

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended July 1, 2021

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)

**27-3730271**

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

**2500 Windy Ridge Parkway SE**

**Atlanta, Georgia**

(Address of principal executive offices)

**30339**

(Zip Code)

**(404) 471-1634**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

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 the 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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 2, 2021
Class A common stock, \$0.001 par value per share	105,239,357

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Floor & Decor Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

<i>in thousands, except for share and per share data</i>	<b>As of July 1, 2021</b>	<b>As of December 31, 2020</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 366,093	\$ 307,772
Receivables, net	72,804	50,427
Inventories, net	683,811	654,000
Prepaid expenses and other current assets	42,733	28,257
<b>Total current assets</b>	<b>1,165,441</b>	<b>1,040,456</b>
Fixed assets, net	727,108	579,359
Right-of-use assets	1,055,246	916,325
Intangible assets, net	153,422	109,269
Goodwill	255,473	227,447
Other assets	7,605	7,569
<b>Total long-term assets</b>	<b>2,198,854</b>	<b>1,839,969</b>
<b>Total assets</b>	<b>\$ 3,364,295</b>	<b>\$ 2,880,425</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Current portion of term loans	\$ 2,103	\$ 1,647
Revolving line of credit	3,366	—
Current portion of lease liabilities	86,110	94,502
Trade accounts payable	529,220	417,898
Accrued expenses and other current liabilities	212,466	162,283
Income taxes payable	3,850	12,391
Deferred revenue	23,099	10,115
<b>Total current liabilities</b>	<b>860,214</b>	<b>698,836</b>
Term loans	195,443	207,157
Lease liabilities	1,077,456	941,125
Deferred income tax liabilities, net	34,510	27,990
Other liabilities	17,070	7,929
<b>Total long-term liabilities</b>	<b>1,324,479</b>	<b>1,184,201</b>
<b>Total liabilities</b>	<b>2,184,693</b>	<b>1,883,037</b>
Commitments and Contingencies (Note 5)		
<b>Stockholders' equity</b>		
Capital stock:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at July 1, 2021 and December 31, 2020	—	—
Common stock Class A, \$0.001 par value; 450,000,000 shares authorized; 105,111,284 shares issued and outstanding at July 1, 2021 and 104,368,212 issued and outstanding at December 31, 2020	105	104
Common stock Class B, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at July 1, 2021 and December 31, 2020	—	—
Common stock Class C, \$0.001 par value; 30,000,000 shares authorized; 0 shares issued and outstanding at July 1, 2021 and December 31, 2020	—	—
Additional paid-in capital	431,549	408,124
Accumulated other comprehensive income, net	240	164
Retained earnings	747,708	588,996
<b>Total stockholders' equity</b>	<b>1,179,602</b>	<b>997,388</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,364,295</b>	<b>\$ 2,880,425</b>

See accompanying notes to condensed consolidated financial statements.

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2021	June 25, 2020	July 1, 2021	June 25, 2020
<i>in thousands, except for per share data</i>				
Net sales	\$ 860,108	\$ 462,352	\$ 1,642,645	\$ 1,017,289
Cost of sales	494,670	265,660	940,274	584,565
Gross profit	365,438	196,692	702,371	432,724
Operating expenses:				
Selling and store operating	205,072	138,457	395,018	291,523
General and administrative	52,819	33,713	96,860	64,571
Pre-opening	8,990	3,433	15,987	8,867
Total operating expenses	266,881	175,603	507,865	364,961
Operating income	98,557	21,089	194,506	67,763
Interest expense, net	1,293	2,303	2,681	4,110
Gain on early extinguishment of debt	—	(1,015)	—	(1,015)
Income before income taxes	97,264	19,801	191,825	64,668
Provision (benefit) for income taxes	14,348	(12,203)	33,113	(4,399)
Net income	\$ 82,916	\$ 32,004	\$ 158,712	\$ 69,067
Change in fair value of hedge instruments, net of tax	(7)	92	76	160
Total comprehensive income	\$ 82,909	\$ 32,096	\$ 158,788	\$ 69,227
Basic earnings per share	\$ 0.79	\$ 0.31	\$ 1.52	\$ 0.68
Diluted earnings per share	\$ 0.77	\$ 0.30	\$ 1.48	\$ 0.65

See accompanying notes to condensed consolidated financial statements.

**Floor & Decor Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(Unaudited)**

<i>in thousands</i>	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Class A					
	Shares	Amount				
Balance, January 1, 2021	104,368	\$ 104	\$ 408,124	\$ 164	\$ 588,996	\$ 997,388
Stock-based compensation expense	—	—	4,734	—	—	4,734
Exercise of stock options	195	1	2,382	—	—	2,383
Issuance of restricted stock awards	27	—	—	—	—	—
Forfeiture of restricted stock awards	(2)	—	—	—	—	—
Issuance of common stock upon vesting of restricted stock units	25	—	—	—	—	—
Shares issued under employee stock purchase plan	26	—	1,302	—	—	1,302
Common stock redeemed for tax liability	(10)	—	(966)	—	—	(966)
Other comprehensive gain, net of tax	—	—	—	83	—	83
Net income	—	—	—	—	75,796	75,796
Balance, April 1, 2021	104,629	\$ 105	\$ 415,576	\$ 247	\$ 664,792	\$ 1,080,720
Stock-based compensation expense	—	—	5,319	—	—	5,319
Exercise of stock options	409	—	3,943	—	—	3,943
Issuance of restricted stock awards	2	—	—	—	—	—
Issuance of common stock upon vesting of restricted stock units	2	—	—	—	—	—
Shares issued under employee stock purchase plan	21	—	1,761	—	—	1,761
Issuance of stock related to acquisition	50	—	5,000	—	—	5,000
Common stock redeemed for tax liability	(1)	—	(50)	—	—	(50)
Other comprehensive loss, net of tax	—	—	—	(7)	—	(7)
Net income	—	—	—	—	82,916	82,916
Balance, July 1, 2021	105,111	\$ 105	\$ 431,549	\$ 240	\$ 747,708	\$ 1,179,602

  

<i>in thousands</i>	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Class A					
	Shares	Amount				
Balance, December 27, 2019	101,458	\$ 101	\$ 370,413	\$ (193)	\$ 394,015	\$ 764,336
Stock-based compensation expense	—	—	2,908	—	—	2,908
Exercise of stock options	453	1	3,782	—	—	3,783
Issuance of restricted stock awards	368	—	—	—	—	—
Shares issued under employee stock purchase plan	30	—	1,131	—	—	1,131
Other comprehensive gain, net of tax	—	—	—	68	—	68
Net income	—	—	—	—	37,063	37,063
Balance, March 26, 2020	102,309	\$ 102	\$ 378,234	\$ (125)	\$ 431,078	\$ 809,289
Stock-based compensation expense	—	—	4,234	—	—	4,234
Exercise of stock options	838	1	4,876	—	—	4,877
Other comprehensive gain, net of tax	—	—	—	92	—	92
Net income	—	—	—	—	32,004	32,004
Balance, June 25, 2020	103,147	\$ 103	\$ 387,344	\$ (33)	\$ 463,082	\$ 850,496

See accompanying notes to condensed consolidated financial statements.

**Floor & Decor Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**

<i>in thousands</i>	Twenty-six Weeks Ended	
	July 1, 2021	June 25, 2020
<b>Operating activities</b>		
Net income	\$ 158,712	\$ 69,067
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,097	44,389
Stock-based compensation expense	10,053	7,142
Deferred income taxes	6,520	20,552
Interest cap derivative contracts	76	170
Gain on early extinguishment of debt	—	(1,015)
Gain on asset impairments and disposals, net	—	(29)
Changes in operating assets and liabilities, net of effects of acquisition:		
Receivables, net	(11,109)	15,183
Inventories, net	(25,338)	(12,404)
Trade accounts payable	105,103	(42,427)
Accrued expenses and other current liabilities	(19,065)	258
Income taxes	(8,541)	(25,100)
Deferred revenue	11,765	1,704
Other, net	(25,656)	19,215
Net cash provided by operating activities	256,617	96,705
<b>Investing activities</b>		
Purchases of fixed assets	(132,091)	(65,994)
Acquisition, net of cash acquired	(63,354)	—
Net cash used in investing activities	(195,445)	(65,994)
<b>Financing activities</b>		
Borrowings on revolving line of credit	4,453	275,000
Payments on revolving line of credit	(3,592)	(275,000)
Proceeds from term loans	65,000	75,000
Payments on term loans	(75,676)	(1,237)
Proceeds from exercise of stock options	6,326	8,660
Proceeds from employee stock purchase plan	3,063	1,131
Debt issuance costs	(1,409)	(6,882)
Tax payments for stock-based compensation awards	(1,016)	—
Net cash (used in) provided by financing activities	(2,851)	76,672
Net increase in cash and cash equivalents	58,321	107,383
Cash and cash equivalents, beginning of the period	307,772	27,037
Cash and cash equivalents, end of the period	\$ 366,093	\$ 134,420
<b>Supplemental disclosures of cash flow information</b>		
Buildings and equipment acquired under operating leases	\$ 185,349	\$ 91,670
Cash paid for interest, net of capitalized interest	\$ 1,340	\$ 3,486
Cash paid for income taxes, net of refunds	\$ 35,118	\$ 147
Fixed assets accrued at the end of the period	\$ 101,708	\$ 22,631

See accompanying notes to condensed consolidated financial statements.

**Floor & Decor Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**1. Basis of Presentation and Summary of Significant Accounting Policies**

***Nature of Business***

Floor & Decor Holdings, Inc., together with its subsidiaries (the “Company,” “we,” “our,” or “us”) is a highly differentiated, rapidly growing specialty retailer of hard surface flooring and related accessories. We offer a broad in-stock assortment of tile, wood, laminate, vinyl, and natural stone flooring along with decorative and installation accessories 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.

On June 4, 2021, the Company acquired Spartan Surfaces, Inc. (“Spartan”), a commercial specialty hard-surface flooring distribution company for total estimated purchase consideration of \$77.7 million. Refer to Note 8 for additional information.

As of July 1, 2021, the Company, through its wholly owned subsidiary, Floor and Decor Outlets of America, Inc. (“Outlets”), operates 147 warehouse-format stores, which average 78,000 square feet, and two small-format standalone design studios in 33 states, as well as four distribution centers and an e-commerce site, *FloorandDecor.com*.

***Fiscal Year***

The Company’s fiscal year is the 52- or 53-week period ending on the Thursday on or preceding December 31st. Fiscal year ending December 30, 2021 (“fiscal 2021”) includes 52 weeks, and the fiscal year ended December 31, 2020 (“fiscal 2020”) included 53 weeks. When a 53-week fiscal year occurs, we report the additional week at the end of the fiscal fourth quarter. 52-week fiscal years consist of thirteen-week periods in each quarter of the fiscal year.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. The Condensed Consolidated Balance Sheet as of December 31, 2020 has been derived from the audited Consolidated Balance Sheet for the fiscal year then ended. The interim condensed consolidated financial statements should be read together with the audited consolidated financial statements and related footnote disclosures included in the Company’s Annual Report on Form 10-K for fiscal 2020, filed with the Securities and Exchange Commission (the “SEC”) on February 25, 2021 (the “Annual Report”).

Management believes the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments considered necessary for a fair statement of results for the interim periods presented.

Results of operations for the thirteen and twenty-six weeks ended July 1, 2021 and June 25, 2020 are not necessarily indicative of the results to be expected for the full years.

***Impact of the COVID-19 Pandemic***

On March 11, 2020, the World Health Organization announced that infections of the coronavirus (“COVID-19”) had become a pandemic, and on March 13, 2020, the President of the United States announced a National Emergency relating to the COVID-19 pandemic. The full impact that the COVID-19 pandemic could continue to have on the Company’s business remains an evolving situation and is highly uncertain. While the Company’s operations during the first half of fiscal 2021 did not appear to be negatively impacted, the COVID-19 pandemic had a material negative impact on the Company’s fiscal 2020 operations and financial results during the first half of fiscal 2020 and could have additional negative impacts in the future. The extent of the impact of the pandemic on the Company’s business and financial results will depend on future developments, including the duration of the pandemic, the success of vaccination programs, the spread of COVID-19, including its developing variants, within the markets in which the Company operates, as well as the countries from which the Company sources inventory, fixed assets, and other supplies, the effect of the pandemic on consumer confidence and spending, and actions taken by government entities in response to the pandemic, all of which are highly uncertain.

### **Summary of Significant Accounting Policies**

Other than as noted below, there have been no updates to our Significant Accounting Policies since the Annual Report. For more information regarding our Significant Accounting Policies and Estimates, see the “Summary of Significant Accounting Policies” section of “Item 8. Financial Statements and Supplementary Data” of our Annual Report.

#### **Business Combinations**

The Company accounts for acquisitions in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations*. 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.

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

*Simplifying the Accounting for Income Taxes*. In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 condensed consolidated financial statements.

#### **Recently Issued Accounting Pronouncements**

*Reference Rate Reform*. In January 2021, the FASB issued ASU No. 2021-01, “*Reference Rate Reform (Topic 848)*,” which provides optional guidance to ease the potential accounting and financial reporting burden of reference rate reform, including the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The new guidance provides temporary optional expedients and exceptions for applying U.S. GAAP to transactions affected by reference rate reform if certain criteria are met. These transactions include contract modifications, hedging relationships, and the sale or transfer of debt securities classified as held-to-maturity. Entities may apply the provisions of the new standard as of the beginning of the reporting period when the election is made. Unlike other topics, the provisions of this update are only available until December 31, 2022, by which time the reference rate replacement activity is expected to be completed. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures and has yet to elect an adoption date.

## **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**

Under 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 Condensed Consolidated Balance Sheets as of July 1, 2021 and December 31, 2020 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 July 1, 2021, contract liabilities totaled \$42.4 million and included \$23.1 million of deferred revenue, \$16.2 million of loyalty program liabilities, and \$3.1 million of unredeemed gift cards. As of December 31, 2020, contract liabilities totaled \$24.8 million and included \$10.1 million of deferred revenue, \$12.1 million of loyalty program liabilities, and \$2.6 million of unredeemed gift cards. Of the contract liabilities outstanding as of December 31, 2020, approximately \$8.3 million was recognized in revenue during the twenty-six weeks ended July 1, 2021.



### Disaggregated Revenue

The Company has one reportable segment. The following table presents the net sales of each major product category (in thousands):

Product Category	Thirteen Weeks Ended			
	July 1, 2021		June 25, 2020 (1)	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Tile	\$ 208,379	24 %	\$ 118,981	26 %
Laminate / luxury vinyl plank	214,642	25	105,427	23
Decorative accessories / wall tile (1)	163,956	19	84,232	18
Installation materials and tools	141,369	16	73,213	16
Wood	66,158	8	41,901	9
Natural stone	51,983	6	30,319	6
Adjacent categories (1)	13,587	2	3,315	1
Other (2)	34	—	4,964	1
<b>Total</b>	<b>\$ 860,108</b>	<b>100 %</b>	<b>\$ 462,352</b>	<b>100 %</b>

Product Category	Twenty-six Weeks Ended			
	July 1, 2021		June 25, 2020 (1)	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Tile	\$ 397,815	24 %	\$ 253,893	25 %
Laminate / luxury vinyl plank	400,677	24	230,421	23
Decorative accessories / wall tile (1)	321,330	20	195,261	19
Installation materials and tools	271,970	17	167,789	16
Wood	128,289	8	90,896	9
Natural stone	101,234	6	65,196	6
Adjacent categories (1)	25,823	1	5,883	1
Other (2)	(4,493)	—	7,950	1
<b>Total</b>	<b>\$ 1,642,645</b>	<b>100 %</b>	<b>\$ 1,017,289</b>	<b>100 %</b>

(1) To conform to the current period presentation, the presentation of revenue by product category for the thirteen and twenty-six weeks ended June 25, 2020 has been updated within this table to provide disclosure of adjacent categories, which primarily includes bathroom and kitchen products and accessories, as a separate category. In prior periods, adjacent categories revenue was included as a component of the decorative accessories / wall tile product category.

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

### 3. Debt

The following table summarizes the Company's long-term debt as of July 1, 2021 and December 31, 2020:

<i>in thousands</i>	<u>Maturity Date</u>	<u>Interest Rate Per Annum at July 1, 2021</u>		<u>July 1, 2021</u>	<u>December 31, 2020</u>
<b>Credit Facilities:</b>					
Term Loan B	February 14, 2027	2.10%	Variable	\$ 207,127	\$ 143,179
Term Loan B-1	February 14, 2027	n/a	n/a	—	74,625
Spartan Revolving Line of Credit Facility	n/a	2.63%	Variable	3,366	—
Asset-based Loan Facility ("ABL")	February 14, 2025	n/a	Variable	—	—
Total secured debt at par value				210,493	217,804
Less: current maturities				5,469	1,647
Long-term debt maturities				205,024	216,157
Less: unamortized discount and debt issuance costs				9,581	9,000
Total long-term debt				<u>\$ 195,443</u>	<u>\$ 207,157</u>
Total debt at fair value				<u>\$ 205,056</u>	<u>\$ 215,626</u>

*n/a - not applicable*

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

The following table summarizes scheduled maturities of the Company's debt, including current maturities, as of July 1, 2021:

<i>in thousands</i>	<u>Amount</u>
Twenty-six weeks ending December 30, 2021 (1)	\$ 4,417
2022	2,103
2023	2,103
2024	2,103
2025	2,103
Thereafter	197,664
Total minimum debt payments	<u>\$ 210,493</u>

(1) Twenty-six weeks ending December 30, 2021 maturities are comprised of \$1,051 thousand due on the senior secured term loan facility and \$3,366 thousand due on the Spartan revolving line of credit facility.

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

<i>in thousands</i>	<u>July 1, 2021</u>	<u>June 25, 2020</u>
Total interest costs	\$ 3,831	\$ 4,426
Interest capitalized	1,150	316
Interest expense, net	<u>\$ 2,681</u>	<u>\$ 4,110</u>

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

On February 9, 2021 (the “Effective Date”), Outlets entered into a fifth amendment to the credit agreement governing its senior secured term loan facility (as amended, the “Term Loan Facility”). The fifth amendment provided for, among other things, a supplemental term loan in the aggregate principal amount of \$65.0 million (the “Supplemental Term Loan Facility”) that increased the term loan B facility. The Supplemental Term Loan Facility has the same maturity date (February 14, 2027) and terms as the term loan B facility, except that voluntary prepayments made within six months after the Effective Date are subject to a 1% soft call prepayment premium. The other terms of loans under the Term Loan Facility remain unchanged, including the applicable margin for loans under the term loan B facility. The proceeds of the Supplemental Term Loan Facility, together with cash on hand, were used to (i) repay the \$75.0 million term loan B-1 facility and (ii) pay fees and expenses incurred in connection with the Supplemental Term Loan Facility.

The Term Loan Facility (including loans under the Supplemental Term Loan Facility) provides a margin for loans of: (x) in the case of ABR Loans (as defined in the Term Loan Facility) 1.00% per annum (subject to a leverage-based step-up to 1.25% if Outlets exceeds certain leverage ratio tests), and (y) in the case of Eurodollar Loans (as defined in the Term Loan Facility) 2.00% per annum (subject to a leverage-based step-up to 2.25% if Outlets exceeds certain leverage ratio tests and a 0.00% floor on Eurodollar Loans).

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

The Company evaluated the fifth amendment to the Term Loan Facility in accordance with ASC 470-50, *Debt*, and determined that the amendment resulted in a debt modification that was not an extinguishment. Therefore, no loss on debt extinguishment was recognized. The Company incurred costs of \$ .6 million in connection with the refinancing which were comprised of (i) \$1.4 million of fees to creditors that were accounted for as debt issuance costs and are amortizing to interest expense over the term of the Term Loan Facility using the interest method and (ii) \$0.2 million of professional fees to other third parties that were expensed during the thirteen week period ended April 1, 2021 and included in general and administrative expense on the consolidated statements of operations and comprehensive income.

### ***ABL Facility***

As of July 1, 2021, the Company’s ABL Facility had a maximum availability of \$400.0 million with actual available borrowings limited to the sum, at the time of calculation, of (a) eligible credit card receivables multiplied by the credit card advance rate, plus (b) the cost of eligible inventory, net of inventory reserves, multiplied by the applicable appraisal percentage, plus (c) 85% of eligible net trade receivables, plus (d) all eligible cash on hand, plus (e) 100% of the amount for which the eligible letter of credit must be honored after giving effect to any draws, minus certain Availability Reserves (each component as defined in the ABL Facility). The ABL Facility is available for issuance of letters of credit and contains a sublimit of \$50.0 million for standby letters of credit and commercial letters of credit combined. Available borrowings under the facility are reduced by the face amount of outstanding letters of credit.

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

Net availability under the ABL Facility, as reduced by outstanding letters of credit of \$21.2 million, was \$370.5 million based on financial data as of July 1, 2021.

### ***Spartan Revolving Line of Credit Facility***

In connection with its June 4, 2021 acquisition of Spartan, the Company assumed Spartan’s existing short-term line of credit facility (the “Spartan LOC”), which has a maximum borrowing availability of \$8.0 million with actual available borrowings based on Spartan’s eligible working capital balances. The Spartan LOC is an on-demand line of credit that has no stated maturity date, although it is cancellable at any time by either the Company or the lender with any amounts outstanding upon cancellation becoming immediately due and payable. Net availability under the Spartan LOC was \$4.6 million as of July 1, 2021.

## **Covenants**

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

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

## **4. Income Taxes**

Effective tax rates for the thirteen and twenty-six weeks ended July 1, 2021 and June 25, 2020 were based on the Company's forecasted annualized effective tax rates and were adjusted for discrete items that occurred within each period. The Company's effective income tax rate was 14.8% and (61.6)% for the thirteen weeks ended July 1, 2021 and June 25, 2020, respectively. The Company's effective income tax rate was 17.3% and (6.8)% for the twenty-six weeks ended July 1, 2021 and June 25, 2020, respectively. For each period, the effective income tax rate was lower than the statutory federal income tax rate of 21.0% primarily due to the recognition of income tax benefits from tax deductions in excess of book expense related to stock option exercises and other discrete items. Additionally, the thirteen and twenty-six weeks ended June 25, 2020 included income tax benefits resulting from the enactment of the CARES Act.

The Company recognizes discrete expense for loss contingencies related to uncertain tax positions, including estimated interest and penalties. The Company recognized no expense related to uncertain tax positions during the thirteen and twenty-six weeks ended July 1, 2021 and thirteen weeks ended June 25, 2020, respectively. The Company recognized \$2.6 million of such expense during the twenty-six weeks ended June 25, 2020.

The Company accounts for income taxes under the asset and 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 become 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 or not a valuation allowance must be established.

The Company accounts for uncertain tax positions in accordance with ASC 740 *Income Taxes*. 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 percent 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. The amounts recognized for uncertain tax positions require that management make estimates and judgments based on provisions of the tax law, which may be subject to change or varying interpretations. The Company includes estimated interest and penalties related to uncertain tax position accruals within accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets and within income tax expense in the Condensed Consolidated Statements of Operations and Comprehensive Income.

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

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) provides for, among other things, the temporary deferral of the employer portion of social security taxes incurred through the end of calendar 2020 and an employee retention credit for 50% of wages and health benefits paid to employees not providing services due to the COVID-19 pandemic. In December 2020, the Consolidated Appropriations Act, 2021 was signed into law and generally extended and expanded the availability of the CARES Act employee retention credit through June 30, 2021. Subsequently, the American Rescue Plan Act of 2021, enacted in March 2021, generally extended and expanded the availability of the CARES Act employee retention credit through December 31, 2021.

As of July 1, 2021, the Company has deferred \$12.1 million of employer social security taxes under the CARES Act, of which 50% are required to be deposited by December 2021 and the remaining 50% by December 2022. Of the deferred employer social security taxes outstanding as of July 1, 2021, approximately \$6.1 million is included in accrued expenses and other current liabilities and \$6.0 million is included in other liabilities within the Condensed Consolidated Balance Sheets.

The Company recognized \$0.3 million and \$1.0 million related to employee retention credits during the thirteen and twenty-six weeks ended July 1, 2021, respectively, as an offset to selling and store operating expenses within the Condensed Consolidated Statements of Operations and Comprehensive Income. The Company recognized \$1.1 million related to employee retention credits during the thirteen and twenty-six weeks ended June 25, 2020, of which \$0.9 million was recognized as an offset to selling and store operating expenses and \$0.2 million was recognized as an offset to general and administrative expenses within the Condensed Consolidated Statements of Operations and Comprehensive income.

**5. 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 2046. 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 range from 10-20 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.

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, we use a third party to assist in the determination of a secured incremental borrowing rate, determined on a collateralized basis, to discount lease payments based on information available at lease commencement. The secured incremental borrowing rate is estimated based on yields obtained from Bloomberg for U.S. consumers with a BB- credit rating and is adjusted for collateralization as well as inflation. As of July 1, 2021 and June 25, 2020, the Company’s weighted average discount rate was 5.2% and 5.3%, respectively, and the Company’s weighted average remaining lease term was approximately 11 years and 10 years, respectively.

### Lease Costs

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

<i>in thousands</i>	Classification	Thirteen Weeks Ended		Twenty-six Weeks Ended	
		July 1, 2021	June 25, 2020 (3)	July 1, 2021	June 25, 2020 (3)
Fixed operating lease cost:	Selling and store operating	\$ 30,820	\$ 25,842	\$ 59,588	\$ 50,775
	Cost of sales	5,656	5,655	11,316	11,329
	Pre-opening	3,020	1,683	4,655	3,874
	General and administrative	1,030	1,041	2,059	2,059
Total fixed operating lease cost		\$ 40,526	\$ 34,221	\$ 77,618	\$ 68,037
Variable lease cost (1):	Selling and store operating	\$ 9,975	\$ 9,181	\$ 19,751	\$ 17,119
	Cost of sales	1,184	1,135	2,592	2,219
	Pre-opening	2	85	70	169
	General and administrative	(110)	45	(88)	72
Total variable lease cost		\$ 11,051	\$ 10,446	\$ 22,325	\$ 19,579
Sublease income	Cost of sales	(597)	(597)	(1,194)	(1,194)
Total operating lease cost (2)		\$ 50,980	\$ 44,070	\$ 98,749	\$ 86,422

(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 thirteen and twenty-six weeks ended July 1, 2021 and June 25, 2020.

(3) To conform to the current period presentation, the presentation of the components of operating lease expense for the thirteen weeks and twenty-six weeks ended June 25, 2020 has been updated within this table to provide disclosure of variable lease costs and additional information related to the classification of operating leases within the Condensed Consolidated Statements of Operations and Comprehensive Income.

### Undiscounted Cash Flows

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of July 1, 2021 were as follows:

<i>in thousands</i>	Amount
Twenty-six weeks ending December 30, 2021	\$ 133,811
2022	156,328
2023	156,506
2024	149,008
2025	139,405
Thereafter	858,833
Total minimum lease payments (1) (2)	\$ 1,593,891
Less: amount of lease payments representing interest	430,325
Present value of future minimum lease payments	1,163,566
Less: current obligations under leases	86,110
Long-term lease obligations	\$ 1,077,456

(1) Future lease payments exclude approximately \$25.2 million of legally binding minimum lease payments for operating leases signed but not yet commenced.

(2) Operating lease payments include \$82.0 million related to options to extend lease terms that are reasonably certain of being exercised.

For the twenty-six weeks ended July 1, 2021 and June 25, 2020, cash paid for operating leases was \$9.6 million and \$59.9 million, respectively.

### **Litigation**

On June 18, 2020, an alleged stockholder filed a putative derivative complaint, *Lincolnshire Police Pension Fund v. Taylor, et al.*, No. 2020-0487-JTL, in the Delaware Court of Chancery, purportedly on behalf of the Company against certain of the Company's officers, directors, and stockholders. The complaint alleges breaches of fiduciary duties and unjust enrichment. The factual allegations underlying these claims are similar to the factual allegations made in the previously dismissed *In re Floor & Decor Holdings, Inc. Securities Litigation* described in our Annual Report on Form 10-K. The complaint seeks unspecified damages and restitution for the Company from the individual defendants and the payment of costs and attorneys' fees. The time for the defendants to respond to the complaint has not yet expired.

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

The Company is also subject to various other legal actions, claims and proceedings arising in the ordinary course of business, which may include claims related to general liability, workers' compensation, product liability, intellectual property and employment-related matters resulting from 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.

### **6. Stock-based Compensation**

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation-Stock Compensation*, which requires measurement of compensation cost for all stock awards at fair value on the date of grant and recognition of compensation, net of forfeitures, over the requisite service period for awards expected to vest. Stock-based compensation expense for the twenty-six weeks ended July 1, 2021 and June 25, 2020 was \$10.1 million and \$7.1 million, respectively, and was included in general and administrative expenses within the Company's Condensed Consolidated Statements of Operations and Comprehensive Income.

### **Stock Options**

Stock options are granted with an exercise price greater than or equal to the fair market value on the date of grant, as authorized by the Company's board of directors or compensation committee. Options granted have contractual terms of ten years and vesting provisions ranging from one year to five years. The stock options granted to eligible employees during the twenty-six weeks ended July 1, 2021 vest in four ratable annual installments on each of the first four anniversaries of the grant date, subject to the grantee's continued service through the applicable vesting date. Stock option grants are generally subject to forfeiture if employment terminates prior to vesting.

The fair value of stock option awards granted during the twenty-six weeks ended July 1, 2021 was estimated using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	<b>Twenty-six Weeks Ended July 1, 2021</b>
Weighted average fair value per stock option	\$ 41.75
Risk-free interest rate	0.8%
Expected volatility	48.1%
Expected life (in years)	5.4
Dividend yield	—%

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

The table below summarizes stock option activity for the twenty-six weeks ended July 1, 2021:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2021	3,740,604	\$ 20.72
Granted	66,505	95.68
Exercised	(603,769)	10.48
Forfeited or expired	(24,575)	39.91
Outstanding at July 1, 2021	<u>3,178,765</u>	<u>\$ 24.09</u>
Vested and exercisable at July 1, 2021	1,865,343	\$ 17.33

The total unrecognized compensation cost related to stock options as of July 1, 2021 and December 31, 2020, was \$4.1 million and \$16.0 million, respectively. The unrecognized compensation cost remaining as of July 1, 2021 is expected to be recognized over a weighted average period of 2.2 years.

***Restricted Stock Units***

During the twenty-six weeks ended July 1, 2021, the Company granted restricted stock units to certain employees that represent an unfunded, unsecured right to receive a share of the Company's Class A common stock upon vesting. These awards vest in four ratable annual installments on each of the first four anniversaries of the grant date, subject to the grantee's continued service through the applicable vesting date. The fair value of the restricted stock units was determined based on the closing price of the Company's Class A common stock on the date of grant.

The following table summarizes restricted stock unit activity during the twenty-six weeks ended July 1, 2021:

	<b>Restricted Stock Units</b>
Unvested at January 1, 2021	128,220
Granted	116,939
Vested	(26,666)
Forfeited	(5,077)
Unvested at July 1, 2021	<u>213,416</u>

The total unrecognized compensation cost related to restricted stock units as of July 1, 2021 and December 31, 2020 was \$5.4 million and \$6.2 million, respectively. The unrecognized compensation cost remaining as of July 1, 2021 is expected to be recognized over a weighted average period of 3.4 years.

***Restricted Stock Awards***

During the twenty-six weeks ended July 1, 2021, the Company issued service-based restricted stock awards to certain executive officers and non-employee directors that are subject to the grantee's continued service through the applicable vesting date. Service-based restricted stock awards granted during the period to executive officers vest in four ratable annual installments on each of the first four anniversaries of the grant date, while such awards granted to non-employee directors during the period cliff vest on the first anniversary from the grant date.



The following table summarizes restricted stock award activity during the twenty-six weeks ended July 1, 2021:

	Restricted Stock Awards		Total Stock Return (TSR)
	Service-based	Performance-based	
Unvested at January 1, 2021	131,844	160,315	104,456
Granted	28,814	—	—
Vested	(13,555)	—	—
Forfeited	(2,508)	—	—
Unvested at July 1, 2021	144,595	160,315	104,456

The fair value of performance-based and service-based restricted stock awards is based on the closing market price of the Company's Class A common stock on the date of grant. The fair value of the TSR awards is estimated on grant date using the Monte Carlo valuation method. Compensation cost for restricted stock awards is recognized using the straight-line method over the requisite service period, which for each of the awards is the service vesting period. As of July 1, 2021 and December 31, 2020, total unrecognized compensation cost related to unvested restricted stock awards was \$14.5 million and \$15.2 million, respectively. The unrecognized compensation cost remaining as of July 1, 2021 is expected to be recognized over a weighted average period of 2.3 years.

## 7. 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:

<i>in thousands, except per share data</i>	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2021	June 25, 2020	July 1, 2021	June 25, 2020
Net income	\$ 82,916	\$ 32,004	\$ 158,712	\$ 69,067
Basic weighted average shares outstanding	104,544	102,114	104,309	101,872
Dilutive effect of share-based awards	2,721	3,352	2,877	3,604
Diluted weighted average shares outstanding	107,265	105,466	107,186	105,476
Basic earnings per share	\$ 0.79	\$ 0.31	\$ 1.52	\$ 0.68
Diluted earnings per share	\$ 0.77	\$ 0.30	\$ 1.48	\$ 0.65

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

<i>in thousands</i>	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2021	June 25, 2020	July 1, 2021	June 25, 2020
Stock options	67	591	81	599
Restricted stock	1	260	1	260
Restricted stock units	6	106	6	106

## 8. Acquisition

On June 4, 2021 (“acquisition date” or “closing date”), the Company acquired Spartan Surfaces, Inc. (“Spartan”), a commercial specialty hard-surface flooring distribution company, for total estimated purchase consideration of \$77.7 million. The acquisition was accounted for in accordance with ASC 805, *Business Combinations*, and, accordingly, Spartan’s results of operations, financial position, and cash flows have been consolidated in the Company’s condensed consolidated financial statements since the date of acquisition. Net sales and net earnings for fiscal 2021 attributable to Spartan since the completion of the acquisition were immaterial. Results of operations would not be materially different as a result of the acquisition and therefore pro forma information is not presented. Acquisition-related costs totaling \$3.2 million were expensed as incurred and recognized within general and administrative expenses within the Condensed Consolidated Statements of Operations and Comprehensive Income during the thirteen and twenty-six weeks ended July 1, 2021.

The following table summarizes the fair values of the components of the purchase price as of the acquisition date:

<i>in thousands</i>	
Cash paid at closing, net of cash acquired	\$ 63,354
Cash paid after closing based on final working capital adjustments	213
Floor and Decor Class A common stock	5,000
Contingent consideration	9,090
Total purchase price	<u>\$ 77,657</u>

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 are 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. The Company determined the fair value of the contingent earn-out consideration with assistance from a third-party valuation specialist using a Monte Carlo valuation method. Significant assumptions included the amount and timing of projected cash flows, growth rates, volatility, and the discount factor. The contingent earn-out liability is required to be remeasured at each reporting date through the applicable earn-out periods, with any resulting gains or losses recognized in operating income in the period of remeasurement.

The following table summarizes the estimated preliminary fair values of the assets acquired and liabilities assumed at the acquisition date:

<i>in thousands</i>	<b>Fair Value</b>
Current assets	\$ 16,467
Fixed assets, net	970
Right-of-use assets	3,300
Intangible assets, net	44,400
Goodwill	28,026
Total assets acquired	<u>\$ 93,163</u>
Current liabilities	\$ 12,393
Lease liabilities	2,725
Other liabilities	388
Total liabilities assumed	<u>\$ 15,506</u>
Net assets acquired	<u>\$ 77,657</u>

The purchase price allocation reflected above is preliminary and may be subject to change as final fair values are determined. Accordingly, there may be adjustments to the assigned values of acquired assets and liabilities, including, but not limited to, intangible assets and contingent earn-out consideration. The final determination of acquisition-date fair values will be completed as soon as practicable, which is generally within the measurement period of up to one year from the acquisition date in accordance with ASC 805, *Business Combinations*. Any adjustments to provisional amounts that are identified during the measurement period will be recognized in the reporting period in which the adjustment is determined.

The preliminary fair values of identifiable intangible assets 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 trademark/tradename, 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. Following are the preliminary estimated fair values and estimated remaining useful lives of identifiable intangibles assets as of the acquisition date:

<i>in thousands</i>	Useful Life (Years)	Preliminary Fair Value
<b>Intangible assets:</b>		
Customer relationships	12	\$ 34,900
Trademark/trade name	Indefinite	\$ 9,200
Non-compete agreement	5	\$ 300
<b>Identifiable intangible assets</b>		<b>\$ 44,400</b>

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 expected to be deductible for U.S. federal and state tax purposes.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of the financial condition and results of our operations should be read together with the financial statements and related notes of Floor & Decor Holdings, Inc. and Subsidiaries included in Item 1 of this quarterly report on Form 10-Q (this “Quarterly Report”) and with our audited financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and filed with the Securities and Exchange Commission (the “SEC”) on February 25, 2021 (the “Annual Report”). As used in this Quarterly Report, except where the context otherwise requires or where otherwise indicated, the terms “Floor & Decor,” “Company,” “we,” “our” or “us” refer to Floor & Decor Holdings, Inc. and its subsidiaries.*

### Forward-Looking Statements

The discussion in this Quarterly Report, including under this Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of Part I and Item 1A, “Risk Factors” 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 Quarterly Report, including statements regarding the Company’s 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. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “could,” “seeks,” “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 Quarterly Report are only predictions. Although we believe that the expectations reflected in the forward-looking statements in this Quarterly 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 Quarterly Report, including, without limitation, those factors described in this Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of Part I and Item 1A, “Risk Factors” of Part II. Some of the key factors that could cause actual results to differ from our expectations include the following:

- an overall decline in the health of the economy, the hard surface flooring industry, consumer spending and the housing market; including as a result of the COVID-19 pandemic;
- an economic recession or depression, including as a result of the COVID-19 pandemic;
- the inability to staff our stores sufficiently, including for reasons due to the COVID-19 pandemic and other impacts of the COVID-19 pandemic;
- any disruption in our supply chain, including carrier capacity constraints, higher shipping prices or product shortages;
- a pandemic, such as COVID-19, or other natural disaster or unexpected event, and its impacts on our suppliers, customers, employees, lenders, operations, including our ability to operate our distribution centers and stores or on the credit markets or our future financial and operating results;
- any disruption in our supply chain, including carrier capacity constraints or higher shipping prices;
- our failure to successfully anticipate consumer preferences and demand;
- impact of acquired companies, including Spartan;
- our inability to manage our growth;
- our inability to manage costs and risks relating to new store openings;
- geopolitical risks that impact our ability to import from foreign suppliers;
- our dependence on foreign imports for the products we sell, which may include the impact of tariffs and other duties;

- suppliers may sell similar or identical products to our competitors;
- competition from other stores and internet-based competition;
- any disruption in our distribution capabilities, including from difficulties operating our distribution centers;
- fluctuations in commodity, material, transportation and energy costs;
- our failure to execute our business strategy effectively and deliver value to our customers;
- our inability to manage our inventory obsolescence, shrinkage and damage;
- our inability to find available locations for our stores on terms acceptable to us;
- our inability to maintain sufficient levels of cash flow or liquidity to meet growth expectations;
- violations of laws and regulations applicable to us or our suppliers;
- our inability to obtain merchandise on a timely basis at prices acceptable to us;
- our failure to adequately protect against security breaches involving our information technology systems and customer information;
- the resignation, incapacitation or death of any key personnel;
- our inability to find, train and retain key personnel;
- fluctuations in material and energy costs; and
- restrictions imposed by our indebtedness on our current and future operations.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The forward-looking statements contained in this Quarterly 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.

## Overview

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 with 147 warehouse format stores across 33 states as of July 1, 2021. 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 operate on a 52- or 53-week fiscal year ending the Thursday on or preceding December 31. The following discussion contains references to the first twenty-six weeks of fiscal 2021 and fiscal 2020, which ended on July 1, 2021 and June 25, 2020, respectively.

During the twenty-six weeks ended July 1, 2021, we continued to make long-term key strategic investments, including:

- investing in new solutions for new and existing commercial customers through our purchase of Spartan, a specialty hard-surface flooring distribution company that primarily serves the architectural and design community, end-users, and commercial flooring contractors (refer to Note 8, “Acquisition” for additional details);
- supporting our stores and distribution centers during this heightened period of sales, with particular emphasis on increasing staffing levels and working collaboratively throughout our supply chain to improve our in-stock inventory levels;

- opening fourteen new warehouse-format stores, ending the quarter with 147 warehouse-format stores and two design studios;
- focusing on innovative new products and localized assortments, supported by inspirational in-store and online visual merchandising solutions;
- investing in our connected customer, in-store designer, and customer relationship and store focused technology;
- adding more resources dedicated to serving our Pro customers, including hiring a professional external sales staff to drive more commercial sales;
- providing proprietary credit offerings, including through our non-recourse Pro credit card; and
- investing capital to continue enhancing the in-store shopping experience for our customers.

#### **COVID-19 Update**

As the COVID-19 pandemic continues in fiscal 2021, we remain focused on five priorities while navigating through this period of volatility and uncertainty:

- First, protect the health and safety of our employees and customers through enhanced safety and sanitation measures at our stores, distribution centers, and store support center.
- Second, keep our brand strong and support all of our customers, including the numerous small businesses that rely upon us such as general contractors and flooring installers.
- Third, invest in store and distribution center staffing to support the heightened demand.
- Fourth, work with all our supply chain partners to increase our in-stock inventory positions.
- Fifth, position Floor & Decor to emerge strong from this event.

We are working hard to continue monitoring and quickly responding to the ongoing impacts of the COVID-19 pandemic, including communicating often throughout the organization and adapting our operations to follow evolving federal, state, and local ordinances as well as health guidelines on mitigating the risk of COVID-19 transmission. We have teams in place monitoring this evolving situation and recommending risk mitigation actions, and we are encouraging social distancing practices.

We have also assessed and are implementing supply chain continuity plans. While sales have remained strong as we continue to maintain a broad assortment of in-stock inventory, 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, there is significant congestion at ports of entry to the United States, which is increasing the time and cost to ship goods to our distribution centers and stores and has resulted in a decrease in our in-stock levels for certain products. While we believe that we can pass these higher transportation costs to our customers, the potential significance and duration of these elevated costs is uncertain. We are working closely with our suppliers and transportation partners to mitigate the impact of these disruptions; however, future capacity shortages or shipping cost increases could have an adverse impact upon our business.

In addition, while vaccines have become more widely available and an increasing portion of the U.S. population is being vaccinated, there remains substantial uncertainty regarding the potential duration and severity of the COVID-19 pandemic, including if or when “herd immunity” will be achieved and the public health restrictions imposed to slow the spread of the virus will be lifted entirely. There may also be future increases “waves” or variants of COVID-19 infections despite mass vaccination programs and other efforts to mitigate its spread. Although our stores are currently open to the public, we may face future closure requirements and other operational restrictions at some or all of our physical locations for prolonged periods of time if federal, state, and local authorities impose new and potentially more stringent restrictions such as shelter-in-place orders. We also may face store closures due to staffing challenges, including if store and distribution center associates are in quarantine due to the COVID-19 pandemic. In addition, changes in consumer behavior due to financial, health, or other concerns may continue even after the COVID-19 pandemic and may reduce consumer demand for our products. Further, some of the countries from which we source inventory and other necessary supplies are not vaccinating their populations as quickly or effectively as the U.S., which could constrain our ability to obtain inventory and other necessary supplies. As a result of these and other uncertainties, the full financial impact of the pandemic cannot be reasonably estimated at this time.

## Key Performance Indicators

We consider a variety of performance and financial measures in assessing the performance of our business. The key performance and financial 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. Other than as noted below, for definitions and a discussion of how we use our key performance indicators, see the “Key Performance Indicators” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report. See “Non-GAAP Financial Measures” below for a discussion of how we define EBITDA and Adjusted EBITDA and a reconciliation of EBITDA and Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with accounting principles generally accepted in the United States (“GAAP”).

### *Comparable Store Sales*

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.

Other key financial terms we use include net sales, selling and store operating expenses, general and administrative expenses, and pre-opening expenses. For definitions and a discussion of how we use other key financial terms, see the “Other Key Financial Definitions” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report.

## Results of Operations

While our revenue and earnings were strong during the first half of fiscal 2021 compared to the first half of fiscal 2020, the full impact that the COVID-19 pandemic could have on our business remains highly uncertain. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations -COVID-19 Update” and Item 1A., “Risk Factors” for more information about the potential impacts that the COVID-19 pandemic may have on our results of operations and overall financial performance for future periods.

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

	Thirteen Weeks Ended					
	July 1, 2021		June 25, 2020		\$ Increase/(Decrease)	% Increase/(Decrease)
	Actual	% of Sales	Actual	% of Sales		
Net sales	\$ 860,108	100.0 %	\$ 462,352	100.0 %	\$ 397.8	86.0 %
Cost of sales	494,670	57.5	265,660	57.5	229.0	86.2
Gross profit	365,438	42.5	196,692	42.5	168.7	85.8
Operating expenses:						
Selling and store operating	205,072	23.8	138,457	29.9	66.6	48.1
General and administrative	52,819	6.1	33,713	7.3	19.1	56.7
Pre-opening	8,990	1.0	3,433	0.7	5.6	161.9
Total operating expenses	266,881	30.9	175,603	37.9	91.3	52.0
Operating income	98,557	11.5	21,089	4.6	77.5	367.3
Interest expense, net	1,293	0.2	2,303	0.5	(1.0)	(43.9)
Gain on early extinguishment of debt	—	—	(1,015)	(0.2)	1.0	NM
Income before income taxes	97,264	11.3	19,801	4.3	77.5	391.2
Provision (benefit) for income taxes	14,348	1.7	(12,203)	(2.6)	26.6	217.6
Net income	\$ 82,916	9.6 %	\$ 32,004	6.9 %	\$ 50.9	159.1 %

	Twenty-six Weeks Ended					
	July 1, 2021		June 25, 2020		\$ Increase/(Decrease)	% Increase/(Decrease)
	Actual	% of Sales	Actual	% of Sales		
Net sales	\$ 1,642,645	100.0 %	\$ 1,017,289	100.0 %	\$ 625.4	61.5 %
Cost of sales	940,274	57.2	584,565	57.5	355.7	60.9
Gross profit	702,371	42.8	432,724	42.5	269.6	62.3
Operating expenses:						
Selling and store operating	395,018	24.0	291,523	28.7	103.5	35.5
General and administrative	96,860	5.9	64,571	6.3	32.3	50.0
Pre-opening	15,987	1.0	8,867	0.9	7.1	80.3
Total operating expenses	507,865	30.9	364,961	35.9	142.9	39.2
Operating income	194,506	11.8	67,763	6.7	126.7	187.0
Interest expense, net	2,681	0.2	4,110	0.4	(1.4)	(34.8)
Gain on early extinguishment of debt	—	—	(1,015)	(0.1)	1.0	NM
Income before income taxes	191,825	11.7	64,668	6.4	127.2	196.6
Provision (benefit) for income taxes	33,113	2.0	(4,399)	(0.4)	37.5	852.7
Net income	\$ 158,712	9.7 %	\$ 69,067	6.8 %	\$ 89.6	129.8 %



**Selected Financial Information**

	Thirteen Weeks Ended				Twenty-six Weeks Ended			
	July 1, 2021		June 25, 2020		July 1, 2021		June 25, 2020	
Comparable store sales (% change)	68.4	%	(20.8)	%	48.1	%	(9.6)	%
Comparable average ticket (% change)	3.9	%	2.0	%	2.9	%	2.5	%
Comparable customer transactions (% change)	62.1	%	(22.3)	%	43.9	%	(11.9)	%
Number of warehouse-format stores	147		125		147		125	
Adjusted EBITDA (in thousands) (1)	\$	137,024	\$	45,555	\$	264,099	\$	118,681
Adjusted EBITDA margin	15.9	%	9.9	%	16.1	%	11.7	%

(1) Adjusted EBITDA is a non-GAAP financial measure. See “Non-GAAP Financial Measures” section below for additional information and a reconciliation of Adjusted EBITDA to net income.

**Net Sales**

Net sales during the thirteen weeks ended July 1, 2021 increased \$397.8 million, or 86.0%, compared to the corresponding prior year period primarily due to an increase in comparable store sales of 68.4% and sales from the 22 new warehouse stores that we opened since June 25, 2020. The comparable store sales increase during the period of 68.4%, or \$315.8 million, was driven by a 62.1% increase in comparable customer transactions and a 3.9% increase in comparable average ticket. Comparable store sales increased among all of our product categories during the period. Non-comparable store sales increased \$82.0 million during the same period primarily due to the increase in new stores.

Net sales during the twenty-six weeks ended July 1, 2021 increased \$625.4 million, or 61.5%, compared to the corresponding prior year period due to an increase in comparable store sales of 48.1% and sales from the 22 new warehouse stores that we opened since June 25, 2020. The comparable store sales increase during the period of 48.1%, or \$488.3 million, was driven by a 43.9% increase in comparable customer transactions and a 2.9% increase in comparable average ticket. Comparable sales increased among all of our product categories during the period. Non-comparable store sales increased \$137.1 million during the same period primarily due to the increase in new stores.

We believe the increase in sales for the thirteen and twenty-six weeks ended July 1, 2021 is also due in part to (i) unprecedented government intervention to help mitigate the negative impacts of the COVID-19 pandemic and (ii) customers investing in home improvements while spending less on leisure activities like travel, eating out, sporting events, and hotels. 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. In addition, our total sales growth and associated comparable store sales growth for the thirteen weeks ended July 1, 2021 were particularly strong because in late March 2020, we closed the interior of our stores to the public as a precautionary measure due to COVID-19. We began re-opening our stores in early May, and by early June, all of our stores were fully open to the public. Further, the addition of a 53rd-week in fiscal 2020, which was the last week in December, a historically low volume week, shifted the beginning of fiscal 2021 to January and modestly benefited fiscal 2021 comparable store sales growth.

**Gross Profit and Gross Margin**

Gross profit during the thirteen weeks ended July 1, 2021 increased \$168.7 million, or 85.8%, compared to the corresponding prior year period. The increase in gross profit was driven by the 86.0% increase in net sales as gross margin growth was flat from the same period a year ago.

Gross profit during the twenty-six weeks ended July 1, 2021 increased \$269.6 million, or 62.3%, compared to the corresponding prior year period. This increase in gross profit was driven by the 61.5% increase in net sales and an increase in gross margin to 42.8%, up approximately 30 basis points from 42.5% in the same period a year ago. The increase in gross margin was primarily due to improved leverage of our distribution center and supply chain infrastructure on higher sales, partially offset by a \$2.5 million decrease to estimated tariff refund receivables during the current period.

### ***Selling and Store Operating Expenses***

Selling and store operating expenses during the thirteen weeks ended July 1, 2021 increased \$66.6 million, or 48.1%, compared to the thirteen weeks ended June 25, 2020. The increase was primarily attributable to 22 new warehouse stores opened since June 25, 2020 as well as additional staffing to satisfy sales growth. As a percentage of net sales, selling and store operating expenses decreased approximately 610 basis points to 23.8% from 29.9% in the corresponding prior year period. Comparable store selling and store operating expenses as a percentage of comparable store sales decreased by approximately 710 basis points.

Selling and store operating expenses during the twenty-six weeks ended July 1, 2021 increased 103.50, or 35.5%, compared to the twenty-six weeks ended June 25, 2020, primarily driven by the opening of 22 new stores since June 25, 2020 as well as additional staffing to satisfy sales growth. As a percentage of net sales, our selling and store operating expenses decreased approximately 470 basis points to 24.0%, down from 28.7% in the corresponding prior year period. Comparable store selling and store operating expenses as a percentage of comparable store sales decreased by approximately 530 basis points.

The decreases in selling and store operating expenses as a percentage of both overall sales and comparable store sales during the thirteen and twenty-six weeks ended July 1, 2021 was primarily due to significantly higher comparable store and non-comparable store sales in the second quarter of fiscal 2021 compared with the second quarter of fiscal 2020 when our stores were limited to curbside services and not fully open to the public.

### ***General and Administrative Expenses***

General and administrative expenses, which are typically expenses incurred outside of our stores, increased \$19.1 million, or 56.7%, during the thirteen weeks ended July 1, 2021 compared to the corresponding prior year period primarily due to higher incentive compensation expense and costs to support store growth, including increased store support staff, higher depreciation related to technology and other store support center investments, and expenses related to the Spartan acquisition. As a percentage of sales, general and administrative expenses decreased approximately 120 basis points to 6.1% from 7.3% in the corresponding period. The decline as a percentage of net sales was primarily driven by sales growing faster than increases in store support staffing, occupancy, and other general and administrative costs.

General and administrative expenses, increased \$32.3 million, or 50.0%, during the twenty-six weeks ended July 1, 2021 compared to the corresponding prior year period due to higher incentive compensation expense and costs to support store growth, including increased store support staff and higher depreciation related to technology and other store support center investments, and expenses related to the Spartan acquisition. Our general and administrative expenses as a percentage of net sales decreased approximately 40 basis points to 5.9%, down from 6.3% during the twenty-six weeks ended June 25, 2020. The decline as a percentage of net sales was primarily driven by sales growing faster than increases in store support staffing, occupancy, and other general and administrative costs.

### ***Pre-Opening Expenses***

Pre-opening expenses during the thirteen weeks ended July 1, 2021 increased \$5.6 million, or 161.9%, compared to the corresponding prior year period. The increase is primarily the result of an increase in the number of stores that we either opened or were preparing for opening compared to the prior year period. We opened seven warehouse stores during the thirteen weeks ended July 1, 2021 as compared to opening two warehouse stores during the thirteen weeks ended June 25, 2020.

Pre-opening expenses during the twenty-six weeks ended July 1, 2021 increased \$7.1 million, or 80.3%, compared to the corresponding prior year period. The increase is primarily the result of an increase in the number of stores that we either opened or were preparing for opening compared to the prior year period. We opened fourteen warehouse stores during the twenty-six weeks ended July 1, 2021 as compared to opening five warehouse stores during the twenty-six weeks ended June 25, 2020.

### ***Interest Expense***

Net interest expense during the thirteen weeks ended July 1, 2021 decreased \$1.0 million, or 43.9%, compared to the thirteen weeks ended June 25, 2020. Net interest expense during the twenty-six weeks ended July 1, 2021 decreased \$1.4 million, or (34.8)%, compared to the twenty-six weeks ended June 25, 2020. The decrease in interest expense for the thirteen and twenty-six weeks ended July 1, 2021 was primarily due to lower revolving line of credit borrowings and a decrease in term loan interest rates compared to the thirteen and twenty-six weeks ended June 25, 2020.

### **Income Taxes**

The provision for income taxes was \$14.3 million during the thirteen weeks ended July 1, 2021 compared to a \$12.2 million benefit during the thirteen weeks ended June 25, 2020. The effective tax rate was 14.8% for the thirteen weeks ended July 1, 2021 compared to (61.6)% in the corresponding prior year period.

The provision for income taxes was a \$33.1 million during the twenty-six weeks ended July 1, 2021 compared to a \$4.4 million benefit during the twenty-six weeks ended June 25, 2020. The effective tax rate was 17.3% for the twenty-six weeks ended July 1, 2021 compared to (6.8)% for the twenty-six weeks ended June 25, 2020.

The increase in the effective tax rates during the thirteen and twenty-six weeks ended July 1, 2021 was primarily due to (i) the recognition of income tax benefits in connection with the CARES Act during fiscal 2020 and (ii) higher earnings during the thirteen and twenty-six weeks ended July 1, 2021 without a proportionate increase in available tax credits.

### **Non-GAAP Financial Measures**

EBITDA and Adjusted EBITDA are key metrics used by management and our board of directors to assess our financial performance and enterprise value. We believe that 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 ABL Facility and Term Loan Facility (together, the "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. 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. See below for a reconciliation of EBITDA and Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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

The following table reconciles net income to EBITDA and Adjusted EBITDA for the periods presented:

<i>in thousands</i>	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2021	June 25, 2020	July 1, 2021	June 25, 2020
Net income	\$ 82,916	\$ 32,004	\$ 158,712	\$ 69,067
Depreciation and amortization (1)	27,377	21,991	52,897	43,664
Interest expense, net	1,293	2,303	2,681	4,110
Gain on early extinguishment of debt (2)	—	(1,015)	—	(1,015)
Income tax expense (benefit)	14,348	(12,203)	33,113	(4,399)
EBITDA	125,934	43,080	247,403	111,427
Stock-based compensation expense (3)	5,319	4,234	10,053	7,142
Acquisition and integration expense (4)	3,166	—	3,166	—
Tariff refund adjustments (5)	1,728	(3,615)	1,728	(4,016)
COVID-19 costs (6)	408	1,601	624	2,911
Other (7)	469	255	1,125	1,217
Adjusted EBITDA	\$ 137,024	\$ 45,555	\$ 264,099	\$ 118,681

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

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

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

(4) Represents acquisition and integration expenses incurred related to the acquisition of Spartan.

(5) Represents a reduction in estimated tariff refund receivables during the thirteen weeks ended July 1, 2021. During the thirteen weeks ended June 25, 2020, represents income for incremental tariff refunds recognized for certain bamboo and other flooring products. Interest income for tariff refunds is included within interest expense, net in the table above.

(6) 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.

(7) Other adjustments include amounts management does not consider indicative of our core operating performance. Amounts for the thirteen weeks ended July 1, 2021 primarily relate to relocation expenses for our Houston distribution center, and amounts for the twenty-six weeks ended July 1, 2021 primarily relate to relocation expenses for our Houston distribution center and legal fees associated with the February 2021 amendment to our senior secured term loan credit facility. Amounts for the thirteen and twenty-six weeks ended June 25, 2020 primarily relate to legal fees associated with the February 2020 amendment to our senior secured term loan credit facility and costs associated with secondary public offerings of the Company's Class A common stock by certain of our stockholders.

#### Liquidity and Capital Resources

Liquidity is provided primarily by our cash flows from operations and our \$400.0 million ABL Facility. Unrestricted liquidity based on our July 1, 2021 financial data was \$736.6 million, consisting of \$366.1 million in cash and cash equivalents and \$370.5 million immediately available for borrowing under the ABL Facility without violating any covenants thereunder. In addition, our Spartan subsidiary has access to an \$8.0 million revolving line of credit facility (the "Spartan LOC") that had \$4.6 million immediately available for borrowing as of July 1, 2021.

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 distribution center and store support center infrastructure. We also use cash for the payment of taxes and interest.

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

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

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

Twice a year, we conduct a clearance event with the goal of selling through discontinued inventory, followed by donations of the aged discontinued inventory that we are unable to sell. We generally conduct a larger clearance event during our third fiscal quarter followed by a smaller clearance event towards the end of the fiscal year. We define aged discontinued inventory as inventory in discontinued status for more than 12 months that we intend to sell or donate. As of July 1, 2021, we had \$1.0 million of aged discontinued inventory that we intend to donate if unable to sell.

#### ***Impact of the COVID-19 Pandemic on Liquidity***

While our primary sources of funds for business activities are typically cash flows from operations and our existing credit facilities, the full potential impact of the pandemic on our sources of funds and liquidity cannot be reasonably estimated at this time due to uncertainty regarding the potential severity and duration of the pandemic and its future effect on our business. For additional discussion of the impact of the COVID-19 pandemic on our business, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations - COVID-19 Update.”

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

The exact scope of our capital plans is evolving and will ultimately depend on a variety of factors, including the impact of the COVID-19 pandemic on our business. Excluding cash paid for the Spartan acquisition, total capital expenditures are currently planned to be between approximately \$455 million to \$475 million and will be funded primarily by cash generated from operations and borrowings under the ABL Facility. Our capital needs may change in the future due to changes in our business, including in response to the COVID-19 pandemic, or new opportunities that we choose to pursue; however, we currently expect the following for capital expenditures in fiscal 2021:

- open 27 warehouse-format stores, open two small-format design studios, and start construction on stores opening and relocating in 2022 using approximately \$305 million to \$315 million of cash;
- relocate our Houston, Texas distribution center and open a transload facility in Los Angeles, California using approximately \$70 million to \$74 million of cash;
- invest in existing store remodeling projects and our distribution centers using approximately \$52 million to \$56 million of cash; and
- invest in information technology infrastructure, e-commerce, and other store support center initiatives using approximately \$28 million to \$30 million of cash.

**Cash Flow Analysis**

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

<i>in thousands</i>	Twenty-six Weeks Ended	
	July 1, 2021	June 25, 2020
Net cash provided by operating activities	\$ 256,617	\$ 96,705
Net cash used in investing activities	(195,445)	(65,994)
Net cash (used in) provided by financing activities	(2,851)	76,672
Net increase in cash and cash equivalents	\$ 58,321	\$ 107,383

**Net Cash Provided by Operating Activities**

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

Net cash provided by operating activities was \$256.6 million for the twenty-six weeks ended July 1, 2021 and \$96.7 million for the twenty-six weeks ended June 25, 2020. The increase in net cash provided by operating activities was primarily the result of an increase in net income and trade accounts payable, partially offset by a net decrease in other working capital items to support our operations.

**Net Cash Used in Investing Activities**

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

Net cash used in investing activities during the twenty-six weeks ended July 1, 2021 and June 25, 2020 was \$195.4 million and \$66.0 million, respectively. The increase was driven by a \$66.1 million increase in capital expenditures and \$66.4 million in cash paid as part of the purchase price to acquire Spartan (refer to Note 8, "Acquisition" for additional details). 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) ongoing construction for the Houston distribution center relocation, and (iii) an increase in existing store remodels. During the twenty-six weeks ended July 1, 2021, approximately 66.1% of non-acquisition related capital expenditures were for new stores and 26.6% were for existing stores and distribution centers, while the remaining spending was associated with information technology, e-commerce, and store support center investments to support our growth.

**Net Cash (Used in) Provided by Financing Activities**

Financing activities consist primarily of borrowings and related repayments under our credit agreements as well as proceeds from the exercise of stock options and our employee share purchase program.

Net cash used in financing activities was \$2.9 million for the twenty-six weeks ended July 1, 2021 compared to net cash provided by financing activities of \$76.7 million for the twenty-six weeks ended June 25, 2020. The decrease was primarily driven by the repayment of a portion of our Term Loan Facility during the twenty-six weeks ended July 1, 2021 compared with net proceeds from the Term Loan Facility during the twenty-six weeks ended June 25, 2020.

**Credit Facility Amendments**

On February 9, 2021 (the "Effective Date"), we entered into a fifth amendment to the credit agreement governing our senior secured term loan facility (as amended, the "Term Loan Facility"). The fifth amendment provided for, among other things, a supplemental term loan in the aggregate principal amount of \$65.0 million (the "Supplemental Term Loan Facility") that increased the term loan B facility. The Supplemental Term Loan Facility has the same maturity date (February 14, 2027) and terms as the term loan B facility, except that voluntary prepayments made within six months after the Effective Date are subject to a 1% soft call prepayment premium. The other terms of loans under the Term Loan Facility remain unchanged, including the applicable margin for loans under the term loan B facility. The proceeds of the Supplemental Term Loan Facility, together with cash on hand, were used to (i) repay the \$75.0 million term loan B-1 facility and (ii) pay fees and expenses incurred in connection with the Supplemental Term Loan Facility.

Refer to Note 3, “Debt” for additional details regarding our Term Loan Facility, ABL Facility, and Spartan LOC, including applicable covenants.

### ***Credit Ratings***

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

### **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 2020, approximately 30% of the products we sold were sourced from China, and we expect that percentage to decrease moderately in fiscal 2021. As we continue to manage the impact these tariffs may have on our business, we continue taking steps to mitigate some of these cost increases through negotiating lower costs from our vendors, increasing retail pricing as we deem appropriate, and sourcing from alternative countries. While our efforts have mitigated a substantial portion of the overall effect of increased tariffs, the enacted tariffs have increased our inventory costs and associated cost of sales for the remaining products still sourced from China.

### ***Antidumping and Countervailing Duties***

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

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

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

### *Tariff Refunds*

In November 2019, the U.S. Trade Representative (“USTR”) made a ruling to retroactively exclude certain flooring products imported from China from the Section 301 tariffs that were implemented at 10% beginning in September 2018 and increased to 25% in June 2019. The granted exclusions apply to certain “click” vinyl and engineered products that we have sold and continue to sell. As these exclusions were granted retroactively, we are entitled to a refund from U.S. Customs for the applicable Section 301 tariffs previously paid on these goods. Tariff refund claims are subject to the approval of U.S. Customs, and the Company currently expects to recover \$20.9 million, including interest, related to these Section 301 tariff payments. Of the expected refunds, \$13.8 million has been received as of July 1, 2021.

### **Contractual Obligations**

There were no material changes to our contractual obligations outside the ordinary course of our business during the twenty-six weeks ended July 1, 2021.

### **Off-Balance Sheet Arrangements**

For the twenty-six weeks ended July 1, 2021, 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.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with GAAP, which requires management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and other factors management believes to be reasonable. The COVID-19 pandemic has impacted our business as discussed in Management’s Discussion and Analysis and the estimates used for, but not limited to, our critical accounting policies could be affected by future developments related to the COVID-19 pandemic. We have assessed the impact and are not aware of any specific events or circumstances that required an update to the estimates and assumptions used for our critical accounting policies or that materially affected the carrying value of our assets or liabilities as of the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

For a description of our critical accounting policies and estimates, refer to Part II, Item 7, “Critical Accounting Policies and Estimates” in our Annual Report. There have been no material changes to our critical accounting policies and estimates as disclosed in our Annual Report. See Note 1 to our condensed consolidated financial statements included in this Quarterly Report, which describes recent accounting pronouncements adopted by us.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk affecting the Company, see “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A of Part II of the Annual Report. While our exposure to market risk has not changed materially since December 31, 2020, uncertainty with respect to the economic effects of the COVID-19 pandemic has introduced significant volatility in the financial markets, including interest rates and foreign currency exchange rates. The COVID-19 pandemic is expected to have a continued adverse impact on market conditions and may trigger a period of global economic slowdown for an unknown duration. See further discussion in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional details.

#### **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 July 1, 2021, our senior secured term loan facility, which has a variable interest rate, had a remaining principal balance of \$207.1 million. A 1.0% increase in the effective interest rate for this debt would cause an increase in interest expense of approximately \$2.1 million over the next twelve months. To lessen our exposure to changes in interest rate risk, we entered into two \$75.0 million interest rate cap agreements in May 2021. The contracts capped our LIBOR at 1.75% beginning in May 2021. In addition, our \$102.5 million interest rate cap agreement entered into during November 2016 that caps our LIBOR at 2.0% remains in effect until the agreement expires on December 31, 2021. We do not anticipate that the interest rate cap agreements will significantly impact interest expense in the near term as the U.S. Federal Reserve and other central banks have taken recent action to lower interest rates in response to the COVID-19 pandemic, and interest rates are near historic lows.



## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

The Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to provide reasonable assurance that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in reports filed or submitted under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. The Company's management, including the chief executive officer and the chief financial officer, have reviewed the effectiveness of the Company's disclosure controls and procedures as of July 1, 2021 and, based on their evaluation, have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level. The condensed consolidated financial statements included in this Quarterly Report fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

### **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during the fiscal quarter ended July 1, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

See the information under the "Litigation" caption in Note 5, Commitments and Contingencies to our Condensed Consolidated Financial Statements included in this Quarterly Report and the information under "Management's Discussion and Analysis of Financial Condition and Results of Operations - U.S. Tariffs and Global Economy" in this Quarterly Report, each of which we incorporate here by reference.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report filed with the SEC on February 25, 2021, which could materially affect our business, financial condition, and/or operating results, as well as the following:

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

On March 11, 2020, the World Health Organization announced that infections of COVID-19 had become a pandemic, and on March 13, 2020, the U.S. President announced a National Emergency relating to the COVID-19 pandemic. National, state and local authorities have recommended social distancing and some authorities have imposed quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures, while intended to protect human life, have had and are expected to continue to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The COVID-19 pandemic and preventative measures taken to contain or mitigate its spread have caused, and are continuing to cause, business shutdowns, or the re-introduction of business shutdowns, cancellations of events and restrictions on travel, significant reductions in demand for certain goods and services, reductions in business activity and financial transactions, supply chain interruptions and overall economic and financial market instability both globally and in the United States. Such effects will likely continue for the duration of the pandemic, which is uncertain, and for some period thereafter. While several countries, as well as certain states, counties and cities in the United States, have relaxed public health restrictions and partially or fully reopened their economies, such reopening measures have sometimes resulted in a surge in the reported number of cases and hospitalizations related to the COVID-19 pandemic. This increase in cases has led to the reintroduction of restrictions and business shutdowns in certain states, counties and cities in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. In December 2020, the U.S. Food and Drug Administration authorized certain vaccines for emergency use and on April 16, 2021, every person over the age of 16 in the United States was deemed eligible to receive a COVID-19 vaccine. According to the United States Center for Disease Control, over half of the adult population of the United States has received at least one dose of an approved emergency COVID-19 vaccine. However, it remains unclear how quickly the vaccines will be distributed globally or if or when “herd immunity” will be achieved and the restrictions that were imposed to slow the spread of the virus will be lifted entirely. Delays in distributing the vaccines or an actual or perceived failure to achieve “herd immunity” could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. The extent of the impact of the pandemic on the Company’s business and financial results will depend on future developments, including the duration of the pandemic the success of vaccination programs, the spread of COVID-19 within the markets in which the Company operates, as well as the countries from which the Company sources inventory, fixed assets, and other supplies, the effect of the pandemic on consumer confidence and spending, and actions taken by government entities in response to the pandemic, all of which are highly uncertain. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may experience or continue to experience a recession, and our business and operations could be materially adversely affected by a prolonged recession in the U.S. and other major markets.

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

The COVID-19 pandemic and initial responses had an adverse effect on our customer traffic, sales, operating costs, and profit during the first two quarters of fiscal 2020 and may have such an impact again in the future. We cannot predict how long the COVID-19 pandemic will last, whether we will be required to re-close stores or what other government responses may occur. The COVID-19 pandemic has also adversely affected our ability to staff our existing stores and open new stores, and we have experienced construction delays. While our stores saw increased sales and order activity in the final two quarters of fiscal 2020 and the first two quarters of fiscal 2021, those results, as well as those of other metrics such as net revenues, gross margins and other financial and operating data, may not be indicative of results for future periods. Additionally, such increased demand may increase beyond manageable levels, may fluctuate significantly, or may not continue, including the possibility that demand may decrease from historical levels.

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

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

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

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

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

***We face risks related to our indebtedness.***

As of July 1, 2021, the principal amount of our total indebtedness was approximately \$207.1 million related to our indebtedness outstanding under the Term Loan Facility. In addition, as of July 1, 2021, we had the ability to access approximately \$370.5 million of unused borrowings available under the ABL Facility without violating any covenants thereunder and had approximately \$21.2 million in outstanding letters of credit thereunder.

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

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

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

Additionally, in July 2017, the United Kingdom's Financial Conduct Authority ("FCA"), the authority that regulates London Interbank Offered Rate ("LIBOR"), announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. On March 5, 2021, the ICE Benchmark Administration Limited ("IBA"), which is regulated by the FCA confirmed that it would cease the publication of the one-week and two-month U.S. dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the U.S. dollar LIBOR settings (overnight and 12 months) immediately following the LIBOR publication on June 30, 2023. Accordingly, in the near future LIBOR will cease being a widely used benchmark interest rate. The current and any future reforms and other pressures may cause LIBOR to be replaced with a new benchmark or to perform differently than in the past, including during the transition period. The Company has material debt contracts that are indexed to USD-LIBOR and is currently working on a transition plan. We believe all our material agreements have appropriate language to negotiate a transition to an alternative index rate and are continuing to monitor this activity and evaluate the related risks. However, the consequences of these market developments cannot be entirely predicted and a transition from LIBOR, even if administered consistent with the provisions of our material agreements, may require us to amend or restructure our existing LIBOR-based debt instruments and any related hedging arrangements that extend beyond 2021, which may be difficult, costly and time consuming. We cannot give assurance that our financial condition and operating results will not be adversely affected.

Both New York State and federal legislation in the U.S. is under consideration that if enacted could result, upon the unavailability of LIBOR, in the replacement of certain fallback provisions in LIBOR-based financing agreements. Under the proposed legislation, some of these existing fallback provisions would be replaced by a provision specifying that the replacement rate and related adjustments recommended by the Alternative Reference Rates Committee ("ARRC"), the committee in the United States convened to ensure a successful transition from LIBOR, would be used to establish the interest-rate on the financing. The legislation would also require the use of the benchmark replacement rate and related adjustments recommended by the ARRC in the event that there are no fallback provisions in a financing. The legislation would not impact credit agreements that already include fallbacks to the changes recommended by the ARRC. Any such legislation adopted in New York State would have applicability only to agreements governed by New York law. There can be no assurance as to the final form of any such New York or federal legislation or as to whether any such legislation will be adopted.

In the event that one or more LIBOR-based interest rate derivatives are entered into to hedge variable rate indebtedness, the LIBOR rate specified therein will be determined from time to time by reference to a publication page specified in the relevant definitions of the International Swaps and Derivatives Association, Inc. ("ISDA"). However, if such rate does not appear on the relevant page, and the above-referenced legislation is not adopted that would address the replacement of LIBOR under such derivatives, LIBOR will be determined in accordance with dealer polls conducted by the calculation agent under the agreement governing the derivative. This dealer polling mechanism may not be successful in arriving at a replacement interest rate for LIBOR. Even if the dealer polling mechanism successfully arrives at a replacement interest rate for derivatives, that rate could differ significantly from the interest rates used for our variable-rate indebtedness.

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

Our success is highly dependent on our planning and distribution infrastructure, which includes the ordering, transportation, and distribution of products to our stores and the ability of suppliers to meet distribution requirements. We also need to ensure that we continue to identify and improve our processes and supply chain and that our distribution infrastructure and supply chain keep pace with our anticipated growth and increased number of stores. The cost of these enhanced processes could be significant and any failure to maintain, grow, or improve them could adversely affect our business, financial condition, and operating results. Due to our rapid expansion, we have had to significantly increase the size of our distribution centers, including opening a 1.5 million square foot distribution center in Maryland in the fourth quarter of fiscal 2019 and the planned new opening of an expanded distribution center in Houston in the fourth quarter of 2021. Based on our growth intentions, we plan to add additional distribution centers or increase the size of our existing distribution centers in the future. Increasing the size of our distribution centers may decrease the efficiency of our distribution costs.

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

Additionally, our supply chain and our suppliers could be disrupted by factors beyond our control, including from damage or destruction to our distribution centers; weather-related events; natural disasters; international trade disputes or trade policy changes or restrictions; tariffs or import-related taxes; third-party strikes, lock-outs, work stoppages or slowdowns; shortages of truck drivers; shipping capacity constraints; third-party contract disputes; supply or shipping interruptions or costs; military conflicts; acts of terrorism; public health issues, including pandemics or quarantines (such as the COVID-19 outbreak); or other factors beyond our control. Any such disruption could negatively impact our financial performance or financial condition. Accordingly, we have assessed and are implementing 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, there is significant congestion at ports of entry to the United States, which 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 a decrease in our in-stock levels for certain products as well as delays in delivering those products to our distribution centers, stores or customers. Recently, we have seen an 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 employees or employees of third-parties involved in our supply chain, or other difficulties. If we are unable to deliver products to our customers on a timely basis, they may decide to purchase products from our competitors instead of from us, which would adversely affect our business, financial condition, and operating results.

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

The new Democratic Presidential Administration has proposed changes to tax law that would, among other things, increase the corporate tax rate, impose a 15% minimum tax on corporate book income, and strengthen the GILTI regime imposed by the Tax Cuts and Jobs Act while eliminating related tax exemptions. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
3.1	<a href="#">Amended &amp; Restated Certificate of Incorporation of Floor &amp; Decor Holdings, Inc.</a>
3.2	<a href="#">Second Amended and Restated Bylaws of Floor &amp; Decor Holdings, Inc. (1)</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	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

(1) Filed as an exhibit to Amendment No. 4 to the Registrant's Registration Statement on Form S-1 (File No. 333-216000) filed with the SEC on April 24, 2017, and incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements 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.**

Dated: August 5, 2021

By: /s/ Thomas V. Taylor  
Thomas V. Taylor  
Chief Executive Officer  
(Principal Executive Officer)

Dated: August 5, 2021

By: /s/ Trevor S. Lang  
Trevor S. Lang  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)



**AMENDED AND RESTATED**  
**CERTIFICATE OF INCORPORATION**  
**OF**  
**FLOOR & DECOR HOLDINGS, INC.**

FIRST: The name of the corporation is Floor & Decor Holdings, Inc. (the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is Corporation Service Company, 251 Little Falls Drive, County of New Castle, Wilmington, Delaware 19808. The name of the registered agent of the Corporation in the State of Delaware at such address is Corporation Service Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized and incorporated under the General Corporation Law of the State of Delaware (the "DGCL") or any applicable successor act thereto, as the same may be amended from time to time.

FOURTH: The total number of shares of capital stock the Corporation shall have authority to issue is 460,000,000 shares consisting of (A) 450,000,000 shares of common stock, \$0.001 par value per share (the "Common Stock") and (B) 10,000,000 shares of undesignated Preferred Stock, par value \$0.001 per share ("Preferred Stock").

Subject to the rights of the holders of any series of Preferred Stock, the number of authorized shares of Common Stock or Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the Corporation entitled to vote thereon irrespective of the provisions of Section 242(b)(2) of the DGCL, and no vote of the holders of Common Stock or Preferred Stock voting separately as a class shall be required therefor.

A. Common Stock.

1. Ranking. The voting, dividend and liquidation rights of the holders of Common Stock are subject to and qualified by the rights of the holders of Preferred Stock of any series as may be designated by the Board of Directors of the Corporation (the "Board") upon any issuance of the Preferred Stock of any series.

2. Voting. Except as otherwise provided by law or by the resolution or resolutions providing for the issue of any series of Preferred Stock, each holder of outstanding shares of Common Stock shall have the exclusive right to vote for the election and removal of directors and for all other purposes and shall be entitled to one vote for each share of Common Stock standing in his, her or its name on the transfer books of the Corporation in connection with all matters submitted to a vote of stockholders. Notwithstanding any other provision of this Restated Certificate of Incorporation (as amended and/or restated from time to time, including the terms of any Preferred Stock Designation (as defined below), this "Certificate of Incorporation") to the contrary, the holders of Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation (including any Preferred Stock Designation) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon pursuant to this Certificate of Incorporation (including any Preferred Stock Designation) or the DGCL.

3. Dividends; Distributions. Subject to the rights, if any, of the holders of any outstanding series of Preferred Stock, each share of Common Stock shall be entitled to receive and share equally in all dividends paid out of any funds of the Corporation legally available therefor when, as and if declared by the Board from time to time out of assets or funds of the Corporation legally available therefor.



4. Changes in Capitalization. If there is an increase or decrease in the number of issued shares of Common Stock resulting from any stock split, stock dividend, reverse stock split, combination, subdivision or reclassification of one class of Common Stock, or any other similar event resulting in an increase or decrease in the number of outstanding shares of such class of Common Stock, the outstanding shares of the other class of Common Stock shall be increased or decreased in the same manner and in the same proportion.

5. Liquidation. Upon the dissolution, liquidation or winding up of the affairs of the Corporation, subject to the rights, if any, of the holders of any outstanding series of Preferred Stock and the claims of creditors, the holders of shares of Common Stock shall be entitled to receive the assets of the Corporation available for distribution to its stockholders ratably in proportion to the number of shares held by them. A dissolution, liquidation or winding up of the affairs of the Corporation, as such terms are used in this Section A(5) of Article FOURTH, shall not be deemed to be occasioned by or to include any consolidation or merger of the Corporation with or into any other person or a sale, lease, exchange or conveyance of all or a part of its assets.

6. No Preemptive or Subscription Rights. No holder of shares of Common Stock shall be entitled to preemptive or subscription rights.

B. Preferred Stock. Shares of Preferred Stock may be issued from time to time in one or more series. The Board is hereby authorized to provide by resolution or resolutions from time to time for the issuance, out of the unissued and undesignated shares of Preferred Stock, of one or more series of Preferred Stock, without stockholder approval, by filing a certificate pursuant to the DGCL (a "Preferred Stock Designation"), setting forth such resolution or resolutions and, with respect to each such series, (i) establishing the number of shares to be included therein and (ii) fixing (x) the voting powers, full or limited, or no voting power of the shares thereof, and (y) the designation, preferences and relative, participating, optional or other special rights, if any, of the shares thereof and any qualifications, limitations or restrictions with respect thereto. The powers, designation, preferences and relative, participating, optional and other special rights of each series of Preferred Stock, and the qualifications, limitations and restrictions thereof, if any, may differ from those of any and all other series at any time outstanding.

The authority of the Board with respect to each series of Preferred Stock shall include, but not be limited to, the determination of the following:

1. the designation of the series, which may be by distinguishing number, letter or title;
2. the number of shares of the series, which number the Board is authorized to thereafter (except where otherwise provided in the Preferred Stock Designation) increase or decrease (but not below the number of shares thereof then outstanding);
3. the amounts or rates at which dividends will be payable on, and the preferences, if any, of shares of the series in respect of dividends, and whether such dividends, if any, shall be cumulative or noncumulative;
4. the dates on which dividends, if any, shall be payable;
5. the redemption rights and price or prices, if any, for shares of the series;
6. the terms and amount of any sinking fund, if any, provided for the purchase or redemption of shares of the series;
7. the amounts payable on, and the preferences, if any, of shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation;
8. whether the shares of the series shall be convertible into or exchangeable for, shares of any other class or series, or any other security, of the Corporation or any other corporation, and, if so, the specification of such other class or series or such other security, the conversion or exchange price or prices or rate or rates, any adjustments thereof, the date or dates at which such shares shall be convertible or exchangeable and all other terms and conditions upon which such conversion or exchange may be made;
9. restrictions on the issuance of shares of the same series or any other class or series;

10. the voting rights, if any, of the holders of shares of the series generally or upon specified events; and

11. any other powers, preferences and relative, participating, optional or other special rights of each series of Preferred Stock, and any qualifications, limitations or restrictions thereof, all as may be determined from time to time by resolution or resolutions of the Board providing for the issuance of such series of Preferred Stock and set forth in the Preferred Stock Designation in respect thereof.

Without limiting the generality of the foregoing, the resolutions providing for issuance of any series of Preferred Stock may provide that such series shall be superior or rank equally or be junior to any other series of Preferred Stock to the extent permitted by law.

C. [Reserved.]

FIFTH: This Article FIFTH is inserted for the management of the business and for the conduct of the affairs of the Corporation.

A. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board, except as otherwise provided by law.

B. Number of Directors; Election of Directors. Subject to the rights of the holders of any series of Preferred Stock to elect Additional Preferred Directors (as defined below), the number of directors of the Corporation shall not be fewer than three and shall be fixed from time to time by resolution of the Board. Other than directors who may be elected by the holders of shares of any series of Preferred Stock, each director shall be elected by the vote of the majority of the votes cast with respect to that director's election at any meeting for the election of directors at which a quorum is present, provided that if, as of the tenth day preceding the date the Corporation first mails its notice of meeting for such meeting to the stockholders of the Corporation, the number of nominees exceeds the number of directors to be elected, then the directors shall be elected by the vote of a plurality of the votes cast. For purposes of this Section B of Article FIFTH, a majority of the votes cast shall mean that the number of votes cast "for" a director's election exceeds the number of votes cast "against" that director's election (with "abstentions" and "broker nonvotes" not counted as votes cast either "for" or "against" any director's election).

C. Terms of Office.

Commencing at the annual meeting of stockholders that is held in calendar year 2022, (the "2022 Annual Meeting"), directors shall be elected annually to serve for a term of one year. Notwithstanding the foregoing, that any director in office at the 2022 Annual Meeting whose term expires at the annual meeting of stockholders to be held in calendar year 2023 or calendar year 2024 (a "Continuing Classified Director") shall continue to hold office until the end of the term of which such director was elected and until such director's successor shall have been elected and qualified. Accordingly, at the 2022 Annual Meeting, the successors of the directors whose terms expire at that meeting shall be elected for a term expiring at the annual meeting of stockholders that is held in calendar year 2023 and until such directors' successors shall have been elected and qualified. At the annual meeting of stockholders that is held in calendar year 2023, the successors of the directors whose terms expire at that meeting shall be elected for a term expiring at the annual meeting of stockholders that is held in calendar year 2024 and until such directors' successors shall have been elected and qualified. At each annual meeting of stockholders thereafter, all directors shall be elected for terms expiring at the next annual meeting of stockholders and each director shall hold office until his or her successor is duly elected and qualified, subject to his or her earlier death, disability, disqualification, resignation or removal.

During any period when the holders of any series of Preferred Stock have the right to elect additional directors (the additional directors elected by the separate vote of such holders following such event, the "Additional Preferred Directors") as provided for or fixed pursuant to the provisions of this Certificate of Incorporation (including pursuant to a Preferred Stock Designation), then upon commencement and for the duration of the period during which such right continues: (i) the then otherwise total authorized number of directors of the Corporation shall automatically be increased by such specified number of directors, and the holders of such Preferred Stock shall be entitled to elect the Additional Preferred Directors so provided for or fixed pursuant to said provisions and (ii) each such Additional Preferred Director shall serve until such director's successor shall have been duly elected and qualified, or until such director's right to hold such office terminates pursuant to said provisions, whichever occurs earlier, subject to his or her earlier death, disability,



disqualification, resignation or removal. Except as otherwise provided by the Board in the resolution or resolutions establishing such series, whenever the holders of any series of Preferred Stock having such right to elect Additional Preferred Directors are divested of such right pursuant to the provisions of such stock, the terms of office of all such additional directors elected by the holders of such stock, or elected to fill any vacancies resulting from the death, disability, resignation, disqualification or removal of such additional directors, shall forthwith terminate and the total authorized number of directors of the Corporation shall automatically be reduced accordingly.

D. Vacancies. Subject to the rights of holders of any series of Preferred Stock, any newly created directorship or any vacancy on the Board that results from the death, disability, resignation, disqualification or removal of any director or from any other cause shall be filled solely by a majority of the directors then in office, although less than a quorum, or by a sole remaining director and shall not be filled by the stockholders. Any director elected to fill a vacancy not resulting from a newly created directorship shall hold office for the remaining term of his or her predecessor and until his or her successor is duly elected and qualified, subject to his or her earlier death, disability, disqualification, resignation or removal.

E. Removal. Subject to the rights of the holders of any series of Preferred Stock (including, without limitation, the right to elect the Additional Preferred Directors), (i) any director or the entire Board may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of shares representing at least a majority of the voting power of the issued and outstanding Common Stock and (ii) any director serving on a committee of the Board may be removed from such committee at any time by the Board.

F. Committees. Pursuant to the bylaws of the Corporation (as amended and/or restated from time to time, the "Bylaws"), the Board may establish one or more committees to which may be delegated any or all of the powers and duties of the Board to the fullest extent permitted by law.

G. Stockholder Nominations and Introduction of Business. Advance notice of stockholder nominations for election of directors and other business to be brought by stockholders before a meeting of stockholders shall be given in the manner provided by the Bylaws.

SIXTH: Unless and except to the extent that the Bylaws shall so require, the election of directors of the Corporation need not be by written ballot.

SEVENTH: To the fullest extent permitted by the DGCL as it now exists and as it may hereafter be amended, no director of the Corporation shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director; provided that nothing contained in this Article SEVENTH shall eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to the provisions of Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit. No repeal or modification of this Article SEVENTH shall apply to or have any adverse effect on any right or protection, or any limitation of the liability, of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

EIGHTH: The Corporation shall, to the fullest extent permitted by the DGCL as it now exists and as it may hereafter be amended, indemnify any person who is or was a director or officer of the Corporation from and against any and all of the expenses, liabilities or other matters referred to in or covered by the DGCL, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under the Bylaws, any statute, agreement, vote of stockholders or disinterested directors or otherwise and shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

The Corporation shall, to the fullest extent permitted by the DGCL as it now exists and as it may hereafter be amended, advance all costs and expenses (including, without limitation, attorneys' fees and expenses) incurred by any current or former director or officer, with respect to any one or more actions, suits or proceedings, whether civil or criminal, administrative or investigative, so long as the Corporation receives from such current or former director or officer an unsecured undertaking to repay such expenses if it shall

ultimately be determined that such director or officer is not entitled to be indemnified by the Corporation under



the DGCL. Such obligation to advance costs and expenses shall include, without limitation, costs and expenses incurred in asserting affirmative defenses, counterclaims and cross claims.

The Corporation may, to the extent authorized from time to time by the Board, grant rights to indemnification and to advancement of expenses to any employee or agent of the Corporation up to the extent that the provisions of this Article EIGHTH permit the indemnification and advancement of expenses of current or former directors and officers of the Corporation.

Any repeal or modification of this Article EIGHTH shall not adversely affect any right to indemnification or to advancement of expenses of any person existing at the time of such repeal or modification with respect to any matters occurring prior to such repeal or modification.

NINTH: The Corporation elects not to be governed by or subject to Section 203 of the DGCL.

TENTH: Subject to the terms of any series of Preferred Stock, any action required or permitted to be taken by the stockholders of the Corporation must be effected at an annual or special meeting of the stockholders and may not be effected by written consent in lieu of a meeting.

ELEVENTH: Unless otherwise required by law or by the Certificate of Incorporation, special meetings of stockholders for any purpose or purposes may be called at any time by either (i) the Board or (ii) the Chairperson of the Board, if there be one, and may not be called by any other person or persons. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

TWELFTH: The Corporation reserves the right at any time and from time to time to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and any other provisions authorized by the DGCL may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article TWELFTH. Notwithstanding any other provision of this Certificate of Incorporation or any provision of law that might otherwise permit a lesser vote, but in addition to any vote required by law and subject to the second sentence of Section A(2) of Article FOURTH, this Certificate of Incorporation or any Preferred Stock Designation, the affirmative vote of holders of shares representing at least a majority of the votes that would be entitled to be cast on such matter by the then outstanding shares of all classes and series of capital stock of the Corporation at any annual or special meeting of stockholders, voting together as a single class, shall be required to amend, alter, change or repeal any provision of this Certificate of Incorporation, or to adopt any new provision of this Certificate of Incorporation. Any amendment, repeal, modification or expiration of any of Article SEVENTH, Article EIGHTH and this sentence shall not adversely affect any right or protection of any person existing thereunder with respect to any act or omission occurring prior to such repeal or modification.

THIRTEENTH: [Reserved.]

FOURTEENTH: In furtherance and not in limitation of the powers conferred upon it by the laws of the State of Delaware, the Board shall have the power to adopt, amend, alter or repeal the Bylaws. The Bylaws may also be adopted, amended, altered or repealed by the affirmative vote of the holders of at least a majority of the votes that would be entitled to be cast on such matter by the then outstanding shares of all classes and series of capital stock of the Corporation, at any annual or special meeting or stockholders, voting together as a single class. In addition to the powers and authority herein or by statute expressly conferred upon them, the Board is hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject to the provisions of the DGCL and the Certificate of Incorporation.

FIFTEENTH: Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or other employee or stockholder of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, this Certificate of Incorporation or the

Bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware, or

(iv) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article FIFTEENTH.

SIXTEENTH: Except as otherwise defined in this Certificate of Incorporation, the following terms shall have the meanings ascribed to them below:

A. "beneficial ownership" (or words or phrases of similar import) shall have the meaning given to such term in Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended.

B. "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract, or otherwise. A person who is the owner of 10% or more of the outstanding voting stock of any corporation, partnership, limited liability company, unincorporated association or other entity shall be presumed to have control of such entity, in the absence of proof by a preponderance of the evidence to the contrary.

C. "person" shall mean a natural person, corporation, partnership, limited liability company, joint venture, association or legal entity of any kind; each reference to a "natural person" (or to a "record holder" of shares, if a natural person) shall be deemed to include in his or her representative capacity a guardian, committee, executor, administrator or other legal representative of such natural person or record holder.

*[Remainder of Page Intentionally Left Blank]*





**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 Quarterly Report on Form 10-Q of Floor & Decor Holdings, Inc. for the fiscal quarter ended July 1, 2021;
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 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 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.

te: August 05, 2021

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

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Trevor S. Lang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Floor & Decor Holdings, Inc. for the fiscal quarter ended July 1, 2021;
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 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 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: August 05, 2021

/s/ Trevor S. Lang

Trevor S. Lang

*Executive Vice President and Chief Financial Officer*

*(Principal Financial Officer and Principal Accounting Officer)*

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2021 of Floor & Decor Holdings, Inc. (the "Company") as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), Thomas V. Taylor, as Chief Executive Officer of the Company, and Trevor S. Lang, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that, to the best of his knowledge:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 05, 2021

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

Date: August 05, 2021

/s/ Trevor S. Lang  
\_\_\_\_\_  
Trevor S. Lang  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer and Principal Accounting Officer)*

A signed original of this written statement as required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.