

**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 29, 2022

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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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 30, 2022, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was \$6.7 billion. There were 106,194,463 shares of Common Stock outstanding as of February 20, 2023.

**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 28, 2023, 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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## 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 within the meaning of the federal securities laws. All statements other than statements of historical fact contained in this Annual Report, including statements regarding our future operating results and financial position, expectations related to our acquisition of Spartan Surfaces, Inc. (“Spartan”), business strategy and plans, objectives of management for future operations, and the impact of the coronavirus (COVID-19) pandemic, are forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections. 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 confidence and spending and the housing market, including as a result of rising inflation or interest rates;
- demand fluctuations in the housing industry, and demand for our products and services, may be adversely affected by unfavorable economic conditions, including rising interest rates, inflation, a decline in disposable income levels and recession fears;
- an economic recession or depression;
- global inflationary pressures on raw materials, energy, commodity, transportation, and other costs could cause our vendors to seek further price increases on the products we sell;
- any disruption in our supply chain, including carrier capacity constraints, port congestion, higher shipping, rail, and trucking prices and other supply chain costs or product shortages;
- our failure to successfully anticipate consumer preferences and demand;
- our inability to pass along cost increases at rates consumers are willing to pay, or reduced demand due to pricing increases;
- our inability to manage our growth;
- our inability to manage costs and risks relating to new store openings;
- our inability to find available locations for our stores on terms acceptable to us;
- demand for our products and services may be adversely affected by unfavorable economic conditions;
- any disruption in our distribution capabilities, including from difficulties operating our distribution centers;
- our failure to execute our business strategy effectively and deliver value to our customers;
- our inability to find, train and retain key personnel;
- the resignation, incapacitation or death of any key personnel;
- the inability to staff our stores and distribution centers sufficiently;
- the effects of weather conditions, natural disasters or other unexpected events, including global health crises, such as the COVID-19 pandemic, may disrupt our operations;
- our dependence on foreign imports for the products we sell, which may include the impact of tariffs and other duties;
- geopolitical risks, such as the recent military conflict in Ukraine, that impact our ability to import from foreign suppliers or raise our costs;

- if the use of “cookie” tracking technologies is further restricted, the amount of internet user information we collect would decrease, which could require additional marketing efforts and harm our business and operating results;
- violations of laws and regulations applicable to us or our suppliers;
- our failure to adequately protect against security breaches involving our information technology systems and customer information;
- suppliers may sell similar or identical products to our competitors;
- competition from other stores and internet-based competition;
- impact of acquired companies, including Spartan;
- our inability to manage our inventory obsolescence, shrinkage and damage;
- our inability to maintain sufficient levels of cash flow or liquidity to meet growth expectations;
- our inability to obtain merchandise on a timely basis at prices acceptable to us;
- restrictions imposed by our indebtedness on our current and future operations; and
- our variable rate debt subjects us to interest rate risk that could cause our debt service obligations to increase significantly.

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.

## PART I

### 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 on or preceding December 31. The following discussion contains references to fiscal 2018, fiscal 2019, fiscal 2020, fiscal 2021, fiscal 2022, and fiscal 2023, which represent our fiscal years ended or ending, as applicable, December 27, 2018, December 26, 2019, December 31, 2020, December 30, 2021, December 29, 2022, and December 28, 2023. Fiscal years 2018, 2019, 2021, 2022, and 2023 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 and commercial flooring distributor of hard surface flooring and related accessories. As of December 29, 2022, we operated 191 warehouse-format stores and six small design studios across 36 states. We believe that we offer the industry’s broadest in-stock assortment of tile, wood, laminate, vinyl, and natural stone flooring along with decorative and installation accessories and adjacent categories 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 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 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 79,000 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 centers, 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 of 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, including fourteen years of consecutive comparable store sales growth.

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.

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. Over the last several years, we have invested significant resources across our business and infrastructure to support innovation and growth. 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 supply chain, e-commerce, technology and personnel to support our stores. We believe that these investments will continue to strengthen our customer value proposition, further differentiate Floor & Decor from our competition, and position us for continued market share gains.

### **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 4,400 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 local 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, our broad range of product styles from classic to modern, and our new trend-right products. We consistently innovate with proprietary brands and products that appeal to certain customers with our proprietary brands, including AquaGuard®, DuraLux®, NuCore®, and Optimax™.

- 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 mortar, underlayment, grout and tools, to fulfill a customer’s entire flooring project. More recently, we added adjacent categories such as vanities, bathroom accessories, shower doors, and custom countertops. 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 4,400 SKUs, which equates to approximately 1.1 million square feet of flooring products or \$3.3 million of inventory at cost as of December 29, 2022. 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 79,000 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 laminate and vinyl, tile, decorative accessories and wall tile, installation materials and tools, wood, natural stone, and 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 invest heavily in large, visually inspiring merchandise displays that showcase our assortment as well as 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 centers, with multiple different vignettes 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](#). 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 60% of our sales from homeowners and 40% of our sales from Pros; however, when looking at who determines where to shop, the Pro influences approximately 45% of our sales while homeowners influence approximately 55% 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, credit offerings, 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. 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.

*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. During fiscal 2022, approximately 70% of our new senior store management positions were filled through internal promotions, including most 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 an extensive training program. Once a year, we hold a multiple-day training session with our senior management, regional directors and CEMs, 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 240 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 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”). This 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, Trevor Lang, was promoted to President in November 2022 after serving as the Executive Vice President and Chief Financial Officer since 2014 and Chief Financial Officer since 2011. He brings more than 25 years of executive leadership experience, including 20 years in senior positions at high-growth public companies, including the Chief Financial Officer and Chief Administrative Officer of Zumiez Inc. In November 2022, Bryan Langley was promoted to serve as Executive Vice President and Chief Financial Officer. He joined the Company in 2014, and has served in various positions of increasing responsibility in corporate strategy, financial planning, and accounting, most recently serving as the Company’s Senior Vice President, Finance. He previously served in various accounting and finance roles at Delta Air Lines, Inc. and in transaction services and audit at KPMG LLP. 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 us 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 Warehouse-Format Stores in New and Existing Markets.* Based on our internal research with respect to housing density, demographic data, competitor concentration and other variables in both new and existing markets, we believe there is an opportunity to significantly expand our warehouse-format store base by a mid- to high-teens annual percentage growth rate over the near-to-medium term, reaching at least 500 in the United States within the next 8 to 9 years. 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. Our new store model targets on average net sales of \$14 million to \$16 million and four-wall adjusted EBITDA before pre-opening expenses of \$2.5 million to \$3.5 million during the first full year of operation, 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, Pro, commercial, design and connected customer strategies to support our current growth and the expansion of our stores. 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 over the long-term 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 and waterproof 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 newer stores ramp up 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, Commercial and design 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 have also added adjacent categories that align with flooring projects like vanities, bathroom accessories, shower doors, and custom countertops. 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 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 omni-channel strategies as leading our brand. Our research indicates that approximately 70% of customers in the last two years have visited our website before shopping at our stores. We continuously invest in our connected customer strategies to improve how our customers experience our brand. For example, we regularly enhance our website, which provides our customers with inspirational vignettes, videos, products, a room visualizer, education, and a faster online shopping experience. Additional initiatives include: (i) continually enhancing and leveraging our Customer Relationship Management ("CRM") platform by developing personalized content based on behavioral, demographic, and geographic data, (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 17% of our total net sales for fiscal 2022. 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 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 additional Regional Pro Directors, to better recruit and train the Pro services team in each store. We have also invested in technology, such as an integrated CRM, 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, Pro Premier App, a growing and successful Pro loyalty program, training on technical flooring installation solutions, and tools to facilitate large commercial jobs sourced throughout the store. We plan to further invest in initiatives to increase speed of service, financing solutions, enhance technology, elevate our Pro branding, dedicate additional store staffing to support Pro customers, and enhance the in-store experience for our Pro customers. We continue to invest in refreshing and expanding our Pro Premier Service area in the store to better facilitate our growing Pro business. Additionally, we communicate our value proposition and various Pro-focused offerings by hosting Pro networking events. We believe Pro customers will continue to be an integral part of our sales growth.

*Continue to Invest in Design Services.* Our Design Services offer a unique experience to large format retail, 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 two times higher compared with customers who do not use a designer, and design appointments close at a higher rate than typical customers. 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 rollout of our CRM technology to our design teams enhances communication and workflow, from initial customer interaction through securing the close of the sale and beyond. Additionally, we intend to continue to test advanced service options in various markets to further set us apart.

*Expand Our Sales Growth in Commercial Flooring.* 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. We believe the same attributes that have allowed us to be successful in selling residential retail hard surface flooring, which include high quality, trend-right hard surface flooring sourced at a low cost directly from the manufacturer, will allow us to grow in the commercial flooring market. We estimate our domestic addressable commercial flooring market, inclusive of installation categories, to be approximately \$16 billion. We estimate that approximately 60% of the commercial market utilizes architectural and design firms as the primary decision maker for their hard surface flooring purchasing decisions, while the other 40% are owners, builders, developers, general contractors, and commercial flooring installers that make the primary decisions for hard surface flooring purchases. Prior to 2021, Floor & Decor sales representatives targeted corporate customers, large scale multi-family developers, large home builders, hotels, restaurants, and retailers and focused primarily on the 40% of the market described above. On June 4, 2021, we acquired Spartan, a commercial specialty hard-surface flooring distribution company. Spartan focuses primarily on the architectural and design market and contractor channels. We intend to continue to focus on both organic and inorganic growth to address the entire commercial flooring market.

*Enhance Margins Through Increased Operating Leverage.* We have invested significantly in our sourcing and distribution network, integrated IT systems and corporate overhead to support our growth. Over time, 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 over the long-term.

## **Our Industry**

Floor & Decor operates in the large, growing, and highly fragmented approximately \$25 billion U.S. floor coverings market (in manufacturers' dollars), estimated based on our 2021 internal and external research, including 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 approximately \$31 billion. Inclusive of installation materials and tools, which we internally estimate at \$11 billion, our combined total addressable market ("TAM") is approximately \$42 billion. We estimate that the \$42 billion TAM comprises approximately \$26 billion in residential remodel and repair spending and \$16 billion in commercial spending. The TAM does not include adjacent categories, which we estimate could represent another \$8 billion to \$13 billion.

We believe we benefit from growth in the overall hard surface flooring market, which we estimate increased on average 4% per year from 2017 to 2022. We believe that growth in the hard surface flooring market will continue to be driven by several home remodeling demand drivers. These include a large supply of aging homes, millennials entering their household formation years, existing-home sales growth from the low supply of housing inventory, 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 many of our competitors are unable to effectively compete with our combination of price, service, and broad in-stock assortment. The competitive landscape of the hard surface flooring market includes big-box home improvement centers, national and regional specialty flooring retailers, independent flooring retailers, and distributors. We estimate we represented approximately 10% of the TAM in 2022, increasing from approximately 8% in 2021.

Over the last decade, hard surface flooring has consistently taken market share from carpet as a percentage of the total floor coverings market. Historically, the 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.

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 materials. 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.

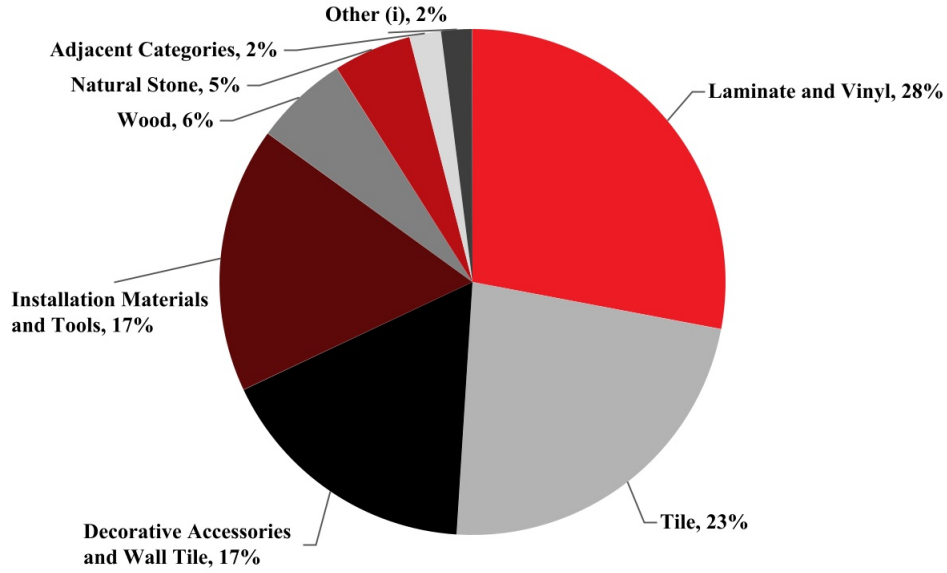
## **Our Products**

We offer an assortment of tile, wood, laminate, vinyl, and natural stone flooring along with decorative accessories and wall tiles, installation materials, and adjacent categories 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 2022 net sales by major product category are set forth below:



(i) Other includes delivery, sample, and other product revenue and adjustments for deferred revenue, sales returns reserves, and other revenue related adjustments that are not allocated on a product-level basis. Refer to Note 2, "Revenue" of the notes to our consolidated financial statements included in this Annual Report for more information.

Category	Products Offered	Select Product Highlights
Laminate and Vinyl	Wood-based Laminate Flooring, Luxury Vinyl, Engineered/Composite (Rigid Core) Vinyl	Laminate, AquaGuard® Performance laminate, Optimax™, NuCore® Performance, 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 the ease of maintenance and durability that laminate and luxury vinyl offer.
Tile	Porcelain and Ceramic	We offer a wide selection of Porcelain and Ceramic tiles from 4”x4” all the way up to 60”x120.” We source many products directly from Italy, where many design trends in tile originate. We offer traditional stone looks as well as wood-look 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.
Decorative Accessories and Wall Tile	Glass, Natural Stone, Tile Mosaics, Decorative Tiles, Decorative Trims, Wall Tile	With over 700 choices in small format tiles, mosaics and trims in glass, tile and natural stone, 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.
Installation Materials and Tools	Grout, Mortar, Backer Board, Tools, Adhesives, Underlayments, Moldings, Stair Treads	This category offers everything a customer needs to complete his or her project, including backer board, mortar, grout, wood adhesives, underlayment, molding and tools. We sell top brands, which we believe are highly valued by our professional customers.
Wood	Solid Prefinished Hardwood, Solid Unfinished Hardwood, Engineered Hardwood, Bamboo, Wood Countertops	We sell common species such as Oak, Walnut, Birch, Hickory and Maple as well as exotics such as Bamboo, Mahogany, Acacia, Ash, and Hevea all in multiple colors, sizes, and thicknesses. Our wood flooring comes in multiple widths from 2 1/4” up to 11” wide planks. We offer long planks and thick veneer options in engineered wood, water resistant wood, and bamboo. Customers have the option of buying prefinished or unfinished flooring in many of our stores.
Natural Stone	Marble, Limestone, Travertine, Slate, Ledger, Prefabricated Countertops, Thresholds, Shower Benches	Natural stone is quarried around the world, and we typically buy directly from the source. We buy natural stones from Italy, Greece, Spain, Turkey, India, China and more. We work with quarry owners and factories in these countries and others to cut stone tiles in many sizes, finishes and colors.
Adjacent categories	Vanities, Shower Doors, Bath Accessories, Faucets, Sinks, Custom Countertops, Bathroom Mirrors, Bathroom Lighting	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.

**Stores**

As of December 29, 2022, we operated 191 warehouse-format stores across 36 states and six small-format design studios. Most of our stores are situated in highly visible retail and industrial locations. Our warehouse-format stores average approximately 79,000 square feet and carry on average approximately 4,400 flooring, decorative accessory, installation material, and other SKUs, including approximately 1.1 million square feet of flooring products or \$3.3 million of inventory at cost as of December 29, 2022.

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 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 centers 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 Pro Premier Service areas, 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 55,000-80,000 square feet, total initial net cash investment of approximately \$8 million to \$10 million, which could increase as we have the ability to own and self-develop more new stores, first-year net sales on average of \$14 million to \$16 million, first-year four-wall adjusted EBITDA before pre-opening expenses of \$2.5 million to \$3.5 million, 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 BIY and DIY customers, and they consequently plan their projects carefully and conduct extensive research online. *FloorandDecor.com* is an important tool for engaging our BIY and 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 85% 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.

### **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 2%. 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 approximately 80%.

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. 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 240 suppliers in 24 countries. Our largest supplier accounted for 16% of our net sales in fiscal 2022, while no other individual supplier accounted for more than 5% 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 address product quality 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.

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.

We completed the relocation of our previous distribution center near Houston, Texas to a larger distribution center in the Houston area in January 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.

## 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:

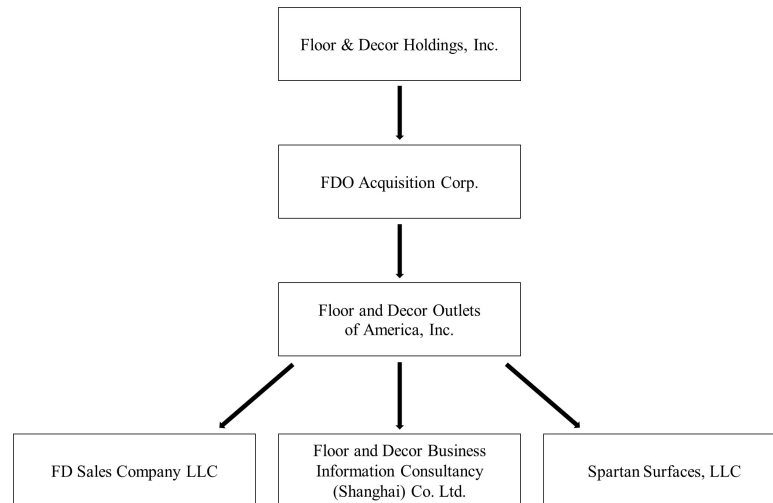
- localized product assortment;
- product innovation;
- in-store availability of products in project-ready quantities;
- product sourcing;
- product presentation;
- customer service;
- store management;
- store location; and
- low prices.

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:



Each entity is a wholly owned subsidiary of the entity above it.

## 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. Our Chief Human Resources Officer, supported by the entire executive team, is responsible for developing and executing our human capital strategy. This includes the attraction, acquisition, development and engagement of talent and the design of associate compensation and benefits programs.

As of December 29, 2022, we had 11,985 employees, 9,281 of whom were full-time and none of whom were represented by a union. Of the total employees, 10,437 work in our stores, 1,086 work in corporate, store support, customer care or similar functions, 450 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. As of December 29, 2022, 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. We seek to build a diverse and inclusive workplace where we can leverage our collective talents, striving to ensure that all associates are treated with dignity and respect.
- *Training.* We believe that training associates is also important to ensuring appropriate levels of customer service. We have a Learning Department, and in 2022, associates engaged in approximately 191,700 hours of training.
- *Internal Advancement Opportunities.* We believe our growth opportunities are a critical way to attract and retain employees, and we encourage a promote-from-within environment when internal resources permit. In 2022, approximately 2,000 employees were promoted to more senior positions.
- *Safety.* Maintaining a safe shopping environment is very important to us. Our Safety & Loss Prevention team, managed by an experienced leader, works closely with our Store Operations team on safety training and initiatives.
- *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 at a discount 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 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 23, 2023, we have 74 registered marks and several pending trademark applications in the United States. We regard our intellectual property, including our over 50 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](http://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.*

- The hard surface flooring industry depends on the overall health of the economy, including home remodeling activity and other important factors.
- We are subject to demand fluctuations in the housing industry, and demand for our products and services may be adversely affected by unfavorable economic conditions, including rising interest rates, inflation, a decline in disposable income levels and recession fears.
- We may not be able to offset higher costs associated with inflation and other general cost increases.
- 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.

- 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 or higher costs during our expansion, our operating results and future growth opportunities could be adversely affected.
- Our future success is dependent on our ability to execute our business strategy effectively and deliver value to our customers.
- 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 success depends upon our ability to attract, hire, train, and retain highly qualified managers and staff.
- Our success depends substantially upon the continued retention of our key personnel, including our executive officers.
- The effects of weather conditions, natural disasters or other unexpected events, including global health crises, such as the COVID-19 pandemic, may disrupt our operations and have a negative impact on our business.
- Rising geopolitical tensions and 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.
- Our net sales growth could be adversely affected if comparable store sales growth is less than we expect.
- 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 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.
- 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.
- If the use of “cookie” tracking technologies is further restricted, the amount of internet user information we collect would decrease, which could require additional marketing efforts and harm our business and operating results.
- 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.
- 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.
- 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 our efforts to protect the privacy and security of information related to our customers, us, our associates, 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.
- 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.
- 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 payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.
- 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 intellectual property rights are valuable, and any failure to protect them could reduce the value of our products and brand and harm our business.

- 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 indebtedness. These risks include (1) that our variable rate debt subjects us to interest rate risk, which could cause our debt service obligations to increase significantly, and (2) that we are exposed to credit risk on certain of our receivables, including that we could be unable to collect outstanding credit from our existing customers under our commercial credit program. These risks could result in losses and adversely affect our 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 of such proceedings and other contingencies with certainty, this litigation and any potential future litigation could have an adverse impact on us.
- We are subject to risks related to corporate social responsibility.

#### **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 the overall health of the economy, including home remodeling activity and other important factors.***

An economic recession, depression, downturn, periods of inflation, or economic uncertainty in our key markets may adversely affect consumer discretionary spending and demand for our products. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions due to credit constraints and uncertainties about the future. Unfavorable economic conditions may lead consumers to delay or reduce purchases of our products. Consumer demand for our products may not reach our targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets.

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, inflation, tax policy, trade policy, employment levels, consumer confidence, credit availability, real estate prices, home-price appreciation, existing home sales, demographic trends, trends in response to the COVID-19 pandemic, weather conditions, natural disasters and general economic conditions. In particular:

- interest rates and inflation could continue to rise, undermining consumer confidence and eroding discretionary income;
- home-price appreciation could slow or turn negative;
- regions where we have stores 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 continue to lessen as the COVID-19 pandemic subsides, causing consumers to spend discretionary income in other ways;
- 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.

***We may not be able to offset higher costs associated with inflation and other general cost increases.***

We are subject to inflationary and other general cost increases, including with regard to our labor costs and purchases of raw materials and transportation services. General economic conditions may result in higher inflation, which may increase our exposure to higher costs. If we are unable to offset these cost increases by price increases, growth, and/or cost reductions in our operations, these inflationary and other general cost increases could have a material adverse effect on our operating cash flows, profitability, and liquidity.

***Our growth and profitability depend on the levels of consumer confidence and spending.***

Our results of operations are sensitive to changes in overall economic and political conditions that impact consumer spending, including discretionary spending. Many economic factors outside of our control, including inflation, conditions in the housing market, interest rates, energy costs, consumer credit availability and terms, consumer debt levels, tax rates and policy, salaries and wage rates, unemployment trends, geopolitical events and uncertainty, influence consumer confidence and spending. Declines in the level of consumer confidence and spending, a general slowdown in the U.S. economy or an uncertain economic outlook have adversely affected, and could continue to adversely affect, consumer spending habits, which have resulted in, and may continue to result in, among other things, reduced demand for our products, which has had, and in the future would have, an adverse effect on our sales and operations results.

***The demand for our products and services may be adversely affected by unfavorable economic conditions.***

Consumer discretionary spending affects our sales and is impacted by factors outside of our control, including general economic conditions, the residential housing market, unemployment rates and wage levels, rising interest rates, inflation, disposable income levels, consumer confidence, recession fears, and access to credit. In economic downturns, the demand for home improvement products and services may decline, often corresponding with declines in discretionary consumer spending. A weak economy may also cause consumers to defer discretionary replacement and refurbishment activity. Even in generally favorable economic conditions, severe and/or prolonged downturns in the housing market could have a material adverse impact on our financial performance.

In a housing market downturn, our sales and results of operations will be adversely affected; we may have significant inventory impairments and other write-offs; our gross margins may decline significantly from historical levels, and we may incur substantial losses from operations. At any particular time, we cannot accurately predict whether housing market conditions will improve, deteriorate or continue as they exist at that time.

Additionally, we believe that homeowners' access to consumer credit is a critical factor enabling the purchase of our products. Unfavorable economic conditions or a downturn in the housing market could result in significant tightening of credit markets, which limit the ability of consumers to access financing for home improvements or construction. Tightening consumer credit could prevent consumers from obtaining financing for home projects, which could negatively impact our sales of products and services.

***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 need to 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 and plan to add additional distribution centers. 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, 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 and from or operation of our distribution centers could have an adverse impact on our business, financial condition, and operating results. For example, the landlord for our Maryland distribution center has identified a construction defect with that facility that we are working with the landlord to address. While we are unable to predict the impact such defect could have on our business, any necessary repairs could cause disruption in the operation of that distribution center, which could negatively impact the in-stock positions in the stores served by such distribution center and could have an adverse impact on our business, financial condition, and operating results.

A disruption within our logistics or supply chain network could adversely affect our ability to deliver inventory in a timely manner, which could impair our ability to meet customer demand for products and result in lost sales, increased supply chain costs, or damage to our reputation. Such disruptions may result 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 supply chain labor, including truck drivers; shipping capacity constraints, including shortages of related equipment; 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 pandemic) and related shut-downs, re-openings, or other actions by the government; civil unrest; or other factors beyond our control. In recent years, U.S. ports have been impacted by capacity constraints, port congestion and delays, periodic labor disputes, security issues, weather-related events, and natural disasters, which have been further exacerbated by the pandemic. Disruptions to our supply chain due to any of the factors listed above could negatively impact our financial performance or financial condition.

Accordingly, we regularly work on supply chain continuity plans. While to date there has been no material impact on supply for most of our sourced merchandise, COVID-19-related labor shortages and supply chain disruptions continue to cause logistical challenges for us and the entire hard surface flooring industry. In particular, the significant congestion at ports of entry to the United States is increasing the time and cost to ship goods to our stores. Additionally, customer demand for certain products has also fluctuated as the COVID-19 pandemic has progressed and customer behaviors have changed, which has challenged our ability to anticipate and/or adjust inventory levels to meet that demand. These factors have resulted in certain of our products having in-stock levels below our goals. In certain cases, we are also experiencing delays in delivering those products to our distribution centers, stores or customers. Recently, we have seen a significant increase in supply chain costs, and we do not know how long this will last. It is our belief that we can pass along these costs. While we are working closely with our suppliers and transportation partners to mitigate the impact of these disruptions, future capacity shortages or shipping cost increases could have an adverse impact upon our business. 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 associates or associates 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.

***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. Our ability to accurately forecast demand for our products could be affected by many factors, including an increase or decrease in customer demand for our products or for products of our competitors, our failure to accurately forecast customer acceptance of new products, product introductions by competitors, unanticipated changes in general market conditions and weakening of economic conditions or consumer confidence in future economic conditions (for example, because of inflationary pressures). 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 or higher costs during our expansion, our operating results and future growth opportunities could be adversely affected.***

We have 191 warehouse-format stores and six small-format standalone design studios located throughout the United States as of December 29, 2022. We plan to continue opening new stores for the next several years. 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. Certain of our new store openings are expected to be smaller stores in smaller markets. We have limited experience executing this strategy, and we cannot guarantee that we will be successful in this strategy. 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, including rising construction costs and costs due to delays in construction.

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. The completion date and ultimate cost of future store openings could differ significantly due to construction-related or other reasons, including construction and other delays and cost overruns, such as shortages of materials, shortages of skilled labor or work stoppages, unforeseen construction, scheduling, engineering, environmental or geological problems, governmental or permitting delays, weather interference, fires or other casualty losses and unanticipated cost increases. We cannot guarantee that any project will be completed on time and delays in store openings could have a negative impact on our business and operating results.

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. Newly opened stores may not succeed or may reach profitability slower than we expect, and the ramp-up to profitability may become longer in the future as we enter more markets. 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, in-store availability of 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.

***Our operating results may be adversely affected by increases in material, energy and transportation costs beyond our control, including increases in costs due to inflation.***

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 increase based on a number of factors beyond our control, including the price of raw materials used in the manufacture of hard surface flooring, transportation costs, 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 increased dramatically in the past and may fluctuate in the future. These increases may result in an increase in our transportation and supply chain 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, manufacturing of our products, 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 substantial rise in international container and, to a lesser extent, 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 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.***

We currently maintain a high level of inventory in order to have a broad assortment of products across a wide variety of hard surface flooring categories in project-ready quantities, with inventory per warehouse-format store consisting of on average approximately 4,400 SKUs and approximately \$3.3 million of inventory at cost as of December 29, 2022. We also carry an additional \$709.7 million of inventory outside our stores, primarily at our distribution centers, as of the end of fiscal 2022. 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.

***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 warehouse-format stores in major metropolitan markets generally require at least 60,000 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 success depends upon our ability to attract, hire, 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 an increased 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.

If our recruiting and retention efforts are not successful, we may have or continue to have a shortage of qualified associates 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 associates 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 associates and may experience increased labor costs. Any failure by us to attract, hire, 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 (including various federal, state, and local actions to increase minimum wages), associate benefit costs, unionization activity, or other factors would adversely impact our operating expenses.

***Our success depends substantially upon the continued retention of our key personnel, including 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, including 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.

***The effects of weather conditions, natural disasters or other unexpected events, including global health crises, such as the COVID-19 pandemic, may disrupt our operations and have a negative impact on our business.***

The effects of global climate change, such as extreme weather conditions and natural disasters occurring more frequently or with more intense effects, or the occurrence of unexpected events including wildfires, tornadoes, hurricanes, earthquakes, floods, tsunamis and other severe hazards could adversely affect our business, financial condition, results of operations and cash flows. Extreme weather, natural disasters, power outages or other unexpected events could disrupt our operations by impacting the availability and cost of materials needed for manufacturing, causing physical damage and partial or complete closure of our manufacturing sites or distribution centers, loss of human capital, temporary or long-term disruption in the manufacturing and supply of products and services and disruption in our ability to deliver products and services to customers. These events and disruptions could also adversely affect our customers' and suppliers' financial condition or ability to operate, resulting in reduced customer demand, delays in payments received or supply chain disruptions. Further, these events and disruptions could increase insurance and other operating costs, including impacting our decisions regarding construction of new facilities to select areas less prone to climate change risks and natural disasters, which could result in indirect financial risks passed through the supply chain or other price modifications to our products and services.

Additionally, as we have experienced in recent years, the COVID-19 pandemic created significant volatility, uncertainty and economic disruption, both for our business (and many of customers' and suppliers' businesses) and the U.S. and global economy more generally. It has also, both directly and indirectly, led to significant operating challenges, including disruptions to our and our suppliers' global supply chain and business operations, shortages of electronic and other parts and components, freight delays, increased labor shortages and logistical challenges. In response to the challenges presented by the COVID-19 pandemic, we have modified our business practices, and may continue to be required to take further actions as required by the potential for new strains or outbreaks of the virus, additional government requirements or mandates or for any other reason that we may deem to be in the best interests of our employees, customers, suppliers or others in the communities in which we do business. Although many governments have eased or eliminated their restrictions on travel and social interactions, and lifted non-essential business closures, several jurisdictions in which we have operations, such as China, continue to impose public health and government mandates that restrict business activities. These mandates and restrictions have, and could continue to have, an impact on our business and operations, and on those of certain of our suppliers. The impact of the COVID-19 pandemic continues to evolve, and its ultimate impact on our business is highly uncertain and difficult to predict.

Global health crises, such as the COVID-19 pandemic or any other actual or threatened epidemic, pandemic, or outbreak and spread of a communicable disease or virus in the countries where we transact, operate, or sell products and provide services could adversely affect our operations and financial performance. Further, any national, state or local government mandates or other orders taken to minimize the spread of a global health crisis could restrict our ability to conduct business as usual, as well as the business activities of our key customers and suppliers, including the potential for labor shortages. In particular, the ultimate extent of the impact of any epidemic, pandemic or other global health crisis on our business, financial condition and results of operations will depend on future developments which are highly uncertain and cannot be predicted, including new information that may emerge concerning the duration and severity of such epidemic, pandemic or other global health crisis, actions taken to contain or prevent their further spread and the pace of global economic recovery following containment of the spread.



The Company continues to monitor the situation and take appropriate actions in accordance with the recommendations and requirements of relevant authorities. The extent to which the COVID-19 pandemic may impact the Company's operational and financial performance remains uncertain and will depend on many factors outside the Company's control, including the timing, extent, trajectory and duration of the pandemic, the emergence of new variants, the development, availability, distribution and effectiveness of vaccines and treatments, the imposition of protective public safety measures, and the impact of the pandemic on the global economy and demand for consumer products and services. Additional future impacts on the Company may include material adverse effects on demand for the Company's products and services, the Company's supply chain and sales and distribution channels, the Company's ability to execute its strategic plans, and the Company's profitability and cost structure.

To the extent the COVID-19 pandemic adversely affects the Company's business, results of operations, financial condition and stock price, it may also have the effect of heightening many of the other risks described in this Part I, Item 1A of this Form 10-K.

***Rising geopolitical tensions and 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. Approximately 29% of the products we sold in fiscal 2022 were produced in 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.

In addition, the U.S. government has imposed import restrictions under the withhold release orders for goods from the Xinjiang Uyghur Autonomous Region and under the Uyghur Forced Labor Prevention Act, which effectively prohibits imports of any goods made either wholly or in part in Xinjiang, which may induce greater supply chain compliance costs and delays to us and to our suppliers. The law prohibits "the importation of goods made with forced labor" unless U.S. Customs and Border Protection determines, based on "clear and convincing evidence", that the goods in question were not produced "wholly or in part by forced labor" and submits a report to the U.S. Congress setting out its findings. While we do not believe that our suppliers source materials from Xinjiang for the products they sell to us, any withhold release orders or inquires, other companies' attempts to shift suppliers in response to this law, or other policy developments could result in shortages, delays, and/or price increases that could disrupt our own supply chain or cause our suppliers to renegotiate existing arrangements with us or fail to perform on such obligations. Broader policy uncertainty could also reduce Chinese luxury vinyl plank production, affecting supplies and/or prices for luxury vinyl plank, regardless of supplier. While we have developed multiple supply sources in a variety of countries and believe our vendor compliance program reflects our commitment to a supply chain free of forced labor, we could still be adversely affected by increases in our costs, negative publicity related to the industry, or other adverse consequences to our business.

Rising geopolitical tensions also could adversely affect our business, financial condition, and results of operations. In particular, in recent years, tensions between mainland China and Taiwan have further escalated, with China accelerating the development of military capabilities in order to "reunite Taiwan by force." In case of a military conflict between China and Taiwan, our ability to import products from China could be limited. Similarly, the ongoing war between Russia and Ukraine could escalate and impact our ability to import products from Europe, including due to further increases in energy costs.

***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, inflation, 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, 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.

***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 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 240 domestic and international suppliers. Although we purchase from a diverse supplier base, purchases from our largest supplier, which is headquartered in China, accounted for approximately 16% of our net sales in fiscal 2022. No other singular vendor supplied products representing more than 5% of net sales in fiscal 2022. 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.

***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 COVID-19 pandemic;
- 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, approximately 29% of the products we sold in fiscal 2022 were produced in 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 COVID-19, 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 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, organized retail theft 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. Organized retail theft is also increasing, and our efforts to address it may not be successful. 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 the use of “cookie” tracking technologies is further restricted, the amount of internet user information we collect would decrease, which could require additional marketing efforts and harm our business and operating results.***

Cookies are small data files that are sent by websites and stored locally on an internet user’s computer or mobile device. We, and third parties who work on our behalf, collect data via cookies that is used to track the behavior of visitors to our sites, to provide a more personal and interactive experience, and to increase the effectiveness of our marketing.

Privacy regulations and policies by device operating systems, such as iOS or Android, are increasingly restricting how we deploy our cookies, and this could potentially increase the number of internet users that choose to proactively disable cookies on their systems. In addition, companies such as Google have publicly disclosed their intention to move away from cookies, which would have a negative impact on our ability to find the same anonymous user across different web properties, and would require us to increase our direct customer data capture efforts. If we are not successful, our marketing efforts may be limited, and our business, results of operations, and financial condition could be adversely affected.

***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 associates 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 such products and 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, associates, 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 are piloting 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, have been and 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 have been and may in the future 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.

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), import and export controls (such as the Uyghur Forced Labor Prevention 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 associates, 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 associates, 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 associates are represented by a union; however, our associates 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 associate 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 associates, 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 associates, 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 associates, 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, associates, 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 associates 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 or 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 associates. 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 have in the past identified and remediated 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. 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 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.

***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.

***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.

We are also in the process of transitioning our proprietary credit card program to a new third-party financial institution. Any disruption in such transition could 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 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 have and may raise future 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. We have no prior experience acquiring companies and may not be successful. If we complete an acquisition, we would need to successfully integrate the target company's products, services, associates and systems into our business operations. On June 4, 2021, we acquired Spartan Surfaces, Inc. ("Spartan"), a commercial flooring specifier, and we may acquire additional commercial flooring companies in the future. As with any acquisition, we need to successfully integrate Spartan'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 do not maintain "key person" life insurance policies on our key personnel.***

We do not have "key person" life insurance policies for any of our key personnel. If we were to obtain "key person" 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.

***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 \$800.0 million ABL Facility and our \$204.5 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 29, 2022, the principal amount of our total indebtedness was \$204.5 million related to our indebtedness outstanding under the Term Loan Facility. In addition, as of December 29, 2022, we had the ability to access \$556.5 million of unused borrowings available under the ABL Facility without violating any covenants thereunder and had \$33.3 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, our deduction of business interest expenses for each taxable year is limited generally to 30% of our “adjusted taxable income” for the relevant taxable year. Starting with taxable years beginning after December 31, 2022, the addback of depreciation, depletion and amortization previously allowed in determining “adjusted taxable income” no longer applies due to an automatic change to Section 163(j) of the U.S. Internal Revenue Code of 1986, as amended, scheduled when the Tax Cuts and Jobs Act was enacted in 2017.

***Our variable rate debt subjects us to interest rate risk that could cause our debt service obligations to increase significantly.***

The debt we incurred under our Credit Facilities are at variable rates of interest, which exposes us to interest rate risk. Reference rates used to determine the applicable interest rates for our variable rate debt began to rise significantly in the second half of fiscal 2022. If interest rates continue to increase, the debt service obligations on such indebtedness will continue to increase even if the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. In addition, as a result of our latest amendments to the Credit Facilities certain of the variable rate indebtedness extended to us uses the Secured Overnight Financing Rate (“SOFR”) as a benchmark for establishing the interest rate. While we believe we will continue to use SOFR, other factors may impact SOFR including factors causing SOFR to cease to exist, new methods of calculating SOFR to be established, or the use of an alternative reference rate(s). These consequences are not entirely predictable and could have an adverse impact on our financing costs, returns on investments, valuation of derivative contracts and our financial results.

***Significant amounts of cash are required to service our indebtedness, 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.

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 or otherwise dispose 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
- 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 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 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.

***We are 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. 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 \$143.31 on November 4, 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;
- 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.

***We may 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.***

We may offer stock options, restricted stock and/or other forms of stock-based compensation to our eligible associates, 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, stockholders 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 public company, we incur significant costs, and our management is required to devote substantial time, to comply with public company regulations, which could 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 legal, accounting, insurance and other expenses, including costs associated with public company reporting requirements, 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. 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 associates 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;
- interest rates and inflation;
- 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;
- slower rates of growth in real disposable personal income;
- natural disasters, unpredictable weather or other unexpected events, including global health crises, such as the COVID-19 pandemic;
- 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 associates, or otherwise be subject to a payment per associate 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 associate health care costs. 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. We will incur additional and potentially significant expenses as we continue to execute our ESG framework in the coming years. 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.

***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, climate-disclosure requirements, or a requirement to convert to international financial reporting standards, could adversely affect our operating results through increased cost of compliance.

*Changes in U.S. taxation of businesses could adversely affect us.*

We are subject to taxes in the United States. Due to economic and political conditions, tax laws and tax rates for income taxes and other non-income taxes in various jurisdictions may be subject to significant change. Any such tax changes could materially increase the amount of taxes we would be required to pay, which could adversely affect our business, financial condition, and operating results. For example, increases in the corporate tax rate may adversely impact our cash flow, which would in turn negatively impact our performance and liquidity. Other changes that may be enacted in the future, including changes to tax laws enacted by state or local governments in jurisdictions in which we operate, could result in further changes to state and local taxation and materially adversely affect our financial position and results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.



**ITEM 2. PROPERTIES.**

As of December 29, 2022, we operated 191 U.S. warehouse-format stores located in 36 states as shown in the table below:

<b>State</b>	<b>Number of Stores</b>
Alabama	1
Arizona	6
California	27
Colorado	5
Connecticut	3
Florida	25
Georgia	9
Illinois	10
Indiana	2
Iowa	1
Kansas	2
Kentucky	2
Louisiana	2
Maryland	3
Massachusetts	5
Michigan	3
Minnesota	2
Missouri	2
Nebraska	1
Nevada	4
New Hampshire	1
New Jersey	5
New Mexico	1
New York	4
North Carolina	5
Ohio	4
Oklahoma	2
Oregon	1
Pennsylvania	2
South Carolina	3
Tennessee	4
Texas	30
Utah	3
Virginia	6
Washington	3
Wisconsin	2
<b>Total</b>	<b>191</b>

The following table presents the percentage of our owned versus leased facilities in operation at the end of fiscal 2022 and their total square footage:

<i>square footage in thousands</i>	Owned	Leased	Total Square Footage
Stores	5 %	95 %	15,093
Distribution centers	20 %	80 %	5,680
Offices and other	— %	100 %	244
<b>Total</b>			<b>21,017</b>

Stores include our 191 warehouse-format stores and six small-format design studios. Distribution centers include our four distribution centers located in or near Houston, Savannah, Los Angeles, and Baltimore and our transload facility near Los Angeles. Offices and other includes our headquarters, which we refer to as our store support center, located in Atlanta, Georgia, separate product review and sample fulfillment centers located in Marietta, Georgia, and other administrative, sales, and warehousing facilities supporting our commercial flooring distribution business. The property tables above exclude locations where we have taken possession of the premises but are not yet operating. See Note 9, “Commitments and Contingencies” of the notes to our consolidated financial statements included in this Annual Report for additional details related to 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

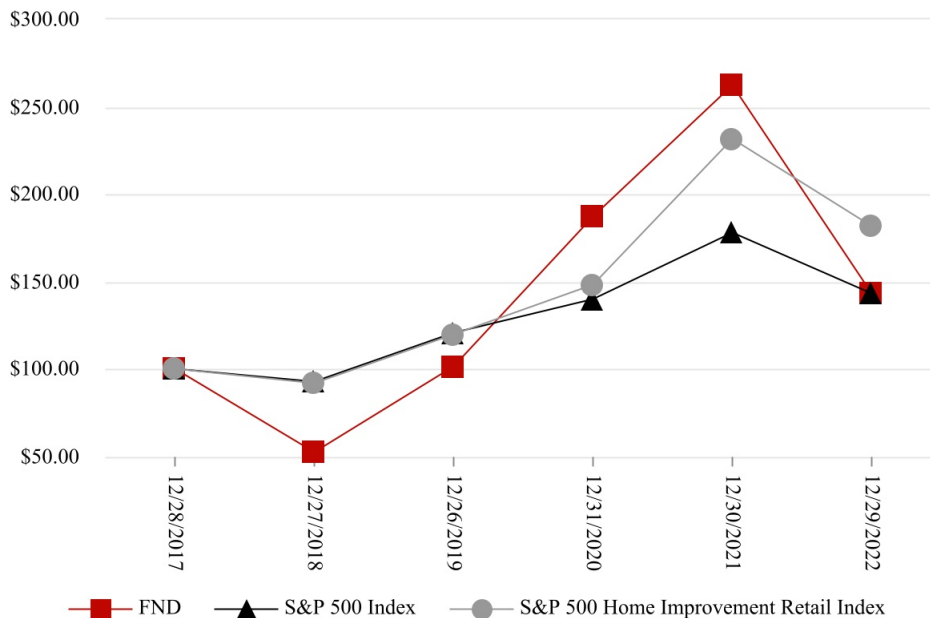
Our common stock is publicly traded on the NYSE under the symbol “FND.” On February 20, 2023, there were 20 stockholders of record of our Class A common stock. The actual number of stockholders is greater than the number of record holders stated above, and includes stockholders who are beneficial owners, 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 for our fiscal years 2018 through 2022. 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 December 28, 2017 (the last trading day of fiscal 2017) through December 29, 2022, including reinvestment of any dividends. Historical share price performance should not be relied upon as an indication of future share price performance.



Fiscal Year Ended	FND	S&P 500 Index	S&P 500 Home Improvement Retail Index
December 28, 2017	\$ 100.00	\$ 100.00	\$ 100.00
December 27, 2018	\$ 52.45	\$ 92.61	\$ 92.12
December 26, 2019	\$ 101.43	\$ 120.55	\$ 119.60
December 31, 2020	\$ 187.24	\$ 139.76	\$ 148.40
December 30, 2021	\$ 262.11	\$ 177.81	\$ 231.37
December 29, 2022	\$ 143.15	\$ 143.23	\$ 181.50

**Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Repurchases of our Common Stock**

None.

**ITEM 6. RESERVED**

**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 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 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 191 warehouse-format stores across 36 states as of December 29, 2022. 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 and adjacent categories 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 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”). Our warehouse-format stores, which average approximately 79,000 square feet, carry on average approximately 4,400 flooring and decorative and installation accessory SKUs, approximately 1.1 million square feet of flooring products, and \$3.3 million of inventory at cost as of December 29, 2022. We believe that our inspiring design centers 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 2022, we experienced our fourteenth consecutive year of comparable store sales growth.

<i>dollars in thousands</i>	Fiscal Year Ended	
	12/29/2022	12/30/2021
Net sales	\$ 4,264,473	\$ 3,433,533
Net income	\$ 298,195	\$ 283,230
Adjusted EBITDA	\$ 577,050	\$ 485,100
Comparable store sales	9.2 %	27.6 %
Number of warehouse-format stores	191	160

During fiscal 2022, we continued to make key long-term strategic investments, including:

- completing the relocation of our previous distribution center near Houston, Texas to a larger distribution center in the Houston area;
- opening 32 new warehouse-format stores and four design studios and closing one warehouse-format store, ending the year with 191 warehouse-format stores and six design studios;
- focusing on innovative new products and localized assortments, supported by inspirational in-store and online visual merchandising solutions;
- investing in our Pro, connected customer, in-store designer, customer relationship, and store focused technology;
- adding more resources dedicated to serving our Pro customers, including hiring professional external sales staff to drive more commercial sales; and
- investing capital to continue enhancing the in-store shopping experience for our customers.

During fiscal 2022, although we continued to be impacted by the availability and cost of labor as well as supply chain challenges, including higher freight costs and congestion at ports of entry to the United States, these pressures began to show signs of easing toward the end of the year. While we have passed our higher transportation costs on to customers, we remain focused on providing exceptional value to our customers through our broad assortment and “everyday low price” strategy. We believe that our strong relationships with our suppliers and transportation partners have been instrumental in helping us to navigate difficulties in the supply chain environment; however, the potential significance and duration of these supply chain challenges is uncertain, and future capacity shortages or cost increases could have an adverse impact upon our business. In addition, while we did not experience significant COVID-19 related disruptions to our business in fiscal 2022, there remains uncertainty regarding what impact COVID-19 may have on our business in the future.

## 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. Sales through our Spartan subsidiary do not involve our stores and are therefore excluded from the comparable store sales calculation.

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, 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. 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, shrinkage, 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 inflation increases in certain of our product categories but historically have been able to source from a different manufacturer or pass increases on to our consumers. 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, 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, (gain) 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-based compensation expense, distribution center relocation expenses, fair value adjustments related to contingent-earn out liabilities, 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*

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, which is typically when the customer obtains control of the underlying inventory.

The retail and commercial sectors in which we operate are 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.

### *Selling and Store Operating Expenses*

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. We expect that our selling and store operating expenses will increase in future periods with future growth. 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*

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. We expect that our general and administrative expenses will increase in future periods with future growth. General and administrative expenses include both fixed and variable components, and therefore, are not directly correlated with net sales. 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 two operating segments 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 30, 2021 and December 31, 2020 can be found in our annual report on Form 10-K for the fiscal year ended December 30, 2021 (the “2021 Annual Report”) located within Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Results of operations for prior periods should not be considered indicative of future results. For information about the potential impacts that risks, such as global supply chain disruptions, inflation, geopolitical instability, and COVID-19, among others, may have on our results of operations and overall financial performance for future periods, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Overview” and Item 1A., “Risk Factors”

### For the fiscal years ended December 29, 2022 and December 30, 2021

The following tables summarize key components of our results of operations for the periods indicated (certain numbers may not sum due to rounding):

<i>dollars in thousands</i>	Fiscal Year Ended				Increase (Decrease)	
	12/29/2022		12/30/2021		\$	%
	Amount	% of Net sales	Amount	% of Net sales		
Net sales	\$ 4,264,473	100.0 %	\$ 3,433,533	100.0 %	\$ 830,940	24.2 %
Cost of sales	2,536,757	59.5	2,011,267	58.6	525,490	26.1 %
Gross profit	1,727,716	40.5	1,422,266	41.4	305,450	21.5 %
Operating expenses:						
Selling and store operating	1,078,466	25.3	849,440	24.7	229,026	27.0 %
General and administrative	213,848	5.0	199,401	5.8	14,447	7.2 %
Pre-opening	38,642	0.9	34,433	1.0	4,209	12.2 %
Total operating expenses	1,330,956	31.2	1,083,274	31.5	247,682	22.9 %
Operating income	396,760	9.3	338,992	9.9	57,768	17.0 %
Interest expense, net	11,138	0.3	4,924	0.1	6,214	126.2 %
Income before income taxes	385,622	9.0	334,068	9.7	51,554	15.4 %
Provision for income taxes	87,427	2.1	50,838	1.5	36,589	72.0 %
Net income	\$ 298,195	7.0 %	\$ 283,230	8.2 %	\$ 14,965	5.3 %

	Fiscal Year Ended			
	12/29/2022		12/30/2021	
Comparable store sales	9.2	%	27.6	%
Comparable average ticket	17.0	%	7.2	%
Comparable customer transactions	(6.6)	%	19.1	%
Number of warehouse-format stores	191		160	
Adjusted EBITDA (in thousands) (1)	\$ 577,050		\$ 485,100	
Adjusted EBITDA (% of net sales)	13.5	%	14.1	%

(1) Refer to “Reconciliation of Non-GAAP Measures” further below for reconciliation of Adjusted EBITDA to net income.



*Net Sales*

Net sales during fiscal 2022 increased \$830.9 million, or 24.2%, compared to fiscal 2021 due to an increase in comparable store sales of 9.2% and sales from the net 31 new warehouse-format stores and four new design studios that we opened during the year. The comparable store sales increase during the period of 9.2%, or \$315.5 million, was driven by a 17.0% increase in comparable average ticket, partially offset by a 6.6% decrease in comparable customer transactions. Among our seven product categories, five experienced comparable store sales increases during fiscal 2022, including laminate and vinyl, tile, decorative accessories and wall tile, installation materials and tools, and adjacent categories. Non-comparable store sales were \$515.4 million during the same period driven by new stores and revenue from our Spartan subsidiary, which was acquired in the second quarter of fiscal 2021.

We believe the decrease in comparable customer transactions for fiscal 2022 was partly driven by macroeconomic demand slowing in fiscal 2022 as interest and mortgage rates increased and existing home sales declined, an unfavorable comparison to our strong fiscal 2021 results, and a shift in consumer spending toward travel and services. We have more than offset the decrease in comparable customer transactions with an increase in comparable average ticket due to focusing on driving higher sales through our ecommerce, pro, and design initiatives, which all carry a higher average ticket, as well as raising our retail prices due to higher supply chain and product costs. We also believe that our business model, with its focus on substantial amounts of trend-right, in-stock inventory, is also contributing to the sales increase.

*Gross Profit and Gross Margin*

Gross profit during fiscal 2022 increased \$305.5 million, or 21.5%, compared to fiscal 2021. The increase in gross profit was primarily driven by the 24.2% increase in net sales, partially offset by a decrease in gross margin to 40.5%, down approximately 90 basis points from 41.4% in fiscal 2021. The decrease in gross margin was primarily due to higher supply chain costs.

*Selling and Store Operating Expenses*

Selling and store operating expenses increased \$229.0 million, or 27.0%, compared to fiscal 2021. As a percentage of net sales, selling and store operating expenses increased by approximately 60 basis points to 25.3% from 24.7% in fiscal 2021. These increases were primarily attributable to growth in new stores and, to a lesser extent, increased wages and higher credit card transaction processing fees across all of our stores.

*General and Administrative Expenses*

General and administrative expenses increased \$14.4 million, or 7.2%, during fiscal 2022 compared to fiscal 2021 due to costs to support store growth, including increased store support staff, higher depreciation related to technology and other store support center investments, and operating expenses related to our Spartan subsidiary. Our general and administrative expenses as a percentage of net sales decreased by approximately 80 basis points to 5.0% from 5.8% in the prior year. The decline as a percentage of net sales was primarily driven by lower accruals for employee incentive compensation and sales growing faster than increases in rent and depreciation.

*Pre-Opening Expenses*

Pre-opening expenses during fiscal 2022 increased \$4.2 million, or 12.2%, compared to fiscal 2021. The increase primarily resulted from opening or preparing to open more stores compared to the prior year and was modestly impacted by higher costs to open new stores.

*Interest Expense*

Net interest expense in fiscal 2022 increased \$6.2 million, or 126.2%, compared to fiscal 2021. The increase in interest expense was primarily due to an increase in amounts borrowed under our ABL Facility and interest rate increases on outstanding debt, partially offset by increases in interest capitalized and interest income from our interest cap derivative contracts.

*Income Taxes*

The provision for income taxes was \$87.4 million in fiscal 2022 compared to \$50.8 million in fiscal 2021. The effective tax rate was 22.7% for fiscal 2022 compared to 15.2% for fiscal 2021. The increase in the effective tax rate was primarily due to year-over-year decreases in excess tax benefits related to stock-based compensation awards.

**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	
	12/29/2022	12/30/2021
Net income	\$ 298,195	\$ 283,230
Depreciation and amortization (a)	153,446	115,223
Interest expense, net	11,138	4,924
Income tax expense	87,427	50,838
EBITDA	550,206	454,215
Stock-based compensation expense (b)	22,233	20,528
Acquisition and integration expense (c)	—	3,392
Tariff refund adjustments (d)	—	1,728
COVID-19 costs (e)	—	1,154
Other (f)	4,611	4,083
Adjusted EBITDA	<u>\$ 577,050</u>	<u>\$ 485,100</u>

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

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

(c) Represents third-party transaction, legal, and consulting costs directly related to the acquisition of Spartan that was completed in fiscal 2021.

(d) Represents a reduction in the non-interest portion of estimated tariff refund receivables during fiscal 2021. Interest income for tariff refunds is included within interest expense, net in the table above.

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

(f) Other adjustments include amounts management does not consider indicative of our core operating performance. Amounts for both periods primarily relate to relocation expenses for our Houston distribution center and changes in the fair value of contingent earn-out liabilities.

**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 small 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 \$800.0 million ABL Facility. Unrestricted liquidity based on our December 29, 2022 financial data was \$566.3 million, consisting of \$9.8 million in cash and cash equivalents and \$556.5 million immediately available for borrowing under the ABL Facility without violating any covenants thereunder. Our liquidity is not generally seasonal, and our uses of cash are primarily tied to when we open stores and make other capital expenditures.

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 and, as applicable, acquisitions. We expect that cash generated from operations together with cash on hand, 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 the next twelve months and the foreseeable future.

Total capital expenditures in fiscal 2023 are planned to be between approximately \$620 million to \$675 million and are expected to 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, new opportunities that we choose to pursue, or other factors. We currently expect the following for capital expenditures in fiscal 2023:

- invest approximately \$495 million to \$525 million to open 32 to 35 warehouse-format stores, relocate stores, and begin construction on stores opening in fiscal 2024;
- invest approximately \$95 million to \$110 million in existing store remodeling projects and our distribution centers; and
- invest approximately \$30 million to \$40 million in information technology infrastructure, e-commerce, and other store support center initiatives.

### **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	
	12/29/2022	12/30/2021
Net cash provided by operating activities	\$ 112,450	\$ 301,342
Net cash used in investing activities	(455,637)	(471,238)
Net cash provided by financing activities	213,537	1,568
Net decrease in cash and cash equivalents	\$ (129,650)	\$ (168,328)

#### *Net Cash Provided By Operating Activities*

Cash provided by operating activities consists primarily of (i) net income adjusted for non-cash items, including depreciation and amortization, changes in the fair values of contingent earn-out liabilities, deferred income taxes, and stock-based compensation and (ii) changes in working capital.

Net cash provided by operating activities was \$112.5 million for fiscal 2022 and \$301.3 million for fiscal 2021. The decrease in net cash provided by operating activities was primarily driven by increases in inventory purchases and other working capital items to support our operations, partially offset by higher operating income compared to the prior fiscal year.

#### *Net Cash Used In Investing Activities*

Investing activities typically consist primarily of capital expenditures for new store openings, existing store remodels (including leasehold improvements, racking, fixtures, product and display vignettes, and enhanced design centers), and new infrastructure and information systems. Cash payments to acquire businesses are also included in investing activities.

Net cash used in investing activities was \$455.6 million for fiscal 2022 and \$471.2 million for fiscal 2021. The decrease in net cash used in investing activities was driven by a \$59.8 million decrease in cash paid for acquisitions and \$4.8 million in proceeds from a land sale, offset by a \$48.9 million increase in capital expenditures. The year-over-year growth in capital expenditures was primarily driven by (i) an increase in new stores that opened or were under construction, as we generally incur significant capital expenditures for new stores a few to several months in advance of opening, (ii) payment of construction costs related to the Houston distribution center relocation, and (iii) an increase in existing store remodels.

#### *Net Cash Provided by Financing Activities*

Financing activities consist primarily of borrowings and related repayments under our credit agreements, proceeds from the exercise of stock options and our employee share purchase program, and payments of contingent earn-out consideration related to the Spartan acquisition.

Net cash provided by financing activities was \$213.5 million for fiscal 2022 and \$1.6 million for fiscal 2021. The increase in cash provided by financing activities was primarily driven by amounts borrowed under our ABL during fiscal 2022.

### **Our Credit Facilities**

As of December 29, 2022, total Term Loan Facility debt was \$204.5 million and the total amount borrowed under our ABL Facility was \$210.2 million.

On August 4, 2022, we amended the ABL Facility to, among other things, increase the Company's revolving commitments to a total aggregate principal amount of \$800 million, extend the stated maturity date of the ABL Facility to August 4, 2027, and transition the benchmark interest rate for borrowings from a LIBOR-based benchmark to a SOFR-based benchmark.

On November 15, 2022, we amended the Term Loan Facility to transition the benchmark interest rate for borrowings from a LIBOR-based benchmark to a SOFR-based benchmark.

For additional information regarding our Term Loan Facility and ABL Facility, including recent amendments, applicable covenants, and other details, please refer to Note 10, “Debt” of the notes to the consolidated financial statements included in this Annual Report.

**Credit Ratings**

Our credit ratings are periodically reviewed by rating agencies. In September 2022, Standard & Poor's raised the Company's issuer credit rating to BB from BB- with a stable outlook. Moody's issuer credit rating of Ba3 and positive outlook for the Company remain unchanged. 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 an increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or 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 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 third-party financial institutions, 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 institutions. 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 institutions.

Accordingly, amounts due to our suppliers that elected to participate in the Finance Program totaled \$82.5 million and \$160.4 million as of December 29, 2022 and December 30, 2021, 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.

**Material Cash Requirements, including Contractual Obligations to Third Parties**

We enter into long-term obligations and commitments in the normal course of business, primarily debt obligations and non-cancelable operating leases. The following table summarizes our material cash requirements over the next several periods from known contractual or other obligations as of December 29, 2022:

<i>in thousands</i>	Payments due by period						
	Total	12/28/2023	12/26/2024	12/25/2025	12/31/2026	12/30/2027	Thereafter
Operating leases (1)	\$ 1,882,381	\$ 170,669	\$ 189,116	\$ 177,156	\$ 166,350	\$ 158,809	\$ 1,020,281
Purchase obligations (2)	880,315	847,565	8,165	9,051	10,141	5,393	—
Long-term debt	414,699	2,103	2,103	2,103	2,629	405,761	—
Estimated interest on long-term debt (3)	105,123	21,651	23,241	25,025	24,897	10,309	—
Letters of credit	33,260	33,260	—	—	—	—	—
Total	<u>\$ 3,315,778</u>	<u>\$ 1,075,248</u>	<u>\$ 222,625</u>	<u>\$ 213,335</u>	<u>\$ 204,017</u>	<u>\$ 580,272</u>	<u>\$ 1,020,281</u>

- (1) 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.
- (2) Purchase obligations include agreements to purchase goods or services that are enforceable or legally binding. The majority of our purchase obligations are for inventory purchases, capital projects related to our stores and distribution centers, and software and license commitments. Purchase orders that are not binding agreements are excluded from the table above.
- (3) For purposes of this table, interest has been estimated assuming our long-term debt is held to maturity and based on interest rates in effect for our indebtedness, adjusted for the effect of our interest rate caps, as of December 29, 2022. Actual borrowing levels and interest costs may differ.

For fiscal 2022, 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.

### **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. In fiscal 2022, approximately 29% of the products we sold were produced in China. 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.

### **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 with the exception of a small number of commercial clients purchasing through our commercial credit program, which typically offers longer payment terms.

*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 reserves and related return asset accruals at December 29, 2022 would have had a net impact of approximately \$1.5 million on operating income in fiscal 2022. Sales returns reserves and related return asset accruals over the last few years have fluctuated primarily based on changes in sales levels and, to a lesser extent, changes in customer return rates.

#### **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 prices, margins, 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 29, 2022 would have affected operating income by approximately \$0.9 million in fiscal 2022. Inventory valuation and shrinkage reserves have increased approximately in proportion to our inventory growth over the last few years.

#### **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.* 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 each 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.

#### **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. 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 29, 2022, our Term Loan Facility and ABL Facility, which have variable interest rates, had remaining principal balances of \$204.5 million and \$210.2 million, respectively. A 1.0% increase in the effective interest rate for these debt instruments would cause an increase in interest expense of approximately \$4.1 million over the next twelve months, excluding the impact of interest rate cap agreements. To lessen our exposure to interest rate risk, we entered into two \$75.0 million interest rate cap agreements. The contracts effectively cap SOFR related interest payments on a portion of our Term Loan Facility to less than 1.68% through April 2024. The U.S. Federal Reserve began raising interest rates in fiscal 2022 and has signaled an intent to raise interest rates further. As a result, these agreements are partially offsetting increases in interest expense on our Term Loan Facility as rates have increased to a level above the specified SOFR caps. For additional information related to the Company’s Credit Facilities, refer to Note 10, “Debt” of the notes to the consolidated financial statements included in this Annual Report.

##### ***Impact of Inflation/Deflation***

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. 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.**

<a href="#">Reports of Independent Registered Public Accounting Firm (PCAOB ID:42)</a>	57
<a href="#">Consolidated Balance Sheets as of December 29, 2022 and December 30, 2021</a>	60
<a href="#">Consolidated Statements of Operations and Comprehensive Income for the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020</a>	61
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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 29, 2022 and December 30, 2021, 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 29, 2022, 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 29, 2022 and December 30, 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2022, 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 29, 2022, 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 23, 2023 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 right-of-use 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 29, 2022, the Company’s right-of-use assets were \$1,205.6 million and lease liabilities were \$1,333.2 million (of which \$105.7 million was current and \$1,227.5 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 29, 2022, 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 23, 2023

## 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 29, 2022, 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 29, 2022, 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 29, 2022 and December 30, 2021, 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 29, 2022, and the related notes and our report dated February 23, 2023 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 23, 2023

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

<i>in thousands, except for share and per share data</i>	<b>As of December 29, 2022</b>	<b>As of December 30, 2021</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,794	\$ 139,444
Income taxes receivable	7,325	3,507
Receivables, net	94,732	81,463
Inventories, net	1,292,336	1,008,151
Prepaid expenses and other current assets	53,298	40,780
<b>Total current assets</b>	<b>1,457,485</b>	<b>1,273,345</b>
Fixed assets, net	1,258,056	929,083
Right-of-use assets	1,205,636	1,103,750
Intangible assets, net	152,353	151,935
Goodwill	255,473	255,473
Deferred income tax assets, net	11,265	9,832
Other assets	10,974	7,277
<b>Total long-term assets</b>	<b>2,893,757</b>	<b>2,457,350</b>
<b>Total assets</b>	<b>\$ 4,351,242</b>	<b>\$ 3,730,695</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Current portion of term loan	\$ 2,103	\$ 2,103
Current portion of lease liabilities	105,693	104,602
Trade accounts payable	590,883	661,883
Accrued expenses and other current liabilities	298,019	248,935
Deferred revenue	10,060	14,492
<b>Total current liabilities</b>	<b>1,006,758</b>	<b>1,032,015</b>
Term loan	195,351	195,762
Revolving line of credit	210,200	—
Lease liabilities	1,227,507	1,120,990
Deferred income tax liabilities, net	41,520	40,958
Other liabilities	12,730	17,771
<b>Total long-term liabilities</b>	<b>1,687,308</b>	<b>1,375,481</b>
<b>Total liabilities</b>	<b>2,694,066</b>	<b>2,407,496</b>
Commitments and Contingencies (Note 9)		
<b>Stockholders' equity</b>		
Capital stock:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at December 29, 2022 and December 30, 2021	—	—
Common stock Class A, \$0.001 par value; 450,000,000 shares authorized; 106,150,661 shares issued and outstanding at December 29, 2022 and 105,760,650 issued and outstanding at December 30, 2021	106	106
Common stock Class B, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at December 29, 2022 and December 30, 2021	—	—
Common stock Class C, \$0.001 par value; 30,000,000 shares authorized; 0 shares issued and outstanding at December 29, 2022 and December 30, 2021	—	—
Additional paid-in capital	482,312	450,332
Accumulated other comprehensive income, net	4,337	535
Retained earnings	1,170,421	872,226
<b>Total stockholders' equity</b>	<b>1,657,176</b>	<b>1,323,199</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,351,242</b>	<b>\$ 3,730,695</b>

See accompanying notes to consolidated financial statements.

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

	Fiscal Year Ended		
	December 29, 2022	December 30, 2021	December 31, 2020
<i>in thousands, except for per share data</i>			
Net sales	\$ 4,264,473	\$ 3,433,533	\$ 2,425,788
Cost of sales	2,536,757	2,011,267	1,390,896
Gross profit	1,727,716	1,422,266	1,034,892
Operating expenses:			
Selling and store operating	1,078,466	849,440	654,100
General and administrative	213,848	199,401	144,715
Pre-opening	38,642	34,433	21,498
Total operating expenses	1,330,956	1,083,274	820,313
Operating income	396,760	338,992	214,579
Interest expense, net	11,138	4,924	8,389
Gain on early extinguishment of debt	—	—	(1,015)
Income before income taxes	385,622	334,068	207,205
Provision (benefit) for income taxes	87,427	50,838	12,224
Net income	\$ 298,195	\$ 283,230	\$ 194,981
Change in fair value of hedge instruments, net of tax	3,802	371	357
Total comprehensive income	\$ 301,997	\$ 283,601	\$ 195,338
Basic earnings per share	\$ 2.82	\$ 2.71	\$ 1.90
Diluted earnings per share	\$ 2.78	\$ 2.64	\$ 1.84

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 27, 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 purchase plan	56	—	2,344	—	—	2,344
Other comprehensive gain, net of tax	—	—	—	357	—	357
Net income	—	—	—	—	194,981	194,981
Balance, December 31, 2020	104,368	104	408,124	164	588,996	997,388
Stock-based compensation expense	—	—	20,528	—	—	20,528
Exercise of stock options	1,253	2	14,734	—	—	14,736
Issuance of restricted stock awards	29	—	—	—	—	—
Forfeiture of restricted stock awards	(3)	—	—	—	—	—
Issuance of common stock upon vesting of restricted stock units	29	—	—	—	—	—
Shares issued under employee stock purchase plan	46	—	3,063	—	—	3,063
Issuance of stock related to acquisition	50	—	5,000	—	—	5,000
Common stock redeemed for tax liability	(11)	—	(1,117)	—	—	(1,117)
Other comprehensive gain, net of tax	—	—	—	371	—	371
Net income	—	—	—	—	283,230	283,230
Balance, December 30, 2021	105,761	106	450,332	535	872,226	1,323,199
Stock-based compensation expense	—	—	22,233	—	—	22,233
Exercise of stock options	352	—	7,592	—	—	7,592
Forfeiture of restricted stock awards	(59)	—	—	—	—	—
Issuance of common stock upon vesting of restricted stock units	59	—	—	—	—	—
Shares issued under employee stock purchase plan	62	—	4,379	—	—	4,379
Common stock redeemed for tax liability	(24)	—	(2,224)	—	—	(2,224)
Other comprehensive gain, net of tax	—	—	—	3,802	—	3,802
Net income	—	—	—	—	298,195	298,195
Balance, December 29, 2022	106,151	\$ 106	\$ 482,312	\$ 4,337	\$ 1,170,421	\$ 1,657,176

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 29, 2022	December 30, 2021	December 31, 2020
<b>Operating activities</b>			
Net income	\$ 298,195	\$ 283,230	\$ 194,981
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	155,023	118,196	91,640
Stock-based compensation expense	22,233	20,528	16,115
Change in fair value of contingent earn-out liabilities	2,529	—	—
Deferred income taxes	2,525	3,042	9,614
Interest cap derivative contracts	114	357	372
Loss on asset impairments and disposals, net	20	438	14
Gain on early extinguishment of debt	—	—	(1,015)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Receivables, net	(12,150)	(19,768)	18,874
Inventories, net	(283,438)	(349,678)	(72,135)
Trade accounts payable	(84,732)	232,761	49,439
Accrued expenses and other current liabilities	38,716	36,684	59,017
Income taxes	(8,865)	(15,897)	15,264
Deferred revenue	(4,432)	3,158	3,432
Other, net	(13,288)	(11,709)	20,552
Net cash provided by operating activities	112,450	301,342	406,164
<b>Investing activities</b>			
Purchases of fixed assets	(456,600)	(407,671)	(212,448)
Acquisitions, net of cash acquired	(3,810)	(63,567)	—
Proceeds from sales of property and equipment	4,773	—	—
Net cash used in investing activities	(455,637)	(471,238)	(212,448)
<b>Financing activities</b>			
Proceeds from term loans	—	65,000	75,000
Payments on term loans	(2,103)	(76,202)	(2,697)
Borrowings on revolving line of credit	1,047,100	13,466	275,000
Payments on revolving line of credit	(836,900)	(15,969)	(275,000)
Payment of contingent earn-out liability	(2,571)	—	—
Proceeds from exercise of stock options	7,592	14,736	19,254
Proceeds from employee stock purchase plan	4,379	3,063	2,344
Debt issuance costs	(1,736)	(1,409)	(6,882)
Tax payments for stock-based compensation awards	(2,224)	(1,117)	—
Net cash provided by financing activities	213,537	1,568	87,019
Net (decrease) increase in cash and cash equivalents	(129,650)	(168,328)	280,735
Cash and cash equivalents, beginning of the period	139,444	307,772	27,037
Cash and cash equivalents, end of the period	\$ 9,794	\$ 139,444	\$ 307,772
<b>Supplemental disclosures of cash flow information</b>			
Buildings and equipment acquired under operating leases	\$ 225,968	\$ 285,865	\$ 177,932
Cash paid for interest, net of capitalized interest	\$ 7,403	\$ 6,279	\$ 8,043
Cash paid for income taxes, net of refunds	\$ 92,923	\$ 63,684	\$ 12,670
Fixed assets accrued at the end of the period	\$ 116,997	\$ 87,645	\$ 19,987

See accompanying notes to consolidated financial statements.

**Floor & Decor Holdings, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 29, 2022**

**1. Summary of Significant Accounting Policies**

***Nature of Business***

Floor & Decor Holdings, Inc., together with its subsidiaries (the “Company,” “we,” “our,” or “us”) is a multi-channel specialty retailer and commercial flooring distributor. The Company offers a broad assortment of in-stock hard-surface flooring, including tile, wood, laminate, vinyl, and natural stone along with decorative accessories and wall tile, installation materials, and adjacent categories 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 our products for professional installation (“Buy it Yourself” or “BIY”). We operate within one reportable segment.

As of December 29, 2022, the Company, through its wholly owned subsidiary, Floor and Decor Outlets of America, Inc. (“F&D” or “Outlets”), operates 191 warehouse-format stores, which average 79,000 square feet, and six small-format standalone design studios in 36 states as well as four distribution centers and an e-commerce site, *FloorandDecor.com*. Substantially all of the Company’s operating assets and liabilities are held by Outlets.

***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 29, 2022 (“fiscal 2022”) and December 30, 2021 (“fiscal 2021”) include 52 weeks. 52-week fiscal years consist of thirteen-week periods in each quarter of the fiscal year. When a 53-week fiscal year occurs, we report the additional week at the end of the fiscal fourth quarter.

***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.

***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. Actual results could differ from these estimates.

The COVID-19 pandemic negatively impacted the Company's financial and operating results during the first half of fiscal 2020 and, depending on future developments, which are uncertain, could have additional negative impacts in the future.

***Business Combinations***

The Company accounts for acquisitions in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805, *Business Combinations* (“ASC 805”). The purchase price of an acquisition is measured as the aggregate fair value of the consideration transferred at the date of acquisition. The purchase price is allocated to the fair values of the tangible and intangible assets acquired and liabilities assumed, with any excess recorded as goodwill. These fair value determinations require judgment and may involve the use of significant estimates and assumptions. The purchase price allocation may be provisional during a measurement period of up to one year from the acquisition date to provide reasonable time to obtain the information necessary to identify and measure the assets acquired and liabilities assumed. Only facts and circumstances that existed as of the acquisition date are considered for subsequent adjustment to the purchase price allocation, and any such adjustment will be recognized in the period in which it is determined prior to completion of the measurement period. Transaction costs associated with acquisitions are expensed as incurred.

***Cash and Cash Equivalents***

Cash consists of currency and demand deposits with banks.



### **Receivables**

Receivables consist primarily of amounts due from credit card companies, vendor receivables, and commercial credit receivables. The Company typically collects its credit card receivables within three to five business days of the underlying sale to the customer, while commercial credit receivables are typically collected within 40 days after the customer takes possession of the goods. 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 the Company collects the majority of rebates earned each quarter subsequent to quarter 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 Statements of Operations and Comprehensive 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 \$0.4 million and \$0.3 million as of December 29, 2022 and December 30, 2021, respectively.

### **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. The Company also offers limited credit to its commercial clients. The Company's total credit exposure for receivables not insured by a third party at the end of fiscal 2022 and fiscal 2021 was \$10.2 million and \$6.0 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 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 \$8.7 million and \$7.8 million as of December 29, 2022 and December 30, 2021, 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 its 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:

	<b>Useful Life</b>
Furniture, fixtures and equipment	2 - 7 years
Leasehold improvements	10 - 25 years
Buildings and building improvements	10 - 35 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.

### **Finite-lived Intangible Assets**

In accordance with ASC 350, *Intangibles—Goodwill and Other*, identifiable intangible assets with finite lives are amortized over their estimated useful lives. The estimated lives of the Company's finite-lived intangible assets are as follows:

	<b>Useful Life</b>
Customer relationships	12 years
Non-compete agreement	5 years

### **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 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. 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 its trade names, which are 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. The Company has the option to assess the value of its goodwill and other 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 other 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 other 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 2022, 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 other indefinite-lived intangible assets were not impaired as of October 28, 2022. No events or changes in circumstances have occurred since the date of the Company's most recent annual impairment assessment that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company's goodwill and other indefinite-lived intangible assets impairment assessments contain uncertainties because they require management to make significant judgments in estimating the fair value of the Company's reporting unit and other indefinite-lived intangible assets and, if a quantitative assessment is deemed necessary, may include 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 the Company's 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 assets, 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. Definite-lived intangible assets are amortized over their respective estimated useful lives 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 assets. The useful lives of definite-lived intangible asset are evaluated on an annual basis.

### ***Leases***

The Company recognizes lease right-of-use 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 the Company's 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 the Company's 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 the Company has the right to control the property.

### ***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'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 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 the Company's depreciation policy, which would generally result in depreciation expense being recognized prospectively over the shorter of the remaining lease term or estimated useful life.

As of December 29, 2022 and December 30, 2021, net ARO assets included in property, plant and equipment were \$2.2 million and \$2.7 million, respectively, and net ARO liabilities included in other long-term liabilities were \$6.8 million and \$3.5 million, respectively.

### ***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***

Changes in interest rates impact the Company's results of operations. In an effort to manage exposure to this risk, the Company enters into derivative contracts and may adjust its derivative portfolio as market conditions change. Derivative contracts are recognized at fair value on the Consolidated Balance Sheets. Unrealized changes in the fair value of hedged derivative instruments are recorded in accumulated other comprehensive income within the stockholders' equity section of the Consolidated Balance Sheets.

The Company has outstanding interest rate cap contracts designated as cash flow hedges that are expected to continue to be highly effective in offsetting changes in cash flow attributable to floating interest rate risk. The effective portion of the gain or loss on effective cash flow hedges is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period in which the hedged transaction affects earnings. To the extent that hedges are not highly effective, the ineffective portion of the hedge is immediately recognized in earnings. The Company performs an assessment of the effectiveness of its derivative contracts designated as hedges, including assessing the possibility of counterparty default. If it is determined that a derivative is no longer expected to be highly effective, hedge accounting is discontinued prospectively, and subsequent changes in the fair value of the hedge are recognized in earnings. See Note 8, "Derivatives and Risk Management" for additional information.

### ***Revenue Recognition***

In accordance with Accounting Standards Update ("ASU") No. 2014-9, "Revenue from Contracts with Customers" ("Topic 606"), revenue and cost of sales are recognized when the related performance obligations in contracts with customers are settled. Performance obligations for the Company's retail store sales, as well as for orders placed through its website and shipped to 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 primarily include hard surface flooring and related accessories. The Company does not perform installation services, and free design services are offered in-store. The transaction price recognized in revenue 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.

The Company provides customers 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. Reserves for future returns of previously sold goods are estimated based on historical experience and various other assumptions that management believes to be reasonable. These reserves reduce sales and cost of sales and establish a related return asset and refund liability as defined in 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***

The Company sells gift cards to customers through its stores and website and also issues merchandise credits in its stores. Gift cards and merchandise credits are accounted for 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. We recognize breakage revenue that is not subject to escheatment based on historical redemption patterns for the portion of gift card values that are not expected to be redeemed. Accordingly, in fiscal years 2022, 2021, and 2020, the Company recognized gift card breakage income related to unredeemed gift cards of \$ .7 million, \$2.4 million, and \$1.5 million, respectively, within net sales in the Consolidated Statements of Operations and Comprehensive Income.

### ***Loyalty Program***

Our Pro Premier loyalty program allows customers to earn points through purchases in our stores and our website. The Company allocates the transaction price between the goods and services sold and the loyalty points earned based on their relative standalone selling prices, which takes into account the portion of loyalty points expected to be redeemed. For eligible transactions, loyalty points are typically awarded at one percent, but may be awarded at up to four percent for our higher volume customers, of the selling price of the merchandise sold and are recognized at the time of sale as a liability. Breakage for loyalty point rewards is estimated based on historical customer redemption patterns and may change in the future as the program matures. In fiscal years 2022, 2021, and 2020, loyalty breakage of \$ .9 million, \$2.2 million, and \$1.4 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 29, 2022 and December 30, 2021, was \$33.3 million and \$36.2 million, respectively.

### ***Cost of Sales***

Cost of sales consists of merchandise costs as well as freight, duty, and other costs to transport inventory to the Company's 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 29, 2022, December 30, 2021, and December 31, 2020 were \$104.3 million, \$90.4 million, and \$66.6 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.

### ***Stock-Based Compensation***

The Company accounts for stock-based compensation, including employee stock options, restricted stock, and employee stock purchase plans, in accordance with ASC 718, *Compensation – Stock Compensation* (“ASC 718”), 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. As necessary, the Company obtains independent third-party valuation studies to assist with determining the grant date fair value of employee stock awards. Stock-based compensation cost 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. Refer to Note 11, “Stockholders’ Equity” for additional details related to the Company’s stock-based compensation awards.

### ***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 Consolidated Balance Sheets and within income tax expense in the Consolidated Statements of Operations and Comprehensive Income.

### ***Segments***

The Company operates as a multi-channel specialty retailer and commercial flooring distributor. The Company primarily sells 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 enterprise for which discrete financial information is available that is evaluated regularly by the chief operating decision maker (“CODM”) for purposes of allocating resources and evaluating financial performance. The Company’s CODM, its Chief Executive Officer, reviews financial information presented on a consolidated basis, accompanied by information about the Company’s two operating segments, Floor & Decor Retail and Spartan Surfaces, Inc. (“Spartan”), for purposes of allocating resources and evaluating financial performance. The Spartan segment, which engages in commercial flooring distribution and is entirely comprised of the Company’s Spartan subsidiary, does not meet the materiality criteria of ASC 280, *Segment Reporting* (“ASC 280”), and is therefore not disclosed separately as a reportable segment.

The Company concluded that the economic and operating characteristics of its one reportable segment, Floor & Decor Retail, 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 nature of products and services offered, customer base, marketing initiatives, operating procedures, store layouts, employee incentive programs, methods of distribution, competitive and operating risks, and the level of shared resources across the business.

#### **Recently Adopted Accounting Pronouncements**

*Presentation of Financial Statements, Financial Services—Depository and Lending, Financial Services—Investment Companies.* In August 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2021-06, “*Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946)*.” The ASU includes Release No.33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*. This update amends certain SEC disclosure guidance that is included in the accounting standards codification to reflect the SEC’s recent issuance of rules intended to modernize and streamline disclosure requirements, including updates to business acquisition and disposition significance tests used, the significance thresholds for pro forma statement disclosures, the number of preceding years of financial statements required for disclosure, and other provisions in the SEC releases. The guidance is effective upon its addition to the FASB codification. The adoption of ASU No. 2021-06 did not have a material impact on the Company’s consolidated financial statements or related disclosures.

*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. In January 2021, the FASB issued ASU No. 2021-01, “*Reference Rate Reform (Topic 848)*,” which amended ASU 2020-04 to clarify the scope and application of the original guidance in ASU No. 2020-04. In December 2022, the FASB issued ASU No. 2022-06, “*Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*”, which amended ASU 2020-04 to extend the period of time entities can utilize the reference rate reform relief guidance under ASU 2020-04 from December 31, 2022 to December 31, 2024. In the fourth quarter of fiscal 2022, the Company adopted ASU 2020-04 and its amendments. The adoption of ASU 2020-04 and its amendments did not have a material impact on the Company’s consolidated financial statements or related disclosures.

*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. In the first quarter of fiscal 2021, the Company adopted ASU No. 2019-12 on a prospective basis. The adoption of ASU No. 2019-12 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.

*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.

### **Recently Issued Accounting Pronouncements**

*Supplier Finance Programs.* In September 2022, the FASB issued ASU No. 2022-04, “*Liabilities - Supplier Finance Programs (Subtopic 405-50)*.” The ASU requires that buyers in a supplier finance program disclose sufficient information for a user of the financial statements to understand the program’s nature, activity, changes from period to period, and potential magnitude. The ASU is expected to improve financial reporting by requiring new disclosures about the programs, thereby allowing financial statement users to better consider the effect of such programs on an entity’s working capital, liquidity, and cash flows. The guidance in ASU 2022-04 is effective for interim and fiscal years beginning after December 15, 2022. Once adopted, it should be applied retrospectively to each period in which a balance sheet is presented, excluding the amendment on roll forward information, which should be presented prospectively and is effective for fiscal years beginning after December 15, 2023. Early adoption of the standard is permitted. The adoption of ASU 2022-04 is not expected to have a material impact on the Company’s consolidated financial statements.

*Business Combinations.* In October 2021, the FASB issued ASU No. 2021-08, “*Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*.” The ASU addresses diversity and inconsistency related to the recognition and measurement of contract assets and contract liabilities acquired in a business combination and require that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. This standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the standard is permitted, including adoption in an interim period. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements or related disclosures and would only be applicable to the extent that the Company has future business combinations.

## **2. Revenue**

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

### ***Deferred Revenue & Contract Liabilities***

In accordance with ASC 606, *Revenue from Contracts with Customers*, 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 29, 2022 and December 30, 2021 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 29, 2022, contract liabilities totaled \$57.0 million and included \$10.1 million of deferred revenue, \$33.8 million of loyalty program liabilities, and \$13.1 million of unredeemed gift cards. As of December 30, 2021, contract liabilities totaled \$40.2 million and included \$14.5 million of deferred revenue, \$20.4 million of loyalty program liabilities, and \$5.3 million of unredeemed gift cards. Of the contract liabilities outstanding as of December 30, 2021, approximately \$17.2 million was recognized in revenue during fiscal 2022.



### Disaggregated Revenue

The Company has 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	Fiscal Year Ended					
	December 29, 2022		December 30, 2021		December 31, 2020	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Product Category						
Laminate and vinyl	\$ 1,184,636	28 %	\$ 876,714	26 %	\$ 555,963	23 %
Tile	963,999	23	801,101	23	605,357	25
Decorative accessories and wall tile	744,888	17	642,697	19	464,589	19
Installation materials and tools	713,127	17	558,721	16	403,184	17
Wood	274,528	6	259,637	8	211,307	9
Natural stone	212,167	5	199,140	6	152,665	6
Adjacent categories	69,820	2	54,482	1	20,487	1
Other (1)	101,308	2	41,041	1	12,236	—
Total	<u>\$ 4,264,473</u>	<u>100 %</u>	<u>\$ 3,433,533</u>	<u>100 %</u>	<u>\$ 2,425,788</u>	<u>100 %</u>

(1) Other includes delivery, sample, and other product revenue and adjustments for deferred revenue, sales returns reserves, 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 as of December 29, 2022 and December 30, 2021 consisted of the following:

in thousands	December 29, 2022	December 30, 2021
Accrued construction in progress new stores	\$ 72,737	\$ 59,771
Loyalty program liability	33,818	20,404
Sales returns and allowances	33,284	36,210
Wages and payroll tax payable	26,415	20,147
Sales tax payable	25,253	25,232
Accrued incentive compensation	23,561	36,705
Insurance reserve incurred but not reported	19,635	14,770
Unredeemed gift cards	13,082	5,334
Other	50,234	30,362
Accrued expenses and other current liabilities	<u>\$ 298,019</u>	<u>\$ 248,935</u>

#### 4. Fixed Assets

Fixed assets as of December 29, 2022 and December 30, 2021 consisted of the following:

<i>in thousands</i>	December 29, 2022	December 30, 2021
Leasehold improvements	\$ 653,151	\$ 488,713
Furniture, fixtures, and equipment	350,556	298,519
Buildings and building improvements (1)	315,343	133,493
Computer software and hardware	158,519	173,249
Land	86,927	80,509
Construction in process (2)	145,709	165,286
Fixed assets, at cost	<u>1,710,205</u>	<u>1,339,769</u>
Less: accumulated depreciation and amortization	452,149	410,686
Fixed assets, net	<u>\$ 1,258,056</u>	<u>\$ 929,083</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.

(2) To conform to the current period presentation, fixed assets by category for the fiscal year ended December 30, 2021 has been updated within this table to present construction in process as a separate category.

Depreciation and amortization on fixed assets for the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020 was \$49.6 million, \$113.4 million, and \$90.1 million, respectively.

#### 5. Intangible Assets

Goodwill and changes in the carrying amount of goodwill are as follows for the periods presented:

<i>in thousands</i>	December 29, 2022	December 30, 2021
Goodwill, balance at beginning of year	\$ 255,473	\$ 227,447
Acquisitions (1)	—	28,026
Goodwill, balance at end of year	<u>\$ 255,473</u>	<u>\$ 255,473</u>

(1) Reflects goodwill related to the Spartan acquisition completed in fiscal 2021. See Note 14, "Acquisitions" for additional details.

The gross carrying amount and accumulated amortization of other intangible assets as of December 29, 2022 and December 30, 2021 are as follows:

<i>in thousands</i>	December 29, 2022			December 30, 2021		
	Gross carrying amount (1)	Accumulated amortization	Net carrying value	Gross carrying amount (1)	Accumulated amortization	Net carrying value
<b>Amortizable intangible assets:</b>						
Customer relationships	\$ 38,216	\$ (4,728)	\$ 33,488	\$ 34,900	\$ (1,697)	\$ 33,203
Non-compete agreement	300	(104)	196	300	(37)	263
Total amortizable intangible assets	<u>38,516</u>	<u>(4,832)</u>	<u>33,684</u>	<u>35,200</u>	<u>(1,734)</u>	<u>33,466</u>
<b>Indefinite-lived intangible assets:</b>						
Trade names	118,669	—	118,669	118,469	—	118,469
Total intangible assets:	<u>\$ 157,185</u>	<u>\$ (4,832)</u>	<u>\$ 152,353</u>	<u>\$ 153,669</u>	<u>\$ (1,734)</u>	<u>\$ 151,935</u>

(1) Refer to Note 14, "Acquisitions" for details related to intangible assets acquired during fiscal 2022 and fiscal 2021.

Amortization expense related to amortizable intangible assets was \$0.1 million and \$1.7 million for the fiscal years ended December 29, 2022 and December 30, 2021, respectively. Amortization expense related to amortizable intangible assets was immaterial for the fiscal year ended December 31, 2020.

As of December 29, 2022, the estimated aggregate future amortizable expense related to other intangible assets is as follows:

<i>in thousands</i>	<b>Amount</b>
2023	\$ 3,250
2024	3,250
2025	3,250
2026	3,185
2027	3,185
Thereafter	17,564
<b>Total</b>	<b>\$ 33,684</b>

## 6. Income Taxes

The components of the provision for income taxes are as follows:

<i>in thousands</i>	<b>Fiscal Year Ended</b>		
	<b>December 29, 2022</b>	<b>December 30, 2021</b>	<b>December 31, 2020</b>
<b>Current expense (benefit):</b>			
Federal	\$ 73,463	\$ 37,869	\$ (1,781)
State	16,489	9,927	4,391
<b>Total current expense</b>	<b>89,952</b>	<b>47,796</b>	<b>2,610</b>
<b>Deferred expense (benefit):</b>			
Federal	(78)	4,853	11,684
State	(2,447)	(1,811)	(2,070)
<b>Total deferred (benefit) expense</b>	<b>(2,525)</b>	<b>3,042</b>	<b>9,614</b>
<b>Provision for income taxes</b>	<b>\$ 87,427</b>	<b>\$ 50,838</b>	<b>\$ 12,224</b>

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 29, 2022, December 30, 2021, and December 31, 2020 to income before income taxes:

<i>in thousands</i>	<b>Fiscal Year Ended</b>		
	<b>December 29, 2022</b>	<b>December 30, 2021</b>	<b>December 31, 2020</b>
Computed "expected" provision at statutory rate	\$ 80,984	\$ 70,154	\$ 43,513
State income taxes, net of federal income tax benefit(1)	11,744	6,186	1,493
<b>Permanent differences:</b>			
Excess tax benefit related to stock-based compensation awards	(3,762)	(25,710)	(27,003)
Other	874	908	517
<b>Total permanent differences</b>	<b>(2,888)</b>	<b>(24,802)</b>	<b>(26,486)</b>
Provision to return	183	(34)	(150)
Federal tax credits	(1,535)	(1,471)	(920)
CARES Act benefit	—	—	(7,676)
Uncertain tax positions	(848)	308	2,724
Other, net	(213)	497	(274)
<b>Provision for income taxes</b>	<b>\$ 87,427</b>	<b>\$ 50,838</b>	<b>\$ 12,224</b>

(1) Includes state excess tax benefits related to stock-based compensation awards for fiscal years 2022, 2021, and 2020 of \$0.8 million, \$4.6 million, and \$5.3 million, respectively.

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

<i>in thousands</i>	Fiscal Year Ended	
	December 29, 2022	December 30, 2021
Deferred tax assets:		
Lease liabilities	\$ 339,972	\$ 308,198
Accruals not currently deductible for tax purposes	16,014	11,622
Stock-based compensation	11,320	8,754
Inventories	10,337	10,711
Other intangibles	4,187	335
Gift card liability	3,206	1,254
Other (1)	2,608	5,514
Total deferred tax assets	387,644	346,388
Deferred tax liabilities:		
Right-of-use assets	(302,008)	(274,151)
Fixed assets	(85,621)	(70,289)
Intangible assets	(27,430)	(27,198)
Other	(2,840)	(5,876)
Total deferred tax liabilities	(417,899)	(377,514)
Net deferred tax liabilities	\$ (30,255)	\$ (31,126)

(1) To conform to the current period presentation, the litigation accrual for December 30, 2021 is presented within other deferred tax assets.

The Company utilized \$1.3 million and \$0.2 million of tax-effected state net operating losses in fiscal 2022 and fiscal 2021, respectively; as of December 29, 2022, approximately \$0.7 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 fiscal 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 29, 2022 or December 30, 2021.

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"). The Company closed a federal audit with the IRS for the 2015 to 2017 tax years. Foreign, state, and local income tax returns are generally subject to examination for a period of three to five years after filing of the respective returns.

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

<i>in thousands</i>	Fiscal Year Ended		
	December 29, 2022	December 30, 2021	December 31, 2020
Unrecognized tax benefits balance at beginning of fiscal year	\$ 1,073	\$ 6,107	\$ 402
Additions based on tax positions related to the current year	—	390	281
Additions for tax positions of prior years	—	—	5,424
Reductions due to settlements	—	(5,424)	—
Reductions for tax positions of prior years	(1,073)	—	—
Unrecognized tax benefits balance at end of fiscal year	\$ —	\$ 1,073	\$ 6,107

As of December 29, 2022 and December 30, 2021, there were no unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate. 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 years 2022 or 2021.

#### ***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.

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 also received \$8.4 million of cash refunds in fiscal 2020 related to the accelerated QIP depreciation and the carry back of the fiscal 2019 net operating loss.

#### ***Inflation Reduction Act***

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022, which, among other things, implements a 15% minimum tax on book income of certain large corporations, a 1% excise tax on net stock repurchases and several tax incentives to promote clean energy. The enactment of this legislation did not have a material impact on the Company's consolidated financial statements.

### **7. Fair Value Measurements**

As of December 29, 2022 and December 30, 2021, 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 carrying values as reported within the Consolidated Balance Sheets. Refer to Note 1, "Summary of Significant Accounting Policies" and Note 14, "Acquisitions" 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.

#### ***Recurring Fair Value Measurements***

As of December 29, 2022, the contingent earn-out liabilities, primarily related to the Spartan acquisition as described in Note 14, "Acquisitions," had an aggregate estimated fair value of \$11.0 million, of which \$5.8 million is included in other liabilities and \$5.2 million is included in accrued expenses and other current liabilities within the Consolidated Balance Sheets. The Company's contingent earn-out liabilities are classified as level 3 within the fair value hierarchy due to the use of unobservable inputs that are significant to their respective valuations. For the fiscal year ended December 29, 2022, \$2.5 million was recognized in general and administrative expense within the Consolidated Statements of Operations and Comprehensive Income related to increases in the fair value of the contingent earn-out liabilities. The table below summarizes changes in contingent earn-out liabilities as of December 29, 2022.

<i>in thousands</i>	<b>Contingent Earn-out Liabilities</b>
Balance at December 30, 2021	\$ 10,231
Acquisitions	830
Fair value adjustments	2,529
Payments	(2,571)
Balance at December 29, 2022	\$ 11,019

The Company determined the fair value of the contingent earn-out liability with assistance from a third-party valuation specialist using a Monte Carlo valuation method with significant unobservable inputs, including the following weighted-average assumptions as of December 29, 2022, and December 30, 2021:

	December 29, 2022	December 30, 2021
Discount rate	13.5%	11.5%
Revenue volatility	18.6%	29.0%
EBITDA volatility	35.0%	55.0%

*Interest Rate Cap Contracts*

The Company 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 29, 2022 and December 30, 2021, the total fair value of the Company's interest rate cap contracts was approximately \$5.9 million and \$0.5 million, respectively, which are presented as a component of accumulated other comprehensive income within stockholders' equity on the Consolidated Balance Sheets net of tax of \$1.4 million and less than \$0.1 million, respectively.

*Non-recurring Fair Value Measurements*

Except for the acquisition-related fair value measurements described in Note 14, "Acquisitions," there were no assets or liabilities as of December 29, 2022 or December 30, 2021 that resulted from fair value measurements made on a non-recurring basis.

**8. Derivatives and Risk Management**

*Interest Rate Risk*

The Company's exposure to market risk from adverse changes in interest rates is primarily associated with its long-term debt obligations, which carry variable interest rates. Market risk associated with the Company's variable interest rate long-term debt relates to the potential negative impact to future earnings and cash flows from an increase in interest rates.

In an effort to manage exposure to the risk associated with variable interest rate long term debt, the Company periodically enters into interest rate derivative contracts. These interest rate derivative contracts are used to convert the interest rate exposure on a portion of the Company's debt portfolio from a floating rate to a capped rate and are designated as cash flow hedges.

*Derivative Position as of December 29, 2022:*

<i>in thousands</i>	Notional Balance		Final Maturity Date	Other Current Assets	Other Assets	AOCI, Net of Tax
<i>Designated as cash flow hedges:</i>						
Interest rate cap (1)	\$ 75,000	U.S. dollars	April 2024	\$ 2,275	\$ 654	\$ (2,166)
Interest rate cap (1)	\$ 75,000	U.S. dollars	April 2024	\$ 2,278	\$ 656	\$ (2,171)

(1) As discussed in Note 10, "Debt," the Term Loan Facility was amended to transition from an interest rate benchmark based on LIBOR to an interest rate benchmark based on Secured Overnight Financing Rate ("SOFR"). To align with this amendment, the hedged interest rate benchmark index for the interest rate cap contracts was changed from one month LIBOR to one month Term SOFR, and the underlying hedge documentation was updated to reflect this change. As a result of the application of the practical expedients in accordance with ASC 848, Reference Rate Reform, the original hedge designation for the interest cap contracts remains intact, and the Company will continue to apply a qualitative effectiveness assessment method.

**Derivative Position as of December 30, 2021:**

<i>in thousands</i>	Notional Balance		Final Maturity Date	Other Current Assets	Other Assets	AOCL, Net of Tax
<i>Designated as cash flow hedges:</i>						
Interest rate cap	\$ 75,000	U.S. dollars	April 2024	\$ 12	\$ 250	\$ (106)
Interest rate cap	\$ 75,000	U.S. dollars	April 2024	\$ 12	\$ 250	\$ (108)
Interest rate cap	\$ 102,500	U.S. dollars	December 2021	\$ —	\$ —	\$ (272)
<i>Not designated as hedges:</i>						
Interest rate cap	\$ 102,500	U.S. dollars	December 2021	\$ —	\$ —	\$ (49)

**Designated Hedge Gains**

Gains related to designated hedge contracts are as follows:

<i>(in thousands)</i>	Effective Portion Reclassified From AOCI to Earnings			Effective Portion Recognized in Other Comprehensive Income		
	Fiscal Year Ended			Fiscal Year Ended		
	December 29, 2022	December 30, 2021	December 31, 2020	December 29, 2022	December 30, 2021	December 31, 2020
Interest rate caps (cash flow hedges)	\$ 914	\$ —	\$ —	\$ 4,716	\$ 371	\$ 357

**Credit Risk**

To manage credit risk associated with the Company's interest rate hedges, the Company selects counterparties based on their credit ratings and limits exposure to any one counterparty.

The counterparties to the Company's derivative contracts are financial institutions with investment grade credit ratings. To manage credit risk related to its derivative financial instruments, the Company periodically monitors the credit risk of its counterparties, limits its exposure in the aggregate and to any single counterparty, and adjust its hedging positions, as appropriate. The impact of credit risk, as well as the ability of each party to fulfill its obligations under the 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 the Company's derivative contracts. The Company's derivative financial instruments do not have any credit risk-related contingent features or collateral requirements.

**9. Commitments and Contingencies**

**Lease Commitments**

The Company accounts for leases in accordance with ASC 842, *Leases*. The majority of the Company's long-term operating lease agreements are for its corporate office, retail locations, and distribution centers, which expire in various years through 2048. Most of these agreements are retail leases wherein both the land and building are leased. For a small number of retail locations, the Company has ground leases in which only the land is leased. The initial lease terms for the Company's corporate office, retail, and distribution center facilities generally range from 10 to 20 years. The majority of the Company's retail and ground 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 the Company subleases real estate within one of its distribution centers to a third party. Certain of the 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 the Company has the right to control the property. The Company's lease agreements do not contain any residual value guarantees or restrictive covenants that would reasonably be expected to have a material impact on the business.

When readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, substantially all of the Company's leases do not provide a readily determinable implicit rate. If the rate implicit in the lease is not readily determinable, the Company uses 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.

**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>	<b>As of December 29, 2022</b>	<b>As of December 30, 2021</b>
<b>Assets</b>			
Building	Right-of-use assets	\$ 989,955	\$ 972,962
Land	Right-of-use assets	199,035	107,764
Equipment	Right-of-use assets	16,646	14,127
Software	Right-of-use assets	—	8,897
Total operating lease assets		<u>\$ 1,205,636</u>	<u>\$ 1,103,750</u>
<b>Liabilities</b>			
Current			
Building	Current portion of lease liabilities	95,216	92,909
Land	Current portion of lease liabilities	1,922	1,385
Equipment	Current portion of lease liabilities	8,555	6,842
Software	Current portion of lease liabilities	—	3,466
Total current operating lease liabilities		<u>105,693</u>	<u>104,602</u>
Noncurrent			
Building	Lease liabilities	998,883	989,712
Land	Lease liabilities	220,570	120,174
Equipment	Lease liabilities	8,054	7,285
Software	Lease liabilities	—	3,819
Total noncurrent operating lease liabilities		<u>1,227,507</u>	<u>1,120,990</u>
Total operating lease liabilities		<u>\$ 1,333,200</u>	<u>\$ 1,225,592</u>
Weighted-average remaining lease term		12 years	11 years
Weighted-average discount rate		5.4%	5.1%



### Lease Costs

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

<i>in thousands</i>	<i>Classification</i>	<b>Fiscal Year Ended</b>		
		<b>December 29, 2022</b>	<b>December 30, 2021</b>	<b>December 31, 2020</b>
Fixed operating lease cost:	Selling and store operating	\$ 139,603	\$ 123,882	\$ 105,207
	Cost of sales	25,465	24,170	22,672
	Pre-opening	9,971	10,127	7,886
	General and administrative	4,622	4,359	4,118
<b>Total fixed operating lease cost</b>		<b>\$ 179,661</b>	<b>\$ 162,538</b>	<b>\$ 139,883</b>
Variable lease cost (1):	Selling and store operating	\$ 49,605	\$ 42,093	\$ 34,499
	Cost of sales	3,894	5,506	4,860
	Pre-opening	666	274	657
	General and administrative	787	310	151
<b>Total variable lease cost</b>		<b>\$ 54,952</b>	<b>\$ 48,183</b>	<b>\$ 40,167</b>
Sublease income	Cost of sales	(2,722)	(2,694)	(2,713)
<b>Total operating lease cost (2)</b>		<b>\$ 231,891</b>	<b>\$ 208,027</b>	<b>\$ 177,337</b>

(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 29, 2022, December 30, 2021, and December 31, 2020.

### 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 29, 2022 were as follows:

<i>in thousands</i>	<b>Amount</b>
2023	\$ 170,669
2024	189,116
2025	177,156
2026	166,350
2027	158,809
Thereafter	1,020,281
<b>Total minimum lease payments (1) (2)</b>	<b>1,882,381</b>
Less: amount of lease payments representing interest	549,181
<b>Present value of future minimum lease payments</b>	<b>1,333,200</b>
Less: current obligations under leases	105,693
<b>Long-term lease obligations</b>	<b>\$ 1,227,507</b>

(1) Future lease payments exclude approximately \$262.7 million of legally binding minimum lease payments for operating leases signed but not yet commenced.

(2) Operating lease payments include \$184.2 million related to options to extend lease terms that are reasonably certain of being exercised.

For the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020, cash paid for operating leases was \$78.0 million, \$157.9 million, and \$131.3 million, respectively.

**Litigation**

On November 15, 2021, the Company was added as a defendant in a wrongful death lawsuit, *Nguyen v. Inspections Now, Inc.*, No. 21-DCV-287142, pending in the 434th Judicial District Court of Fort Bend County, Texas. *Inspections Now, Inc.*; *Bestview International Company*; and *Bestview (Fuzhou) Import & Export Co. LTD* are also named as defendants in the case. Plaintiff’s petition alleges that “wood paneling” allegedly purchased from the Company was installed in the vicinity of plaintiff’s fireplace and caught fire while the fireplace was lit. The fire consumed plaintiff’s home and resulted in injuries to plaintiff and the death of plaintiff’s three children and mother. Plaintiff alleges product defect and failure to warn claims against the Company; product defect, failure to warn, and strict liability claims against the *Bestview* entities; and negligent inspection claims against *Inspections Now*. Plaintiff’s petition seeks damages in excess of \$1.0 million for property damage, personal injury, and wrongful death. The petition also seeks exemplary damages. On August 8, 2022, Plaintiff’s ex-husband filed a petition in intervention, intervening as a plaintiff in the lawsuit. Intervenor alleges the same claims against the Company and *Inspections Now* and seeks damages in excess of \$10.0 million for property damage, personal injury, wrongful death, and exemplary damages. The Company has responded to Plaintiff’s and Intervenor’s petitions, denying the allegations, and the case is in the early stages of discovery.

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. An amended complaint was filed on September 14, 2022. Defendants filed a motion to dismiss on October 31, 2022. The plaintiffs then filed a second amended complaint on December 22, 2022. On February 6, 2023, the Company, along with the other defendants, filed a motion to dismiss the operative complaint. 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 previously dismissed *In re Floor & Decor Holdings, Inc. Securities Litigation*, as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The complaint seeks unspecified damages and restitution for the Company from the individual defendants and the payment of costs and attorneys’ fees.

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, the Company is 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 its 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 29, 2022 and December 30, 2021:

<i>in thousands</i>	<b>Maturity Date</b>	<b>Interest Rate Per Annum at December 29, 2022 (1)</b>		<b>December 29, 2022</b>	<b>December 30, 2021</b>
<b>Credit Facilities:</b>					
Term Loan Facility	February 14, 2027	6.09%	Variable	\$ 204,499	\$ 206,602
Asset-based Loan Facility (“ABL”)	August 4, 2027	5.45%	Variable	210,200	—
Total secured debt at par value				414,699	206,602
Less: current maturities				2,103	2,103
Long-term debt maturities				412,596	204,499
Less: unamortized discount and debt issuance costs				7,045	8,737
Total long-term debt				<u>\$ 405,551</u>	<u>\$ 195,762</u>

(1) The applicable interest rate for the Term Loan Facility as presented herein does not include the effect of interest rate cap agreements.

The following table summarizes scheduled maturities of the Company's debt as of December 29, 2022:

<i>in thousands</i>	<b>Amount</b>
2023	\$ 2,103
2024	2,103
2025	2,103
2026	2,629
2027	405,761
Total minimum debt payments	<u>\$ 414,699</u>

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

<i>in thousands</i>	<b>Fiscal Year Ended</b>		
	<b>December 29, 2022</b>	<b>December 30, 2021</b>	<b>December 31, 2020</b>
Total interest costs, net of interest income	\$ 14,942	\$ 7,657	\$ 9,606
Interest capitalized	3,804	2,733	1,217
Interest expense, net	<u>\$ 11,138</u>	<u>\$ 4,924</u>	<u>\$ 8,389</u>

#### ***Term Loan Facility***

On November 15, 2022, the Company entered into a sixth amendment to the credit agreement governing its senior secured term loan facility (as amended, the "Term Loan Facility") to transition the benchmark interest rate for borrowings from an interest rate benchmark based on LIBOR to an interest rate benchmark based on SOFR.

The Term Loan Facility bears interest at a rate equal to either (a) a base rate determined by reference to the highest of (1) the "Prime Rate," (2) the U.S. federal funds rate plus 0.5% and (3) one-month Term SOFR plus 1.0%, or (b) Adjusted Term SOFR, plus, in each case, the applicable margin (each term as defined in the Term Loan Facility credit agreement).

The applicable margin base rate loans will be between 1.00% and 1.25%, and the applicable margin for SOFR loans will be between 2.00% and 2.25% (subject to a floor of 0.00%), in each case, if the Company exceeds certain leverage ratio tests. Other than the transition of the benchmark interest rate from Adjusted LIBOR Rate to Adjusted Term SOFR, the applicable margin, maturity date, and lender affiliate base remained unchanged. The Company evaluated the amendment in accordance with ASC 470-50, "Debt - Modifications and Extinguishments," concluding the amendment represented a modification. The Company incurred immaterial administrative costs to execute the amendment which were expensed as incurred.

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 ABL Facility.

#### ***Gain on Debt Extinguishment***

During the second quarter of fiscal 2020, the Company evaluated an 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 August 4, 2022, the Company entered into an amendment to the ABL Facility, which, among other things, (a) increased the Company's revolving commitments to a total aggregate principal amount of \$800 million, (b) allows for the Company, under certain circumstances, to increase the size of the facility by an additional amount of up to \$200 million, (c) extended the stated maturity date of the ABL Facility to August 4, 2027, and (d) transitions the benchmark interest rate for borrowings from an interest rate benchmark based on LIBOR to an interest rate benchmark based on SOFR.

As of December 29, 2022, the Company's ABL Facility had a maximum availability of \$800.0 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 has a maturity date of August 4, 2027 and 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 borrowings of \$210.2 million and letters of credit of \$33.3 million, was \$556.5 million based on financial data as of December 29, 2022.

**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 covenants under the credit agreements.

**Deferred Debt Issuance Costs and Original Issue Discounts**

Deferred debt issuance costs related to the ABL Facility were approximately \$2.2 million as of December 29, 2022 and \$0.8 million as of December 30, 2021 and are included in other assets on the Consolidated Balance Sheets. Deferred debt issuance costs and original issue discounts related to the Term Loan Facility were \$7.0 million as of December 29, 2022 and \$8.7 million as of December 30, 2021 and are included in term loans on the Consolidated Balance Sheets. For the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020, deferred debt issuance and original issue discount amortization expense was \$2.0 million, \$1.9 million, and \$1.4 million, respectively, and is included in interest expense, net on the Company's Consolidated Statements of Operations and Comprehensive Income.

**Fair Value of Debt**

Market risk associated with the Company's 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. At December 29, 2022 and December 30, 2021, the fair values of the Company's debt are as follows:

<i>in thousands</i>	<b>Fair Value Hierarchy Classification</b>	<b>December 29, 2022</b>	<b>December 30, 2021</b>
Term Loan Facility	Level 3	\$ 196,575	\$ 202,986
ABL Facility	Level 2	\$ 210,200	\$ —
<b>Total</b>		<b>\$ 406,775</b>	<b>\$ 202,986</b>

Term Loan Facility fair value is classified as Level 3 within the fair value hierarchy due to the use of unobservable inputs significant to the valuation, including indicative pricing from counterparties and discounted cash flow methods. The carrying amount of the borrowings under the ABL facility approximates its fair value as its variable interest rates are based on prevailing market rates, which are a Level 2 input.

## 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.

### Secondary Offerings

On August 13, 2020, 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 \$67.60 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.

On May 22, 2020, 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 \$44.55 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.

### 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. The Company 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 29, 2022 and December 30, 2021, there were 1,745,649 and 1,926,142 shares available for grant pursuant to awards under the 2017 Plan, respectively.

### Stock-based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718. The Company measures compensation cost for all stock-based awards at fair value on the date of grant and recognizes compensation expense, net of forfeitures, using the straight-line method over the requisite service period of awards expected to vest, which for each of the awards is the service vesting period.

The table below presents components of stock-based compensation expense within the Company's Consolidated Statements of Operations and Comprehensive Income:

<i>in thousands</i>	Fiscal Year Ended		
	December 29, 2022	December 30, 2021	December 31, 2020
General and administrative	\$ 21,665	\$ 20,528	\$ 16,115
Selling and store operating	568	—	—
Total stock-based compensation expense	<u>\$ 22,233</u>	<u>\$ 20,528</u>	<u>\$ 16,115</u>

### Stock Options

Stock options are granted with an exercise price equal to the closing price of the Company's Class A common stock 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 option grants are generally subject to forfeiture if employment terminates prior to vesting.

No stock options were granted during fiscal 2022. During fiscal years 2021 and 2020, stock option award grant date fair values were estimated using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	Fiscal Year Ended	
	December 30, 2021	December 31, 2020
Weighted average fair value per stock option	\$ 41.75	\$ 22.27
Risk-free interest rate	0.80%	1.17%
Expected volatility	48%	39%
Expected life (in years)	5.40	5.75
Dividend yield	—%	—%

The Company determines the grant date fair value of stock options with assistance from a third-party valuation specialist. The risk-free interest rate is based on the term structure of interest rates at the time of the option grant and is determined using 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. 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 relies 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 Company estimates the dividend yield to be zero as it does not intend to pay dividends during the respective lives of the options.

The table below summarizes stock option activity for the fiscal year ended December 29, 2022:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2021	2,503,654	\$ 26.81		
Exercised	(352,455)	21.54		
Forfeited or expired	(49,640)	52.00		
Outstanding at December 29, 2022	2,101,559	\$ 27.10	4.8	\$ 93,730
Vested and exercisable at December 29, 2022	1,885,661	\$ 23.08	4.5	\$ 90,713

The fair value of stock options vested during the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020 was \$9 million, \$8.8 million, and \$7.5 million, respectively. The aggregate intrinsic value of stock options exercised was \$20.4 million, \$126.6 million, and \$135.5 million for the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020, respectively.

The Company's total unrecognized compensation cost related to stock options as of December 29, 2022 and December 30, 2021 was \$3.3 million and \$9.7 million, respectively. The unrecognized compensation cost remaining as of December 29, 2022 is expected to be recognized over a weighted average period of 1.5 years.

#### Restricted Stock Units

During the fiscal year ended December 29, 2022, the Company granted service-based restricted stock units ("RSUs") to certain employees, executive officers, and non-employee directors and performance-based restricted stock units ("PSUs") to certain executive officers that represent an unfunded, unsecured right to receive a share of the Company's Class A common stock upon vesting. The RSUs granted during the period vest in three ratable annual installments on each of the first three anniversaries of the grant date, subject to the grantee's continued service through the applicable vesting date. The PSUs granted during the period cliff vest after a three-year period based on the achievement of specific targets for adjusted EBIT (earnings before interest and taxes) growth and return on invested capital, subject to the grantee's continued service through the applicable vesting date. Based on the extent to which the performance goals are achieved, vested shares may range from 0% to 200% of the target award amount, and the Company assesses the probability of achieving these performance goals on a quarterly basis. The fair values of the service-based and performance-based restricted stock units were 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 29, 2022:

	Restricted Stock Units			
	Service-based		Performance-based	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2021	214,778	\$ 82.80	—	\$ —
Granted	283,585	91.88	36,566	95.62
Vested	(59,096)	79.87	—	—
Forfeited	(30,438)	91.55	(449)	95.62
Unvested at December 29, 2022	408,829	\$ 88.85	36,117	\$ 95.62

The total unrecognized compensation cost related to restricted stock units as of December 29, 2022 and December 30, 2021 was \$6.0 million and \$14.0 million, respectively. The unrecognized compensation cost remaining as of December 29, 2022 is expected to be recognized over a weighted average period of 2.2 years.

The total fair value of restricted stock units that vested during the fiscal years ended December 29, 2022 and December 30, 2021 was \$3 million and \$2.9 million, respectively. There were no restricted stock units that vested during the fiscal year ended December 31, 2020.

#### Restricted Stock Awards

The following table summarizes restricted stock award activity during the fiscal year ended December 29, 2022 (no restricted stock awards were granted during fiscal 2022):

	Restricted Stock Awards					
	Service-based		Performance-based		Total shareholder return	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2021	144,725	\$ 62.92	160,315	\$ 57.70	104,456	\$ 44.28
Vested	(25,204)	78.50	—	—	—	—
Forfeited	(16,195)	62.53	(25,997)	57.70	(16,939)	44.28
Unvested at December 29, 2022	103,326	\$ 59.18	134,318	\$ 57.70	87,517	\$ 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 total shareholder return 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 29, 2022 and December 30, 2021, total unrecognized compensation cost related to unvested restricted stock awards was \$3.2 million and \$10.9 million, respectively. The unrecognized compensation cost remaining as of December 29, 2022 is expected to be recognized over a weighted average period of 1.2 years.

The total fair value of restricted stock awards that vested during the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020 was \$3.2 million, \$1.4 million, and \$0.5 million, respectively.

#### Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "ESPP") is a tax-qualified plan under Section 423 of the Internal Revenue Code and permits eligible employees to purchase shares of the Company's 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 its common stock on either the first or last trading day of each six-month offering period. There are 1,500,000 shares of the Company's Class A common stock, par value \$0.001 per share, approved for issuance under the ESPP, 62,274, 46,273, and 56,389 of which were issued during fiscal years 2022, 2021, and 2020, respectively. During fiscal years 2022, 2021, and 2020, the Company recognized stock-based compensation expense related to the ESPP totaling \$1.2 million, \$1.0 million, and \$0.7 million, respectively.

**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 years 2022, 2021, and 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:

	Fiscal Year Ended		
	December 29, 2022	December 30, 2021	December 31, 2020
<i>in thousands, except per share data</i>			
Net income	\$ 298,195	\$ 283,230	\$ 194,981
Basic weighted average shares outstanding	105,626	104,683	102,690
Dilutive effect of share-based awards	1,817	2,707	3,452
Diluted weighted average shares outstanding	107,443	107,390	106,142
Basic earnings per share	\$ 2.82	\$ 2.71	\$ 1.90
Diluted earnings per share	\$ 2.78	\$ 2.64	\$ 1.84

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

	Fiscal Year Ended		
	December 29, 2022	December 30, 2021	December 31, 2020
<i>in thousands</i>			
Stock options	69	71	320
Restricted stock units	267	—	—



### 13. Selected Quarterly Financial Information (unaudited)

The following tables present the Company's unaudited quarterly results for fiscal 2022 and fiscal 2021.

<i>in thousands, except per share data</i>	Fiscal 2022			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$ 1,028,734	\$ 1,089,846	\$ 1,097,824	\$ 1,048,069
Gross profit	408,058	436,282	447,475	435,901
Net income	70,951	81,832	76,175	69,237
Basic earnings per share	0.67	0.78	0.72	0.65
Diluted earnings per share	0.66	0.76	0.71	0.64

<i>in thousands, except per share data</i>	Fiscal 2021			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$ 782,537	\$ 860,108	\$ 876,553	\$ 914,335
Gross profit	336,933	365,438	365,308	354,587
Net income	75,796	82,916	74,645	49,873
Basic earnings per share	0.73	0.79	0.71	0.47
Diluted earnings per share	0.71	0.77	0.69	0.46

### 14. Acquisitions

The Company made acquisitions during fiscal 2022 and fiscal 2021 to expand its commercial flooring business which are accounted for in accordance with ASC 805. The results of operations, financial position, and cash flows related to these acquisitions have been included in the Company's consolidated financial statements since their respective acquisition dates. During fiscal 2021, the Company recognized business acquisition and integration costs totaling \$3.4 million in general and administrative expenses within the Consolidated Statements of Operations and Comprehensive Income. Business acquisition and integration costs incurred during fiscal 2022 and 2020 were immaterial.

#### *Spartan*

On June 4, 2021, the Company acquired 100% of Spartan, a commercial specialty hard-surface flooring distribution company for total purchase consideration of \$77.7 million. Total purchase consideration was comprised of the following components at their respective acquisition date fair values: \$63.6 million cash, net of cash acquired, \$9.1 million of contingent consideration, and \$5.0 million of the Company's common stock

The contingent consideration represents the estimated fair value associated with potential earn-out payments to the seller of up to \$8.0 million subject to Spartan's achievement of certain financial performance targets in fiscal years 2021 through 2024. Of the total earn-out consideration, \$9.0 million is related to the achievement of certain annual adjusted EBITDA margin targets, and \$9.0 million is related to the achievement of certain annual gross profit targets. A portion of these earn-out opportunities is payable each year subject to achievement of the applicable performance targets for that year, with the maximum payout requiring that each of the individual annual targets are met. Refer to Note 7, "Fair Value Measurements" for additional information regarding the contingent consideration.

At the acquisition date, the acquired assets and liabilities were recorded at their estimated fair values including \$4.4 million of intangible assets comprised of customer relationships, a trade name, and non-compete agreement, \$28.0 million of goodwill, \$16.5 million of accounts receivable, inventory, and other current assets, \$4.3 million of lease right-of-use and other non-current assets, \$12.4 million of accounts payable and other current liabilities, and \$3.1 million of operating lease and other non-current liabilities.

The fair values of identifiable intangible assets are classified within Level 3 of the fair value hierarchy and were determined with assistance from a third-party valuation specialist using the multi-period excess earnings method for customer relationships, the relief-from-royalty method for the trade name, and an incremental income method for the non-compete agreement. These valuation methodologies included significant assumptions such as the amount and timing of projected cash flows, growth rates, customer attrition rates, discount rates, royalty rates (for use in estimating the fair value of the Spartan trade name), and the assessment of each asset's life cycle.

The goodwill arising from the acquisition is primarily attributable to operational synergies and acceleration of growth strategies. The goodwill and intangible assets from the Spartan acquisition are fully deductible for U.S. federal and state tax purposes.

*Other Commercial Flooring Distributors*

During fiscal 2022, the Company acquired three small commercial flooring sales distributors for total consideration of \$4.6 million, including \$3.8 million of cash and \$0.8 million of contingent earn-out consideration. The acquired assets and liabilities were recorded at their estimated fair values and were primarily comprised of \$3.3 million of customer relationships with useful lives of 12 years.

**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 29, 2022, 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 29, 2022, 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 29, 2022.

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 29, 2022, 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 29, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

On February 23, 2023, the Company entered into an employment agreement with Bryan Langley, Executive Vice President and Chief Financial Officer of the Company (the "Employment Agreement"). The Employment Agreement provides for a four-year term with automatic one-year extensions (unless either party gives prior written notice of non-renewal), and provides for annual base salary, target bonus levels, and certain other benefits. If Mr. Langley's employment is terminated without Cause or due to the Company's non-renewal of the Employment Agreement, or if Mr. Langley resigns for Good Reason, he is entitled to receive severance equal to one times his annual base salary, payable over 12 months, subject to his execution of a valid release of claims.

The foregoing description of the Employment Agreement is qualified in its entirety by reference to the full text of the Employment Agreement, which is filed herewith as Exhibit 10.27 of this Form 10-K and incorporated herein by reference.

**ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.**

Not applicable.

**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 2023 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days after the end of our fiscal year ended December 29, 2022 (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 29, 2022 and December 30, 2021

Consolidated Statements of Operations and Comprehensive Income for the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020

Consolidated Statements of Cash Flows for the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020

Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended December 29, 2022, December 30, 2021, and December 31, 2020

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 Amended & Restated Certificate of Incorporation of Floor & Decor Holdings, Inc.(1)
- 3.2 Second Amended and Restated Bylaws of Floor & Decor Holdings, Inc.(2)
- 4.1 Specimen Class A Common Stock Certificate(3)
- 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(4)
- 4.3 Description of Securities
- 10.1 FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(5)#
- 10.2 First Amendment to FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(5)#
- 10.3 Second Amendment to FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(5)#
- 10.4 Third Amendment to FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(5)#
- 10.5 Fourth Amendment to FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(6)#
- 10.6 Form of Stock Option Agreement under the FDO Holdings, Inc. Amended and Restated 2011 Stock Incentive Plan(5)#
- 10.7 Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan(4)#
- 10.8 Form of Stock Option Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan(3)#
- 10.9 Form of Restricted Stock Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan(5)#
- 10.10 Form of Performance Restricted Stock Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan(13)#
- 10.11 Form of Non-CEO Restricted Stock Unit Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan#
- 10.12 Form of CEO Restricted Stock Unit Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan#
- 10.13 Form of Non-CEO Performance Restricted Stock Unit Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan#
- 10.14 Form of CEO Performance Restricted Stock Unit Agreement under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan#
- 10.15 Form of Indemnification Agreement by and between Floor & Decor Holdings, Inc. and its directors and officers(20)
- 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 Thomas V. Taylor(13)#
- 10.17 Consulting Agreement, dated December 3, 2012, by and between Floor and Decor Outlets of America, Inc., FDO Holdings, Inc. and George Vincent West(5)#
- 10.18 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 (11)#
- 10.19 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(13)#

10.20	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(13)#
10.21	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(13)#
10.22	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Thomas V. Taylor(17)#
10.23	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and David V. Christopherson(17)#
10.24	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Brian K. Robbins(17)#
10.25	Addendum to Employment Agreement, dated March 26, 2020, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Trevor S. Lang(17)#
10.26	Addendum to Employment Agreement, dated August 3, 2022, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Trevor S. Lang (18)#
10.27	Employment Agreement, dated February 23, 2023, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc., and Bryan Langley#
10.28	Floor & Decor Holdings, Inc Employee Stock Purchase Plan(7)#
10.29	First Amendment to Floor & Decor Holdings, Inc. Employee Stock Purchase Plan(8)#
10.30	Second Amendment to Floor & Decor Holdings, Inc. Employee Stock Purchase Plan(9)#
10.31	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 and collateral agent and swing line lender, the lenders from time to time party thereto, Bank of America, N.A. and U.S. Bank National Association, as each as syndication agent, and Wells Fargo Bank, National Association, Bank of America, N.A. and U.S. Bank National Association as joint lead arrangers and joint book managers(5)
10.32	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 from time to time party thereto, Wells Fargo Bank, National Association, as collateral agent(5)
10.33	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 party thereto, UBS AG, Stamford Branch, as administrative agent and collateral agent, the lenders from time to time party thereto and UBS Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities LLC, as joint lead arrangers and joint bookrunners(5)
10.34	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(5)
10.35	Guaranty Agreement, dated as of September 30, 2016, by FDO Acquisition Corp. in favor of UBS AG, Stamford Branch, as collateral agent(5)
10.36	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 party thereto, the lenders party thereto, and UBS AG, Stamford Branch, as administrative agent and collateral agent(5)
10.37	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 party thereto, the lenders party thereto, and UBS AG, Stamford Branch, as administrative agent and collateral agent(10)
10.38	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 party thereto and UBS AG, Stamford Branch, as administrative agent and collateral agent(14)
10.39	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 party thereto and UBS AG, Stamford Branch, as administrative agent and collateral agent(15)
10.40	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(16)
10.41	Amendment No. 1 to Amended and Restated Credit Agreement and Amendment No. 1 to Amended and Restated 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 party thereto and Wells Fargo Bank, National Association, as administrative agent and collateral agent(14)
10.42	Amendment No. 2 to Amended and Restated Credit Agreement and Amendment No. 2 to Amended and Restated Security Agreement, dated as of August 4, 2022, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., FD Sales Company LLC, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent and collateral agent(18)
10.43	Amendment No. 6 to Credit Agreement, dated as of November 15, 2022, by and among Floor and Decor Outlets of America, Inc., FDO Acquisition Corp., FD Sales Company LLC and UBS AG Stamford Branch, as administrative agent and collateral agent(19)

10.44	<a href="#">Floor &amp; Decor Holdings, Inc., Incentive Compensation Recoupment Policy(12)#</a>
10.45	<a href="#">Floor &amp; Decor Holdings, Inc. Director Nonqualified Excess Plan(20)</a>
21.1	<a href="#">List of subsidiaries</a>
23.1	<a href="#">Consent of Ernst &amp; Young LLP, independent registered public accounting firm</a>
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	<a href="#">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</a>
101.INS	<a href="#">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.</a>
101.SCH	<a href="#">Inline XBRL Taxonomy Extension Schema Document</a>
101.CAL	<a href="#">Inline XBRL Taxonomy Extension Calculation Linkbase Document</a>
101.DEF	<a href="#">Inline XBRL Taxonomy Extension Definition Linkbase Document</a>
101.LAB	<a href="#">Inline XBRL Taxonomy Extension Label Linkbase Document</a>
101.PRE	<a href="#">Inline XBRL Taxonomy Extension Presentation Linkbase Document</a>
104	<a href="#">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.</a>

# Denotes a management contract or compensatory plan or arrangement.

- (1) Filed as an exhibit to the Registrant's Form 10-Q (File No. 001-38070) filed with the SEC on August 5, 2021, and incorporated herein by reference.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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.
- (10) 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.
- (11) 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.
- (12) 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.
- (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 4, 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 February 19, 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 May 18, 2020, and incorporated herein by reference.
- (16) 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.
- (17) 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.
- (18) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 001-38070) filed with the SEC on August 4, 2022, and incorporated herein by reference.
- (19) Filed as an exhibit to the Registrant's Current Report on Form 8-K (File No. 001-38070) filed with the SEC on November 15, 2022, and incorporated herein by reference.
- (20) Filed as an exhibit to the Registrant's Form 10-K (File No. 001-38070) filed with the SEC on February 25, 2021, 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.**

By: /s/ Thomas V. Taylor  
 Thomas V. Taylor  
*Chief Executive Officer*  
 Date: February 23, 2023

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 23, 2023.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Thomas V. Taylor</u> Thomas V. Taylor	Chief Executive Officer (Principal Executive Officer) and Director	February 23, 2023
<u>/s/ Bryan H. Langley</u> Bryan H. Langley	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 23, 2023
<u>/s/ Luke T. Olson</u> Luke T. Olson	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 23, 2023
<u>/s/ Norman H. Axelrod</u> Norman H. Axelrod	Chairman of the Board	February 23, 2023
<u>/s/ George Vincent West</u> George Vincent West	Vice Chairman of the Board	February 23, 2023
<u>/s/ William T. Giles</u> William T. Giles	Director	February 23, 2023
<u>/s/ Dwight L. James</u> Dwight L. James	Director	February 23, 2023
<u>/s/ Ryan R. Marshall</u> Ryan R. Marshall	Director	February 23, 2023
<u>/s/ Peter M. Starrett</u> Peter M. Starrett	Director	February 23, 2023
<u>/s/ Richard L. Sullivan</u> Richard L. Sullivan	Director	February 23, 2023
<u>/s/ Felicia D. Thornton</u> Felicia D. Thornton	Director	February 23, 2023
<u>/s/ Charles D. Young</u> Charles D. Young	Director	February 23, 2023

**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 4.3, 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 Amended and 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 4.3 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 29, 2022, our authorized capital stock consisted of (i) 450,000,000 shares of common stock, \$0.001 par value per share and (ii) 10,000,000 shares of preferred stock, \$0.001 par value per share. As of December 29, 2022, 106,150,661 shares of common stock were outstanding, and no shares of preferred stock were outstanding.

Our common stock is listed on the New York Stock Exchange as Class A common stock under the ticker symbol "FND." References herein to Class A common stock refer to our common stock. 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 and share equally 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. Our stockholders do not have cumulative voting rights.

***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.

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## 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, subject to the terms of any series of preferred stock, our stockholders may not act by written consent, which may lengthen the amount of time required to take stockholder actions. As a result, 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.

### *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.

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### *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 a majority of our outstanding Class A common stock. 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 a majority 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.

### **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 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.

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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.

FLOOR & DECOR HOLDINGS, INC.

**Form of Restricted Stock Unit Agreement  
Pursuant to the  
Floor & Decor Holdings, Inc.  
2017 Stock Incentive Plan**

AGREEMENT (this "Agreement"), dated as of **GRANT DATE** (the "Grant Date") between Floor & Decor Holdings, Inc., a Delaware corporation (the "Company" and, collectively with its controlled Affiliates, the "Employer"), and **FIRST LAST** (the "Participant").

**Preliminary Statement**

Subject to the terms and conditions set forth herein, the Committee hereby grants the Participant the right to receive the number of shares of Common Stock specified in Section 1 (the "Restricted Stock Units"), as an Eligible Employee, Consultant or Non-Employee Director, on the Grant Date pursuant to the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan, as it may be amended from time to time (the "Plan"). Except as otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan. By signing and returning this Agreement, the Participant acknowledges having received and read a copy of the Plan and agrees to comply with it, this Agreement and all applicable laws and regulations.

Accordingly, the parties hereto agree as follows:

**NOW, THEREFORE**, the parties agree as follows:

1. **Grant of Restricted Stock Units.** Subject in all respects to the Plan and the terms and conditions set forth herein and therein, effective on the Grant Date, the Company hereby awards to the Participant # **OF SHARES** Restricted Stock Units. Each Restricted Stock Unit represents an unfunded, unsecured right to receive a share of Common Stock on the Payment Date(s) specified in Section 2(d) hereof.

2. **Vesting.**

(a) The Restricted Stock Units granted pursuant to Section 1 shall vest on the dates (each a "Vesting Date") and in the cumulative number of Restricted Stock Units provided in the table below, rounded to the nearest whole Restricted Stock Unit; provided that the Participant has been continuously employed through the applicable Vesting Date. There shall be no proportionate or partial vesting in the periods between the vesting dates.

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<u>Vesting Date</u>	<u>Cumulative Vested Percentage</u>
First anniversary of the Grant Date	33.33%
Second anniversary of the Grant Date	66.67%
Third anniversary of the Grant Date	100%

(b) **Detrimental Activity.**

(i) In consideration for the grant of the Restricted Stock Units and in addition to any other remedies available to the Company, the Participant acknowledges and agrees that the Restricted Stock Units are subject to the provisions in the Plan regarding Detrimental Activity. If the Participant engages in any Detrimental Activity prior to, or during the one-year period after, any vesting of Restricted Stock Units, all unvested Restricted Stock Units or vested Restricted Stock Units that have not been settled, shall be forfeited, without compensation, and the Committee shall be entitled to recover from the Participant (at any time within one year after such engagement in Detrimental Activity) an amount equal to the Fair Market Value as of the vesting date(s) of any Restricted Stock Units that had vested and been settled in the period referred to above.

(ii) The restrictions regarding Detrimental Activity are necessary for the protection of the business and goodwill of the Company and are considered by the Participant to be reasonable for such purposes. Without intending to limit the legal or equitable remedies available in the Plan and in this Agreement, the Participant acknowledges that engaging in Detrimental Activity will cause the Company material irreparable injury for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such activity or threat thereof, the Company shall be entitled, in addition to the remedies provided under the Plan, to obtain from any court of competent jurisdiction a temporary restraining order or a preliminary or permanent injunction restraining the Participant from engaging in Detrimental Activity or such other relief as may be required to specifically enforce any of the covenants in the Plan and this Agreement without the necessity of posting a bond, and in the case of a temporary restraining order or a preliminary injunction, without having to prove special damages.

(c) **Termination; Forfeiture.** Except as expressly provided in this Section 2(c), the Participant shall forfeit to the Company, without compensation, any and all unvested Restricted Stock Units upon the Participant's Termination for any reason. Notwithstanding the foregoing, if the Participant incurs a Termination due to death within the six-month period prior to the next applicable Vesting Date, any unvested portion of the Restricted Stock Units scheduled to vest on the Vesting Date immediately following the date of such Termination shall vest on such Termination, which shall be a Vesting Date.

(d) **Payment.** The Company shall, as soon as reasonably practicable following a Vesting Date (and in no event later than March 15<sup>th</sup> of the calendar year following the calendar year in which the applicable Vesting Date occurs) (each, a "**Payment Date**"), deliver (or cause to be delivered) to the Participant one share of Common Stock with respect to each vested Restricted Stock Unit, as settlement of such Restricted Stock Unit and each such Restricted Stock Unit shall thereafter be cancelled.

(e) **Withholding.** Unless otherwise directed or permitted by the Committee, the Participant shall pay or provide for all applicable withholding taxes in respect of the vesting of the Restricted Stock Units by (i) remitting the aggregate amount of such taxes to the Company in full, by cash,

or by check, bank draft or money order payable to the order of the Company, (ii) to the extent permitted by the Company, having the Employer withhold, from shares of Common Stock delivered upon settlement of the Restricted Stock Units, a number of whole shares of Common Stock having a Fair Market Value equal to an amount necessary to satisfy all required federal, state, local and other non-U.S. withholding obligations using up to the maximum statutory withholding rates, as determined by the Company, for federal, state, local or non-U.S. tax purposes, including payroll taxes, or (iii) to the extent permitted by the Company, by making arrangements with the Company to have such taxes withheld from other compensation due to the Participant.

3. **Dividend Equivalents.** With respect to ordinary cash dividends in respect of shares of Common Stock covered by any outstanding Restricted Stock Units, Participant will have the right to receive an amount in cash equal to (i) the amount of any ordinary cash dividend paid with respect to a share of Common Stock on or after the Grant Date and on or prior to the earlier to occur of (A) the Payment Date, or (B) the termination or forfeiture for any reason of the outstanding Restricted Stock Units, multiplied by (ii) the number of shares of Common Stock covered by such Restricted Stock Units (a “**Dividend Equivalent**”). A Dividend Equivalent shall be subject to the same vesting restrictions as the Restricted Stock Units to which such Dividend Equivalent relates, as set forth in Section 2(a). Unless otherwise determined by the Committee, Dividend Equivalents will be held, without interest thereon, until delivered to the Participant within 30 days after the date the Restricted Stock Units to which such Dividend Equivalents related vest, in each case, subject to Section 2(e) of this Agreement. Any Dividend Equivalents in respect of Restricted Stock Units that do not vest, shall be forfeited and retained by the Company. For the avoidance of doubt, (I) if a Restricted Stock Unit is not ultimately earned hereunder, no Dividend Equivalent payments shall be made with respect to such unearned Restricted Stock Unit, and (II) in no event shall a Dividend Equivalent be paid that would result in Participant receiving both the Dividend Equivalent and the actual dividend with respect to a Restricted Stock Unit and the corresponding share of Common Stock.

4. **Termination and Change in Control.** Except as expressly provided in Section 2(c), the provisions in the Plan regarding Termination and Change in Control shall apply to the Restricted Stock Units.

5. **Restricted Stock Unit Transfer Restrictions.** Unless otherwise determined by the Committee, Restricted Stock Units may not be directly or indirectly transferred, sold, assigned, pledged, hypothecated, encumbered or otherwise disposed of whether for value or for no value and whether voluntarily or involuntarily (including by operation of law) by the Participant (a “**Transfer**”) other than by will or by the laws of descent and distribution, and any other purported Transfer shall be void and unenforceable against the Company and its Affiliates.

6. **Rights as a Stockholder.** The Participant shall have no rights as a stockholder with respect to shares of Common Stock covered by Restricted Stock Units.

7. **Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Committee and as may be in effect from time to time. The Plan is incorporated herein by reference. If and to the extent that this Agreement conflicts or is inconsistent with the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly.

8. **Notices.** All notices, demands or requests made pursuant to, under or by virtue of this Agreement must be in writing and sent to the party to which the notice, demand or request is being made:

(a) unless otherwise specified by the Company in a notice delivered by the Company in accordance with this Section 8, any notice required to be delivered to the Company shall be properly delivered if delivered to:

Floor & Decor Holdings, Inc.  
2500 Windy Ridge Parkway, SE

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Atlanta, GA 30339  
Attention: General Counsel  
Telephone: (404) 471-1634  
Facsimile: (404) 393-3540

with a copy (which shall not constitute notice) to:

Proskauer Rose LLP  
2029 Century Park East, Suite 2400  
Los Angeles, CA 90067  
Attention: Ekaterina P. Napalkova  
Telephone: (310) 284-4505  
Facsimile: (310) 557-2193

(b) if to the Participant, to the address on file with the Employer.

Any notice, demand or request, if made in accordance with this Section 8 shall be deemed to have been duly given: (i) when delivered in person; (ii) three days after being sent by United States mail; or (iii) on the first business day following the date of deposit if delivered by a nationally recognized overnight delivery service.

9. **No Right to Employment/Consultancy/Directorship.** This Agreement shall not give the Participant or other Person any right to employment, consultancy or directorship by the Employer, or limit in any way the right of the Employer to terminate the Participant's employment, consultancy or directorship at any time.

10. **Waiver of Jury Trial.** EACH PARTY TO THIS AGREEMENT, FOR ITSELF AND ITS AFFILIATES, HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THE ACTIONS OF THE PARTIES HERETO OR THEIR RESPECTIVE AFFILIATES PURSUANT TO THE PLAN OR THIS AGREEMENT OR IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT OF THE PLAN OR THIS AGREEMENT.

11. **Dispute Resolution.** All controversies and claims arising out of or relating to this Agreement, or the breach hereof, shall be settled by the Employer's mandatory dispute resolution procedures as may be in effect from time to time with respect to matters arising out of or relating to Participant's employment with the Employer.

12. **Severability of Provisions.** If at any time any of the provisions of this Agreement shall be held invalid or unenforceable, or are prohibited by the laws of the jurisdiction where they are to be performed or enforced, by reason of being vague or unreasonable as to duration or geographic scope or scope of the activities restricted, or for any other reason, such provisions shall be considered divisible and shall become and be immediately amended to include only such restrictions and to such extent as shall be deemed to be reasonable and enforceable by the court or other body having jurisdiction over this Agreement and the Company and the Participant agree that the provisions of this Agreement, as so amended, shall be valid and binding as though any invalid or unenforceable provisions had not been included.

13. **Governing Law.** All matters arising out of or relating to this Agreement and the transactions contemplated hereby, including its validity, interpretation, construction, performance and enforcement, shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to its principles of conflict of laws.

14. **Section 409A.** Although the Company makes no guarantee with respect to the tax treatment of the Restricted Stock Units, the award of Restricted Stock Units and Dividend Equivalents pursuant to this Agreement is intended to comply with, or to be exempt from, Section 409A of the Code

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and shall be limited, construed and interpreted in accordance with such intent. The Restricted Stock Units and Dividend Equivalents shall be limited, construed and interpreted in accordance with such intent; provided that the Employer does not guarantee to the Participant any particular tax treatment of the Restricted Stock Units or Dividend Equivalents. In no event whatsoever shall the Employer be liable for any additional tax, interest or penalties that may be imposed on the Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. Dividend Equivalents shall be treated separately from the Restricted Stock Units and the rights arising in connection therewith for purposes of the designation of time and form of payments required by Section 409A of the Code. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may the Participant, directly or indirectly, designate the calendar year of any payment to be made under this Agreement.

15. **Interpretation.** Unless a clear contrary intention appears: (a) the defined terms herein shall apply equally to both the singular and plural forms of such terms; (b) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are not prohibited by the Plan or this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually; (c) any pronoun shall include the corresponding masculine, feminine and neuter forms; (d) 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; (e) 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; (f) "hereunder," "hereof," "hereto," and words of similar import shall be deemed references to this Agreement as a whole and not to any particular article, section or other provision hereof; (g) numbered or lettered articles, sections and subsections herein contained refer to articles, sections and subsections of this Agreement; (h) "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term; (i) "or" is used in the inclusive sense of "and/or"; (j) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto; and (k) reference to dollars or \$ shall be deemed to refer to U.S. dollars.

16. **No Strict Construction.** This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

*[Remainder of Page Left Intentionally Blank]*

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IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

**FLOOR & DECOR HOLDINGS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

By: \_\_\_\_\_  
Name: \_\_\_\_\_

FLOOR & DECOR HOLDINGS, INC.

**Form of Restricted Stock Unit Agreement  
Pursuant to the  
Floor & Decor Holdings, Inc.  
2017 Stock Incentive Plan**

AGREEMENT (this "**Agreement**"), dated as of \_\_\_\_\_ (the "**Grant Date**") between Floor & Decor Holdings, Inc., a Delaware corporation (the "**Company**") and, collectively with its controlled Affiliates, the "**Employer**"), and **FIRST LAST** (the "**Participant**").

**Preliminary Statement**

Subject to the terms and conditions set forth herein, the Committee hereby grants the Participant the right to receive the number of shares of Common Stock specified in Section 1 (the "**Restricted Stock Units**"), as an Eligible Employee, Consultant or Non-Employee Director, on the Grant Date pursuant to the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan, as it may be amended from time to time (the "**Plan**"). Except as otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan. By signing and returning this Agreement, the Participant acknowledges having received and read a copy of the Plan and agrees to comply with it, this Agreement and all applicable laws and regulations.

Accordingly, the parties hereto agree as follows:

**NOW, THEREFORE**, the parties agree as follows:

1. **Grant of Restricted Stock Units.** Subject in all respects to the Plan and the terms and conditions set forth herein and therein, effective on the Grant Date, the Company hereby awards to the Participant # **OF SHARES** Restricted Stock Units. Each Restricted Stock Unit represents an unfunded, unsecured right to receive a share of Common Stock on the Payment Date(s) specified in Section 2(d) hereof.

2. **Vesting.**

(a) The Restricted Stock Units granted pursuant to Section 1 shall vest on the dates (each a "**Vesting Date**") and in the cumulative number of Restricted Stock Units provided in the table below, rounded to the nearest whole Restricted Stock Unit; provided that the Participant has been continuously employed through the applicable Vesting Date. There shall be no proportionate or partial vesting in the periods between the vesting dates.

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<u>Vesting Date</u>	<u>Cumulative Vested Percentage</u>
First anniversary of the Grant Date	33.33%
Second anniversary of the Grant Date	66.67%
Third anniversary of the Grant Date	100%

(b) **Detrimental Activity.**

(i) In consideration for the grant of the Restricted Stock Units and in addition to any other remedies available to the Company, the Participant acknowledges and agrees that the Restricted Stock Units are subject to the provisions in the Plan regarding Detrimental Activity. If the Participant engages in any Detrimental Activity prior to, or during the one-year period after, any vesting of Restricted Stock Units, all unvested Restricted Stock Units or vested Restricted Stock Units that have not been settled, shall be forfeited, without compensation, and the Committee shall be entitled to recover from the Participant (at any time within one year after such engagement in Detrimental Activity) an amount equal to the Fair Market Value as of the vesting date(s) of any Restricted Stock Units that had vested and been settled in the period referred to above.

(ii) The restrictions regarding Detrimental Activity are necessary for the protection of the business and goodwill of the Company and are considered by the Participant to be reasonable for such purposes. Without intending to limit the legal or equitable remedies available in the Plan and in this Agreement, the Participant acknowledges that engaging in Detrimental Activity will cause the Company material irreparable injury for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such activity or threat thereof, the Company shall be entitled, in addition to the remedies provided under the Plan, to obtain from any court of competent jurisdiction a temporary restraining order or a preliminary or permanent injunction restraining the Participant from engaging in Detrimental Activity or such other relief as may be required to specifically enforce any of the covenants in the Plan and this Agreement without the necessity of posting a bond, and in the case of a temporary restraining order or a preliminary injunction, without having to prove special damages.

(c) **Termination; Forfeiture.** Except as expressly provided in this Section 2(c), the Participant shall forfeit to the Company, without compensation, any and all unvested Restricted Stock Units upon the Participant's Termination for any reason. Notwithstanding the foregoing, if the Participant incurs a Termination due to death within the six-month period prior to the next applicable Vesting Date, any unvested portion of the Restricted Stock Units scheduled to vest on the Vesting Date immediately following the date of such Termination shall vest on such Termination, which shall be a Vesting Date.

(d) **Payment.** The Company shall, as soon as reasonably practicable following a Vesting Date (and in no event later than March 15<sup>th</sup> of the calendar year following the calendar year in which the applicable Vesting Date occurs) (each, a "**Payment Date**"), deliver (or cause to be delivered) to the Participant one share of Common Stock with respect to each vested Restricted Stock Unit, as settlement of such Restricted Stock Unit and each such Restricted Stock Unit shall thereafter be cancelled.

(e) **Withholding.** Unless otherwise directed or permitted by the Committee, the Participant shall pay or provide for all applicable withholding taxes in respect of the vesting of the Restricted Stock Units by (i) remitting the aggregate amount of such taxes to the Company in full, by cash,

or by check, bank draft or money order payable to the order of the Company, (ii) to the extent permitted by the Company, having the Employer withhold, from shares of Common Stock delivered upon settlement of the Restricted Stock Units, a number of whole shares of Common Stock having a Fair Market Value equal to an amount necessary to satisfy all required federal, state, local and other non-U.S. withholding obligations using up to the maximum statutory withholding rates, as determined by the Company, for federal, state, local or non-U.S. tax purposes, including payroll taxes, or (iii) to the extent permitted by the Company, by making arrangements with the Company to have such taxes withheld from other compensation due to the Participant.

3. **Dividend Equivalents.** With respect to ordinary cash dividends in respect of shares of Common Stock covered by any outstanding Restricted Stock Units, Participant will have the right to receive an amount in cash equal to (i) the amount of any ordinary cash dividend paid with respect to a share of Common Stock on or after the Grant Date and on or prior to the earlier to occur of (A) the Payment Date, or (B) the termination or forfeiture for any reason of the outstanding Restricted Stock Units, multiplied by (ii) the number of shares of Common Stock covered by such Restricted Stock Units (a “**Dividend Equivalent**”). A Dividend Equivalent shall be subject to the same vesting restrictions as the Restricted Stock Units to which such Dividend Equivalent relates, as set forth in Section 2(a). Unless otherwise determined by the Committee, Dividend Equivalents will be held, without interest thereon, until delivered to the Participant within 30 days after the date the Restricted Stock Units to which such Dividend Equivalents related vest, in each case, subject to Section 2(e) of this Agreement. Any Dividend Equivalents in respect of Restricted Stock Units that do not vest, shall be forfeited and retained by the Company. For the avoidance of doubt, (I) if a Restricted Stock Unit is not ultimately earned hereunder, no Dividend Equivalent payments shall be made with respect to such unearned Restricted Stock Unit, and (II) in no event shall a Dividend Equivalent be paid that would result in Participant receiving both the Dividend Equivalent and the actual dividend with respect to a Restricted Stock Unit and the corresponding share of Common Stock.

4. **Termination and Change in Control.** Except as expressly provided in Section 2(c), the provisions in the Plan regarding Termination and Change in Control shall apply to the Restricted Stock Units.

5. **Restricted Stock Unit Transfer Restrictions.** Unless otherwise determined by the Committee, Restricted Stock Units may not be directly or indirectly transferred, sold, assigned, pledged, hypothecated, encumbered or otherwise disposed of whether for value or for no value and whether voluntarily or involuntarily (including by operation of law) by the Participant (a “**Transfer**”) other than by will or by the laws of descent and distribution, and any other purported Transfer shall be void and unenforceable against the Company and its Affiliates.

6. **Rights as a Stockholder.** The Participant shall have no rights as a stockholder with respect to shares of Common Stock covered by Restricted Stock Units.

7. **Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Committee and as may be in effect from time to time. The Plan is incorporated herein by reference. If and to the extent that this Agreement conflicts or is inconsistent with the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly.

8. **Notices.** All notices, demands or requests made pursuant to, under or by virtue of this Agreement must be in writing and sent to the party to which the notice, demand or request is being made:

(a) unless otherwise specified by the Company in a notice delivered by the Company in accordance with this Section 8, any notice required to be delivered to the Company shall be properly delivered if delivered to:

Floor & Decor Holdings, Inc.  
2500 Windy Ridge Parkway, SE

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Atlanta, GA 30339  
Attention: General Counsel  
Telephone: (404) 471-1634  
Facsimile: (404) 393-3540

with a copy (which shall not constitute notice) to:

Proskauer Rose LLP  
2029 Century Park East, Suite 2400  
Los Angeles, CA 90067  
Attention: Ekaterina P. Napalkova  
Telephone: (310) 284-4505  
Facsimile: (310) 557-2193

(b) if to the Participant, to the address on file with the Employer.

Any notice, demand or request, if made in accordance with this Section 8 shall be deemed to have been duly given: (i) when delivered in person; (ii) three days after being sent by United States mail; or (iii) on the first business day following the date of deposit if delivered by a nationally recognized overnight delivery service.

9. **No Right to Employment/Consultancy/Directorship.** This Agreement shall not give the Participant or other Person any right to employment, consultancy or directorship by the Employer, or limit in any way the right of the Employer to terminate the Participant's employment, consultancy or directorship at any time.

10. **Waiver of Jury Trial.** EACH PARTY TO THIS AGREEMENT, FOR ITSELF AND ITS AFFILIATES, HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THE ACTIONS OF THE PARTIES HERETO OR THEIR RESPECTIVE AFFILIATES PURSUANT TO THE PLAN OR THIS AGREEMENT OR IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT OF THE PLAN OR THIS AGREEMENT.

11. **Dispute Resolution.** All controversies and claims arising out of or relating to this Agreement, or the breach hereof, shall be settled by the Employer's mandatory dispute resolution procedures as may be in effect from time to time with respect to matters arising out of or relating to Participant's employment with the Employer.

12. **Severability of Provisions.** If at any time any of the provisions of this Agreement shall be held invalid or unenforceable, or are prohibited by the laws of the jurisdiction where they are to be performed or enforced, by reason of being vague or unreasonable as to duration or geographic scope or scope of the activities restricted, or for any other reason, such provisions shall be considered divisible and shall become and be immediately amended to include only such restrictions and to such extent as shall be deemed to be reasonable and enforceable by the court or other body having jurisdiction over this Agreement and the Company and the Participant agree that the provisions of this Agreement, as so amended, shall be valid and binding as though any invalid or unenforceable provisions had not been included.

13. **Governing Law.** All matters arising out of or relating to this Agreement and the transactions contemplated hereby, including its validity, interpretation, construction, performance and enforcement, shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to its principles of conflict of laws.

14. **Section 409A.** Although the Company makes no guarantee with respect to the tax treatment of the Restricted Stock Units, the award of Restricted Stock Units and Dividend Equivalents pursuant to this Agreement is intended to comply with, or to be exempt from, Section 409A of the Code

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and shall be limited, construed and interpreted in accordance with such intent. The Restricted Stock Units and Dividend Equivalents shall be limited, construed and interpreted in accordance with such intent; provided that the Employer does not guarantee to the Participant any particular tax treatment of the Restricted Stock Units or Dividend Equivalents. In no event whatsoever shall the Employer be liable for any additional tax, interest or penalties that may be imposed on the Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. Dividend Equivalents shall be treated separately from the Restricted Stock Units and the rights arising in connection therewith for purposes of the designation of time and form of payments required by Section 409A of the Code. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may the Participant, directly or indirectly, designate the calendar year of any payment to be made under this Agreement.

15. **Interpretation.** Unless a clear contrary intention appears: (a) the defined terms herein shall apply equally to both the singular and plural forms of such terms; (b) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are not prohibited by the Plan or this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually; (c) any pronoun shall include the corresponding masculine, feminine and neuter forms; (d) 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; (e) 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; (f) "hereunder," "hereof," "hereto," and words of similar import shall be deemed references to this Agreement as a whole and not to any particular article, section or other provision hereof; (g) numbered or lettered articles, sections and subsections herein contained refer to articles, sections and subsections of this Agreement; (h) "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term; (i) "or" is used in the inclusive sense of "and/or"; (j) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto; and (k) reference to dollars or \$ shall be deemed to refer to U.S. dollars.

16. **No Strict Construction.** This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

*[Remainder of Page Left Intentionally Blank]*

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IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

**FLOOR & DECOR HOLDINGS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

By: \_\_\_\_\_  
Name: \_\_\_\_\_

FLOOR &amp; DECOR HOLDINGS, INC.

**Form of Performance Stock Unit Agreement  
Pursuant to the  
Floor & Decor Holdings, Inc.  
2017 Stock Incentive Plan**

AGREEMENT (this "**Agreement**"), dated as of \_\_\_\_\_ (the "**Grant Date**") between Floor & Decor Holdings, Inc., a Delaware corporation (the "**Company**") and, collectively with its controlled Affiliates, the "**Employer**"), and \_\_\_\_\_ (the "**Participant**").

**Preliminary Statement**

Subject to the terms and conditions set forth herein, the Committee hereby grants the Participant the right to receive the number of shares of Common Stock specified in Section 1 (the "**Performance Stock Units**"), as an Eligible Employee, Consultant or Non-Employee Director, on the Grant Date pursuant to the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan, as it may be amended from time to time (the "**Plan**"). Except as otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan. By signing and returning this Agreement, the Participant acknowledges having received and read a copy of the Plan and agrees to comply with it, this Agreement and all applicable laws and regulations.

Accordingly, the parties hereto agree as follows:

1. **Grant of Performance Stock Units.** Subject to the Plan and the terms and conditions set forth herein and therein, including the conditions set forth in Section 2 hereof, the Participant is hereby granted Performance Stock Units on the Grant Date as follows. Each Performance Stock Unit represents an unfunded, unsecured right to receive a share of Common Stock on the Payment Date(s) specified in Section 2(d) hereof.

**Target Number of Performance Stock Units:** \_\_\_\_\_

**Maximum Number of Performance Stock Units:** \_\_\_\_\_

2. **Vesting.**

(i)The Performance Stock Units shall vest (or not) based on achievement relative to the performance goals set forth on **Exhibit A** attached hereto (the "**Performance Goals**") and subject to the Participant not having incurred a Termination through the Measurement Date (except as otherwise set forth in this Agreement). For purposes of this Agreement, the "**Measurement Date**" is the date on which the Committee determines and certifies the extent to which the Performance Goals have been achieved. The Measurement Date shall occur as soon as practicable following the end of the Performance Period (as defined in **Exhibit A** attached hereto), but in no event later than 60 days following the end of the Performance Period. The Committee's determination and certification of (I) the achievement of Performance Goals and (II) the number of Performance Stock Units that vest pursuant to this Section 2(a), shall be final and binding on the Participant. Notwithstanding anything herein to the contrary, the Committee shall have discretion to adjust the Performance Goals, or the metrics used to determine achievement of the Performance Goals, to reflect (I) a change in accounting standards or principles, (II) a significant acquisition or divestiture, (III) a significant capital transaction, (IV) a change to or difference in the applicable fiscal year, or (V) any other unusual, nonrecurring or other extraordinary event or item.

Upon the Measurement Date, the Committee shall determine the achievement of the Performance Goals. Subject to the Participant not having incurred a Termination through the Measurement Date, the number of Performance Stock Units (if any) that vest shall be based



on the Committee's determination of performance with respect to the Performance Goals. In no event shall the number of Performance Stock Units that vest hereunder exceed the Maximum Number of Performance Stock Units indicated above. All Performance Stock Units that do not become vested as of the Measurement Date shall be automatically forfeited without consideration therefor.

**(ii) Detrimental Activity.**

(1) In consideration for the grant of the Performance Stock Units and in addition to any other remedies available to the Company, the Participant acknowledges and agrees that the Performance Stock Units are subject to the provisions in the Plan regarding Detrimental Activity. If the Participant engages in any Detrimental Activity prior to, or during the two-year period after, any vesting of the Performance Stock Units, all unvested Performance Stock Units, and vested Performance Stock Units that have not been settled, shall be forfeited, without compensation, and the Committee shall be entitled to recover from the Participant (at any time within one year after such engagement in Detrimental Activity) an amount equal to the Fair Market Value as of the vesting date(s) of any Performance Stock Units that had vested and been settled in the period referred to above.

(2) The restrictions regarding Detrimental Activity are necessary for the protection of the business and goodwill of the Company and are considered by the Participant to be reasonable for such purposes. Without intending to limit the legal or equitable remedies available in the Plan and in this Agreement, the Participant acknowledges that engaging in Detrimental Activity will cause the Company material irreparable injury for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such activity or threat thereof, the Company shall be entitled, in addition to the remedies provided under the Plan, to obtain from any court of competent jurisdiction a temporary restraining order or a preliminary or permanent injunction restraining the Participant from engaging in Detrimental Activity or such other relief as may be required to specifically enforce any of the covenants in the Plan and this Agreement without the necessity of posting a bond, and in the case of a temporary restraining order or a preliminary injunction, without having to prove special damages.

**(iii) Termination; Forfeiture.** Except as provided in this Section 2(c), the Participant shall forfeit, without compensation, any and all unvested Performance Stock Units upon the Participant's Termination for any reason. Notwithstanding anything in the foregoing to the contrary, in the event of the Participant's Termination by the Company without Cause within the one (1) year period immediately following a Change in Control, the Performance Stock Units shall become vested at a Payout Percentage of 100% and shall become payable in accordance with Section 2(d), in each case subject to and conditioned upon, (i) the Participant's continued compliance with all confidentiality obligations and restrictive covenants to which the Participant is subject, and (ii) the Participant's timely execution and delivery (without revocation) to the Company of a general release of all claims of any kind that the Participant has or may have against the Company and its Affiliates and their respective officers, directors, employees, shareholders, agents, representatives, and advisors (in a form satisfactory to the Company and that is delivered to the Participant no later than the date of the Participant's Termination), within twenty-one (21) days (or such longer period as may be required by law).

**(iv) Payment.** The Company shall, as soon as reasonably practicable following the earliest of (i) the Measurement Date and (ii) the date the Performance Stock Units otherwise become vested in accordance with Section 2(c) (and in no event later than March 15<sup>th</sup> of the calendar year following the calendar year in which the applicable date occurs) (each, a "**Payment Date**"), deliver (or cause to be delivered) to the Participant one share of Common Stock with respect to each vested Performance Stock Unit, as settlement of such Performance Stock Unit and each such Performance Stock Unit shall thereafter be cancelled.

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(v) **Withholding.** Unless otherwise directed or permitted by the Committee, the Participant shall pay or provide for all applicable withholding taxes in respect of the vesting of the Performance Stock Units by (i) remitting the aggregate amount of such taxes to the Company in full, by cash, or by check, bank draft or money order payable to the order of the Company, (ii) to the extent permitted by the Company, having the Employer withhold, from shares of Common Stock delivered upon settlement of the Performance Stock Units, a number of whole shares of Common Stock having a Fair Market Value equal to an amount necessary to satisfy all required federal, state, local and other non-U.S. withholding obligations using up to the maximum statutory withholding rates, as determined by the Company, for federal, state, local or non-U.S. tax purposes, including payroll taxes, or (iii) to the extent permitted by the Company, by making arrangements with the Company to have such taxes withheld from other compensation due to the Participant.

3. **Dividend Equivalents.** With respect to ordinary cash dividends in respect of shares of Common Stock covered by any outstanding Performance Stock Units, Participant will have the right to receive an amount in cash equal to the product of (i) the amount of any ordinary cash dividend paid with respect to a share of Common Stock on or after the Grant Date and on or prior to the earlier to occur of (A) the Payment Date, or (B) the termination or forfeiture for any reason of the outstanding Performance Stock Units, multiplied by (ii) the number of shares of Common Stock covered by such Performance Stock Units (a “**Dividend Equivalent**”). A Dividend Equivalent shall be subject to the same vesting restrictions and payment conditions as the Performance Stock Units to which such Dividend Equivalent relates, as set forth in Section 2(a) and subject to Section 2(c). Any Dividend Equivalents in respect of Performance Stock Units that do not vest, shall be forfeited and retained by the Company. For the avoidance of doubt, (I) if a Performance Stock Unit does not ultimately become vested hereunder, no Dividend Equivalent payments shall be made with respect to such unvested Performance Stock Unit, and (II) in no event shall a Dividend Equivalent be paid that would result in Participant receiving both the Dividend Equivalent and the actual dividend with respect to a Performance Stock Units and the corresponding share of Common Stock.

4. **Termination and Change in Control.** Except as expressly provided in Section 2(c), the provisions in the Plan regarding Termination and Change in Control shall apply to the Performance Stock Units.

5. **Performance Stock Unit Transfer Restrictions.** Unless otherwise determined by the Committee, Performance Stock Units may not be directly or indirectly transferred, sold, assigned, pledged, hypothecated, encumbered or otherwise disposed of whether for value or for no value and whether voluntarily or involuntarily (including by operation of law) by the Participant (a “**Transfer**”) other than by will or by the laws of descent and distribution, and any other purported Transfer shall be void and unenforceable against the Company and its Affiliates.

6. **Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Committee and as may be in effect from time to time. The Plan is incorporated herein by reference. If and to the extent that this Agreement conflicts or is inconsistent with the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly.

7. **Notices.** All notices, demands or requests made pursuant to, under or by virtue of this Agreement must be in writing and sent to the party to which the notice, demand or request is being made:

- (i) unless otherwise specified by the Company in a notice delivered by the Company in accordance with this Section 7, any notice required to be delivered to the Company shall be properly delivered if delivered to:

Floor & Decor Holdings, Inc.  
2500 Windy Ridge Parkway, SE  
Atlanta, GA 30339  
Attention: General Counsel

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Telephone: (404) 471-1634  
Facsimile: (404) 393-3540

with a copy (which shall not constitute notice) to:

Proskauer Rose LLP  
2029 Century Park East, Suite 2400  
Los Angeles, CA 90067  
Attention: Ekaterina P. Napalkova  
Telephone: (310) 284-4505  
Facsimile: (310) 557-2193  
Email: enapalkova@proskauer.com

(b) if to the Participant, to the address on file with the Employer.

Any notice, demand or request, if made in accordance with this Section 7 shall be deemed to have been duly given: (i) when delivered in person; (ii) three days after being sent by United States mail; or (iii) on the first business day following the date of deposit if delivered by a nationally recognized overnight delivery service.

8. **No Right to Employment/Consultancy/Directorship.** This Agreement shall not give the Participant or other Person any right to employment, consultancy or directorship by the Employer, or limit in any way the right of the Employer to terminate the Participant's employment, consultancy or directorship at any time.

9. **Waiver of Jury Trial.** EACH PARTY TO THIS AGREEMENT, FOR ITSELF AND ITS AFFILIATES, HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THE ACTIONS OF THE PARTIES HERETO OR THEIR RESPECTIVE AFFILIATES PURSUANT TO THE PLAN OR THIS AGREEMENT OR IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT OF THE PLAN OR THIS AGREEMENT.

10. **Dispute Resolution.** All controversies and claims arising out of or relating to this Agreement, or the breach hereof, shall be settled by the Employer's mandatory dispute resolution procedures as may be in effect from time to time with respect to matters arising out of or relating to Participant's employment with the Employer.

11. **Severability of Provisions.** If at any time any of the provisions of this Agreement shall be held invalid or unenforceable, or are prohibited by the laws of the jurisdiction where they are to be performed or enforced, by reason of being vague or unreasonable as to duration or geographic scope or scope of the activities restricted, or for any other reason, such provisions shall be considered divisible and shall become and be immediately amended to include only such restrictions and to such extent as shall be deemed to be reasonable and enforceable by the court or other body having jurisdiction over this Agreement and the Company and the Participant agree that the provisions of this Agreement, as so amended, shall be valid and binding as though any invalid or unenforceable provisions had not been included.

12. **Governing Law.** All matters arising out of or relating to this Agreement and the transactions contemplated hereby, including its validity, interpretation, construction, performance and enforcement, shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to its principles of conflict of laws.

13. **Section 409A.** Although the Company makes no guarantee with respect to the tax treatment of the Performance Stock Units, the award of Performance Stock Units and Dividend Equivalents pursuant to this Agreement is intended to comply with, or to be exempt from, Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent. The Performance

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Stock Units and Dividend Equivalents shall be limited, construed and interpreted in accordance with such intent; provided that the Employer does not guarantee to the Participant any particular tax treatment of the Performance Stock Units or Dividend Equivalents. In no event whatsoever shall the Employer be liable for any additional tax, interest or penalties that may be imposed on the Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. Dividend Equivalents shall be treated separately from the Performance Stock Units and the rights arising in connection therewith for purposes of the designation of time and form of payments required by Section 409A of the Code.

14. **Interpretation.** Unless a clear contrary intention appears: (a) the defined terms herein shall apply equally to both the singular and plural forms of such terms; (b) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are not prohibited by the Plan or this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually; (c) any pronoun shall include the corresponding masculine, feminine and neuter forms; (d) 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; (e) 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; (f) "hereunder," "hereof," "hereto," and words of similar import shall be deemed references to this Agreement as a whole and not to any particular article, section or other provision hereof; (g) numbered or lettered articles, sections and subsections herein contained refer to articles, sections and subsections of this Agreement; (h) "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term; (i) "or" is used in the inclusive sense of "and/or"; (j) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto; and (k) reference to dollars or \$ shall be deemed to refer to U.S. dollars.

15. **No Strict Construction.** This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

**FLOOR & DECOR HOLDINGS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

By: \_\_\_\_\_  
Name: \_\_\_\_\_

FLOOR & DECOR HOLDINGS, INC.

**Form of Performance Stock Unit Agreement  
Pursuant to the  
Floor & Decor Holdings, Inc.  
2017 Stock Incentive Plan**

AGREEMENT (this "**Agreement**"), dated as of \_\_\_\_\_ (the "**Grant Date**") between Floor & Decor Holdings, Inc., a Delaware corporation (the "**Company**") and, collectively with its controlled Affiliates, the "**Employer**"), and \_\_\_\_\_ (the "**Participant**").

**Preliminary Statement**

Subject to the terms and conditions set forth herein, the Committee hereby grants the Participant the right to receive the number of shares of Common Stock specified in Section 1 (the "**Performance Stock Units**"), as an Eligible Employee, Consultant or Non-Employee Director, on the Grant Date pursuant to the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan, as it may be amended from time to time (the "**Plan**"). Except as otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan. By signing and returning this Agreement, the Participant acknowledges having received and read a copy of the Plan and agrees to comply with it, this Agreement and all applicable laws and regulations.

Accordingly, the parties hereto agree as follows:

1. **Grant of Performance Stock Units.** Subject to the Plan and the terms and conditions set forth herein and therein, including the conditions set forth in Section 2 hereof, the Participant is hereby granted Performance Stock Units on the Grant Date as follows. Each Performance Stock Unit represents an unfunded, unsecured right to receive a share of Common Stock on the Payment Date(s) specified in Section 2(d) hereof.

**Target Number of Performance Stock Units:** \_\_\_\_\_

**Maximum Number of Performance Stock Units:** \_\_\_\_\_

2. **Vesting.**

(i)The Performance Stock Units shall vest (or not) based on achievement relative to the performance goals set forth on **Exhibit A** attached hereto (the "**Performance Goals**") and subject to the Participant not having incurred a Termination through the Measurement Date (except as otherwise set forth in this Agreement). For purposes of this Agreement, the "**Measurement Date**" is the date on which the Committee determines and certifies the extent to which the Performance Goals have been achieved. The Measurement Date shall occur as soon as practicable following the end of the Performance Period (as defined in **Exhibit A** attached hereto), but in no event later than 60 days following the end of the Performance Period. The Committee's determination and certification of (I) the achievement of Performance Goals and (II) the number of Performance Stock Units that vest pursuant to this Section 2(a), shall be final and binding on the Participant. Notwithstanding anything herein to the contrary, the Committee shall have discretion to adjust the Performance Goals, or the metrics used to determine achievement of the Performance Goals, to reflect (I) a change in accounting standards or principles, (II) a significant acquisition or divestiture, (III) a significant capital transaction, (IV) a change to or difference in the applicable fiscal year, or (V) any other unusual, nonrecurring or other extraordinary event or item.

Upon the Measurement Date, the Committee shall determine the achievement of the Performance Goals. Subject to the Participant not having incurred a Termination through the Measurement Date, the number of Performance Stock Units (if any) that vest shall be based

on the Committee's determination of performance with respect to the Performance Goals. In no event shall the number of Performance Stock Units that vest hereunder exceed the Maximum Number of Performance Stock Units indicated above. All Performance Stock Units that do not become vested as of the Measurement Date shall be automatically forfeited without consideration therefor.

**(ii) Detrimental Activity.**

(1) In consideration for the grant of the Performance Stock Units and in addition to any other remedies available to the Company, the Participant acknowledges and agrees that the Performance Stock Units are subject to the provisions in the Plan regarding Detrimental Activity. If the Participant engages in any Detrimental Activity prior to, or during the two-year period after, any vesting of the Performance Stock Units, all unvested Performance Stock Units, and vested Performance Stock Units that have not been settled, shall be forfeited, without compensation, and the Committee shall be entitled to recover from the Participant (at any time within one year after such engagement in Detrimental Activity) an amount equal to the Fair Market Value as of the vesting date(s) of any Performance Stock Units that had vested and been settled in the period referred to above.

(2) The restrictions regarding Detrimental Activity are necessary for the protection of the business and goodwill of the Company and are considered by the Participant to be reasonable for such purposes. Without intending to limit the legal or equitable remedies available in the Plan and in this Agreement, the Participant acknowledges that engaging in Detrimental Activity will cause the Company material irreparable injury for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such activity or threat thereof, the Company shall be entitled, in addition to the remedies provided under the Plan, to obtain from any court of competent jurisdiction a temporary restraining order or a preliminary or permanent injunction restraining the Participant from engaging in Detrimental Activity or such other relief as may be required to specifically enforce any of the covenants in the Plan and this Agreement without the necessity of posting a bond, and in the case of a temporary restraining order or a preliminary injunction, without having to prove special damages.

**(iii) Termination; Forfeiture.** Except as provided in this Section 2(c), the Participant shall forfeit, without compensation, any and all unvested Performance Stock Units upon the Participant's Termination for any reason (for the avoidance of doubt, in the event that the Participant becomes a Consultant or a Non-Employee Director upon the termination of his employment, no Termination of Employment shall be deemed to occur until such time as the Participant is no longer an Eligible Employee, a Consultant or a Non-Employee Director). Notwithstanding anything in the foregoing to the contrary, in the event of the Participant's Termination by the Company without Cause or due to the Participant's Termination for Good Reason, in each case within the one (1) year period immediately following a Change in Control, the Performance Stock Units shall become vested at a Payout Percentage of 100% and shall become payable in accordance with Section 2(d), in each case subject to and conditioned upon, (i) the Participant's continued compliance with all confidentiality obligations and restrictive covenants to which the Participant is subject, and (ii) the Participant's timely execution and delivery (without revocation) to the Company of a general release of all claims of any kind that the Participant has or may have against the Company and its Affiliates and their respective officers, directors, employees, shareholders, agents, representatives, and advisors (in a form satisfactory to the Company and that is delivered to the Participant no later than the date of the Participant's Termination), within twenty-one (21) days (or such longer period as may be required by law).

**(iv) Payment.** The Company shall, as soon as reasonably practicable following the earliest of (i) the Measurement Date and (ii) the date the Performance Stock Units otherwise become vested in accordance with Section 2(c) (and in no event later than March 15<sup>th</sup> of the calendar

year following the calendar year in which the applicable date occurs) (each, a “**Payment Date**”), deliver (or cause to be delivered) to the Participant one share of Common Stock with respect to each vested Performance Stock Unit, as settlement of such Performance Stock Unit and each such Performance Stock Unit shall thereafter be cancelled.

(v) **Withholding.** Unless otherwise directed or permitted by the Committee, the Participant shall pay or provide for all applicable withholding taxes in respect of the vesting of the Performance Stock Units by (i) remitting the aggregate amount of such taxes to the Company in full, by cash, or by check, bank draft or money order payable to the order of the Company, (ii) to the extent permitted by the Company, having the Employer withhold, from shares of Common Stock delivered upon settlement of the Performance Stock Units, a number of whole shares of Common Stock having a Fair Market Value equal to an amount necessary to satisfy all required federal, state, local and other non-U.S. withholding obligations using up to the maximum statutory withholding rates, as determined by the Company, for federal, state, local or non-U.S. tax purposes, including payroll taxes, or (iii) to the extent permitted by the Company, by making arrangements with the Company to have such taxes withheld from other compensation due to the Participant.

3. **Dividend Equivalents.** With respect to ordinary cash dividends in respect of shares of Common Stock covered by any outstanding Performance Stock Units, Participant will have the right to receive an amount in cash equal to the product of (i) the amount of any ordinary cash dividend paid with respect to a share of Common Stock on or after the Grant Date and on or prior to the earlier to occur of (A) the Payment Date, or (B) the termination or forfeiture for any reason of the outstanding Performance Stock Units, multiplied by (ii) the number of shares of Common Stock covered by such Performance Stock Units (a “**Dividend Equivalent**”). A Dividend Equivalent shall be subject to the same vesting restrictions and payment conditions as the Performance Stock Units to which such Dividend Equivalent relates, as set forth in Section 2(a) and subject to Section 2(c). Any Dividend Equivalents in respect of Performance Stock Units that do not vest, shall be forfeited and retained by the Company. For the avoidance of doubt, (I) if a Performance Stock Unit does not ultimately become vested hereunder, no Dividend Equivalent payments shall be made with respect to such unvested Performance Stock Unit, and (II) in no event shall a Dividend Equivalent be paid that would result in Participant receiving both the Dividend Equivalent and the actual dividend with respect to a Performance Stock Units and the corresponding share of Common Stock.

4. **Termination and Change in Control.** Except as expressly provided in Section 2(c), the provisions in the Plan regarding Termination and Change in Control shall apply to the Performance Stock Units.

5. **Performance Stock Unit Transfer Restrictions.** Unless otherwise determined by the Committee, Performance Stock Units may not be directly or indirectly transferred, sold, assigned, pledged, hypothecated, encumbered or otherwise disposed of whether for value or for no value and whether voluntarily or involuntarily (including by operation of law) by the Participant (a “**Transfer**”) other than by will or by the laws of descent and distribution, and any other purported Transfer shall be void and unenforceable against the Company and its Affiliates.

6. **Provisions of Plan Control.** This Agreement is subject to all the terms, conditions and provisions of the Plan, including the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan as may be adopted by the Committee and as may be in effect from time to time. The Plan is incorporated herein by reference. If and to the extent that this Agreement conflicts or is inconsistent with the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly.

7. **Notices.** All notices, demands or requests made pursuant to, under or by virtue of this Agreement must be in writing and sent to the party to which the notice, demand or request is being made:

- (i) unless otherwise specified by the Company in a notice delivered by the Company in accordance with this Section 7, any notice required to be delivered to the Company shall be properly delivered if delivered to:

Floor & Decor Holdings, Inc.  
2500 Windy Ridge Parkway, SE  
Atlanta, GA 30339  
Attention: General Counsel  
Telephone: (404) 471-1634  
Facsimile: (404) 393-3540

with a copy (which shall not constitute notice) to:

Proskauer Rose LLP  
2029 Century Park East, Suite 2400  
Los Angeles, CA 90067  
Attention: Ekaterina P. Napalkova  
Telephone: (310) 284-4505  
Facsimile: (310) 557-2193  
Email: enapalkova@proskauer.com

(b) if to the Participant, to the address on file with the Employer.

Any notice, demand or request, if made in accordance with this Section 7 shall be deemed to have been duly given: (i) when delivered in person; (ii) three days after being sent by United States mail; or (iii) on the first business day following the date of deposit if delivered by a nationally recognized overnight delivery service.

8. **No Right to Employment/Consultancy/Directorship.** This Agreement shall not give the Participant or other Person any right to employment, consultancy or directorship by the Employer, or limit in any way the right of the Employer to terminate the Participant's employment, consultancy or directorship at any time.

9. **Waiver of Jury Trial.** EACH PARTY TO THIS AGREEMENT, FOR ITSELF AND ITS AFFILIATES, HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THE ACTIONS OF THE PARTIES HERETO OR THEIR RESPECTIVE AFFILIATES PURSUANT TO THE PLAN OR THIS AGREEMENT OR IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT OF THE PLAN OR THIS AGREEMENT.

10. **Dispute Resolution.** All controversies and claims arising out of or relating to this Agreement, or the breach hereof, shall be settled by the Employer's mandatory dispute resolution procedures as may be in effect from time to time with respect to matters arising out of or relating to Participant's employment with the Employer.

11. **Severability of Provisions.** If at any time any of the provisions of this Agreement shall be held invalid or unenforceable, or are prohibited by the laws of the jurisdiction where they are to be performed or enforced, by reason of being vague or unreasonable as to duration or geographic scope or scope of the activities restricted, or for any other reason, such provisions shall be considered divisible and shall become and be immediately amended to include only such restrictions and to such extent as shall be deemed to be reasonable and enforceable by the court or other body having jurisdiction over this Agreement and the Company and the Participant agree that the provisions of this Agreement, as so amended, shall be valid and binding as though any invalid or unenforceable provisions had not been included.

12. **Governing Law.** All matters arising out of or relating to this Agreement and the transactions contemplated hereby, including its validity, interpretation, construction, performance and enforcement, shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to its principles of conflict of laws.



13. **Section 409A.** Although the Company makes no guarantee with respect to the tax treatment of the Performance Stock Units, the award of Performance Stock Units and Dividend Equivalents pursuant to this Agreement is intended to comply with, or to be exempt from, Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent. The Performance Stock Units and Dividend Equivalents shall be limited, construed and interpreted in accordance with such intent; provided that the Employer does not guarantee to the Participant any particular tax treatment of the Performance Stock Units or Dividend Equivalents. In no event whatsoever shall the Employer be liable for any additional tax, interest or penalties that may be imposed on the Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. Dividend Equivalents shall be treated separately from the Performance Stock Units and the rights arising in connection therewith for purposes of the designation of time and form of payments required by Section 409A of the Code.

14. **Interpretation.** Unless a clear contrary intention appears: (a) the defined terms herein shall apply equally to both the singular and plural forms of such terms; (b) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are not prohibited by the Plan or this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually; (c) any pronoun shall include the corresponding masculine, feminine and neuter forms; (d) 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; (e) 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; (f) "hereunder," "hereof," "hereto," and words of similar import shall be deemed references to this Agreement as a whole and not to any particular article, section or other provision hereof; (g) numbered or lettered articles, sections and subsections herein contained refer to articles, sections and subsections of this Agreement; (h) "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term; (i) "or" is used in the inclusive sense of "and/or"; (j) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto; and (k) reference to dollars or \$ shall be deemed to refer to U.S. dollars.

15. **No Strict Construction.** This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

*[Remainder of Page Left Intentionally Blank]*

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

**FLOOR & DECOR HOLDINGS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PARTICIPANT**

By: \_\_\_\_\_  
Name: \_\_\_\_\_

## EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the “Agreement”) is entered into effective as of February 23, 2023 (the “Effective Date”) between Floor and Decor Outlets of America, Inc., a Delaware corporation (the “Operating Company”), Floor & Decor Holdings, Inc., a Delaware corporation (f/k/a FDO Holdings, Inc.) (“Holdings”) and, together with the Operating Company, the “Company”) and Bryan Langley, the undersigned individual (“Executive”).

## RECITALS

WHEREAS, Executive is currently employed as the Executive Vice President and Chief Financial Officer of the Company;

WHEREAS, the parties desire to enter into this Agreement, subject to the terms and provisions herein contained.

## AGREEMENT

NOW, THEREFORE, the parties mutually agree as follows:

1. Employment.

(a) Term; Duties and Responsibilities. Beginning on the Effective Date, and during the Employment Period (defined below), Executive shall continue to serve as the Executive Vice President and Chief Financial Officer of the Company. The term of employment hereunder shall commence on the Effective Date and terminate on the fourth anniversary of the Effective Date, unless earlier terminated as set forth herein; provided, that commencing on the fourth anniversary of the Effective Date and each anniversary date thereafter, the term of this Agreement shall automatically be extended for one additional year (subject to earlier termination, as set forth herein) unless, not later than 60 calendar days prior to any such anniversary date, either the Company or Executive, in such party’s sole discretion, shall elect that such extension shall not take effect and shall have given timely written notice of such election not to extend. The period of time between the Effective Date and the termination of Executive’s employment hereunder shall be referred to herein as the “Employment Period.”

(b) Duties and Responsibilities. During the Employment Period, Executive shall at all times, except as expressly set forth below: (i) devote substantially all working time and efforts to the business and affairs of the Company and its subsidiaries on a full-time basis, (ii) faithfully, industriously and to the best of Executive’s ability, experience and talent, perform all duties that may be reasonably required by the Company, and observe and comply with all rules, regulations, policies and practices in effect on the Effective Date or amended or adopted by the Company in the future and (iii) not engage in any other business activities, as a director, officer, employee or consultant or in any other capacity, whether or not he receives compensation therefor, without the prior written consent of the Board of Directors of Holdings (the “Board”). Notwithstanding the foregoing, Executive may serve on the boards of charitable organizations, engage in charitable and community affairs and activities and manage his personal investments so long as such activities do not interfere with the performance of Executive’s Duties and Responsibilities (as defined below) hereunder. Executive will be reporting to the Chief Executive Officer of the Company and shall have all the authority, duties and responsibilities customarily exercised by an individual serving in the position of an Executive Vice President and Chief Financial Officer at an entity engaged in a retail business which is national in scope, set forth in the bylaws of the Company, provided in the Delaware General Corporation Law and such additional duties and responsibilities as may from time to time be assigned or prescribed to him by the Chief Executive Officer of the Company, consistent with the Executive’s position (collectively, “Executive’s Duties and Responsibilities”).

(c) Location. Executive’s principal place of employment shall be at the Company’s principal executive offices, currently located in Atlanta, Georgia, with Executive being provided an office and secretarial and administrative support that is customary for a similarly situated executive. Executive acknowledges that the Duties and Responsibilities to be performed by Executive hereunder are such that Executive may be required to travel extensively at times.

2. Compensation.

(a) Base Salary. During the Employment Period, Executive shall initially be paid a base salary at the annual rate of \$400,000 (“Base Salary”), payable in installments consistent with Company’s normal payroll practices.

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(b) Annual Bonus. In addition to Executive's Base Salary, during the Employment Period, Executive will be eligible to earn an annual bonus ("Bonus") under the Company's Corporate Incentive Compensation Plan (the "Bonus Plan"). The target Bonus for any fiscal year shall be 60% of Executive's Base Salary for such year, with the actual amount of the Bonus being determined based on the level of achievement of certain performance goals in accordance with the Bonus Plan. Executive must be actively employed by the Company on the date the Bonus is paid in order to receive the Bonus for any fiscal year, and Executive's Bonus, if any, shall be paid to him as provided under the Bonus Plan or, if no payment date is provided in the Bonus Plan, no later than March 15 of the calendar year following the fiscal year for which the Bonus is payable. The Company may amend the Bonus Plan at any time.

(c) Payment. Payment of all compensation and other amounts to Executive hereunder shall be made in accordance with the relevant Company policies in effect from time to time, including normal payroll practices, and shall be subject to all applicable withholding, including employment and withholding taxes.

### 3. Other Employment Benefits.

(a) Business Expenses. Upon timely submission of itemized expense statements and other documentation in conformance with the procedures specified by the Company, Executive shall be entitled to reimbursement for reasonable business and travel expenses duly incurred by Executive in the performance of Executive's Duties and Responsibilities under this Agreement during the Employment Period.

(b) Benefit Plans. During the Employment Period, Executive shall be entitled to participate in the Company's employee benefit plans and programs (sometimes "Benefit Plan" or "Benefit Plans") as they may exist from time to time, in each case as offered by the Company to its executive officers generally, subject to the terms and conditions thereof. Nothing in this Agreement shall require the Company to maintain any Benefit Plan, or shall preclude the Company from terminating or amending any Benefit Plan from time to time.

(c) Vacation. Executive shall be entitled to four weeks of paid vacation annually in accordance with the Company's vacation policy for senior executives. Executive acknowledges that given his position at the Company, Executive will use Executive's best efforts to remain generally available and accessible to the Company's senior managers in person or through an electronic means of communication when reasonably possible (the Company acknowledging that some vacation activities may prevent or limit such availability and accessibility).

### 4. Termination of Employment. Notwithstanding anything herein to the contrary,

(a) For Cause. The Company may terminate Executive's employment For Cause immediately upon written notice for any of the following reasons: (i) Executive's (x) commission of, or being indicted for, a felony under U.S. or applicable state law, or (y) commission of a misdemeanor where imprisonment may be imposed other than for a traffic-related offense, (ii) any act of material misconduct or gross negligence by Executive in the performance of Executive's Duties and Responsibilities or any act of moral turpitude by Executive, (iii) Executive's commission of any act of theft, fraud or material dishonesty, (iv) Executive's willful failure to perform any reasonable duties assigned to him by the Chief Executive Officer of the Company or Executive's refusal or failure to follow the lawful directives of the Company after written notice from the Company of, and 30 calendar days to cure, such refusal or failure, (v) any material breach by Executive of this Agreement or any other written agreement executed by Executive with the Company or any of its affiliates that is not cured within ten calendar days following written notice of such breach, and (vi) Executive's unlawful appropriation of a material corporate opportunity ("For Cause"). Upon termination of Executive's employment For Cause, the Company shall be under no further obligation to Executive, except to pay or provide (A) all accrued but unpaid Base Salary through the date of termination within 30 days following such termination, less all applicable deductions, and (B) any benefits and payments pursuant to the terms of any Benefit Plan, including any rights under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (the payments and benefits described in subsections (A) and (B) herein shall be referred herein as the "Accrued Benefits").

(b) Without Cause; Company Non-Renewal; Good Reason. The Company may terminate Executive's employment at any time "Without Cause," immediately upon written notice; the Company may terminate Executive's employment by electing not to extend the Employment Period, upon 60 days' written notice, as provided for in Section 1(a) above ("Company Non-Renewal"); and Executive may terminate Executive's employment at any time for "Good Reason." Upon termination of Executive's employment by the Company Without Cause, a Company Non-Renewal or by Executive for Good Reason, Executive shall be entitled to receive, in each case less all applicable deductions, (i) the Accrued Benefits, plus (ii) contingent on Executive executing and not revoking a release of any and all claims that the Executive may have against the Company substantially in the form set forth in Exhibit A (the "Separation Agreement"), and subject to Section 11(f) hereof, severance in an

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amount equal to one times Executive's Base Salary on the date of termination, payable over 12 months in substantially equal installments on the Company's regular pay dates, commencing on the first regular pay date following the 60<sup>th</sup> calendar day following Executive's termination date. If the Separation Agreement fails to become effective and irrevocable prior to the 60<sup>th</sup> calendar day following Executive's employment termination date because Executive delays, fails or refuses to execute or revokes the Separation Agreement, the Company shall have no obligation to make the payments provided by Section 4(b)(ii). A termination of Executive under this Section 4(b) does not include a termination by reason of Executive's Disability or upon the death of Executive.

"Good Reason" shall mean, without Executive's written consent, (i) a material diminution in Executive's then authority, duties or responsibilities; (ii) a material diminution in Executive's Base Salary; (iii) relocation of Executive's office to a location that is more than 50 miles from the Atlanta, Georgia metropolitan area; or (iv) any material breach of this Agreement by the Company, provided, that Executive must provide the Company with written notice of the existence of the event or change constituting Good Reason within 30 calendar days of any such event or change having occurred and allow the Company 60 calendar days from receipt of such notice from Executive to cure the same. If the Company so cures the event or change, Executive shall not have a basis for terminating his employment for Good Reason with respect to such cured event or change. If such event or change is not cured within such 60-day period, Executive must resign his employment with the Company within 30 calendar days of the end of the cure period or Executive will be deemed to have waived his right to terminate his employment for Good Reason based upon such event or change.

(c) Resignation; Executive's Election not to Renew.

(i) Resignation. Executive may resign his employment upon 60 calendar days prior written notice to the Company. If Executive fails to provide such notice, such resignation shall constitute a breach of this Agreement for which Executive shall be liable to the Company for any damages the Company sustains. In addition, the Company shall have the right to terminate Executive's employment before the end of the 60-day notice period and such termination shall not be treated as a termination Without Cause. Upon termination of Executive's employment under this Section 4(c)(i), the Company shall be under no further obligation to Executive, except to pay the Accrued Benefits.

(ii) Non-Renewal. Executive's timely notice of his option not to extend the term of the Employment Period shall not be considered to be a breach of this Agreement. In the event that Executive elects not to renew this Agreement, the Company shall be under no further obligation to Executive, except to pay the Accrued Benefits through the end of the Employment Period.

(d) Disability of Executive. The Company may terminate this Agreement if Executive experiences a Disability (as defined below, "Disability") means an illness, injury or other incapacitating condition as a result of which Executive is unable to perform, with or without reasonable accommodation, the services required to be performed under this Agreement for more than: (i) 90 consecutive calendar days during the Employment Period or (ii) a period or periods aggregating more than 120 calendar days in any 12 consecutive months. If, at the time the question of possible termination for Disability arises, the Company is subject to the Federal Family and Medical Leave Act, any applicable state equivalent, or any federal or state disability discrimination laws, the requirements of those laws shall, to the extent required, supersede the provisions of this paragraph. Executive agrees to submit to such medical examinations as may be reasonably requested by the Company, from time to time, to determine whether a Disability exists. Any determination as to the existence of a Disability shall be made as follows: first, the Company shall be entitled to engage a physician to determine the existence of a Disability; then, if Executive disagrees with such determination, Executive shall give written notice of Executive's disagreement within ten days after Executive is notified in writing of such determination, and Executive shall be entitled to engage a physician to determine the existence of a Disability; and if Executive's physician disagrees with the determination made by the Company's physician, then these two physicians shall mutually agree upon a third physician who shall make a determination whether a Disability exists, and such determination shall be final and binding upon the Company and Executive. The Company and Executive shall share equally in the costs of such third physician. Upon such termination, the Company shall be under no further obligation to Executive, except to pay the Accrued Benefits.

(e) Cooperation. Following termination for any reason, Executive shall (i) reasonably cooperate with the Company, as reasonably requested by the Company, to effect a transition of Executive's responsibilities and to ensure that the Company is aware of all matters being handled by Executive and (ii) cooperate and provide assistance to the Company at its reasonable request in connection with any action, suit or proceeding brought by or against the Company or any of its affiliates (or in which any of them is or may be a party) or that relates in any way to Executive's acts or omissions while employed by the Company. The Company agrees to promptly reimburse Executive for reasonable expenses incurred by him in connection with assisting the Company in the manner described in the immediately preceding sentence. Reimbursement shall be made in accordance with

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the applicable policy of the Company then in effect. Upon termination for any reason, Executive shall be deemed to have resigned from all offices and directorships then held with the Company or any of its subsidiaries. Executive's obligations under this Section 4(e) shall survive the termination of Executive's employment and the expiration or termination of the Agreement.

(f) Company Property. All assets, property and equipment and all tangible and intangible information relating to the Company, its affiliates and their respective employees, customers or vendors furnished to, obtained by or prepared by Executive or any other person during the course of or incident to Executive's employment by the Company or any of its subsidiaries are and shall remain the sole property of Company ("Company Property"). Company Property includes, but is not limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. Following termination of Executive's employment for any reason, Executive must return all Company Property to the Company without demand or request by the Company therefor. Executive shall further permanently delete any Company information from any computers or other electronic storage devices owned by Executive. Upon request of the Company, Executive shall certify in writing that Executive has complied with the requirements of this Section 4(f). Notwithstanding the foregoing, Executive shall be permitted to retain one or more copies of his contacts list and his appointment calendars. Executive's obligations under this Section 4(f) shall survive termination of Executive's employment and the expiration or termination of the Agreement until Executive has returned all Company Property to the Company.

5. Death of Executive. In the event of the death of Executive during the Employment Period, the Company's obligations hereunder shall automatically cease and terminate; provided, that the Company shall pay to the Executive's personal representatives under Executive's last will and testament, and if none exists, to his heirs at law, the Accrued Benefits.

6. Restrictive Covenants.

(a) Definitions. When capitalized and used herein, the following terms shall have the following meanings set forth below:

(i) "Business" means the business (whether operated in physical locations or online over the internet) of selling hard surface flooring materials.

(ii) "Competitive Area" means the 30 mile radius around any location where the Company (A) has a then current location (including the Company's current locations listed on Exhibit B attached hereto) and (B) has a *bona fide* intention to open a new location.

(iii) "Competitive Business Activity" shall mean providing services to a Competitor that are the same or similar to Executive's Duties and Responsibilities under this Agreement, whether as an employee, independent contractor or consultant.

(iv) "Competitor" means any Person (other than the Company and its affiliates) engaged in the Business. To the extent that a Competitor is engaged in any business activities other than the Business, the term "Competitor" does not restrict Executive's involvement with such other business activities.

(v) "Confidential Information" means information developed by or on behalf of any of the Company or its affiliates that is not generally known by persons not employed by the Company or its affiliates and that could not easily be determined or learned by someone outside the Company, including information concerning (A) Customers, Suppliers, internal corporate policies and strategies, corporate opportunities, financial and sales information, personnel information, forecasts, business and marketing plans, (B) the affairs or assets of the Company and its affiliates, accounts, or clients for which the Company or its any of its affiliates performs, directly or indirectly, services, or (C) the nature and material terms of business opportunities, investors, business and proposals available to the Company or its affiliates. Confidential Information (x) includes both written information and information not reduced to writing, whether or not explicitly designated as confidential, (y) is of a special and unique nature and value to the Company, its affiliates and their respective businesses and (z) provides the Company or its affiliates with a competitive advantage. Confidential Information does not include information that is publicly available or is readily ascertainable from publicly available information.

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(vi) “Customer” means any Person who is a customer or client of the Company or its affiliates that is a professional contractor and with whom Executive had material business-related contact (whether in person, by telephone or by paper or electronic correspondence), on behalf of the Company or its affiliates.

(vii) “Person” means any individual or entity.

(viii) “affiliates” means a Person’s subsidiaries, affiliates, successors, transferees or assigns that are engaged in the Business.

(ix) “Restricted Period” means the time period beginning on the Effective Date of this Agreement and ending one year after the termination of Executive’s employment with the Company for any reason, whether by Executive or Company.

(x) “Supplier” means any Person who supplies products or services to the Company in support of the Company’s Business and with whom Executive had material business-related contact (whether in person, by telephone or by paper or electronic correspondence), on behalf of the Company or its affiliates.

(b) Confidentiality. Executive shall not, while employed under this Agreement and after the Employment Period terminates, directly or indirectly, use, make available, sell, disclose or otherwise communicate to any person any Confidential Information, other than in the course and scope of Executive’s Duties and Responsibilities under this Agreement. In the event that Executive receives a subpoena or other request having force of law, or reasonably believes that disclosure of Confidential Information is required by law, Executive shall promptly provide the Company, to the extent reasonably possible, with written notice thereof, and shall reasonably cooperate, at no expense to Executive, with the Company if the Company elects to seek a judicial protective order or other appropriate judicial protection of such Confidential Information.

In accordance with 18 U.S.C. Section 1833, notwithstanding anything to the contrary in this Agreement: (i) Executive shall not be in breach of this Agreement and shall not be held criminally or civilly liable under any federal or state trade secret law (A) for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (B) for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal; and (ii) if Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to Executive’s attorney, and may use the trade secret information in the court proceeding, if Executive files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.

(c) Whistleblowers. Nothing in this Agreement shall be construed to prohibit Executive, or any officer or director of the Company, from reporting possible violations of law or regulation to any governmental agency or regulatory body or making other disclosures that are protected under any law or regulation, or from filing a charge with or participating in any investigation or proceeding conducted by any governmental agency or regulatory body. Executive and any officer or director of the Company do not need the prior authorization of the Company to make any such reports or disclosures and are not required to notify the Company that they have made such reports or disclosures.

(d) Noncompete. Executive will not, during the Restricted Period, directly or indirectly, engage in a Competitive Business Activity in a Competitive Area.

(e) Executive’s Consent to Reasonable Restrictions. Executive agrees that this covenant is *reasonable with respect to its duration, geographical area and scope*, in light of the nature and geographic scope of the Business subject to this restriction. Executive represents, warrants, acknowledges and agrees that he has been fully advised by counsel in connection with the negotiation, preparation, execution and delivery of this Agreement; and no reasonable Person in the position of the Company would employ Executive under the terms and conditions of this Agreement without the benefit of the restrictive covenants applicable to Executive under Sections 6(b) through 6(h) of this Agreement, and without the other agreements by Executive contained herein (collectively, the “Restrictive Covenants and Agreements”). Accordingly, Executive agrees to be bound by the Restrictive Covenants and Agreements contained in this Agreement to the maximum extent permitted by law, it being the intent and spirit of the parties that the Restrictive Covenants and Agreements contained herein shall be valid and enforceable in all respects.

(f) Non-Solicitation of Customers and Suppliers. Executive shall not, during the Restricted Period (whether on Executive’s own behalf or on behalf of another Person), directly or indirectly: (a) solicit Customers to

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purchase products on behalf of a Competitor, or (b) solicit Suppliers to provide products or services to support a Competitor.

(g) Non-Solicitation of Employees. Executive shall not, during the Restricted Period (whether on Executive's own behalf or on behalf of some other Person), directly or indirectly solicit or attempt to hire any individual who is at that time an employee, independent contractor or other agent of the Company or any of its affiliates or (b) induce or encourage any employee, independent contractor or other agent of the Company or any of its affiliates to terminate or materially reduce, as applicable, his employment or other business relationship or affiliation with the Company or any of its affiliates.

(h) Non-Disparagement. Except as occurs performing Executive's Duties and Responsibilities during the Employment Period (such as chastising or criticizing store management, suppliers and others doing business with the Company for performing in a manner Executive in good faith believes is not in the best interests of the Company and the Business), while employed by the Company and for a period of three years after the Employment Period terminates, Executive will not directly or indirectly, make or publish any disparaging or derogatory statements or otherwise disparage the business reputation of the Company or any of its affiliates or take any actions that are harmful, in any material respect, to the Company's (or any of its affiliates') goodwill with its Customers, Suppliers, employees, the media or the public. While Executive is employed by the Company and for a period of three years after the Employment Period terminates, the Company shall instruct its officers and directors not to, directly or indirectly, make or publish any disparaging or derogatory statements or otherwise take any actions that disparage Executive's business reputation or take any actions that are harmful, in any material respect, to Executive's goodwill with the Company's Customers, Suppliers, employees, the media or the public, except as occurs performing their duties during the Employment Period (such as chastising or criticizing Executive for performing in a manner such officers or directors in good faith believe are not in the best interests of the Company and the Business). Provided, however, the foregoing shall not prohibit the Executive or any director or officer of the Company from making truthful statements when required, or based upon advice of legal counsel, Executive, or any officer or director of the Company, in good faith believes is required, by law, rule, regulation or judicial or governmental administrative subpoena, order or process in connection with any legal proceeding, to a governmental agency or body or its representative, or in connection with any governmental administrative proceeding.

(i) Reformation. If any court determines that any of the Restrictive Covenants and Agreements, or any part thereof set forth in this Section 6, is or are unenforceable due to over breadth or any other reason, such court shall have the power to modify such provision to the extent necessary to make it reasonable and enforceable and such modified provision shall then be enforceable to the maximum extent permitted by applicable law. Executive acknowledges and agrees that the Restrictive Covenants and Agreements of Executive in this Agreement are reasonable and valid in geographic and temporal scope and in all other respects. If, however, any court subsequently determines that any of the Restrictive Covenants and Agreements, or any part thereof, is or are invalid or unenforceable and not capable of modification, the remainder of the Restrictive Covenants and Agreements shall not thereby be affected and shall be given full effect without regard to the invalid portions.

(j) Survival. Executive's obligations under this Section 6 shall survive the termination of Executive's employment and the expiration or termination of this Agreement in accordance with the terms and conditions herein. The Restrictive Covenants and Agreements, and Executive's obligations under this Section 6, are in addition to and not in lieu of any restrictive covenants or similar covenants, conditions, or obligations applicable to Executive pursuant to any other agreement, plan, policy or arrangement with the Company.

## 7. Inventions.

(a) Executive acknowledges and agrees that all *ideas, methods*, inventions, discoveries, improvements, work products or developments (collectively, "Inventions"), whether patentable or unpatentable, made or conceived by Executive, solely or jointly with others, that are related to Executive's work as an employee or other service provider to the Company, shall belong exclusively to the Company (or its designee), whether or not patent applications are filed thereon. For the avoidance of doubt, Executive understands that the provisions of this Section 7 requiring assignment of Inventions to the Company do not apply to any Invention that Executive developed entirely on his own time without using the Company's equipment, supplies, facilities, or trade secret information except for those Inventions that either (1) relate at the time of conception or reduction to practice of the Invention to the Company's Business, or actual or demonstrably anticipated research or development of the Company; or (2) result from any work performed by an employee for the Company (other than Executive). Executive will assign to the Company the Inventions and all patents that may issue thereon in any and all countries, whether during or subsequent to the Employment Period, together with the right to file, in Executive's name or in the name of the Company (or its designee), applications for patents and equivalent rights (the "Applications"). Executive will, at any time during and for a period of three years subsequent to the Employment Period, make such applications, sign such papers, take all rightful oaths, and perform all acts as may be reasonably requested from time

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to time by the Company with respect to the Inventions, provided that Executive shall not be obligated to incur any expense in connection therewith. Executive will also execute assignments to the Company (or its designee) of the Applications, and give the Company and its attorneys all reasonable assistance (including the giving of testimony), at no expense to Executive, to obtain the Inventions for its benefit, all without additional compensation to Executive from the Company.

(b) In addition, the Inventions will be deemed Work for Hire, as such term is defined under the copyright laws of the United States, on behalf of the Company and Executive agrees that the Company will be the sole owner of the Inventions, and all underlying rights therein, in all media now known or hereinafter devised, throughout the universe and in perpetuity without any further obligations to Executive. If the Inventions, or any portion thereof, are deemed not to be Work for Hire, Executive hereby irrevocably conveys, transfers and assigns to the Company, all rights, in all media now known or hereinafter devised, throughout the universe and in perpetuity, in and to the Inventions, including all of Executive's right, title and interest in the copyrights (and all renewals, revivals and extensions thereof) to the Inventions, including all rights of any kind or any nature now or hereafter recognized, including the unrestricted right to make modifications, adaptations and revisions to the Inventions, to exploit and allow others to exploit the Inventions and all rights to sue at law or in equity for any infringement, or other unauthorized use or conduct in derogation of the Inventions, known or unknown, including the right to receive all proceeds and damages therefrom. In addition, Executive hereby waives any so-called "moral rights" with respect to the Inventions. Executive hereby waives any and all currently existing and future monetary rights in and to the Inventions and all patents that may issue thereon, including any rights that would otherwise accrue to Executive's benefit by virtue of Executive being an employee of, or other service provider to the Company. Executive's obligations under this Section 7 shall survive the termination of employment and the expiration or termination of this Agreement in accordance with the terms and conditions herein.

8. No Inconsistent Obligations. Executive hereby represents, warrants and agrees that: (a) there are no restrictions or agreements, oral or written, to which Executive is a party or by which Executive is bound that prevent or make unlawful Executive's execution and delivery of, or performance under, this Agreement; (b) to the best actual knowledge and belief of Executive, none of the information supplied by Executive to Company in connection with Executive's employment by Company misstated a material fact or omitted material facts necessary to make the information supplied by Executive not materially misleading; (c) Executive does not have any business or employment relationship that creates a conflict between the interests of Executive and the Company or any of its subsidiaries; and (d) Executive will not disclose to the Company, or use, or induce the Company to use, any proprietary information or trade secrets of others.

9. Indemnification of Executive. While employed by the Company and for so long thereafter as liability exists with regard to the Executive's activities while employed by the Company, the Company shall indemnify and advance expenses to, and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, Executive to the extent Executive is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he, or a person for whom he is the legal representative, is or was an officer of the Company or, while an officer of the Company, is or was serving at the request of the Company as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such indemnitee. Notwithstanding the preceding sentence, the Company shall be required to indemnify, or advance expenses to, Executive in connection with a proceeding (or part thereof) commenced by Executive only if the commencement of such proceeding (or part thereof) by Executive was authorized by the Board; provided, that the Company shall be required to advance expenses to Executive in connection with a proceeding (or part thereof) commenced by Executive to enforce indemnification rights. The rights to indemnification and to the advance of expenses conferred in this Section 9 shall not be exclusive of any other right that Executive may have or hereafter acquire under FDO Holdings, Inc.'s ("Holdings") Certificate of Incorporation or Bylaws, the Shareholders Agreement, dated November 24, 2010, among Holdings and the investors party thereto, as amended from time to time, any statute, agreement, vote of stockholders or disinterested directors or otherwise.

10. Section 409A. Notwithstanding anything herein to the contrary:

(a) Although the Company does not guarantee to Executive any particular tax treatment relating to the payments and benefits under this Agreement, it is intended that such payments and benefits be exempt from, or comply with, Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations and guidance promulgated thereunder (collectively, "Section 409A"), and all provisions of this Agreement shall be administered, interpreted and construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. Notwithstanding any other provision hereof, in no event shall the

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Company be liable for, or be required to indemnify Executive for, any liability of Executive for taxes or penalties under Section 409A.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Section 409A and, for purposes of any such provision, references to a “termination,” “termination of employment” or like terms shall mean “separation from service.”

(c) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided, that this clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect; and (iii) such payments shall be made on or before the last day of the Executive’s taxable year following the taxable year in which the expense was incurred.

(d) Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., “payment shall be made within ten calendar days following the date of termination”), the actual date of payment within the specified period shall be within the sole discretion of the Company. If under this Agreement, an amount is to be paid in two or more installments, for purposes of Section 409A, each installment shall be treated as a separate payment.

(e) Notwithstanding any other provision hereof, if Executive is, as of the date of termination, a “specified employee” for purposes of Treas. Reg. § 1.409A-1(i), then any amount payable to Executive pursuant to Section 4 hereof that is neither a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) nor within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will not be paid before the date that is six months after the date of termination, or if earlier, the date of Executive’s death. Any payments to which Executive would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to Executive on the first day of the seventh month following such date of termination, or if earlier, within 30 calendar days of Executive’s death to his surviving spouse (or to his estate if Executive’s spouse does not survive him).

#### 11. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without regard to conflict of law principles.

(b) Assignment and Transfer. Executive’s rights and obligations under this Agreement shall not be transferable by assignment or otherwise, and any purported assignment, transfer or delegation thereof shall be void. This Agreement shall inure to the benefit of, and be binding upon and enforceable by, any purchaser of substantially all of the Company’s assets, any corporate successor to the Company or any assignee thereof.

(c) Entire Agreement. This Agreement, any outstanding equity agreements between Executive and Holdings relating to an award under Holdings’ 2011 Amended & Restated Stock Incentive Plan or 2017 Stock Incentive Plan, and the Company’s policies and procedures, contain the entire agreement and understanding between the parties hereto with respect to the subject matter hereof, and supersede any prior or contemporaneous written or oral agreements, representations and warranties between them respecting the subject matter hereof.

(d) Amendment and Waiver; Rights Cumulative. This Agreement may be amended, waived or discharged only by a writing signed by Executive and by a duly authorized representative of Holdings and the Operating Company (other than Executive). No failure or neglect of either party hereto in any instance to exercise any right, power or privilege hereunder or under law shall constitute a waiver of any other right, power or privilege or of the same right, power or privilege in any other instance. All waivers by either party hereto must be contained in a written instrument signed by the party to be charged and, in the case of Holdings and the Operating Company, by a duly authorized representative of Holdings and the Operating Company (other than Executive). The rights and remedies provided by this Agreement are cumulative, and the exercise of any right or remedy by either party hereto (or by its successor), whether pursuant to this Agreement, to any other agreement, or to law, shall not preclude or waive its right to exercise any or all other rights and remedies.

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(e) Severability. If any term, provision, covenant or condition of this Agreement, or the application thereof to any person, place or circumstance, shall be held to be invalid, unenforceable or void, the remainder of this Agreement and such term, provision, covenant or condition as applied to other persons, places and circumstances shall remain in full force and effect.

(f) Remedy for Breach. In the event of breach or threatened breach of any Restrictive Covenants and Agreements of Executive hereunder, including any breach of Sections 4(e), 4(f), 6 or 7, the damage or imminent damage to the value and the goodwill of the Company and its subsidiaries' business would be inestimable and irreparable, and therefore any remedy at law or in damages shall be inadequate. Accordingly, (i) the provisions of Section 11(h) shall not preclude the Company from obtaining provisional relief, including injunctive relief, from a court of appropriate jurisdiction to protect its rights under this Agreement, and (ii) the Company shall be entitled to seek an injunction to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions thereof in addition to any other remedy (including damages) to which they are entitled at law or in equity. Each party agrees and consents to personal jurisdiction, service of process and venue in any federal or state court within the State of Delaware, County of New Castle, in connection with any action brought in connection with a request for any such provisional or injunctive relief, and in connection with any action to enforce this arbitration clause or an award in arbitration. The prevailing party in any action instituted pursuant to this Agreement shall be entitled to recover from the other party its reasonable attorneys' fees and other expenses incurred in such action. In the event Executive violates (i) the Restrictive Covenants and Agreements (pursuant to the terms thereof) or (ii) Executive's obligations in Sections 4(e) or 4(f) or Section 7 above, and does not cure such violations within 30 days after written notice from the Company to Executive that such violation has occurred, then any obligations to pay amounts to Executive pursuant to Section 4(b) of this Agreement (other than the Accrued Benefits) shall immediately cease. This Section 11(f) shall survive Executive's termination of employment and the expiration or termination of this Agreement.

(g) Notices. All notices, demands or requests made pursuant to, under or by virtue of this Agreement must be in writing and sent to the party to which the notice, demand or request is being made by (i) by nationally recognized overnight courier delivery for next business day delivery, (ii) by hand delivery, or (iii) by facsimile or electronic mail transmission followed by overnight delivery the next business day to the addresses listed below; or to such other street address to which hand deliveries may be made as is specified by a party by not less than five days prior notice to the other party given in accordance with the provisions of this Section. Any notice given in accordance with the provisions of this Section shall be deemed given on the date of initial delivery or initial attempted delivery in the event of rejection or other refusal to accept or inability to deliver because of changed address of which proper notice was not given shall be deemed to be receipt of the notice, request, demand or other communication, provided that such delivery or attempted delivery at the addresses listed below must be on a business day between 8:30 a.m. and 5:30 p.m. in the time zone in which such address is located. Legal counsel for the respective parties may send to the other party any notices, requests, demands or other communications required or permitted to be given hereunder by such party.

If to Executive:

At the address shown  
on the records of the Company

If to the Company:

Floor and Decor Outlets of America, Inc.  
2500 Windy Ridge Parkway, SE  
Atlanta, Georgia 30339  
Telephone: (404) 471-1634  
Facsimile: (404) 393-3540  
Attention: General Counsel

with copies to:

Floor & Decor Holdings, Inc.  
2500 Windy Ridge Parkway, SE  
Atlanta, Georgia 30339  
Telephone: (404) 471-1634  
Facsimile: (404) 393-3540  
Attention: General Counsel

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and

Proskauer Rose LLP  
Eleven Times Square  
New York, NY 10036  
Telephone: (212) 969-3215  
Facsimile: (212) 969-2900  
Attention: Ekaterina P. Napalkova, Esq.

(h) **Arbitration.** Subject to Section 11(f), any dispute, claim, controversy or cause of action, in law (but not in equity), directly or indirectly relating to or arising out of or related to this Agreement, the termination or validity hereof, including the determination of the scope or applicability of this agreement to arbitrate, or the employment relationship, shall, to the fullest extent permitted by law, be exclusively determined by final, binding and confidential arbitration in Wilmington, Delaware conducted by JAMS, Inc. (“JAMS”), or its successor, pursuant to the JAMS Comprehensive Arbitration Rules and Procedures in effect as of the Effective Date. If Executive files a demand for arbitration hereunder, Executive shall not be required to pay the cost of the filing fees in excess of the amount Executive would be required to pay to commence a comparable action in the applicable state or federal courts of Delaware and the Company shall be responsible for the payment of any excess. There shall be limited discovery prior to the arbitration hearing as follows: (a) exchange of witness lists and copies of documentary evidence and documents relating to or arising out of the issues to be arbitrated, (b) depositions of all party witnesses and (c) such other depositions as may be allowed by the arbitrators upon a showing of good cause. Depositions shall be conducted in accordance with Delaware law, the arbitrators shall be required to provide in writing to the parties the basis for the award or order of such arbitrator, and a court reporter shall record all hearings, with such record constituting the official transcript of such proceedings. The arbitrator shall, in their award, allocate all of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys’ fees of the prevailing party, against the party who did not prevail. The award in the arbitration shall be final and binding. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. §§1–16, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. The arbitrator will have the same, but *no greater, remedial authority than would a court of law* (except that the arbitrator shall not have the power or authority to award punitive damages, consequential damages, lost profits or speculative damages to either party). This agreement to resolve any disputes by binding arbitration extends to claims by or against the Company and claims by or against any of its affiliates, and applies to claims directly or indirectly arising under or out of (i) federal, state and local laws, including claims of alleged discrimination on any basis, or (ii) the common law. In the event of a conflict between this provision and any provision in the applicable rules of JAMS, the provisions of this Agreement will prevail. The parties shall keep confidential the existence of the claim, controversy or disputes from third parties (other than the arbitrator), and the determination thereof, unless otherwise required by law or necessary for the business of the Company or the other parties to the arbitration, provided that notwithstanding the foregoing, Executive shall be entitled to disclose the existence of, and information and documentation regarding, the claim, controversy or disputes to Executive’s accountants, lawyers and financial and other consultants on a “need to know” basis who are assisting or representing such Executive in connection with the arbitration proceeding. **If for any reason this arbitration clause becomes not applicable, then each party, to the fullest extent permitted by applicable law, hereby irrevocably waives all right to trial by jury as to any issue relating hereto in any action, proceeding, or counterclaim arising out of or relating to this Agreement or any other matter involving the parties hereto.** Each of the parties hereto agree and consent to personal jurisdiction, service of process and venue in any federal or state court within the City of Wilmington in the State of Delaware in connection with any action brought to enforce an award in arbitration. This Section 11(h) shall survive Executive’s termination of employment and the expiration or termination of this Agreement.

By initialing below, the parties hereby agree to the provisions set forth in this Section 11(h):

EXECUTIVE: BHL OPERATING COMPANY: TVT HOLDINGS: TVT

(i) **Further Assurances.** Executive shall, upon the Company’s reasonable request, execute such further documents and take such other actions as may be permitted or reasonably required by law to implement the purposes, objectives, terms, and provisions of this Agreement. The Company shall, upon the Executive’s reasonable request, execute such further documents and take such other actions as may be permitted or reasonably required by law to implement the purposes, objectives, terms, and provisions of this Agreement.

(j) **Interpretation.** The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting this Agreement. The language in all parts of this Agreement shall be in all cases construed according to its fair meaning and not strictly for or against the Company or Executive. As used herein: (i) reference to any gender includes each other gender; (ii) reference to any agreement, document or instrument means such agreement, document or instrument as amended or modified

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and in effect from time to time in accordance with the terms thereof; (iii) 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; (iv) "hereunder," "hereof," "hereto," and words of similar import shall be deemed references to this Agreement as a whole and not to any particular article, section or other provision hereof; (v) numbered or lettered articles, sections and subsections herein contained refer to articles, sections and subsections of this Agreement; (vi) "including" (and with correlative meaning "include") means including without limiting the generality of any description preceding such term; (vii) "or" is used in the inclusive sense of "and/or"; (viii) references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto; and (ix) reference to dollars or \$ shall be deemed to refer to U.S. dollars.

(k) Acknowledgement. Executive understands the terms and conditions set forth in this Agreement and acknowledges having had adequate time to consider whether to agree to the terms and conditions and to consult a lawyer or other advisor of Executive's choice.

(l) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be considered to have the force and effect of an original.

(m) Each Party the Drafter. Executive understands the terms and conditions set forth in this Agreement and acknowledges having had adequate time to consider whether to agree to the terms and conditions and to consult a lawyer or other advisor of Executive's choice. This Agreement and the provisions contained herein shall not be construed or interpreted for or against any party to this Agreement because that party drafted or caused that party's legal representative to draft any of its provisions.

(n) Time of Essence. Time is and shall be of the essence in connection with this Agreement and the terms and conditions contained herein.

(o) Survival. To the extent not otherwise expressly provided in this Agreement, all rights and obligations of any party to this Agreement not fully satisfied or performed, as applicable, on the date Executive's employment is terminated, shall survive the termination of Executive's employment and the expiration or termination of the Agreement, including Sections 4, 5, 6, 7, 8, 9 and 11 of the Agreement.

**[Remainder of Page Intentionally Left Blank / Signatures on Next Page]**

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IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

**FLOOR & DECOR HOLDINGS, INC.**

By: /s/ Thomas V. Taylor  
Name: Thomas V. Taylor  
Title: CEO

**FLOOR AND DECOR OUTLETS OF AMERICA, INC.**

By: /s/ Thomas V. Taylor  
Name: Thomas V. Taylor  
Title: CEO

**BRYAN LANGLEY**

By: /s/ Bryan H. Langley

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## EXHIBIT A

### SEPARATION AGREEMENT AND GENERAL RELEASE

This Separation Agreement and General Release (this “Agreement”), between Floor and Decor Outlets of America, Inc., a Delaware corporation (the “Operating Company”), Floor & Decor Holdings, Inc., a Delaware corporation (“Holdings” and together with the Operating Company, the “Company”) and Bryan Langley (“Employee” or “You”), each of whom agrees to the following terms and conditions regarding the separation of Employee’s employment with the Company:

1. No Admission. This Agreement shall not be construed as (i) an admission of liability or wrongdoing by either the Company or any of the Releasees (as defined below) or you or (ii) an admission by either the Company or you that you would otherwise have standing or eligibility to bring any claims under the statutes referenced herein (including the statutes specified in Section 7). This Agreement simply reflects the parties’ desire to end their service relationship in a business-like fashion.

2. Separation Date. You have been advised of the separation of your employment with the Company effective [●●●●] [●], 20[●●] (the “Separation Date”). You agree that after the Separation Date, you shall not represent yourself as being associated with, or an employee or representative of, the Company for any purpose, and you hereby resign as an officer of the Company and all of its affiliates, from all directorships and other positions with the Company and its affiliates and as a fiduciary of any benefit plan. The Separation Date shall be the termination date of your employment for purposes of participation in and coverage under all benefit plans and programs sponsored by or through the Company, except as otherwise provided in Section 3 of this Agreement.

3. Separation Benefits. In exchange for and subject to your waiver and release of claims against the Company (and non-revocation thereof) and your compliance with the other terms and conditions of this Agreement, the Company agrees to provide you with a severance payment in the gross amount of \$[●●●●]<sup>1</sup> (less applicable tax withholdings and other payroll deductions) pursuant to Section 4(b) of Employee’s employment agreement with the Company, effective [●] (the “Employment Agreement”). This payment shall be made in substantially equal installments on the Company’s regular pay dates, payable over the 12 month period commencing on the pay day following the 60<sup>th</sup> calendar day following the Separation Date.

4. Unemployment. The Company will not contest any application for unemployment filed by you.

5. No Claims. You represent that you have not filed any claims or charges against the Company, nor against any of the Releasees (as defined below), with any governmental agency or court based upon any actions or omissions by the Company or any of the Releasees that occurred prior to the execution of this Agreement. You further represent that you have not assigned the right to bring a claim or charge against the Company, nor against any of the Releasees, with any governmental agency or court to any third party.

6. Full Discharge; Payments Represent Additional Amounts. You acknowledge and agree that the payment(s) and other benefits provided pursuant to this Agreement: (i) are in full discharge of any and all liabilities and obligations of the Company to you, monetarily or with respect to employee benefits or otherwise, including but not limited to any and all obligations arising under any alleged written or oral employment agreement, policy, plan or procedure of the Company and/or any alleged understanding or arrangement between the Company and you and any Company representative and you; and (ii) exceed(s) any payment, benefit, or other thing of value to which you might otherwise be entitled under any policy, plan or procedure of any of the Company and/or any agreement between the Company and you, including but not limited to any severance plan or policy of the Company.

7. Release.

(a) In exchange for the consideration set forth in Section 3, you, for yourself and for your heirs, executors, administrators, successors and assigns (referred to collectively as “Releasor”), forever release and discharge the Company and any and all of the Company’s affiliates, successors and assigns, and any and all of its and their past and present officers, directors, partners, managers, agents, employees, employee benefit plans and their fiduciaries and administrators, successors and assigns (referred to collectively as the “Releasees”), from any and all claims, demands, causes of action, fees and liabilities of any kind whatsoever, whether known or unknown, which Releasor ever had, now has or may have against Releasees or any of them by reason of any actual or alleged act, omission, transaction, practice, conduct, occurrence or other matter up to and including the date Employee signs this Agreement.

(b) Without limiting the generality of the foregoing, this Agreement is intended to and shall release Releasees from any and all claims, whether known or unknown, up to and including the date Employee signs this Agreement, that Releasor ever had, now has or may have against Releasees or any of them arising out of

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<sup>1</sup> To be calculated in accordance with Section 4(b) of Employee’s employment agreement with the Company.

Employee's employment with the Company, the terms and conditions of such employment and/or the termination of such employment, including but not limited to any claim under: (i) the Age Discrimination in Employment Act, as amended; (ii) the Employee Retirement Income Security Act of 1974, as amended, (iii) Title VII of the Civil Rights Act of 1964, as amended; (iv) the Americans with Disabilities Act, as amended; (v) the Family Medical Leave Act; (vi) the Fair Labor Standards Act, as amended; (vii) the Older Workers Benefit Protection Act; (viii) the Delaware Discrimination in Employment Act, the Delaware Handicapped Persons Employment Protections Act, the Delaware Whistleblower's Protection Act, Delaware's equal pay laws (Del. Code Ann. § 1107A), Delaware's worker's compensation laws (Del. Code Ann. tit. 19, §2365) and Delaware's wage payment laws (Del. Code Ann. tit. 19, §1101 *et seq.*); (ix) the Georgia Fair Employment Practices Act of 1978, the Georgia Equal Pay Act, the Georgia Equal Employment for People with Disabilities Code, Georgia's age discrimination laws (Ga. Code Ann. § 34-1-2), Georgia's whistleblower protection laws (Ga. Code Ann. § 45-1-4(d)) and Georgia's payment laws (Ga. Code Ann. § 34-4-1 *et seq.*); (x) any other claim of discrimination, harassment or retaliation in employment (whether based on federal, state or local law, statutory or decisional); (xi) any claim sounding in tort or contract (express or implied); and (xii) any claim for attorneys' fees, costs, disbursements or the like.

(c) You acknowledge and agree that by virtue of the foregoing, you have waived any relief available to you (including monetary damages, equitable relief and reinstatement) under any of the claims and/or causes of action waived in this Agreement. Therefore you agree that you will not accept any award or settlement from any source or proceeding (including but not limited to any proceeding brought by any other person or by any government agency) with respect to any claim or right waived in this Agreement.

(d) Nothing herein, however, shall constitute a waiver of claims arising after the date Employee signs this Agreement, or of any rights to accrued, vested benefits under any qualified or non-qualified employee benefit plan of the Company (in accordance with the terms of the official plan documents and applicable law) or claims for benefits under the Company's group medical, dental and vision plans (in accordance with the terms of such plans and applicable law), or any claim that cannot be waived by law. In addition, nothing herein shall be a waiver of Employee's right to file a charge with, provide truthful information about this Agreement or Releasees to, or to cooperate with any investigation being conducted by any governmental agency; provided, however, Employee acknowledges that by virtue of his release, he has waived and may not recover monetary or equitable relief of any kind from Releasees in connection with the claims he has waived in this Agreement.

8. EEOC Charges or Investigations. Nothing set forth in Sections 5 or 7 of this Agreement shall prevent you from filing a charge with or participating in an investigation conducted by any governmental agency, including the United States Equal Employment Opportunity Commission ("EEOC"), or applicable state/city fair employment practices agency to the extent required or permitted by law. However, by signing this Agreement, you acknowledge and agree that you are waiving any entitlement to seek or accept any monetary damages (including, but not limited to, attorneys' fees and costs) and/or equitable relief with respect to any claims or causes of action released and/or waived in this Agreement.

9. Claims Based Upon Different or Additional Facts Also Released. You understand and agree that if, hereafter, you discover facts different from or in addition to those which you now know or believe to be true, that the waivers and releases of Section 7 of this Agreement shall be and remain effective in all respects notwithstanding such different or additional facts or the discovery of such facts.

10. Voluntary Agreement. You understand and acknowledge the significance and consequences of this Agreement, that it is voluntary, that it has not been given as a result of any coercion, and you expressly confirm that it is to be given full force and effect according to all of its terms, including those relating to unknown claims as specified in Sections 7 and 9. You were hereby advised of your right to seek the advice of an attorney prior to signing this Agreement. You acknowledge that you have signed this Agreement only after full reflection and analysis, that you understand it and that you are entering into it voluntarily.

11. Continuing Obligations. You acknowledge and agree that you are still subject to the obligations under Sections 4, 6, 7, and 11 of the Employment Agreement. Such Sections of the Employment Agreement as well as Sections 5, 8 and 9 shall survive your termination of employment with the Company in accordance with the terms thereof.

12. Cooperation. Following the Separation Date, Employee shall (i) reasonably cooperate with the Company, as reasonably requested by the Company, to effect a transition of Employee's responsibilities and to ensure that the Company is aware of all matters being handled by Employee and (ii) cooperate and provide assistance to the Company at its reasonable request in connection with any action, suit or proceeding brought by or against the Company or any of its affiliates (or in which any of them is or may be a party) or that relates in any way to Employee's acts or omissions while employed by the Company. The Company agrees to promptly reimburse Employee for reasonable expenses incurred by him in connection with assisting the Company in the manner described in the immediately preceding sentence. Reimbursement shall be made in accordance with the applicable policy of the Company then in effect.

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13. Return of Property. By the close of business on the Separation Date, you agree to return to the Company all Company Property (as defined below). All assets, property and equipment and all tangible and intangible information relating to the Company, its affiliates and their respective employees, customers or vendors furnished to, obtained by or prepared by Employee or any other person during the course of or incident to Employee's employment by the Company or any of its subsidiaries are and shall remain the sole property of Company ("Company Property"). Company Property includes, but is not limited to, computer equipment, books, manuals, records, reports, notes, correspondence, contracts, customer lists, business cards, advertising, sales, financial, personnel, operations, and manufacturing materials and information, data processing reports, computer programs, software, customer information and records, business records, price lists or information, and samples, and in each case shall include all copies thereof in any medium, including paper, electronic and magnetic media and all other forms of information storage. Employee shall further permanently delete any Company information from any computers or other electronic storage devices owned by Employee. Upon request of the Company, Employee shall certify in writing that Employee has complied with the requirements of this Section 13. Notwithstanding the foregoing, Employee shall be permitted to retain one or more copies of his contacts list and his appointment calendars.

14. Severability. If any provision of this Agreement is held to be illegal, void, or unenforceable, such provision shall be of no force or effect. However, the illegality or unenforceability of such provision shall have no effect upon, and shall not impair the enforceability of, any other provision of this Agreement. Further, to the extent any provision of this Agreement is deemed to be overbroad or unenforceable as written, such provision shall be given the maximum effect permissible under law.

15. Complete Agreement. This Agreement, the Employment Agreement and the Company's policies and procedures state the entire understanding between the parties hereto with respect to the subject matter hereof, supersede any and all prior agreements and understandings (whether oral or written) with respect to the subject matter hereof, and may not be changed or modified except by a written agreement signed by both of the parties hereto after the Effective Date. You represent and agree that, in signing this Agreement, you are not relying on any promises or representations not contained in this Agreement and acknowledge that you are not entitled to any other compensation or benefits from the Company except as otherwise expressly provided for herein.

16. Governing Law and Exclusive Venue. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware. Additionally, any action to enforce the terms of this Agreement shall be commenced exclusively in the state of Delaware. Both parties consent to personal jurisdiction in federal and state courts in the state of Delaware.

17. Specific Performance. In the event of breach or threatened breach of any Restrictive Covenants and Agreements (as defined in the Employment Agreement) of Employee hereunder, including any breach of Sections 11, 12 or 13 above, the damage or imminent damage to the value and the goodwill of the Company and its subsidiaries' business would be inestimable and irreparable, and therefore any remedy at law or in damages shall be inadequate. Accordingly, (i) the provisions of Section 18 shall not preclude the Company from obtaining provisional relief, including injunctive relief (without the necessity of posting a bond), from a court of appropriate jurisdiction to protect its rights under this Agreement, and (ii) the Company shall be entitled to seek an injunction to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions thereof in addition to any other remedy (including damages) to which they are entitled at law or in equity. Each party agrees and consents to personal jurisdiction, service of process and venue in any federal or state court within the State of Delaware, County of New Castle, in connection with any action brought in connection with a request for any such provisional or injunctive relief, and in connection with any action to enforce this arbitration clause or an award in arbitration. The prevailing party in any action instituted pursuant to this Agreement shall be entitled to recover from the other party its reasonable attorneys' fees and other expenses incurred in such action. In the event Employee violates (i) the Restrictive Covenants and Agreements (pursuant to the terms thereof) or (ii) Employee's obligations in Sections 11, 12 or 13 above, and does not cure such violations within 30 days of written notice from the Company to Employee that such violation has occurred, then any obligations to pay amounts to Employee pursuant to Section 3 above shall immediately cease.

18. Arbitration. Subject to Section 17 above, any dispute, claim, controversy or cause of action, in law (but not in equity), directly or indirectly relating to or arising out of or related to this Agreement, the termination or validity hereof, including the determination of the scope or applicability of this agreement to arbitrate, or the employment relationship, shall, to the fullest extent permitted by law, be exclusively determined by final, binding and confidential arbitration in Wilmington, Delaware conducted by JAMS, Inc. ("JAMS"), or its successor, pursuant to the JAMS Comprehensive Arbitration Rules and Procedures in effect as of the Effective Date (as defined in the Employment Agreement). If Employee files a demand for arbitration hereunder, Employee shall not be required to pay the cost of the filing fees in excess of the amount Employee would be required to pay to commence a comparable action in the applicable state or federal courts of Delaware and the Company shall be responsible for the payment of any excess. There shall be limited discovery prior to the arbitration hearing as follows: (a) exchange of witness lists and copies of documentary evidence and documents relating to or arising out of the issues to be arbitrated, (b) depositions of all party witnesses and (c) such other depositions as may be allowed

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by the arbitrators upon a showing of good cause. Depositions shall be conducted in accordance with Delaware law, the arbitrators shall be required to provide in writing to the parties the basis for the award or order of such arbitrator, and a court reporter shall record all hearings, with such record constituting the official transcript of such proceedings. The arbitrator shall, in their award, allocate all of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party, against the party who did not prevail. The award in the arbitration shall be final and binding. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. §§1-16, and judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof. The arbitrator will have the same, but no greater, remedial authority than would a court of law (except that the arbitrator shall not have the power or authority to award punitive damages, consequential damages, lost profits or speculative damages to either party). This agreement to resolve any disputes by binding arbitration extends to claims by or against the Company and claims by or against any of its affiliates, and applies to claims directly or indirectly arising under or out of (i) federal, state and local laws, including claims of alleged discrimination on any basis, or (ii) the common law. In the event of a conflict between this provision and any provision in the applicable rules of JAMS, the provisions of this Agreement will prevail. The parties shall keep confidential the existence of the claim, controversy or disputes from third parties (other than the arbitrator), and the determination thereof, unless otherwise required by law or necessary for the business of the Company or the other parties to the arbitration, provided that notwithstanding the foregoing, Employee shall be entitled to disclose the existence of, and information and documentation regarding, the claim, controversy or disputes to Employee's accountants, lawyers and financial and other consultants on a "need to know" basis who are assisting or representing such Employee in connection with the arbitration proceeding. **If for any reason this arbitration clause becomes not applicable, then each party, to the fullest extent permitted by applicable law, hereby irrevocably waives all right to trial by jury as to any issue relating hereto in any action, proceeding, or counterclaim arising out of or relating to this Agreement or any other matter involving the parties hereto.** Each of the parties hereto agree and consent to personal jurisdiction, service of process and venue in any federal or state court within the City of Wilmington in the State of Delaware in connection with any action brought to enforce an award in arbitration.

By initialing below, the parties hereby agree to the provisions set forth in this Section 18:

EMPLOYEE: \_\_\_\_\_ OPERATING COMPANY: \_\_\_\_\_ HOLDINGS: \_\_\_\_\_

19. Attorneys Fees. Should the Company or you institute any legal action or administrative proceeding with respect to any claim waived by this Agreement, or pursue any dispute or matter covered by this Section 19 by any method other than said arbitration, the responding party shall be entitled to recover from the other party all damages, costs, expenses and attorneys' fees incurred as a result of such action.

20. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of (a) the Company and any entity it succeeds by acquisition, merger or otherwise to all, or substantially all, of the Company's business and (b) Employee and Employee's heirs, legatees, executors, and administrators and legal representatives. Employee may not assign this Agreement, and any such purported assignment shall be void, but the Company may freely assign this Agreement and the benefits hereunder without the consent of Employee at any time to any person or entity.

21. Execution of Agreement. You acknowledge that you: (a) have carefully read this Agreement in its entirety; (b) have had an opportunity to consider the terms of this Agreement for at least 21 days; (c) have been and are hereby advised by the Company in writing to consult with an attorney of your choice before signing this Agreement; (d) fully understand the significance of all of the terms and conditions of this Agreement and have discussed them with an attorney of your choice, or have had a reasonable opportunity to do so; and (e) are signing this Agreement voluntarily and of your own free will and agree to abide by all the terms and conditions contained herein.

22. Manner of Acceptance; Revocation. You may accept this Agreement by signing it before a notary public, inserting the date of signature in the space provided, and sending it to FLOOR AND DECOR OUTLETS OF AMERICA, INC.; 2500 WINDY RIDGE PARKWAY, SE, ATLANTA, GEORGIA 30339; ATTENTION: GENERAL COUNSEL, by first class mail or certified mail on or before the later of the 21st day after you receive this Agreement. After signing this Agreement, you shall have seven days (the "Revocation Period") to revoke your decision. If the last day of the Revocation Period falls on a Saturday, Sunday or a legal holiday, then the last day of the Revocation Period will be deemed to be the next business day. You may exercise your right to revoke your decision by doing so in writing and sending such written notice of revocation to the General Counsel of the Company, as applicable, at the above address by first class or certified mail or by facsimile with the written original mailed by no later than the last day of the Revocation Period. Provided you do not revoke this Agreement during the Revocation Period, the Effective Date of this Agreement shall be the day after the last day of the Revocation Period (the "Effective Date"). You understand that if you revoke this Agreement you will not be entitled to any of the payments and benefits set forth hereunder, whether under Section 3 or otherwise.

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23. Miscellaneous. This Agreement shall also be subject to the following miscellaneous terms and conditions:

(a) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instruments.

(b) Headings. The headings of the sections and sub-sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

(c) Amendment. This Agreement may not be modified, altered or changed except upon express written consent of both parties wherein specific reference is made to this Agreement.

(d) Interpretation or Construction. Should any provision of this Agreement require interpretation or construction, it is agreed by the parties that the entity interpreting or constructing this Agreement shall not apply a presumption against one party by reason of the rule of construction that a document is to be construed more strictly against the party who prepared the document.

(e) Third Party Beneficiaries. Each of the Releasees is a third party beneficiary of this Agreement.

(f) Taxes. All payments to be made to you under this Agreement will be subject to any applicable deductions or withholdings required by law or authorized by you, including but not limited to withholding of federal, state and local income and employment taxes.

(g) Section 409A. The intent of the parties is that payments and benefits under this Agreement comply with, or be exempt from, Internal Revenue Code Section 409A and the regulations and guidance promulgated thereunder (collectively, "Code Section 409A") and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. In no event whatsoever shall the Company or any of its affiliates be liable for any additional tax, interest or penalty that may be imposed on you by Code Section 409A or any damages for failing to comply with Code Section 409A.

[Signature Page Follows]

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IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

**FLOOR & DECOR HOLDINGS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FLOOR & DECOR OUTLETS OF AMERICA, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BRYAN LANGLEY**

By: \_\_\_\_\_  
Date: \_\_\_\_\_

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**EXHIBIT B – COMPETITIVE AREA**

101 - Brookhaven (Relo) 1690 NE Expy NE Brookhaven, GA 30329	209 - Thornton 16161 Grant Street Thornton, CO 80020
103 - Jacksonville 8102 Blanding Boulevard Jacksonville, FL 32244	210 - Burlingame 1541 Adrian Road Burlingame, CA 94010
104 - Dallas 2350 Alberta Drive Dallas, TX 75229	211 - Everett 1502 SE Everett Mall Way Everett, WA 98208
105 - Houston North Freeway 17211 North Freeway Houston, TX 77090	212 - Saugus 180 Main Street Saugus, MA 01906
106 - Kennesaw 1200 Ernest Barrett Pkwy Kennesaw, GA 30144	213 - Algonquin 826 South Randall Road Algonquin, IL 60102
107 - Houston - Almeda 11542 Gulf Freeway Houston, TX 77034	214 - Pineville 9579 South Blvd. Charlotte, NC 28273
108 - Pompano Beach 1914 W Atlantic Blvd Pompano Beach, FL 33069	215 - Bridgeton 11968 Paul Mayer Avenue Bridgeton, MO 63044
109 - Arlington 2540 E. Pioneer Pkwy Arlington, TX 76010	216 - Sacramento Delta Shores Sacramento, CA 95832
110 - Orlando (Relo) 3111 East Colonial Drive Orlando, FL 32803	217 - St. Louis 4441 Lemay Ferry Road St. Louis, MO 63169
111 - Glendale 5880 West Bell Rd. Glendale, AZ 85308	218 - Irving Park 3443 W. Addison Street Chicago, IL 60618
112 - Plano 800A West 15th Street Plano, TX 75075	219 - Humble 18840 HWY 59 Humble, TX 77338
113 - West Oaks - Houston 14409 Park Hollow Dr Houston, TX 77091	220 - El Paso 9801 Gateway Boulevard W. El Paso, TX 79925
114 - Brandon 10059 East Adamo Dr. Tampa, FL 33619	221 - Wichita 9629 E. Kellogg Dr Wichita, KS 67207
115 - Tempe 7500 S. Priest Dr. Tempe, AZ 85283	222 - Moreno Valley 24318 Hemlock Avenue Moreno Valley, CA 92557
116 - Clearwater 21760 US Hwy 19N Clearwater, FL 33765	223 - Tolleson West of the SWC of McDowell Road and 91st Avenue Tolleson, AZ 85353
117 - Arvada 7350 West 52nd Avenue Arvada, CO 80002	224 - Columbus 6300 Tussing Road Reynoldsburg, OH 43068
118 - Highlands Ranch 1980 E County Line Rd Highlands Ranch, CO 80126	225 - Shelby Township 14453 Hall Road Shelby Township, MI 48315
119 - San Antonio (Relo) 125 NW Loop 410, Suite 240 San Antonio, TX 78216	226 - San Gabriel 7279 Rosemead Boulevard San Gabriel, CA 91775

120 - Henderson 1080 W Sunset Rd Henderson, NV 89014	227 - La Quinta 79315 Highway 111 La Quinta, CA 92253
121 - Austin 4501 West Braker Lane Austin, TX 78759	228 - Pleasant Hill 200 Golf Club Road Pleasant Hill, CA 94523
122 - Doral (Relo) 2525 NW 82nd Avenue Doral, FL 33122	229 - Dorchester 729 Morrissey Boulevard Dorchester, MA 02122
123 - Norco 200 Hidden Valley Pkwy Norco, CA 92860	230 - Novi 44075 West 12 Mile Road Novi, MI 48377
124 - Gretna 4 Westside Shopping Center Gretna, LA 70053	231 - Dallas Design Studio 1301 Oak Lawn Avenue Dallas, TX 75207
125 - Hilliard 3785 Park Mill Run Dr Hilliard, OH 43026	232 - San Diego 960 Sherman Street San Diego, CA 92110
128 - Garden District Design Center 2801 Magazine St New Orleans, LA 70115	233 - West San Antonio 7126 West Loop 1604 North San Antonio, TX 78250
129 - Santa Ana 1801 East Dyer Rd Santa Ana, CA 92705	234 - Salt Lake City 550 West 1700 South Salt Lake City, UT 84115
130 - Roswell 610 Holcomb Bridge Rd Roswell, GA 30076	235 - Elizabeth 900 Ikea Drive Elizabeth, NJ 07021
131 - Mesquite 1330 North Town East Blvd Mesquite, TX 75150	236 - Toms River 213 NJ Route 37 Toms River, NJ 08753
132 - Lombard 1000 North Rohlwing Rd Lombard, IL 60148	237 - Nashua 255 Amherst Street Nashua, NH 03063
133 - Boynton Beach 1974 High Ridge Rd Boynton Beach, FL 33426	238 - San Leandro 1700 Fairway Drive San Leandro, CA 94577
134 - Pembroke Pines 13650 Pines Blvd Pembroke Pines, FL 33027	239 - Murrieta 39835 Alta Murieta Drive Murrieta, CA 92563
135 - North Richland Hills 6801 NE Loop 820 North Richland Hills, TX 76180	240 - South Austin 9601 South I-35 Austin, TX 78744
136 - Arlington Heights 600 East Rand Road Arlington Heights, IL 60004	241 - McKinney, (Owned) W University Drive McKinney, TX 75071
137 - Memphis 5234 Summer Ave. Memphis, TN 38122	242 - Houston (Dacoma Street) 4330 Dacoma Street Houston, TX 77092
138 - Aurora 307 S. Route 59 Aurora, IL 60504	243 - West Covina 730 S Orange Ave West West Covina, CA 91790
139 - Richmond 5432 Glenside Dr Richmond, VA 23228	244 - Danbury (Owned) 116 Federal Rd. Danbury, CT 06811
140 - Sarasota 8415 Lockwood Ridge Rd. Sarasota, FL 34243	245 - Gainesville 923 NW 76th Blvd Gainesville, FL 32606

141 - Tucson 7125 E. Broadway Boulevard Tucson, AZ 85710	246 - Wesley Chapel 25737 Sierra Center Blvd Lutz, FL 33559
142 - Cincinnati 3430 Highland Avenue Cincinnati, OH 45213	247 - Webster 20740 Gulf Freeway Webster, TX 77598
143 - Lakeland 919 Lakeland Park Center Dr Lakeland, FL 33809	248 - Fresno 6417 N. Riverside Drive Fresno, CA 93722
144 - Reno 4823 Kietzke Lane Reno, NV 89509	249 - Greenville 401 Roper Mountain Rd Greenville, SC 29615
145 - Skokie 3300 Oakton Street Skokie, IL 60067	251 - Garden City 650 Stewart Ave. Garden City, NY 11530
146 - Potomac Mills 14041 Worth Avenue Woodbridge, VA 22192	252 - Waltham 80 2nd Ave Waltham, MA 02451
147 - Camelback 1800 E. Highland Ave. Phoenix, AZ 85016	253 - Tulsa 10303 E 71st St Tulsa, OK 74133
148 - Sugar Land 3665 Highway 6 Sugar Land, TX 77478	254 - North Portland 11919 N Jantzen Dr Portland, OR 97217
149 - Miami Gardens 1400 NW 167th Street Miami Gardens, FL 33169	255 - Fairfield 290 Tunxis Hill Rd Fairfield, CT 06825
150 - Rocklin 6681 Stanford Ranch Road Rocklin, CA 95667	256 - Des Moines 1400 22nd St West Des Moines, IA 50266
151 - McDonough 1120 Town Center Village McDonough, GA 30253	257 - Bohemia 5151 Sunrise Hwy Holbrook, NY 11716
152 - Savannah 1800 E Victory Drive, 1 Savannah, GA 31404	258 - Bakersfield 6915 Colony St Bakersfield, CA 93307
153 - Greensboro 1302 Bridford Parkway Greensboro, NC 27407	259 - Greenwood 1049 N Emerson Ave Greenwood, IN 46143
154 - Langhorne 1501 East Lincoln Highway Levittown, PA 19047	260 - Columbia 3700 Fernandina Rd Columbia, SC 29210
155 - Fullerton 202 Imperial Hwy. Fullerton, CA 92835	261 - Denton 2201 I-35 E Denton, TX 76205
156 - Wayne 77 Willowbrook Blvd. Wayne, NJ 07470	262 - Tacoma 7601 S Hosmer St Tacoma, WA 98408
157 - Downey 8925 Apollo Way Downey, CA 90242	263 - Commack 4 Henry Street Commack, NY 11725
158 - Fort Myers 3853 Cleveland Ave. Fort Myers, FL 33901	264 - Leesburg 950 Edwards Ferry Rd NE Leesburg, VA 20176
158 - Ft. Myers (Consent to Sublease) 3853 Cleveland Ave. Fort Myers, FL 33901	265 - Naples 2157 Pine Ridge Rd Naples, FL 34109

159 - Draper 12101 S. State Street #100 Draper, UT 84020	266 - Conyers, GA 1478 Old Salem Road SE Conyers, GA 30013
160 - Mall of Georgia 2918 Buford Drive Buford, GA 30519	267 - Rancho Cucamonga 8250 Day Creek Blvd Rancho Cucamonga, CA 91739
161 - The Colony 5651 State Hwy 121, Suite 100 The Colony, TX 75056	268 - Oxnard 9100 Ventura Blvd Oxnard, CA 93030
162 - Countryside 1 Countryside Plaza, Suite 300 Lagrange, IL 60525	269 - Tinley Park 7061 W 159th St Tinley Park, IL 60487
163 - Moorestown 1001 Nixon Drive Moorestown, NJ 08057	270 - Monona 2101 W. Broadway Monona, WI 53713
164 - Knoxville 146 Moss Grove Blvd Knoxville, TN 37922	271 - Chatham 125 West 87th St Chicago, IL 60620
165 - Nashville 5330 Cane Ridge Rd. Antioch, TN 37013	272 - Miami Design Studio 3800 NE Miami Court Miami, FL 33137
166 - Gaithersburg 18501 N Frederick Ave Gaithersburg, MD 20879	273 - Warrensville Heights 4291 Richmond Road Warrensville Heights, OH 44122
167 - Cypress 20502 Hempstead Rd. Houston, TX 77065	274 - Baton Rouge (Owned) 9969 Professional Blvd Baton Rouge, LA 70809
168 - North Dale Mabry 2913 N. Dale Mabry Hwy. Tampa, FL 33607	275 - Houston Design Center 5080 Richmond Ave Houston, TX 77056
169 - Woodland Hills 22840 Victory Boulevard Los Angeles, CA 91367	276 - McAllen 1101 W Expressway 83 McAllen, TX 78503
170 - Katy 24633 Katy Fwy Katy, TX 77494	277 - Omaha 402 Rose Blumkin Drive Omaha, NE 68114
171 - Devon 176 W. Swedesford Rd Devon, PA 19333	278 - Live Oak (Owned) 4022 Ikea RBFCU Parkway Live Oak, TX 78233
172 - Sanford 221 Towne Center Blvd Sanford, FL 32771	279 - Oak Ridge North (Owned) 26904 Interstate 45 Oak Ridge North, TX 77386
173 - Riviera Beach 7540 Byron Drive Riviera Beach, FL 33404	280 - Capitol Heights 1853 Ritchie Station Court Capitol Heights, MD 20790
175 - Gurnee 6100 West Grand Avenue Gurnee, IL 60031	281 - Fern Park (Owned) 355 SR 436 Fern Park, FL 32730
176 - Fountain Valley 9065 Warner Ave. Fountain Valley, CA 92708	282 - Cumming (Owned) 1090 Buford Highway Cumming, GA 30041
177 - Alexandria 4607 Eisenhower Avenue Alexandria, VA 22304	283 - Vienna Design Studio 1929 Old Gallows Road Vienna, VA 22182
178 - Carmel Mountain 14340 Penasquitos Drive San Diego, CA 92129	284 - Stockton 1880 E. Hammer Lane Stockton, CA 95210



179 - Concord 8094 Concord Mills Blvd Concord, NC 28027	285 - Parkville (Towson) 8980 Waltham Woods Road Parkville, MD 21234
180 - Mesa 7022 East Hampton Ave. Mesa, AZ 85209	286 - West Hartford 46 Kane Street West Hartford, CT 06119
181 - Fort Lauderdale 2100 West Sunrise Blvd Fort Lauderdale, FL 33311	287 - Pearland (Owned) Business Center Drive Pearland, TX 77584
182 - Paramus 50 A&S Drive Paramus, NJ 07652	288 - Ypsilanti 4110 Carpenter Road Ypsilanti, MI 48197
183 - North Austin (Parmer) 12901 N I-35 Austin, TX 78753	289 - Wilmington 816 South College Road Wilmington, NC 28403
184 - Farmingdale 1024 Broadhollow Farmingdale, NY 11735	291 - Maple Grove 12575 Elm Creek Boulevard North Maple Grove, MN 55369
185 - Milpitas 1585 North McCarthy Blvd Milpitas, CA 95053	292 - Coral Springs 11711 West Sample Road Coral Springs, FL 33065
186 - Homewood 230 Green Springs Highway Homewood, AL 35209	293 - Timnath Swetsville Zoo Road Timnath, CO 80528
187 - Louisville 3430 Preston Highway Louisville, KY 40213	294 - Lexington 2909 Richmond Road Lexington, KY 40509
188 - Brookfield 16300 West Bluemound Road, A & B Brookfield, WI 53005	297 - Surprise SEC Loop 303 & Waddell Rd Surprise, AZ 85379
189 - Hampton 2053 Executive Drive Hampton, VA 23666	298 - Tomball (Owned) 25510 TX-249 Tomball, TX 77375
190 - Overland Park 7601 Frontage Rd. Overland Park, KS 66204	299 - Mooresville 236 Norman Station Boulevard Mooresville, NC 28117
191 - Port St. Lucie 2260 SW Gatlin Blvd. Port St. Lucie, FL 34953	300 - Cedar Park (Owned) 1200 Arrow Point Drive Cedar Park, TX 78613
192 - Kendall 8295 S.W. 124th Ave Miami, FL 33183	302 - Brentwood 7105 Moores Lane Brentwood, TN 37207
193 - Fort Worth Hulen 5201 S. Hulen Street Fort Worth, TX 76132	303 - Las Vegas (Sears Grand) 4355 S Grand Canyon Drive Las Vegas, NV 89147
194 - Kirkwood 1599 Memorial Drive SE Atlanta, GA 30317	304 - Atlanta Design Studio 3365 Piedmont Road NE Atlanta, GA 30305
195 - St. Petersburg 2010 34th Street N. St. Petersburg, FL 33710	305 - Bellingham 217 Hartford Avenue Bellingham, MA 02019
196 - St. Johns Town Center 10595 Brightman Blvd. Jacksonville, FL 32246	308 - Woodbury 10470 Hudson Road Woodbury, MN 55129
197 - Oklahoma City 6100 SW 5th Street Oklahoma City, OK 73128	311 - Rancho Cordova 11051 Olson Drive Rancho Cordova, CA 95670

198 - Riverdale 1060 West Riverdale Rd Riverdale, UT 84405	798 - Marietta (SFC) 2125 Corporate Drive Marietta, GA 30067
199 - Tukwila 17651 Southcenter Parkway Tukwila, WA 98188	799 - Marietta (PRC) 2151 Northwest Parkway, Suite 101 Marietta, GA 30067
200 - Albuquerque 4936 Pan American Freeway Albuquerque, NM 87109	90000 - SSC (Relo) Atlanta 2500 Windy Ridge Parkway SE Atlanta, GA 30339
201 - Carson 500 Carson Town Center Drive Carson, CA 90745	972 - Port of Los Angeles Transload 720 Watson Center Rd Carson, CA 90745
202 - Las Vegas 3071 and 3075 N. Rainbow Boulevard Las Vegas, NV 89108	990 - Savannah Port (Land) (Owned) S H Morgan Pkwy Bloomington, GA 31302
203 - Indianapolis 8310 Castleton Corners Dr. Indianapolis, IN 46250	990 - Savannah Port Warehouse (relo) 400 S. H. Morgan Parkway Bloomington, GA 31302
204 - Virginia Beach 312 Constitution Drive Virginia Beach, VA 23462	991 - Baytown (Relo) (Owned) TBD Baytown, TX 77523
205 - Denver 10075 East 40th Ave, Building No. 2 Denver, CO 80238	992 - Carson Port Warehouse 901 East 233rd St Carson, CA 90745
206 - Avon 80 Stockwell Drive Avon, MA 02322	992 - Moreno Valley Warehouse 24101 Iris Ave Moreno Valley, CA 91764
207 - Mission Viejo 25872 Muirlands Blvd. Mission Viejo, CA 92691	994 - Baltimore Warehouse 6331 Tradepoint Avenue Sparrows Point, MD 21219
208 - North Charleston 6029 Rivers Avenue North Charleston, SC 29406	

**List of Subsidiaries**

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation, Organization or Formation</b>
FDO Acquisition Corp.	Delaware
Floor and Decor Outlets of America, Inc.	Delaware
FD Sales Company LLC	Delaware
Floor and Decor Business Information Consultancy (Shanghai) Co., Ltd.	Shanghai
Spartan Surfaces, LLC	Delaware

**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 23, 2023, with respect to the consolidated financial statements of Floor & Decor Holdings, Inc. and Subsidiaries and the effectiveness of internal control over financial reporting of Floor & Decor Holdings, Inc. and Subsidiaries included in this Annual Report (Form 10-K) of Floor & Decor Holdings, Inc. for the year ended December 29, 2022.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 23, 2023

**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 23, 2023

/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, Bryan H. Langley, 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 23, 2023

/s/ Bryan H. Langley

Bryan H. Langley

*Executive Vice President and Chief Financial Officer*  
*(Principal Financial 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 29, 2022, 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 Bryan H. Langley, 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 23, 2023

/s/ Thomas V. Taylor  
\_\_\_\_\_  
Thomas V. Taylor  
*Chief Executive Officer*  
*(Principal Executive Officer)*

Dated: February 23, 2023

/s/ Bryan H. Langley  
\_\_\_\_\_  
Bryan H. Langley  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial 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.