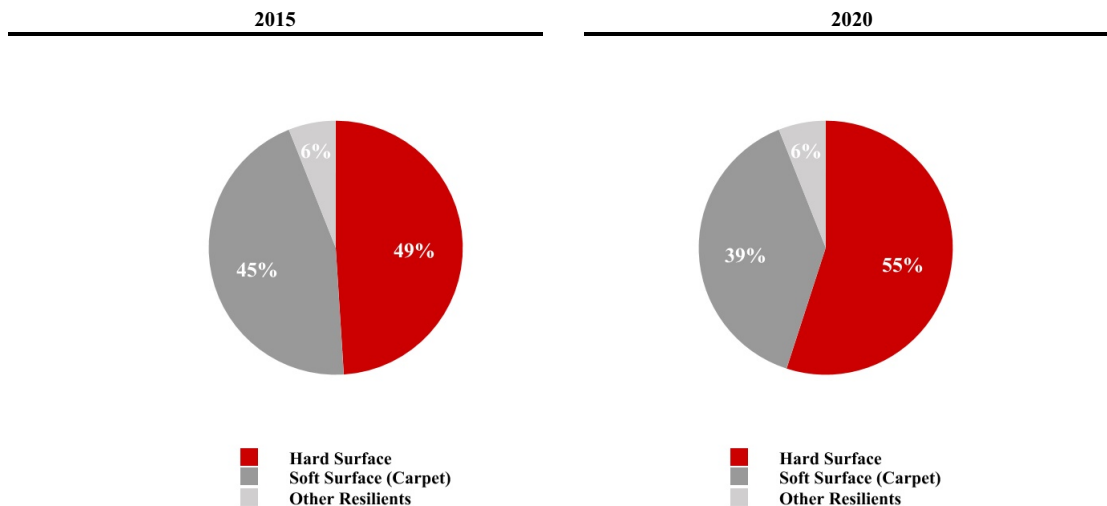
Continue to Invest in Design Services. Our Design Services offer a unique to large format retail experience, which leads our customers through a seamless, inspirational design process to complete their projects. Our research tells us when a designer is involved, customer satisfaction is higher, the average ticket is approximately 3x higher compared with customers who do not use a designer, and design appointments close at a higher rate than typical transactions. We position our designers as experts through our inspirational content and promote design services through all channels. We intend to continue to invest in recruiting top design talent, training, tools and technology. Design-focused training is a priority to ensure our teams are knowledgeable and prepared to deliver a start-to-finish consultative selling experience. We believe the planned rollout of our CRM technology to our design teams this year will enhance communication and workflow, from initial customer interaction through securing the close of the sale and beyond. Recent realignment within the regional store leadership organization to support design is expected to amplify the effectiveness of influence and high-level strategic execution. Additionally, we intend to continue to test advanced service options in various markets to further set us apart.

Enhance Margins Through Increased Operating Leverage. Since 2011, we have invested significantly in our sourcing and distribution network, integrated IT systems and corporate overhead to support our growth. We expect to leverage these investments as we grow our net sales. Additionally, we believe operating margin improvement opportunities will include enhanced product sourcing processes and overall leveraging of our store-level fixed costs, existing infrastructure, supply chain, corporate overhead and other fixed costs resulting from increased sales productivity. We anticipate that the planned expansion of our store base and growth in comparable store sales will also support increasing economies of scale.

Our Industry

Floor & Decor operates in the large, growing and highly fragmented \$13 billion to \$14 billion hard surface flooring market (in manufacturers’ dollars), which is part of the larger \$22 billion to \$23 billion U.S. floor coverings market (in manufacturers’ dollars) based on internal and external research including 2020 reports by Market Insights, LLC, and Catalina Research, Inc., leading providers of market research for the floor coverings industry. We estimate that, after retail markup, the addressable hard surface flooring market for Floor & Decor is between \$22 billion and \$23 billion. We estimate we represent approximately 9% of this market, an increase from approximately 8% in 2019. The hard surface flooring market described above does not include installation materials and tools, which represented 17% of our net sales in 2020. The competitive landscape of the hard surface flooring market includes big-box home improvement centers, national and regional specialty flooring retailers, and independent flooring retailers. We believe we benefit from growth in the overall hard surface flooring market, which increased on average 6% per year from 2015 to 2019, decreasing by approximately 2% to 3% in 2020 as a result of the COVID-19 pandemic, and is estimated to grow on average 4% to 6% per year from 2021 through 2025, assuming no negative economic cycle, housing downturn or recession. We believe that growth in the hard surface flooring market has been and will continue to be driven by home remodeling demand drivers such as the aging household inventory, millennials forming households, existing home sales, rising home equity values and the secular shift from carpet to hard surface flooring. In addition, we believe we have an opportunity to increase our market share as our competitors are unable to compete with our combination of price, service and in-stock assortment.

Based on our internal market research, key long-term industry trends include increasing spend on home renovations, aging of the existing housing stock, rising level of home ownership, and favorable demographic trends. Over the last decade, hard surface flooring has consistently taken share from carpet as a percentage of the total floor coverings market, increasing from 49% of the market in 2015 to 55% in 2020. Historically, mix shift towards hard surface flooring has been driven by product innovation, changing consumer preferences, better hygiene qualities, increasing ease of installation and higher durability. Product innovation, which has been aided by the increasing use of technology such as inkjet tile printing, waterproof wood-look flooring and water-resistant laminates, and non-traditional uses of hard surface flooring including walls, fireplaces and patios, has increased the size of the hard surface flooring market and has allowed us to better serve customer needs.



We believe we have an opportunity to continue to gain share in the hard surface flooring market with the largest selection of tile, wood, laminate, vinyl, natural stone, decorative accessories and installation accessories. Our strong focus on the customer experience drives us to remain innovative and locally relevant while maintaining low prices and in-stock merchandise in a one-stop shopping destination.

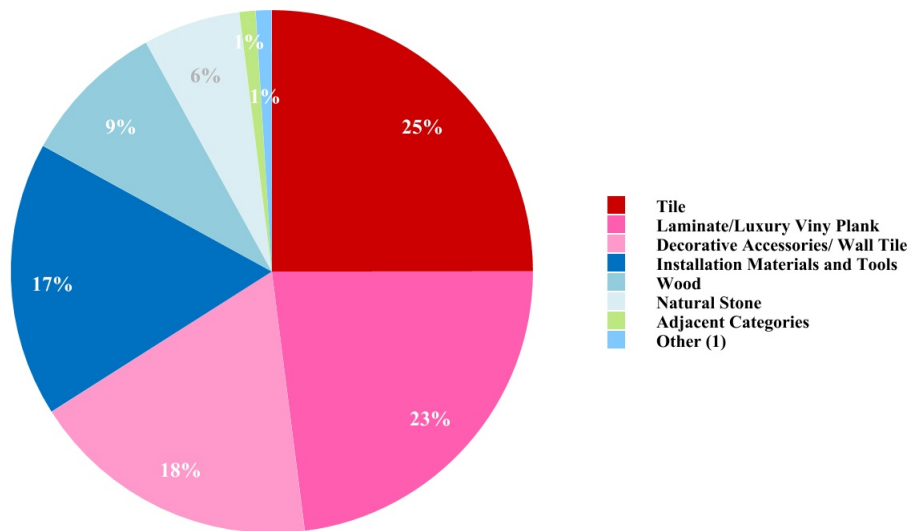
Our Products

We offer an assortment of tile, wood, laminate, vinyl, and natural stone flooring, along with adjacent categories including decorative and installation materials at everyday low prices. Our objective is to carry a broad and deep in-stock product offering in order to be the one-stop destination for our customer's entire project needs. We seek to showcase products in our stores and online to provide multiple avenues for inspiration throughout a customer's decision-making process.

Our strategy is to fulfill the product needs of our Pro, DIY and BIY customers with our extensive assortment, in-stock inventory and merchandise selection across a broad range of price points. We offer bestseller products in addition to the more unique, hard to find items that we believe our customers have come to expect from us. We source our products from around the world, constantly seeking new and exciting merchandise to offer our customers. Our goal is to be at the forefront of hard surface flooring trends in the market, while offering low prices given our ability to source directly from manufacturers and quarries.

We utilize a regional merchandising strategy in order to carry products in our stores that cater to the preferences of our local customer base. This strategy is executed by our experienced merchandising team, which consists of category merchants and regional merchants, who work with our individual stores to ensure they have the appropriate product mix for their location. Our category merchants are constantly seeking new products and following trends by attending trade shows and conferences, as well as by meeting with vendors around the world. We schedule regular meetings to review information gathered and make future product decisions. This constant connectivity between our stores, regional merchants, category merchants, and our vendors allows us to quickly bring new, innovative, and compelling products to market.

Our fiscal 2020 net sales by key product categories are set forth below:



Category	Products Offered	Select Product Highlights
Tile	Porcelain, White Body, Ceramic	We offer a wide selection of Porcelain and Ceramic tiles from 4"x4" all the way up to 36"x72" and 48"x48". We source many products directly from Italy, where many design trends in tile originate. We offer traditional stone looks as well as wood-looking planks and contemporary products like cement-look and vein cut styles. We work with many factories in the United States, Spain, Turkey, Italy, Mexico, Brazil, and other countries to bring the most in-demand styles at low prices.
Wood	Solid Prefinished Hardwood, Solid Unfinished Hardwood, Engineered Hardwood, Bamboo, Cork, Wood Wall	We sell common species such as Oak, Walnut, Birch, Hickory and Maple but also exotics such as Bamboo and Acacia, all in multiple colors. Our wood flooring comes in multiple widths from 2 1/4" up to 9 3/4" wide planks. Customers have the option of buying prefinished or unfinished flooring in many of our stores.
Natural Stone	Marble, Travertine, Limestone, Slate, Granite	Natural stone is quarried around the world, and we typically buy directly from the source. For example, we buy natural stones from Italy, Greece, Spain, Turkey, Portugal, India, and China. We work with factories in these countries and others to cut stone tiles in many sizes, finishes and colors.
Laminate/Luxury Vinyl Plank	Laminate Flooring, Luxury Vinyl, Engineered/Composite (Rigid Core) Vinyl	Laminate, AquaGuard® water-resistant laminate, NuCore®, DuraLux® Rigid and Luxury Vinyl plank flooring is offered in styles that mimic our bestselling tile and wood species, colors and finishes. Our product offers a full range of installation methods, many are water-resistant to waterproof, and all are great for customers who want the beauty of real hardwood and stone but the ease of maintenance and durability that laminate and luxury vinyl offer.
Decorative Accessories/Wall Tile	Glass, Natural Stone, Tile Mosaics and Decorative Tiles, Decorative Trims, Prefabricated Countertops, Medallions, Wall Tile	With over 800 choices in glass, tile and stone mosaics and decoratives, we can customize nearly any look or style a customer desires. This trend-forward and distinctive category is a favorite of our designers and offers customers an inexpensive way to quickly update a backsplash or shower.

Category	Products Offered	Select Product Highlights
Installation Materials and Tools	Grout, Underlayment, Adhesives, Mortar, Backer Board, Power and Hand Tools, Wood Moldings, Wood Glues, Blades	This category offers everything a customer needs to complete his or her project, including backer board, mortar, grout, underlayment, adhesives, wood glues, molding and tools. We sell top brands, which we believe are highly valued by our customers.
Adjacent categories	Custom Countertops, Glass Shower Doors, Vanities, Vanity Mirrors, Vanity Tops, Bathroom Sinks, Bath Faucets, Shower Faucet Sets, Bath Accessories	We offer products designed with ease and function in mind to complete kitchen and bathroom projects. Our product line of Studio Design branded vanities, bathroom accessories and more offer stylish options at everyday low prices.

(1) Other includes delivery and sample revenue less adjustments for deferred revenue, sales return reserves, rewards under our Pro Premier Loyalty program, and other revenue related adjustments that are not allocated on a product-level basis. Refer to the notes to our consolidated financial statements included in this Annual Report for more information.

Stores

We operate 133 warehouse-format stores across 31 states and two small-format design studios. Most of our stores are situated in highly visible retail and industrial locations. Our warehouse-format stores average approximately 78,000 square feet and carry on average approximately 4,100 flooring, decorative and installation accessory SKUs, which equates to approximately 1.2 million square feet of flooring products or \$2.5 million of inventory at cost.

Each of our stores is led by a store manager who holds the title CEM and is supported by an operations manager, product category department managers, a design team, and a Pro sales and support team. Our store management focuses on providing superior customer service and creating customized store offerings that are tailored to meet the specific needs of their stores. Beyond the store managers, each store is staffed with associates, the number of whom vary depending on sales volume and size of the store. We dedicate significant resources to training our new store managers through our CEM Training Workshop and in the field across all product areas, with store-level associates receiving certification on specific product areas. Ongoing training and continuing education are provided for all employees throughout the year.

We believe there is an opportunity to significantly expand our store base in the United States from our 133 warehouse-format stores currently to approximately 400 stores nationwide within the next 8-10 years based on our internal research with respect to housing density, demographic data, competitor concentration and other variables in both new and existing markets. For the next several years, we plan to grow our store base by approximately 20% per year, with a mix being opened in existing geographies and the others being opened in new markets. We have developed a disciplined approach to new store development, based on an analytical, research-driven method to site selection and a rigorous real estate review and approval process. By focusing on key demographic characteristics for new site selection, such as aging of homes, length of home ownership and median income, we expect to open new stores with attractive returns.

When opening new stores, inventory orders are placed several months prior to a new store opening. Significant investment is made in building out or constructing the site, hiring and training employees in advance, and advertising and marketing the new store through pre-opening events to draw the flooring industry community together. Each new store is thoughtfully designed with store interiors that include interchangeable displays on wheels, racking to access products and stand-up visual displays to allow ease of shopping and an exterior highlighted by a large, bold Floor & Decor sign. The majority of our stores have design studios that showcase project ideas to further inspire our customers, and, in all of our stores, we employ experienced designers to provide design consulting to our customers free of charge. Additionally, we have rolled out “Pro Zones”, which are dedicated areas offering a variety of services to Pro customers, in a majority of our stores.

Our new store model targets a store size of 70,000-80,000 square feet, total initial net cash investment of approximately \$7 million to \$9 million, which could increase as we have the ability to own and self-develop more new stores, net sales on average of \$12 million to \$15 million and approximately \$2.5 million in four-wall adjusted EBITDA before pre-opening expenses in the first year, pre-tax payback in approximately two and a half to three and a half years and cash-on-cash returns of approximately 50% in the third year. We believe the success of our stores across geographies and vintages supports the portability of Floor & Decor into a wide range of markets. The performance of our new stores is inherently uncertain and is subject to numerous factors that are outside of our control. As a result, we cannot assure you that our new stores will achieve our target results.

Connected Customer

We aim to elevate the total customer experience through our website *FloorandDecor.com*. Growing our e-commerce sales provides us with additional opportunity to enhance our connected customer experience. Home renovation and remodeling projects typically require significant investments of time and money from our DIY customers, and they consequently plan their projects carefully and conduct extensive research online. *FloorandDecor.com* is an important tool for engaging our DIY customers throughout this process, educating them on our product offerings and providing them with design ideas. Our Pro customers use the website and our Pro app to browse our broad product assortment, to continually educate themselves on new techniques and trends and to share our virtual catalogue and design ideas with their customers and utilize tools such as our calculators to aid with shopping. In addition, sales associates at our call center are available to assist our customers with their projects and questions. We designed the website to be a reflection of our stores and to promote our wide selection of high quality products and low prices. To this end, we believe the website provides not only the same region-specific product selection that customers can expect in our stores, but also the opportunity to extend our assortment by offering our entire portfolio of products.

In addition to highlighting our broad product selection, we believe *FloorandDecor.com* offers a convenient opportunity for customers to purchase products online and pick them up in our stores. Approximately 84% of our e-commerce sales are picked up in-store. As we continue to grow, we believe connected customer will become an increasingly important part of our strategy, and the investments we made in our connected customer strategy were particularly beneficial during the COVID-19 pandemic.

Marketing and Advertising

We use a multi-platform approach to increasing Floor & Decor's brand awareness, while historically maintaining a low average advertising to net sales ratio of approximately 3%. We use traditional advertising media, combined with social media and online marketing, to share the Floor & Decor story with a growing audience. We take the same customized approach with our marketing as we do with our product selection; each region has a varied media mix based on local trends and what we believe will most efficiently drive sales. To further enhance our targeting efforts, our store managers have input into their respective stores' marketing spend.

A key objective of our messaging is to make people aware of our stores, products and services. Based on our internal research, we estimate the conversion rate from a customer visiting one of our stores or our website to purchasing our products is 84%.

As part of our focus on local markets, our stores have events that promote Floor & Decor as a hub for the local home improvement community. We feature networking events for Pro customers, giving them a chance to meet our sales teams, interact with others in the home improvement industry and learn about our newest products. For DIY customers, we regularly offer how-to classes on product installation. We believe these events serve to raise the profile of the Floor & Decor stores in our communities while showcasing our tremendous selection of products and services.

We want our customers to have a great experience at their local Floor & Decor store. Through our TV and radio commercials, print and outdoor ads, in-store flyers, online messaging and community events, we show our customers that we are a trusted resource with a vast selection, all at a low price.

Sourcing

Floor & Decor has a well-developed and geographically diverse supplier base. We source our industry leading merchandise assortment from over 220 suppliers in 24 countries. Our largest supplier accounted for 16% of our net sales in fiscal 2020, while no other individual supplier accounted for more than 6% of our net sales. We are focused on bypassing agents, brokers, distributors, and other middlemen in our supply chain in order to reduce costs and lead time. We believe that our direct sourcing model and the resulting relationships we have developed with our suppliers are distinct competitive advantages. The cost savings we achieve by directly sourcing our merchandise enable us to offer our customers low prices.

We have established a Global Sourcing and Compliance Department to, among other things, develop and implement policies and procedures in order to address compliance with appropriate regulatory bodies, including compliance with the requirements of the Lacey Act, CARB, and the EPA. We utilize third-party consultants for audits, testing, and surveillance to ensure product safety and compliance. We have invested in technology and personnel to collaborate throughout the entire supply chain process. Additionally, our close relationships with suppliers allow us to collaborate with them directly to develop and quickly introduce innovative and quality products that meet our customers' evolving tastes and preferences at low prices.

Distribution and Order Fulfillment

Merchandise inventory is our most significant working capital asset and is considered “in-transit” or “available for sale”, based on whether we have physically received the products at an individual store location or in one of our four distribution centers. In-transit inventory generally varies due to contractual terms, country of origin, transit times, international holidays, weather patterns and other factors, but approximately 15% of our inventory is in-transit, while roughly 85% is available for sale in our stores or at one of our four distribution centers.

We have invested significant resources to develop and enhance our distribution network. We have four distribution centers strategically located across the United States in port cities near Savannah, Georgia; Houston, Texas; Los Angeles, California; and Baltimore, Maryland. Third-party brokers arrange the shipping of our international and domestic purchases to our distribution centers and stores and bill us for shipping costs according to the terms of the purchase agreements with our suppliers. We are typically able to transport inventory from our distribution centers to our stores in less than one week. This turnaround time enhances our ability to maintain project-ready quantities of the products stocked in our stores. All of our distribution centers are Company-operated facilities, and we have implemented a warehouse management and transportation management system tailored to our unique needs across all four distribution centers. We believe this system helps service levels, reduces shrinkage and damage, helps us better manage our inventory, and allows us to better implement our connected customer initiatives.

In the first quarter of fiscal 2018, we relocated all of the existing inventory from our 322,000 square foot leased distribution center near Miami, Florida to our 1.4 million square foot distribution center near Savannah, Georgia. Our lease on the unused distribution center near Miami, Florida ends in fiscal 2021. Additionally, we began operating a 1.5 million square foot leased distribution center in Baltimore, Maryland in the fourth quarter of fiscal 2019.

We also plan to relocate our existing distribution center near Houston, Texas to a larger distribution center in the Houston area that is currently under construction. This relocation is expected to be completed in the first quarter of fiscal 2022. We plan to continue to seek further opportunities to enhance our distribution capabilities and align them with our strategic growth initiatives.

Management Information Systems

We believe that technology plays a crucial role in the continued growth and success of our business. We have sought to integrate technology into all facets of our business, including supply chain, merchandising, store operations, point-of-sale, e-commerce, finance, accounting and human resources. The integration of technology allows us to analyze the business in real time and react accordingly. Our sophisticated inventory management system is our primary tool for forecasting, placing orders and managing in-stock inventory. The data-driven platform includes sophisticated forecasting tools based on historical trends in sales, inventory levels and vendor lead times at the store and distribution center level by SKU, allowing us to support store managers in their regional merchandising efforts. We rely on the forecasting accuracy of our system to maintain the in-stock, project-ready quantities that our customers rely on. In addition, our employee training certifications are entirely electronic, allowing us to effectively track the competencies of our staff and manage talent across stores. We believe that our systems are sufficiently scalable to support the continued growth of the business.

Competition

The retail hard surface flooring market is highly fragmented and competitive. We face significant competition from large home improvement centers, national and regional specialty flooring chains and independent flooring retailers. Some of our competitors are organizations that are larger, are better capitalized, have existed longer, have product offerings that extend beyond hard surface flooring and related accessories, and have a more established market presence with substantially greater financial, marketing, personnel and other resources than we have. In addition, while the hard surface flooring category has a relatively low threat of new internet-only entrants due to the nature of the product, the growth opportunities presented by e-commerce could outweigh these challenges and result in increased competition in this portion of our connected customer strategy. Further, because the barriers to entry into the hard surface flooring industry are relatively low, manufacturers and suppliers of flooring and related products, including those whose products we currently sell, could enter the market and start directly competing with us.

We believe that the key competitive factors in the retail hard surface flooring industry include:

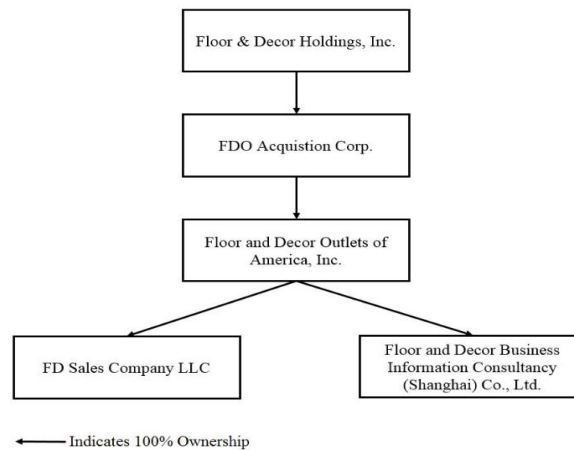
- product assortment;
- product innovation;
- in-store availability of products in project-ready quantities;
- product sourcing;
- product presentation;
- customer service;
- store management;
- store location; and
- low prices.

We believe that we compete favorably with respect to each of these factors by providing a highly diverse selection of products to our customers, at an attractive value, in appealing and convenient retail stores.

Our Structure

Floor & Decor Holdings, Inc. was incorporated as a Delaware corporation in October 2010 in connection with the acquisition of Floor & Decor Outlets of America, Inc. (“F&D”) in November 2010 by our previous sponsor owners.

The following chart illustrates our current corporate structure:



Human Capital

We have built a strong team of employees to support our continued success. Each of our stores is led by a CEM and is supported by an operations manager, product category department managers, a design team, a Pro sales and support team, and a number of additional associates. Outside of our stores, we have employees dedicated to corporate, store support, infrastructure, e-commerce, call center and similar functions as well as support for our distribution centers and sourcing office. We dedicate significant resources to training our employees and believe they are key to our success.

As of December 31, 2020, we had 8,790 employees, 6,395 of whom were full-time and none of whom were represented by a union. Of the total employees, 7,696 work in our stores, 752 work in corporate, store support, infrastructure, e-commerce or similar functions, 330 work in distribution centers, and 12 work in our Asia sourcing office in Shanghai, China. We believe that we have good relations with our employees.

We look at a variety of measures and objectives related to the development, attraction, safety, engagement and retention of our employees, including:

- *Store Staffing.* In order to provide the level of customer service that we expect, it is important that we adequately staff our stores with trained employees. During fiscal 2020, we faced challenges recruiting staff for certain of our stores due to the ongoing impact of the COVID-19 pandemic. In response, we appointed a Vice President of Workforce Management to focus on supporting our stores in their staffing needs. As of December 31, 2020, the majority of our stores were staffed at a level that we deem appropriate.
- *Diversity, Equity & Inclusion.* We are mindful of the benefits of diversity, equity and inclusion in all aspects of the employment cycle and believe they are key to our culture and long-term success. In 2020, we appointed a Vice President of Diversity, Equity & Inclusion to lead our diversity and inclusion efforts.
- *Training.* We believe that training associates is also important to ensuring appropriate levels of customer service. We have a Learning Department, and in 2020, associates engaged in approximately 98,000 hours of training.
- *Internal Advancement Opportunities.* We believe our growth opportunities are a critical way to attract and retain employees. In 2020, 963 employees were promoted to more senior positions.
- *Safety.* Maintaining a safe shopping environment is very important to us. We have worked to ensure our stores are safe environments for both our customers and employees and in response to the COVID-19 pandemic, we introduced various safety measures and protocols consistent with guidance from the Centers for Disease Control and state and local health authorities.
- *Rewards.* We believe in rewarding our associates for their hard work on behalf of Floor & Decor and provide a variety of incentives to allow associates to share in the Company's success, including (i) incentive compensation plans for all associates, (ii) a 401(k) plan with Company-sponsored match, (iii) health care benefits for full-time associates, (iv) an employee stock purchase plan that facilitates purchases of Company stock by eligible associates, and (v) other benefits such as an employee assistance program.

Government Regulation

We are subject to extensive and varied federal, state and local laws and regulations, including those relating to employment, the environment, protection of natural resources, import and export, advertising, labeling, public health and safety, product safety, zoning and fire codes. We operate our business in accordance with standards and procedures designed to comply with applicable laws and regulations. Compliance with these laws and regulations has not historically had a material effect on our financial condition or operating results; however, the effect of compliance in the future cannot be predicted.

Our operations and properties are also subject to federal, state and local laws and regulations governing the environment, environmental protection of natural resources and health and safety, including the use, storage, handling, generation, transportation, treatment, emission, release, discharge and disposal of hazardous materials, substances and wastes and relating to the investigation and clean-up of contaminated properties. Except to the extent of the capital expenditures related to our initiatives described below, compliance with these laws and regulations has not historically had a material effect on our financial condition or operating results, but we cannot predict the effect of compliance in the future.

In particular, certain of our products are subject to laws and regulations relating to the importation, exportation, acquisition or sale of certain plants and plant products, including those illegally harvested (which is prohibited by the Lacey Act), and the emissions of hazardous materials (which in California is governed by regulations promulgated by CARB and federally by regulations promulgated by the EPA). We have established a Global Sourcing and Compliance Department to, among other things, address these requirements, and we work with third-party consultants to assist us in designing and implementing compliance programs relating to the requirements of the Lacey Act, CARB and the EPA. Further, we could incur material compliance costs or be subject to compliance liabilities or claims in the future, especially in the event new laws or regulations are adopted or there are changes in existing laws and regulations or in their interpretation.

Our suppliers are also subject to the laws and regulations of their home countries, including in particular laws regulating forestry and the environment. We also support social and environmental responsibility among our supplier community and endeavor to enter into vendor agreements with our suppliers that contain representations and warranties concerning environmental, labor and health and safety matters.

Insurance and Risk Management

We use a combination of insurance and self-insurance to provide for potential liability for workers' compensation, general liability, product liability, director and officers' liability, team member healthcare benefits, and other casualty and property risks. Changes in legal trends and interpretations, variability in inflation rates, changes in workers' compensation and general liability premiums and deductibles, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency of insurance carriers, and changes in discount rates could all affect ultimate settlements of claims. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

Legal Proceedings

We are engaged in various legal actions, claims and proceedings arising in the ordinary course of business, including claims related to breach of contracts, products liabilities, intellectual property matters and employment related matters resulting from our business activities. As with most actions such as these, an estimation of any possible and/or ultimate liability cannot always be determined. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Trademarks and other Intellectual Property

As of February 25, 2021, we have 77 registered marks and several pending trademark applications in the United States. We regard our intellectual property, including our over 60 proprietary brands, as having significant value, and our brand is an important factor in the marketing of our products. Accordingly, we have taken, and continue to take, appropriate steps to protect our intellectual property.

Available Information

We maintain a website at www.FloorandDecor.com. The information on or available through our website is not, and should not be considered, a part of this Annual Report. You may access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as well as other reports relating to us that are filed with, or furnished to, the SEC free of charge on our website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

Summary of Risk Factors

The following is a summary of the principal risks that you should carefully consider before investing in our securities. In addition, see "Risk Factors" set forth in Item 1A. of this Annual Report and other reports and documents filed by us with the SEC for a more detailed discussion of the principal risks as well as certain other risks you should carefully consider before deciding to invest in our securities.

- Our business, financial condition and operating results are dependent on general economic conditions and discretionary spending by our customers, which in turn are affected by a variety of factors beyond our control. If such conditions deteriorate, our business, financial condition, and operating results may be adversely affected.
- The hard surface flooring industry depends on home remodeling activity and other important factors.
- Any failure by us to successfully anticipate trends may lead to loss of consumer acceptance of our products, resulting in reduced net sales.
- If we fail to successfully manage the challenges that our planned new store growth poses or encounter unexpected difficulties during our expansion, our operating results and future growth opportunities could be adversely affected.
- Increased competition could cause price declines, decrease demand for our products and decrease our market share.
- During the first and second quarters of fiscal 2020, the effects of the COVID-19 pandemic negatively impacted our business and could re-emerge and have a negative impact on our net sales, results of operations, financial position, store operations, new store openings and earnings.
- U.S. policies related to global trade and tariffs, including with respect to antidumping and countervailing duties, could adversely affect our business, financial condition and results of operations.
- Any disruption in our distribution capabilities, our related planning and control processes or our material and energy costs may adversely affect our business, financial condition, and operating results.

- Our success is dependent on, among other things, our ability to execute our business strategy effectively, manage our inventory and deliver value to our customers.
- Our success depends upon our ability to attract, train, and retain our key executive and other personnel and other highly qualified managers and staff.
- If we are unable to enter into leases for additional stores on acceptable terms or renew or replace our current store leases, or if one or more of our current leases is terminated prior to expiration of its stated term, and we cannot find suitable alternate locations, our growth and profitability could be adversely affected.
- Our net sales growth could be adversely affected if comparable store sales growth is less than expected.
- Our continued growth requires significant capital investments, which could be adversely affected if we have insufficient cash flow from operations or liquidity.
- We depend on our suppliers, and any failure by any of them to supply us with quality products on attractive terms and prices or to adhere to our quality standards may adversely affect our business, financial condition and operating results.
- Changes in tax laws, trade policies and regulations or in our operations and newly enacted laws or regulations may impact our effective tax rate or may adversely affect our business, financial condition and operating results.
- We are subject to risks associated with obtaining products from abroad that could adversely affect our business, financial condition and results of operations.
- Our ability to offer compelling products depends on the continued availability of sufficient suitable natural products.
- Our business exposes us to personal injury, product liability and warranty claims and related governmental investigations, which could result in negative publicity, harm our brand and adversely affect us.
- Unfavorable allegations, government investigations and legal actions surrounding our products and us could harm our reputation, impair our ability to grow or sustain our business, and adversely affect our business, financial condition and operating results.
- We are engaged in various legal actions, claims and proceedings arising in the ordinary course of business, and while we cannot predict the outcomes, this litigation and any future litigation could have an adverse impact on us.
- Federal, state or local laws and regulations, or our failure to comply with such laws and regulations, could increase our expenses, restrict our ability to conduct our business and expose us to legal risks.
- Labor activities could cause labor relations difficulties for us.
- If we fail to protect the privacy and security of information related to our customers, us, our employees, our suppliers and other third parties, we could become subject to litigation, investigations, liability and negative publicity that could significantly harm us.
- We may not be able to successfully maintain effective internal controls over financial reporting.
- We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.
- Our and our suppliers facilities and systems are vulnerable to natural disasters and other unexpected events, and as a result, we may lose merchandise and be unable to effectively deliver it to our stores.
- Our intellectual property rights are valuable, and any failure to protect them could reduce the value of our products and brand and harm our business.
- We are subject to risks related to corporate social responsibility.
- The effectiveness of our advertising strategy is a driver of our future success.
- We are a holding company with no business operations of our own and depend on cash flow from our subsidiaries to meet our obligations.
- We face risks related to our liquidity, indebtedness and our fixed lease obligations.

- We are exposed to credit risk on certain of our receivables and the inability or failure to collect outstanding credit, could result in losses and adversely affect our operating results.

ITEM 1A. RISK FACTORS.

You should carefully consider the risks described below, together with all of the other information included in this Annual Report, including our consolidated financial statements and the related notes thereto, before making an investment decision. The risks and uncertainties set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition, and operating results. If any of the following events occur, our business, financial condition, and operating results could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to our Business

The hard surface flooring industry depends on home remodeling activity and other important factors.

The hard surface flooring industry is highly dependent on the remodeling of existing homes, businesses and, to a lesser extent, new home construction. In turn, remodeling and new home construction depend on a number of factors that are beyond our control, including interest rates, tax policy, trade policy, employment levels, consumer confidence, credit availability, real estate prices, existing home sales, demographic trends, trends in response to the COVID-19 pandemic, weather conditions, natural disasters and general economic conditions. In particular:

- the national economy or any regional or local economy where we operate could weaken, including as a result of a resurgence of COVID-19 and related shutdowns or restrictions;
- home-price appreciation could slow or turn negative;
- regions where we have stores that could be impacted by hurricane, fire, or other natural disasters (including those due to the effects of climate change such as increased storm severity, drought, wildfires, and potential flooding due to rising sea levels and storm surges);
- increased demand for home improvement products could lessen as the COVID-19 pandemic subsides, causing consumers to spend discretionary income in other ways;
- interest rates could rise;
- credit could become less available;
- tax rates and/or health care costs could increase; or
- fuel costs or utility expenses could increase.

Any one or a combination of these factors could result in decreased demand for our products, reduce spending on homebuilding or remodeling of existing homes or cause purchases of new and existing homes to decline. While the vast majority of our net sales are derived from home remodeling activity as opposed to new home construction, a decrease in any of these areas would adversely affect our business, financial condition and operating results.

Any failure by us to successfully anticipate trends may lead to loss of consumer acceptance of our products, resulting in reduced net sales.

Each of our stores is stocked with a customized product mix based on consumer demands in a particular market. Our success therefore depends on our ability to anticipate and respond to changing trends and consumer demands in these markets in a timely manner. If we fail to identify and respond to emerging trends, consumer acceptance of our merchandise and our image with current or potential customers may be harmed, which could reduce our net sales. Additionally, if we misjudge market trends, we may significantly overstock unpopular products, incur excess inventory costs and be forced to reduce the sales price of such products or incur inventory write-downs, which would adversely affect our operating results. Conversely, shortages of products that prove popular could also reduce our net sales through missed sales and a loss of customer loyalty.

If we fail to successfully manage the challenges that our planned new store growth poses or encounter unexpected difficulties during our expansion, our operating results and future growth opportunities could be adversely affected.

We have 133 warehouse-format stores and two small-format standalone design studios located throughout the United States as of December 31, 2020. We plan to open 27 warehouse-format stores during fiscal 2021 and to increase the number of new stores that we open during each of the next several years thereafter. This growth strategy and the investment associated with the development of each new store may cause our operating results to fluctuate and be unpredictable or decrease our profits. We cannot ensure that store locations will be available to us, or that they will be available on terms acceptable to us. If additional retail store locations are unavailable on acceptable terms, we may not be able to carry out a significant part of our growth strategy or our new stores' profitability may be lower. Our future operating results and ability to grow will depend on various other factors, including our ability to:

- successfully select new markets and store locations;
- attract, train and retain highly qualified managers and staff;
- maintain our reputation of providing quality, safe and compliant products; and
- manage store opening costs.

In addition, consumers in new markets may be less familiar with our brand, and we may need to increase brand awareness in such markets through additional investments in advertising or high cost locations with more prominent visibility. Stores opened in new markets may have higher construction, occupancy or operating costs, or may have lower net sales, than stores opened in the past. In addition, laws or regulations in these new markets may make opening new stores more difficult or cause unexpected delays. Newly opened stores may not succeed or may reach profitability more slowly than we expect, and the ramp-up to profitability may become longer in the future as we enter more markets and add stores to markets where we already have a presence. Future markets and stores may not be successful and, even if they are successful, our comparable store sales may not increase at historical rates. To the extent that we are not able to overcome these various challenges, our operating results and future growth opportunities could be adversely affected.

Increased competition could cause price declines, decrease demand for our products and decrease our market share.

We operate in the hard surface flooring industry, which is highly fragmented and competitive. We face competition from large home improvement centers, national and regional specialty flooring chains, Internet-based companies and independent flooring retailers. Among other things, we compete on the basis of breadth of product assortment, low prices, and the in-store availability of the products we offer in project-ready quantities, as well as the quality of our products and customer service. As we expand into new and unfamiliar markets, we may experience different competitive conditions than in the past.

Some of our competitors are organizations that are larger, are better capitalized, have existed longer, have product offerings that extend beyond hard surface flooring and related accessories and have a more established market presence with substantially greater financial, marketing, delivery, customer loyalty, personnel and other resources than we have. In addition, while the hard surface flooring category has a relatively low threat of new internet-only entrants due to the nature of the product, the growth opportunities presented by e-commerce could outweigh these challenges and result in increased competition. Competitors may forecast market developments more accurately than we do, offer similar products at a lower cost, have better delivery offerings, or adapt more quickly to new trends and technologies or evolving customer requirements than we do. Further, because the barriers to entry into the hard surface flooring industry are relatively low, manufacturers and suppliers of flooring and related products, including those whose products we currently sell, could enter the market and start directly competing with us. Intense competitive pressures from any of our present or future competitors could cause price declines, decrease demand for our products and decrease our market share. Also, if we continue to grow and become more well-known, other companies may change their strategies to present new competitive challenges. Moreover, in the future, changes in consumer preferences may cause hard surface flooring to become less popular than other types of floor coverings. Such a change in consumer preferences could lead to decreased demand for our products.

All of these factors may harm us and adversely affect our net sales, market share, and operating results.

During the first and second quarters of fiscal 2020, the effects of the COVID-19 pandemic negatively impacted our business and results of operations. Additional governmental restrictions on business operations, including as a result of a further resurgence of the COVID-19 pandemic, could have a negative impact on our net sales, results of operations, financial position, store operations, new store openings and earnings.

On March 11, 2020, the World Health Organization announced that infections of COVID-19 had become a pandemic, and on March 13, 2020, the U.S. President announced a National Emergency relating to the COVID-19 pandemic. National, state and local authorities have recommended social distancing and some authorities have imposed quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures, while intended to protect human life, have had and are expected to continue to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The COVID-19 pandemic and preventative measures taken to contain or mitigate its spread have caused, and are continuing to cause, business shutdowns, or the re-introduction of business shutdowns, cancellations of events and restrictions on travel, significant reductions in demand for certain goods and services, reductions in business activity and financial transactions, supply chain interruptions and overall economic and financial market instability both globally and in the United States. Such effects will likely continue for the duration of the pandemic, which is uncertain, and for some period thereafter. While several countries, as well as certain states, counties and cities in the United States, began to relax the early public health restrictions with a view to partially or fully reopening their economies, many cities, both globally and in the United States, have since experienced a surge in the reported number of cases and hospitalizations related to the COVID-19 pandemic. This increase in cases has led to the reintroduction of restrictions and business shutdowns in certain states, counties and cities in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. Additionally, in December 2020, the U.S. Food and Drug Administration authorized certain vaccines for emergency use. However, it remains unclear how quickly the vaccines will be distributed nationwide and globally or if or when “herd immunity” will be achieved and the restrictions that were imposed to slow the spread of the virus will be lifted entirely. The delay in distributing the vaccines could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may experience or continue to experience a recession, and our business and operations could be materially adversely affected by a prolonged recession in the U.S. and other major markets.

In response to the COVID-19 pandemic and these changing conditions, beginning in late March 2020, we closed some of our stores and shifted other stores to a curbside pickup model in the jurisdictions where government regulations permitted our stores to continue to operate and where the customer demand made such operations sustainable. We also furloughed or modified work hours for many of our employees and identified and implemented cost savings measures throughout our operations. In May and June 2020, we implemented a phased approach to reopening stores for in-store shopping with enhanced safety and sanitation measures such as requiring associates to wear face masks, installing social distancing markers on floors and protective shields at cash registers, and sanitizing shopping carts, pin pads, design desks, and other high-traffic areas. After reopening our stores for in-store shopping, in the third and fourth quarters of fiscal 2020, we saw increased sales and order activity, likely due to customers being required or encouraged to stay at home, school closures and employers requiring employees to work remotely due to the ongoing impacts of the COVID-19 pandemic. Some of this increased demand is also likely attributable to the timing of tax refunds and COVID-related stimulus payments.

The COVID-19 pandemic and initial responses had an adverse effect on our customer traffic, sales, operating costs, and profit during the first two quarters of fiscal 2020 and may have such an impact again in the future. We cannot predict how long the COVID-19 pandemic will last, whether we will be required to re-close stores or what other government responses may occur. The COVID-19 pandemic has also adversely affected our ability to staff our existing stores and open new stores, and we have experienced construction delays. While our stores saw increased sales and order activity in the final two quarters of fiscal 2020, those results, as well as those of other metrics such as net revenues, gross margins and other financial and operating data, may not be indicative of results for future periods. Additionally, such increased demand may increase beyond manageable levels, may fluctuate significantly, or may not continue, including the possibility that demand may decrease from historical levels.

Our operations have been and could be further disrupted if more of our employees are diagnosed with COVID-19 since this could require us to quarantine some or all of a store’s employees and disinfect the impacted stores. If a significant percentage of our workforce is unable to work, whether because of illness, quarantine, limitations on travel or other government restrictions in connection with COVID-19, our operations may be negatively impacted, potentially affecting our liquidity, financial condition or results of operations. In addition, the COVID-19 pandemic has made it difficult to hire a sufficient number of store associates in many of our stores. If we are unable to hire a sufficient number of store associates or if there are insufficient existing store associates not subject to quarantine, we may need to reduce store hours or temporarily close stores.

Our suppliers have been and could also be further adversely impacted by the COVID-19 pandemic. If our suppliers’ employees are unable to work, whether because of illness, quarantine, limitations on travel or other government restrictions in connection with the COVID-19 pandemic, we could face shortages of inventory at our stores and our operations and sales could be adversely impacted by such supply interruptions.

Our business may be further negatively impacted by the fear of exposure to or actual effects of the COVID-19 pandemic or another disease pandemic, epidemic, or similar widespread public health concern; these impacts may include but are not limited to:

- additional temporary store closures due to reduced workforces or government mandates or the need to utilize a curbside pickup model or otherwise modify our operations;
- reduced workforces, which may be caused by, but not limited to, the temporary inability of the workforce to work due to illness, quarantine, or government mandates or the inability to sufficiently staff our stores;
- failure of third parties on which we rely, including our suppliers, contract manufacturers, contractors, commercial banks, joint venture partners and external business partners to meet their obligations to the company, or significant disruptions in their ability to do so which may be caused by their own financial or operational difficulties and may adversely impact our operations;
- supply chain risks such as scrutiny or embargoing of goods produced in infected areas;
- construction delays or halts, preventing us from opening new stores;
- liquidity strains, which could slow the rate at which we open new stores;
- inability of our key leaders to visit our stores, which could negatively impact customer service and associate morale;
- increased cybersecurity risks due to the number of associates working remotely;
- increased litigation risk as a result of the pandemic; and
- reduced consumer traffic and purchasing, which may be caused by, but not limited to, the temporary inability of customers to shop with us due to illness, quarantine or other travel restrictions, or financial hardship, shifts in demand away from discretionary spending, or shifts in demand from higher priced products to lower priced products.

Any of the foregoing factors, or other cascading effects of the COVID-19 pandemic or another disease pandemic, epidemic, or similar widespread public health concern, including effects that are not currently foreseeable, could materially increase our costs, negatively impact our sales and damage our financial condition, results of operations, cash flows and our liquidity position, possibly to a significant degree. The duration of any such impacts cannot be predicted, and while it is not clear whether our current insurance policies will provide recovery for any of the impacts of the COVID-19 pandemic or any future disease pandemic, epidemic, or similar widespread public health concern, we do not anticipate that such policies will provide adequate coverage for the impacts of COVID-19 or any future disease pandemic, epidemic, or similar widespread public health concern.

U.S. policies related to global trade and tariffs, including with respect to antidumping and countervailing duties, could adversely affect our business, financial condition and results of operations.

The current domestic and international political environment, including existing and potential changes to U.S. policies related to global trade and tariffs, have resulted in uncertainty surrounding the future state of the global economy. In particular, the ongoing trade dispute between the U.S. and China has resulted in the U.S. imposing tariffs of 25% on the vast majority of the products we import from China. Also, countervailing duties of 358.81% and antidumping duties of 203.71% or 330.69% apply to exports of Chinese ceramic tile. Historically, approximately half of the products we sell were imported from China, the majority of which are impacted by these tariffs. Approximately 30% of the products we sold in fiscal 2020 were sourced from China. Any further expansion in the types or levels of tariffs implemented on China or other countries has the potential to negatively impact our business, financial condition and results of operations. Additionally, there is a risk that the U.S. tariffs on imports are met with tariffs on U.S. produced exports and that a further trade conflict could ensue, which has the potential to significantly impact global trade and economic conditions, including the imposition of new measures with little notice. Potential costs and any attendant impact on pricing arising from these tariffs and any further expansion in the types or levels of tariffs implemented could require us to modify our current business practices and could adversely affect our business, financial condition, and results of operations.

Any disruption in our distribution capabilities, supply chain or our related planning and control processes may adversely affect our business, financial condition, and operating results.

Our success is highly dependent on our planning and distribution infrastructure, which includes the ordering, transportation, and distribution of products to our stores and the ability of suppliers to meet distribution requirements. We also need to ensure that we continue to identify and improve our processes and supply chain and that our distribution infrastructure and supply chain keep pace with our anticipated growth and increased number of stores. The cost of these enhanced processes could be significant and any failure to maintain, grow, or improve them could adversely affect our business, financial condition, and operating results. Due to our rapid expansion, we have had to significantly increase the size of our distribution centers. Additionally, we opened a 1.5 million square foot distribution center in Maryland in the fourth quarter of fiscal 2019. Based on our growth intentions, we plan to add additional distribution centers or increase the size of our existing distribution centers in the future. Increasing the size of our distribution centers may decrease the efficiency of our distribution costs.

We manage our four distribution centers internally rather than rely on independent third-party logistics providers. If we are not able to manage our distribution centers successfully or at a lower cost than with third-party logistics providers, it could adversely affect our business, financial condition, and operating results. As we continue to add distribution centers, we may incur unexpected costs, and our ability to distribute our products may be adversely affected. Any disruption in the transition to or operation of our distribution centers could have an adverse impact on our business, financial condition, and operating results.

Additionally, our supply chain and our suppliers could be disrupted by factors beyond our control, including from damage or destruction to our distribution centers; weather-related events; natural disasters; international trade disputes or trade policy changes or restrictions; tariffs or import-related taxes; third-party strikes, lock-outs, work stoppages or slowdowns; shortages of truck drivers; shipping capacity constraints; third-party contract disputes; supply or shipping interruptions or costs; military conflicts; acts of terrorism; public health issues, including pandemics or quarantines (such as the COVID-19 outbreak); or other factors beyond our control. Any such disruption could negatively impact our financial performance or financial condition.

Our success is also dependent on our ability to provide timely delivery to our customers. Our business could also be adversely affected if fuel prices increase or there are delays in product shipments due to freight difficulties, inclement weather, strikes by our employees or employees of third-parties involved in our supply chain, or other difficulties. If we are unable to deliver products to our customers on a timely basis, they may decide to purchase products from our competitors instead of from us, which would adversely affect our business, financial condition, and operating results.

Our operating results may be adversely affected by fluctuations in material, energy and transportation costs beyond our control.

Our operating results may be affected by the wholesale prices of hard surface flooring products, setting and installation materials, and the related accessories that we sell. These prices may fluctuate based on a number of factors beyond our control, including the price of raw materials used in the manufacture of hard surface flooring, energy costs, changes in supply and demand, concerns about inflation, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates, government regulation, the impact of natural disasters (including those due to the effects of climate change), duty and other import costs. In particular, energy costs have fluctuated dramatically in the past and may fluctuate in the future. These fluctuations may result in an increase in our transportation costs for distribution from the manufacturer to our distribution centers and from our distribution centers to our retail stores, utility costs for our distribution centers and retail stores, and overall costs to purchase products from our suppliers. A material component of the cost of our product includes transportation costs to move the product from the manufacturer to our stores, and there have been recent capacity constraints. These costs could increase and have a material impact on inventory and cost of sales. Recently, there has been a rise in international container and domestic trucking costs, and if we are not able to raise retail prices, it could have a negative impact on our cost of sales.

We may not be able to adjust the prices of our products, especially in the short-term, to recover these cost increases, and a continual rise in such costs could adversely affect consumer spending and demand for our products and increase our operating costs, both of which could adversely affect our business, financial condition and operating results.

Our future success is dependent on our ability to execute our business strategy effectively and deliver value to our customers.

We believe our future success will depend on our ability to execute our business strategy effectively and deliver value to our customers. We believe that our breadth of product assortment across a variety of hard surface flooring categories, low prices, and in-store availability of the products we offer in project-ready quantities, as well as the quality of our products and customer service, are among the key competitive advantages and important elements of our total value proposition. If we are unsuccessful in staying competitive with our current value proposition, the demand for our products would decrease, and customers may decide to purchase products from our competitors instead of us. If this were to occur, our net sales, market share, and operating results would be adversely affected.

Our operating results may be adversely affected if we are not successful in managing our inventory or in implementing a new demand forecasting and inventory replenishment system.

We currently maintain a high level of inventory consisting of on average approximately 4,100 SKUs per store and an average inventory per store of approximately \$2.5 million at cost in order to have a broad assortment of products across a wide variety of hard surface flooring categories in project-ready quantities. We also carry an additional \$235.3 million of inventory outside our stores, primarily at our distribution centers, as of the end of fiscal 2020. The investment associated with this high level of inventory is substantial, and efficient inventory management is a key component of our business success and profitability. If we fail to adequately project the amount or mix of our inventory, we may miss sales opportunities or have to take unanticipated markdowns or hold additional clearance events to dispose of excess inventory, which will adversely affect our operating results.

In the past, we have incurred costs associated with inventory markdowns and obsolescence. Due to the likelihood that we will continue to incur such costs in the future, we generally include an allowance for such costs in our projections. However, the costs that we actually incur may be substantially higher than our estimate and adversely affect our operating results.

In addition, in fiscal 2020, we implemented a new demand forecasting and inventory replenishment system. If this new system is not effective, our operating results may be adversely affected. We continue to focus on ways to reduce these risks, but we cannot assure you that we will be successful in our inventory management.

If we are unable to enter into leases for additional stores on acceptable terms or renew or replace our current store leases, or if one or more of our current leases is terminated prior to expiration of its stated term, and we cannot find suitable alternate locations, our growth and profitability could be adversely affected.

We currently lease the majority of our store locations and our store support center. Our growth strategy largely depends on our ability to identify and open future store locations, which can be difficult because our stores generally require at least 50,000 square feet of floor space. Our ability to negotiate acceptable lease terms for these store locations, to re-negotiate acceptable terms on expiring leases or to negotiate acceptable terms for suitable alternate locations could depend on conditions in the real estate market, competition for desirable properties, our relationships with current and prospective landlords, or on other factors that are not within our control. We also intend to purchase the real property for a small number of new locations, and such strategy may not be successful. Any or all of these factors and conditions could adversely affect our growth and profitability.

Our net sales growth could be adversely affected if comparable store sales growth is less than we expect.

While future net sales growth will depend substantially on our plans for new store openings, our comparable store sales growth is a significant driver of our net sales, profitability, cash flow, and overall business results. Because numerous factors affect our comparable store sales growth, including, among others, economic conditions, the retail sales environment, the home improvement spending environment, housing turnover, housing appreciation, interest rates, the hard surface flooring industry and the impact of competition, the ability of our customers to obtain credit, changes in our product mix, the in-stock availability of products that are in demand, changes in staffing at our stores, cannibalization resulting from the opening of new stores in existing markets, greater cannibalization than we modeled for new stores, lower than expected ramp-up in new store net sales, changes in advertising and other operating costs, weather conditions, retail trends, and our overall ability to execute our business strategy and planned growth effectively, it is possible that we will not achieve our targeted comparable store sales growth or that the change in comparable store sales could be negative. If this were to happen, it is likely that overall net sales growth would be adversely affected.

Our operating results may be adversely affected by inventory shrinkage and damage.

We are subject to the risk of inventory shrinkage and damage, including the damage or destruction of our inventory by natural disasters or other causes. We have experienced charges in the past, and we cannot assure you that the measures we are taking will effectively address the problem of inventory shrinkage and damage in the future. Although some level of inventory shrinkage and damage is an unavoidable cost of doing business, we could experience higher-than-normal rates of inventory shrinkage and damage or incur increased security and other costs to combat inventory theft and damage. If we are not successful in managing our inventory balances, our operating results may be adversely affected.

If we fail to identify and maintain relationships with a sufficient number of suppliers, our ability to obtain products that meet our high quality standards at attractive prices could be adversely affected.

We purchase flooring and other products directly from suppliers located around the world. We do not have long-term contractual supply agreements with our suppliers that obligate them to supply us with products exclusively or at specified quantities or prices. As a result, our current suppliers may decide to sell products to our competitors and may not continue selling products to us. In order to retain the competitive advantage that we believe results from these relationships, we need to continue to identify, develop and maintain relationships with qualified suppliers that can satisfy our high standards for quality and safety and our requirements for delivery of flooring and other products in a timely and efficient manner at attractive prices. The need to develop new relationships will be particularly important as we seek to expand our operations and enhance our product offerings in the future. The loss of one or more of our existing suppliers or our inability to develop relationships with new suppliers could reduce our competitiveness, slow our plans for further expansion and cause our net sales and operating results to be adversely affected.

We will require significant capital to fund our expanding business, which may not be available to us on satisfactory terms or at all. If we are unable to maintain sufficient levels of cash flow or if we do not have sufficient availability under our asset-based revolving credit facility (as amended, the "ABL Facility"), we may not meet our growth expectations or we may require additional financing, which could adversely affect our financial health and impose covenants that limit our business activities.

We plan to continue investing for growth, including opening new stores, remodeling existing stores, adding staff, adding distribution center capacity and upgrading our information technology systems and other infrastructure. These investments will require significant capital, which we plan on funding with cash flow from operations and borrowings under the ABL Facility.

If our business does not generate sufficient cash flow from operations to fund these activities or if these investments do not yield cash flows in line with past performance or our expectations, we may need additional equity or debt financing. If such financing is not available to us, or is not available on satisfactory terms, our ability to operate and expand our business or respond to competitive pressures would be curtailed, and we may need to delay, limit or eliminate planned store openings or operations or other elements of our growth strategy. If we raise additional capital by issuing equity securities or securities convertible into equity securities, our stockholders' ownership would be diluted.

We depend on a number of suppliers, and any failure by any of them to supply us with quality products on attractive terms and prices may adversely affect our business, financial condition and operating results.

We depend on our suppliers to deliver quality products to us on a timely basis at attractive prices. Additionally, we source the products that we sell from over 220 domestic and international suppliers. Although we purchase from a diverse supplier base, purchases from our largest supplier, which is located in China, accounted for approximately 16% of our net sales in fiscal 2020. No other singular vendor supplied products representing more than 6% of net sales in fiscal 2020. If we are unable to acquire desired merchandise in sufficient quantities on terms acceptable to us, or if we experience a change in business relationship with any of our major suppliers, it could impair our relationship with our customers, impair our ability to attract new customers, reduce our competitiveness, and adversely affect our business, financial condition and operating results.

Additionally, we provide certain of our suppliers access to supply chain financing arrangements with financial institutions with whom we have relationships. The terms of such supply chain financing arrangements could be modified or canceled by such financial institutions at any time. If such programs are modified or cancelled, our suppliers may not be able to obtain alternate financing at all or on acceptable terms. If our suppliers or other participants in our supply chain experience difficulty obtaining financing in the capital and credit markets to purchase raw materials or to finance capital equipment and other general working capital needs, it may result in delays or non-delivery of shipments of our products or require us to pay our suppliers more quickly, which would have a negative impact on our cash balances.

Changes in tax laws, trade policies and regulations or in our operations and newly enacted laws or regulations may impact our effective tax rate or may adversely affect our business, financial condition and operating results.

Changes in tax laws in any of the multiple jurisdictions in which we operate, or adverse outcomes from tax audits that we may be subject to in any of the jurisdictions in which we operate, could result in an unfavorable change in our effective tax rate, which could adversely affect our business, financial condition and operating results.

Developments in tax policy or trade relations could have a material adverse effect on our business, results of operations and liquidity. If there are any adverse changes in tax laws or trade policies that result in an increase in our costs, we may not be able to adjust the prices of our products, especially in the short-term, to recover such costs, and a rise in such costs could adversely affect our business, financial condition and operating results.

The failure of our suppliers to adhere to the quality standards that we set for our products could lead to investigations, litigation, write-offs, recalls or boycotts of our products, which could damage our reputation and our brand, increase our costs, and otherwise adversely affect our business.

We do not control the operations of our suppliers. Although we conduct initial due diligence prior to engaging our suppliers and require our suppliers to certify compliance with applicable laws and regulations, we cannot guarantee that our suppliers will comply with applicable laws and regulations or operate in a legal, ethical and responsible manner. Additionally, it is possible that we may not be able to identify noncompliance by our suppliers notwithstanding these precautionary measures. Violation of applicable laws and regulations by our suppliers or their failure to operate in a legal, ethical or responsible manner, could expose us to legal risks, cause us to violate laws and regulations and reduce demand for our products if, as a result of such violation or failure, we attract negative publicity. In addition, the failure of our suppliers to adhere to the quality standards that we set for our products could lead to government investigations, litigation, write-offs and recalls, which could damage our reputation and our brand, increase our costs, and otherwise adversely affect our business.

We procure the majority of our products from suppliers located outside of the United States, and as a result, we are subject to risks associated with obtaining products from abroad that could adversely affect our business, financial condition and results of operations.

We procure the majority of our products from suppliers located outside of the United States. As a result, we are subject to risks associated with obtaining products from abroad, including:

- the imposition of new or different duties (including antidumping and countervailing duties), tariffs, taxes and/or other charges on exports or imports, including as a result of errors in the classification of products upon entry or changes in the interpretation or application of rates or regulations relating to the import or export of our products;
- political unrest, acts of war, terrorism and economic instability resulting in the disruption of trade from foreign countries where our products originate;
- disruption due to the public health crises such as the coronavirus;
- currency exchange fluctuations;
- the imposition of new or more stringent laws and regulations, including those relating to environmental, health and safety matters and climate change issues, labor conditions, quality and safety standards, trade restrictions, and restrictions on funds transfers;
- the risk that one or more of our suppliers will not adhere to applicable legal requirements, including fair labor standards, the prohibition on child labor, environmental, product safety or manufacturing safety standards, anti-bribery and anti-kickback laws such as the Foreign Corrupt Practices Act (the "FCPA") and sourcing laws such as the Lacey Act;
- disruptions or delays in production, shipments, delivery or processing through ports of entry (including those resulting from strikes, lockouts, work-stoppages or slowdowns, or other forms of labor unrest);
- changes in local economic conditions in countries where our suppliers are located; and
- differences in product standards, acceptable business practice and legal environments.

Additionally, we imported approximately 30% of the products we sold in fiscal 2020 from China. The Chinese government has in the past imposed restrictions on manufacturing facilities, including a shut-down of transportation of materials and power plants to reduce air pollution. If, in the future, restrictions are imposed that include our operations, our suppliers' ability to supply current or new orders would be significantly impacted. In addition, China has been impacted by the coronavirus, which, along with other public health crises, could impact our ability to obtain products in a timely manner. These and other factors beyond our control could disrupt the ability of our suppliers to ship certain products to us cost-effectively or at all, expose us to significant operational and legal risk and negatively affect our reputation, any of which could adversely affect our business, financial condition and results of operations.

Our ability to offer compelling products, particularly products made of more exotic species or unique stone, depends on the continued availability of sufficient suitable natural products.

Our business strategy depends on offering a wide assortment of compelling products to our customers. We sell, among other things, flooring made from various wood species and natural stone from quarries throughout the world. Our ability to obtain an adequate volume and quality of hard-to-find products depends on our suppliers' ability to furnish those products, which, in turn, could be affected by many things, including events such as forest fires, insect infestation, tree diseases, prolonged drought, other adverse weather and climate conditions and the exhaustion of stone quarries. Government regulations relating to forest management practices also affect our suppliers' ability to harvest or export timber and other products, and changes to regulations and forest management policies, or the implementation of new laws or regulations, could impede their ability to do so. If our suppliers cannot deliver sufficient products, and we cannot find replacement suppliers, our net sales and operating results may be adversely affected.

Our success depends upon our ability to attract, train, and retain highly qualified managers and staff.

Our success depends in part on our ability to attract, hire, train and retain qualified managers and staff. Purchasing hard surface flooring is an infrequent event for consumers, and the typical consumer in these groups has limited knowledge of the range, characteristics and suitability of the products available before starting the purchasing process. Therefore, consumers in the hard surface flooring market expect to have sales associates serving them who are knowledgeable about the entire assortment of products offered by the retailer and the process of choosing and installing hard surface flooring.

Each of our stores is managed by a store manager who has the flexibility (with the support of regional managers) to use his or her knowledge of local market dynamics to customize each store in a way that is most likely to increase net sales and profitability. Our store managers are also expected to anticipate, gauge and quickly respond to changing consumer demands in these markets. Further, it generally takes a substantial amount of time for our store managers to develop the entrepreneurial skills that we expect them to have in order to make our stores successful.

There is a high level of competition for qualified regional managers, store managers and sales associates among home improvement and flooring retailers in local markets, and as a result, we may not succeed in attracting and retaining the personnel we require to conduct our current operations and support our plans for expansion. In addition, we compete with other retail businesses for many of our associates in hourly positions, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions have historically had high turnover rates, which can lead to increased training and retention costs, particularly in a tight labor market. We may also continue to see wage pressure in several of the markets in which we operate. These factors, in conjunction with stresses on hiring and retention caused by the COVID-19 pandemic, led to such shortages in fiscal 2020.

If our recruiting and retention efforts are not successful, we may have or continue to have a shortage of qualified employees in future periods. Any such shortage would decrease our ability to effectively serve our customers. Such a shortage would also likely lead to higher wages for employees and a corresponding reduction in our operating results. In addition, as we expand into new markets, we may find it more difficult to hire, develop, and retain qualified employees and may experience increased labor costs. Any failure by us to attract, train, and retain highly qualified managers and staff could adversely affect our operating results and future growth opportunities, and any increased labor costs due to competition, increased minimum wage, employee benefit costs (including various federal, state, and location actions to increase minimum wages), unionization activity, or other factors would adversely impact our operating expenses.

Our business exposes us to personal injury, product liability and warranty claims and related governmental investigations, which could result in negative publicity, harm our brand and adversely affect our business, financial condition and operating results.

Our stores and distribution centers are warehouse environments that involve the operation of forklifts and other machinery and the storage and movement of heavy merchandise, all of which are activities that have the inherent danger of injury or death to employees or customers despite safety precautions, training and compliance with federal, state and local health and safety regulations. While we have insurance coverage in place in addition to policies and procedures designed to minimize these risks, we may nonetheless be unable to avoid material liabilities for an injury or death arising out of these activities.

In addition, we face an inherent risk of exposure to product liability or warranty claims or governmental investigations in the event that the use of our products is alleged to have resulted in economic loss, personal injury or property damage or violated environmental or other laws. If any of our products proves to be defective or otherwise in violation of applicable law, we may be required to recall or redesign such products. Further, in such instances, we may be subject to legal action. We generally seek contractual indemnification from our suppliers. However, such contractual indemnification may not be enforceable against the supplier, particularly because many of our suppliers are located outside of the United States. Any personal injury, product liability or warranty claim made against us, whether or not it has merit, or governmental investigation related to our products, could be time-consuming and costly to defend or respond to, may not be covered by insurance carried by us, could result in negative publicity, could harm our brand and could adversely affect our business, financial condition and operating results. In addition, any negative publicity involving our suppliers, employees, and other parties who are not within our control could adversely affect us.

In connection with the installation or delivery of our products, customers may engage third parties associated with us to enter their homes. In addition, we intend to pilot in-home design services. While we believe we have appropriate indemnification and risk management practices in place, such activities involve liability and reputational risk, which could adversely affect us.

Unfavorable allegations, government investigations and legal actions surrounding our products and us could harm our reputation, impair our ability to grow or sustain our business, and adversely affect our business, financial condition and operating results.

We rely on our reputation for offering great value, superior service and a broad assortment of high-quality, safe products. If we become subject to unfavorable allegations, government investigations or legal actions involving our products or us, such circumstances could harm our reputation and our brand and adversely affect our business, financial condition and operating results. If this negative impact is significant, our ability to grow or sustain our business could be jeopardized.

For instance, we have previously settled claims related to unfavorable allegations surrounding the product quality of our laminates sourced from China. Although such claims have been resolved, we cannot predict whether we will face additional lawsuits that are not covered by the settlement or the release. If additional lawsuits are filed, we could incur significant costs, be liable to damages, be subject to fines, penalties, injunctive relief, criminal charges or other legal risks, which could reduce demand for our products and adversely affect our business, financial condition and operating results.

Negative publicity surrounding product matters, including publicity about other retailers, may harm our reputation and affect the demand for our products. In addition, if more stringent laws or regulations are adopted in the future, we may have difficulty complying with the new requirements imposed by such laws and regulations, and in turn, our business, financial condition, and operating results could be adversely affected. Moreover, regardless of whether any such changes are adopted, we may become subject to claims or governmental investigations alleging violations of applicable laws and regulations. Any such matter may subject us to fines, penalties, injunctions, litigation and/or potential criminal violations. Any one of these results could negatively affect our business, financial condition, and operating results and impair our ability to grow or sustain our business.

If we violate or are alleged to have violated environmental, health and safety laws and regulations, we could incur significant costs and other negative effects that could reduce demand for our products and adversely affect our business, financial condition and operating results.

Certain portions of our operations are subject to laws and regulations governing the environmental protection of natural resources and health and safety, including formaldehyde emissions and the use, storage, handling, generation, transportation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes. In addition, certain of our products are subject to laws and regulations relating to the importation, exportation, acquisition or sale of certain plants and plant products, including those that have been illegally harvested, and the emissions of hazardous materials.

We operate our business in accordance with standards and procedures designed to comply with the applicable laws and regulations in these areas and work closely with our suppliers in order to comply with such laws and regulations. If we violate or are alleged to have violated these laws, we could incur significant costs, be liable for damages, experience delays in shipments of our products, be subject to fines, penalties, criminal charges or other legal risks, or suffer reputational harm, any of which could reduce demand for our products and adversely affect our business, financial condition and operating results. In addition, there can be no assurance that such laws or regulations will not become more stringent in the future or that we will not incur additional costs in the future in order to comply with such laws or regulations.

We, and our officers and directors and stockholders, may be the target of securities-related litigation in the future, which could divert our management's attention and resources, result in substantial costs, and have an adverse effect on our business, results of operations, financial condition and stock price.

We may be the target of securities-related litigation in the future. Litigation can divert our management's attention and resources, result in substantial costs, and have an adverse effect on our business, results of operations, financial condition and stock price. For example, in May 2019, an alleged stockholder of the Company filed a putative class action lawsuit against the Company and certain of our officers, directors, and stockholders alleging certain violations of federal securities laws based on, among other things, purported materially false and misleading statements and omissions allegedly made by the Company. We denied the material allegations in the lawsuit and defended ourselves vigorously. The case was dismissed on September 21, 2020, and no appeal was taken. See the information under the "Litigation" caption in Note 9, "Commitments and Contingencies" to our consolidated financial statements included in this Annual Report for more information.

We maintain director and officer insurance to mitigate the risks associated with potential claims; however, we are responsible for meeting certain deductibles under such policies, and, in any event, we cannot assure you that the insurance coverage will adequately protect us from all claims made against us. Further, as a result of the litigation, the costs of insurance may increase, and the availability of coverage may decrease. As a result, we may not be able to maintain our current levels of insurance at a reasonable cost, or at all, which might make it more difficult to attract qualified candidates to serve as executive officers or directors. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business and materially damage our reputation and the value of our brand despite the fact that we deny the allegations or are ultimately found not liable.

Federal, state or local laws and regulations, or our failure to comply with such laws and regulations, could increase our expenses, restrict our ability to conduct our business and expose us to legal risks.

We are subject to a wide range of general and industry-specific laws and regulations imposed by federal, state and local authorities in the countries in which we operate including those related to customs, foreign operations (such as the FCPA), truth-in-advertising, consumer protection (such as the California Consumer Privacy Act and Telephone Consumer Protection Act), privacy, product safety (such as the Formaldehyde Standards in Composite Wood Products Act), the environment (such as the Lacey Act), intellectual property infringement, zoning and occupancy matters as well as the operation of retail stores and distribution facilities. In addition, various federal and state laws govern our relationship with, and other matters pertaining to, our employees, including wage and hour laws, laws governing independent contractor classifications, requirements to provide meal and rest periods or other benefits, family leave mandates, requirements regarding working conditions and accommodations to certain employees, citizenship or work authorization and related requirements, insurance and workers' compensation rules and anti-discrimination laws. In recent years, we and other parties in the flooring industry have been or currently are parties to litigation involving claims that allege violations of the foregoing laws, including claims related to product safety and patent claims. In addition, there has been an increase in the number of wage and hour class action claims that allege misclassification of overtime eligible workers and/or failure to pay overtime-eligible workers for all hours worked, particularly in the retail industry, and we are currently defending one such claim. Although we believe that we have complied with these laws and regulations, there is nevertheless a risk that we will become subject to additional claims that allege we have failed to do so. Any claim that alleges a failure by us to comply with any of the foregoing laws and regulations may subject us to fines, penalties, injunctions, litigation and/or potential criminal violations, which could adversely affect our reputation, business, financial condition and operating results.

Certain of our products may require us to spend significant time and resources in order to comply with applicable advertising, labeling, importation, exportation, environmental, health and safety laws and regulations because if we violate these laws or regulations, we could experience delays in shipments of our goods, be subject to fines or penalties, be liable for costs and damages or suffer reputational harm, any of which could reduce demand for our merchandise and adversely affect our business, financial condition and operating results.

Any changes to the foregoing laws or regulations or any new laws or regulations that are passed or go into effect may make it more difficult for us to operate our business and in turn adversely affect our operating results.

We may also be subject to audits by various taxing authorities. Similarly, changes in tax laws in any of the multiple jurisdictions in which we operate, or adverse outcomes from tax audits that we may be subject to in any of the jurisdictions in which we operate, could result in an unfavorable change in our effective tax rate, which could adversely affect our business, financial condition and operating results. In addition, given the nature of our business, certain of our sales are exempt from state sales taxes. If we are audited and fail to maintain proper documentation, any adjustments resulting from such audits could increase our tax liability, including any interest or penalties.

Labor activities could cause labor relations difficulties for us.

Currently none of our employees are represented by a union; however, our employees have the right at any time to form or affiliate with a union. As we continue to grow, enter different regions and operate distribution centers, unions may attempt to organize all or part of our employee base at certain stores or distribution centers within certain regions. We cannot predict the adverse effects that any future organizational activities will have on our business, financial condition and operating results. If we were to become subject to work stoppages, we could experience disruption in our operations and increases in our labor costs, either of which could adversely affect our business, financial condition and operating results.

If our efforts to protect the privacy and security of information related to our customers, us, our employees, our suppliers and other third parties are not successful, we could become subject to litigation, investigations, liability and negative publicity that could significantly harm our reputation and relationships with our customers and adversely affect our business, financial condition and operating results.

Our business, like that of most retailers, involves the receipt, storage and transmission of customers' personal information, consumer preferences and payment card data, as well as other confidential information related to us, our employees, our suppliers and other third parties, some of which is entrusted to third-party service providers and vendors that provide us with technology, systems and services that we use in connection with the receipt, storage and transmission of such information. Techniques used for cyber attacks designed to gain unauthorized access to these types of sensitive information by breaching or sabotaging critical systems of large organizations are constantly evolving and generally are difficult to recognize and react to effectively. We may be unable to anticipate these techniques or to implement adequate preventive or reactive security measures. Notwithstanding widespread recognition of the cyber attack threat and improved data protection methods, high profile electronic security breaches leading to unauthorized release of sensitive information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, notwithstanding widespread recognition of the cyber attack threat and improved data protection methods.

Despite our security measures and those of third parties with whom we do business, such as our banks, merchant card processing and other technology vendors, our respective systems and facilities may be vulnerable to criminal cyber-attacks or security incidents due to malfeasance, intentional or inadvertent security breaches by employees, or other vulnerabilities such as defects in design or manufacture. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other forms of deception targeted at our customers, employees, suppliers and service providers. Any such incidents could compromise our networks and the information stored there could be accessed, misused, publicly disclosed, lost or stolen.

As noted above, the techniques used by criminals to obtain unauthorized access to sensitive data change frequently and often are not recognized until launched against a target; accordingly, we may be unable to anticipate these techniques or implement adequate preventative measures. In addition, advances in computer capabilities, new technological discoveries or other developments may also compromise or result in the obsolescence of the technology used to protect sensitive information. An actual or anticipated attack or security incident may cause us to incur additional costs, including costs related to diverting or deploying personnel, implementing preventative measures, training employees and engaging third-party experts and consultants. Further, any security breach incident could expose us to risks of data loss, regulatory and law enforcement investigations, litigation and liability and could seriously disrupt our operations and any resulting negative publicity could significantly harm our reputation and relationships with our customers and adversely affect our business, financial condition and operating results.

A material disruption in our information systems, including our website and call center, could adversely affect our business or operating results and lead to reduced net sales and reputational damage.

We rely on our information systems to process transactions, summarize our results of operations and manage our business. In particular, our website and our call center are important parts of our integrated connected customer strategy and customers use these systems as information sources on the range of products available to them and as a way to order our products. Therefore, the reliability and capacity of our information systems is critical to our operations and the implementation of our growth initiatives. However, our information systems are subject to damage or interruption from planned upgrades in technology interfaces, power outages, computer and telecommunications failures, computer viruses, cyber-attacks or other security breaches and catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, acts of war or terrorism and usage errors by our employees. If our information systems are damaged or cease to function properly, we may have to make a significant investment to fix or replace them, and we may suffer losses of critical data and/or interruptions or delays in our operations. In addition, to keep pace with changing technology, we must continuously implement new information technology systems as well as enhance our existing systems. Moreover, the successful execution of some of our growth strategies, in particular the expansion of our connected customer and online capabilities, is dependent on the design and implementation of new systems and technologies and/or the enhancement of existing systems. Any material disruption in our information systems, or delays or difficulties in implementing or integrating new systems or enhancing or expanding current systems, could have an adverse effect on our business (in particular our call center and online operations) and our operating results and could lead to reduced net sales and reputational damage.

We may not be able to successfully maintain effective internal controls over financial reporting, which could have an adverse effect on our business and stock price.

We are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports as well as our fiscal year-end assessment of the effectiveness of our internal control over financial reporting. We identified and previously reported in our Annual Report on Form 10-K as of December 27, 2018 a material weakness in our internal controls related to ineffective information technology general controls in the areas of user access and program change-management over certain information technology systems that support the Company's financial reporting processes. During 2019, we completed the remediation measures related to the material weakness and concluded that our internal control over financial reporting was effective as of December 26, 2019. Completion of remediation does not provide assurance that our remediation or other controls will continue to operate properly.

While the previously identified material weakness has been remediated, we may suffer from other material weaknesses in the future. To comply with the requirements of Sections 302 and 404, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff. Testing and maintaining internal controls can divert our management's attention from other matters that are important to the operation of our business. In addition, when evaluating our internal control over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Sections 302 and 404. If we are unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare financial statements within required time periods, could be adversely affected. This could subject us to litigation or investigations requiring management resources and payment of legal and other expenses and could result in negative publicity, harm to our reputation and adversely affect our business, financial condition and operating results or adversely affect the market price of our common stock.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including credit cards, debit cards, gift cards and physical bank checks. These payment options subject us to many compliance requirements, including, but not limited to, compliance with the Payment Card Industry Data Security Standards, which represents a common set of industry tools and measurements to help ensure the safe handling of sensitive information, and compliance with contracts with our third-party processors. These payment options also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit cards and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards and gift cards, and it could disrupt or harm our business if these companies become unwilling or unable to provide these services to us, experience a data security incident or fail to comply with applicable rules and industry standards. We are also subject to payment card association operating rules, including data security rules, certification requirements, and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or if our data security systems or payment card information of our customers are breached or compromised, there is the potential that parties could seek damages from us, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit cards and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, we could lose the confidence of customers and our business, financial condition, and operating results could be adversely affected. We may also need to expend significant management and financial resources to become or remain compliant with relevant standards and requirements, which could divert resources from other initiatives and adversely affect our business, financial condition and operating results.

Our facilities and systems, as well as those of our suppliers, are vulnerable to natural disasters and other unexpected events, and as a result we may lose merchandise and be unable to effectively deliver it to our stores.

Our retail stores, store support center and distribution centers, as well as the operations of our suppliers from which we receive goods and services, are vulnerable to damage from earthquakes, tornadoes, hurricanes, fires, floods, and similar events. If any of these events result in damage to our facilities, systems or equipment, or those of our suppliers, they could adversely affect our ability to stock our stores and deliver products to our customers, and could adversely affect our net sales and operating results. In addition, we may incur costs in repairing any damage beyond our applicable insurance coverage. In particular, any disruption to any of our distribution centers could have a material adverse impact on our business.

Our success depends substantially upon the continued retention of our key personnel, which we consider to be our executive officers.

We believe that our success has depended and continues to depend to a significant extent on the efforts and abilities of our key personnel, which we consider to be our executive officers. We have employment agreements with each of our executive officers. Our failure to retain members of that team could impede our ability to build on the efforts they have undertaken with respect to our business.

We do not maintain “key man” life insurance policies on our key personnel.

We do not have “key man” life insurance policies for any of our key personnel. If we were to obtain “key man” insurance for our key personnel, there can be no assurance that the amounts of such policies would be sufficient to pay losses experienced by us as a result of the loss of any of those personnel.

Our intellectual property rights are valuable, and any failure to protect them could reduce the value of our products and brand and harm our business.

We regard our intellectual property as having significant value, and our brand is an important factor in the marketing of our products. However, we cannot assure you that the steps we take to protect our trademarks or intellectual property will be adequate to prevent others from copying or using our trademarks or intellectual property without authorization. If our trademarks or intellectual property are copied or used without authorization, the value of our brand, its reputation, our competitive advantages and our goodwill could be harmed.

We may be involved in disputes from time to time relating to our intellectual property and the intellectual property of third parties.

We are and may continue to become parties to disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in these disputes. Third parties may raise claims against us alleging infringement or violation of the intellectual property of such third-party. Even if we prevail in such disputes, the costs we incur in defending such dispute may be material and costly. Some third-party intellectual property rights may be extremely broad, and it may not be possible for us to conduct our operations in such a way as to avoid violating any such intellectual property rights. Any such intellectual property claim could subject us to costly litigation and impose a significant strain on our financial resources and management personnel regardless of whether such claim has merit. The liability insurance we maintain may not adequately cover potential claims of this type, and we may be required to pay monetary damages or license fees to third parties, which could have a material adverse effect on our business, financial condition and operating results.

We may, from time to time, consider or engage in strategic transactions. Any such strategic transactions would involve risks, which could have an adverse impact on our financial condition and results of operation, and we may not realize the anticipated benefits of these transactions.

From time to time, we consider strategic transactions, including mergers, acquisitions, investments, alliances, and other growth and market expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and various other benefits. Assessing the viability and realizing the benefits of these transactions is subject to significant uncertainty. Additionally, in connection with evaluating potential strategic transactions and assets, we may incur significant expenses for the evaluation and due diligence investigation and negotiation of any potential transaction. If we complete an acquisition, we would need to successfully integrate the target company’s products, services, associates and systems into our business operations. Integration can be a complex and time-consuming process, and if the integration is not fully successful or is delayed for a material period of time, we may not achieve the anticipated synergies or benefits of the acquisition. Furthermore, even if a target company is successfully integrated, an acquisition may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products or services, and expose us to additional liabilities. Any impairment of goodwill or other intangible assets acquired in a strategic transaction may reduce our earnings.

The effectiveness of our advertising strategy is a driver of our future success.

We believe that our growth was in part a result of our successful investment in local advertising. As we enter new markets that often have more expensive advertising rates, we may need to increase our advertising expenses to broaden the reach and frequency of our advertising to increase the recognition of our brand. If our advertisements fail to draw customers in the future, or if the cost of advertising or other marketing materials increases significantly, we could experience declines in our net sales and operating results.

We are a holding company with no business operations of our own and depend on cash flow from our subsidiaries to meet our obligations.

We are a holding company with no business operations of our own or material assets other than the equity of our subsidiaries. All of our operations are conducted by our subsidiaries. As a holding company, we will require dividends and other payments from our subsidiaries to meet cash requirements.

The terms of our \$400.0 million ABL Facility and our approximately \$219.6 million senior secured term loan facility (as amended to date, the “Term Loan Facility” and together with the ABL Facility, our “Credit Facilities”), restrict our subsidiaries from paying dividends and otherwise transferring cash or other assets to us except in certain limited circumstances. If we become insolvent or there is a liquidation or other reorganization of any of our subsidiaries, our stockholders likely will have no right to proceed against their assets. Creditors of those subsidiaries will be entitled to payment in full from the sale or other disposal of the assets of those subsidiaries before we, as an equity holder, would be entitled to receive any distribution from that sale or disposal. If our subsidiaries are unable to pay dividends or make other payments to us when needed, we will be unable to satisfy our obligations.

We face risks related to our indebtedness.

As of December 31, 2020, the principal amount of our total indebtedness was approximately \$217.8 million related to our indebtedness outstanding under the Term Loan Facility. In addition, as of December 31, 2020, we had the ability to access approximately \$378.7 million of unused borrowings available under the ABL Facility without violating any covenants thereunder and had approximately \$21.3 million in outstanding letters of credit thereunder.

Our indebtedness, combined with our lease and other financial obligations and contractual commitments, could adversely affect our business, financial condition and operating results by:

- making it more difficult for us to satisfy our obligations with respect to our indebtedness, including restrictive covenants and borrowing conditions, which may lead to an event of default under the agreements governing our debt;
- making us more vulnerable to adverse changes in general economic, industry and competitive conditions and government regulation;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of cash flows to fund current operations and future growth;
- exposing us to the risk of increased interest rates as our borrowings under our Credit Facilities are at variable rates;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- requiring us to comply with financial and operational covenants, restricting us, among other things, from placing liens on our assets, making investments, incurring debt, making payments to our equity or debt holders and engaging in transactions with affiliates;
- limiting our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business and growth strategies or other purposes; and
- limiting our ability to obtain credit from our suppliers and other financing sources on acceptable terms or at all.

We may also incur substantial additional indebtedness in the future, subject to the restrictions contained in our Credit Facilities. If such new indebtedness is in an amount greater than our current debt levels, the related risks that we now face could intensify. However, we cannot give assurance that any such additional financing will be available to us on acceptable terms or at all. Moreover, for taxable years beginning after December 31, 2017, the deductibility of net business interest expenses on our indebtedness for each taxable year could be limited under the Tax Cuts and Jobs Act.

Additionally, in July 2017, the Financial Conduct Authority (the authority that regulates London Interbank Offered Rate ("LIBOR")) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee has proposed a paced market transition plan to the secured overnight financing rate (SOFR) from USD-LIBOR, but it is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021, or if alternative rates or benchmarks will be adopted. Changes in the method of calculating LIBOR, or the replacement of LIBOR with an alternative rate or benchmark, may adversely affect interest rates and result in higher borrowing costs. The Company has material debt contracts that are indexed to USD-LIBOR and is currently working on a transition plan. We believe all our material agreements have appropriate language to negotiate a transition to an alternative index rate and are continuing to monitor this activity and evaluate the related risks. However, if LIBOR ceases to exist, we may need to amend or restructure our existing LIBOR-based debt instruments and any related hedging arrangements that extend beyond 2021, which may be difficult, costly and time consuming. We cannot give assurance that our financial condition and operating results will not be adversely affected.

Significant amounts of cash are required to service our indebtedness and operating lease obligations, and any failure to meet our debt service obligations could adversely affect our business, financial condition and operating results.

Our ability to pay interest on and principal of our debt obligations will primarily depend upon our future operating performance. As a result, prevailing economic conditions and financial, business and other factors, many of which are beyond our control, will affect our ability to make these payments.

If we do not generate sufficient cash flow from operations to satisfy our debt service obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling our assets, reducing or delaying capital investments, or seeking to raise additional capital. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. From time to time, capital markets may experience periods of disruption and instability. For example, between 2008 and 2009, the global capital markets were unstable as evidenced by periodic disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of the U.S. federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole. While market conditions have largely recovered from the events of 2008 and 2009, there have been continuing periods of volatility, some lasting longer than others. There can be no assurance these market conditions will not continue or worsen in the future. More recently, we observed an increase in the cost of obtaining debt financing due to the impact of the COVID-19 pandemic on capital markets as evidenced by the higher cost of our term loan B-1 facility (refer to Note 10, "Debt" of the notes to the consolidated financial statements for additional details related to our credit facilities).

Any refinancing of our debt could therefore be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Our Credit Facilities—" for more information.

Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations at all or on acceptable terms, could have an adverse effect on our business, financial condition and operating results.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in amounts sufficient to enable us to make payments on our indebtedness or to fund our operations.

Our debt agreements contain restrictions that may limit our flexibility in operating our business.

We are a holding company, and accordingly, substantially all of our operations are conducted through our subsidiaries. The credit agreements governing our Credit Facilities contain, and any future indebtedness would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions, including restrictions on our ability to engage in acts that may be in our best long-term interests. The credit agreements governing our Credit Facilities include covenants that, among other things, restrict our and our subsidiaries' ability to:

- incur additional indebtedness;
- create liens;
- make investments, loans, or advances;
- merge or consolidate;

- sell assets, including capital stock of subsidiaries, or make acquisitions;
- pay dividends on capital stock or redeem, repurchase or retire capital stock, or make other restricted payments;
- enter into transactions with affiliates;
- repurchase certain indebtedness; and
- exceed a certain total net leverage ratio or, in certain cases, maintain less than a certain fixed charge coverage ratio.

Based on the foregoing factors, the operating and financial restrictions and covenants in our current debt agreements and any future financing agreements could adversely affect our ability to finance future operations or capital needs or to engage in other business activities.

In addition, a breach of any of the restrictive covenants in our Credit Facilities may constitute an event of default, permitting the lenders to declare all outstanding indebtedness under both our Credit Facilities to be immediately due and payable or to enforce their security interest, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default under any of the agreements governing our Credit Facilities, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in such credit agreements. If any of our indebtedness under either of our Credit Facilities were to be accelerated, there can be no assurance that our assets would be sufficient to repay this indebtedness in full, which could adversely affect our ability to continue to operate as a going concern. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Our Credit Facilities” for more information.

The Company is exposed to credit risk on certain of our receivables and the inability or failure to collect outstanding credit, specifically from our existing customers under our commercial credit program, could result in losses and adversely affect our operating results.

As an added convenience to our customers, we began offering limited credit to our commercial customers, a portion of which is not covered by collateral, third-party bank support, or credit insurance. Our exposure to credit and collectability risk makes us susceptible to potential losses, and our ability to mitigate such risks may be limited, especially if our customers are adversely affected by a market downturn or periods of economic uncertainty. While we monitor individual customer payment capability and maintain adequate reserves to cover our exposure, there can be no assurance that such procedures will be effective in reducing our credit risks.

Our fixed lease obligations could adversely affect our operating results.

We are required to use a significant portion of cash generated by our operations to satisfy our fixed lease obligations, which could adversely affect our ability to obtain future financing to support our growth or other operational investments. We will require substantial cash flows from operations to make our payments under our operating leases, all of which provide for periodic increases in rent. As of December 31, 2020, our minimum annual rental obligations under long-term operating leases for the fiscal years ending December 30, 2021 and December 29, 2022 are approximately \$145.8 million and \$141.8 million, respectively. If we are not able to make payments under our operating leases, this could trigger defaults under other leases or, in certain circumstances, under our Credit Facilities, which could cause the counterparties or lenders under those agreements to accelerate the obligations due thereunder.

Risks Related to the Ownership of Our Common Stock

Our stock price may continue to be volatile, which could result in a significant loss or impairment of your investment.

On May 2, 2017, we completed our initial public offering (the “IPO”). Since the IPO, the price of our common stock as reported by The New York Stock Exchange (“NYSE”) has ranged from a low closing sales price of \$24.00 on December 24, 2018 to a high closing sales price of \$105.29 on February 8, 2021. In addition, the trading price of our common stock has been, and may continue to be, subject to wide price fluctuations in response to various factors, many of which are beyond our control, including those described above in “—Risks Related to our Business” and the following:

- actual or anticipated fluctuations in our quarterly or annual financial results;
- the financial guidance we may provide to the public, any changes in such guidance or our failure to meet such guidance;
- failure of industry or securities analysts to maintain coverage of us, changes in financial estimates by any industry or securities analysts that follow us or our failure to meet such estimates;
- downgrades in our credit ratings or the credit ratings of our competitors;
- market factors, including rumors, whether or not correct, involving us or our competitors;

- unfavorable market reactions to allegations regarding the safety of products sold by us or our competitors that are similar to products that we sell and costs or negative publicity arising out of any potential litigation and/or government investigations resulting therefrom;
- fluctuations in stock market prices and trading volumes of securities of similar companies;
- short selling of our common stock by investors;
- limited “public float” in the hands of a small number of persons whose sales or lack of sales of our common stock could result in positive or negative pricing pressure on the market price for our common stock;
- additions or departures of key personnel;
- announcements of new store openings, commercial relationships, acquisitions, or entry into new markets by us or our competitors;
- failure of any of our initiatives, including our growth strategy, to achieve commercial success;
- regulatory or political developments;
- changes in accounting principles or methodologies;
- litigation or governmental investigations;
- negative publicity about us in the media and online; and
- general financial market conditions or events.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies, including ours. These fluctuations sometimes have been unrelated or disproportionate to the operating performance of those companies. These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise adversely affect the price or liquidity of our common stock.

In addition, in the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. Such litigation and any other similar litigation that could be brought in the future, could cause us to incur substantial costs associated with defending such litigation or paying for settlements or damages. Such lawsuits could also divert the time and attention of our management from our operating business. Regardless of whether lawsuits are resolved in our favor or if we are the plaintiff or the defendant in any litigation, any lawsuits to which we are or may become a party will likely be expensive and time consuming to defend or resolve. As a result, such litigation may adversely affect our business, financial condition and operating results.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, our market, or our competitors, or if they change their recommendations regarding our common stock in a negative way, the price and trading volume of our common stock could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our business, our market, or our competitors. If any of the analysts who cover us change their recommendation regarding our common stock in a negative way, or provide more favorable relative recommendations about our competitors, the price of our common stock would likely decline. If any analyst who covers us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our common stock price or trading volume to decline.

The large number of shares eligible for public sale in the future, or the perception of the public that these sales may occur, could depress the market price of our common stock.

The market price of our common stock could decline as a result of (i) sales of a large number of shares of our common stock in the market, particularly sales by our directors, employees (including our executive officers) and certain other significant stockholders, and (ii) a large number of shares of our common stock being registered or offered for sale. These sales, or the perception that these sales could occur, may depress the market price of our common stock. As of February 22, 2021, there were 104,396,523 shares of common stock outstanding, all of which were freely tradeable on the NYSE, except that any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act (“Rule 144”), may only be sold in compliance with the registration requirements of the Securities Act or under an exemption under Rule 144 or otherwise.

Additionally, as of February 22, 2021, approximately 3,724,642 shares of our common stock are issuable upon exercise of stock options that vest and are exercisable at various dates through November 2, 2030, with an average weighted exercise price of \$20.66 per share. Of such options, 2,073,333 are currently exercisable. In addition, we have issued 390,639 shares of restricted stock with restrictions that lapse at various dates through November 2, 2024. We have filed a registration statement on Form S-8 under the Securities Act to register shares of our common stock issued or reserved for issuance under our stock incentive plans. The Form S-8 registration statement became effective immediately upon filing, and shares covered by that registration statement are eligible for sale in the public markets, subject to vesting restrictions and the limitations of Rule 144 applicable to affiliates.

All of our shares of common stock will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. In addition, certain of our pre IPO stockholders have “piggy back” registration rights with respect to the common stock, subject to certain conditions and exceptions contained in a registration rights agreement.

In the future, we expect to issue stock options, restricted stock and/or other forms of stock-based compensation, which have the potential to dilute stockholders’ value and cause the price of our common stock to decline.

In the future, we expect to offer stock options, restricted stock and/or other forms of stock-based compensation to our eligible employees, consultants and directors. If we grant more equity awards to attract and retain key personnel, the expenses associated with such additional equity awards could materially adversely affect our results of operations and may also result in additional dilution to our stockholders. If any options that we issue are exercised or any restrictions on restricted stock that we issue lapse and those shares are sold into the public market, the market price of our common stock may decline. In addition, the availability of shares of common stock for award under our stock incentive plans or the grant of stock options, restricted stock or other forms of stock-based compensation may adversely affect the market price of our common stock.

Our ability to raise capital in the future may be limited.

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds through the issuance of new equity securities, debt or a combination of both. Additional financing may not be available on favorable terms or at all. If adequate funds are not available on acceptable terms, we may be unable to fund our capital requirements. If we issue new debt securities, the debt holders would have rights senior to holders of our common stock to make claims on our assets and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. If we issue additional equity securities or securities convertible into equity securities, existing stockholders will experience dilution and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of our future offerings. Thus, you bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest.

We do not currently expect to pay any cash dividends.

The continued operation and growth of our business will require substantial funding. Accordingly, we do not currently expect to pay any cash dividends on shares of our common stock. Any determination to pay dividends in the future will be at the discretion of our Board or directors (the “Board”) and will depend upon our operating results, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our Board deems relevant. Additionally, under our Credit Facilities, our subsidiaries are currently restricted from paying cash dividends except in limited circumstances, and we expect these restrictions to continue in the future. Accordingly, realization of a gain on your investment in our common stock will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock. See Item 5, “Market for Registrant’s Common Equity- Related Stockholder Matters and Issuer Purchases of Equity” for more information.

As a result of becoming a public company, our costs have increased significantly, and our management is required to devote substantial time to complying with public company regulations, which will negatively impact our financial performance and could cause our results of operations or financial condition to suffer.

Since becoming a public company in 2017, we have incurred and we will continue to incur additional legal, accounting, insurance and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act, Dodd-Frank Wall Street Reform and Consumer Protection Act and related rules implemented by the SEC. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. These rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. In estimating these costs, we took into account expenses related to insurance, legal, accounting, and compliance activities, as well as other expenses. These laws and regulations can also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations can also make it more difficult for us to attract and retain qualified persons to serve on our Board, our Board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our Class A common stock, fines, sanctions, and other regulatory action and potentially civil litigation.

Anti-takeover provisions could impair a takeover attempt and adversely affect existing stockholders and the market value of our common stock.

Certain provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware law may have the effect of rendering more difficult, delaying or preventing an acquisition of the Company, even when this would be in the best interest of our stockholders. These provisions include:

- the sole power of a majority of our Board to fix the number of directors;
- the requirement that certain advance notice procedures be followed for our stockholders to submit nominations of candidates for election to our Board and to bring other proposals before a meeting of the stockholders;
- the power of our Board to amend our bylaws without stockholder approval;
- the sole power of the Board to fill any vacancy on the Board, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- the ability of a majority of our Board (even if less than a quorum) to designate one or more series of preferred stock and issue shares of preferred stock without stockholder approval;
- a requirement that, to the fullest extent permitted by law, certain proceedings against or involving us or our directors, officers, or employees be brought exclusively in the Court of Chancery in the State of Delaware; and
- the lack of cumulative voting rights for the holders of our Class A common stock with respect to the election of directors.

Further, Delaware law imposes conditions on the voting of “control shares” and on certain business combination transactions with “interested stockholders.”

Our issuance of shares of preferred stock could delay or prevent a change of control of the Company. Our Board has the authority to cause us to issue, without any further vote or action by our stockholders, shares of preferred stock, par value \$0.001 per share, in one or more series, to designate the number of shares constituting any series and to fix the rights, preferences, privileges, and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices, and liquidation preferences of such series. The issuance of shares of preferred stock may have the effect of delaying, deferring, or preventing a change in control of our Company without further action by our stockholders, even where stockholders are offered a premium for their shares.

In addition, the issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of our other classes of voting stock either by diluting the voting power of our other classes of voting stock if they vote together as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote even if the action were approved by the holders of our other classes of voting stock.

These provisions could delay or prevent hostile takeovers and changes in control or changes in our management. Also, the issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences, or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in our common stock less attractive. For example, a conversion feature could cause the trading price of our common stock to decline to the conversion price of the preferred stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control or otherwise makes an investment in our common stock less attractive could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

General Risk Factors

Our business, financial condition and operating results are dependent on general economic conditions and discretionary spending by our customers, which in turn are affected by a variety of factors beyond our control. If such conditions deteriorate, our business, financial condition, and operating results may be adversely affected.

Our business, financial condition, and operating results are affected by general economic conditions and discretionary spending by our customers. Such general economic conditions and discretionary spending are beyond our control and are affected by, among other things:

- consumer confidence in the economy;
- the COVID-19 pandemic;
- trade relations and tariffs;
- unemployment trends;
- consumer debt levels;
- consumer credit availability;
- data security and privacy concerns;
- the housing market, including housing turnover and whether home values are rising or declining;
- energy prices;
- interest rates and inflation;
- price deflation, including due to low-cost imports;
- slower rates of growth in real disposable personal income;
- natural disasters and unpredictable weather;
- national security concerns and other geopolitical risks;
- uncertain U.S. political conditions;
- protests, demonstrations, riots and other political unrest;
- tax rates and tax policy; and
- other matters that influence consumer confidence and spending.

If such conditions deteriorate, our business, financial condition, and operating results may be adversely affected. In addition, increasing volatility in financial and capital markets may cause some of the above factors to change with a greater degree of frequency and magnitude than in the past.

We are engaged in various legal actions, claims and proceedings arising in the ordinary course of business and, while we cannot predict the outcomes of such proceedings and other contingencies with certainty, this litigation and any potential future litigation could have an adverse impact on us.

We are engaged in various legal actions, claims and proceedings arising in the ordinary course of business, including claims related to breach of contract, product liabilities, intellectual property matters and employment related matters resulting from our business activities. As with most actions such as these, an estimate of any possible and/or ultimate liability cannot always be determined. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors. Additionally, we cannot guarantee that we will not become engaged in additional legal actions, claims, proceedings or governmental investigations in the future. Any such action could result in negative publicity, harm to our reputation and adversely affect our business, financial condition and operating results.

Our ability to control higher health care costs is limited and could adversely affect our business, financial condition and operating results.

Under the U.S. Patient Protection and Affordable Care Act (as amended, the “Affordable Care Act”), we are required to provide affordable coverage, as defined in the Affordable Care Act, to all employees, or otherwise be subject to a payment per employee based on the affordability criteria in the Affordable Care Act. Additionally, some states and localities have passed state and local laws mandating the provision of certain levels of health benefits by some employers. These requirements limit our ability to control employee health care costs.

Efforts to modify, repeal or otherwise invalidate all, or certain provisions of, the Affordable Care Act and/or adopt a replacement healthcare reform law may impact our employee healthcare costs. At this time, there is uncertainty concerning whether the Affordable Care Act will be repealed or what requirements will be included in a new law, if enacted. If health care costs rise, we may experience increased operating costs, which may adversely affect our business, financial condition and operating results.

We are subject to risks related to corporate social responsibility.

Our business faces increasing public scrutiny related to environmental, social and governance (“ESG”) activities. We risk damage to our brand and reputation if we fail to act responsibly in a number of areas, such as diversity and inclusion, environmental stewardship, support for local communities, corporate governance and transparency and considering ESG factors in our business operations. Adverse incidents could impact the value of our brand, the cost of our operations and relationships with investors, all of which could adversely affect our business and results. We will incur additional and potentially significant expenses as we continue to execute our ESG framework in the coming years.

Changes to accounting rules or regulations could adversely affect our operating results.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. New accounting rules or regulations and changes to existing accounting rules or regulations have occurred and may occur in the future. Future changes to accounting rules or regulations, such as changes to revenue recognition or lease accounting guidance or a requirement to convert to international financial reporting standards, could adversely affect our operating results through increased cost of compliance.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We have 133 U.S. warehouse-format stores located in 31 states, as shown in the chart below:

State	Number of Stores
Alabama	1
Arizona	6
California	19
Colorado	4
Florida	21
Georgia	8
Illinois	8
Indiana	1
Kansas	2
Kentucky	1
Louisiana	1
Maryland	1
Massachusetts	2
Michigan	2
Missouri	2
Nevada	3
New Hampshire	1
New Jersey	5
New Mexico	1
New York	1
North Carolina	3
Ohio	3
Oklahoma	1
Pennsylvania	2
South Carolina	1
Tennessee	3
Texas	19
Utah	3
Virginia	5
Washington	2
Wisconsin	1
Total	133

We opened 13 new warehouse-format stores during fiscal 2020. In addition to our warehouse-format stores, we operate two separate small-format design studios located in New Orleans, Louisiana and Dallas, Texas. Our headquarters, which we refer to as our store support center, is approximately 185,473 square feet and is located in Atlanta, Georgia. We completed our move to this new location in the fourth quarter of fiscal 2019 from our old store support center in Smyrna, Georgia. Additionally, we operate an approximately 37,000 square foot product review center in Marietta, GA, as well as a 20,400 square foot sample fulfillment center in Marietta, GA.

We lease our store support center, all of our stores, and our distribution centers. Most of our leases provide for a minimum rent and typically include escalating rent increases. Our leases also generally require us to pay insurance, utilities, real estate taxes and repair and maintenance expenses. See the information disclosed under the "Lease Commitments" caption in Note 9, "Commitments and Contingencies" of the notes to our consolidated financial statements included in this Annual Report for further detail on our leases.

ITEM 3. LEGAL PROCEEDINGS.

We are engaged in various legal actions, claims and proceedings arising in the ordinary course of business, including claims related to breach of contracts, product liabilities, intellectual property matters and employment related matters resulting from our business activities. As with most actions such as these, an estimation of any possible and/or ultimate liability cannot always be determined. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors. See the information disclosed under the “Litigation” caption in Note 9, “Commitments and Contingencies” to our consolidated financial statements included in this Annual Report for further detail on legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

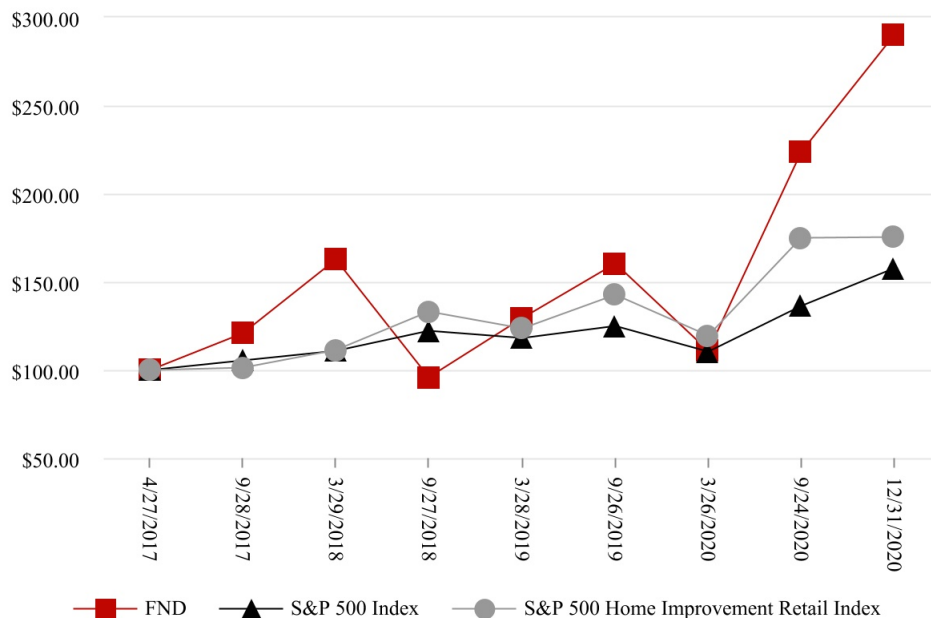
Our common stock has been listed on the NYSE under the symbol “FND” since our IPO on April 27, 2017. Prior to that date, there was no public market for our common stock. On February 22, 2021, there were 23 stockholders of record of our Class A common stock. The actual number of stockholders is greater than the number of record holders stated above, and includes stockholders who are beneficial owners, but whose shares are held in “street name” by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

No dividends have been declared or paid on our common stock. We intend to continue to retain all available funds and any future earnings for use in the operation and growth of our business, and therefore we do not currently expect to pay any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our Board and will depend on then existing conditions, including our operating results, financial condition, contractual restrictions, capital requirements, business prospects and other factors that our Board may deem relevant.

Stock Performance Graph

The following graph shows a comparison of cumulative total return to holders of common stock against the cumulative total return of the S&P 500 Index and the S&P 500 Home Improvement Retail Index from April 27, 2017 (the date our common stock commenced trading on the NYSE) through December 31, 2020. The comparison of the cumulative total returns for each investment assumes that \$100 was invested in our Class A common stock and the respective indices on April 27, 2017 through December 31, 2020, including reinvestment of any dividends. Historical share price performance should not be relied upon as an indication of future share price performance.



	4/27/2017	9/28/2017	3/29/2018	9/27/2018	3/28/2019	9/26/2019	3/26/2020	9/24/2020	12/31/2020
FND	\$ 100.00	\$ 120.81	\$ 162.62	\$ 95.85	\$ 129.52	\$ 160.03	\$ 110.61	\$ 223.24	\$ 289.70
S&P 500 Index	\$ 100.00	\$ 105.28	\$ 110.77	\$ 122.22	\$ 118.09	\$ 124.89	\$ 110.31	\$ 136.17	\$ 157.54
S&P 500 Home Improvement Retail	\$ 100.00	\$ 101.10	\$ 111.16	\$ 133.16	\$ 123.40	\$ 142.54	\$ 119.16	\$ 174.76	\$ 175.37

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Repurchases of our Common Stock

None.

ITEM 6. SELECTED FINANCIAL DATA.

None.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis of our financial condition and results of operations together with “Selected Financial Data” and our consolidated financial statements and the related notes thereto and other financial information included elsewhere in this filing. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed in “Item 1A. Risk Factors.” See the cautionary note regarding forward-looking statements set forth at the beginning of Part I of this Annual Report.

Overview

Founded in 2000, Floor & Decor is a high-growth, differentiated, multi-channel specialty retailer of hard surface flooring and related accessories with 133 warehouse-format stores across 31 states as of December 31, 2020. We believe that we offer the industry’s broadest assortment of tile, wood, laminate, vinyl, and natural stone flooring along with decorative and installation accessories at everyday low prices. We appeal to a variety of customers, including our Pro, DIY and BIY customers. Our warehouse-format stores, which average approximately 78,000 square feet, carry on average approximately 4,100 flooring and decorative and installation accessory SKUs, 1.2 million square feet of flooring products, and \$2.5 million of inventory at cost. We believe that our inspiring design studios and creative and informative visual merchandising also greatly enhance our customers’ renovation experience. In addition to our stores, our website *FloorandDecor.com* showcases our products.

We believe our strong financial results are a reflection of a growing domestic hard surface flooring market, a unique approach to selling hard surface flooring, and our consistent and disciplined culture of innovation and reinvestment, together creating a differentiated business model in the hard surface flooring category. In fiscal 2020, we experienced our twelfth year of comparable store sales growth, averaging 13.1% over this time period and 6.2% over the past three years.

	Fiscal Year Ended						CAGR
	12/31/2020		12/26/2019		12/27/2018		
Comparable store sales (% change) (1)	5.5	%	4.0	%	9.2	%	N/A
Number of warehouse-format stores	133		120		100		15.3 %
Net sales (in thousands)	\$	2,425,788	\$	2,045,456	\$	1,709,848	19.1 %
Net income (in thousands)	\$	194,981	\$	150,631	\$	116,187	29.5 %

(1) Fiscal 2020 comparable store sales exclude sales from the 53rd week.

During fiscal 2020, we continued to make key long-term strategic investments, including:

- investing in the protection of the health of our employees and customers, including temporarily implementing a curbside pickup model, shortening store operating hours, and implementing enhanced safety and sanitation measures in our stores;
- opening 13 new warehouse-format stores, including four new stores in densely populated markets in Central New Jersey, Detroit, and the San Diego area, ending the year with 133 warehouse-format stores;
- focusing on innovative new products and localized assortments, supported by inspirational in-store and online visual merchandising solutions;
- investing in our connected customer, in-store designer, and Pro customer personnel and customer relationship and store focused technology;
- adding more resources dedicated to serving our Pro customers, including hiring a professional external sales staff to drive more commercial sales;
- increasing proprietary credit offerings, including launching our non-recourse Pro credit card; and
- investing capital to continue enhancing the in-store shopping experience for our customers

COVID-19 Update

The COVID-19 pandemic had a material negative impact on our operations and financial results for the first and second quarters of fiscal 2020. Compared with the same periods of the prior year, comparable store sales declined by 20.8% and 9.6% during the thirteen and twenty-six weeks ended June 25, 2020, respectively, leading to decreases in operating and net income. These declines in sales, operating income, and net income were due to operational disruptions caused by the COVID-19 pandemic. Financial results improved substantially during the second half of fiscal 2020, with comparable store sales increasing by 18.4% and 21.6% during the fiscal quarters ended September 24, 2020 and December 31, 2020, respectively, and by 5.5% for fiscal 2020, leading to increases in operating and net income compared with the same periods a year ago.

In response to the COVID-19 pandemic, we took measures to protect the health and safety of our employees and customers, including temporarily limiting most of our stores to curbside services starting in late March 2020. Beginning in May 2020 and concluding in June 2020, we implemented a phased approach to reopening stores for in-store shopping with enhanced safety and sanitation measures such as requiring associates to wear face masks, installing social distancing markers on floors and protective shields at cash registers, and regularly sanitizing shopping carts, pin pads, design desks, and other high-traffic areas. By the end of the second quarter of fiscal 2020, all of our stores were reopened to customers and have remained open other than for temporary cleaning or in response to certain weather events.

Despite the disruptions caused by the COVID-19 pandemic, we remain focused on three priorities while navigating through this period of volatility and uncertainty:

- First, protect the health and safety of our employees and customers.
- Second, keep our brand strong and support all of our customers, including the numerous small businesses that rely upon us such as general contractors and flooring installers.
- Third, position Floor & Decor to emerge strong from this event.

We are working hard to continue monitoring and quickly responding to the ongoing impacts of the COVID-19 pandemic, including communicating often throughout the organization and adapting our operations to follow evolving federal, state, and local ordinances as well as health guidelines on mitigating the risk of COVID-19 transmission. We have teams in place monitoring this evolving situation and recommending risk mitigation actions; we have implemented travel restrictions; and we are encouraging social distancing practices. We have assessed and are implementing supply chain continuity plans. There has been no material impact on supply for most of our sourced merchandise, and we are also working closely with our suppliers and transportation partners.

There remains substantial uncertainty regarding the potential duration and severity of the COVID-19 pandemic. While we have reopened our stores to the public, we may face closure requirements and other operational restrictions at some or all of our physical locations for prolonged periods of time due to, among other factors, evolving and potentially more stringent federal, state, and local restrictions including shelter-in-place orders. We also may face store closures due to staffing challenges, including if store and distribution center associates are in quarantine due to the COVID-19 pandemic. While the U.S. Food and Drug Administration authorized vaccines produced by Pfizer-BioNTech and Moderna for emergency use in December 2020, it remains unclear how quickly the vaccines will be distributed nationwide and globally or if or when “herd immunity” will be achieved and the restrictions that were imposed to slow the spread of the virus will be lifted entirely. The delay in distributing the vaccines could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. In addition, changes in consumer behavior due to financial, health, or other concerns may continue even after the COVID-19 pandemic and may reduce consumer demand for our products. As a result of these and other uncertainties, the full financial impact of the pandemic cannot be reasonably estimated at this time.

Coronavirus Aid, Relief, and Economic Security Act

As discussed in Note 6, “Income Taxes,” to our consolidated financial statements included in this Annual Report, on March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) into law. Based on our assessment of the CARES Act, we estimate the following benefits to the Company:

- Due to the accelerated depreciation under the CARES Act of Qualified Improvement Property (“QIP”) placed in service during fiscal 2018 and 2019, we incurred a net operating loss for fiscal 2019 that we expect to carry back to prior years during which the federal tax rate was 35%, resulting in a \$7.7 million income tax benefit during the second quarter of fiscal 2020. We received \$28.4 million of cash refunds related to the accelerated QIP depreciation and the carry back of fiscal 2019 net operating losses.
- Cash savings in fiscal 2020 from the temporary deferral of the employer portion of social security taxes. As of December 31, 2020, we have deferred \$12.1 million of employer social security taxes, of which 50% are required to be deposited by December 2021 and the remaining 50% by December 2022.

- The receipt of refundable payroll tax credits related to employee retention. For the fiscal year ended December 31, 2020, we recognized employee retention credits totaling and \$1.7 million.

Fiscal 2021 – A Look At The Upcoming Year

We believe that our compelling business model, in addition to the projected growth of the large and highly fragmented hard surface flooring market, provides us with an opportunity to significantly expand our store base in the U.S. from 133 warehouse format stores as of December 31, 2020 to approximately 400 stores nationwide within the next 8-10 years based on our past success as well as internal research with respect to housing density, demographic data, competitor concentration, and other variables in both new and existing markets. In 2021, we plan to grow our warehouse store base by approximately 20% and add two small design studios. In addition to opening new stores, our focus will be on executing our core strategies as well as continuing to make investments that we believe will support our long-term growth, as outlined in “Item 1. Business - Our Growth Strategy.” Our ability to open profitable new stores depends on many factors, including the successful selection of new markets and store locations, our ability to negotiate leases on acceptable terms, and our ability to attract highly qualified managers and staff. For further information, see “Risk Factors—Risks Related to Our Business.”

Key Performance Indicators

We consider a variety of performance and financial measures in assessing the performance of our business. The key measures we use to determine how our business is performing are comparable store sales, the number of new store openings, gross profit and gross margin, operating income, and EBITDA and Adjusted EBITDA.

Comparable Store Sales

Our comparable store sales growth is a significant driver of our net sales, profitability, cash flow, and overall business results. We believe that comparable store sales growth is generated by continued focus on providing a dynamic and expanding product assortment in addition to other merchandising initiatives, quality of customer service, enhancing sales and marketing strategies, improving visual merchandising and overall aesthetic appeal of our stores and our website, effectively serving our Pro customers, continued investment in store staff and infrastructure, growing our proprietary credit offering, and further integrating connected customer strategies and other key information technology enhancements.

Comparable store sales refer to period-over-period comparisons of our net sales among the comparable store base and are based on when the customer obtains control of the product, which is typically at the time of sale. A store is included in the comparable store sales calculation on the first day of the thirteenth full fiscal month following a store’s opening, which is when we believe comparability has been achieved. Changes in our comparable store sales between two periods are based on net sales for stores that were in operation during both of the two periods. Any change in the square footage of an existing comparable store, including for remodels and relocations within the same primary trade area of the existing store being relocated, does not eliminate that store from inclusion in the calculation of comparable store sales. Stores that are closed for a full fiscal month or longer are excluded from the comparable store sales calculation for each full fiscal month that they are closed. Since our e-commerce, regional account manager, and design studio sales are fulfilled by individual stores, they are included in comparable store sales only to the extent the fulfilling store meets the above mentioned store criteria.

Our fiscal 2020 year, which ended December 31, 2020, includes a 53rd week. When presenting comparable store sales for fiscal 2020, we have excluded the last week of fiscal 2020.

Definitions and calculations of comparable store sales differ among companies in the retail industry; therefore, comparable store metrics disclosed by us may not be comparable to the metrics disclosed by other companies.

We believe that comparable store sales is a useful measure as it allows management as well as analysts, investors, and other interested parties to evaluate the sales performance of our retail stores. In addition, comparable store sales highlights our sales and market share growth. Management uses comparable store sales to evaluate the effectiveness of our selling strategies, to make budgeting decisions, and to compare our performance against that of other peer companies using similar measures.

Various factors affect comparable store sales, including:

- national and regional economic conditions;
- the retail sales environment and other retail trends;
- the home improvement spending environment;
- the hard surface flooring industry trends;
- the impact of competition;

- changes in our product mix;
- changes in staffing at our stores;
- cannibalization resulting from the opening of new stores in existing markets;
- changes in pricing;
- changes in advertising and other operating costs; and
- weather conditions.

Number of New Stores

The number and timing of new store openings, and the costs and fixed lease obligations associated with those openings, have had, and are expected to continue to have, a significant impact on our results of operations. The number of new stores reflects the number of stores opened during a particular reporting period. Before we open new stores, we incur pre-opening expenses, which are defined below. While net sales at new stores are generally lower than net sales at our stores that have been open for more than one year, our new stores have historically been profitable in their first year. Generally, our newer stores have also averaged higher comparable store sales growth than our total store average. Our ability to open new, profitable stores is important to our long-term sales and profit growth goals.

Gross Profit and Gross Margin

Our gross profit is variable in nature and generally follows changes in net sales. Our gross profit and gross margin can also be impacted by changes in our prices, our merchandising assortment, shrink, damage, selling of discontinued products, the cost to transport our products from the manufacturer to our stores, and our distribution center costs. With respect to our merchandising assortment, certain of our products tend to generate somewhat higher margins than other products within the same product categories or among different product categories. We have experienced modest inflation increases in certain of our product categories, but historically have been able to source from a different manufacturer or pass increases onto our consumers with modest impact on our gross margin. Our gross profit and gross margin, which reflect our net sales and our cost of sales and any changes to the components thereof, allow us to evaluate our profitability and overall business results.

Gross profit is calculated as net sales less cost of sales. Gross profit as a percentage of net sales is referred to as gross margin. Cost of sales consists of merchandise costs, as well as freight costs to transport inventory to our distribution centers and stores, and duty and other costs that are incurred to distribute the merchandise to our stores. Cost of sales also includes shrinkage, damage product disposals, distribution, warehousing costs, sourcing and compliance costs. We receive cash consideration from certain vendors related to vendor allowances and volume rebates, which is recorded as a reduction of costs of sales as the inventory is sold or as a reduction of the carrying value of inventory while the inventory is still on hand. Costs associated with arranging and paying for freight to deliver products to customers is included in cost of sales. The components of our cost of sales may not be comparable to the components of cost of sales, or similar measures, of other retailers. As a result, data in this filing regarding our gross profit and gross margin may not be comparable to similar data made available by other retailers.

We believe that gross profit and gross margin are useful measures as they allow management and analysts, investors, and other interested parties to evaluate the cost and profitability of our products and overall cost of sales, which is our largest expense. Gross profit and gross margin are also important indicators of our ability to grow profits and leverage our expenses on a growing sales base. Management uses gross profit and gross margin, among other measures, to make decisions related to product, pricing, supplier, and distribution strategies as well as other areas affecting the products we offer to our customers.

Operating Income, EBITDA, Adjusted EBITDA

Operating income, EBITDA, and Adjusted EBITDA are key metrics used by management and our Board to assess our financial performance and enterprise value. We believe that operating income, EBITDA, and Adjusted EBITDA are useful measures, as they eliminate certain expenses that are not indicative of our core operating performance and facilitate a comparison of our core operating performance on a consistent basis from period to period. We also use Adjusted EBITDA as a basis to determine covenant compliance with respect to our Credit Facilities, to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, and to compare our performance against that of other peer companies using similar measures. Operating income, EBITDA and Adjusted EBITDA are also frequently used by analysts, investors and other interested parties as performance measures to evaluate companies in our industry.

EBITDA and Adjusted EBITDA are supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define EBITDA as net income before interest, (gain) loss on early extinguishment of debt, taxes, depreciation and amortization. We define Adjusted EBITDA as net income before interest, loss on early extinguishment of debt, taxes, depreciation and amortization, adjusted to eliminate the impact of certain items that we do not consider indicative of our core operating performance.

EBITDA and Adjusted EBITDA are non-GAAP measures of our financial performance and should not be considered as alternatives to net income as a measure of financial performance or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of liquidity or free cash flow for management's discretionary use. In addition, these non-GAAP measures exclude certain non-recurring and other charges. Each of these non-GAAP measures has its limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. In evaluating EBITDA and Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the items eliminated in the adjustments made to determine EBITDA and Adjusted EBITDA, such as stock compensation expense, loss (gain) on asset impairments and disposals, executive recruiting/relocation, and other adjustments. Our presentation of EBITDA and Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Definitions and calculations of EBITDA and Adjusted EBITDA differ among companies in the retail industry, and therefore EBITDA and Adjusted EBITDA disclosed by us may not be comparable to the metrics disclosed by other companies.

Other Key Financial Definitions

Net Sales

The retail sector in which we operate is cyclical, and consequently our sales are affected by general economic conditions. Purchases of our products are sensitive to trends in the levels of consumer spending, which are affected by a number of factors such as consumer disposable income, housing market conditions, unemployment trends, stock market performance, consumer debt levels and consumer credit availability, interest rates and inflation, tax rates and overall consumer confidence in the economy.

Net sales reflect our sales of merchandise, less discounts and estimated returns and include our in-store sales and e-commerce sales. In certain cases, we arrange and pay for freight to deliver products to customers and bill the customer for the estimated freight cost, which is also included in net sales. Revenue is recognized when we satisfy the performance obligations in contracts with our customers. Our performance obligations for our retail store sales, as well as for orders placed through our website and shipped to our customers, are satisfied at the point at which the customer obtains control of the inventory, which is typically at the point-of-sale.

Selling and Store Operating Expenses

We expect that our selling and store operating expenses will increase in future periods with future growth. Selling and store operating expenses consist primarily of store personnel wages, bonuses and benefits, rent and infrastructure expenses, supplies, depreciation and amortization, training expenses, and advertising costs. Credit card fees, insurance, personal property taxes, and other miscellaneous operating costs are also included.

The components of our selling and store operating expenses may not be comparable to the components of similar measures of other retailers.

General and Administrative Expenses

We expect that our general and administrative expenses will increase in future periods with future growth and in part due to additional legal, accounting, insurance, and other expenses that we expect to incur as a result of being a public company, including compliance with the Sarbanes-Oxley Act. General and administrative expenses include both fixed and variable components, and therefore, are not directly correlated with net sales.

General and administrative expenses consist primarily of costs incurred outside of our stores and include administrative personnel wages in our store support center and regional functions, bonuses and benefits, supplies, depreciation and amortization, and store support center expenses. Insurance, legal expenses, information technology costs, consulting, and other miscellaneous operating costs are also included.

The components of our general and administrative expenses may not be comparable to the components of similar measures of other retailers.

Pre-opening Expenses

We account for non-capital operating expenditures incurred prior to opening a new store or relocating an existing store as “pre-opening” expenses in our Consolidated Statements of Operations and Comprehensive Income. Our pre-opening expenses begin, on average, three months to one year in advance of a store opening or relocating due to, among other things, the amount of time it takes to prepare a store for its grand opening. The majority of pre-opening expenses are incurred during the three months before a store opens. Pre-opening expenses primarily include the following: rent, advertising, training, staff recruiting, utilities, personnel, and equipment rental. A store is considered to be relocated if it is closed temporarily and re-opened within the same primary trade area.

Segments

We have one operating segment and one reportable segment. For additional segment information, refer to Note 1, "Summary of Significant Accounting Policies" of the notes to the consolidated financial statements included in this Annual Report.

Results of Operations

The comparison of the fiscal years ended December 26, 2019 and December 27, 2018 can be found in our annual report on Form 10-K for the fiscal year ended December 26, 2019 (the “2019 Annual Report”) located within Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

For the fiscal years ended December 31, 2020 and December 26, 2019

The following table summarizes key components of our results of operations for the periods indicated, in dollars and as a percentage of net sales (actuals in thousands, dollar changes in millions; certain numbers may not sum due to rounding):

	Fiscal Year Ended				Increase/(Decrease)	% Increase/(Decrease)
	12/31/2020		12/26/2019			
	Actual	% of Sales	Actual	% of Sales	\$	
Net sales	\$ 2,425,788	100.0 %	\$ 2,045,456	100.0 %	\$ 380.3	18.6 %
Cost of sales	1,390,896	57.3	1,182,442	57.8	208.5	17.6
Gross profit	1,034,892	42.7	863,014	42.2	171.9	19.9
Operating expenses:						
Selling and store operating	654,100	27.0	546,853	26.7	107.2	19.6
General and administrative	144,715	6.0	132,386	6.5	12.3	9.3
Pre-opening	21,498	0.9	24,594	1.2	(3.1)	(12.6)
Total operating expenses	820,313	33.8	703,833	34.4	116.5	16.5
Operating income	214,579	8.8	159,181	7.8	55.4	34.8
Interest expense, net	8,389	0.3	8,801	0.4	(0.4)	(4.7)
Gain on early extinguishment of debt	(1,015)	—	—	—	(1.0)	NM
Income before income taxes	207,205	8.5	150,380	7.4	56.8	37.8
Provision (benefit) for income taxes	12,224	0.5	(251)	—	12.5	NM
Net income	\$ 194,981	8.0 %	\$ 150,631	7.4 %	\$ 44.4	29.4 %

NM- Not Meaningful

	Fiscal Year Ended	
	12/31/2020	12/26/2019
Comparable store sales (% change) (1)	5.5%	4.0%
Comparable average ticket (% change) (1)	0.7%	2.1%
Comparable customer transactions (% change) (1)	4.8%	1.9%
Number of warehouse-format stores	133	120
Adjusted EBITDA (in thousands) (2)	\$ 322,995	\$ 242,623
Adjusted EBITDA margin	13.3 %	11.9%

(1) Comparable store sales, comparable average ticket, and comparable customer transactions exclude sales from the 53rd week in fiscal 2020.

(2) Refer to "Reconciliation of Non-GAAP Measures" further below for reconciliation of Adjusted EBITDA to net income.

Results of operations for prior periods should not be considered indicative of future results, in particular while our revenue and earnings improved during the second half of fiscal 2020 compared to the first half of fiscal 2020, the full impact that the COVID-19 pandemic could have on our business remains highly uncertain. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - COVID-19 Update” and Item 1A., “Risk Factors” for more information about the potential impacts that the COVID-19 pandemic may have on our results of operations and overall financial performance for future periods.

Impact of the 53rd Week in Fiscal 2020

The 53rd week in fiscal 2020 added approximately \$41.8 million in net sales as well as an estimated \$8.5 million in operating income, \$6.4 million in net income, \$0.06 in diluted earnings per share, \$8.5 million in EBITDA, and \$8.8 million in adjusted EBITDA. When presenting comparable store sales for fiscal 2020, we have excluded the last week of fiscal 2020.

Net Sales

Net sales during fiscal 2020 increased \$380.3 million, or 18.6%, compared to fiscal 2019 due to the opening of 13 new stores since December 26, 2019 and an increase in comparable store sales of 5.5%. The comparable store sales increase during the period of 5.5%, or \$112.3 million, was driven by a 4.8% increase in comparable customer transactions and a 0.7% increase in comparable average ticket. Among our six product categories, five experienced comparable store sales increases during the year, including tile, laminate/luxury vinyl plank, decorative accessories/wall tile, installation materials and tools, and natural stone. Non-comparable store sales increased \$268.0 million during fiscal 2020 primarily due to the increase in new stores previously described.

We believe the increase in second half of fiscal 2020 sales relative to the first half of the year is due in part to (i) government intervention, including from the CARES Act, to help mitigate the negative impacts of the COVID-19 pandemic, (ii) customers nesting at home and investing in home improvements while spending less on leisure activities like travel, eating out, sporting events, and hotels, (iii) favorable macroeconomic housing metrics, such as low interest rates, rising home values, and an increase in housing turnover, and (iv) the investments we have made in our assortment, connected customer, Pro, design, real estate strategies, and associate training. We believe our business model, which relies in part on substantial amounts of on-trend, in-stock inventory, also contributed to the sales increase.

Gross Profit and Gross Margin

Gross profit during fiscal 2020 increased \$171.9 million, or 19.9%, compared to fiscal 2019. This increase in gross profit was driven by the 18.6% increase in net sales and an increase in gross margin to 42.7%, up approximately 50 basis points from 42.2% in fiscal 2019. The increase in gross margin was primarily due to higher product margin driven by improved merchandising strategies and lower costs from the elimination of certain tariffs, partially offset by higher distribution center costs related to our new distribution center in Maryland. Refer to Note 1, "Summary of Significant Accounting Policies" of the notes to our consolidated financial statements in this Annual Report for additional details related to tariff refunds.

Selling and Store Operating Expenses

Selling and store operating expenses during fiscal 2020 increased \$107.2 million, or 19.6%, compared to fiscal 2019 due primarily to opening 13 new stores since December 26, 2019. As a percentage of net sales, our selling and store operating expenses increased approximately 20 basis points to 27.0% from 26.7% in fiscal 2019. The increase was primarily attributable to higher operating costs for new stores open less than one year. Comparable store selling and store operating expenses as a percentage of comparable store sales decreased by approximately 80 basis points driven by a decrease in advertising spending and a decline in occupancy costs as a percentage of net revenue due to the year-over-year increase in sales.

General and Administrative Expenses

General and administrative expenses, which are typically expenses incurred outside of our stores, increased \$12.3 million, or 9.3%, during fiscal 2020 compared to fiscal 2019 due to higher incentive compensation expense and costs to support store growth, including increased depreciation related to technology and other store support center investments and higher occupancy costs for our new store support center that we moved into during the fourth quarter of fiscal 2019. Our general and administrative expenses as a percentage of net sales decreased approximately 50 basis points to 6.0% in fiscal 2020 from 6.5% in fiscal 2019. The decline was driven by lower impairment charges compared to the prior year and a year-over-year decrease in expenses for travel, meals, and meetings as in-person meetings were reduced in response to the COVID-19 pandemic.

Pre-Opening Expenses

Pre-opening expenses during fiscal 2020 decreased \$3.1 million, or 12.6%, compared to fiscal 2019. The decrease is primarily the result of a decline in the number of stores that we either opened or were preparing for opening compared to the prior year. We opened 13 warehouse stores and one design studio in fiscal 2020 as compared to opening 20 warehouse stores in fiscal 2019. Of the new store openings, 7 were in existing markets and 6 were in new markets in fiscal 2020 as compared to 12 in existing markets and 8 in new markets in fiscal 2019. We also relocated one warehouse store in fiscal 2019 and had no relocations in fiscal 2020.

Interest Expense

Net interest expense in fiscal 2020 decreased \$0.4 million, or 4.7%, compared to fiscal 2019. The decrease in net interest expense was primarily due to a decrease in interest rates on borrowings, an increase in interest capitalized during the construction period of certain capital assets, and higher interest income related to cash on hand and tariff refund receivables during fiscal 2020 compared to fiscal 2019. Refer to Note 1, "Summary of Significant Accounting Policies" of the notes to our consolidated financial statements in this Annual Report for additional details related to interest on tariff refunds.

Income Taxes

The provision for income taxes was an \$12.2 million expense in fiscal 2020 compared to a \$0.3 million benefit in fiscal 2019. The effective tax rate was 5.9% for fiscal 2020 compared to (0.2)% for fiscal 2019. The increase in the effective tax rate was primarily due to an increase in operating income, the recognition of discrete expense for loss contingencies related to uncertain tax positions, and a decrease in excess tax benefits related to stock option exercises, partially offset by income tax benefits related to the CARES Act.

Reconciliation of Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA

For the periods presented, the following table reconciles EBITDA and Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP:

<i>in thousands</i>	Fiscal Year Ended	
	12/31/2020	12/26/2019
Net income	\$ 194,981	\$ 150,631
Depreciation and amortization (1)	90,520	73,019
Interest expense, net	8,389	8,801
Gain on early extinguishment of debt (2)	(1,015)	—
Income tax expense (benefit)	12,224	(251)
EBITDA	305,099	232,200
Stock compensation expense (3)	16,115	8,711
COVID-19 costs (4)	3,562	—
Tariff refunds (5)	(3,660)	(8,148)
Loss on asset impairments and disposals, net (6)	—	4,111
Other (7)	1,879	5,749
Adjusted EBITDA	\$ 322,995	\$ 242,623

(1) Excludes amortization of deferred financing costs, which is included as part of interest expense, net in the table above.

(2) Represents gain on partial debt extinguishment in connection with the May 2020 amendment to the senior secured term loan credit facility.

(3) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on the timing of awards and forfeitures.

(4) Amounts are comprised of sanitation, personal protective equipment, and other costs directly related to disruptions caused by or efforts to mitigate the impact of the COVID-19 pandemic on our business.

(5) Represents income for estimated tariff refunds recognized for certain bamboo and other flooring products in fiscal 2020. In fiscal 2019, represents income recognized during the fourth quarter of fiscal 2019 for the portion of expected tariff refunds related to products sold prior to November 20, 2019, the date on which U.S. Customs issued Chapter 99 tariff exclusions for certain of our click-vinyl and engineered flooring products, net of a resulting increase to incentive compensation. Interest income for tariff refunds is included within interest expense, net in the table above.

(6) Amount primarily represents impairment loss for the operating lease right-of-use asset related to our former store support center in Smyrna, Georgia.

(7) Other adjustments include amounts management does not consider indicative of our core operating performance. Amounts for fiscal 2020 primarily relate to relocation expenses for our Houston distribution center, costs associated with two secondary public offerings of the Company's Class A common stock by certain of our stockholders, and legal fees associated with the February 2020 amendment to our senior secured term loan credit facility. Amounts for fiscal 2019 primarily relate to costs associated with the secondary public offering of our Class A common stock by certain of our stockholders, the relocation of our store support center in Smyrna, Georgia, and the closure of our Miami distribution center. The Company did not sell any shares in the offerings and did not receive any proceeds from the sale of shares by the selling stockholders.

Seasonality

Historically, our business has had very little seasonality. Our specialty hard surface flooring and decorative home product offering makes us less susceptible to holiday shopping seasonal patterns compared to other retailers. However, we generally conduct a clearance event during our third fiscal quarter followed by a smaller clearance event towards the end of the year. The timing of these clearance events is driven by operational considerations rather than customer demand and could change from year to year.

Liquidity and Capital Resources

Liquidity is provided primarily by our cash flows from operations and our \$400.0 million ABL Facility. Unrestricted liquidity based on our December 31, 2020 financial data was \$686.4 million, consisting of \$307.8 million in cash and cash equivalents and \$378.7 million immediately available for borrowing under the ABL Facility without violating any covenants thereunder.

Our primary cash needs are for merchandise inventories, payroll, store rent, and other operating expenses and capital expenditures associated with opening new stores and remodeling existing stores, as well as information technology, e-commerce, and store support center infrastructure. We also use cash for the payment of taxes and interest.

The most significant components of our operating assets and liabilities are merchandise inventories and accounts payable, and, to a lesser extent, accounts receivable, prepaid expenses and other assets, other current and non-current liabilities, taxes receivable, and taxes payable. In an operating environment outside of the COVID-19 pandemic, our liquidity is not generally seasonal, and our uses of cash are primarily tied to when we open stores and make other capital expenditures.

Merchandise inventory is our most significant working capital asset and is considered "in-transit" or "available for sale" based on whether we have physically received the products at an individual store location or in one of our four distribution centers. In-transit inventory generally varies due to contractual terms, country of origin, transit times, international holidays, weather patterns, and other factors.

We measure realizability of our inventory by monitoring sales, gross margin, inventory aging, weeks of supply or inventory turns as well as by reviewing SKUs that have been determined by our merchandising team to be discontinued. Based on our analysis of these factors, we believe our inventory is realizable.

Twice a year, we conduct a clearance event with the goal of selling through discontinued inventory, followed by donations of the aged discontinued inventory that we are unable to sell. We generally conduct a larger clearance event during our third fiscal quarter followed by a smaller clearance event towards the end of the fiscal year. We define aged discontinued inventory as inventory in discontinued status for more than 12 months that we intend to sell or donate. As of December 31, 2020, we had \$0.1 million of aged discontinued inventory that we intend to donate if we are unable to sell.

Impact of the COVID-19 Pandemic on Liquidity

Historically, our primary sources of funds for our business activities are cash flows from operations and our existing credit facilities. As described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations - COVID-19 Update” and “Item 1A. Risk Factors,” the COVID-19 pandemic had a significant negative impact on our business and financial results during the first half of fiscal 2020, and the full financial impact of the pandemic cannot be reasonably estimated at this time due to uncertainty regarding its potential severity and duration. As a result of the COVID-19 pandemic, we may be required to rely more heavily on our cash reserves and lines of credit than we have in recent years. In response to these uncertainties, we have taken proactive steps to improve liquidity and maintain financial flexibility, including making targeted reductions in operating expenses and capital expenditures and entering into a \$75.0 million incremental term loan (see Note 10, “Debt” to our consolidated financial statements included in this Annual Report for additional details).

We continue to monitor this rapidly developing situation and may, as necessary, reduce expenditures further, borrow additional amounts under our term loan and revolving credit facilities, or pursue other sources of capital that may include other forms of external financing in order to increase our cash position and preserve financial flexibility. The financial and credit markets have experienced and may continue to experience significant volatility and turmoil. Our continued access to external sources of liquidity depends on multiple factors, including the condition of debt capital markets, our operating performance, and maintaining strong credit ratings. If the impacts of the COVID-19 pandemic continue to create severe disruptions or turmoil in the financial markets, or if rating agencies lower our credit ratings, it could adversely affect our ability to access the debt markets, our cost of funds, and other terms for new debt or other sources of external liquidity. We expect that cash generated from operations together with cash on hand, our actions to reduce expenditures, the availability of borrowings under our Credit Facilities, and if necessary, additional funding through other forms of external financing, will be sufficient to meet liquidity requirements, anticipated capital expenditures, and payments due under our Credit Facilities for at least the next twelve months.

Total capital expenditures in fiscal 2021 are planned to be between approximately \$440 million to \$460 million and will be funded primarily by cash generated from operations and borrowings under the ABL Facility. Our capital needs may change in the future due to changes in our business, including in response to the COVID-19 pandemic, or new opportunities that we choose to pursue; however, we currently expect the following for capital expenditures in fiscal 2021:

- open 27 warehouse-format stores, open 3 small-format design studios, and start construction on stores opening and relocating in fiscal 2022 using approximately \$285 million to \$295 million of cash;
- relocate our Houston, Texas distribution center and open a transload facility in Los Angeles, California using approximately \$72 million to \$76 million of cash;
- invest in existing store remodeling and expansion projects and existing distribution centers maintenance using approximately \$56 million to \$59 million of cash; and
- invest in information technology infrastructure, e-commerce and other store support center initiatives using approximately \$27 million to \$30 million of cash.

Cash Flow Analysis

A summary of our operating, investing, and financing activities are shown in the following table:

<i>in thousands</i>	Fiscal Year Ended	
	12/31/2020	12/26/2019
Net cash provided by operating activities	\$ 406,164	\$ 204,658
Net cash used in investing activities	(212,448)	(196,008)
Net cash provided by financing activities	87,019	17,743
Net increase in cash and cash equivalents	<u>\$ 280,735</u>	<u>\$ 26,393</u>

Net Cash Provided By Operating Activities

Cash from operating activities consists primarily of net income adjusted for changes in working capital as well as non-cash items, including depreciation and amortization, deferred income taxes, and stock-based compensation.

Net cash provided by operating activities was \$406.2 million for fiscal 2020 and \$204.7 million for fiscal 2019. The change in net cash provided by operating activities was primarily the result of an increase in net income and a decrease in net working capital.

Net Cash Used In Investing Activities

Investing activities consist primarily of capital expenditures for new store openings, existing store remodels (including leasehold improvements, new racking, new fixtures, new product and display vignettes, and enhanced design studios) and new infrastructure and information systems.

Capital expenditures were \$212.4 million for fiscal 2020 compared to \$196.0 million for fiscal 2019. The increase is primarily related to the purchase of land to relocate our distribution center in the Houston, Texas area to a nearby location. For fiscal 2020, approximately 66% of capital expenditures was for new stores, 23% was for existing stores and distribution centers, while the remaining spending was associated with information technology, e-commerce, and store support center investments to support our growth.

Net Cash Provided by Financing Activities

Financing activities consist primarily of borrowings and related repayments under our credit agreements as well as dividends paid to common stockholders.

Net cash provided by financing activities was \$87.0 million for fiscal 2020 compared to \$17.7 million for fiscal 2019. The increase in net cash provided by financing activities was primarily driven by net proceeds from borrowings under the incremental term loan facility during the second quarter of fiscal 2020.

Our Credit Facilities

The indebtedness outstanding under our Credit Facilities is secured by substantially all of our assets. In particular, the indebtedness outstanding under (i) the ABL Facility is secured by a first-priority security interest in all of our current assets, including inventory and accounts receivable, and a second-priority security interest in the collateral that secures the Term Loan Facility on a first-priority basis, and (ii) the Term Loan Facility is secured by a first-priority security interest in all of our fixed assets and intellectual property, and a second-priority interest in the collateral that secures the ABL Facility on a first-priority basis.

The credit agreements governing our Credit Facilities contain customary restrictive covenants that, among other things and with certain exceptions, limit our ability to (i) incur additional indebtedness and liens in connection with such indebtedness, (ii) pay dividends and make certain other restricted payments, (iii) effect mergers or consolidations, (iv) enter into transactions with affiliates, (v) sell or dispose of property or assets, and (vi) engage in unrelated lines of business. In addition, these credit agreements subject us to certain reporting obligations and require that we satisfy certain financial covenants, including, among other things, a requirement that if borrowings under the ABL Facility exceed 90% of availability, we will maintain a certain fixed charge coverage ratio (defined as consolidated EBITDA less non-financed capital expenditures and income taxes paid to consolidated fixed charges, in each case as more fully defined in the credit agreement governing the ABL Facility).

Term Loan Facility

As of December 31, 2020, the Term Loan B Facility bore interest based on one of the following rates, at our option:

- i. Adjusted LIBOR Rate plus a margin of 2.00% (subject to a leverage-based step-up to 2.25% if we exceed certain leverage ratio tests and a 0.00% LIBOR floor).
- ii. Base Rate plus a margin of 1.00% (subject to a leverage-based step-up to 1.25% if we exceed certain leverage ratio tests). Base Rate defined as the greater of the following:
 - a. the base rate in effect on such day,
 - b. the federal funds rate plus 0.50%,
 - c. the adjusted LIBOR rate for the interest period of one month plus a margin of 1.00%.

As of December 31, 2020, the Term Loan B-1 Facility bore interest based on one of the following rates, at our option:

- i. Adjusted LIBOR Rate plus a margin of 4.00% (subject to a 1.00% LIBOR floor)
- ii. Base Rate plus a margin of 3.00%.

On February 14, 2020, we entered into a repricing and third amendment to the credit agreement governing our senior secured term loan facility (as amended, the "Term Loan Facility") which, among other things, (a) refinanced our existing term loan B facility with a new term loan B facility in the aggregate principal amount of approximately \$144.6 million, (b) extended the stated maturity date under the Term Loan Facility to February 14, 2027, and (c) included an "accordion" feature that allows us to borrow additional amounts as described more fully in Note 10, "Debt" to our consolidated financial statements included in this Annual Report.

On May 18, 2020, we entered into a fourth amendment to the Term Loan Facility which, among other things, provides for a new incremental term loan facility in an aggregate principal amount of \$75.0 million with a maturity date of February 14, 2027 (the “term loan B-1 facility”). We received net proceeds of \$70.5 million from the term loan B-1 facility after deducting a \$4.1 million original issuance discount and \$0.3 million of debt issuance costs to third parties, and we intend to use the net proceeds to support our growth plans and for general corporate purposes. The term loan B-1 facility is a separate tranche from our existing term loan B facility. The terms of loans under the term loan B facility remain unchanged under the fourth amendment.

On February 9, 2021, we entered into a fifth amendment to the Term Loan Facility; see “Recent Developments” below.

ABL Facility

As of December 31, 2020, the ABL Facility bore interest based on one of the following rates, at our option:

- i. LIBOR Rate plus a margin of 1.25%
- ii. Base Rate plus a margin of 0.25%. Base Rate defined as the greater of the following:
 - a. the federal funds rate plus 0.50%,
 - b. the adjusted LIBOR rate plus 1.00%, or
 - c. the lender’s prime rate.

On February 14, 2020, we also entered into a repricing and general amendment to the credit agreement governing our revolving credit facility (as amended, the “ABL Facility”), which, among other things, (a) increased our revolving commitments to a total aggregate principal amount of \$400.0 million, and (b) extended the stated maturity date under the ABL Facility to February 14, 2025. The ABL Facility also includes an “accordion” feature that allows us under certain circumstances, to increase the size of the facility by an amount up to \$100.0 million, or such higher amount as may be agreed to by the Required Lenders (as defined in the ABL Facility).

The amendment to the ABL Facility also amended the margin applied to loans and letters of credit to (x) in the case of base rate loans, from 0.25% or 0.50% per annum (based on availability) to a flat rate of 0.25% per annum, (y) in the case of LIBOR loans and letter of credit fees for standby letters of credit, from 1.25% or 1.50% per annum (based on availability) to a flat rate of 1.25% per annum (subject to a 0.00% floor on LIBOR loans) and (z) in the case of letter of credit fees for commercial letters of credit, from 0.75% or 1.00% per annum (based on availability) to a flat rate of 0.75% per annum. The material terms of the ABL Facility were otherwise unchanged.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee (“ARRC”) has proposed that the Secured Overnight Financing Rate (“SOFR”) is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. Both of our debt facilities are indexed to USD-LIBOR, and we believe all our material agreements have appropriate language to negotiate a transition to an alternative index rate. While we are uncertain about the affects this transition may have on our cash flows, we are continuing to monitor this activity and evaluate the potential risks.

Refer to Note 10, “Debt” for additional details regarding our Term Loan Facility and ABL Facility, including applicable covenants.

Credit Ratings

Our credit ratings are periodically reviewed by rating agencies. In April 2020, Moody’s reaffirmed the Company’s issuer corporate family rating of Ba3 but changed its outlook for the Company to negative from stable. In November 2020, Moody’s reaffirmed the Company’s issuer corporate family rating of Ba3 and changed its outlook for the Company to stable from negative. In December 2020, Standard & Poor’s reaffirmed the Company’s corporate credit rating of BB- and revised its outlook for the Company to positive from stable. These ratings and our current credit condition affect, among other things, our ability to access new capital. Negative changes to these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be lowered or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, financial condition, results of operations, and liquidity. In particular, a weakening of our financial condition, including any further increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, could result in a credit rating downgrade or change in outlook, or could otherwise increase our cost of borrowing.

Supply Chain Finance Program

As part of our ongoing efforts to improve cash flow and liquidity, we facilitate a voluntary supply chain finance program (the “Finance Program”) for certain of our suppliers. Suppliers that participate in the Finance Program extend our payment terms by approximately 40 days on average. Under with the Finance Program, participating suppliers may choose to sell receivables due from us to a participating financial institution at the sole discretion of both the suppliers and the financial institution. The Finance Program is administered by a third-party financial institution, and the Company's responsibility is limited to making payment on the terms originally negotiated with participating suppliers, regardless of whether such suppliers sell receivables to the financial institution. Suppliers who choose to participate in the Finance Program may, at their sole discretion, make offers to the financial partners who administer the Finance Program to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to the third party financial institution.

Accordingly, amounts due to our suppliers that elected to participate in the Finance Program totaled \$88.2 million and \$101.2 million as of December 31, 2020 and December 26, 2019, respectively, and are included in trade accounts payable in our Consolidated Balance Sheets. Payments made under the Finance Program are reflected in net cash provided by operating activities in our Consolidated Statements of Cash Flows.

U.S. Tariffs and Global Economy

The current domestic and international political environment, including existing and potential changes to U.S. policies related to global trade and tariffs, have resulted in uncertainty surrounding the future state of the global economy. In particular, the ongoing trade dispute between the U.S. and China has resulted in the U.S. imposing tariffs of 25% on many products from China. While exclusions from tariffs were granted for certain products from China, nearly all of these exclusions have expired. Historically, approximately half of the products we sell were imported from China, the majority of which are impacted by these tariffs. As we continue to manage the impact these tariffs may have on our business, we continue taking steps to mitigate some of these cost increases through negotiating lower costs from our vendors, increasing retail pricing as we deem appropriate, and sourcing from alternative countries. While our efforts have mitigated a substantial portion of the overall effect of increased tariffs, the enacted tariffs have increased our inventory costs and associated cost of sales for the remaining products still sourced from China.

Antidumping and Countervailing Duties

On May 24, 2019, the U.S. International Trade Commission (the “ITC”) announced it had completed a preliminary phase antidumping and countervailing duty investigation pursuant to the Tariff Act of 1930 with respect to the imports of ceramic tile from China and determined there is a reasonable indication that the ceramic tile production industry in the U.S. is being materially injured by imports of ceramic tile from China that have allegedly been subsidized by the Chinese government and are being sold in the U.S. at less than fair value, otherwise known as “dumping”. As a result of the ITC’s affirmative determinations, the U.S. Department of Commerce (the “DOC”) began its own related investigation. In April 2020, the DOC reached a final determination that imports from China were subsidized and were being sold in the U.S. at less than fair value. As a result of these final determinations, the DOC set the countervailing duty to 358.81% for all Chinese exporters and the antidumping duty to 203.71% or 330.69% depending on the exporter. In May 2020, the ITC announced their final determination that the ceramic tile production industry in the U.S. is being materially injured by imports of ceramic tile from China, but retroactive duty deposits would not be required as the ITC made a negative critical circumstances determination. The DOC subsequently issued antidumping and countervailing orders.

The DOC has instructed U.S. Customs to require cash deposits based on the announced effective rates. The final rates for the first 18 months of the orders will not be determined until the first administrative review process is completed, approximately two years after the published date of the orders.

We took steps to mitigate the risk of future exposure by sourcing from alternative countries, and we are no longer importing applicable products from China. We have made duty deposits for applicable entries according to U.S. Customs entry procedures. While we do not currently believe additional duty deposits will apply, we believe our potential exposure could be up to approximately \$3.0 million. The actual additional duties, if applicable, could differ from this estimate. We have not established a reserve for this matter as we currently do not believe additional duties will be applicable. Potential costs and any attendant impact on pricing arising from these tariffs or potential duties, and any further expansion in the types or levels of tariffs or duties implemented, could require us to modify our current business practices and could adversely affect our business, financial condition, and results of operations.

Tariff Refunds

In November 2019, the U.S. Trade Representative (“USTR”) made a ruling to retroactively exclude certain flooring products imported from China from the Section 301 tariffs that were implemented at 10% beginning in September 2018 and increased to 25% in June 2019. The granted exclusions apply to certain “click” vinyl and engineered products that we have sold and continue to sell. As these exclusions were granted retroactively, we are entitled to a refund from U.S. Customs and Border Protection for the applicable Section 301 tariffs previously paid on these goods. While tariff refund claims are subject to the approval of U.S. Customs, the Company currently expects to recover \$24.3 million related to these Section 301 tariff payments, including interest, of which \$12.9 million was received in fiscal 2020. Refer to Note 1, “Summary of Significant Accounting Policies” of the notes to the consolidated financial statements included in this Annual Report for additional details regarding tariff refunds.

Contractual Obligations

We enter into long-term obligations and commitments in the normal course of business, primarily debt obligations and non-cancelable operating leases. As of December 31, 2020, our contractual cash obligations over the next several periods were as follows:

<i>(in thousands)</i>	Payments due by period						
	Total	12/30/2021	12/29/2022	12/28/2023	12/26/2024	12/25/2025	Thereafter
Term loans	\$ 217,804	\$ 1,647	\$ 2,196	\$ 2,196	\$ 2,196	\$ 2,384	\$ 207,185
Estimated interest (1)	40,468	6,784	6,717	6,650	6,599	6,512	7,206
Operating leases (2)	1,397,130	145,813	141,815	136,289	133,866	125,790	713,557
Letters of credit	21,347	21,347	—	—	—	—	—
Purchase obligations (3)	411,222	406,040	3,566	1,616	—	—	—
Total	<u>\$ 2,087,971</u>	<u>\$ 581,631</u>	<u>\$ 154,294</u>	<u>\$ 146,751</u>	<u>\$ 142,661</u>	<u>\$ 134,686</u>	<u>\$ 927,948</u>

- (1) For purposes of this table, interest has been estimated based on interest rates in effect for our indebtedness as of December 31, 2020 and estimated borrowing levels in the future. Actual borrowing levels and interest costs may differ.
- (2) We enter into operating leases during the normal course of business. Most lease arrangements provide us with the option to renew the leases at defined terms. The future operating lease obligations set forth above would change if we were to exercise these options or enter into additional operating leases.
- (3) Purchase obligations include all legally binding contracts such as firm commitments for inventory purchases, container commitments, software and license commitments, and legally binding service contracts. Purchase orders that are not binding agreements are excluded from the table above.

Off-Balance Sheet Arrangements

For fiscal 2020, we were not party to any material off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, net sales, expenses, results of operations, liquidity, capital expenditures, or capital resources. We do not have any relationship with unconsolidated entities or financial partnerships for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes.

Recently Adopted and Recently Issued Accounting Pronouncements

Refer to Note 1, “Summary of Significant Accounting Policies” of the notes to the consolidated financial statements included in this Annual Report for information on the recently adopted and recently issued accounting pronouncements that are applicable to the Company.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect amounts reported in our consolidated financial statements and related notes as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Management evaluates its accounting policies, estimates, and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ under different assumptions and conditions, and such differences could be material to the consolidated financial statements.

Management evaluated the development and selection of its critical accounting policies and estimates and believes that the following accounting policies are critical as they involve a higher degree of judgment or complexity and are the most significant to reporting our results of operations and financial position. The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between actual and expected experience can potentially have a materially favorable or unfavorable impact on subsequent results of operations. All of our significant accounting policies are discussed in “Note 1. Summary of Significant Accounting Policies” to our audited consolidated financial statements included in this Annual Report.

Revenue Recognition

Description. We recognize revenue and the related cost of sales when we satisfy the performance obligations in contracts with our customers in accordance with Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (“Topic 606”). Our performance obligations for our retail store sales, as well as for orders placed through our website and shipped to our customers, are satisfied at the point-of-sale, which is typically the point at which the customer obtains control of the inventory. In some cases, merchandise is not physically ready for transfer to the customer at the point-of-sale, and revenue recognition is deferred until the customer has control of the inventory. Shipping and handling activities are accounted for as activities to fulfill the promise to transfer goods rather than as separate performance obligations as outlined within Topic 606. Payment is generally due from the customer immediately at the point-of-sale for both retail store sales and website sales.

Judgments and uncertainties involved in the estimate. Our customers have the right to return the goods sold to them within a reasonable time period, typically 90 days. The right of return is an element of variable consideration as defined within Topic 606. We estimate a reserve for future returns of previously sold goods based on historical experience and various other assumptions that we believe to be reasonable. Merchandise exchanges of similar product and price are not considered merchandise returns and, therefore, are excluded when calculating the sales returns reserve. While we believe that our current sales returns reserves are adequate, there can be no assurances that historical data and trends will accurately predict returns or that future developments might not lead to a significant change in the reserve.

Effect if actual results differ from assumptions. A 10% change in our sales returns reserve at December 31, 2020 would have affected operating income by approximately \$1.0 million in fiscal 2020.

Gift Cards and Merchandise Credits

Description. We sell gift cards to our customers in our stores and through our website and issue merchandise credits in our stores. We account for the programs by recognizing a liability at the time the gift card is sold or the merchandise credit is issued. The liability is relieved and revenue is recognized upon redemption. Additionally, we recognize breakage income in proportion to the pattern of rights exercised by the customer when we expect to be entitled to breakage. Net sales related to the estimated breakage are included in net sales in the Consolidated Statement of Operations and Comprehensive Income. We have an agreement with an unrelated third-party who is the issuer of the Company's gift cards and also assumes the liability for unredeemed gift cards. The Company is not subject to claims under unclaimed property statutes, as the agreement effectively transfers the ownership of such unredeemed gift cards and the related future escheatment liability, if any, to the third-party.

Judgments and uncertainties involved in the estimate. Our gift card breakage assumptions require judgments in assessing the level at which we group gift cards for analysis of breakage rates, redemption patterns, and the ultimate value of gift cards which we do not expect to be redeemed.

Effect if actual results differ from assumptions. A 10% change in our accrual for estimated gift card breakage at December 31, 2020 would have affected operating income by approximately \$0.9 million in fiscal 2020.

Loyalty Program

Description. Our Pro Premier loyalty program allows customers to earn points through purchases in our stores and our website. Loyalty points are typically awarded at 1%, but may be awarded at up to 3% percent for our higher volume customers, of the relative standalone selling price of the merchandise sold and are recognized at the time of sale as a liability with a corresponding reduction to net sales. Additionally, loyalty breakage is recognized based on our estimate of the balance of loyalty points for which the likelihood of redemption by the customer is deemed remote.

Judgments and uncertainties involved in the estimate. With assistance from the third party servicer that manages the loyalty program, we estimate and recognize loyalty breakage based on historical redemption trends, market benchmarks for the pattern of redemptions for other retail loyalty programs, and other assumptions related to the likelihood of customer redemptions.

Effect if actual results differ from assumptions. The loyalty program was rolled out to all stores in late fiscal 2018. As the program matures, we may find that actual customer redemption patterns differ significantly from our estimated breakage rates. A 10% change in our accrual for estimated loyalty breakage at December 31, 2020 would have affected operating income by less than \$0.1 million in fiscal 2020.

Inventory Valuation and Shrinkage

Description. Inventories consist of merchandise held for sale and are stated at the lower of cost or net realizable value. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recorded in cost of sales in the Consolidated Statements of Operations and Comprehensive Income as a loss in the period in which it occurs. We determine inventory costs using the moving weighted average cost method. We capitalize transportation, duties, and other costs to get product to our retail locations.

Judgments and uncertainties involved in the estimate. We provide provisions for losses related to shrinkage and other amounts that are otherwise not expected to be fully recoverable. These provisions are calculated based on historical shrinkage, selling price, margin, and current business trends. The estimates have calculations that require management to make assumptions based on the current rate of sales, age, salability and profitability of inventory, historical percentages that can be affected by changes in our merchandising mix, customer preferences, rates of sell through, and changes in actual shrinkage trends.

Effect if actual results differ from assumptions. A 10% change in our inventory valuation and shrinkage reserves at December 31, 2020 would have affected operating income by approximately \$0.5 million in fiscal 2020.

Vendor Rebates and Allowances

Description. Vendor allowances consist primarily of volume rebates that are earned as a result of reaching certain inventory purchase levels and advertising allowances or incentives for the promotion of vendors' products. These vendor allowances are accrued as earned and are estimated based on annual projections. Vendor allowances earned are initially recorded as a reduction to the carrying value of inventory and a subsequent reduction in cost of sales when the related product is sold. Certain incentive allowances that are reimbursements of specific, incremental, and identifiable costs incurred to promote vendors' products are recorded as an offset against these promotional expenses.

Judgments and uncertainties involved in the estimate. For vendor allowances, we develop accrual rates based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, we perform analyses and review historical purchase trends and volumes throughout the year, adjust accrual rates as appropriate, and confirm actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Effect if actual results differ from assumptions. We have not made any material changes in the methodology used to recognize vendor allowances during the past three fiscal years. If actual results are not consistent with the assumptions and estimates used, we could be exposed to additional adjustments that could positively or negatively impact gross margin and inventory. However, substantially all receivables associated with vendor rebates and allowances do not require subjective long-term estimates because they are collected soon after quarter end, primarily within the first two months. Adjustments to gross margin and inventory in the following fiscal year have historically not been material.

Leases

Description. We recognize lease assets and corresponding lease liabilities for all operating leases on our Consolidated Balance Sheets, excluding short-term leases (leases with terms of 12 months or less) as described under ASU No. 2016-02, "Leases (Topic 842)." The majority of our long-term operating lease agreements include options to extend, which are also factored into the recognition of their respective assets and liabilities when appropriate based on management's assessment of the probability that the options will be exercised. Lease payments are discounted using the rate implicit in the lease, or, if not readily determinable, a third-party secured incremental borrowing rate based on information available at lease commencement. The secured incremental borrowing rate is estimated based on yields obtained from Bloomberg for U.S. consumers with a BB- credit rating and is adjusted for collateralization as well as inflation. Additionally, certain of our lease agreements include escalating rents over the lease terms which, under Topic 842, results in rent being expensed on a straight-line basis over the life of the lease that commences on the date we have the right to control the property.

Judgments and uncertainties involved in the estimate. The determination of an appropriate secured incremental borrowing rate requires judgments in selecting an appropriate yield curve and estimating adjustments for collateralization and inflation.

Effect if actual results differ from assumptions. Based on the volume of new store leases that we enter into each year, a significant increase or decrease in the incremental borrowing rates used to discount lease payments could have a significant impact on the value of operating lease liabilities and right-of-use assets subsequently reported on our Consolidated Balance Sheets.

Recent Developments

On February 9, 2021 (the “Fifth Amendment Effective Date”), we entered into a fifth amendment to the Term Loan Facility which among other things, (a) provides for a supplemental term loan in an aggregate principal amount of \$65.0 million with a maturity date of February 14, 2027 (the “Supplemental Term Loan Facility”), and has the same terms as the Term Loan B Facility and (b) provides that voluntary prepayments of the Term Loan Facility made within six (6) months after the Fifth Amendment Effective Date are subject to a 1% soft call prepayment premium.

The margin applicable to the Supplemental Term Loans Facility is the same as the margin applicable to the Term Loan B Facility, which is: (x) in the case of ABR Loans (as defined in the Term Loan Facility), 1.00% per annum (subject to satisfying a leverage ratio test and subject to a leverage-based step-up to 1.25% if such leverage ratio test is exceeded), and (y) in the case of Eurodollar Loans (as defined in the Term Loan Facility), 2.00% per annum (subject to satisfying a leverage ratio test and subject to a leverage-based step-up to 2.25% if such leverage ratio test is exceeded) (subject to a 0.00% floor on Eurodollar Loans).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in foreign exchange rates, interest rates and commodity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows. In the ordinary course of business, we are primarily exposed to foreign currency, interest rate risks, and risks from the impact of inflation or deflation. The impact of the COVID-19 pandemic both in the United States and globally continues to cause uncertainty and volatility in financial markets, including interest rates and foreign currency exchange rates. The COVID-19 pandemic is expected to have a continued adverse impact on market conditions and may trigger a period of global economic slowdown for an unknown duration. See further discussion in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional details.

Foreign Currency Risk

We contract for production with third parties primarily in Asia and Europe. While substantially all of these contracts are stated in U.S. dollars, there can be no assurance that the cost for the future production of our products will not be affected by exchange rate fluctuations between the U.S. dollar and the local currencies of these contractors. Due to the number of currencies involved, we cannot quantify the potential impact of future currency fluctuations on net income or loss in future years. To date, such exchange fluctuations have not had a material impact on our financial condition or results of operations.

Interest Rate Risk

Our operating results are subject to risk from interest rate fluctuations on our Credit Facilities, which carry variable interest rates. As of December 31, 2020, our senior secured term loan facility had a remaining principal balance of \$217.8 million and was our only variable-rate debt outstanding. A 1.0% increase in the effective interest rate for this debt would cause an increase in interest expense of approximately \$2.2 million over the next twelve months. To lessen our exposure to changes in interest rate risk, we entered into two separate \$102.5 million interest rate cap agreements in November 2016 with Bank of America and Wells Fargo that capped our LIBOR at 2.0% beginning in December 2016. As of December 31, 2020, only the Wells Fargo interest rate cap was still in effect as the Bank of America interest rate cap was sold during the fiscal 2018.

Impact of Inflation/Deflation

We do not believe that inflation has had a material impact on our net sales or operating results for the past three fiscal years. However, substantial increases in costs, including the price of raw materials, labor, energy, transportation, and other inputs used in the production and distribution of our merchandise, could have a significant impact on our business and the industry in the future. Additionally, while deflation could positively impact our merchandise costs, it could have an adverse effect on our average unit retail price, resulting in lower net sales and operating results.

Commodity Price Risk

We experience inflation and deflation related to our purchase of certain commodity products. There can be no assurance that this price volatility will not affect our financial condition and/or our results of operations. In order to mitigate price volatility, we monitor commodity price fluctuations and may adjust our selling prices accordingly; however, our ability to recover higher costs through increased pricing may be limited by the competitive environment in which we operate. To date, such fluctuations have not had a material impact on our financial condition or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Floor & Decor Holdings, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Floor & Decor Holdings, Inc. and Subsidiaries (the Company) as of December 31, 2020 and December 26, 2019, the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and December 26, 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Right of use assets and lease liabilities

Description of the Matter

As discussed in Notes 1 and 9 to the consolidated financial statements, the Company recognizes lease assets and corresponding lease liabilities for all leases on the balance sheet, excluding short-term leases (leases with terms of 12 months or less) as described under Accounting Standards Codification 842 (“ASC 842”). Because most of the Company’s leases do not provide a determinable implicit rate, the Company used a third party to assist in determining its incremental borrowing rates, which were used to calculate its right-of-use assets and lease liabilities. As of December 31, 2020, the Company’s right-of-use assets were \$916.3 million and lease liabilities were \$1,035.6 million (of which \$94.5 million was current and \$941.1 million was long-term).

Auditing the Company’s right-of-use assets and lease liabilities was challenging due to the requirement that management estimate its incremental borrowing rates used in the application of ASC 842 because the Company does not have debt financing or other instruments that have directly comparable collateral or similar terms as its leased assets. Therefore, our procedures involved a high degree of subjective auditor judgment because of the significant judgments required for management to develop the estimates, including selection of an appropriate yield curve and estimating adjustments for collateralization and inflation.

How we Addressed the Matter in Our Audit

We obtained an understanding of and tested controls that address the risks of material misstatement relating to the valuation of the Company’s right-of-use assets and lease liabilities. For example, we tested controls over management’s review of the incremental borrowing rate estimates, including selection of an appropriate yield curve and adjustments for collateralization and inflation.

To test the right-of-use assets and lease liabilities recorded by the Company for new or modified leases entered into during the year ended December 31, 2020, our audit procedures included, among others, evaluating the methodology, significant assumptions and underlying data used by the Company. We involved our valuation specialists to assist in evaluating the Company’s methodology to develop the incremental borrowing rates and preparing an independent calculation of the rates, which we compared to management’s estimates.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2011.

Atlanta, Georgia

February 25, 2021

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Floor & Decor Holdings, Inc. and Subsidiaries

Opinion on Internal Control Over Financial Reporting

We have audited Floor & Decor Holdings, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Floor & Decor Holdings, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and December 26, 2019, the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 25, 2021

Floor & Decor Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

<i>in thousands, except for share and per share data</i>	As of December 31, 2020	As of December 26, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 307,772	\$ 27,037
Income taxes receivable	—	2,868
Receivables, net	50,427	69,301
Inventories, net	654,000	581,865
Prepaid expenses and other current assets	28,257	20,415
Total current assets	1,040,456	701,486
Fixed assets, net	579,359	456,289
Right-of-use assets	916,325	822,256
Intangible assets, net	109,269	109,299
Goodwill	227,447	227,447
Other assets	7,569	7,532
Total long-term assets	1,839,969	1,622,823
Total assets	\$ 2,880,425	\$ 2,324,309
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of term loan	\$ 1,647	\$ —
Current portion of lease liabilities	94,502	74,592
Trade accounts payable	417,898	368,459
Accrued expenses and other current liabilities	162,283	102,807
Income taxes payable	12,391	—
Deferred revenue	10,115	6,683
Total current liabilities	698,836	552,541
Term loans	207,157	142,606
Lease liabilities	941,125	844,269
Deferred income tax liabilities, net	27,990	18,378
Other liabilities	7,929	2,179
Total long-term liabilities	1,184,201	1,007,432
Total liabilities	1,883,037	1,559,973
Commitments and Contingencies (Note 9)		
Stockholders' equity		
Capital stock:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2020 and December 26, 2019	—	—
Common stock Class A, \$0.001 par value; 450,000,000 shares authorized; 104,368,212 shares issued and outstanding at December 31, 2020 and 101,457,858 issued and outstanding at December 26, 2019	104	101
Common stock Class B, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2020 and December 26, 2019	—	—
Common stock Class C, \$0.001 par value; 30,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2020 and December 26, 2019	—	—
Additional paid-in capital	408,124	370,413
Accumulated other comprehensive income (loss), net	164	(193)
Retained earnings	588,996	394,015
Total stockholders' equity	997,388	764,336
Total liabilities and stockholders' equity	\$ 2,880,425	\$ 2,324,309

See accompanying notes to consolidated financial statements.

Floor & Decor Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income

<i>in thousands, except for per share data</i>	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019	Fiscal Year Ended December 27, 2018
Net sales	\$ 2,425,788	\$ 2,045,456	\$ 1,709,848
Cost of sales	1,390,896	1,182,442	1,007,580
Gross profit	1,034,892	863,014	702,268
Operating expenses:			
Selling and store operating	654,100	546,853	439,495
General and administrative	144,715	132,386	105,327
Pre-opening	21,498	24,594	26,145
Total operating expenses	820,313	703,833	570,967
Operating income	214,579	159,181	131,301
Interest expense, net	8,389	8,801	8,917
Gain on early extinguishment of debt	(1,015)	—	—
Income before income taxes	207,205	150,380	122,384
Provision (benefit) for income taxes	12,224	(251)	6,197
Net income	\$ 194,981	\$ 150,631	\$ 116,187
Change in fair value of hedge instruments, net of tax	357	(379)	391
Total comprehensive income	\$ 195,338	\$ 150,252	\$ 116,578
Basic earnings per share	\$ 1.90	\$ 1.51	\$ 1.20
Diluted earnings per share	\$ 1.84	\$ 1.44	\$ 1.11

See accompanying notes to consolidated financial statements.

Floor & Decor Holdings, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

<i>in thousands</i>	Common Stock Class A		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance, December 28, 2017	95,509	\$ 96	\$ 323,419	\$ (205)	\$ 119,550	\$ 442,860
Stock-based compensation expense	—	—	6,514	—	—	6,514
Exercise of stock options	2,069	2	10,529	—	—	10,531
Issuance of restricted stock awards	10	—	—	—	—	—
Cumulative effect from adoption of ASU No. 2014-09	—	—	—	—	7,826	7,826
Other comprehensive gain, net of tax	—	—	—	391	—	391
Net income	—	—	—	—	116,187	116,187
Balance, December 27, 2018	97,588	98	340,462	186	243,563	584,309
Stock-based compensation expense	—	—	8,711	—	—	8,711
Exercise of stock options	3,741	3	18,795	—	—	18,798
Issuance of restricted stock awards	24	—	—	—	—	—
Shares issued under employee stock plans	105	—	2,445	—	—	2,445
Cumulative effect from adoption of ASU No. 2016-02	—	—	—	—	(179)	(179)
Other comprehensive loss, net of tax	—	—	—	(379)	—	(379)
Net income	—	—	—	—	150,631	150,631
Balance, December 26, 2019	101,458	101	370,413	(193)	394,015	764,336
Stock-based compensation expense	—	—	16,115	—	—	16,115
Exercise of stock options	2,485	2	19,252	—	—	19,254
Issuance of restricted stock awards	369	1	—	—	—	1
Shares issued under employee stock plans	56	—	2,344	—	—	2,344
Other comprehensive gain, net of tax	—	—	—	357	—	357
Net income	—	—	—	—	194,981	194,981
Balance, December 31, 2020	<u>104,368</u>	<u>\$ 104</u>	<u>\$ 408,124</u>	<u>\$ 164</u>	<u>\$ 588,996</u>	<u>\$ 997,388</u>

See accompanying notes to consolidated financial statements.

Floor & Decor Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

<i>in thousands</i>	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019	Fiscal Year Ended December 27, 2018
Operating activities			
Net income	\$ 194,981	\$ 150,631	\$ 116,187
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	91,640	74,001	51,992
Gain on early extinguishment of debt	(1,015)	—	—
Loss on asset impairments and disposals, net	14	4,111	23
Amortization of tenant improvement allowances	—	—	(4,494)
Operating lease termination	—	1,926	—
Deferred income taxes	9,614	(10,584)	(968)
Interest cap derivative contracts	372	446	(212)
Stock-based compensation expense	16,115	8,711	6,514
Changes in operating assets and liabilities:			
Receivables, net	18,874	(17,850)	(13,486)
Inventories, net	(72,135)	(110,851)	(53,557)
Trade accounts payable	49,439	54,956	54,773
Accrued expenses and other current liabilities	59,017	20,744	(1,731)
Income taxes	15,264	3,894	6,221
Deferred revenue	3,432	1,439	3,002
Deferred rent	—	—	14,455
Tenant improvement allowances	—	—	15,010
Other, net	20,552	23,084	(8,105)
Net cash provided by operating activities	406,164	204,658	185,624
Investing activities			
Purchases of fixed assets	(212,448)	(196,008)	(151,397)
Net cash used in investing activities	(212,448)	(196,008)	(151,397)
Financing activities			
Borrowings on revolving line of credit	275,000	100,100	217,050
Payments on revolving line of credit	(275,000)	(100,100)	(258,050)
Proceeds from term loans	75,000	—	—
Payments on term loans	(2,697)	(3,500)	(3,500)
Proceeds from exercise of stock options	19,254	18,798	10,531
Debt issuance costs	(6,882)	—	(170)
Proceeds from employee stock purchase plan	2,344	2,445	—
Net cash provided by (used in) financing activities	87,019	17,743	(34,139)
Net increase in cash and cash equivalents	280,735	26,393	88
Cash and cash equivalents, beginning of the period	27,037	644	556
Cash and cash equivalents, end of the period	\$ 307,772	\$ 27,037	\$ 644
Supplemental disclosures of cash flow information			
Buildings and equipment acquired under operating leases	\$ 177,932	\$ 277,392	\$ —
Cash paid for interest, net of capitalized interest	\$ 8,043	\$ 7,388	\$ 7,563
Cash paid for income taxes, net of refunds	\$ 12,670	\$ 6,453	\$ 1,082
Fixed assets accrued at the end of the period	\$ 19,987	\$ 19,527	\$ 15,120

See accompanying notes to consolidated financial statements.

Floor & Decor Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2020

1. Summary of Significant Accounting Policies

Nature of Business

Floor & Decor Holdings, Inc. (f/k/a FDO Holdings, Inc.), together with its subsidiaries (the “Company,” “we,” “our” or “us”) is a highly differentiated, rapidly growing specialty retailer of hard surface flooring and related accessories. We offer a broad in-stock assortment of tile, wood, laminate, vinyl, and natural stone flooring along with decorative and installation accessories at everyday low prices. Our stores appeal to a variety of customers, including professional installers and commercial businesses (“Pro”), Do It Yourself customers (“DIY”), and customers who buy the products for professional installation (“Buy it Yourself” or “BIY”). We operate within one reportable segment.

As of December 31, 2020, the Company, through its wholly owned subsidiary, Floor and Decor Outlets of America, Inc. (“F&D”), operates 133 warehouse-format stores, which average 78,000 square feet, and two small-format standalone design studios in 31 states, as well as four distribution centers and an e-commerce site, *FloorandDecor.com*.

Fiscal Year

The Company’s fiscal year is the 52- or 53-week period ending on the Thursday on or preceding December 31st. The fiscal year ended December 31, 2020 (fiscal “2020”) includes 53 weeks, while the fiscal years ended December 26, 2019 (“fiscal 2019”) and December 27, 2018 (“fiscal 2018”) include 52 weeks. When a 53-week fiscal year occurs, we report the additional week at the end of the fiscal fourth quarter. 52-week fiscal years consist of thirteen-week periods in the first, second, third, and fourth quarters of the fiscal year. The 53-week fiscal year consists of thirteen-week periods in the first, second, and third quarters of the fiscal year and a fourteen-week period in the fourth quarter of the fiscal year.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

Impact of the COVID-19 Pandemic

On March 11, 2020, the World Health Organization announced that infections of the coronavirus (COVID-19) had become a pandemic, and on March 13, 2020, the President of the United States announced a National Emergency relating to the COVID-19 pandemic. While the full impact that the COVID-19 pandemic could have on the Company's business remains highly uncertain, it had a material negative impact on the Company's operations and financial results during the first half of fiscal 2020. The following summarizes certain actions taken and impacts from the COVID-19 pandemic during and subsequent to the fiscal year ended December 31, 2020:

- Beginning in late March 2020, for the health and safety of its customers and employees, the Company temporarily closed some of its stores and shifted its remaining stores to a curbside pickup model. Under this model, customers were not allowed to enter the Company's stores, resulting in a significant decline in sales compared to the same period of the prior year.
- In May 2020, the Company began a phased approach to reopening its stores for in-store shopping with enhanced safety and sanitation measures such as requiring associates to wear face masks, installing social distancing markers on floors and protective shields at cash registers, and regularly sanitizing shopping carts, pin pads, design desks, and other high-traffic areas. By the end of the second quarter of fiscal 2020, all of the Company's stores were reopened for in-store shopping and have remained open other than for temporary cleaning or in response to certain weather events. Sales have recovered since reopening stores, with third and fourth quarter fiscal 2020 sales higher than in the same periods of the prior year.
- To provide additional liquidity in response to the business uncertainties resulting from the evolving COVID-19 pandemic, the Company entered into a \$5.0 million incremental term loan on May 18, 2020. See Note 10, "Debt" for additional information.

- In response to the impact and uncertainties caused by the COVID-19 pandemic, the Company initially implemented a number of measures to minimize cash outlays, including lowering inventory purchases and related supply chain costs to align with reduced sales, temporarily reducing compensation for all executive officers and most employees, temporarily freezing new hiring, reducing or eliminating non-essential spending, reducing advertising spending, furloughing certain employees, and delaying or reducing rent payments and planned capital expenditures, including new store investments. Since the Company began to reopen stores for in-store shopping starting in May, many of these cost saving measures have been eliminated or relaxed as the Company's financial results have improved.
- On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted, which includes provisions related to income taxes, the temporary deferral of the employer portion of social security taxes, and retention credits for 50% of eligible wages and health benefits paid to employees not providing services due to the COVID-19 pandemic. Refer to Note 6, "Income Taxes" for additional information.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of the pandemic on the Company's business and financial results will depend on future developments, including the duration of the pandemic and the spread of COVID-19 within the markets in which the Company operates as well as the related impact on consumer confidence and spending, all of which are highly uncertain.

Reclassifications

Within the Consolidated Statements of Cash Flows, prior period amounts for "other assets" and "other" have been combined and reclassified to the "other, net" line item to conform to the current period presentation.

Cash and Cash Equivalents

Cash consists of currency and demand deposits with banks.

Receivables

Receivables consist primarily of amounts due from credit card companies and receivables from vendors. The Company typically collects its credit card receivables within three to five business days of the underlying sale to the customer. The Company has agreements with a majority of its large merchandise vendors that allow for specified rebates based on purchasing volume. Generally, these agreements are on an annual basis, and beginning in fiscal 2020, the Company collects the majority rebates earned each quarter subsequent to quarter end. In prior years, rebates earned during the fiscal year were primarily collected annually after the Company's fiscal year-end. Additionally, the Company has agreements with substantially all vendors that allow for the return of certain merchandise throughout the normal course of business. When inventory is identified to return to a vendor, it is removed from inventory and recorded as a receivable on the Consolidated Balance Sheet, and any variance between capitalized inventory cost associated with the return and the expected vendor reimbursement is expensed in Cost of sales in the Consolidated Statement of Income when the inventory is identified to be returned to the vendor. The Company reserves for estimated uncollected receivables based on historical trends, which historically have been immaterial. The allowance for doubtful accounts was \$0.3 million as of December 31, 2020 and December 26, 2019, respectively.

On November 7, 2019, the U.S. Trade Representative ("USTR") made a ruling to grant exclusions from Section 301 tariffs for select types of flooring products imported from China, including certain "click" vinyl and engineered products that the Company has sold and continues to sell. The Section 301 tariffs from which these goods are now excluded were implemented at 10% beginning in September 2018 and increased to 25% in June 2019. In addition, on November 20, 2019, U.S. Customs and Border Protection ("U.S. Customs") issued Chapter 99 exclusions for each unique article number identified under the November 7, 2019 USTR ruling. During fiscal 2020, additional Chapter 99 exclusions were issued for certain Bamboo and other flooring products imported from China. For the Company, some of the granted exclusions apply retroactively to tariffs paid as early as September 2018.

While tariff refund claims are subject to the approval of U.S. Customs, the Company currently expects to recover a total of \$24.3 million related to Section 301 tariff payments, of which \$12.9 million was received in fiscal 2020. As of December 31, 2020 and December 26, 2019, receivables included \$1.4 million and 19.3 million of expected tariff refunds from U.S. Customs. The tariff refund receivables outstanding as of December 31, 2020 are expected to be received during fiscal 2021.

During fiscal 2020, the Company recognized a \$4.5 million reduction to cost of sales and \$0.6 million of interest income related to tariff refunds. Interest accrues from the date that tariff payments were originally made through the date that such payments are refunded to the Company.

Of the \$19.3 million of expected tariff recoveries expected as of December 26, 2019, the Company recognized a \$4.0 million reduction to cost of sales related to tariff refunds during the fourth quarter of fiscal 2019. This reduction to cost of sales included \$11.0 million for products that had already been sold as of the date U.S. Customs issued Chapter 99 exclusions on November 20, 2019 and \$3.0 million related to products sold after November 20, 2019 through the end of fiscal 2019. In addition, the Company recognized a \$5.0 million reduction to the carrying cost of inventory as of December 26, 2019 for tariff refunds related to merchandise on hand. Approximately \$0.3 million of interest income was also recognized in fiscal 2019 related to anticipated tariff recoveries.

Credit Program

Credit is offered to the Company's customers through a proprietary credit card underwritten by third-party financial institutions at no recourse to the Company. Beginning in fiscal 2018, the Company began offering limited credit to its commercial clients. The total exposure at the end of fiscal 2020 and fiscal 2019 was \$1.2 million and \$1.0 million, respectively.

Inventory Valuation and Shrinkage

Inventories consist of merchandise held for sale and are stated at the lower of cost or net realizable value. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recorded in cost of sales in the Consolidated Statements of Operations and Comprehensive Income as a loss in the period in which it occurs. The Company determines inventory costs using the moving weighted average cost method. The Company capitalizes transportation, duties, and other costs to get product to its retail locations. The Company records reserves for estimated losses related to shrinkage and other amounts that are otherwise not expected to be fully recoverable. These reserves are calculated based on historical shrinkage, selling price, margin, and current business trends. The estimates have calculations that require management to make assumptions based on the current rate of sales, age, salability, and profitability of inventory, historical percentages that can be affected by changes in the Company's merchandising mix, customer preferences, and changes in actual shrinkage trends. These reserves totaled \$5,434 thousand and \$4,468 thousand as of December 31, 2020 and December 26, 2019, respectively.

Physical inventory counts and cycle counts are performed on a regular basis in each store and distribution center to ensure that amounts reflected in the accompanying Consolidated Balance Sheets are properly stated. During the period between physical inventory counts in our stores, the Company accrues for estimated losses related to shrinkage on a store-by-store basis. Shrinkage is the difference between the recorded amount of inventory and the physical inventory. Shrinkage may occur due to theft or loss, among other things.

Fixed Assets

Fixed assets consist primarily of furniture, fixtures, and equipment, leasehold improvements (including those that are reimbursed by landlords as tenant improvement allowances), buildings and building improvements, computer software and hardware, and land. Fixed assets are stated at cost less accumulated depreciation utilizing the straight-line method over the assets' estimated useful lives. The Company capitalizes interest on borrowings during the active construction period of certain capital projects.

Leasehold improvements are amortized using the straight-line method over the shorter of (i) the original term of the lease, (ii) renewal term of the lease if the renewal is reasonably certain or (iii) the useful life of the improvement. The Company's fixed assets are depreciated using the following estimated useful lives:

	Useful Life
Furniture, fixtures and equipment	2 - 7 years
Leasehold improvements	10 - 25 years
Buildings and building improvements	10 - 40 years
Computer software and hardware	3 - 7 years
Land	Indefinite

The cost and related accumulated depreciation of assets sold or otherwise disposed are removed from the accounts, and the related gain or loss is reported in the Consolidated Statements of Operations and Comprehensive Income.

Capitalized Software Costs

The Company capitalizes certain costs related to the acquisition and development of software and amortizes these costs using the straight-line method over the estimated useful life of the software. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Company does not amortize goodwill and other intangible assets with indefinite lives resulting from business combinations but, in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350, *Intangibles—Goodwill and Other*, does assess the recoverability of goodwill annually in the fourth quarter of each fiscal year, or more often if events occur or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Such circumstances could include, but are not limited to, a significant adverse change in customer demand or business climate or an adverse action or assessment by a regulator. In accordance with ASC 350, identifiable intangible assets with finite lives are amortized over their estimated useful lives. Each year, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of the single reporting unit is less than its carrying amount as a basis for determining whether it is necessary to complete quantitative impairment assessments.

Impairment Assessment of Goodwill and Other Indefinite-Lived Intangible Assets

The Company tests goodwill and indefinite-lived intangible assets for impairment annually in the fourth quarter of each fiscal year, or more often if events occur or changes in circumstances indicate that the carrying amount of goodwill or indefinite-lived intangible assets may not be recoverable. We assess the value of our goodwill and indefinite-lived intangible assets under either a qualitative or quantitative approach. Under a qualitative approach, the Company evaluates various market and other factors to determine whether it is more likely than not that the Company’s goodwill or indefinite-lived intangible assets have been impaired. In performing the qualitative assessment, the Company considers the carrying value of its single reporting unit compared to its fair value as well as events and changes in circumstances that could include, but are not limited to, a significant adverse change in customer demand or business climate, an adverse action or assessment by a regulator, and significant adverse changes in the price of the Company’s common stock. If such qualitative assessment indicates that impairment may have occurred, an additional quantitative assessment is performed by comparing the carrying value of the assets to their respective estimated fair values. If the recorded carrying value of goodwill or an indefinite-lived intangible asset exceeds its estimated fair value, an impairment charge is recorded to write the asset down to its estimated fair value.

During the fourth quarter of fiscal 2020, the Company qualitatively assessed whether it was more likely than not that the goodwill and indefinite-lived intangible assets were impaired. Based on this assessment, the Company determined that its goodwill and indefinite-lived intangible assets were not impaired as of October 22, 2020. No events or changes in circumstances have occurred since the date of the Company’s most recent annual impairment test that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The estimated lives of the Company’s intangible assets are as follows:

	<u>Useful Life</u>
Trade names	Indefinite
Vendor relationships	10 years

The Company’s goodwill and other indefinite-lived intangible assets impairment loss calculations contain uncertainties because they require management to make significant judgments in estimating the fair value of the Company’s reporting unit and indefinite-lived intangible asset, including the projection of future cash flows, assumptions about which market participants are the most comparable, the selection of discount rates, and the weighting of the income and market approaches. These calculations contain uncertainties because they require management to make assumptions such as estimating economic factors, including the profitability of future business operations and, if necessary, the fair value of the reporting unit’s assets and liabilities. Further, the Company’s ability to realize the future cash flows used in its fair value calculations is affected by factors such as changes in economic conditions, changes in the Company’s operating performance, and changes in the Company’s business strategies. Significant changes in any of the assumptions involved in calculating these estimates could affect the estimated fair value of the Company’s reporting unit and indefinite-lived intangible assets and could result in impairment charges in a future period.

Long-Lived Assets

Long-lived assets, such as fixed assets, operating lease right-of-use assets, and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset, significant changes or planned changes in our use of an asset, a product recall, or an adverse action by a regulator. In accordance with ASC 360, the evaluation is performed at the lowest level for which identifiable cash flows are available that are largely independent of the cash flows of other assets or asset groups. If the sum of the estimated undiscounted future cash flows is less than the carrying value of the related asset or asset group, an impairment loss is recognized equal to the difference between carrying value and fair value.

Since there is typically no active market for the Company's definite-lived intangible asset, the Company estimates fair value based on expected future cash flows at the time they are identified. When events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, the Company estimates future cash flows based on store-level historical results, current trends, and operating and cash flow projections. The definite-lived intangible asset is amortized over its estimated useful life on a straight-line basis, which the Company believes to be the amortization methodology that best matches the pattern of economic benefit that is expected from the asset. The useful life of the definite-lived intangible asset is evaluated on an annual basis.

Leases

The Company recognizes lease assets and corresponding lease liabilities for all operating leases on the balance sheet, excluding short-term leases (leases with terms of 12 months or less) as described under ASU No. 2016-2, "Leases (Topic 842)." The majority of our long-term operating lease agreements include options to extend, which are also factored into the recognition of their respective assets and liabilities when appropriate based on management's assessment of the probability that the options will be exercised. Lease payments are discounted using the rate implicit in the lease, or, if not readily determinable, a third-party secured incremental borrowing rate based on information available at lease commencement. The secured incremental borrowing rate is estimated based on yields obtained from Bloomberg for U.S. consumers with a BB-credit rating and is adjusted for collateralization as well as inflation. Additionally, certain of our lease agreements include escalating rents over the lease terms which, under Topic 842, results in rent being expensed on a straight-line basis over the life of the lease that commences on the date we have the right to control the property.

During fiscal 2020, the Company negotiated rent deferrals or abatements for a significant number of its stores due to the impact of the COVID-19 pandemic. The Company has also delayed rent payments for some stores as negotiations are in process with landlords. Total payments delayed or deferred as of December 31, 2020 were approximately \$5.5 million, of which \$4.5 million was included in the current portion of lease liabilities and \$1.0 million was included in lease liabilities on the Consolidated Balance Sheets.

In accordance with FASB Staff Q&A - Topic 842: *'Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic'* issued in April 2020, the Company has elected to account for lease concessions that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee as though enforceable rights and obligations for those concessions existed in the original lease agreements. For qualified rent deferrals, the Company has recognized a non-interest bearing accrued liability, which will be reduced when the deferred payment is made in the future. For qualifying rent abatement concessions, which are immaterial in aggregate, the Company is recognizing negative lease expense for the amount of the abatement on a straight-line basis over the term of the lease. During fiscal 2020, the Company recognized approximately \$0.1 million of negative lease expense related to rent abatement concessions.

Self-Insurance Reserves

The Company is partially self-insured for workers' compensation and general liability claims less than certain dollar amounts and maintains insurance coverage with individual and aggregate limits. The Company also has a basket aggregate limit to protect against losses exceeding \$11.0 million (subject to adjustment and certain exclusions) for workers' compensation claims and general liability claims. The Company's liabilities represent estimates of the ultimate cost for claims incurred, including loss adjusting expenses, as of the balance sheet date. The estimated liabilities are not discounted and are established based upon analysis of historical data, actuarial estimates, regulatory requirements, an estimate of claims incurred but not yet reported, and other relevant factors. Management utilizes independent third-party actuarial studies to help assess the liability on a regular basis.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Asset Retirement Obligations

An asset retirement obligation ("ARO") represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development or normal operation of that long-lived asset. The Company's AROs are primarily associated with leasehold improvements that, at the end of a lease, the Company is contractually obligated to remove in order to comply with certain lease agreements. The ARO is recorded in Other long-term liabilities on the Consolidated Balance Sheets and will be subsequently adjusted for changes in fair value. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

Changes in (i) inflation rates and (ii) the estimated costs, timing and extent of future store closure activities each result in (a) a current adjustment to the recorded liability and related asset and (b) a change in the liability and asset amounts to be recorded prospectively. Any changes related to the assets are then recognized in accordance with our depreciation policy, which would generally result in depreciation expense being recognized prospectively over the shorter of the remaining lease term or estimated useful life.

Fair Value Measurements

The Company estimates fair values in accordance with ASC 820, *Fair Value Measurement*. ASC 820 provides a framework for measuring fair value and requires disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Additionally, ASC 820 defines levels within a hierarchy based upon observable and non-observable inputs. If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the overall fair value measurement of the instrument.

- Level 1: Quoted prices in active markets for identical assets or liabilities as of the reporting date;
- Level 2: Inputs other than quoted prices in active markets for identical assets or liabilities that are either directly or indirectly observable as of the reporting date; and
- Level 3: Unobservable inputs that reflect the reporting entity's own estimates about the assumptions market participants would use in pricing the asset or liability.

Derivative Financial Instruments

The Company uses derivative financial instruments to maintain a portion of its long-term debt obligations at a targeted balance of fixed and variable interest rate debt to manage its risk associated with fluctuations in interest rates. We recognize derivative contracts at fair value on the Consolidated Balance Sheets. The fair value is calculated utilizing Level 2 inputs. Unrealized changes in the fair value of hedged derivative instruments are recorded in accumulated other comprehensive (loss) income within the stockholders' equity section of the Consolidated Balance Sheets.

The effective portion of the gain or loss on the derivatives is reported as a component of comprehensive income within the Consolidated Statements of Operations and Comprehensive Income and reclassified into earnings in the same period in which the hedged transaction affects earnings. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent changes in fair values of the instruments are not highly effective, the ineffective portion of the hedge is immediately recognized in earnings.

We perform an assessment of the effectiveness of our derivative contracts designated as hedges, including assessing the possibility of counterparty default. If we determine that a derivative is no longer expected to be highly effective, we discontinue hedge accounting prospectively and recognize subsequent changes in the fair value of the hedge in earnings. We believe our derivative contracts, which continue to be designated as cash flow hedges, and which consist of interest rate cap contracts, will continue to be highly effective in offsetting changes in cash flow attributable to floating interest rate risk. See Note 8 "Derivatives and Risk Management" for additional information.

Use of Estimates

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amounts of fixed assets and intangibles, asset retirement obligations, allowances for accounts receivable and inventories, reserves for workers' compensation and general liability claims incurred but not reported, and deferred income tax assets and liabilities. Actual results could differ from these estimates.

Revenue Recognition

As of the beginning of fiscal 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-9, "Revenue from Contracts with Customers" ("Topic 606") using the modified retrospective transition method which requires that we recognize revenue differently pre- and post-adoption (see "Recent Accounting Pronouncements" for additional information).

We recognize revenue and the related cost of sales when we satisfy the performance obligations in contracts with our customers in accordance with Topic 606. Performance obligations for our retail store sales, as well as for orders placed through our website and shipped to our customers, are satisfied at the point at which the customer obtains control of the inventory, which is typically at the point-of-sale. In some cases, merchandise is not physically ready for transfer to the customer at the point-of-sale, and revenue recognition is deferred until the customer has control of the inventory. Shipping and handling activities are accounted for as activities to fulfill the promise to transfer goods rather than as separate performance obligations as outlined within Topic 606. Payment is generally due from the customer immediately at the point-of-sale for both retail store sales and website sales. The nature of the goods offered include hard surface flooring and related accessories. We do not perform installation services, and we offer free design services in-store. The transaction price recognized in revenues represents the selling price of the products offered. Sales taxes collected are not recognized as revenue as these amounts are ultimately remitted to the appropriate taxing authorities.

Our customers have the right to return the goods sold to them within a reasonable time period, typically 90 days. The right of return is an element of variable consideration as defined within Topic 606. We reserve for future returns of previously sold goods based on historical experience and various other assumptions that we believe to be reasonable. This reserve reduces sales and cost of sales as well as establishes a return asset and refund liability as defined with Topic 606. The return asset is included within prepaid expenses and other current assets, and the refund liability is included within accrued expenses and other current liabilities, each respectively on the Consolidated Balance Sheets. Merchandise exchanges of similar product and price are not considered merchandise returns and, therefore, are excluded when calculating the sales returns reserve.

Gift Cards and Merchandise Credits

We sell gift cards to our customers in our stores and through our website and issue merchandise credits in our stores. We account for the programs by recognizing a liability at the time the gift card is sold or the merchandise credit is issued. The liability is relieved and revenue is recognized upon redemption. Additionally, we recognize breakage income in proportion to the pattern of rights exercised by the customer when we expect to be entitled to breakage. Net sales related to the estimated breakage are included in net sales in the Consolidated Statements of Operations and Comprehensive Income. We have an agreement with an unrelated third-party who is the issuer of the Company's gift cards and also assumes the liability for unredeemed gift cards. The Company is not subject to claims under unclaimed property statutes, as the agreement effectively transfers the ownership of such unredeemed gift cards and the related future escheatment liability, if any, to the third-party. Gift card breakage is recognized based upon historical redemption patterns and represents the balance of gift cards for which the Company believes the likelihood of redemption by the customer is remote. Accordingly, in fiscal 2020, fiscal 2019, and fiscal 2018 gift card breakage income of \$1.5 million, \$1.2 million, and \$1.6 million was recognized in net sales in the Consolidated Statements of Operations and Comprehensive Income, respectively, for such unredeemed gift cards.

Loyalty Program

We completed the roll out of our Pro Premier loyalty program to all stores in the second half of fiscal 2019, which allows customers to earn points through purchases in our stores and our website. Loyalty points are typically awarded at one percent of the relative standalone selling price of the merchandise sold and are recognized at the time of sale as a liability with a corresponding reduction to net sales. Additionally, loyalty breakage is recognized based on the Company's estimate of the balance of loyalty points for which the likelihood of redemption by the customer is deemed remote. This estimate is determined with assistance from the third party servicer that manages the loyalty program and is based on the Company's historical redemption trends, market benchmarks for the pattern of redemptions for other retail loyalty programs, and other assumptions related to the likelihood of customer redemptions. We are continuously monitoring redemption patterns and will adjust this rate, as necessary, as the program matures. In fiscal years 2020, 2019, and 2018 loyalty breakage of \$1.4 million, \$1.1 million, and \$0.4 million respectively, was recognized as net sales in the Consolidated Statements of Operations and Comprehensive Income.

Sales Returns and Allowances

The Company accrues for estimated sales returns based on historical results. The allowance for sales returns at December 31, 2020 and December 26, 2019, was \$2.3 million and \$15.4 million, respectively.

Cost of Sales

Cost of sales consists of merchandise costs as well as freight, duty, and other costs to transport inventory to our distribution centers and stores. Cost of sales also includes costs for shrinkage, damaged product disposals, distribution, warehousing, sourcing, compliance, and arranging and paying for freight to deliver products to customers. The Company receives cash consideration from certain vendors related to vendor allowances and volume rebates, which is recorded as a reduction to the carrying value of inventory if the inventory is on hand and a reduction to cost of sales when the inventory is sold.

Vendor Rebates and Allowances

Vendor allowances consist primarily of volume rebates that are earned as a result of attaining certain inventory purchase levels and advertising allowances or incentives for the promotion of vendors' products. These vendor allowances are accrued as earned and are estimated based on annual projections.

Vendor allowances earned are initially recorded as a reduction to the carrying value of inventory and a subsequent reduction in cost of sales when the related product is sold. Certain incentive allowances that are reimbursements of specific, incremental, and identifiable costs incurred to promote vendors' products are recorded as an offset against these promotional expenses.

Total Operating Expenses

Total operating expenses consist primarily of store and administrative personnel wages and benefits, infrastructure expenses, supplies, fixed asset depreciation, store and corporate facility expenses, pre-opening costs, training costs, and advertising costs. Credit card fees, insurance, personal property taxes, legal expenses, and other miscellaneous operating costs are also included.

Advertising Expenses

The Company expenses advertising costs as the advertising takes place. Advertising costs incurred during the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018 were \$66.6 million, \$65.7 million, and \$55.3 million, respectively, and are included in selling and store operating expenses and pre-opening expenses in the accompanying Consolidated Statements of Operations and Comprehensive Income.

Pre-Opening Expenses

The Company accounts for non-capital operating expenditures incurred prior to opening a new store as "pre-opening" expenses in its Consolidated Statements of Operations and Comprehensive Income. The Company's pre-opening expenses begin on average three months to one year in advance of a store opening or relocating due to, among other things, the amount of time it takes to prepare a store for its grand opening. Pre-opening expenses primarily include: advertising, rent, staff training, staff recruiting, utilities, personnel, and equipment rental. A store is considered to be relocated if it is closed temporarily and re-opened within the same primary trade area. Pre-opening expenses for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018, totaled \$21.5 million, \$24.6 million, and \$26.1 million, respectively.

Stock-Based Compensation

The Company accounts for employee stock options, restricted stock, and employee stock purchase plans in accordance with ASC 718, *Compensation – Stock Compensation*. The Company obtains independent third-party valuation studies to assist with determining the grant date fair value of our stock price. Stock options are granted with exercise prices equal to or greater than the fair market value on the date of grant as authorized by the board of directors or compensation committee. Options granted have vesting provisions ranging from one year to five years. Stock option grants are generally subject to forfeiture if employment terminates prior to vesting. The Company has selected the Black-Scholes-Merton option pricing model for estimating the grant date fair value of stock option awards granted. The Company bases the risk-free interest rate on the yield of a zero coupon U.S. Treasury security with a maturity equal to the expected life of the option from the date of the grant. The Company estimates the dividend yield to be zero as the Company does not intend to pay dividends in the future. The Company estimates the volatility of the share price of its common stock by considering the historical volatility of the stock of similar public entities. The Company considers a number of factors in determining the appropriateness of the public entities included in the volatility assumption, including the entity's life cycle stage, growth profile, size, financial leverage, and products offered. Stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period based on the number of years for which the requisite service is expected to be rendered.

Income Taxes

The Company accounts for income taxes under the liability method in accordance with ASC 740, *Income Taxes*, which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in the period that includes the enactment date of such a change.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the associated temporary differences became deductible. On a quarterly basis, the Company evaluates whether it is more likely than not that its deferred tax assets will be realized in the future and concludes whether a valuation allowance must be established.

The Company includes any estimated interest and penalties on tax-related matters in income taxes payable and income tax expense. The Company accounts for uncertain tax positions in accordance with ASC 740. ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements using a two-step process for evaluating tax positions taken, or expected to be taken, on a tax return. The Company may only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. In addition, the Company recognizes a loss contingency for uncertain tax positions when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Amounts recognized for uncertain tax positions require that management make estimates and judgments based on provisions of the tax law, which may be subject to change or varying interpretations. The Company includes estimated interest and penalties related to uncertain tax position accruals within accrued expenses and other current liabilities in the condensed Consolidated Balance Sheets and within income tax expense in the condensed Consolidated Statements of Operations and Comprehensive Income.

Segments

The Company operates as a specialty retailer of hard surface flooring and related accessories through retail stores located in the United States and through its website. Operating segments are defined as components of an entity for which discrete financial information is available and that is regularly reviewed by the chief operating decision maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's CODM is its Chief Executive Officer. The Company has determined that it has one operating segment and one reportable segment as the CODM reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. In addition, the Company concluded that economic and operating characteristics are similar across its retail operations, including the net sales, gross profit and gross margin, and operating income of its retail stores as well as the product offerings, marketing initiatives, operating procedures, store layouts, employee incentive programs, customers, methods of distribution, competitive and operating risks, and the level of shared resources across the business.

Recently Adopted Accounting Pronouncements

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which modifies the measurement approach for credit losses on financial assets measured on an amortized cost basis from an 'incurred loss' method to an 'expected loss' method. The amended guidance requires the measurement of expected credit losses to be based on relevant information, including historical experience, current conditions, and a reasonable and supportable forecast that affects the collectability of the related financial asset. The adoption of ASU No. 2016-13 in the first quarter of fiscal 2020 did not have a material impact on the Company's consolidated financial statements.

Implementation Costs Incurred in Cloud Computing Arrangements. In August 2018, the FASB issued ASU No. 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." ASU No. 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. In the first quarter of fiscal 2020, the Company adopted ASU No. 2018-15 on a prospective basis for implementation costs for new or existing arrangements incurred on or after the adoption date. The adoption of ASU No. 2018-15 did not have a material impact on the Company's consolidated financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-2, "Leases (Topic 842)." ASU No. 2016-2 requires that lessees recognize lease assets and lease liabilities on the balance sheet with an option to exclude short-term leases (leases with terms of 12 months or less). The guidance also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. We adopted ASU No. 2016-2 in the first quarter of fiscal 2019 using the modified retrospective approach. The cumulative effect adjustment upon adoption resulted in a \$0.2 million opening balance sheet reduction to retained earnings. The adoption of ASU No. 2016-2 had a material impact on the Company's Consolidated Balance Sheets but did not have a material impact on the Company's Consolidated Statements of Operations and Comprehensive Income or Consolidated Statements of Cash Flows. See Note 9, "Commitments and Contingencies," for additional information related to the Company's leases.

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-9, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-9 provides new guidance related to the core principle that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for those goods or services provided. We adopted this standard in the first quarter of fiscal 2018 using the modified retrospective approach, effective December 29, 2017. The cumulative adjustment upon adoption primarily resulted in a reduction of deferred revenue and related inventories and an increase to retained earnings of \$7.8 million, net of tax. The adoption of ASU No. 2014-9 did not have a material impact to the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements

Reference Rate Reform. In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*, which provides optional guidance to ease the potential accounting and financial reporting burden of reference rate reform, including the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The new guidance provides temporary optional expedients and exceptions for applying U.S. GAAP to transactions affected by reference rate reform if certain criteria are met. These transactions include contract modifications, hedging relationships, and the sale or transfer of debt securities classified as held-to-maturity. Entities may apply the provisions of the new standard as of the beginning of the reporting period when the election is made. Unlike other topics, the provisions of this update are only available until December 31, 2022, by which time the reference rate replacement activity is expected to be completed. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures and has yet to elect an adoption date.

Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The ASU also clarifies and amends existing guidance to improve consistent application among reporting entities. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The adoption of ASU No. 2019-12 is not expected to have a material impact to the Company's consolidated financial statements.

2. Revenues

Net sales consist of revenue associated with contracts with customers for the sale of goods in amounts that reflect the consideration the Company is entitled to receive in exchange for those goods and services.

Deferred Revenue & Contract Liabilities

Under ASC 606, the Company recognizes revenue when the customer obtains control of the inventory. Amounts in deferred revenue at period-end reflect orders for which the inventory was not yet ready for physical transfer to customers.

Contract liabilities within the Consolidated Balance Sheets as of December 31, 2020 and December 26, 2019 primarily consisted of deferred revenue as well as amounts in accrued expenses and other current liabilities related to the Pro Premier loyalty program and unredeemed gift cards. As of December 31, 2020, contract liabilities totaled \$24.8 million and included \$10.1 million of deferred revenue, \$12.1 million of loyalty program liabilities, and \$2.6 million of unredeemed gift cards. As of December 26, 2019, contract liabilities totaled \$15.5 million and included \$6.7 million of deferred revenue, \$6.6 million of loyalty program liabilities, and \$2.2 million of unredeemed gift cards. Of the contract liabilities outstanding as of December 26, 2019, \$8.2 million was recognized in revenue during fiscal 2020.

Deferred Revenue

Under Topic 606, the Company recognizes revenue when the customer obtains control of the inventory. Amounts in deferred revenue at period-end reflect orders for which the inventory is not currently ready for physical transfer to the customer.

Gift Card Breakage

Under Topic 606, gift card breakage income is recognized in proportion to the pattern of rights exercised by the customer when the Company expects to be entitled to breakage. The amount of revenue related to gift card breakage income was immaterial to the consolidated financial statements for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018.

Disaggregated Revenue

The Company has one operating segment and one reportable segment. The following table presents the net sales of each major product category for each of the last three fiscal years (in thousands):

Product Category	Fiscal Year Ended					
	December 31, 2020		December 26, 2019		December 27, 2018	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Tile	\$ 605,357	25 %	\$ 523,076	26 %	\$ 476,337	27 %
Laminate/luxury vinyl plank	555,963	23	442,171	22	316,109	18
Decorative accessories/wall tile (1)	485,076	19	393,908	19	325,139	19
Installation materials and tools	403,184	17	346,356	17	272,994	16
Wood	211,307	9	202,888	10	192,087	12
Natural stone	152,665	6	127,975	6	113,565	7
Other (2)	12,236	1	9,082	—	13,617	1
Total	\$ 2,425,788	100 %	\$ 2,045,456	100 %	\$ 1,709,848	100 %

(1) Decorative accessories/wall tile includes adjacent categories revenue totaling \$20.5 million and \$7.3 million for the fiscal years ended December 31, 2020 and December 26, 2019, respectively.

(2) Other includes delivery and sample revenue less adjustments for deferred revenue, sales return reserves, rewards under our Pro Premier Loyalty program, and other revenue related adjustments that are not allocated on a product-level basis.

3. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	December 31, 2020	December 26, 2019
Accrued incentive compensation	\$ 24,591	\$ 18,635
Sales returns and allowances (1)	22,266	15,437
Sales tax payable	21,824	14,304
Accrued construction in progress new stores	20,818	10,043
Insurance reserve incurred but not reported	13,511	9,399
Wages and payroll tax payable	22,349	8,328
Loyalty program liability	12,073	6,649
Other (1)	24,851	20,012
Accrued expenses and other current liabilities	\$ 162,283	\$ 102,807

(1) The liability for sales returns and allowances as of December 26, 2019 has been reclassified within this table from Other to Sales returns and allowances to conform to the current period presentation.

4. Fixed Assets

Fixed assets as of December 31, 2020 and December 26, 2019, consisted of the following (in thousands):

	December 31, 2020	December 26, 2019
Furniture, fixtures and equipment	\$ 259,696	\$ 236,555
Leasehold improvements (1)	380,671	309,720
Computer software and hardware	138,321	113,975
Buildings and building improvements (1)	65,552	11,614
Land	30,731	8,715
Fixed assets, at cost	874,971	680,579
Less: accumulated depreciation and amortization	295,612	224,290
Fixed assets, net	<u>\$ 579,359</u>	<u>\$ 456,289</u>

(1) Represents buildings and building improvements on land that the Company owns as well as on land that the Company is leasing through ground leases. Prior period fixed asset balances related to buildings and building improvements on ground leases have been reclassified from leasehold improvements to building and building improvements to conform to the current period presentation.

Depreciation and amortization on fixed assets for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018, were \$0.1 million, \$69.9 million, and \$50.5 million, respectively.

5. Intangible Assets

The following summarizes the balances of identifiable intangible assets as of December 31, 2020 and December 26, 2019 (in thousands):

	December 31, 2020			December 26, 2019	
	Estimated Useful Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible asset:					
Vendor relationships	10 years	\$ 319	\$ (319)	\$ 319	\$ (289)
Indefinite-lived intangible asset:					
Trade names		109,269	—	109,269	—
Total		<u>\$ 109,588</u>	<u>\$ (319)</u>	<u>\$ 109,588</u>	<u>\$ (289)</u>

Amortization expense related to amortizable intangible assets for the fiscal years ended December 31, 2020, December 26, 2019 and December 27, 2018, was \$30 thousand, \$31 thousand, and \$32 thousand, respectively.

6. Income Taxes

The components of the provision for income taxes are as follows (in thousands):

	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019	Fiscal Year Ended December 27, 2018
Current (benefit) / expense:			
Federal	\$ (1,781)	\$ 7,975	\$ 5,496
State	4,391	2,358	1,669
Total current expense	<u>2,610</u>	<u>10,333</u>	<u>7,165</u>
Deferred expense / (benefit):			
Federal	11,684	(6,522)	922
State	(2,070)	(4,062)	(1,890)
Total deferred expense / (benefit)	<u>9,614</u>	<u>(10,584)</u>	<u>(968)</u>
Provision (benefit) for income taxes	<u>\$ 12,224</u>	<u>\$ (251)</u>	<u>\$ 6,197</u>

The following is a summary of the differences between the total provision for income taxes as shown on the financial statements and the provision for income taxes that would result from applying the federal statutory tax rate of 21% for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018 to income before income taxes (in thousands).

	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019	Fiscal Year Ended December 27, 2018
Computed "expected" provision at statutory rate	\$ 43,513	\$ 31,580	\$ 25,700
State income taxes, net of federal income tax benefit	1,493	(1,364)	(627)
Permanent differences:			
Excess tax benefit related to options exercised	(27,003)	(29,441)	(17,478)
Other	517	543	457
Total permanent differences	(26,486)	(28,898)	(17,021)
Change in U.S. tax rate	—	—	(573)
Provision to return	(150)	(282)	(739)
Federal tax credits	(920)	(1,306)	(685)
CARES Act benefit	(7,676)	—	—
Uncertain Tax Positions	2,724	—	—
Other, net	(274)	19	142
Provision (benefit) for income taxes	<u>\$ 12,224</u>	<u>\$ (251)</u>	<u>\$ 6,197</u>

The permanent differences of \$27.0 million, \$29.4 million, and \$17.5 million in fiscal 2020, fiscal 2019, and fiscal 2018, respectively, are the federal benefits due to the recognition of excess tax deductions for stock options exercised. In the table above, the 2020, 2019, and 2018 state benefits related to the recognition of excess tax benefits of \$5.3 million, \$5.6 million, and \$3.3 million, respectively, are included in state income taxes, net of federal income tax benefit.

The Tax Cuts and Jobs Act (the "Act"), which was enacted on December 22, 2017, reduced the U.S. federal corporate income tax rate from 35% to 21% and created new taxes that may apply on certain foreign sourced earnings. Staff Accounting Bulletin No. 118 ("SAB 118") allows for a measurement period that should not extend beyond one year from the Act enactment date of December 22, 2017. In accordance with SAB 118, the Company completed its accounting for the impact of the 2017 Act during the fourth quarter of fiscal 2018, before the end of the measurement period, and recorded a tax benefit of \$18.5 million as a result of the remeasurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. As of December 31, 2020, the measurement period is closed and any amounts that were provisional at December 26, 2019 were finalized with little to no impact to the consolidated financial statement.

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and (liabilities) are presented below (in thousands):

	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019
Deferred tax assets:		
Accruals not currently deductible for tax purposes	\$ 8,293	\$ 2,820
Inventories	6,941	5,283
Stock-based compensation	5,979	3,984
Other intangibles	268	313
Gift card liability	557	453
Litigation accrual	120	139
Lease liabilities	259,273	233,106
Other	10,732	3,718
Total deferred tax assets	<u>292,163</u>	<u>249,816</u>
Deferred tax liabilities:		
Intangible assets	(27,053)	(26,939)
Fixed assets	(62,374)	(35,576)
Right-of-use assets	(227,166)	(203,028)
Other	(3,560)	(2,651)
Total deferred tax liabilities	<u>(320,153)</u>	<u>(268,194)</u>
Net deferred tax liabilities	<u>\$ (27,990)</u>	<u>\$ (18,378)</u>

The Company generated \$0.1 million and \$0.7 million of tax-effected state net operating losses in fiscal 2020 and fiscal 2019, respectively; as of December 31, 2020, approximately \$3.0 million of tax-effected state net operating losses were available to reduce future income taxes. The state net operating losses expire in various amounts beginning in 2032.

In assessing the realization of deferred tax assets, including net operating losses, management considered whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers taxable income in prior carryback periods, future reversals of existing taxable temporary differences, tax planning strategies, and future taxable income exclusive of reversing temporary differences and carryforwards in making this assessment, and accordingly, has concluded that no valuation allowance is necessary as of December 31, 2020 or December 26, 2019.

The Company files income tax returns with the U.S. Federal government and various state jurisdictions. Prior tax years beginning in year 2018 remain open to examination by the Internal Revenue Service (“IRS”). We closed a federal audit by the IRS for the 2015 to 2017 tax years.

Following is a reconciliation of the beginning and ending balance of unrecognized tax benefits for periods presented

	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019	Fiscal Year Ended December 27, 2018
Unrecognized tax benefits balance at beginning of fiscal year	\$ 402	\$ —	\$ —
Additions based on tax positions related to the current year	281	282	—
Additions for tax positions of prior years	5,424	120	—
Unrecognized tax benefits balance at end of fiscal year	<u>\$ 6,107</u>	<u>\$ 402</u>	<u>\$ —</u>

There were \$1.9 million of unrecognized tax benefits as of December 31, 2020 that, if recognized, would affect the Company's effective tax rate, while there were no such unrecognized tax benefits as of December 26, 2019 and December 27, 2018 that would affect the Company's effective tax rate in future periods. Over the next twelve months, it is reasonably possible that our unrecognized tax benefits could be reduced by \$5.4 million due to audit settlements, expiration of statute of limitations, or other resolution of uncertainties. The Company's policy is to classify interest and penalties related to unrecognized tax benefits in income tax expense. The Company recognized \$0.6 million of interest expense related to unrecognized tax benefits during fiscal 2020 and no such interest expense during fiscal 2019 and fiscal 2018.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

The CARES Act includes, among other things, income tax provisions allowing for the temporary five-year carryback of net operating losses generated in 2018, 2019, and 2020, temporary modifications to the limitations placed on interest deductions, and technical corrections of tax depreciation methods for qualified improvement property (“QIP”), which changes 39-year property to 15-year property eligible for 100% tax bonus depreciation. In addition, the CARES Act includes provisions such as the temporary deferral of the employer portion of social security taxes incurred through the end of calendar 2020 and an employee retention credit for 50% of wages and health benefits paid to employees not providing services due to the COVID-19 pandemic. The Company has made estimates of the effect of the CARES Act and will adjust estimates, if needed, as new legislation or guidance becomes available.

As a result of the faster tax depreciation methods allowed under the CARES Act for QIP and the retroactive application of those methods for QIP placed in service during fiscal 2018 and 2019, the Company incurred a fiscal 2019 net operating loss for federal income tax purposes that was carried back to prior years during which the federal tax rate was 35%, resulting in a \$7.7 million income tax benefit during the second quarter of fiscal 2020. The Company received \$28.4 million of cash refunds related to the accelerated QIP depreciation and the carry back of the fiscal 2019 net operating loss as of December 31, 2020.

As of December 31, 2020, the Company has deferred \$12.1 million of employer social security taxes, of which 50% are required to be deposited by December 2021 and the remaining 50% by December 2022. Of the deferred employer social security taxes outstanding as of December 31, 2020, approximately \$1 million is included in accrued expenses and other current liabilities and \$6.0 million is included in other liabilities within the Condensed Consolidated Balance Sheets.

The Company recorded \$1.7 million of employee retention credits during the fiscal year ended December 31, 2020, of which \$1.5 million was recognized as an offset to selling and store operating expenses and \$0.2 million was recognized as an offset to general and administrative expenses within the condensed Consolidated Statements of Operations and Comprehensive Income.

7. Fair Value Measurements

As of December 31, 2020 and December 26, 2019, the Company had certain financial assets and liabilities on its Consolidated Balance Sheets that were required to be measured at fair value on a recurring or non-recurring basis. The estimated fair values of financial assets and liabilities such as cash and cash equivalents, receivables, prepaid expenses and other current assets, other assets, accounts payable, and accrued expenses and other current liabilities approximate their respective fair values as reported within the Consolidated Balance Sheets. Refer to Note 1, “Summary of Significant Accounting Policies” and Note 5, “Intangible Assets” for a discussion of the valuation of goodwill and intangible assets, respectively. See Note 10, “Debt” for discussion of the fair value of the Company’s debt.

The Company also has outstanding interest rate cap contracts that were valued primarily using level 2 inputs based on data readily observable in public markets. The Company’s interest rate cap contracts were negotiated with counterparties without going through a public exchange. Accordingly, the Company’s fair value assessments for these derivative contracts gave consideration to the risk of counterparty default (as well as the Company’s own credit risk). As of December 31, 2020 and December 26, 2019, the fair value of the Company’s interest rate cap contract was less than \$0.1 million.

8. Derivatives and Risk Management

Changes in interest rates impact our results of operations. In an effort to manage our exposure to this risk, we enter into derivative contracts and may adjust our derivative portfolio as market conditions change.

Designated as Cash Flow Hedge

For derivative contracts designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of Accumulated Other Comprehensive Income (“AOCI”) and reclassified into earnings in the same period in which the hedged transaction affects earnings. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in earnings.

Not Designated as Accounting Hedge

For derivative contracts de-designated as accounting hedges, the change in the fair value is reflected through earnings. These changes in fair value are mark-to-market adjustments (“MTM adjustments”). MTM adjustments are defined as fair value changes recorded in periods other than the settlement period. Such fair value changes are not necessarily indicative of the actual settlement value of the underlying hedge in the contract settlement period. The AOCI related to the interest rate cap prior to the de-designation is being amortized over the remaining maturity period.

Derivative Position as of December 31, 2020:

(in thousands)	Notional Balance		Final Maturity Date	Other Assets	AOCI, Net of Tax
<i>Designated as hedges:</i>					
Interest rate cap (cash flow hedge)	\$	102,500	U.S. dollars	December 2021	\$ — \$ (89)
<i>Not designated as hedges:</i>					
Interest rate cap	\$	102,500	U.S. dollars	December 2021	\$ — \$ (75)

Derivative Position as of December 26, 2019:

(in thousands)	Notional Balance		Final Maturity Date	Other Assets	AOCI, Net of Tax
<i>Designated as hedges:</i>					
Interest rate cap (cash flow hedge)	\$	102,500	U.S. dollars	December 2021	\$ 20 \$ 236
<i>Not designated as hedges:</i>					
Interest rate cap	\$	102,500	U.S. dollars	December 2021	\$ — \$ (43)

Designated Hedge Gain (Losses)

Gains (losses) related to our designated hedge contracts are as follows:

(in thousands)	Effective Portion Reclassified From AOCI to Earnings			Effective Portion Recognized in Other Comprehensive Income (Loss)		
	Fiscal Year Ended			Fiscal Year Ended		
	December 31, 2020	December 26, 2019	December 27, 2018	December 31, 2020	December 26, 2019	December 27, 2018
Interest rate cap (cash flow hedge)	\$ —	\$ —	\$ —	\$ 357	\$ (379)	\$ 391
Interest rate swaps (cash flow hedges)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Interest Rate Risk

Our exposure to market risk from adverse changes in interest rates is primarily associated with our long-term debt obligations, which carry variable interest rates. Market risk associated with our variable interest rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates.

In an effort to manage our exposure to the risk associated with our variable interest rate long term debt, we periodically enter into interest rate derivative contracts. We designate interest rate derivative contracts used to convert the interest rate exposure on a portion of our debt portfolio from a floating rate to a capped rate as cash flow hedges.

Credit Risk

To manage credit risk associated with our interest rate hedging program, we select counterparties based on their credit ratings and limit our exposure to any one counterparty.

The counterparties to our derivative contracts are financial institutions with investment grade credit ratings. To manage our credit risk related to our derivative financial instruments, we periodically monitor the credit risk of our counterparties, limit our exposure in the aggregate and to any single counterparty, and adjust our hedging position, as appropriate. The impact of credit risk, as well as the ability of each party to fulfill its obligations under our derivative financial instruments, is considered in determining the fair value of the contracts. Credit risk has not had a significant effect on the fair value of our derivative contracts. We do not have any credit risk-related contingent features or collateral requirements with our derivative financial instruments.

9. Commitments and Contingencies

Lease Commitments

In the first quarter of fiscal 2019, we adopted ASU No. 2016-02, "Leases (Topic 842)," which requires that lessees recognize lease assets and lease liabilities for all leases on the balance sheet with an option to exclude short-term leases (leases with terms of 12 months or less), which we elected. We adopted ASU No. 2016-02 using the modified retrospective approach and elected the package of practical expedients to use in transition, which permitted us not to reassess, under the new standard, our prior conclusions about lease identification and lease classification. The cumulative effect adjustment upon adoption of ASU No. 2016-02 resulted in an immaterial adjustment to retained earnings. The adoption also resulted in the addition of \$620.8 million of right-of-use assets and a corresponding \$683.0 million of lease liabilities to our balance sheet, while eliminating deferred rent and tenant improvement allowances. Additionally, we do not separate lease and nonlease components of contracts.

The majority of our long-term operating lease agreements are for our corporate office, retail locations, and distribution centers, which expire in various years through 2041. Most of these agreements are retail leases where both the land and building are leased. For a small number of retail locations, the Company has ground leases where only the land is leased. The initial lease terms for the Company's corporate office, retail, and distribution center facilities range from 10-20 years. The majority of these leases also include options to extend, which are factored into the recognition of their respective assets and liabilities when appropriate based on management's assessment of the probability that the options will be exercised. Lease payments used in measurement of the lease liability typically do not include executory costs, such as taxes, insurance, and maintenance, unless those costs can be reasonably estimated at lease commencement. Additionally, one building lease contains variable lease payments, which are determined based on a percentage of retail sales over a contractual level, and we sublease real estate within one distribution center to a third party. Certain of our lease agreements include escalating rents over the lease terms which, under Topic 842, results in rent being expensed on a straight-line basis over the life of the lease that commences on the date we have the right to control the property. Our lease agreements do not contain any residual value guarantees or restrictive covenants that would reasonably be expected to have a material impact on our business.

When readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, substantially all of our leases do not provide a readily determinable implicit rate. If the rate implicit in the lease is not readily determinable, we use a third party to assist in the determination of a secured incremental borrowing rate, determined on a collateralized basis, to discount lease payments based on information available at lease commencement. The secured incremental borrowing rate is estimated based on yields obtained from Bloomberg for U.S. consumers with a BB- credit rating and is adjusted for collateralization as well as inflation. As of December 31, 2020 and December 26, 2019, the Company's weighted average discount rate was 5.3% and 5.3%, respectively. As of December 31, 2020 and December 26, 2019, the Company's weighted average remaining lease term was approximately 11 years and 10 years, respectively.

Lease Position

The table below presents supplemental balance sheet information related to operating leases.

<i>in thousands, except lease term and discount rate</i>	<i>Classification</i>	As of December 31, 2020	As of December 26, 2019
Assets			
Building	Right-of-use assets	\$ 851,092	\$ 808,989
Equipment	Right-of-use assets	6,865	7,322
Land	Right-of-use assets	56,708	2,378
Software	Right-of-use assets	1,660	3,567
Total operating lease assets		<u>916,325</u>	<u>822,256</u>
Liabilities			
Current			
Building	Current portion of lease liabilities	88,287	67,500
Equipment	Current portion of lease liabilities	3,941	3,758
Land	Current portion of lease liabilities	440	170
Software	Current portion of lease liabilities	1,834	3,164
Total current operating lease liabilities		<u>94,502</u>	<u>74,592</u>
Noncurrent			
Building	Lease liabilities	873,098	837,510
Equipment	Lease liabilities	2,924	3,902
Land	Lease liabilities	65,103	2,357
Software	Lease liabilities	—	500
Total noncurrent operating lease liabilities		<u>941,125</u>	<u>844,269</u>
Total operating lease liabilities		<u>\$ 1,035,627</u>	<u>\$ 918,861</u>
Weighted-average remaining lease term		11 years	10 years
Weighted-average discount rate		5.3%	5.3%

Lease Costs

The table below presents components of lease expense for operating leases.

<i>in thousands</i>	<i>Classification</i>	Fiscal Year Ended	
		December 31, 2020	December 26, 2019 (3)
Fixed operating lease cost:	Selling and store operating	\$ 105,207	\$ 87,124
	Cost of sales	22,672	17,132
	Pre-opening	7,886	5,959
	General and administrative	4,118	2,272
Total fixed operating lease cost		\$ 139,883	\$ 112,487
Variable lease cost (1):	Selling and store operating	\$ 34,499	\$ 28,894
	Cost of sales	4,860	3,570
	Pre-opening	657	151
	General and administrative	151	5
Total variable lease cost		\$ 40,167	\$ 32,620
Sublease income	Cost of sales	(2,713)	(2,414)
Operating lease right-of-use asset impairment	General and administrative	—	4,136
Total operating lease cost (2)		\$ 177,337	\$ 146,829

(1) Includes variable costs for common area maintenance, property taxes, and insurance on leased real estate.

(2) Excludes short-term lease costs, which were immaterial for the fiscal years ended December 31, 2020 and December 26, 2019.

(3) To conform to the current period presentation, the presentation of the components of operating lease expense for the fiscal year ended December 26, 2019 has been updated within this table to provide disclosure of variable lease costs and additional information related to the classification of operating lease costs within the Consolidated Statements of Operations and Comprehensive Income.

Undiscounted Cash Flows

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2020, were:

<i>in thousands</i>	Amount
2021	\$ 145,813
2022	141,815
2023	136,289
2024	133,866
2025	125,790
Thereafter	713,557
Total minimum lease payments (1) (2)	1,397,130
Less: amount of lease payments representing interest	361,503
Present value of future minimum lease payments	1,035,627
Less: current obligations under leases	94,502
Long-term lease obligations	\$ 941,125

(1) Future lease payments exclude approximately \$132.9 million of legally binding minimum lease payments for operating leases signed but not yet commenced.

(2) Operating lease payments include \$59.3 million related to options to extend lease terms that are reasonably certain of being exercised.

For the fiscal years ended December 31, 2020 and December 26, 2019, cash paid for operating leases was \$31.3 million and \$112.8 million.

Right-of-Use Asset Impairment and Write Off

During the third quarter of fiscal 2019, we began the move from our former store support center in Smyrna, Georgia to a nearby location in Atlanta, Georgia. Prior to this period, we expected to fully cover future payments under the operating lease agreement with proceeds from a sublease. As of the end of our fiscal third quarter, we no longer expected to find a sublease tenant that would fully cover these future payments and concluded that the right-of-use asset related to the operating lease was not recoverable. Therefore, we determined the fair value of the right-of-use asset based on a discounted cash flow analysis reflective of the income expected from a sublease. Based on the excess of the asset's carrying value over fair value, we recognized an impairment of \$4.1 million in the third quarter of fiscal 2019 in general and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

In addition, during the fourth quarter of fiscal 2019, we completed the move to our new location and terminated the lease for our previous store support center facility in Smyrna, Georgia. As a result, we recognized a loss of \$1.9 million related to the settlement of our remaining obligations under the lease and the write off of the remaining right-of-use asset for the facility upon lease termination. This loss was recognized in general and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income.

Litigation

On May 20, 2019, an alleged stockholder of the Company filed a putative class action lawsuit, *Taylor v. Floor & Decor Holdings, Inc., et al*, No. 1:19-cv-02270-SCJ (N.D. Ga.), in the United States District Court for the Northern District of Georgia against the Company and certain of our officers, directors and stockholders. On August 14, 2019, the Court named a lead plaintiff, and the case was re-captioned *In re Floor & Decor Holdings, Inc. Securities Litigation*, No. 1:19-cv-02270-SCJ (N.D. Ga.). The operative complaint alleged certain violations of federal securities laws based on, among other things, purported materially false and misleading statements and omissions allegedly made by the Company between May 23, 2018 and August 1, 2018 and sought class certification, unspecified monetary damages, costs and attorneys' fees and equitable relief. The Company denied the material allegations and moved to dismiss the lawsuit. On September 21, 2020, the District Court granted the Company's motion to dismiss in its entirety. The plaintiff did not appeal that decision, meaning the dismissal is final.

On June 18, 2020, an alleged stockholder filed a putative derivative complaint, *Lincolnshire Police Pension Fund v. Taylor, et al*, No. 2020-0487-JTL, in the Delaware Court of Chancery, purportedly on behalf of the Company against certain of the Company's officers, directors, and stockholders. The complaint alleges breaches of fiduciary duties and unjust enrichment. The factual allegations underlying these claims are similar to the factual allegations made in the *In re Floor & Decor Holdings, Inc. Securities Litigation* described above. The complaint seeks unspecified damages and restitution for the Company from the individual defendants and the payment of costs and attorneys' fees. The time for the defendants to respond to the complaint has not yet expired.

The Company maintains insurance that may cover any liability arising out of the above-referenced litigation up to the policy limits and subject to meeting certain deductibles and to other terms and conditions thereof. Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult, particularly where the matters involve indeterminate claims for monetary damages and are in the stages of the proceedings where key factual and legal issues have not been resolved. For these reasons, we are currently unable to predict the ultimate timing or outcome of or reasonably estimate the possible losses or a range of possible losses resulting from the above-referenced litigation.

The Company is also subject to various other legal actions, claims and proceedings arising in the ordinary course of business, which may include claims related to general liability, workers' compensation, product liability, intellectual property and employment-related matters resulting from our business activities. As with most actions such as these, an estimation of any possible and/or ultimate liability cannot always be determined. The Company establishes reserves for specific legal proceedings when it determines that the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. These various other ordinary course proceedings are not expected to have a material impact on the Company's consolidated financial position, cash flows, or results of operations, however regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, and other factors.

10. Debt

The following table summarizes the Company's long-term debt as of December 31, 2020 and December 26, 2019 (dollars in thousands):

	Maturity Date	Interest Rate Per Annum at December 31,		December 31,	December 26,
		2020		2020	2019
Credit Facilities:					
UBS Facility Term Loan B	February 14, 2027	2.15%	Variable	\$ 143,179	\$ 145,500
UBS Facility Term Loan B-1	February 14, 2027	5.00%	Variable	74,625	—
Wells Facility Revolving Line of Credit	February 14, 2025	3.50%	Variable	—	—
Total secured debt at par value				217,804	145,500
Less: current maturities				1,647	—
Long-term debt maturities				216,157	145,500
Less: unamortized discount and debt issuance costs				9,000	2,894
Total long-term debt				<u>\$ 207,157</u>	<u>\$ 142,606</u>

Market risk associated with the Company's fixed and variable rate long-term debt relates to the potential change in fair value and negative impact to future earnings, respectively, from a change in interest rates. The aggregate fair value of debt is based primarily on the Company's estimates of interest rates, maturities, credit risk, and underlying collateral and is classified as Level 3 within the fair value hierarchy.

The following table summarizes scheduled maturities of the Company's debt, including current maturities, as of December 31, 2020:

<i>in thousands</i>	Amount
2021	\$ 1,647
2022	2,196
2023	2,196
2024	2,196
2025	2,384
Thereafter (1)	207,185
Total minimum debt payments	<u>\$ 217,804</u>

(1) Thereafter maturities are comprised of \$136.3 million due under the term loan B facility and \$70.9 million due under the term loan B-1 facility through February 14, 2027.

Components of interest expense are as follows for the periods presented:

<i>in thousands</i>	Fiscal Year Ended		
	December 31, 2020	December 26, 2019	December 27, 2018
Total interest costs	\$ 9,606	\$ 8,801	\$ 8,917
Interest capitalized	1,217	—	—
Interest expense, net	<u>\$ 8,389</u>	<u>\$ 8,801</u>	<u>\$ 8,917</u>

Term Loan Facility

On February 14, 2020, the Company entered into a repricing and third amendment to the credit agreement governing its senior secured term loan facility (the "Term Loan B Facility") which, among other things, (a) refinanced the existing term loan B facility with a new term loan B facility in the same aggregate principal amount of approximately \$144.6 million, and (b) extended the stated maturity date under the Term Loan Facility to February 14, 2027. The Term Loan Facility also includes an "accordion" feature that allows the Company, under certain circumstances, to increase the size of the Term Loan Facility by an amount up to the greater of \$270.0 million and 100.0% of Consolidated EBITDA (as defined in the Term Loan Facility), plus additional amounts (x) if such increase is secured on a pari passu basis with the loans under the Term Loan Facility, up to a Consolidated First Lien Leverage Ratio (as defined in the Term Loan Facility) of 2.50:1.00, (y) if such increase is secured on a junior basis with the loans under the Term Loan Facility, up to a Consolidated Secured Leverage Ratio (as defined in the Term Loan Facility) of 3.50:1.00 and (z) if such increase is unsecured, up to a Consolidated Total Leverage Ratio (as defined in the Term Loan Facility) of 3.50:1.00, subject to certain additional adjustments, which, under certain circumstances, allow for a Consolidated Total Leverage Ratio of up to 4.50:1.00.

The third amendment to the Term Loan Facility also amended the margin applied to loans under the term loan B facility to (x) in the case of ABR Loans (as defined in the Term Loan Facility), from 1.75% or 1.50% per annum (based on credit rating tests) to 1.00% per annum (subject to satisfying a leverage ratio test and subject to a leverage-based step-up to 1.25% if such leverage ratio test is exceeded), and (y) in the case of Eurodollar Loans (as defined in the Term Loan Facility), from 2.75% or 2.50% per annum (based on credit rating tests) to 2.00% per annum (subject to satisfying a leverage ratio test and subject to a leverage-based step-up to 2.25% if such leverage ratio test is exceeded) (subject to a 0.00% floor on Eurodollar Loans). The material terms of the Term Loan Facility were otherwise unchanged.

On May 18, 2020, to provide additional liquidity in response to the business uncertainties resulting from the evolving COVID-19 pandemic, the Company entered into a fourth amendment to the Term Loan Facility, which, among other things, provides for a new incremental term loan facility in an aggregate principal amount of \$75.0 million with a maturity date of February 14, 2027 (the "Term Loan B-1 Facility"). The Company received net proceeds of \$70.5 million from the term loan B-1 facility after deducting a \$4.1 million original issuance discount and \$0.3 million of debt issuance costs to third parties. The Company intends to use the net proceeds to support its growth plans and for general corporate purposes. The term loan B-1 facility is a separate tranche from the Company's existing term loan B facility. The terms of loans under the term loan B facility remained unchanged as a result of the fourth amendment to the Term Loan Facility.

The Term Loan Facility provides a margin for loans under the term loan B-1 facility of (x) in the case of ABR Loans (as defined in the Term Loan Facility) 3.00% per annum, and (y) in the case of Eurodollar Loans (as defined in the Term Loan Facility), 4.00% per annum (subject to a 1.00% floor on Eurodollar Loans). At December 31, 2020, the applicable interest rate for borrowings was 2.15% for the term loan B facility and 5.00% for the term loan B-1 facility.

The Company entered into a fifth amendment to the Term Loan Facility on February 9, 2021 as discussed in Note 14, "Subsequent Event."

All obligations under the Term Loan Facility are secured by (1) a first-priority security interest in substantially all of the property and assets of Outlets and the other guarantors under the Term Loan Facility, with certain exceptions, and (2) a second-priority security interest in the collateral securing the revolving credit facility.

Gain on Debt Extinguishment

During the second quarter of fiscal 2020, the Company evaluated the fourth amendment to the Term Loan Facility in accordance with ASC 470-50, "Debt - Modifications and Extinguishments," on a lender-by-lender basis and determined that the incremental term loan borrowing was provided entirely by one lender and its affiliates. As this lender held a portion of the existing Term Loan Facility debt, the Company performed the 10% cash flow test pursuant to ASC 470-50-40-10 and concluded that the results exceeded the 10% threshold. As a result, the Company accounted for this transaction as a partial extinguishment and derecognized the existing debt held by this lender and recorded the new debt at fair value. Based on the difference between the reacquisition price and carrying amount of debt, the Company recognized a \$1.0 million gain on early extinguishment of debt during the second quarter of fiscal 2020, which included the original issuance discount of \$4.1 million and \$0.5 million of unamortized debt issuance costs related to the extinguished debt as part of the calculation.

ABL Facility

On February 14, 2020, the Company also entered into a repricing and general amendment to the credit agreement governing its revolving credit facility (as amended, the "ABL Facility" and together with the Term Loan Facility, the "Credit Facilities"), which, among other things, (a) increased its revolving commitments to a total aggregate principal amount of \$400.0 million, and (b) extended the stated maturity date under the ABL Facility to February 14, 2025. The ABL Facility also includes an "accordion" feature that allows the Company under certain circumstances, to increase the size of the facility by an amount up to \$100.0 million, or such higher amount as may be agreed to by the Required Lenders (as defined in the ABL Facility).

The amendment to the ABL Facility also amended the margin applied to loans and letters of credit to (x) in the case of Base Rate Loans (as defined in the ABL Facility), from 0.25% or 0.50% per annum (based on availability) to a flat rate of 0.25% per annum, (y) in the case of LIBO Rate Loans (as defined in the ABL Facility) and letter of credit fees for standby letters of credit, from 1.25% or 1.50% per annum (based on availability) to a flat rate of 1.25% per annum (subject to a 0.00% floor on LIBO Rate Loans) and (z) in the case of letter of credit fees for commercial letters of credit, from 0.75% or 1.00% per annum (based on availability) to a flat rate of 0.75% per annum. The material terms of the ABL Facility were otherwise unchanged.

As of December 31, 2020, the Company's ABL Facility had a maximum availability of \$400.0 million with actual available borrowings limited to the sum, at the time of calculation, of (a) eligible credit card receivables multiplied by the credit card advance rate, plus (b) the cost of eligible inventory, net of inventory reserves, multiplied by the applicable appraisal percentage, plus (c) 85% of eligible net trade receivables, plus (d) all eligible cash on hand, plus (e) 100% of the amount for which the eligible letter of credit must be honored after giving effect to any draws, minus certain Availability Reserves (each component as defined in the ABL Facility). The ABL Facility is available for issuance of letters of credit and contains a sublimit of \$50.0 million for standby letters of credit and commercial letters of credit combined. Available borrowings under the facility are reduced by the face amount of outstanding letters of credit.

All obligations under the ABL Facility are secured by (1) a first-priority security interest in the cash and cash equivalents, accounts receivable, inventory, and related assets of Outlets and the other guarantors under the ABL Facility, with certain exceptions, and (2) a second-priority security interest in substantially all of the other property and assets of Outlets and the other guarantors under the Term Loan Facility.

Net availability under the ABL Facility, as reduced by outstanding letters of credit of \$21.3 million, was \$378.7 million based on financial data as of December 31, 2020.

Covenants

The credit agreements governing the Term Loan Facility and ABL Facility contain customary restrictive covenants, which, among other things and with certain exceptions, limit the Company's ability to (i) incur additional indebtedness and liens in connection with such indebtedness, (ii) pay dividends and make certain other restricted payments, (iii) effect mergers or consolidations, (iv) enter into transactions with affiliates, (v) sell or dispose of property or assets, and (vi) engage in unrelated lines of business. In addition, these credit agreements subject the Company to certain reporting obligations and require that the Company satisfy certain financial covenants, including, among other things, a requirement that if borrowings under the ABL Facility exceed 90% of availability, the Company will maintain a certain fixed charge coverage ratio (defined as Consolidated EBITDA less non-financed capital expenditures and income taxes paid to consolidated fixed charges, in each case as more fully defined in the ABL Facility).

The Term Loan Facility has no financial maintenance covenants. The Company is currently in compliance with all material covenants under the credit agreements.

Deferred Debt Issuance Cost and Original Issue Discount

Deferred debt issuance cost related to our ABL Facility of \$975 thousand and \$574 thousand as of December 31, 2020 and December 26, 2019, respectively, are included in other assets on our Consolidated Balance Sheets. Deferred debt issuance cost and original issue discount related to our Term Loan Facility of \$9.0 million and \$2.9 million as of December 31, 2020 and December 26, 2019, respectively, are included in term loans on our Consolidated Balance Sheets. For the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018, deferred debt issuance and original issue discount amortization expense was \$1.4 million, \$1.1 million, and \$1.0 million, respectively.

Fair Value of Debt

The fair values of certain of the Company's debt instruments have been determined by utilizing Level 3 inputs, such as available market information and appropriate valuation methodologies, including the rates for similar instruments and the discounted cash flows methodology. Market risk associated with our fixed and variable rate long-term debt relates to the potential change in fair value and negative impact to future earnings, respectively, from a change in interest rates. The aggregate fair value of debt was based primarily on discounted cash flows utilizing estimated interest rates, maturities, credit risk, and underlying collateral and is classified primarily as Level 3 within the fair value hierarchy. At December 31, 2020 and December 26, 2019, the fair values of the Company's debt are as follows (in thousands):

<i>in thousands</i>	December 31, 2020	December 26, 2019
Total debt at par value	\$ 217,804	\$ 145,500
Less: unamortized discount and debt issuance costs	9,000	2,894
Net carrying amount	208,804	142,606
Fair value	\$ 215,626	\$ 145,136

11. Stockholders' Equity

Common Stock

The Company has three classes of common stock: Class A, Class B, and Class C. The holders of Class A common stock, Class B common stock, and Class C common stock are entitled to share equally, on a per share basis, in dividends or other distributions. Class A common stockholders are entitled to one vote per share held. Class B and Class C common stockholders have no voting rights, except as otherwise provided by law. In the event of the voluntary liquidation or dissolution of the Company, each class of stock will share equally, on a per share basis, in all the assets of the Company that are available for distribution to stockholders.

Stock Incentive Plans

On January 13, 2011, the Company adopted the 2011 Stock Option Plan (as amended, restated, supplemented or otherwise modified from time to time, the "2011 Plan") to provide for the grant of stock options to employees (including officers), consultants and non-employee directors of the Company and its subsidiaries. Pursuant to the terms of the 2011 Plan, the Company was authorized to grant options for the purchase of up to 12,520,407 shares as of December 29, 2016 and 10,780,970 shares as of December 31, 2015. As of December 29, 2016 and December 31, 2015, there were 179,575 and 104,269 shares available for grant pursuant to awards under the 2011 Plan, respectively. We ceased granting awards under the 2011 Plan upon the implementation of the 2017 Plan (as defined below).

On April 13, 2017, the board of directors approved the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan (the "2017 Plan"), which was subsequently approved by the Company's stockholders. The 2017 Plan authorizes the Company to grant options and restricted stock awards to eligible employees (including officers), consultants, and non-employee directors up to an aggregate of 5,000,000 shares of Class A common stock. As of December 31, 2020 and December 26, 2019, there were 2,120,839 and 2,806,549 shares available for grant pursuant to awards under the 2017 Plan, respectively.

Secondary Offerings

On May 29, 2018, certain of the Company's stockholders completed a secondary public offering (the "May Secondary Offering") of an aggregate of 10,000,000 shares of common stock at a price to the public of \$45.80 per share. The Company did not sell any shares in the May Secondary Offering and did not receive any proceeds from the sales of shares by the selling stockholders.

On September 14, 2018, certain of the Company's stockholders completed a secondary public offering (the "September Secondary Offering") of an aggregate of 11,500,000 shares of common stock at a price to the public of \$7.25 per share. The Company did not sell any shares in the September Secondary Offering and did not receive any proceeds from the sales of shares by the selling stockholders.

On February 28, 2019, certain of the Company's certain of the Company's stockholders completed a secondary public offering (the "February Secondary Offering") of an aggregate of 10,000,000 shares of common stock at a price to the public of \$7.50 per share. The Company did not sell any shares in the February Secondary Offering and did not receive any proceeds from the sales of shares by the selling stockholders.

On May 22, 2020, certain of the Company's certain of the Company's stockholders completed a secondary public offering (the "May 2020 Secondary Offering") of an aggregate of 4,972,900 shares of common stock at a price to the public of \$4.55 per share. The Company did not sell any shares in the May 2020 Secondary Offering and did not receive any proceeds from the sales of shares by the selling stockholders.

On August 13, 2020, certain of the Company's certain of the Company's stockholders completed a secondary public offering (the "August Secondary Offering") of an aggregate of 5,686,422 shares of common stock at a price to the public of \$7.60 per share. The Company did not sell any shares in the August Secondary Offering and did not receive any proceeds from the sales of shares by the selling stockholders.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation- Stock Compensation*, which requires measurement of compensation cost for all stock awards at fair value on the date of grant and recognition of compensation, net of forfeitures, over the requisite service period for awards expected to vest. Stock-based compensation expense for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018 was \$16.1 million, \$8.7 million, and \$6.5 million, respectively, and was included in general and administrative expenses on the Company's Consolidated Statements of Operations and Comprehensive Income.

Stock Options

Stock options are granted with an exercise price greater than or equal to the fair market value on the date of grant, as authorized by the Company's board of directors or compensation committee. Options granted have contractual terms of ten years and vesting provisions ranging from one year to five years. Stock options granted during fiscal 2020 vest in four ratable annual installments on each of the first four anniversaries of the grant date, subject to the grantee's continued service through the applicable vesting date. Stock option grants are generally subject to forfeiture if employment terminates prior to vesting.

The fair value of stock option awards granted was estimated using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019	Fiscal Year Ended December 27, 2018
Weighted average fair value per stock option	\$ 22.27	\$ 20.38	\$ 15.63
Risk-free interest rate	1.17%	2.06%	3.05%
Expected volatility	39%	45%	45%
Expected life (in years)	5.75	6.68	6.29
Dividend yield	—%	—%	—%

The Company determines the grant date fair value of stock options with assistance from a third-party valuation specialist. Expected volatility is estimated based on the historical volatility of the Company's Class A common stock since its initial public offering in 2017 as well as the historical volatility of the common stock of similar public entities. The Company considers various factors in determining the appropriateness of the public entities used in determining expected volatility, including the entity's life cycle stage, industry, growth profile, size, financial leverage, and products offered. To determine the expected life of the options granted, the Company relied upon a combination of the observed exercise behavior of prior grants with similar characteristics and the contractual terms and vesting schedules of the current grants. The risk-free interest rate is based on the term structure of interest rates at the time of the option grant.

The table below summarizes stock option activity for the fiscal year ended December 31, 2020:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 26, 2019	6,037,079	\$ 13.64		
Granted	294,563	58.15		
Exercised	(2,485,427)	7.75		
Forfeited or expired	(105,611)	25.71		
Outstanding at December 31, 2020	3,740,604	\$ 20.72	5.9	\$ 269,794
Vested and exercisable at December 31, 2020	2,071,137	\$ 13.22	4.8	\$ 164,918

The fair value of stock options vested during the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018 was \$5.5 million, \$7.5 million, and \$4.9 million, respectively. The aggregate intrinsic value of stock options exercised was \$135.5 million, \$146.6 million, and \$87.2 million for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018, respectively.

The Company's total unrecognized compensation cost related to stock options as of December 31, 2020 was \$6.0 million and is expected to be recognized over a weighted average period of 2.2 years.

Restricted Stock Units

During the fiscal year ended December 31, 2020, the Company granted restricted stock units to certain employees that represent an unfunded, unsecured right to receive a share of the Company's Class A common stock upon vesting. These awards vest in four ratable annual installments on each of the first four anniversaries of the grant date, subject to the grantee's continued service through the applicable vesting date. The fair value of the restricted stock units was determined based on the closing price of the Company's Class A common stock on the date of grant.

The following table summarizes restricted stock unit activity during the fiscal year ended December 31, 2020:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested at December 27, 2019	—	\$ —
Granted	133,256	59.24
Vested	—	—
Forfeited	(5,036)	55.08
Unvested at December 31, 2020	128,220	\$ 59.40

The total unrecognized compensation cost related to restricted stock units as of December 31, 2020 was \$6.2 million and is expected to be recognized over a weighted average period of 3.2 years.

Restricted Stock Awards

During the fiscal year ended December 31, 2020, the Company issued restricted stock awards to certain executive officers and non-employee directors comprised of performance-based restricted stock, total shareholder return ("TSR") awards, and service-based restricted stock. The performance-based restricted stock cliff vest based on (i) the Company's achievement of predetermined financial metrics at the end of a three-year performance period and (ii) the grantee's continued service through the vesting date, which varies by grantee and ranges between approximately three to four years from the grant date. The TSR awards cliff vest based on (i) the Company's relative TSR compared to a specified peer group, with no vesting unless the Company's TSR exceeds the median of the specified peer group and (ii) the grantee's continued service through the vesting date, which varies by grantee and ranges between approximately three to four years from the grant date.

The following table summarizes restricted stock award activity during the fiscal year ended December 31, 2020:

	Restricted Stock Awards					
	Service-based		Performance-based		TSR	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at December 27, 2019	37,032	\$ 35.78	—	\$ —	—	\$ —
Granted	103,767	57.84	160,315	57.70	104,456	44.28
Vested	(8,955)	27.23	—	—	—	—
Forfeited	—	—	—	—	—	—
Unvested at December 31, 2020	131,844	\$ 53.72	160,315	\$ 57.70	104,456	\$ 44.28

The fair value of performance-based and service-based restricted stock awards is based on the closing market price of the Company's Class A common stock on the date of grant. The fair value of the TSR awards is estimated on grant date using the Monte Carlo valuation method. Compensation cost for restricted stock awards is recognized using the straight-line method over the requisite service period, which for each of the awards is the service vesting period. As of December 31, 2020 and December 26, 2019, total unrecognized compensation cost related to unvested restricted stock awards was \$15.2 million and \$1.1 million, respectively. The unrecognized compensation cost remaining as of December 31, 2020 is expected to be recognized over a weighted average period of 2.6 years.

The total fair value of restricted stock awards that vested during the fiscal years ended December 31, 2020 and December 26, 2019 was \$0.5 million and \$0.5 million, respectively. No restricted stock awards vested during fiscal 2018.

Employee Stock Purchase Plan

At our 2018 annual meeting of stockholders held on May 17, 2018, our stockholders approved the Floor & Decor Holdings, Inc. Employee Stock Purchase Plan (the "ESPP"), which became available to substantially all of our employees beginning in the third quarter of fiscal 2018. The ESPP is a tax-qualified plan under Section 423 of the Internal Revenue Code, and it permits eligible employees to purchase shares of our common stock through payroll deductions, subject to certain limitations. The Company has designated a purchase price per share of common stock acquired under the ESPP at the lesser of 90% of the lower of the fair market value of our common stock on either the first or last trading day of each six-month offering period. There are 1,500,000 shares of our Class A common stock, par value \$0.001 per share, approved for issuance under the ESPP, 56,389 and 104,363 of which were issued during fiscal 2020 and fiscal 2019, respectively. During fiscal 2020, fiscal 2019, and fiscal 2018, the Company recognized \$0.7 million, \$0.5 million, and \$0.3 million, respectively, of stock-based compensation expense related to the ESPP.

Deferred Compensation Plan

In October 2019, the Company adopted the 2019 Director Nonqualified Excess Plan (the "Plan") to provide for certain employees or independent contractors of the employer (including directors) to elect to defer compensation, including restricted stock grants, until they separate from service. The Plan is intended to be a nonqualified deferred compensation plan that complies with the provisions of Section 409A of the Internal Revenue Code and is effective for compensation starting in fiscal 2020. Deferrals and related compensation expense under the Plan were immaterial in fiscal 2020.

12. Earnings Per Share

Net Income per Common Share

The Company calculates basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of common shares outstanding adjusted for the dilutive effect of share-based awards.

The following table shows the computation of basic and diluted earnings per share for the periods presented:

<i>in thousands, except per share data</i>	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019	Fiscal Year Ended December 27, 2018
Net income	\$ 194,981	\$ 150,631	\$ 116,187
Basic weighted average shares outstanding	102,690	99,435	96,770
Dilutive effect of share-based awards	3,452	5,527	7,791
Diluted weighted average shares outstanding	106,142	104,962	104,561
Basic earnings per share	\$ 1.90	\$ 1.51	\$ 1.20
Diluted earnings per share	\$ 1.84	\$ 1.44	\$ 1.11

The following potentially dilutive securities were excluded from the calculation of diluted earnings per share as a result of their anti-dilutive effect:

<i>in thousands</i>	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 26, 2019	Fiscal Year Ended December 27, 2018
Stock options	320	971	298

13. Selected Quarterly Financial Information (unaudited)

The following tables present the Company's unaudited quarterly results for fiscal 2020 and fiscal 2019.

(in thousands, except per share data)	Fiscal 2020			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$ 554,937	\$ 462,352	\$ 684,847	\$ 723,652
Gross profit	236,032	196,692	294,628	307,540
Net income	37,063	32,004	68,774	57,140
Basic earnings per share	0.36	0.31	0.67	0.55
Diluted earnings per share	0.35	0.30	0.65	0.54

(in thousands, except per share data)	Fiscal 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$ 477,050	\$ 520,311	\$ 521,093	\$ 527,002
Gross profit	201,374	217,823	213,788	230,029
Net income	30,720	43,596	40,974	35,341
Basic earnings per share	0.31	0.44	0.41	0.35
Diluted earnings per share	0.29	0.42	0.39	0.34

14. Subsequent Event*Fifth Amendment to Term Loan Facility*

On February 9, 2021, (the "Fifth Amendment Effective Date"), the Company entered into a fifth amendment to the Term Loan Facility which among other things, (a) refinanced the existing term loan B-1 facility with a new term facility in an aggregate principal amount of \$65.0 million with a maturity date of February 14, 2027 (the "Supplemental Term Loan Facility"), and has the same terms as the Term Loan B Facility and (b) provides that voluntary prepayments of the Term Loan Facility made within six (6) months after the Fifth Amendment Effective Date are subject to a 1% soft call prepayment premium.

The margin applicable to the Supplemental Term Loans Facility is the same as the margin applicable to the Term Loan B Facility, which is: (x) in the case of ABR Loans (as defined in the Term Loan Facility), 1.00% per annum (subject to satisfying a leverage ratio test and subject to a leverage-based step-up to 1.25% if such leverage ratio test is exceeded), and (y) in the case of Eurodollar Loans (as defined in the Term Loan Facility), 2.00% per annum (subject to satisfying a leverage ratio test and subject to a leverage-based step-up to 2.25% if such leverage ratio test is exceeded) (subject to a 0.00% floor on Eurodollar Loans).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2020, our disclosure controls and procedures were effective.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), pursuant to Rule 13a-15(c) of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

A company’s internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2020, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on this assessment, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2020.

Ernst & Young LLP, our independent registered public accounting firm, has issued an unqualified opinion on the effectiveness of internal control over financial reporting as of December 31, 2020, which is included in “Part II, Item 8 - Financial Statements and Supplementary Data.”

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during the fourth quarter of our fiscal year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item will be contained in our definitive Proxy Statement in connection with our 2020 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2020 (the “Proxy Statement”), and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item will be set forth in the Proxy Statement and is incorporated herein by reference, under the captions “Director Compensation,” “Executive Compensation” and “Compensation Discussion and Analysis;” provided, however, that the subsection entitled “Executive Compensation—Compensation Committee Report” shall not be deemed to be incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item will be set forth in the Proxy Statement and is incorporated herein by reference, under the captions “Securities Authorized for Issuance under Equity Compensation Plans” and “Certain Beneficial Owners.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item will be set forth in the Proxy Statement and is incorporated herein by reference, under the captions “Certain Relationships and Related Transactions,” and “Other Board Information—Director Independence.”

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The Information required under this Item will be included in the Proxy Statement and is incorporated herein by reference, under the caption “Ratification of Appointment of Independent Registered Public Accounting Firm.”

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- (a) **Documents filed as part of the Annual Report:**
1. **Financial Statements filed in Part II, Item 8 of this Annual Report:**
Reports of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2020 and December 26, 2019
Consolidated Statements of Operations and Comprehensive Income for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018
Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018
Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended December 31, 2020, December 26, 2019, and December 27, 2018
Notes to Consolidated Financial Statements
2. **Financial Statement Schedules:**
There are no Financial Statement Schedules included with this filing for the reason that they are not applicable or are not required or the information is included in the financial statements or notes thereto
3. **Exhibits:**
- | Exhibit No | |
|-------------------|---|
| 3.1 | Restated Certificate of Incorporation of Floor & Decor Holdings, Inc.(1) |
| 3.2 | Second Amended and Restated Bylaws of Floor & Decor Holdings, Inc.(1) |
| 4.1 | Specimen Class A Common Stock Certificate(2) |
| 4.2 | Registration Rights Agreement, dated May 2, 2017, by and among Floor & Decor Holdings, Inc., Ares Corporate Opportunities Fund III, L.P., FS Equity Partners VI, L.P. and the other stockholders party thereto(3) |
| 4.3 | Description of Securities |
| 10.1 | FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(4)# |
| 10.2 | First Amendment to FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(4)# |
| 10.3 | Second Amendment to FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(4)# |
| 10.4 | Third Amendment to FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(4)# |
| 10.5 | Fourth Amendment to FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(5)# |
| 10.6 | Form of Stock Option Agreement under the FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(4)# |
| 10.7 | Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan(3)# |
| 10.8 | Form of Stock Option Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan(2)# |
| 10.9 | Form of Restricted Stock Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan(4)# |
| 10.10 | Form of Performance Restricted Stock Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan(12)# |
| 10.11 | Form of Indemnification Agreement by and between Floor & Decor Holdings, Inc. and its directors and officers |
| 10.12 | Second Amended and Restated Employment Agreement, dated February 3, 2020, between Floor and Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Thomas V. Taylor(12)# |
| 10.13 | Consulting Agreement, dated December 3, 2012, by and between Floor and Decor Outlets of America, Inc., FDO Holdings, Inc. and George Vincent West(4)# |
| 10.14 | First Amendment, dated March 11, 2019, to Consulting Agreement by and between Floor and Decor Outlets of America, Inc., FDO Holdings, Inc., and George Vincent West (10)# |
| 10.15 | Second Amended and Restated Employment Agreement, dated February 3, 2020, between Floor and Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Lisa G. Laube(12)# |
| 10.16 | Second Amended and Restated Employment Agreement, dated February 3, 2020, between Floor and Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Trevor S. Lang(12)# |
| 10.17 | Second Amended and Restated Employment Agreement, dated February 3, 2020, between Floor and Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and David V. Christopherson(12)# |
| 10.18 | Amended and Restated Employment Agreement, dated February 3, 2020, between Floor and Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Brian K. Robbins(12)# |

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10.19	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Thomas V. Taylor(16)#
10.20	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and David V. Christopherson(16)#
10.21	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Brian K. Robbins(16)#
10.22	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Trevor S. Lang(16)#
10.23	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Lisa G. Laube(16)#
10.24	Floor & Decor Holdings, Inc Employee Stock Purchase Plan(6)#
10.25	First Amendment to Floor & Decor Holdings, Inc. Employee Stock Purchase Plan(7)#
10.26	Second Amendment to Floor & Decor Holdings, Inc. Employee Stock Purchase Plan(8)#
10.27	Amended and Restated Credit Agreement, dated as of September 30, 2016, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent and Swing Line Lender, Wells Fargo Bank, National Association, as Term Loan Agent, the lenders from time to time party thereto, Bank of America, N.A., as Syndication Agent, and Wells Fargo Bank, National Association and Merrill Lynch, Pierce and Fenner & Smith Incorporated, as Joint Lead Arrangers and Joint Bookrunners(4)
10.28	Amended and Restated Security Agreement, dated as of September 30, 2016, by and among Floor and Decor Outlets of America, Inc., the other borrowers and guarantors party thereto from time to time, Wells Fargo Bank, National Association, as Collateral Agent, and Wells Fargo Bank, National Association, as Administrative Agent(4)
10.29	Credit Agreement, dated as of September 30, 2016, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., the lenders from time to time parties thereto, UBS AG, Stamford Branch, as Administrative Agent and Collateral Agent, and UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Bank PLC, Goldman Sachs Bank USA and Wells Fargo Securities LLC, as Joint Lead Arrangers and Joint Bookrunners(4)
10.30	Security Agreement, dated as of September 30, 2016, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., the other loan parties from time to time party thereto and UBS AG, Stamford Branch, as Collateral Agent and Administrative Agent and the lenders party thereto(4)
10.31	Guaranty Agreement, dated as of September 30, 2016, by FDO Acquisition Corp. in favor of UBS AG, Stamford Branch, as Collateral Agent, and UBS AG, Stamford Branch, as Administrative Agent and the lenders party thereto(4)
10.32	Amendment No. 1 to Credit Agreement, dated as of March 31, 2017, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., the other loan parties from time to time party thereto, the lenders from time to time party thereto, and UBS AG, Stamford Branch, as Administrative Agent and Collateral Agent(4)
10.33	Amendment No. 2 to Credit Agreement, dated as of November 22, 2017, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., the other loan parties from time to time party thereto, the lenders from time to time party thereto, and UBS AG, Stamford Branch, as Administrative Agent and Collateral Agent(9)
10.34	Amendment No. 3 to Credit Agreement and Amendment No. 1 to Security Agreement, dated as of February 14, 2020, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., FD Sales Company, LLC, the lenders from time to time parties thereto and UBS AG, Stamford Branch, as Administrative Agent and Collateral Agent (13)
10.35	Amendment No. 4 and Incremental Term Loan Agreement to Credit Agreement, dated as of May 18, 2020, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., FD Sales Company, LLC, the lenders from time to time parties thereto and UBS AG, Stamford Branch, as Administrative Agent and Collateral Agent (14)
10.36	Amendment No. 5 and Incremental Term Loan Agreement to Credit Agreement, dated as of February 9, 2021, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., FD Sales Company LLC, the lenders party thereto, UBS AG, Stamford Branch, as Administrative Agent and Collateral Agent and Golub Capital LLC, as Additional Initial Term Loan Arranger (15)
10.37	Floor & Decor Holdings, Inc., Incentive Compensation Recoupment Policy (11)#
10.38	Floor & Decor Holdings, Inc. Director Nonqualified Excess Plan
21.1	List of subsidiaries(4)
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document

101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File- the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

Denotes a management contract or compensatory plan or arrangement.

- (1) Filed as an exhibit to Amendment No. 4 to the Registrant's Registration Statement on Form S-1 (File No. 333-216000) filed with the SEC on April 24, 2017, and incorporated herein by reference.
- (2) Filed as an exhibit to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-216000) filed with the SEC on April 17, 2017, and incorporated herein by reference.
- (3) Filed as an exhibit to the Registrant's Form 8-K (File No. 001-38070) filed with the SEC on May 2, 2017, and incorporated herein by reference.
- (4) Filed as an exhibit to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-216000) filed with the SEC on April 7, 2017, and incorporated herein by reference.
- (5) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-221525) filed with the SEC on November 13, 2017, and incorporated herein by reference.
- (6) Filed as Annex A to the Registrant's Definitive Proxy Statement (File No. 001-38070), filed with the SEC on March 27, 2018, and incorporated herein by reference.
- (7) Filed as Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 (File No. 333-225092), filed with the SEC on May 22, 2018, and incorporated herein by reference.
- (8) Filed as Exhibit 10.1 to the Registrant's Form 10-Q (File No. 001-38070) filed with the SEC on November 1, 2018, and incorporated herein by reference.
- (9) Filed as Exhibit 10.23 to the Registrant's Form 10-K (File No. 001-38070) filed with the SEC on March 5, 2018, and incorporated herein by reference.
- (10) Filed as Exhibit 10.1 to the Registrant's Form 10-Q (File No. 001-38070) filed with the SEC on May 2, 2019, and incorporated herein by reference.
- (11) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 001-38070) filed with the SEC on May 2, 2019, and incorporated herein by reference.
- (12) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 001-38070) filed with the SEC on February 4, 2020, and incorporated herein by reference.
- (13) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 001-38070) filed with the SEC on February 19, 2020, and incorporated herein by reference.
- (14) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 001-38070) filed with the SEC on May 18, 2020, and incorporated herein by reference.
- (15) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 001-38070) filed with the SEC on February 9, 2021, and incorporated herein by reference.
- (16) Filed as an exhibit to the Registrant's Form 10-Q (File No. 001-38070) filed with the SEC on April 30, 2020, and incorporated herein by reference.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLOOR & DECOR HOLDINGS, INC.

Date: February 25, 2021

/s/ Thomas V. Taylor

Thomas V. Taylor
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated on February 25, 2021.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Thomas V. Taylor</u> Thomas V. Taylor	Chief Executive Officer (Principal Executive Officer) and Director	February 25, 2021
<u>/s/ Trevor S. Lang</u> Trevor S. Lang	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2021
<u>/s/ Norman H. Axelrod</u> Norman H. Axelrod	Chairman of the Board	February 25, 2021
<u>/s/ George Vincent West</u> George Vincent West	Vice Chairman of the Board	February 25, 2021
<u>/s/ David B. Kaplan</u> David B. Kaplan	Director	February 25, 2021
<u>/s/ Ryan R. Marshall</u> Ryan R. Marshall	Director	February 25, 2021
<u>/s/ Kamy Scarlett</u> Kamy Scarlett	Director	February 25, 2021
<u>/s/ Peter M. Starrett</u> Peter M. Starrett	Director	February 25, 2021
<u>/s/ Richard L. Sullivan</u> Richard L. Sullivan	Director	February 25, 2021
<u>/s/ Felicia D. Thornton</u> Felicia D. Thornton	Director	February 25, 2021
<u>/s/ Charles D. Young</u> Charles D. Young	Director	February 25, 2021

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

Floor & Decor Holdings, Inc. (the "Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934. In this Exhibit 4.1, when we refer to "Floor & Decor," the "Company," "we," "us" or "our" or when we otherwise refer to ourselves, we mean Floor & Decor Holdings, Inc. excluding, unless otherwise expressly stated or the context requires, our subsidiaries; all references to "common stock" refer only to common stock issued by us and not to any common stock issued by any subsidiary.

DESCRIPTION OF COMMON STOCK

The general terms and provisions of our common stock are summarized below. This summary does not purport to be complete and is subject to, and is qualified in its entirety by express reference to, the provisions of our Restated Certificate of Incorporation (our "Certificate of Incorporation") and our Second Amended and Restated Bylaws (our "Bylaws"), each of which is filed as an exhibit to the Annual Report on Form 10K of which this Exhibit 4.4 is a part. We encourage you to read our Certificate of Incorporation and Bylaws, and the applicable provisions of the Delaware General Corporation Law (the "DGCL") for additional information.

(a) Common Stock, \$0.01 par value per share

As of December 31, 2020, our authorized capital stock consisted of (i) 450,000,000 shares of Class A common stock, \$0.001 par value per share, (ii) 10,000,000 shares of Class B common stock, \$0.001 par value per share, (iii) 30,000,000 shares of Class C common stock, \$0.001 par value per share, and (iv) 10,000,000 shares of preferred stock, \$0.001 par value per share. As of December 31, 2020, 104,368,212 shares of Class A common stock were outstanding and no shares of our Class B common stock, Class C common stock, or preferred stock were outstanding. Our shares of Class A common stock and Class C common stock are convertible into each other under certain circumstances described in more detail below and otherwise generally have the same rights except that shares of Class C Common Stock are non-voting while shares of Class A Common Stock are entitled to one vote per share.

Our Class A common stock is listed on the New York Stock Exchange under the ticker symbol "FND." Under Delaware law, our stockholders generally will not be personally liable for our debts or obligations.

Dividend Rights

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of funds legally available at the times and in the amounts that our board of directors may determine.

Voting Rights

Each holder of our Class A common stock is entitled to one vote for each share of Class A common stock held on all matters submitted to a vote of stockholders. Holders of our Class C common stock are not entitled to vote, except as required under Delaware law. Our stockholders do not have cumulative voting rights.

Conversion Rights

Shares of our Class C common stock are automatically converted into shares of our Class A common stock on a one for one basis if the holder of such Class C common stock is not FS Equity Partners VI, L.P. and FS Affiliates VI, L.P., funds affiliated with Freeman Spogli Management Co., L.P. (collectively "Freeman Spogli") or any of its affiliates. In addition, any shares of Class C common stock held by Freeman Spogli or any of its affiliates may be converted into shares of our Class A Common Stock at any time on a one for one basis so long as at such time either Ares Management Corporation ("Ares") and its affiliates or Freeman Spogli and its affiliates do not own more than 24.9% of our Class A common stock after giving effect to any such conversion. In addition, shares of our Class A common stock held by Freeman Spogli or any of its affiliates are convertible into shares of our Class C common stock, in whole or in part, at any time and from time to time at the election of Freeman Spogli or any of its affiliates, on a one for one basis and otherwise generally have the same rights except that shares of Class C Common Stock are non-voting while shares of Class A Common Stock are entitled to one vote per share. No shares of our Class C Common Stock are currently outstanding.

Preemptive or Similar Rights

Our common stock is not entitled to preemptive rights and is not subject to redemption. The rights of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that our board of directors may designate and issue in the future.

Liquidation Rights

Upon our liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time after payment of liquidation preferences, if any, on any outstanding shares of preferred stock and payment of other claims of creditors.

Exclusive Venue

Our Certificate of Incorporation requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the DGCL or our Certificate of Incorporation or Bylaws or (iv) any action asserting a claim against us governed by the internal affairs doctrine will have to be brought only in the Court of Chancery in the State of Delaware. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers. Although we have included an exclusive venue provision in our Certificate of Incorporation, it is possible that a court could rule that such provision is inapplicable or unenforceable. In addition, this provision would not affect the ability of our stockholders to seek remedies under the federal securities laws.

(b) Provisions of our Certificate of Incorporation or Bylaws may have the effect of delaying, deferring or preventing a change in control.

We are governed by the DGCL. Our Certificate of Incorporation and Bylaws contain certain provisions that could have the effect of delaying, deterring or preventing another party from acquiring control of us. These provisions, which are summarized below, may discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate more favorable terms with an unfriendly or unsolicited acquirer outweigh the disadvantages of potentially discouraging a proposal to acquire us.

Undesignated Preferred Stock

As discussed above, our board of directors has the ability to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire control of us. These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of us.

Limits on Ability of Stockholders to Act by Written Consent or Call a Special Meeting

Our Certificate of Incorporation provides that our stockholders may not act by written consent unless Ares and Freeman Spogli collectively own a majority of our outstanding Class A common stock, which may lengthen the amount of time required to take stockholder actions. As a result, except for Ares or Freeman Spogli, a holder controlling a majority of our capital stock would not be able to amend our Bylaws or remove directors without holding a meeting of our stockholders called in accordance with our Bylaws. In addition, our Certificate of Incorporation provides that special meetings of the stockholders may be called only by the chairperson of our board or our board of directors. Stockholders may not call a special meeting, which may delay the ability of our stockholders to force consideration of a proposal or for holders controlling a majority of our capital stock to take any action, including the removal of directors.

Requirements for Advance Notification of Stockholder Nominations and Proposals

Our Bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee of our board of directors. These provisions may have the effect of precluding the conduct of certain

business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

Board Classification

Our board of directors is divided into three classes, one class of which is elected each year by our stockholders. The directors in each class will serve for a three-year term. The classification of our board of directors and the limitations on the ability of our stockholders to remove directors could make it more difficult for a third-party to acquire, or discourage a third-party from seeking to acquire, control of us.

Removal of Directors; Vacancies

Directors may only be removed for cause by the affirmative vote of at least a majority of the voting power of our common stock. Our board of directors has the sole power to fill any vacancy on the board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise.

No Cumulative Voting

Our Certificate of Incorporation and Bylaws do not permit cumulative voting in the election of directors. Cumulative voting allows a stockholder to vote a portion or all of the stockholder's shares for one or more candidates for seats on the board of directors. Without cumulative voting, a minority stockholder may not be able to gain as many seats on our board of directors as the stockholder would be able to gain if cumulative voting were permitted. The absence of cumulative voting makes it more difficult for a minority stockholder to gain a seat on our board of directors to influence our board of directors' decision regarding a takeover or otherwise.

Amendment of Charter and Bylaw Provisions

The amendment of certain of the above provisions of our Certificate of Incorporation requires approval by holders of at least two-thirds of our outstanding Class A common stock. In addition, under the DGCL, an amendment to our Certificate of Incorporation that would alter or change the powers, preferences or special rights of our Class C common stock so as to affect them adversely also must be approved by a majority of the votes entitled to be cast by the holders of the shares affected by the amendment, voting as a separate class. Our Certificate of Incorporation provides that our board of directors may from time to time adopt, amend, alter or repeal our Bylaws by a vote of a majority of our board of directors without stockholder approval and that our stockholders may adopt, amend, alter or repeal our Bylaws by the affirmative vote of the holders of at least two-thirds of our outstanding Class A common stock.

Delaware Anti-Takeover Statute

Our Certificate of Incorporation provides that we are not governed by Section 203 of the DGCL, which, in the absence of such provision, would have imposed additional requirements regarding mergers and other business combinations.

The provisions of our Certificate of Incorporation and Bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, might also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions might also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders might otherwise deem to be in their best interests.

Corporate Opportunity

Our Certificate of Incorporation provides that no officer or director of ours who is also an officer, director, employee, managing director or other affiliate of Ares or Freeman Spogli will be liable to us or our stockholders for breach of any fiduciary duty by reason of the fact that any such individual directs a corporate opportunity to our Sponsors instead of us, or does not communicate information regarding a corporate opportunity to us that the officer, director, employee, managing director or other affiliate has directed to Ares or Freeman Spogli.

Limitations of Liability, Indemnification and Advancement

Our Certificate of Incorporation and Bylaws provide that we will indemnify and advance expenses to our directors and officers, and may indemnify and advance expenses to our employees and other agents, to the fullest extent

permitted by Delaware law, which prohibits our Certificate of Incorporation from limiting the liability of our directors for the following:

any breach of the director's duty of loyalty to us or to our stockholders;

acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

unlawful payment of dividends or unlawful stock repurchases or redemptions; and

any transaction from which the director derived an improper personal benefit.

If Delaware law is amended to authorize corporate action further eliminating or limiting the personal liability of a director, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law, as so amended. Our Certificate of Incorporation does not eliminate a director's duty of care and, in appropriate circumstances, equitable remedies, such as injunctive or other forms of non-monetary relief, remain available under Delaware law. This provision also does not affect a director's responsibilities under any other laws, such as the federal securities laws or other state or federal laws. Under our Certificate of Incorporation and Bylaws, we are also empowered to purchase insurance on behalf of any person whom we are required or permitted to indemnify.

In addition to the indemnification and advancement of expenses required in our Certificate of Incorporation and Bylaws, we have entered into indemnification agreements with each of our current directors and executive officers. These agreements provide for the indemnification of, and the advancement of expenses to, such persons for all reasonable expenses and liabilities, including attorneys' fees, judgments, fines and settlement amounts, incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were serving in such capacity. We believe that these charter and bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability, indemnification and advancement provisions in our Certificate of Incorporation and Bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and our stockholders. A stockholder's investment may be harmed to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. There is no material pending litigation or proceeding naming any of our directors or officers as to which indemnification is being sought, nor are we aware of any material pending or threatened litigation that may result in claims for indemnification or advancement by any director or officer.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC.

INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT (this "Agreement") is effective [●], by and among Floor & Decor Holdings, Inc., a Delaware corporation (the "Company"), [●] ("Indemnitee") and, with respect to its guarantee set forth on the signature pages hereto only, Floor and Decor Outlets of America, Inc., a Delaware corporation and wholly owned subsidiary of the Company ("F&D").

WHEREAS, it is essential to the Company to retain and attract the most capable persons available as directors and officers of the Company and its subsidiaries (including F&D);

WHEREAS, Indemnitee is a [**director**][**officer**] of the Company;

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability to enhance Indemnitee's continued service to the Company and its subsidiaries in an effective manner, the increasing difficulty in obtaining satisfactory directors' and officers' liability insurance coverage, and in part to provide Indemnitee with specific contractual assurance that indemnification will be available to Indemnitee (regardless of, among other things, any change in the composition of the Board or acquisition transaction relating to the Company), the Company and F&D wish to provide in this Agreement for the indemnification of and the advancing of Expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies;

NOW, THEREFORE, in consideration of the foregoing and of Indemnitee continuing to serve the Company and its subsidiaries (including F&D) directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain Definitions.

(a) "Affiliate" means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such first Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Securities or other ownership interests, by contract or otherwise.

(b) "beneficial owner" has the meaning set forth in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except that a Person shall be deemed to have beneficial ownership of all shares that such Person has the right to acquire, whether such right is exercisable immediately or only after the passage of time. The term "beneficially own" shall have a correlative meaning.

- (c) “Board” means the Board of Directors of the Company.
- (d) “Bylaws” means the bylaws of the Company, as the same may be amended or amended and restated from time to time.
- (e) “Change of Control” means the occurrence of any of the following events:

(i) a merger or consolidation in which (A) the Company is a constituent party or (B) a subsidiary of the Company is a constituent party and the Company issues shares of its capital stock pursuant to such merger or consolidation, in each case, unless the shares of capital stock of the Company outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for, shares of capital stock that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the capital stock of (1) the surviving or resulting entity, or (2) if the surviving or resulting entity is a wholly owned subsidiary of another entity immediately following such merger or consolidation, the parent entity of such surviving or resulting entity;

(ii) the sale, lease, transfer, exclusive license or other disposition (whether by merger, consolidation or otherwise), in a single transaction or series of related transactions, by the Company or any subsidiary of the Company of (A) all or substantially all of the assets of the Company and its subsidiaries taken as a whole, or (B) one or more subsidiaries of the Company if all or substantially all of the assets of the Company and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, in each case except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Company;

(iii) the acquisition, in a single transaction or a series of related transactions, by any person or group (within the meaning of Section 13(d) or 14(d) of the Exchange Act), of (A) beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of securities of the Corporation representing at least 50% of the combined voting power entitled to vote in the election of directors of the Company (including by means of the Company’s issuance of its capital stock or securities convertible into its capital stock) or (B) the contractual right to designate or elect 50% or more of the members of the Board;

(iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (together with any new members of the Board whose election by such Board or whose nomination for election by the equityholders of the Company was approved by a vote of the majority of the members of the Board then still in office who were either members of the Board at the beginning of such period or whose election or nomination for election was previously so approved including new members of the Board designated in or provided for in an agreement regarding the merger, consolidation or sale, transfer or other conveyance, of all or substantially all of the assets of the Company, if such agreement was approved by a vote of such majority of members of the Board) cease for any reason to constitute a majority of the Board then in office; or

(v) the adoption by the holders of capital stock of the Company of any plan or proposal for the liquidation or dissolution of the Company by way of merger, consolidation or otherwise.

(f) “Charter” means the certificate of incorporation of the Company, as the same may be amended or amended and restated from time to time.

(g) “Claim” means any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation, whether instituted by the Company or any other Person, that Indemnitee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other.

(h) “Expenses” means attorneys’ fees and all other costs, expenses and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any Claim relating to any Indemnifiable Event.

(i) “Indemnifiable Event” means any event or occurrence related to the fact that Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company or any subsidiary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by Indemnitee in any such capacity.

(j) “Independent Legal Counsel” means an attorney or firm of attorneys, selected in accordance with the provisions of Section 3, who shall not have otherwise performed services for the Company or Indemnitee within the last five years (other than with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements).

(k) “Person” means an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity.

(l) “Potential Change of Control” means (i) the Company entering into an agreement, the consummation of which would result in the occurrence of a Change of Control; (ii) any Person (including the Company) publicly announcing an intention to take or to consider taking actions that if consummated would constitute a Change of Control; or (iii) the Board adopting a resolution to the effect that, for purposes of this Agreement, a Potential Change of Control has occurred.

(m) “Reviewing Party” means Independent Legal Counsel or any Person or body consisting of a member or members of the Board or any other Person or body appointed by the Board who is not a party to the particular Claim for which Indemnitee is seeking indemnification.

(n) “Voting Securities” means any securities of the Company, the holders of which vote generally in the election of directors.

(o) For purposes of this Agreement, except as otherwise expressly provided herein, (i) the words “hereof,” “herein,” “hereto,” and “hereunder” and words of similar import refer to this Agreement as a whole and not to any particular provision hereof; (ii) the meaning assigned to each term defined herein is equally applicable to both the singular and the plural forms of such term and vice versa, and words denoting either gender include both genders; (iii) reference to any Person includes such Person’s successors and assigns, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually; (iv) reference to any agreement, document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof; (v) reference to any law, rule or regulation means such law, rule or regulation as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder, and reference to any section or other provision of any law, rule or regulation means that provision of such law, rule or regulation from time to time in effect and constituting the substantive amendment, modification, codification, replacement or reenactment of such section or other provision; (vi) numbered or lettered sections and subsections herein contained refer to sections and subsections of this Agreement; (vii) the term “dollars” and character “\$” mean United States dollars; (viii) the term “including” means “including, without limitation,” and the words “include” and “includes” have corresponding meanings, and such words do not limit any general statement that they follow to the specific or similar items or matters immediately following them; and (ix) the term “or” is not exclusive.

2. Basic Indemnification Arrangement.

(a) In the event Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee to the fullest extent permitted by law as soon as practicable but in any event no later than thirty days after written demand is presented to the Company, against any and all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of such Claim. If so requested by Indemnitee, the Company shall advance to the fullest extent permitted by law (within ten business days of such request) any and all Expenses to Indemnitee (an “Expense Advance”). Expense Advances shall be unsecured and interest free. Expense Advances shall be made without regard to Indemnitee’s ability to repay Expenses and without regard to Indemnitee’s ultimate entitlement to indemnification under the other provisions of this Agreement. Indemnitee shall qualify for Expense Advances upon the execution and delivery to the Company of this Agreement, which shall constitute an undertaking providing that Indemnitee undertakes to (1) repay the amounts advanced (without interest) to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company and (2) provide reasonably satisfactory documentation supporting such Expenses. Notwithstanding anything in this Agreement to the contrary, prior to a Change of Control, Indemnitee shall not be entitled to indemnification

pursuant to this Agreement in connection with any Claim initiated by Indemnitee unless the Board has authorized or consented to the initiation of such Claim.

(b) Notwithstanding the foregoing, the indemnification obligations of the Company under Section 2(a) shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion if Independent Legal Counsel referred to in Section 3 hereof is involved) that Indemnitee would not be permitted to be indemnified under applicable law; provided, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). If there has not been a Change of Control, the Reviewing Party shall be selected by the Board, and if there has been such a Change of Control (other than a Change of Control that has been approved by a majority of the Board who were directors immediately prior to such Change of Control), the Reviewing Party shall be the Independent Legal Counsel referred to in Section 3 hereof. If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnitee shall have the right to commence litigation in any court in the State of Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. If such litigation has not been commenced, any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnitee.

(c) If, prior to, during the pendency of or after completion of a Claim for which the Indemnitee is entitled to indemnification pursuant to Section 2(a) and Section 2(b), the Indemnitee is deceased, the Company shall indemnify the Indemnitee's heirs, executors and administrators against any and all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of such Claim to the extent the Indemnitee would have been entitled to indemnification pursuant to this Agreement were the Indemnitee still alive.

3. Change of Control. If there is a Change of Control (other than a Change of Control that has been approved by a majority of the members of the Board who were directors immediately prior to such Change of Control), then, with respect to all matters thereafter arising concerning the rights of Indemnitee to indemnity payments and Expense Advances under this Agreement or any other agreement or Bylaws now or hereafter in effect relating to Claims for Indemnifiable Events, the Company shall seek legal advice only from Independent Legal Counsel selected by Indemnitee and approved by the Board (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent Indemnitee would be permitted to be

indemnified under applicable law. The Company shall pay the reasonable fees of the Independent Legal Counsel referred to above and indemnify fully such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or the engagement of such counsel pursuant hereto.

4. Establishment of Trust. In the event of a Potential Change of Control, the Company shall, upon written request by Indemnitee, create a trust for the benefit of Indemnitee and from time to time upon written request of Indemnitee shall fund such trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for and defending any Claim relating to an Indemnifiable Event, and any and all judgments, fines, penalties and settlement amounts of any and all Claims relating to an Indemnifiable Event from time to time actually paid or claimed or reasonably anticipated or proposed to be paid, provided that in no event shall more than \$250,000 be required to be deposited in any trust created hereunder (and no more than \$1,000,000 in the aggregate with respect to any such trusts created under this Agreement and all indemnification agreements with directors and officers) in excess of amounts deposited in respect of reasonably anticipated Expenses. The amount or amounts to be deposited in the trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Party, in any case in which determination the Independent Legal Counsel referred to above is involved. The terms of the trust shall provide that upon a Change of Control (a) the trust shall not be revoked or the principal thereof invaded, without the written consent of Indemnitee, (b) the trustee shall advance, within ten business days of a request by Indemnitee, any and all Expenses to Indemnitee (and Indemnitee hereby agrees to reimburse the trust under the circumstances under which Indemnitee would be required to reimburse the Company under Section 2(a) of this Agreement), (c) the trust shall continue to be funded by the Company in accordance with the funding obligation set forth above, (d) the trustee shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (e) all unexpended funds in such trust shall revert to the Company upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that Indemnitee has been fully indemnified under the terms of this Agreement. The trustee shall be chosen by Indemnitee. Nothing in this Section 4 shall relieve the Company of any of its obligations under this Agreement.

5. Indemnification for Additional Expenses. The Company shall indemnify Indemnitee to the fullest extent permitted by applicable law against any and all Expenses (including attorneys' fees and retainers) and, if requested by Indemnitee, shall (within ten business days of such request) advance such Expenses to Indemnitee, that are incurred by Indemnitee in connection with any action brought by Indemnitee for (a) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or Bylaws now or hereafter in effect relating to Claims for Indemnifiable Events or (b) recovery under any directors' and officers' liability insurance policies maintained by the Company.

6. Partial Indemnity, Etc. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of a Claim but not, however, for all of

the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses incurred in connection therewith.

7. Contribution.

(a) Contribution Payment. To the extent the indemnification provided for under any provision of this Agreement is determined (in the manner herein provided) not to be permitted under applicable law, the Company, in lieu of indemnifying Indemnitee, shall, to the extent permitted by applicable law, contribute to the amount of any and all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of a Claim by reason of (or arising in part out of) an Indemnifiable Event incurred or paid by Indemnitee for which such indemnification is not permitted. The amount the Company contributes shall be in such proportion as is appropriate to reflect the relative fault of Indemnitee, on the one hand, and of the Company and any and all other parties (including directors and officers of the Company other than Indemnitee) who may be at fault (collectively, including the Company, the “Third Parties”), on the other hand.

(b) Relative Fault. The relative fault of the Third Parties and Indemnitee shall be determined (i) by reference to the relative fault of Indemnitee as determined by the court or other governmental agency or (ii) to the extent such court or other governmental agency does not apportion relative fault, by the Reviewing Party after giving effect to, among other things, the relative intent, knowledge, access to information and opportunity to prevent or correct the relevant events, of each party, and other relevant equitable considerations. The Company and Indemnitee agree that it would not be just and equitable if contribution were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in this Section 7(b).

8. Burden of Proof. In connection with any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified or to contribution hereunder the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

9. No Presumptions. For purposes of this Agreement, the termination or conclusion of any Claim, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnitee to

secure a judicial determination that Indemnitee should be indemnified under applicable law shall be a defense to Indemnitee's Claim or create a presumption that Indemnitee has not met any particular standard of conduct or did not have any particular belief.

10. Nonexclusivity. The rights of Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Company's Certificate of Incorporation or Bylaws, the Delaware General Corporation Law, the vote of the Company's stockholders or disinterested directors, other agreements or otherwise. To the extent that a change in the Delaware General Corporation Law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

11. Subrogation.

(a) If the Company makes any payment to or for the benefit of Indemnitee pursuant to the terms of this Agreement, the Company shall be subrogated to all of Indemnitee's rights, claims and interests against any Person with regard to the subject of the payment. The Company may proceed on any such claim immediately following any such payment by the Company to Indemnitee. Indemnitee agrees to execute and deliver any documents requested in good faith by the Company in connection with the Company's enforcement of Indemnitee's rights, claims and interests, including assignments of such rights, claims and interests. Any such assignment will include a warranty by Indemnitee that it owns the assigned rights, claims and interests free and clear of the claims and interests of any other Person.

12. Liability Insurance.

(a) The Company will use its reasonable best efforts to acquire directors and officers liability insurance, on terms and conditions deemed appropriate by the Board, with the advice of counsel, covering Indemnitee for any Claim made against Indemnitee for any Indemnifiable Event and covering the Company for any indemnification or advance of Expenses made by the Company to Indemnitee for any Claim made against Indemnitee for any Indemnifiable Event. In the event that the Company receives notice of cancellation of any policy providing such directors and officers liability insurance, it shall promptly give notice of such cancellation to Indemnitee.

(b) Without in any way limiting any other obligation under this Agreement, the Company shall indemnify Indemnitee for any payment by Indemnitee arising out of the amount of any deductible or retention and the amount of any excess of the aggregate of all judgments, penalties, fines, settlements and Expenses incurred by Indemnitee in connection with a Claim over the coverage of any insurance referred to in Section 12(a) above. The purchase, establishment and maintenance of any such insurance shall not in any way limit or affect the rights or obligations of the Company or Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and Indemnitee shall not in any way limit or affect the rights or obligations of the Company under any such insurance policies. If, at the time the Company receives notice from any source of a

Claim to which Indemnitee is a party or a participant (as a witness or otherwise) and the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Claim to the insurers in accordance with the procedures set forth in the respective policies.

13. Period of Limitations. To the fullest extent permitted by applicable law, no legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee or Indemnitee's spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of the occurrence of the events leading to such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, that if any shorter period of limitations is otherwise applicable to any such cause of action such shorter period shall govern.

14. Amendments, Etc. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

15. No Duplication of Payments. Except as otherwise provided in Section 11(a), the Company shall not be liable under this Agreement to make any payment in connection with any Claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, the Bylaws or otherwise) of the amounts otherwise indemnifiable hereunder.

16. Binding Effect, Etc. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), spouses, heirs, executors and personal and legal representatives. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director or officer of the Company or of any other enterprise at the Company's request.

17. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired and shall remain enforceable to the fullest extent permitted by law.

18. Integration and Entire Agreement. Subject to Section 10 hereof, this Agreement sets forth the entire understanding between the parties hereto and supersedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto. If the Company and Indemnitee have previously entered into an indemnification agreement providing for indemnification of

Indemnitee by the Company, the parties' entry into this Agreement shall be deemed to amend and restate such indemnification agreement to read in its entirety as, and to be superseded by, this Agreement.

19. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date set forth above.

FLOOR & DECOR HOLDINGS, INC.

By:
Its:

Signature Page to Indemnification Agreement

INDEMNITEE

[•]

Signature Page to Indemnification Agreement

Floor and Decor Outlets of America, Inc. hereby unconditionally guarantees the due and punctual payment and performance of all obligations of the Company under this Agreement in accordance with the terms set forth herein.

FLOOR AND DECOR OUTLETS OF AMERICA, INC.

By:
Its:

THE DIRECTOR NONQUALIFIED EXCESS PLAN PLAN DOCUMENT



THE DIRECTOR NONQUALIFIED EXCESS PLAN

Section 1. Purpose:

By execution of the Adoption Agreement, the Employer has adopted the Plan set forth herein, and in the Adoption Agreement, to provide a means by which certain management Employees or Independent Contractors of the Employer may elect to defer receipt of current Compensation from the Employer in order to provide retirement and other benefits on behalf of such Employees or Independent Contractors of the Employer, as selected in the Adoption Agreement. The Plan is intended to be a nonqualified deferred compensation plan that complies with the provisions of Section 409A of the Internal Revenue Code (the "Code"). The Plan is also intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA") and independent contractors. Notwithstanding any other provision of the Plan, the Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

Section 2. Definitions:

As used in the Plan, including this Section 2, references to one gender shall include the other, unless otherwise indicated by the context:

- a. "Active Participant" means, with respect to any day or date, a Participant who is in Service on such day or date; provided, that a Participant shall cease to be an Active Participant (i) immediately upon a determination by the Committee that the Participant has ceased to be an Employee or Independent Contractor, or (ii) at the end of the Plan Year that the Committee determines the Participant no longer meets the eligibility requirements of the Plan.
- b. "Adoption Agreement" means the written agreement pursuant to which the Employer adopts the Plan. The Adoption Agreement is a part of the Plan as applied to the Employer.
- c. "Beneficiary" means the person, persons, entity or entities designated or determined pursuant to the provisions of Section 13 of the Plan.
- d. "Board" means the Board of Directors of the Company, if the Company is a corporation. If the Company is not a corporation, "Board" shall mean the Company.
- e. "Change in Control Event" means an event described in Section 409A(a)(2)(A)(v) of the Code (or any successor provision thereto) and the regulations thereunder.
- f. "Committee" means the persons or entity designated in the Adoption Agreement to administer the Plan. If the Committee designated in the Adoption Agreement is unable to serve, the Employer shall satisfy the duties of the Committee provided for in Section 9.
- g. "Company" means the company designated in the Adoption Agreement as such.
- h. "Compensation" shall have the meaning designated in the Adoption Agreement.
- i. "Crediting Date" means the date designated in the Adoption Agreement for crediting the amount of any Participant Deferral Credits or Employer Credits to the Deferred Compensation Account of a Participant.
- j. "Deferred Compensation Account" means the account or accounts maintained with respect to each Participant under the Plan. The Deferred Compensation Account shall be credited with Participant Deferral Credits and Employer Credits, credited or debited for deemed

investment gains or losses, and adjusted for payments in accordance with the rules and elections in effect under Section 8. As permitted in the Adoption Agreement, the Deferred Compensation Account of a Participant may consist of one or more accounts including In-Service or Education Accounts, if applicable. A Participant may elect payment options for each account as described in Section 7.1 and deemed investments for each account as described in Section 8.2.

k. "Disabled or Disability" means Disabled or Disability within the meaning of Section 409A of the Code and the regulations thereunder. Generally, this means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering Employees of the Employer.

l. "Education Account" is an In-Service Account which will be used by the Participant for educational purposes.

m. "Effective Date" shall be the date designated in the Adoption Agreement.

n. "Employee" means an individual in the Service of the Employer if the relationship between the individual and the Employer is the legal relationship of employer and employee. An individual shall cease to be an Employee upon the Employee's Separation from Service.

o. "Employer" means the Company, as identified in the Adoption Agreement, and any Participating Employer which adopts this Plan. An Employer may be a corporation, a limited liability company, a partnership or sole proprietorship.

p. "Employer Credits" means the amounts credited to the Participant's Deferred Compensation Account by the Employer pursuant to the provisions of Section 4.2.

q. "Grandfathered Amounts" means, if applicable, the amounts that were deferred under the Plan and were earned and vested within the meaning of Section 409A of the Code and regulations thereunder as of December 31, 2004. Grandfathered Amounts shall be subject to the terms designated in the Plan which were in effect as of October 3, 2004.

r. "Independent Contractor" means an individual in the Service of the Employer if the relationship between the individual and the Employer is not the legal relationship of employer and employee. An individual shall cease to be an Independent Contractor upon the termination of the Independent Contractor's Service. An Independent Contractor shall include a director of the Employer who is not an Employee.

s. "In-Service Account" means a separate account to be kept for each Participant that has elected to take in-service distributions as described in Section 5.4. The In-Service Account shall be adjusted in the same manner and at the same time as the Deferred Compensation Account under Section 8 and in accordance with the rules and elections in effect under Section 8.

t. "Normal Retirement Age" of a Participant means the age designated in the Adoption Agreement.

u. "Participant" means with respect to any Plan Year an Employee or Independent Contractor who has been designated by the Committee as a Participant and who has entered the Plan or who has a Deferred Compensation Account under the Plan; provided that if the Participant is an Employee, the individual must be a highly compensated or management

employee of the Employer within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

v. "Participant Deferral Credits" means the amounts credited to the Participant's Deferred Compensation Account by the Employer pursuant to the provisions of Section 4.1.

w. "Participating Employer" means any trade or business (whether or not incorporated) which adopts this Plan with the consent of the Company identified in the Adoption Agreement.

x. "Participation Agreement" means a written agreement entered into between a Participant and the Employer pursuant to the provisions of Section 4.1.

y. "Performance-Based Compensation" means compensation where the amount of, or entitlement to, the compensation is contingent on the satisfaction of preestablished organizational or individual performance criteria relating to a performance period of at least twelve months. Organizational or individual performance criteria are considered preestablished if established in writing within 90 days after the commencement of the period of service to which the criteria relates, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-based compensation may include payments based upon subjective performance criteria as provided in regulations and administrative guidance promulgated under Section 409A of the Code.

z. "Plan" means The Director Nonqualified Excess Plan, as herein set out and as set out in the Adoption Agreement, or as duly amended. The name of the Plan as applied to the Employer shall be designated in the Adoption Agreement.

aa. "Plan-Approved Domestic Relations Order" shall mean a judgment, decree, or order (including the approval of a settlement agreement) which is:

i. Issued pursuant to a State's domestic relations law;

ii. Relates to the provision of child support, alimony payments or marital property rights to a Spouse, former Spouse, child or other dependent of the Participant;

iii. Creates or recognizes the right of a Spouse, former Spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan;

iv. Requires payment to such person of their interest in the Participant's benefits in a lump sum payment at a specific time; and

v. Meets such other requirements established by the Committee.

ab. "Plan Year" means the twelve-month period ending on the last day of the month designated in the Adoption Agreement; provided that the initial Plan Year may have fewer than twelve months.

ac. "Qualifying Distribution Event" means (i) the Separation from Service of the Participant, (ii) the date the Participant becomes Disabled, (iii) the death of the Participant, (iv) the time specified by the Participant for an In-Service or Education Distribution, (v) a Change in Control Event, or (vi) an Unforeseeable Emergency, each to the extent provided in Section 5.

ad. "Seniority Date" shall have the meaning designated in the Adoption Agreement.

ae. "Separation from Service" or "Separates from Service" means a "separation from service" within the meaning of Section 409A of the Code.

af. "Service" as an Employee means employment by the Employer. For purposes of the Plan, the employment relationship is treated as continuing intact while the Employee is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the Employee's right to reemployment is provided either by statute or contract. If the Participant is an Independent Contractor, "Service" shall mean the period during which the contractual relationship exists between the Employer and the Participant. The contractual relationship is not terminated if the Participant anticipates a renewal of the contract or becomes an Employee.

ag. "Service Bonus" means any bonus paid to a Participant by the Employer which is not Performance-Based Compensation.

ah. "Specified Employee" means an Employee who meets the requirements for key employee treatment under Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the regulations thereunder and without regard to Section 416(i)(5) of the Code) at any time during the twelve month period ending on December 31 of each year (the "identification date"). If the person is a key employee as of any identification date, the person is treated as a Specified Employee for the twelve-month period beginning on the first day of the fourth month following the identification date. Unless binding corporate action is taken to establish different rules for determining Specified Employees for all plans of the Company and its controlled group members that are subject to Section 409A of the Code, the foregoing rules and the other default rules under the regulations of Section 409A of the Code shall apply.

ai. "Spouse" or "Surviving Spouse" means, except as otherwise provided in the Plan, a person who is the legally married spouse or surviving spouse of a Participant.

aj. "Unforeseeable Emergency" means an "unforeseeable emergency" within the meaning of Section 409A of the Code.

ak. "Years of Service" means each Plan Year of Service completed by the Participant. For vesting purposes, Years of Service shall be calculated from the date designated in the Adoption Agreement and Service shall be based on service with the Company and all Participating Employers.

Section 3. Participation:

The Committee in its discretion shall designate each Employee or Independent Contractor who is eligible to participate in the Plan. A Participant who Separates from Service with the Employer and who later returns to Service will not be an Active Participant under the Plan except upon satisfaction of such terms and conditions as the Committee shall establish upon the Participant's return to Service, whether or not the Participant shall have a balance remaining in his Deferred Compensation Account under the Plan on the date of the return to Service.

Section 4. Credits to Deferred Compensation Account:

a. Participant Deferral Credits. To the extent provided in the Adoption Agreement, each Active Participant may elect, by entering into a Participation Agreement with the Employer, to defer the receipt of Compensation from the Employer by a dollar amount or percentage

specified in the Participation Agreement. The amount of Compensation the Participant elects to defer, the Participant Deferral Credit, shall be credited by the Employer to the Deferred Compensation Account maintained for the Participant pursuant to Section 8. The following special provisions shall apply with respect to the Participant Deferral Credits of a Participant:

i. The Employer shall credit to the Participant's Deferred Compensation Account on each Crediting Date an amount equal to the total Participant Deferral Credit for the period ending on such Crediting Date.

ii. An election pursuant to this Section 4.1 shall be made by the Participant by executing and delivering a Participation Agreement to the Committee. Except as otherwise provided in this Section 4.1, the Participation Agreement shall become effective with respect to such Participant as of the first day of January following the date such Participation Agreement is received by the Committee. A Participant's election may be changed at any time prior to the last permissible date for making the election as permitted in this Section 4.1, and shall thereafter be irrevocable. Any election of a Participant shall continue in effect for the time period as set forth in the Adoption Agreement and shall be described as evergreen or non-evergreen as appropriate.

iii. A Participant may execute and deliver a Participation Agreement to the Committee within 30 days after the date the Participant first becomes eligible to participate in the Plan. After the 30 day period expires, or after any shorter time period as agreed to by the Participant and the Committee, the latest election made by the Participant during that period becomes irrevocable. Such election shall then be effective as of the first payroll period commencing following the date the Participation Agreement becomes irrevocable. Whether a Participant is treated as newly eligible for participation under this Section shall be determined in accordance with Section 409A of the Code and the regulations thereunder, including (i) rules that treat all elective deferral account balance plans as one plan, and (ii) rules that treat a previously eligible Employee as newly eligible if his benefits had been previously distributed or if he has been ineligible for 24 months. For Compensation that is earned based upon a specified performance period (for example, an annual bonus), where a deferral election is made under this Section but after the beginning of the performance period, the election will only apply to the portion of the Compensation equal to the total amount of the Compensation for the service period multiplied by the ratio of the number of days remaining in the performance period after the date the election becomes irrevocable over the total number of days in the performance period.

iv. A Participant may unilaterally modify a Participation Agreement (either to terminate, increase or decrease the portion of his future Compensation which is subject to deferral within the percentage limits set forth in Section 4.1 of the Adoption Agreement) by providing a written modification of the Participation Agreement to the Committee. The modification shall become effective as of the first day of January following the date such written modification is received by the Committee, or at such later date as required under Section 409A of the Code.

v. If the Participant performed services continuously from the later of the beginning of the performance period or the date upon which the performance criteria are established through the date upon which the Participant makes an initial deferral election, a Participation Agreement relating to the deferral of Performance- Based Compensation may be executed and delivered to the Committee no later than the date which is 6 months prior to the end of the performance period; provided that in no event may an election to defer Performance-Based Compensation be made after such Compensation has become readily ascertainable.

vi. If the Employer has a fiscal year other than the calendar year, Compensation relating to Service in the fiscal year of the Employer (such as a bonus based on the fiscal year of the Employer), of which no amount is paid or payable during the fiscal year, may be deferred at the Participant's election if the election to defer is made not later than the close of the Employer's fiscal year next preceding the first fiscal year in which the Participant performs any services for which such Compensation is payable.

vii. Compensation payable after the last day of the Participant's taxable year solely for services provided during the final payroll period containing the last day of the Participant's taxable year (i.e., December 31) is treated for purposes of this Section 4.1 as Compensation for services performed in the subsequent taxable year.

viii. The Committee may from time to time establish policies or rules consistent with the requirements of Section 409A of the Code to govern the manner in which Participant Deferral Credits may be made.

ix. If a Participant becomes Disabled all currently effective deferral elections for such Participant shall be cancelled. At the time the participant is no longer Disabled, subsequent elections to defer future compensation will be permitted under this Section 4.

x. If a Participant applies for and receives a distribution on account of an Unforeseeable Emergency, all currently effective deferral elections for such Participant shall be cancelled. Subsequent elections to defer future compensation will be permitted under this Section 4.

xi. If a Participant receives a hardship distribution from a 401(k) or a 403(b) plan that requires all currently effective deferral elections under all plans maintained by the Employer to be cancelled, then all currently effective deferral elections shall be cancelled until the later of the beginning of the next calendar year or six months after the date of the hardship distribution. Subsequent elections to defer future compensation under this Section 4 will not be effective until the later of the beginning of the next calendar year or six months after the date of the hardship distribution. If the effective date of such an election occurs after the beginning of the next calendar year, as permitted by the Employer, a Participant may make elections for the next calendar year prior to January

1st of the next calendar year, but these elections will not become effective until the end of the six- month waiting period.

b. Employer Credits. If designated by the Employer in the Adoption Agreement, the Employer shall cause the Committee to credit to the Deferred Compensation Account of each Active Participant an Employer Credit as determined in accordance with the Adoption Agreement. A Participant must make distribution elections with respect to any Employer Credits credited to his Deferred Compensation Account by the deadline that would apply under Section 4.1 for distribution elections with respect to Participant Deferral Credits credited at the same time, on a Participation Agreement that is timely executed and delivered to the Committee pursuant to Section 4.1. If no distribution election is made, vested amounts in the Deferred Compensation Account will be distributed in a lump sum upon the earliest of any Qualifying Distribution Event limited to Separation from Service, Disability, Death or Change in Control Event.

c. Deferred Compensation Account. All Participant Deferral Credits and Employer Credits shall be credited to the Deferred Compensation Account of the Participant as provided in Section 8.

Section 5. Qualifying Distribution Events:

a. Separation from Service. If the Participant Separates from Service with the Employer, the vested balance in the Deferred Compensation Account shall be paid to the Participant by the Employer as provided in Section 7. Notwithstanding the foregoing, no distribution shall be made earlier than six months after the date of Separation from Service (or, if earlier, the date of death) with respect to a Participant who as of the date of Separation from Service is a Specified Employee of a corporation the stock in which is traded on an established securities market or otherwise. Any payments to which such Specified Employee would be entitled during the first six months following the date of Separation from Service shall be accumulated and paid on the first day of the seventh month following the date of Separation from Service, and shall be adjusted for deemed investment gain and loss incurred during the six month period.

b. Disability. If the Employer designates in the Adoption Agreement that distributions are permitted under the Plan when a Participant becomes Disabled, and the Participant becomes Disabled while in Service, the vested balance in the Deferred Compensation Account shall be paid to the Participant by the Employer as provided in Section 7.

c. Death. If the Participant dies while in Service, the Employer shall pay a benefit to the Participant's Beneficiary in the amount designated in the Adoption Agreement. Payment of such benefit shall be made by the Employer as provided in Section 7.

d. In-Service or Education Distributions. If the Employer designates in the Adoption Agreement that in-service or education distributions are permitted under the Plan, a Participant may designate in the Participation Agreement to have a specified amount credited to the Participant's In-Service or Education Account for in-service or education distributions at the date specified by the Participant. In no event may an in- service or education distribution of an amount be made before the date that is two years after the first day of the year in which any deferral

election to such In-Service or Education Account became effective. Notwithstanding the foregoing, if a Participant incurs a Qualifying Distribution Event prior to the date on which the entire balance in the In-Service or Education Account has been distributed, then the vested balance in the In-Service or Education Account on the date of the Qualifying Distribution Event shall be paid as provided under Section 7.1 for payments on such Qualifying Distribution Event.

e. Change in Control Event. If the Employer designates in the Adoption Agreement that distributions are permitted under the Plan upon the occurrence of a Change in Control Event, the Participant may designate in the Participation Agreement to have the vested balance in the Deferred Compensation Account paid to the Participant upon a Change in Control Event by the Employer as provided in Section 7.

f. Unforeseeable Emergency. If the Employer designates in the Adoption Agreement that distributions are permitted under the Plan upon the occurrence of an Unforeseeable Emergency event, a distribution from the Deferred Compensation Account may be made to a Participant in the event of an Unforeseeable Emergency, subject to the following provisions:

i. A Participant may, at any time prior to his Separation from Service for any reason, make application to the Committee to receive a distribution in a lump sum of all or a portion of the vested balance in the Deferred Compensation Account (determined as of the date the distribution, if any, is made under this Section 5.6) because of an Unforeseeable Emergency. A distribution because of an Unforeseeable Emergency shall not exceed the amount required to satisfy the Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of such distribution, after taking into account the extent to which the Unforeseeable Emergency may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship) or by stopping current deferrals under the Plan pursuant to Section 4.1.10.

ii. The Participant's request for a distribution on account of Unforeseeable Emergency must be made in writing to the Committee. The request must specify the nature of the financial hardship, the total amount requested to be distributed from the Deferred Compensation Account, and the total amount of the actual expense incurred or to be incurred on account of the Unforeseeable Emergency.

iii. If a distribution under this Section 5.6 is approved by the Committee, such distribution will be made as soon as practicable following the date it is approved. The processing of the request shall be completed as soon as practicable from the date on which the Committee receives the properly completed written request for a distribution on account of an Unforeseeable Emergency. If a Participant's Separation from Service occurs after a request is approved in accordance with this Section 5.6.3, but prior to distribution of the full amount approved, the approval of the request shall be automatically null and void and the benefits which the Participant is entitled to receive under the Plan shall be distributed in accordance with the applicable distribution provisions of the Plan.

iv. The Committee may from time to time adopt additional policies or rules consistent with the requirements of Section 409A of the Code to govern the manner in which such distributions may be made so that the Plan may be conveniently administered.

Section 6. Vesting:

A Participant shall be fully vested in the portion of his Deferred Compensation Account attributable to Participant Deferral Credits, and all income, gains and losses attributable thereto. A Participant shall become fully vested in the portion of his Deferred Compensation Account attributable to Employer Credits, and income, gains and losses attributable thereto, in accordance with the vesting schedule and provisions designated by the Employer in the Adoption Agreement. If a Participant's Deferred Compensation Account is not fully vested upon Separation from Service, the portion of the Deferred Compensation Account that is not fully vested shall thereupon be forfeited.

Section 7. Distribution Rules:

a. Payment Options. The Employer shall designate in the Adoption Agreement the payment options which may be elected by the Participant (lump sum, annual installments, or a combination of both). Different payment options may be made available for each Qualifying Distribution Event, and different payment options may be available for different types of Separations from Service, all as designated in the Adoption Agreement. The Participant shall elect in the Participation Agreement the method under which the vested balance in the Deferred Compensation Account will be distributed from among the designated payment options. The Participant may at such time elect a different method of payment for each Qualifying Distribution Event as specified in the Adoption Agreement. If the Participant is permitted by the Employer in the Adoption Agreement to elect different payment options and does not make a valid election, the vested balance in the Deferred Compensation Account will be distributed as a lump sum upon the Qualifying Distribution Event.

Notwithstanding the foregoing, if certain Qualifying Distribution Events occur prior to the date on which the vested balance of a Participant's Deferred Compensation Account is completely paid pursuant to this Section 7.1 following the occurrence of certain Qualifying Distribution Events, the following rules apply:

i. If the currently effective Qualifying Distribution Event is a Separation from Service or Disability, and the Participant subsequently dies, the remaining unpaid vested balance of a Participant's Deferred Compensation Account shall be paid as a lump sum.

ii. If the currently effective Qualifying Distribution Event is a Change in Control Event, and any subsequent Qualifying Distribution Event occurs (except an In-Service or Education Distribution described in Section 2.29(iv)), the remaining unpaid vested balance of a Participant's Deferred Compensation Account shall be paid as provided under Section 7.1 for payments on such subsequent Qualifying Distribution Event.

b. **Timing of Payments.** Payment shall be made in the manner elected by the Participant and shall commence as soon as practicable after (but no later than 60 days after) the distribution date specified for the Qualifying Distribution Event. For each payment, the Committee must specify a date for the Deferred Compensation Account(s) to be valued. In the event the Participant fails to make a valid election of the payment method, the distribution will be made in a single lump sum payment as soon as practicable after (but no later than 60 days after) the Qualifying Distribution Event. A payment may be further delayed to the extent permitted in accordance with regulations and guidance under Section 409A of the Code.

c. **Installment Payments.** If the Participant elects to receive installment payments upon a Qualifying Distribution Event, the payment of each installment shall be made on the anniversary of the date of the first installment payment, and the amount of the installment shall be adjusted on such anniversary for credits or debits to the Participant's account pursuant to Section 8 of the Plan. Such adjustment shall be made by dividing the balance in the Deferred Compensation Account on such date by the number of installments remaining to be paid hereunder; provided that the last installment due under the Plan shall be the entire amount credited to the Participant's account on the date of payment.

d. **De Minimis Amounts.** Notwithstanding any payment election made by the Participant, if the Employer designates a pre-determined de minimis amount in the Adoption Agreement, the vested balance in all Deferred Compensation Accounts of the Participant will be distributed in a single lump sum payment if at the time of a permitted Qualifying Distribution Event the vested balance does not exceed such pre-determined de minimis amount; provided, however, that such distribution will be made only where the Qualifying Distribution Event is a Separation from Service, death, Disability (if applicable) or Change in Control Event (if applicable). Such payment shall be made on or before the later of (i) December 31 of the calendar year in which the Qualifying Distribution Event occurs, or (ii) the date that is 2-1/2 months after the Qualifying Distribution Event occurs. In addition, the Employer may distribute a Participant's vested balance in all of the Participant's Deferred Compensation Accounts at any time if the balance does not exceed the limit in Section 402(g)(1)(B) of the Code and results in the termination of the Participant's entire interest in the Plan as provided under Section 409A of the Code.

e. **Subsequent Elections.** With the consent of the Committee, a Participant may delay or change the method of payment of the Deferred Compensation Account subject to the following requirements:

i. The new election may not take effect until at least 12 months after the date on which the new election is made.

ii. If the new election relates to a payment for a Qualifying Distribution Event other than the death of the Participant, the Participant becoming Disabled, or an Unforeseeable Emergency, the new election must provide for the deferral of the payment for a period of at least five years from the date such payment would otherwise have been made.

iii. If the new election relates to a payment from the In-Service or Education Account, the new election must be made at least 12 months prior to the date of the first scheduled payment from such account.

For purposes of this Section 7.5 and Section 7.6, a payment is each separately identified amount to which the Participant is entitled under the Plan; provided, that entitlement to a series of installment payments is treated as the entitlement to a single payment.

f. Acceleration Prohibited. The acceleration of the time or schedule of any payment due under the Plan is prohibited except as expressly provided in regulations and administrative guidance promulgated under Section 409A of the Code (such as accelerations for domestic relations orders and employment taxes). It is not an acceleration of the time or schedule of payment if the Employer waives or accelerates the vesting requirements applicable to a benefit under the Plan.

g. Residual Distributions. If calculation of the amount of any credit to a Participant's Deferred Compensation Account is not administratively practicable due to events beyond the control of the Employer, payments may be made to the Participant for residual amounts contributed to or remaining in a Deferred Compensation Account after payments under the provisions of this Section 7 have commenced or been completed. The residual amount shall be credited to the Deferred Compensation Account when the calculation of the amount becomes administratively practicable. Examples of residual amounts include, but are not limited to, additional investment returns credited after payment (due to dividends or pricing changes) or additional contributions made after payment (such as an annual bonus deferral or an Employer Credit). Payments that would have been made had the residual amount been calculable at the benefit commencement date shall be made up as soon as practicable after crediting to the Deferred Compensation Account, in no case later than the end of the year in which calculation of the amount becomes administratively practicable.

h. Ineffective Deferrals. If a Participant deferral election under Section 4 to contribute to an In-Service or Education Account carries over to a subsequent year (an evergreen election) and the deferral election is ineffective (i.e., the distribution election would cause payment in the current or prior years), the amount deferred will be credited to a Deferred Compensation Account that is not an In-Service or Education Account. If the Participant only has one account of this type, the amount deferred will be credited to that account. If the Participant has multiple accounts of this type, and one of the accounts has a lump sum at Separation from Service distribution election, the amount deferred will be credited to that account. If the Participant has multiple accounts of this type and does not have an account with a lump sum at Separation from Service distribution election, one will be established with a lump sum at Separation from Service distribution election and the amount deferred will be credited to this account.

Section 8. Accounts; Deemed Investment; Adjustments to Account:

a. Accounts. The Committee shall establish a book reserve account, entitled the "Deferred Compensation Account," on behalf of each Participant. The Committee shall also establish an In-Service or Education Account as a part of the Deferred Compensation Account of each Participant, if applicable. The amount credited to the Deferred Compensation Account shall be adjusted pursuant to the provisions of Section 8.3.

b. Deemed Investments. The Deferred Compensation Account of a Participant shall be credited with an investment return determined as if the account were invested in one or more investment funds made available by the Committee. The Participant shall elect the investment

funds in which his Deferred Compensation Account shall be deemed to be invested. Such election shall be made in the manner prescribed by the Committee and shall take effect upon the entry of the Participant into the Plan. The investment election of the Participant shall remain in effect until a new election is made by the Participant. In the event the Participant fails for any reason to make an effective election of the investment return to be credited to his account, the investment return shall be determined by the Committee.

c. Adjustments to Deferred Compensation Account. With respect to each Participant who has a Deferred Compensation Account under the Plan, the amount credited to such account shall be adjusted by the following debits and credits, at the times and in the order stated:

i. The Deferred Compensation Account shall be debited each business day with the total amount of any payments made from such account since the last preceding business day to him or for his benefit. Unless otherwise specified by the Employer, each deemed investment fund will be debited pro-rata based on the value of the investment funds as of the end of the preceding business day.

ii. The Deferred Compensation Account shall be credited on each Crediting Date with the total amount of any Participant Deferral Credits and Employer Credits to such account since the last preceding Crediting Date.

iii. The Deferred Compensation Account shall be credited or debited on each day securities are traded on a national stock exchange with the amount of deemed investment gain or loss resulting from the performance of the deemed investment funds elected by the Participant in accordance with Section 8.2. The amount of such deemed investment gain or loss shall be determined by the Committee and such determination shall be final and conclusive upon all concerned.

Section 9. Administration by Committee:

a. Membership of Committee. If the Committee consists of individuals appointed by the Board, they will serve at the pleasure of the Board. Any member of the Committee may resign, and his successor, if any, shall be appointed by the Board.

b. General Administration. The Committee shall be responsible for the operation and administration of the Plan and for carrying out its provisions. The Committee shall have the full authority and discretion to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with this Plan. Any such action taken by the Committee shall be final and conclusive on any party. To the extent the Committee has been granted discretionary authority under the Plan, the Committee's prior exercise of such authority shall not obligate it to exercise its authority in a like fashion thereafter. The Committee shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel, consultant, professional advisor, agent or other person employed or engaged by the Employer or the Committee with respect to the Plan. The Committee may, from time to time as it deems advisable, to the extent permitted by applicable law and stock exchange rules: (i) delegate its responsibilities to officers or Employees of the Employer, including delegating authority to officers to execute agreements or other

documents on behalf of the Committee; and (ii) engage actuaries, accountants, controllers, counsels, consultants, professional advisors, agents or other persons to assist in the administration of the Plan. Expenses incurred by the Committee or the Board in the engagement of any such Person shall be paid by the Company.

c. Indemnification. To the extent not covered by insurance, the Employer shall indemnify the Committee, each Employee, officer, director, and agent of the Employer, and all persons formerly serving in such capacities, against any and all liabilities or expenses, including all legal fees relating thereto, arising in connection with the exercise of their duties and responsibilities with respect to the Plan; provided, however, that the Employer shall not indemnify any person for liabilities or expenses due to that person's own gross negligence or willful misconduct.

Section 10. Contractual Liability, Trust:

a. Contractual Liability. Unless otherwise elected in the Adoption Agreement, the Company shall be obligated to make all payments hereunder. This obligation shall constitute a contractual liability of the Company to the Participants, and such payments shall be made from the general funds of the Company. The Company shall not be required to establish or maintain any special or separate fund, or otherwise to segregate assets to assure that such payments shall be made, and the Participants shall not have any interest in any particular assets of the Company by reason of its obligations hereunder. To the extent that any person acquires a right to receive payment from the Company under the Plan, such right shall be no greater than the right of an unsecured creditor of the Company.

b. Trust. The Employer may establish a trust to assist it in meeting its obligations under the Plan. Any such trust shall conform to the requirements of a grantor trust under Revenue Procedures 92-64 and 92-65 and at all times during the continuance of the trust the principal and income of the trust shall be subject to claims of general creditors of the Employer under federal and state law. The establishment of such a trust would not be intended to cause Participants to realize current income on amounts contributed thereto, and the trust would be so interpreted and administered.

Section 11. Allocation of Responsibilities:

The persons responsible for the Plan and the duties and responsibilities allocated to each are as follows:

a. Board.

- i. To amend the Plan;
- ii. To appoint and remove members of the Committee; and
- iii. To terminate the Plan as permitted in Section 14.

b. Committee.

- i. To designate Participants;
- ii. To interpret the provisions of the Plan and to determine the rights of the Participants under the Plan, except to the extent otherwise provided in Section 16 relating to claims procedure;

- iii. To administer the Plan in accordance with its terms, except to the extent powers to administer the Plan are specifically delegated to another person or persons as provided in the Plan;
- iv. To account for the amount credited to the Deferred Compensation Account of a Participant;
- v. To direct the Employer in the payment of benefits;
- vi. To file such reports as may be required with the United States Department of Labor, the Internal Revenue Service and any other government agency to which reports may be required to be submitted from time to time; and
- vii. To administer the claims procedure to the extent provided in Section 16.

Section 12. Benefits Not Assignable; Facility of Payments:

- a. **Benefits Not Assignable.** No portion of any benefit credited or paid under the Plan with respect to any Participant shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be void, nor shall any portion of such benefit be in any manner payable to any assignee, receiver or any one trustee, or be liable for his debts, contracts, liabilities, engagements or torts.
- b. **Plan-Approved Domestic Relations Orders.** The Committee shall establish procedures for determining whether an order directed to the Plan is a Plan- Approved Domestic Relations Order. If the Committee determines that an order is a Plan- Approved Domestic Relations Order, the Committee shall cause the payment of amounts pursuant to or segregate a separate account as provided by (and to prevent any payment or act which might be inconsistent with) the Plan-Approved Domestic Relations Order notwithstanding Section 12.1.
- c. **Payments to Minors and Others.** If any individual entitled to receive a payment under the Plan shall be physically, mentally or legally incapable of receiving or acknowledging receipt of such payment, the Committee, upon the receipt of satisfactory evidence of his incapacity and satisfactory evidence that another person or institution is maintaining him and that no guardian or committee has been appointed for him, may cause any payment otherwise payable to him to be made to such person or institution so maintaining him. Payment to such person or institution shall be in full satisfaction of all claims by or through the Participant to the extent of the amount thereof.

Section 13. Beneficiary:

The Participant's Beneficiary shall be the person, persons, entity or entities designated by the Participant on the Beneficiary designation form provided by and filed with the Committee or its designee. If the Participant does not designate a Beneficiary, the Beneficiary shall be his Surviving Spouse. If the Participant does not designate a Beneficiary and has no Surviving Spouse, the Beneficiary shall be the Participant's estate. The designation of a Beneficiary may be changed or revoked only by filing a new Beneficiary designation form with the Committee or its designee. If a Beneficiary (the "primary Beneficiary") is receiving or is entitled to receive

payments under the Plan and dies before receiving all of the payments due him, the balance to which he is entitled shall be paid to the contingent Beneficiary, if any, named in the Participant's current Beneficiary designation form. If there is no contingent Beneficiary, the balance shall be paid to the estate of the primary Beneficiary. Any Beneficiary may disclaim all or any part of any benefit to which such Beneficiary shall be entitled hereunder by filing a written disclaimer with the Committee before payment of such benefit is to be made. Such a disclaimer shall be made in a form satisfactory to the Committee and shall be irrevocable when filed. Any benefit disclaimed shall be payable from the Plan in the same manner as if the Beneficiary who filed the disclaimer had predeceased the Participant.

Section 14. Amendment and Termination of Plan:

The Company may amend any provision of the Plan or terminate the Plan at any time; provided, that in no event shall such amendment or termination reduce the balance in any Participant's Deferred Compensation Account as of the date of such amendment or termination, nor shall any such amendment materially adversely affect the Participant relating to the payment of such Deferred Compensation Account. Notwithstanding the foregoing, the following special provisions shall apply:

a. Termination in the Discretion of the Employer. Except as otherwise provided in Sections 14.2, the Company in its discretion may terminate the Plan and distribute benefits to Participants subject to the following requirements and any others specified under Section 409A of the Code:

i. All arrangements sponsored by the Employer that would be aggregated with the Plan under Section 1.409A-1(c) of the Treasury Regulations are terminated.

ii. No payments other than payments that would be payable under the terms of the Plan if the termination had not occurred are made within 12 months of the termination date.

iii. All benefits under the Plan are paid within 24 months of the termination date.

iv. The Employer does not adopt a new arrangement that would be aggregated with the Plan under Section 1.409A-1(c) of the Treasury Regulations providing for the deferral of compensation at any time within 3 years following the date of termination of the Plan.

v. The termination does not occur proximate to a downturn in the financial health of the Employer.

b. Termination Upon Change in Control Event. If the Company terminates the Plan within thirty days preceding or twelve months following a Change in Control Event, the Deferred Compensation Account of each Participant shall become payable to the Participant in a lump sum within twelve months following the date of termination, subject to the requirements of Section 409A of the Code.

Section 15. Communication to Participants:

The Employer shall make a copy of the Plan available for inspection by Participants and their beneficiaries during reasonable hours at the principal office of the Employer.

Section 16. Claims Procedure:

The following claims procedure shall apply with respect to the Plan:

- a. Filing of a Claim for Benefits. If a Participant or Beneficiary (the “claimant”) believes that he is entitled to benefits under the Plan which are not being paid to him or which are not being accrued for his benefit, he shall file a written claim therefore with the Committee.
- b. Notification to Claimant of Decision. Within 90 days after receipt of a claim by the Committee (or within 180 days if special circumstances require an extension of time), the Committee shall notify the claimant of the decision with regard to the claim. In the event of such special circumstances requiring an extension of time, there shall be furnished to the claimant prior to expiration of the initial 90-day period written notice of the extension, which notice shall set forth the special circumstances and the date by which the decision shall be furnished. If such claim shall be wholly or partially denied, notice thereof shall be in writing and worded in a manner calculated to be understood by the claimant, and shall set forth: (i) the specific reason or reasons for the denial; (ii) specific reference to pertinent provisions of the Plan on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and (iv) an explanation of the procedure for review of the denial and the time limits applicable to such procedures, including a statement of the claimant’s right to bring a civil action under ERISA following an adverse benefit determination on review.
- c. Procedure for Review. Within 60 days following receipt by the claimant of notice denying his claim, in whole or in part, or, if such notice shall not be given, within 60 days following the latest date on which such notice could have been timely given, the claimant may appeal denial of the claim by filing a written application for review with the Committee. Following such request for review, the Committee shall fully and fairly review the decision denying the claim. Prior to the decision of the Committee, the claimant shall be given an opportunity to review pertinent documents and to submit issues and comments in writing.
- d. Decision on Review. The decision on review of a claim denied in whole or in part by the Committee shall be made in the following manner:
 - i. Within 60 days following receipt by the Committee of the request for review (or within 120 days if special circumstances require an extension of time), the Committee shall notify the claimant in writing of its decision with regard to the claim. In the event of such special circumstances requiring an extension of time, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension.
 - ii. With respect to a claim that is denied in whole or in part, the decision on review shall set forth specific reasons for the decision, shall be written in a manner calculated to be understood by the claimant, and shall set forth:
 1. the specific reason or reasons for the adverse determination;

2. specific reference to pertinent Plan provisions on which the adverse determination is based;
3. a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
4. a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain the information about such procedures, as well as a statement of the claimant's right to bring an action under ERISA Section 502(a).

iii. The decision of the Committee shall be final and conclusive.

e. Action by Authorized Representative of Claimant. All actions set forth in this Section 16 to be taken by the claimant may likewise be taken by a representative of the claimant duly authorized by him to act in his behalf on such matters. The Committee may require such evidence of the authority to act of any such representative as it may reasonably deem necessary or advisable.

f. Disability Claims

Notwithstanding any provision of the Plan to the contrary, if a claim for benefits is based on Disability, the following claims procedures shall apply: The Committee shall maintain a procedure under which any Participant or Beneficiary can file a claim for benefits under this Plan based on Disability.

i. After receiving a claim for benefits, the Committee will notify the Participant or Beneficiary of its claim determination within 45 days of the receipt of the claim. This period may be extended by 30 days if an extension is necessary to process the claim due to matters beyond the control of the Committee. A written notice of the extension, the reason for the extension and when the Committee expects to decide the claim, will be furnished to the Participant or Beneficiary within the initial 45-day period. This period may be extended for an additional 30 days beyond the original extension. A written notice of the additional extension, the reason for the additional extension and when the Committee expects to decide the claim, will be furnished to the Participant or Beneficiary within the first 30-day extension period if an additional extension of time is needed. However, if a period of time is extended due to a Participant or Beneficiary's failure to submit information necessary to decide a claim, the period for making the benefit determination by the Committee will be tolled from the date on which the notification of the extension is sent to the Participant or Beneficiary until the date on which the Participant or Beneficiary responds to the request for additional information.

ii. If a claim for benefits is denied, in whole or in part, a Participant or Beneficiary or his or her authorized representative, will receive a written notice of the denial. The notice will follow the rules of 29 C.F.R. § 2560.503-1(o) for culturally and

linguistically appropriate notices and will be written in a manner calculated to be understood by the Participant or Beneficiary. The notice will include:

1. the specific reason(s) for the denial,
2. references to the specific Plan provisions on which the benefit determination was based,
3. a description of any additional material or information necessary to perfect a claim and an explanation of why such information is necessary,
4. a description of the Committee's appeals procedures and applicable time limits, including, to the extent applicable, a statement of the right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on review,
5. a discussion of the decision, including an explanation of the basis for disagreeing with or not following: (i) the views presented by the claimant to the Committee of health care professionals treating the claimant and vocational professionals who evaluated the claimant; (ii) the views of medical or vocational experts whose advice was obtained on behalf of the Committee in connection with a claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the benefit determination; and (iii) a disability determination regarding the claimant presented by the claimant to the Committee made by the Social Security Administration,
6. if the determination is based on medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the relevant medical circumstances, or a statement that such explanation will be provided free of charge upon request,
7. either the specific internal rules, guidelines, protocols, standards or other similar criteria of the Plan relied upon in making the adverse benefit determination, or a statement that such rules, guidelines, protocols, standards, or other similar criteria of the Plan do not exist, and
8. a statement that the Participant or Beneficiary is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to his or her claim for benefits.

iii. If a claim for benefits is denied, a Participant or Beneficiary, or his or her representative, may appeal the denied claim in writing within 180 days of receipt of the written notice of denial. The Participant or Beneficiary may submit any written comments, documents, records and any other information relating to the claim. Upon request, the Participant or Beneficiary will also have access to, and the right to obtain copies of, all documents, records and information relevant to his or her claim free of charge.

iv. A full review of the information in the claim file and any new information submitted to support the appeal will be conducted. The claim decision will be made by a first review appeals committee appointed by the Employer. This committee will consist of individuals who were not involved in the initial benefit determination, nor will such individuals be subordinate to any person involved in the initial benefit determination. This review will not afford any deference to the initial benefit determination.

v. If the initial adverse decision was based in whole or in part on a medical judgment, the first review appeals committee will consult with a healthcare professional who has appropriate training and experience in the field of medicine involved in the medical judgment, was not consulted in the initial adverse benefit determination and is not a subordinate of the healthcare professional who was consulted in the initial adverse benefit determination.

vi. Before an adverse benefit determination on review is issued, the first review appeals committee will provide the Participant or Beneficiary, free of charge, with any new or additional evidence considered, relied upon, or generated by the committee or other person making the benefit determination (or at the direction of the committee or such other person) in connection with the claim. Such evidence will be provided as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the Participant or Beneficiary a reasonable opportunity to respond prior to that date.

vii. Before the first review appeals committee issues an adverse benefit determination on review based on a new or additional rationale, the committee will provide the Participant or Beneficiary, free of charge, with the rationale. The rationale will be provided as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the Participant or Beneficiary a reasonable opportunity to respond prior to that date.

viii. The first review appeals committee will make a determination on an appealed claim within 45 days of the receipt of an appeal request. This period may be extended for an additional 45 days if the committee determines that special circumstances require an extension of time. A written notice of the extension, the reason for the extension and the date that the committee expects to render a decision will be furnished to the Participant or Beneficiary within the initial 45-day period. However, if the period of time is extended due to a Participant's or Beneficiary's failure to submit information necessary to decide the appeal, the period for making the benefit determination will be

tolled from the date on which the notification of the extension is sent until the date on which the Participant or Beneficiary responds to the request for additional information.

ix. If the claim on appeal is denied in whole or in part, a Participant or Beneficiary will receive a written notification of the denial. The notice will follow the rules of 29 C.F.R. § 2560.503-1(o) for culturally and linguistically appropriate notices and will be written in a manner calculated to be understood by the claimant. The notice will include:

1. the specific reason(s) for the adverse determination,
2. references to the specific Plan provisions on which the determination was based,
3. a statement regarding the right to receive upon request and free of charge reasonable access to, and copies of, all records, documents and other information relevant to the benefit claim,
4. a description of the first review appeals committee's review procedures and applicable time limits, including a statement of the right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review,
5. a discussion of the decision, including an explanation of the basis for disagreeing with or not following: (i) the views presented by the claimant to the committee of health care professionals treating the claimant and vocational professionals who evaluated the claimant; (ii) the views of medical or vocational experts whose advice was obtained by or on behalf of the committee in connection with a claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the benefit determination; and (iii) a disability determination regarding the claimant presented by the claimant to the committee made by the Social Security Administration,
6. if the determination is based on medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Plan to the relevant medical circumstances, or a statement that such explanation will be provided free of charge upon request, and
7. either the specific internal rules, guidelines, protocols, standards or other similar criteria of the Plan relied upon in making the adverse benefit determination, or a statement that such rules,

guidelines, protocols, standards, or other similar criteria of the Plan do not exist.

x. If the appeal of the benefit claim denial is denied, a Participant or Beneficiary, or his or her representative, may make a second appeal of the denial in writing to the Committee within 180 days of the receipt of the written notice of denial. The Participant or Beneficiary may submit with the second appeal any written comments, documents, records and any other information relating to the claim. Upon request, the Participant or Beneficiary will also have access to, and the right to obtain copies of, all documents, records and information relevant to the claim free of charge.

xi. Upon receipt of the second appeal, a full review of the information in the claim file and any new information submitted to support the appeal will be conducted. The claim decision will be made by a second review appeals committee appointed by the Employer. This committee will consist of individuals who were not involved in the initial benefit determination or the first review appeals committee, nor will such individuals be subordinate to any person involved in the initial benefit or first appeal determination.

xii. If the first appeal was based in whole or in part on a medical judgment, the second appeals review committee will consult with a healthcare professional who has appropriate training and experience in the field of medicine involved in the medical judgment, was not consulted in the initial adverse benefit determination nor in the first appeal and is not a subordinate of the healthcare professional(s) consulted in the initial adverse benefit determination and first appeal.

xiii. Before the second appeals review committee issues a denial of the second claim appeal, the committee will provide the Participant or Beneficiary, free of charge, with any new or additional evidence considered, relied upon, or generated by the committee or other person making the benefit determination (or at the direction of the committee or such other person) in connection with the claim. Such evidence will be provided as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the Participant or Beneficiary a reasonable opportunity to respond prior to that date.

xiv. Before the second review appeals committee issues a denial of the second claim appeal based on a new or additional rationale, the committee will provide the Participant or Beneficiary, free of charge, with the rationale. The rationale will be provided as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the Participant or Beneficiary a reasonable opportunity to respond prior to that date.

xv. The second appeals review committee will make a determination on the second claim appeal within 45 days of the receipt of the appeal request. This period may be extended for an additional 45 days if the committee determines that special circumstances require an extension of time. A written notice of the extension, the reason for the extension and the date that the committee expects to render a decision will be

furnished to the Participant or Beneficiary within the initial 45-day period. However, if the period of time is extended due to the Participant's or Beneficiary's failure to submit information necessary to decide the appeal, the period for making the benefit determination will be tolled from the date on which the notification of the extension is sent until the date on which the Participant or Beneficiary responds to the request for additional information.

xvi. If the claim on appeal is denied in whole or in part for a second time, the Participant or Beneficiary will receive a written notification of the denial. The notice will follow the rules of 29 C.F.R. § 2560.503-1(o) for culturally and linguistically appropriate notices and will be written in a manner calculated to be understood by the applicant. The notice will include the same information that was included in the first adverse determination letter and will identify the contractual limitations period that applies to the Participant's or Beneficiary's right to bring an action under section 502(a) of ERISA including the calendar date on which the contractual limitations period expires for the claim.

xvii. A claimant may not commence a judicial proceeding against any person, including the Committee, the Employer, the Board, the first or second appeals review committee(s), or any other person or committee, with respect to a claim for benefits without first exhausting the claims procedures set forth in the preceding paragraphs. No suit or legal action contesting in whole or in part any denial of benefits under the Plan shall be commenced later than the earlier of (i) the first anniversary of (A) the date of the notice of the Committee's final decision on appeal, or (B) if the claimant fails to request any level of administrative review within the timeframe permitted under this Section 16.6, the deadline for requesting the next level of administrative review, and (ii) the last date on which such legal action could be commenced under the applicable statute of limitations under ERISA (including, for this purpose, any applicable state statute of limitations that applies under ERISA to such legal action).

xviii. A claimant has the right to request a written explanation of any violation of these claims procedures. The Committee will provide an explanation within 10 days of the request.

Section 17. Miscellaneous Provisions:

a. Set off. The Employer may at any time offset a Participant's Deferred Compensation Account by an amount up to \$5,000 to collect the amount of any loan, cash advance, extension of other credit or other obligation of the Participant to the Employer that is then due and payable in accordance with the requirements of Section 409A of the Code.

b. Notices. Each Participant who is not in Service and each Beneficiary shall be responsible for furnishing the Committee or its designee with his current address for the mailing of notices and benefit payments. Any notice required or permitted to be given to such Participant or Beneficiary shall be deemed given if directed to such address and mailed by regular United States mail, first class, postage prepaid. If any check mailed to such address is returned as

undeliverable to the addressee, mailing of checks will be suspended until the Participant or Beneficiary furnishes the proper address. This provision shall not be construed as requiring the mailing of any notice or notification otherwise permitted to be given by posting or by other publication.

c. **Lost Distributees.** A benefit shall be deemed forfeited if the Committee is unable to locate the Participant or Beneficiary to whom payment is due by the fifth anniversary of the date payment is to be made or commence; provided, that the deemed investment rate of return pursuant to Section 8.2 shall cease to be applied to the Participant's account following the first anniversary of such date; provided further, however, that such benefit shall be reinstated if a valid claim is made by or on behalf of the Participant or Beneficiary for all or part of the forfeited benefit.

d. **Reliance on Data.** The Employer and the Committee shall have the right to rely on any data provided by the Participant or by any Beneficiary. Representations of such data shall be binding upon any party seeking to claim a benefit through a Participant, and the Employer and the Committee shall have no obligation to inquire into the accuracy of any representation made at any time by a Participant or Beneficiary.

e. **Headings.** The headings and subheadings of the Plan have been inserted for convenience of reference and are to be ignored in any construction of the provisions hereof.

f. **Continuation of Employment or Service.** The establishment of the Plan shall not be construed as conferring any legal or other rights upon any Employee or any persons for continuation of employment or any Independent Contractors for continuation of service, nor shall it interfere with the right of the Employer to discharge any Employee or Independent Contractor or to deal with him without regard to the effect thereof under the Plan.

g. **Merger or Consolidation; Assumption of Plan.** No Employer shall consolidate or merge into or with another corporation or entity, or transfer all or substantially all of its assets to another corporation, partnership, trust or other entity (a "Successor Entity") unless such Successor Entity shall assume the rights, obligations and liabilities of the Employer under the Plan and upon such assumption, the Successor Entity shall become obligated to perform the terms and conditions of the Plan. Nothing herein shall prohibit the assumption of the obligations and liabilities of the Employer under the Plan by any Successor Entity.

Construction. The Employer shall designate in the Adoption Agreement the state according to whose laws the provisions of the Plan shall be construed and enforced, except to the extent that such laws are superseded by ERISA and the applicable requirements of the Code.

h. **Taxes.** The Employer or other payor may withhold a benefit payment under the Plan or a Participant's wages, or the Employer may reduce a Participant's Deferred Compensation Account balance, in order to meet any federal, state, or local or employment tax withholding obligations with respect to Plan benefits, as permitted under Section 409A of the Code. The Employer or other payor shall report Plan payments and other Plan-related information to the appropriate governmental agencies as required under applicable laws.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-217474) pertaining to the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan & FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan, and
- (2) Registration Statement (Form S-8 No. 333-225092) pertaining to the Floor & Decor Holdings, Inc. Employee Stock Purchase Plan;

of our reports dated February 25, 2021, with respect to the consolidated financial statements of Floor & Decor Holdings, Inc. and the effectiveness of internal control over financial reporting of Floor & Decor Holdings, Inc. included in this Annual Report (Form 10-K) of Floor & Decor Holdings, Inc. for the year ended December 31, 2020.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 25, 2021

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas V. Taylor, certify that:

1. I have reviewed this annual report on Form 10-K of Floor & Decor Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

/s/ Thomas V. Taylor

Thomas V. Taylor
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Trevor S. Lang, certify that:

1. I have reviewed this annual report on Form 10-K of Floor & Decor Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2021

/s/ Trevor S. Lang

Trevor S. Lang

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of Floor & Decor Holdings, Inc. (the "Company"), for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Periodic Report"), Thomas V. Taylor, as Chief Executive Officer of the Company, and Trevor S. Lang, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that, to the best of his knowledge:

1. The Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §78m or 78o(d)); and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 25, 2021

/s/ Thomas V. Taylor

Thomas V. Taylor
Chief Executive Officer
(Principal Executive Officer)

Dated: February 25, 2021

/s/ Trevor S. Lang

Trevor S. Lang
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

A signed original of this written statement as required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.