# 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 June 29, 2023**

**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** | **27-3730271** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **2500 Windy Ridge Parkway SE**<br>**Atlanta, Georgia** | **30339** |
| (Address of principal executive offices) | (Zip Code) |
| **(404) 471-1634** | **Not Applicable** |
| (Registrant's telephone number, including area code) | (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 | ☒ | Accelerated Filer | ☐ |
| Non-Accelerated Filer | ☐ | Smaller Reporting Company | ☐ |
| | | Emerging Growth Company | ☐ |

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

Indicate by check mark whether the registrant 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 July 31, 2023 |
|---|---|
| Class A common stock, $0.001 par value per share | 106,442,578 |

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**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 our future operating results and financial position, expectations related to our acquisition of Spartan Surfaces, Inc. (“Spartan”), business strategy and plans, objectives of management for future operations, are forward-looking statements. These statements are based on our current expectations, assumptions, estimates, and projections. These statements involve known and unknown risks, uncertainties, and other important factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Forward-looking statements are based on management’s current expectations and assumptions regarding the Company’s business, the economy, and other future conditions, including the impact of natural disasters on sales. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “seeks,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “budget,” “potential,” or “continue” or the negative of these terms or other similar expressions.

The forward-looking statements contained in this 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 confidence and spending, and the housing market, including as a result of rising inflation or interest rates;
- demand fluctuations in the housing industry, and demand for our products and services, may be adversely affected by unfavorable economic conditions, including rising interest rates, inflation, a decline in disposable income levels, and recession fears;
- an economic recession or depression;
- global inflationary pressures on raw materials, energy, commodity, transportation, and other costs could cause our vendors to seek further price increases on the products we sell;
- any disruption in our supply chain, including carrier capacity constraints, port congestion, higher shipping, rail, and trucking prices, and other supply chain costs or product shortages;
- our failure to successfully anticipate consumer preferences and demand;
- our inability to pass along cost increases at rates consumers are willing to pay, or reduced demand due to pricing increases;
- our inability to manage our growth;
- our inability to manage costs and risks relating to new store openings;
- our inability to find available locations for our stores on terms acceptable to us;
- demand for our products and services may be adversely affected by unfavorable economic conditions;
- any disruption in our distribution capabilities, including from difficulties operating our distribution centers;
- our failure to execute our business strategy effectively and deliver value to our customers;
- our inability to find, train, and retain key personnel;
- the resignation, incapacitation, or death of any key personnel;
- the inability to staff our stores and distribution centers sufficiently;
- the effects of weather conditions, natural disasters, or other unexpected events, including global health crises, such as the COVID-19 pandemic, may disrupt our operations;
- our dependence on foreign imports for the products we sell, which may include the impact of tariffs and other duties;

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

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

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

| *in thousands, except for share and per share data* | As of June 29, 2023 | As of December 29, 2022 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,171 | $ 9,794 |
| Income taxes receivable | 14,085 | 7,325 |
| Receivables, net | 88,201 | 94,732 |
| Inventories, net | 1,172,486 | 1,292,336 |
| Prepaid expenses and other current assets | 56,590 | 53,298 |
| **Total current assets** | 1,335,533 | 1,457,485 |
| Fixed assets, net | 1,443,504 | 1,258,056 |
| Right-of-use assets | 1,257,684 | 1,205,636 |
| Intangible assets, net | 155,733 | 152,353 |
| Goodwill | 258,861 | 255,473 |
| Deferred income tax assets, net | 15,658 | 11,265 |
| Other assets | 8,497 | 10,974 |
| **Total long-term assets** | 3,139,937 | 2,893,757 |
| **Total assets** | $ 4,475,470 | $ 4,351,242 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Current portion of term loan | $ 2,103 | $ 2,103 |
| Current portion of lease liabilities | 118,960 | 105,693 |
| Trade accounts payable | 664,679 | 590,883 |
| Accrued expenses and other current liabilities | 316,057 | 298,019 |
| Deferred revenue | 14,384 | 10,060 |
| **Total current liabilities** | 1,116,183 | 1,006,758 |
| Term loan | 195,145 | 195,351 |
| Revolving line of credit | 35,000 | 210,200 |
| Lease liabilities | 1,276,927 | 1,227,507 |
| Deferred income tax liabilities, net | 32,093 | 41,520 |
| Other liabilities | 10,343 | 12,730 |
| **Total long-term liabilities** | 1,549,508 | 1,687,308 |
| **Total liabilities** | 2,665,691 | 2,694,066 |
| Commitments and contingencies (Note 5) | | |
| **Stockholders' equity** | | |
| Capital stock: | | |
| Preferred stock, $0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at June 29, 2023 and December 29, 2022 | — | — |
| Common stock Class A, $0.001 par value; 450,000,000 shares authorized; 106,390,951 shares issued and outstanding at June 29, 2023 and 106,150,661 issued and outstanding at December 29, 2022 | 106 | 106 |
| Common stock Class B, $0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at June 29, 2023 and December 29, 2022 | — | — |
| Common stock Class C, $0.001 par value; 30,000,000 shares authorized; 0 shares issued and outstanding at June 29, 2023 and December 29, 2022 | — | — |
| Additional paid-in capital | 492,914 | 482,312 |
| Accumulated other comprehensive income, net | 3,362 | 4,337 |
| Retained earnings | 1,313,397 | 1,170,421 |
| **Total stockholders' equity** | 1,809,779 | 1,657,176 |
| **Total liabilities and stockholders' equity** | $ 4,475,470 | $ 4,351,242 |

See accompanying notes to condensed consolidated financial statements.

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

| *in thousands, except for per share data* | Thirteen Weeks Ended June 29, 2023 | Thirteen Weeks Ended June 30, 2022 | Twenty-six Weeks Ended June 29, 2023 | Twenty-six Weeks Ended June 30, 2022 |
|---|---|---|---|---|
| Net sales | $ 1,135,899 | $ 1,089,846 | $ 2,257,951 | $ 2,118,580 |
| Cost of sales | 656,266 | 653,564 | 1,309,200 | 1,274,240 |
| Gross profit | 479,633 | 436,282 | 948,751 | 844,340 |
| Operating expenses: | | | | |
| Selling and store operating | 311,406 | 268,202 | 615,077 | 517,702 |
| General and administrative | 63,279 | 53,107 | 125,190 | 107,752 |
| Pre-opening | 9,974 | 8,563 | 17,994 | 18,504 |
| Total operating expenses | 384,659 | 329,872 | 758,261 | 643,958 |
| Operating income | 94,974 | 106,410 | 190,490 | 200,382 |
| Interest expense, net | 2,898 | 1,672 | 7,760 | 2,834 |
| Income before income taxes | 92,076 | 104,738 | 182,730 | 197,548 |
| Income tax expense | 20,624 | 22,906 | 39,754 | 44,765 |
| Net income | $ 71,452 | $ 81,832 | $ 142,976 | $ 152,783 |
| Change in fair value of hedge instruments, net of tax | (126) | 822 | (975) | 2,376 |
| Total comprehensive income | $ 71,326 | $ 82,654 | $ 142,001 | $ 155,159 |
| Basic earnings per share | $ 0.67 | $ 0.78 | $ 1.35 | $ 1.45 |
| Diluted earnings per share | $ 0.66 | $ 0.76 | $ 1.33 | $ 1.42 |

See accompanying notes to condensed consolidated financial statements.

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

| *in thousands* | Common Stock Class A Shares | Common Stock Class A Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 30, 2022 | 106,151 | $ 106 | $ 482,312 | $ 4,337 | $ 1,170,421 | $ 1,657,176 |
| Stock-based compensation expense | — | — | 6,741 | — | — | 6,741 |
| Exercise of stock options | 79 | — | 2,130 | — | — | 2,130 |
| Issuance of common stock upon vesting of restricted stock units | 117 | — | — | — | — | — |
| Shares issued under employee stock purchase plan | 43 | — | 2,558 | — | — | 2,558 |
| Common stock redeemed for tax liability | (119) | — | (10,863) | — | — | (10,863) |
| Other comprehensive loss, net of tax | — | — | — | (849) | — | (849) |
| Net income | — | — | — | — | 71,524 | 71,524 |
| Balance, March 30, 2023 | 106,271 | $ 106 | $ 482,878 | $ 3,488 | $ 1,241,945 | $ 1,728,417 |
| Stock-based compensation expense | — | — | 8,306 | — | — | 8,306 |
| Exercise of stock options | 123 | — | 2,728 | — | — | 2,728 |
| Issuance of common stock upon vesting of restricted stock units | 8 | — | — | — | — | — |
| Common stock redeemed for tax liability | (11) | — | (998) | — | — | (998) |
| Other comprehensive loss, net of tax | — | — | — | (126) | — | (126) |
| Net income | — | — | — | — | 71,452 | 71,452 |
| Balance, June 29, 2023 | 106,391 | $ 106 | $ 492,914 | $ 3,362 | $ 1,313,397 | $ 1,809,779 |

| *in thousands* | Common Stock Class A Shares | Common Stock Class A Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2021 | 105,761 | $ 106 | $ 450,332 | $ 535 | $ 872,226 | $ 1,323,199 |
| Stock-based compensation expense | — | — | 5,980 | — | — | 5,980 |
| Exercise of stock options | 32 | — | 577 | — | — | 577 |
| Issuance of common stock upon vesting of restricted stock units | 47 | — | — | — | — | — |
| Shares issued under employee stock purchase plan | 21 | — | 1,963 | — | — | 1,963 |
| Common stock redeemed for tax liability | (19) | — | (1,807) | — | — | (1,807) |
| Other comprehensive gain, net of tax | — | — | — | 1,554 | — | 1,554 |
| Net income | — | — | — | — | 70,951 | 70,951 |
| Balance, March 31, 2022 | 105,842 | $ 106 | $ 457,045 | $ 2,089 | $ 943,177 | $ 1,402,417 |
| Stock-based compensation expense | — | — | 4,889 | — | — | 4,889 |
| Exercise of stock options | 209 | — | 4,599 | — | — | 4,599 |
| Forfeiture of restricted stock awards | (59) | — | — | — | — | — |
| Issuance of common stock upon vesting of restricted stock units | 5 | — | — | — | — | — |
| Common stock redeemed for tax liability | (4) | — | (273) | — | — | (273) |
| Other comprehensive gain, net of tax | — | — | — | 822 | — | 822 |
| Net income | — | — | — | — | 81,832 | 81,832 |
| Balance, June 30, 2022 | 105,993 | $ 106 | $ 466,260 | $ 2,911 | $ 1,025,009 | $ 1,494,286 |

See accompanying notes to condensed consolidated financial statements.

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

| | Twenty-six Weeks Ended | |
|---|---|---|
| *in thousands* | June 29, 2023 | June 30, 2022 |
| **Operating activities** | | |
| Net income | $ 142,976 | $ 152,783 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 96,028 | 72,566 |
| Stock-based compensation expense | 15,047 | 10,869 |
| Change in fair value of contingent earn-out liabilities | 1,787 | 1,389 |
| Deferred income taxes | (13,480) | 2,475 |
| Interest cap derivative contracts | 57 | 57 |
| Loss on asset impairments and disposals, net | 765 | — |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Receivables, net | 12,595 | (15,936) |
| Inventories, net | 128,554 | (335,968) |
| Trade accounts payable | 84,885 | 110,923 |
| Accrued expenses and other current liabilities | 6,579 | 26,174 |
| Income taxes | (6,755) | (10,681) |
| Deferred revenue | 4,324 | 5,728 |
| Other, net | 3,283 | (12,526) |
| Net cash provided by operating activities | 476,645 | 7,853 |
| **Investing activities** | | |
| Purchases of fixed assets | (279,175) | (214,283) |
| Acquisitions, net of cash acquired | (17,156) | (1,121) |
| Proceeds from sales of property | — | 4,773 |
| Net cash used in investing activities | (296,331) | (210,631) |
| **Financing activities** | | |
| Payments on term loans | (1,051) | (1,577) |
| Borrowings on revolving line of credit | 384,200 | 336,800 |
| Payments on revolving line of credit | (559,400) | (268,200) |
| Payments of contingent earn-out liabilities | (5,241) | (2,571) |
| Proceeds from exercise of stock options | 4,858 | 5,176 |
| Proceeds from employee stock purchase plan | 2,558 | 1,963 |
| Tax payments for stock-based compensation awards | (11,861) | (2,080) |
| Net cash (used in) provided by financing activities | (185,937) | 69,511 |
| Net decrease in cash and cash equivalents | (5,623) | (133,267) |
| Cash and cash equivalents, beginning of the period | 9,794 | 139,444 |
| Cash and cash equivalents, end of the period | $ 4,171 | $ 6,177 |
| **Supplemental disclosures of cash flow information** | | |
| Buildings and equipment acquired under operating leases | $ 112,554 | $ 133,237 |
| Cash paid for interest, net of capitalized interest | $ 7,455 | $ 1,862 |
| Cash paid for income taxes, net of refunds | $ 60,792 | $ 52,943 |
| Fixed assets accrued at the end of the period | $ 116,555 | $ 109,939 |

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 multi-channel specialty retailer and commercial flooring distributor. The Company offers a broad assortment of in-stock hard-surface flooring, including tile, wood, laminate, vinyl, and natural stone along with decorative accessories and wall tile, installation materials, and adjacent categories at everyday low prices. Our stores appeal to a variety of customers, including professional installers and commercial businesses ("Pro"), do it yourself customers ("DIY"), and buy it yourself customers who buy our products for professional installation ("BIY"). We operate within one reportable segment.

As of June 29, 2023, the Company, through its wholly owned subsidiary, Floor and Decor Outlets of America, Inc. ("Outlets"), operates 203 warehouse-format stores, which average 78,000 square feet, and five small-format standalone design studios in 36 states, as well as four distribution centers and an e-commerce site, *FloorandDecor.com.* Substantially all of the Company's operating assets and liabilities are held by Outlets.

***Fiscal Year***

The Company's fiscal year is the 52- or 53-week period ending on the Thursday on or preceding December 31st. The fiscal year ending December 28, 2023 ("fiscal 2023") and the fiscal year ended December 29, 2022 ("fiscal 2022") include 52 weeks. 52-week fiscal years consist of thirteen-week periods in each quarter of the fiscal year. When a 53-week fiscal year occurs, we report the additional week at the end of the fiscal fourth quarter.

***Basis of Presentation***

The accompanying 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 29, 2022 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 2022, filed with the Securities and Exchange Commission (the "SEC") on February 23, 2023 (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 June 29, 2023 are not necessarily indicative of the results to be expected for the full year.

***Summary of Significant Accounting Policies***

There were no significant changes to our Significant Accounting Policies as disclosed in 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.

***Recently Adopted Accounting Pronouncements***

*Supplier Finance Programs.* In September 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2022-04, *"Liabilities - Supplier Finance Programs (Subtopic 405-50)."* The ASU requires disclosure of the key terms of outstanding supply chain finance programs and a rollforward of the related amounts due to vendors participating in these programs. The adoption of ASU 2022-04 did not affect the Company's financial position, results of operations, or cash flows as the standard only impacts financial statement footnote disclosures. The guidance is effective in the first quarter of fiscal 2023, except for a rollforward of activity within supply chain finance programs, which is effective beginning in fiscal 2024. For additional information, refer to Note 9, "Supply Chain Finance Program."

*Business Combinations.* In October 2021, the FASB issued ASU No. 2021-08, "*Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*." The ASU addresses diversity and inconsistency related to the recognition and measurement of contract assets and contract liabilities acquired in a business combination and requires that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. The Company adopted ASU No, 2021-08 in the first quarter of 2023 on a prospective basis. The adoption of ASU No. 2021-08 did not have a material impact on the Company's consolidated financial statements or related disclosures and is only applicable to the extent that the Company has future business combinations.

***Recently Issued Accounting Pronouncements***

*Leases*. In March 2023, the FASB issued ASU No. 2023-01, "*Leases (Topic 842), Common Control Arrangements*". The amendments in the ASU applying to public business entities clarifies the accounting for leasehold improvements associated with common control leases, reducing diversity in practice and providing investors with financial information that will better reflect the economics of those transactions. This guidance in ASU No. 2023-01 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, and can be applied prospectively to all new leasehold improvements, prospectively to all new and existing leasehold improvements, or retrospectively to the beginning of the period in which the entity first applied Topic 842. Early adoption of the standard is permitted, including adoption in an interim period. The adoption of ASU 2023-01 is not expected to have an impact on the Company's consolidated financial statements or related disclosures and would only be applicable to the extent that the Company has future common control leases.

**2. Revenue**

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

***Deferred Revenue & Contract Liabilities***

In accordance with Accounting Standards Codification ("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 June 29, 2023 and December 29, 2022 primarily consisted of deferred revenue as well as amounts in accrued expenses and other current liabilities related to the Pro Premier Rewards loyalty program and unredeemed gift cards. As of June 29, 2023, contract liabilities totaled $68.1 million and included $14.4 million of deferred revenue, $39.8 million of loyalty program liabilities, and $13.9 million of unredeemed gift cards. As of December 29, 2022, contract liabilities totaled $57.0 million and included $10.1 million of deferred revenue, $33.8 million of loyalty program liabilities, and $13.1 million of unredeemed gift cards. Of the contract liabilities outstanding as of December 29, 2022, approximately $14.7 million was recognized in revenue during the twenty-six weeks ended June 29, 2023.

***Disaggregated Revenue***

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

| | Thirteen Weeks Ended | | | |
|---|---|---|---|---|
| | June 29, 2023 | | June 30, 2022 | |
| *Product Category* | Net Sales | % of Net Sales | Net Sales | % of Net Sales |
| Laminate and vinyl | $ 299,349 | 26 % | $ 299,610 | 27 % |
| Tile | 271,263 | 24 | 248,295 | 23 |
| Installation materials and tools | 208,448 | 18 | 178,319 | 16 |
| Decorative accessories and wall tile | 190,779 | 17 | 190,966 | 18 |
| Wood | 64,340 | 6 | 71,489 | 7 |
| Natural stone | 53,885 | 5 | 55,248 | 5 |
| Adjacent categories | 20,013 | 2 | 17,837 | 2 |
| Other (1) | 27,822 | 2 | 28,082 | 2 |
| Total | $ 1,135,899 | 100 % | $ 1,089,846 | 100 % |

| | Twenty-six Weeks Ended | | | |
|---|---|---|---|---|
| | June 29, 2023 | | June 30, 2022 | |
| *Product Category* | Net Sales | % of Net Sales | Net Sales | % of Net Sales |
| Laminate and vinyl | $ 598,727 | 27 % | $ 581,845 | 27 % |
| Tile | 535,848 | 24 | 478,906 | 23 |
| Installation materials and tools | 410,517 | 18 | 346,164 | 16 |
| Decorative accessories and wall tile | 389,357 | 17 | 382,001 | 18 |
| Wood | 126,562 | 6 | 143,435 | 7 |
| Natural stone | 108,910 | 5 | 108,704 | 5 |
| Adjacent categories | 40,025 | 1 | 34,025 | 2 |
| Other (1) | 48,005 | 2 | 43,500 | 2 |
| Total | $ 2,257,951 | 100 % | $ 2,118,580 | 100 % |

*(1) Other includes delivery, sample, and other product revenue and adjustments for deferred revenue, sales returns reserves, and other revenue related adjustments that are not allocated on a product-level basis.*

**3. Debt**

The following table summarizes the Company's long-term debt as of June 29, 2023 and December 29, 2022:

| *in thousands* | Maturity Date | Interest Rate Per Annum at June 29, 2023 (1) | | June 29, 2023 | December 29, 2022 |
|---|---|---|---|---|---|
| Credit Facilities: | | | | | |
| Term Loan Facility | February 14, 2027 | 7.15% | Variable | $ 203,447 | $ 204,499 |
| Asset-based Loan Facility ("ABL Facility") | August 4, 2027 | 6.34% | Variable | 35,000 | 210,200 |
| Total secured debt at par value | | | | 238,447 | 414,699 |
| Less: current maturities | | | | 2,103 | 2,103 |
| Long-term debt maturities | | | | 236,344 | 412,596 |
| Less: unamortized discount and debt issuance costs | | | | 6,199 | 7,045 |
| Total long-term debt | | | | $ 230,145 | $ 405,551 |

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

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

The following table summarizes scheduled maturities of the Company's debt as of June 29, 2023:

| *in thousands* | Amount |
|---|---|
| Twenty-six weeks ending December 28, 2023 | $ 1,051 |
| 2024 | 2,103 |
| 2025 | 2,103 |
| 2026 | 2,629 |
| 2027 | 230,561 |
| Total minimum debt payments | $ 238,447 |

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

| | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|---|---|---|---|---|
| *in thousands* | June 29, 2023 | June 30, 2022 | June 29, 2023 | June 30, 2022 |
| Total interest costs, net of interest income | $ 4,581 | $ 2,650 | $ 10,767 | $ 4,525 |
| Less: interest capitalized | 1,683 | 978 | 3,007 | 1,691 |
| Interest expense, net | $ 2,898 | $ 1,672 | $ 7,760 | $ 2,834 |

***Term Loan Facility***

The Term Loan Facility bears interest at a rate equal to either (a) a base rate determined by reference to the highest of (1) the "Prime Rate," (2) the U.S. federal funds rate plus 0.5% and (3) the one-month Term Secured Overnight Financing Rate ("SOFR") plus 1.0%, or (b) Adjusted Term SOFR, plus, in each case, the Applicable Margin (each term as defined in the Term Loan Facility credit agreement). The Applicable Margin for base rate loans will be between 1.00% and 1.25%, and the Applicable Margin for SOFR loans will be between 2.00% and 2.25% (subject to a floor of 0.00%), in each case, if the Company exceeds certain leverage ratio tests.

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

***ABL Facility***

As of June 29, 2023, the Company's ABL Facility had a maximum availability of $800.0 million with actual available borrowings limited to the sum, at the time of calculation, of (a) eligible credit card receivables multiplied by the credit card advance rate, plus (b) the cost of eligible inventory, net of inventory reserves, multiplied by the applicable appraisal percentage, plus (c) 85% of eligible net trade receivables, plus (d) all eligible cash on hand, plus (e) 100% of the amount for which the eligible letter of credit must be honored after giving effect to any draws, minus certain Availability Reserves (each component as defined in the ABL Facility). The ABL Facility 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. The Company's ABL Facility allows for the Company, under certain circumstances, to increase the size of the facility by an additional amount up to $200.0 million.

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

Net availability under the ABL Facility, as reduced by outstanding borrowings and fees of $35.0 million and letters of credit of $33.3 million, was $699.1 million based on financial data as of June 29, 2023.

***Covenants***

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

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

***Fair Value of Debt***

The estimated fair values and classifications within the fair value hierarchy of the Term Loan Facility and the ABL Facility were as follows as of June 29, 2023 and December 29, 2022:

| *in thousands* | **Fair Value Hierarchy Classification** | **June 29, 2023** | **December 29, 2022** |
|---|---|---|---|
| Term Loan Facility | Level 3 | $ 200,904 | $ 196,575 |
| ABL Facility | Level 2 | 35,000 | 210,200 |
| Total | | $ 235,904 | $ 406,775 |

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

**4. Income Taxes**

Effective tax rates for the thirteen and twenty-six weeks ended June 29, 2023 and June 30, 2022 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 22.4% and 21.9% for the thirteen weeks ended June 29, 2023 and June 30, 2022, respectively, and 21.8% and 22.7% for the twenty-six weeks ended June 29, 2023 and June 30, 2022, respectively. For the thirteen and twenty-six weeks ended June 29, 2023 and June 30, 2022, the effective income tax rates were higher than the statutory federal income tax rate of 21.0% primarily due to state income taxes that were partially offset by tax deductions in excess of book expense related to stock-based compensation awards.

**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 retail locations, distribution centers, and corporate office, which expire in various years through 2048. Most of these agreements are retail leases wherein both the land and building are leased, additionally, the Company has ground leases in which only the land is leased. The initial lease terms for the Company's retail locations, distribution centers, and corporate office typically range from 10-20 years. The majority of the Company's 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, the Company uses a third party to assist in the determination of a secured incremental borrowing rate, determined on a collateralized basis, to discount lease payments based on information available at lease commencement. The secured incremental borrowing rate is estimated based on yields obtained from Bloomberg for U.S. consumers with a BB credit rating and is adjusted for collateralization as well as inflation. As of June 29, 2023 and June 30, 2022, the Company's weighted average discount rate was 5.6% and 5.2%, respectively. As of June 29, 2023 and June 30, 2022, the Company's weighted average remaining lease term was approximately 12 years and 11 years, respectively.

***Lease Costs***

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

| | | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|---|---|---|---|---|---|
| *in thousands* | *Classification* | June 29, 2023 | June 30, 2022 | June 29, 2023 | June 30, 2022 |
| Fixed operating lease cost: | Selling and store operating | $ 38,529 | $ 35,584 | $ 76,673 | $ 69,044 |
| | Cost of sales | 5,213 | 6,323 | 11,471 | 12,824 |
| | Pre-opening | 3,906 | 2,631 | 6,972 | 4,984 |
| | General and administrative | 1,030 | 1,130 | 2,102 | 2,271 |
| Total fixed operating lease cost | | $ 48,678 | $ 45,668 | $ 97,218 | $ 89,123 |
| Variable lease cost (1): | Selling and store operating | $ 15,282 | $ 12,703 | $ 29,768 | $ 24,926 |
| | Cost of sales | 1,039 | 1,236 | 2,158 | 2,655 |
| | Pre-opening | 12 | 73 | 143 | 240 |
| | General and administrative | 316 | 178 | 619 | 404 |
| Total variable lease cost | | $ 16,649 | $ 14,190 | $ 32,688 | $ 28,225 |
| Sublease income | Cost of sales | (681) | (680) | (1,360) | (1,360) |
| Total operating lease cost (2) | | $ 64,646 | $ 59,178 | $ 128,546 | $ 115,988 |

*(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 June 29, 2023 and June 30, 2022.*

***Undiscounted Cash Flows***

Future minimum lease payments under non-cancelable operating leases as of June 29, 2023 were as follows:

| *in thousands* | | **Amount** |
|---|---|---|
| Twenty-six weeks ending December 28, 2023 | $ | 88,570 |
| 2024 | | 202,730 |
| 2025 | | 191,186 |
| 2026 | | 179,308 |
| 2027 | | 171,372 |
| Thereafter | | 1,161,317 |
| Total minimum lease payments (1) (2) | | 1,994,483 |
| Less: amount of lease payments representing interest | | 598,596 |
| Present value of future minimum lease payments | | 1,395,887 |
| Less: current obligations under leases | | 118,960 |
| Long-term lease obligations | $ | 1,276,927 |

*(1) Future lease payments exclude approximately $415.3 million of legally binding minimum lease payments for operating leases signed but not yet commenced.*

*(2) Operating lease payments include $216.2 million related to options to extend lease terms that are reasonably certain of being exercised.*

For the twenty-six weeks ended June 29, 2023 and June 30, 2022, cash paid for operating leases was $93.6 million and $86.7 million, respectively.

***Litigation***

On November 15, 2021, the Company was added as a defendant in a wrongful death lawsuit, Nguyen v. Inspections Now, Inc., No. 21-DCV-287142, pending in the 434th Judicial District Court of Fort Bend County, Texas. Inspections Now, Inc.; Bestview International Company; and Bestview (Fuzhou) Import & Export Co. LTD are also named as defendants in the case. Plaintiff's petition alleges that "wood paneling" allegedly purchased from the Company was installed in the vicinity of plaintiff's fireplace and caught fire while the fireplace was lit. The fire consumed plaintiff's home and resulted in injuries to plaintiff and another occupant and the death of plaintiff's three children and mother. Plaintiff alleges product defect and failure to warn claims against the Company; product defect, failure to warn, and strict liability claims against the Bestview entities; and negligent inspection claims against Inspections Now. Plaintiff's petition seeks damages in excess of $1.0 million for property damage, personal injury, and wrongful death. The petition also seeks exemplary damages. Plaintiff's ex-husband, brother, and the additional occupant have since intervened in the lawsuit. Intervenors allege the same claims against the Company, Inspections Now, and the Bestview entities and collectively seek damages in excess of $11.0 million for property damage, personal injury (as to the other occupant), wrongful death, and exemplary damages. The Company has answered all petitions, denying the allegations, and is seeking dismissal of the lawsuit in favor of a first-filed lawsuit against other defendants (but arising from the same fire) pending in Harris County, Texas. The trial court denied the Company's motion seeking dismissal on February 23, 2023. On March 27, 2023, the Company filed a petition seeking mandamus relief from that ruling in the Court of Appeals for the First Judicial District of Texas, No. 01-23-00225-cv. The petition for mandamus relief remains pending.

On June 18, 2020, an alleged stockholder filed a putative derivative complaint, Lincolnshire Police Pension Fund v. Taylor, et al., No. 2020-0487-JTL, in the Delaware Court of Chancery, purportedly on behalf of the Company against certain of the Company's officers, directors, and stockholders. An amended complaint was filed on September 14, 2022. The Company along with the other defendants filed a motion to dismiss on October 31, 2022. The plaintiffs then filed a second amended complaint on December 22, 2022. On February 6, 2023, the Company, along with the other defendants, filed a motion to dismiss the operative complaint. The complaint alleges breaches of fiduciary duties and unjust enrichment. The factual allegations underlying these claims are similar to the factual allegations made in the previously dismissed In re Floor & Decor Holdings, Inc. Securities Litigation, as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. The complaint seeks unspecified damages and restitution for the Company from the individual defendants and the payment of costs and attorneys' fees.

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

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

**6. Stock-based Compensation**

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

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

| | Twenty-six Weeks Ended | |
|---|---|---|
| *in thousands* | **June 29, 2023** | **June 30, 2022** |
| General and administrative | $ 14,212 | $ 10,869 |
| Selling and store operating | 835 | — |
| Total stock-based compensation expense | $ 15,047 | $ 10,869 |

***Stock Options***

The table below summarizes stock option activity for the twenty-six weeks ended June 29, 2023.

| | **Options** | **Weighted Average Exercise Price** |
|---|---|---|
| Outstanding at December 30, 2022 | 2,101,559 | $ 27.10 |
| Exercised | (201,891) | 24.06 |
| Forfeited or expired | (2,091) | 56.56 |
| Outstanding at June 29, 2023 | 1,897,577 | $ 27.39 |
| Vested and exercisable at June 29, 2023 | 1,795,662 | $ 25.10 |

***Restricted Stock Units***

The Company periodically grants restricted stock units ("RSUs") that represent an unfunded, unsecured right to receive a share of the Company's Class A common stock upon vesting. During the twenty-six weeks ended June 29, 2023, the Company granted RSUs to certain employees, officers, and non-employee directors comprised of service-based RSUs, performance-based RSUs, and total shareholder return ("TSR") awards. Service-based RSUs vest based on the grantee's continued service through the vesting date. The performance-based RSUs cliff vest based on (i) the Company's achievement of predetermined financial metrics at the end of a three-year performance period and (ii) the grantee's continued service through the vesting date. Depending on the performance-based RSU grant and the extent to which the relevant performance goals are achieved, the number of common shares earned upon vesting may range from either 0% to 150% or 0% to 200% of the award granted. The TSR awards cliff vest based on (i) the Company's relative TSR compared to a specified peer group and (ii) the grantee's continued service through the vesting date. The number of common shares earned upon vesting of the TSR awards may range from 0% to 150% of the TSR awards granted with no vesting above the target awards amount if the Company's three-year absolute TSR is negative. The Company assesses the probability of achieving all performance goals on a quarterly basis. The service periods for RSUs granted during the period varies by grantee and ranges between approximately two to four years from the grant date.

The following table summarizes restricted stock unit activity during the twenty-six weeks ended June 29, 2023:

| | Restricted Stock Units | | | |
|---|---|---|---|---|
| | Service-based | Performance-based | Total shareholder return | Total Restricted Stock Units |
| Unvested at December 30, 2022 | 408,829 | 36,117 | — | 444,946 |
| Granted | 367,111 | 188,543 | 58,854 | 614,508 |
| Vested | (125,141) | — | — | (125,141) |
| Forfeited | (12,612) | (36,117) | — | (48,729) |
| Unvested at June 29, 2023 | 638,187 | 188,543 | 58,854 | 885,584 |

The aggregate fair value for all restricted stock units granted during the twenty-six weeks ended June 29, 2023 was $16.0 million. The grant-date fair value of service-based RSUs and performance-based RSUs is based on the closing market price of the Company's Class A common stock on the date of grant. The grant-date fair value of TSR awards is estimated using a Monte Carlo valuation method, which included the following assumptions for TSR awards granted during the period:

| | Twenty-six Weeks Ended June 29, 2023 |
|---|---|
| Expected term (in years) | 2.8 |
| Risk-free interest rate | 4.5 % |
| Expected volatility | 49.5 % |
| Dividend yield | — % |

***Restricted Stock Awards***

The following table summarizes restricted stock award activity during the twenty-six weeks ended June 29, 2023:

| | Restricted Stock Awards | | | |
|---|---|---|---|---|
| | Service-based | Performance-based (1) | Total shareholder return (1) | Total Restricted Stock Awards |
| Unvested at December 30, 2022 | 103,326 | 134,318 | 87,517 | 325,161 |
| Vested | (68,334) | (86,656) | (56,461) | (211,451) |
| Unvested at June 29, 2023 | 34,992 | 47,662 | 31,056 | 113,710 |

*(1) The performance-based and total shareholder return restricted stock awards that vested during the period were issued at 100% of target based on achievement of the predetermined performance and total shareholder return criteria as specified in the underlying grant agreements.*

### 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:

| | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|---|---|---|---|---|
| *in thousands, except per share data* | June 29, 2023 | June 30, 2022 | June 29, 2023 | June 30, 2022 |
| Net income | $ 71,452 | $ 81,832 | $ 142,976 | $ 152,783 |
| Basic weighted average shares outstanding | 106,206 | 105,545 | 106,084 | 105,471 |
| Dilutive effect of share-based awards | 1,599 | 1,755 | 1,680 | 1,960 |
| Diluted weighted average shares outstanding | 107,805 | 107,300 | 107,764 | 107,431 |
| Basic earnings per share | $ 0.67 | $ 0.78 | $ 1.35 | $ 1.45 |
| Diluted earnings per share | $ 0.66 | $ 0.76 | $ 1.33 | $ 1.42 |

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

| | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|---|---|---|---|---|
| *in thousands* | June 29, 2023 | June 30, 2022 | June 29, 2023 | June 30, 2022 |
| Stock options | 56 | 73 | 56 | 71 |
| Restricted stock | — | 12 | — | — |
| Restricted stock units | 251 | 318 | 255 | 225 |

### 8. Fair Value Measurements

As of June 29, 2023 and December 29, 2022, the Company had certain financial assets and liabilities on its Condensed Consolidated Balance Sheets that were required to be measured at fair value on a recurring or non-recurring basis. The estimated fair values of financial assets and liabilities such as cash and cash equivalents, receivables, prepaid expenses and other current assets, other assets, accounts payable, and accrued expenses and other current liabilities approximate their respective carrying values as reported within the Condensed Consolidated Balance Sheets. See Note 3, “Debt” for discussion of the fair value of the Company’s debt.

*Contingent Earn-out Liabilities*

As of June 29, 2023, the contingent earn-out liabilities had an aggregate estimated fair value of $11.6 million (classified as Level 3 within the fair value hierarchy), of which $5.8 million is included in other liabilities and $5.8 million is included in accrued expenses and other current liabilities within the Condensed Consolidated Balance Sheets.

The table below summarizes changes in contingent earn-out liabilities during the twenty-six weeks ended June 29, 2023.

| *in thousands* | | Contingent Earn-out Liabilities |
|---|---|---|
| Balance at December 29, 2022 | $ | 11,019 |
| Acquisition (1) | | 4,000 |
| Fair value adjustments | | 1,787 |
| Payments | | (5,241) |
| Balance at June 29, 2023 | $ | 11,565 |

*(1) During the twenty-six weeks ended June 29, 2023, the Company acquired a commercial flooring and installation supplies distributor for total consideration of $ 21.2 million, including $17.2 million of cash and $4.0 million of contingent earn-out consideration. Payout of the contingent consideration is subject to the acquired company's achievement of certain annual gross margin and gross profit targets in fiscal years 2023 through 2025. A portion of these earn-out opportunities is payable each year subject to achievement of the applicable performance targets for that year, with the maximum payout requiring that each of the individual annual targets are met. Refer to Note 10, "Acquisition" for additional information.*

The $1.8 million net increase in the fair value of contingent earn-out liabilities during the twenty-six weeks ended June 29, 2023 was recognized in general and administrative expense within the Condensed Consolidated Statements of Operations and Comprehensive Income.

*Interest Rate Cap Contracts*

Changes in interest rates impact the Company's results of operations. In an effort to manage exposure to this risk, the Company enters into derivative contracts and may adjust its derivative portfolio as market conditions change.

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

The Company's outstanding interest rate cap contracts were valued primarily using Level 2 inputs based on data readily observable in public markets. The Company's interest rate cap contracts were negotiated with counterparties without going through a public exchange. Accordingly, the Company's fair value assessments for these derivative contracts gave consideration to the risk of counterparty default as well as the Company's own credit risk. As of June 29, 2023 and December 29, 2022, the total fair value of the Company's interest rate cap contracts was approximately $4.5 million and $5.9 million, respectively, which are presented as a component of AOCI within stockholders' equity on the Condensed Consolidated Balance Sheets net of tax of $1.0 million and $1.4 million, respectively. During the thirteen and twenty-six weeks ended June 29, 2023, the Company reclassified $1.2 million and $2.3 million, respectively, of interest income from AOCI into earnings related to the interest rate cap contractsNo interest income was reclassified from AOCI into earnings during the thirteen and twenty-six weeks ended June 30, 2022.

**9. Supply Chain Finance**

The Company facilitates supply chain finance programs through financial intermediaries, which provide certain suppliers the option to be paid by the financial intermediaries earlier than the due date on the applicable invoice. When a supplier utilizes one of the supply chain finance programs and receives an early payment from a financial intermediary, it takes a discount on the invoice. The Company then pays the financial intermediary the invoice on the original due date. The Company does not reimburse suppliers for any costs they incur for participation in the program. Supplier participation is voluntary, and there are no assets pledged as security or other forms of guarantees provided for the committed payment to the financial intermediaries. As a result, all amounts owed to the financial intermediaries are presented as trade accounts payable in the Condensed Consolidated Balance Sheets. Amounts due to the financial intermediaries reflected in trade accounts payable at June 29, 2023 and December 29, 2022 were $95.7 million and $82.5 million, respectively.

**10. Acquisition**

As part of the Company's continued expansion into commercial flooring, the Company acquired commercial flooring and installation supplies distributor Salesmaster Associates, Inc. ("Salesmaster") on June 7, 2023 ("acquisition date"). Total estimated consideration for the acquisition was $21.2 million, including $17.2 million of cash and $4.0 million of contingent consideration (refer to Note 7, "Fair Value Measurements" for additional information regarding the contingent consideration). The acquisition was accounted for in accordance with ASC 805, *Business Combinations*, and, accordingly, Salesmaster'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 2023 attributable to Salesmaster 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 $0.9 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 June 29, 2023.

In accordance with ASC 805, the Company provisionally recorded the following assets and liabilities at their preliminary estimated fair values on the acquisition date: $12.3 million of net working capital consisting primarily of inventory and receivables, $6.0 million of lease right-of-use assets and fixed assets, $5.0 million of customer relationships, $3.4 million of goodwill, and $5.5 million of operating lease liabilities. The preliminary fair value of the customer relationships was determined with assistance from a third-party valuation specialist using the multi-period excess earnings method and included significant assumptions such as the amount and timing of projected cash flows, growth rates, customer attrition rates, and discount rates, resulting in a Level 3 classification within the fair value hierarchy. The customer relationships will be amortized over an estimated useful life of 12 years.

The goodwill arising from the acquisition is primarily attributable to operational synergies and acceleration of growth strategies. The goodwill and intangible assets from the Salesmaster acquisition are fully 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 29, 2022 and filed with the Securities and Exchange Commission (the "SEC") on February 23, 2023 (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.*

**Overview**

Founded in 2000, Floor & Decor is a high-growth, differentiated, multi-channel specialty retailer and commercial distributor of hard surface flooring and related accessories with 203 warehouse-format stores across 36 states as of June 29, 2023. 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 buy it yourself customers who buy the products for professional installation ("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 thirteen and twenty-six weeks ended June 29, 2023 and June 30, 2022, respectively.

During the twenty-six weeks ended June 29, 2023, we continued to make long-term key strategic investments, including:

- opening 12 new warehouse-format stores, ending the quarter with 203 warehouse-format stores and five design studios;
- continuing our strategic expansion into commercial flooring through our acquisition of Salesmaster, a commercial flooring and installation supplies distributor that primarily serves end users and flooring contractors in New York City and certain New England markets (refer to Note 10, "Acquisition" for additional details);
- focusing on innovative new products and localized assortments, supported by inspirational in-store and online visual merchandising solutions;
- investing in our Pro, connected customer, in-store designer, customer relationship, and store focused technology;
- adding more resources dedicated to serving our Pro customers, including hiring professional external sales staff to drive more commercial sales; and
- investing capital to continue enhancing the in-store shopping experience for our customers.

**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. 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").

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**

See Item 1A., "Risk Factors" for information about the potential impacts that risks, such as global supply chain disruptions, inflation, geopolitical instability, and COVID-19, among others, may have on our results of operations and overall financial performance for future periods.

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

| | Thirteen Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 29, 2023 | | June 30, 2022 | | Increase (Decrease) | |
| *dollars in thousands* | Amount | % of Net Sales | Amount | % of Net Sales | $ | % |
| Net sales | $ 1,135,899 | 100.0 % | $ 1,089,846 | 100.0 % | $ 46.1 | 4.2 % |
| Cost of sales | 656,266 | 57.8 | 653,564 | 60.0 | 2.7 | 0.4 % |
| Gross profit | 479,633 | 42.2 | 436,282 | 40.0 | 43.4 | 9.9 % |
| Operating expenses: | | | | | | |
| Selling and store operating | 311,406 | 27.4 | 268,202 | 24.5 | 43.2 | 16.1 % |
| General and administrative | 63,279 | 5.5 | 53,107 | 4.9 | 10.2 | 19.2 % |
| Pre-opening | 9,974 | 0.9 | 8,563 | 0.8 | 1.4 | 16.5 % |
| Total operating expenses | 384,659 | 33.8 | 329,872 | 30.2 | 54.8 | 16.6 % |
| Operating income | 94,974 | 8.4 | 106,410 | 9.8 | (11.4) | (10.7)% |
| Interest expense, net | 2,898 | 0.3 | 1,672 | 0.2 | 1.2 | 73.3 % |
| Income before income taxes | 92,076 | 8.1 | 104,738 | 9.6 | (12.7) | (12.1)% |
| Income tax expense | 20,624 | 1.8 | 22,906 | 2.1 | (2.3) | (10.0)% |
| Net income | $ 71,452 | 6.3 % | $ 81,832 | 7.5 % | $ (10.4) | (12.7)% |

| | Twenty-six Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 29, 2023 | | June 30, 2022 | | Increase (Decrease) | |
| *dollars in thousands* | Amount | % of Net Sales | Amount | % of Net Sales | $ | % |
| Net sales | $ 2,257,951 | 100.0 % | $ 2,118,580 | 100.0 % | $ 139.4 | 6.6 % |
| Cost of sales | 1,309,200 | 58.0 | 1,274,240 | 60.1 | 35.0 | 2.7 % |
| Gross profit | 948,751 | 42.0 | 844,340 | 39.9 | 104.4 | 12.4 % |
| Operating expenses: | | | | | | |
| Selling and store operating | 615,077 | 27.3 | 517,702 | 24.4 | 97.4 | 18.8 % |
| General and administrative | 125,190 | 5.5 | 107,752 | 5.1 | 17.4 | 16.2 % |
| Pre-opening | 17,994 | 0.8 | 18,504 | 0.9 | (0.5) | (2.8)% |
| Total operating expenses | 758,261 | 33.6 | 643,958 | 30.4 | 114.3 | 17.8 % |
| Operating income | 190,490 | 8.4 | 200,382 | 9.5 | (9.9) | (4.9)% |
| Interest expense, net | 7,760 | 0.3 | 2,834 | 0.2 | 4.9 | 173.8 % |
| Income before income taxes | 182,730 | 8.1 | 197,548 | 9.3 | (14.8) | (7.5)% |
| Income tax expense | 39,754 | 1.8 | 44,765 | 2.1 | (5.0) | (11.2)% |
| Net income | $ 142,976 | 6.3 % | $ 152,783 | 7.2 % | $ (9.8) | (6.4)% |

***Selected Financial Information***

| | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|---|---|---|---|---|
| | June 29, 2023 | June 30, 2022 | June 29, 2023 | June 30, 2022 |
| Comparable store sales | (6.0) % | 9.2 % | (4.7) % | 11.7 % |
| Comparable average ticket | 1.1 % | 17.9 % | 4.1 % | 17.2 % |
| Comparable customer transactions | (7.1) % | (7.3) % | (8.5) % | (4.7) % |
| Number of warehouse-format stores | 203 | 174 | 203 | 174 |
| Adjusted EBITDA (in thousands) (1) | $ 152,810 | $ 150,297 | $ 302,427 | $ 286,074 |
| Adjusted EBITDA (% of net sales) | 13.5 % | 13.8 % | 13.4 % | 13.5 % |

*(1) EBITDA and Adjusted EBITDA are non-GAAP financial measures. See the "Non-GAAP Financial Measures" section below for additional information and a reconciliation of EBITDA and Adjusted EBITDA to net income.*

***Net Sales***

Net sales during the thirteen weeks ended June 29, 2023 increased $46.1 million, or 4.2%, compared to the corresponding prior year period primarily due to sales from the 29 new warehouse-format stores that we opened since June 30, 2022, partially offset by a decrease in comparable store sales of 6.0%. The comparable store sales decrease during the period of 6.0%, or $65.3 million, was driven by a 7.1% decrease in comparable customer transactions, partially offset by a 1.1% increase in comparable average ticket. Non-comparable store sales of $111.4 million during the same period were primarily driven by new stores opened after June 30, 2022 and revenue from our Spartan subsidiary.

Net sales during the twenty-six weeks ended June 29, 2023 increased $139.4 million, or 6.6%, compared to the corresponding prior year period primarily due to sales from the 29 new warehouse-format stores that we opened since June 30, 2022, partially offset by a decrease in comparable store sales of 4.7%. The comparable store sales decrease during the period of 4.7%, or $97.8 million, was driven by an 8.5% decrease in comparable customer transactions, partially offset by a 4.1% increase in comparable average ticket. Non-comparable store sales of $237.2 million during the same period were primarily driven by new stores opened after June 30, 2022 and revenue from our Spartan subsidiary.

We believe the decrease in comparable customer transactions for the thirteen and twenty-six weeks ended June 29, 2023 was primarily driven by declines in existing home sales, higher borrowing costs, inflation, and a shift in consumer spending toward travel and services. We partially offset the decrease in comparable customer transactions with a higher average ticket. The increases in average ticket during the thirteen and twenty-six weeks ended June 29, 2023 were primarily due to retail price increases to offset higher supply chain and product costs compared to the same periods last year. In addition, our average ticket continues to benefit from a higher penetration of sales through our ecommerce, Pro, and design initiatives.

***Gross Profit and Gross Margin***

Gross profit during the thirteen weeks ended June 29, 2023 increased $43.4 million, or 9.9%, compared to the corresponding prior year period. The increase in gross profit was driven by the 4.2% increase in net sales and an increase in gross margin to 42.2%, up approximately 220 basis points from 40.0% in the same period a year ago.

Gross profit during the twenty-six weeks ended June 29, 2023 increased $104.4 million, or 12.4%, compared to the corresponding prior year period. The increase in gross profit was driven by the 6.6% increase in net sales and an increase in gross margin to 42.0%, up approximately 210 basis points from 39.9% in the same period a year ago.

The increases in gross margin during the thirteen and twenty-six weeks ended June 29, 2023 were primarily driven by retail price increases taken to offset higher supply chain and product costs.

***Selling and Store Operating Expenses***

Selling and store operating expenses during the thirteen weeks ended June 29, 2023 increased $43.2 million, or 16.1%, compared to the corresponding prior year period. As a percentage of net sales, selling and store operating expenses increased approximately 290 basis points to 27.4% from 24.5% in the corresponding prior year period.

Selling and store operating expenses during the twenty-six weeks ended June 29, 2023 increased $97.4 million, or 18.8%, compared to the corresponding prior year period. As a percentage of net sales, selling and store operating expenses increased approximately 290 basis points to 27.3% from 24.4% in the corresponding prior year period.

The increases in selling and store operating expenses in total and as a percentage of net sales during the thirteen and twenty-six weeks ended June 29, 2023 were primarily attributable to growth in new stores, wage increases, higher credit card transaction processing fees, and deleverage in occupancy and other fixed costs resulting from lower comparable store sales.

***General and Administrative Expenses***

General and administrative expenses during the thirteen weeks ended June 29, 2023 increased $10.2 million, or 19.2%, compared to the corresponding prior year period. General and administrative expenses as a percentage of net sales increased approximately 60 basis points to 5.5% from 4.9% in the corresponding prior year period.

General and administrative expenses during the twenty-six weeks ended June 29, 2023 increased $17.4 million, or 16.2%, compared to the corresponding prior year period. General and administrative expenses as a percentage of net sales increased approximately 40 basis points to 5.5% from 5.1% in the corresponding prior year period.

The increases in general and administrative expenses during the thirteen and twenty-six weeks ended June 29, 2023 were due to costs to support store growth, including additional store support staff, higher depreciation related to technology and other store support center investments, and operating expenses related to our Spartan subsidiary. The increases in general and administrative expenses as a percentage of net sales during the thirteen and twenty-six weeks ended June 29, 2023 were primarily driven by deleverage from lower comparable store sales.

***Pre-Opening Expenses***

Pre-opening expenses increased $1.4 million, or 16.5%, during the thirteen weeks ended June 29, 2023 compared to the corresponding prior year period. The increase primarily resulted from an increase in the number of future stores that we were preparing to open during the thirteen weeks ended June 29, 2023 compared to the same quarter a year ago.

Pre-opening expenses during the twenty-six weeks ended June 29, 2023 decreased $0.5 million, or 2.8%, compared to the corresponding prior year period. The decrease primarily resulted from opening fewer stores during the twenty-six weeks ended June 29, 2023 compared to the twenty-six weeks ended June 30, 2022.

***Interest Expense***

Net interest expense during the thirteen weeks ended June 29, 2023 increased $1.2 million, or 73.3%, compared to the thirteen weeks ended June 30, 2022.

Net interest expense during the twenty-six weeks ended June 29, 2023 increased $4.9 million, or 173.8%, compared to the twenty-six weeks ended June 30, 2022.

The increases in interest expense for the thirteen and twenty-six weeks ended June 29, 2023 were primarily due to an increase in average amounts outstanding under our ABL Facility and interest rate increases on outstanding debt, partially offset by increases in interest capitalized and interest income from our interest cap derivative contracts.

***Income Tax Expense***

Income tax expense was $20.6 million during the thirteen weeks ended June 29, 2023 compared to $22.9 million during the thirteen weeks ended June 30, 2022. The effective tax rate was 22.4% for the thirteen weeks ended June 29, 2023 compared to 21.9% in the corresponding prior year period. The increase in the effective tax rate during the thirteen weeks ended June 29, 2023 was primarily due to limitations on deductions for compensation to certain employees under Internal Revenue Code Section 162(m).

Income tax expense was $39.8 million during the twenty-six weeks ended June 29, 2023 compared to $44.8 million during the twenty-six weeks ended June 30, 2022. The effective tax rate was 21.8% for the twenty-six weeks ended June 29, 2023 compared to 22.7% in the corresponding prior year period. The decrease in the effective tax rate during the twenty-six weeks ended June 29, 2023 was primarily due to an increase in excess tax benefits related to stock-based compensation awards that was partially offset by limitations on deductions for compensation to certain employees under Internal Revenue Code Section 162(m).

**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, taxes, depreciation and amortization. We define Adjusted EBITDA as net income before interest, taxes, depreciation and amortization adjusted to eliminate the impact of non-cash stock-based compensation expense and 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 may incur expenses that are the same as or similar to some of the items eliminated in the adjustments made to determine EBITDA and Adjusted EBITDA, such as stock-based compensation expense, distribution center relocation expenses, fair value adjustments related to contingent earn-out liabilities, and other adjustments. Our presentation of EBITDA and Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Definitions and calculations of EBITDA and Adjusted EBITDA differ among companies in the retail industry, and therefore EBITDA and Adjusted EBITDA disclosed by us may not be comparable to the metrics disclosed by other companies.

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

| | Thirteen Weeks Ended | | Twenty-six Weeks Ended | |
|---|---|---|---|---|
| *in thousands* | **June 29, 2023** | **June 30, 2022** | **June 29, 2023** | **June 30, 2022** |
| Net income | $ 71,452 | $ 81,832 | $ 142,976 | $ 152,783 |
| Depreciation and amortization (a) | 49,177 | 37,517 | 95,103 | 71,637 |
| Interest expense, net | 2,898 | 1,672 | 7,760 | 2,834 |
| Income tax expense | 20,624 | 22,906 | 39,754 | 44,765 |
| EBITDA | 144,151 | 143,927 | 285,593 | 272,019 |
| Stock-based compensation expense (b) | 8,306 | 4,889 | 15,047 | 10,869 |
| Other (c) | 353 | 1,481 | 1,787 | 3,186 |
| Adjusted EBITDA | $ 152,810 | $ 150,297 | $ 302,427 | $ 286,074 |

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

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

*(c) Other adjustments include amounts management does not consider indicative of our core operating performance. Amounts for the thirteen and twenty-six weeks ended June 29, 2023 relate to changes in the fair value of contingent earn-out liabilities. Amounts for the thirteen and twenty-six weeks ended June 30, 2022 primarily relate to relocation expenses for our Houston distribution center and changes in the fair value of contingent earn-out liabilities.*

**Liquidity and Capital Resources**

Liquidity is provided primarily by our cash flows from operations and our $800.0 million ABL Facility. Unrestricted liquidity based on our June 29, 2023 financial data was $703.3 million, consisting of $4.2 million in cash and cash equivalents and $699.1 million immediately available for borrowing under the ABL Facility without violating any covenants thereunder. Our liquidity is not generally seasonal, and our uses of cash are primarily tied to when we open stores and make other capital expenditures.

Our primary cash needs are for merchandise inventories, payroll, store rent, and other operating expenses and capital expenditures associated with opening new stores and remodeling existing stores, as well as information technology, e-commerce, and store support center infrastructure. We also use cash for the payment of taxes and interest and, as applicable, acquisitions. We expect that cash generated from operations together with cash on hand, the availability of borrowings under our credit facilities, and if necessary, additional funding through other forms of external financing, will be sufficient to meet liquidity requirements, anticipated capital expenditures, and payments due under our credit facilities for the next twelve months and the foreseeable future.

Total capital expenditures in fiscal 2023 are planned to be between approximately $590 million to $630 million and are expected to be funded primarily by cash generated from operations and borrowings under the ABL Facility. Our capital needs may change in the future due to changes in our business, new opportunities that we choose to pursue, or other factors. We currently expect the following for capital expenditures in fiscal 2023 (projected amounts are based on the gross costs that we expect to accrue for these investments on the Condensed Consolidated Balance Sheets in fiscal 2023, which may include amounts incurred but not yet settled in cash during the period):

- invest approximately $465 million to $480 million to open 32 warehouse-format stores, relocate stores, and begin construction on stores opening in fiscal 2024;
- invest approximately $95 million to $110 million in existing store remodeling projects and our distribution centers; and
- invest approximately $30 million to $40 million in information technology infrastructure, e-commerce, and other store support center initiatives.

***Cash Flow Analysis***

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

| | Twenty-six Weeks Ended | |
|---|---|---|
| *in thousands* | **June 29, 2023** | **June 30, 2022** |
| Net cash provided by operating activities | $ 476,645 | $ 7,853 |
| Net cash used in investing activities | (296,331) | (210,631) |
| Net cash (used in) provided by financing activities | (185,937) | 69,511 |
| Net decrease in cash and cash equivalents | $ (5,623) | $ (133,267) |

*Net Cash Provided by Operating Activities*

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

Net cash provided by operating activities during the twenty-six weeks ended June 29, 2023 and June 30, 2022 was $476.6 million and $7.9 million, respectively. The increase in net cash provided by operating activities was primarily the result of a decrease in inventory and receivables and an increase in trade accounts payable.

*Net Cash Used in Investing Activities*

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

Net cash used in investing activities during the twenty-six weeks ended June 29, 2023 and June 30, 2022 was $296.3 million and $210.6 million, respectively. The increase in cash used in investing activities was due to an increase in capital expenditures and the Salesmaster acquisition. The growth in capital expenditures was primarily driven by an increase in new stores under construction and settlement of outstanding construction payables for recently completed stores compared to the corresponding prior year period.

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

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

Net cash used in financing activities was $185.9 million for the twenty-six weeks ended June 29, 2023 compared to net cash provided by financing activities of $69.5 million for the twenty-six weeks ended June 30, 2022. The increase in net cash used in financing activities was primarily driven by ABL Facility repayments and an increase in tax payments related to the vesting or exercise of stock-based compensation awards.

***Our Credit Facilities***

As of June 29, 2023, total Term Loan Facility debt was $203.4 million, and the total amount borrowed under our ABL Facility was $35.0 million. For additional information regarding our Term Loan Facility and ABL Facility, including applicable covenants and other details, please refer to Note 3, “Debt.”

***Credit Ratings***

Our credit ratings are periodically reviewed by rating agencies. Standard & Poor's issuer credit rating of BB with a stable outlook and Moody’s issuer credit rating of Ba3 with a positive outlook remain unchanged as of June 29, 2023. These ratings and our current credit condition affect, among other things, our ability to access new capital. Negative changes to these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be lowered or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, financial condition, results of operations, and liquidity. In particular, a weakening of our financial condition, including an increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.

**U.S. Tariffs and Global Economy**

The current domestic and international political environment, including existing and potential changes to U.S. policies related to global trade and tariffs, have resulted in uncertainty surrounding the future state of the global economy. In particular, the ongoing trade dispute between the U.S. and China has resulted in the U.S. imposing tariffs of 25% on many products from China. While exclusions from tariffs were granted for certain products from China, nearly all of these exclusions have expired. In fiscal 2022, approximately 29% of the products we sold were produced in China. As we continue to manage the impact these tariffs may have on our business, we continue taking steps to mitigate some of these cost increases through negotiating lower costs from our vendors, increasing retail pricing as we deem appropriate, and sourcing from alternative countries. While our efforts have mitigated a substantial portion of the overall effect of increased tariffs, the enacted tariffs have increased our inventory costs and associated cost of sales for the remaining products still sourced from China.

**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. 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 29, 2022, uncertainty with respect to the economic effects of global supply chain disruptions, inflation, geopolitical instability, including from the ongoing war in Ukraine, and COVID-19, among others, have introduced significant volatility in the financial markets, including interest rates and foreign currency exchange rates. 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 June 29, 2023, our Term Loan Facility and ABL Facility, which have variable interest rates, had remaining principal balances of $203.4 million and $35.0 million, respectively. A 1.0% increase in the effective interest rate for these debt instruments would cause an increase in interest expense of approximately $2.4 million over the next twelve months, excluding the impact of interest rate cap agreements. 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 effectively cap Secured Overnight Financing Rate (“SOFR”) based interest payments on a portion of our Term Loan Facility to less than 1.68% through April 2024. The U.S. Federal Reserve has continued raising interest rates in fiscal 2023. As a result, these agreements are partially offsetting increases in interest expense on our Term Loan Facility as rates have increased to a level above the specified SOFR caps. For additional information related to the Company’s Credit Facilities, refer to Note 3, “Debt.”

**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 June 29, 2023 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 June 29, 2023 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, 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 23, 2023, which could materially affect our business, financial condition, and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table presents the number and average price of the Company’s common shares repurchased in each fiscal month of the second quarter of fiscal 2023:

| Period | Total Number of Shares Purchased | Average Price Paid per Share |
|---|---|---|
| March 31 - April 27 | — | $ — |
| April 28 - May 25 | 8,189 | 89.07 |
| May 26 - June 29 | — | — |
| Total | 8,189 | $ 89.07 |

Under the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan (the “2017 Plan”), participants may surrender shares as payment of applicable tax withholding on the vesting of restricted stock awards. Shares so surrendered by participants in the 2017 Plan are repurchased pursuant to the terms of the 2017 Plan and applicable award agreement and not pursuant to any publicly announced share repurchase programs.

**Item 6. Exhibits**

| Exhibit No. | Exhibit Description |
|---|---|
| 3.1 | Amended & Restated Certificate of Incorporation of Floor & Decor Holdings, Inc. (1) |
| 3.2 | Second Amended and Restated Bylaws of Floor & Decor Holdings, Inc. (2) |
| 10.1 | Addendum to Employment Agreement, dated August 1, 2023, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Thomas V. Taylor |
| 10.2 | Addendum to Employment Agreement, dated August 1, 2023, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Trevor S. Lang |
| 10.3 | Addendum to Employment Agreement, dated August 1, 2023, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and David V. Christopherson |
| 10.4 | Addendum to Employment Agreement, dated August 1, 2023, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Brian K. Robbins |
| 10.5 | Addendum to Employment Agreement, dated August 1, 2023, between Floor & Decor Holdings, Inc., Floor and Decor Outlets of America, Inc. and Bryan Langley |
| 10.6 | Amendment No. 1 to the Floor & Decor Holdings, Inc. 2017 Stock Incentive Plan (3) |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104 | Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |

(1) Filed as an exhibit to the Registrant’s Form 10-Q (File No. 001-38070) filed with the SEC on August 5, 2021, and incorporated herein by reference.

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

(3) Filed as an exhibit to the Registrant’s Form 8-K (File No. 001-38070) filed with the SEC on May 12, 2023, 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 3, 2023 | By: | /s/ Thomas V. Taylor |
| | | Thomas V. Taylor<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Dated: August 3, 2023 | By: | /s/ Bryan H. Langley |
| | | Bryan H. Langley<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| Dated: August 3, 2023 | By: | /s/ Luke T. Olson |
| | | Luke T. Olson<br>Vice President, Chief Accounting Officer<br>(Principal Accounting Officer) |

**Exhibit 10.1**

# ADDENDUM TO EMPLOYMENT AGREEMENT

THIS ADDENDUM TO EMPLOYMENT AGREEMENT (this "Addendum") is dated as of August 1, 2023, by and among Floor and Decor Outlets of America, Inc., a Delaware corporation (the "Operating Company"), Floor & Decor Holdings, Inc., a Delaware corporation ("Holdings" and, together with the Operating Company, the "Company"), and Thomas V. Taylor, the undersigned individual (" Executive"), and is intended to modify the Second Amended and Restated Employment Agreement, dated as of February 3, 2020, as modified by the addendum dated March 26, 2020 (the "Employment Agreement"), by and between the Company and Executive. Any capitalized term not defined herein will have the meaning ascribed to such term in the Employment Agreement.

The Company and Executive desire to amend the non-solicitation provisions of the Employment Agreement to reflect changes in applicable law or other relevant guidance, as set forth below.

1. The Employment Agreement shall be amended to replace the entirety of Section 5(g) thereof with the following:

> "Non-Solicitation of Employees. Executive shall not, during the Restricted Period (whether on Executive's own behalf or on behalf of some other Person) and in the Competitive Area, Georgia, or any state in which the Company conducts business in the United States, (a) directly or indirectly solicit or attempt to hire any individual who is at that time an employee, independent contractor or other agent of the Company or any of its affiliates or (b) induce or encourage any employee, independent contractor or other agent of the Company or any of its affiliates to terminate or materially reduce, as applicable, his employment or other business relationship or affiliation with the Company or any of its affiliates, provided, that the parties acknowledge and agree that Executive's placement of a general advertisement that is not directed at any specific Person or group of Persons, but to the public at large, in a public newspaper, or on the Internet or other public medium, shall not constitute a violation of this Section 5(g). This provision is limited to those employees, independent contractors, or agents with whom Executive had material contact during the one-year period before Executive's date of termination or about which Executive possesses Confidential Information."

Additionally, Executive hereby acknowledges and agrees that "Good Reason" under the Employment Agreement has not occurred prior to or as a result of this Addendum. Except as expressly hereby amended, the Employment Agreement will remain in full force and effect in accordance with the terms thereof. To the extent a conflict arises between the terms of the Employment Agreement and this Addendum, the terms of this Addendum will prevail.

**EXECUTIVE**

| | |
|---|---|
| By: | /s/ Thomas V. Taylor |
| Name: | Thomas V. Taylor |

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

| | |
|---|---|
| By: | /s/ David V. Christopherson |
| Name: | David V. Christopherson |
| Title: | EVP & General Counsel |

**FLOOR & DECOR HOLDINGS, INC.**

| | |
|---|---|
| By: | /s/ David V. Christopherson |
| Name: | David V. Christopherson |
| Title: | EVP & General Counsel |

**Exhibit 10.2**

# ADDENDUM TO EMPLOYMENT AGREEMENT

THIS ADDENDUM TO EMPLOYMENT AGREEMENT (this "Addendum") is dated as of August 1, 2023, by and among Floor and Decor Outlets of America, Inc., a Delaware corporation (the "Operating Company"), Floor & Decor Holdings, Inc., a Delaware corporation ("Holdings" and, together with the Operating Company, the "Company"), and Trevor S. Lang, the undersigned individual ("Executive"), and is intended to modify the Second Amended and Restated Employment Agreement, dated as of February 3, 2020, as modified by the addenda dated March 26, 2020 and August 3, 2022, respectively (the "Employment Agreement"), by and between the Company and Executive. Any capitalized term not defined herein will have the meaning ascribed to such term in the Employment Agreement.

The Company and Executive desire to amend the non-solicitation provisions of the Employment Agreement to reflect changes in applicable law or other relevant guidance, as set forth below.

1. The Employment Agreement shall be amended to replace the entirety of Section 6(g) thereof with the following:

> "Non-Solicitation of Employees. Executive shall not, during the Restricted Period (whether on Executive's own behalf or on behalf of some other Person) and in the Competitive Area, Georgia, or any state in which the Company conducts business in the United States, (a) directly or indirectly solicit or attempt to hire any individual who is at that time an employee, independent contractor or other agent of the Company or any of its affiliates or (b) induce or encourage any employee, independent contractor or other agent of the Company or any of its affiliates to terminate or materially reduce, as applicable, his employment or other business relationship or affiliation with the Company or any of its affiliates. This provision is limited to those employees, independent contractors, or agents with whom Executive had material contact during the one-year period before Executive's date of termination or about which Executive possesses Confidential Information."

Additionally, Executive hereby acknowledges and agrees that "Good Reason" under the Employment Agreement has not occurred prior to or as a result of this Addendum. Except as expressly hereby amended, the Employment Agreement will remain in full force and effect in accordance with the terms thereof. To the extent a conflict arises between the terms of the Employment Agreement and this Addendum, the terms of this Addendum will prevail.

**EXECUTIVE**

| | |
|---|---|
| By: | /s/ Trevor S. Lang |
| Name: | Trevor S. Lang |

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

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

**FLOOR & DECOR HOLDINGS, INC.**

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

**Exhibit 10.3**

# ADDENDUM TO EMPLOYMENT AGREEMENT

THIS ADDENDUM TO EMPLOYMENT AGREEMENT (this "Addendum") is dated as of August 1, 2023, by and among Floor and Decor Outlets of America, Inc., a Delaware corporation (the "Operating Company"), Floor & Decor Holdings, Inc., a Delaware corporation ("Holdings" and, together with the Operating Company, the "Company"), and David V. Christopherson, the undersigned individual ("Executive"), and is intended to modify the Second Amended and Restated Employment Agreement, dated as of February 3, 2020, as modified by the addendum dated March 26, 2020 (the "Employment Agreement"), by and between the Company and Executive. Any capitalized term not defined herein will have the meaning ascribed to such term in the Employment Agreement.

The Company and Executive desire to amend the non-solicitation provisions of the Employment Agreement to reflect changes in applicable law or other relevant guidance, as set forth below.

1. The Employment Agreement shall be amended to replace the entirety of Section 6(g) thereof with the following:

> "Non-Solicitation of Employees. Executive shall not, during the Restricted Period (whether on Executive's own behalf or on behalf of some other Person) and in the Competitive Area, Georgia, or any state in which the Company conducts business in the United States, (a) directly or indirectly solicit or attempt to hire any individual who is at that time an employee, independent contractor or other agent of the Company or any of its affiliates or (b) induce or encourage any employee, independent contractor or other agent of the Company or any of its affiliates to terminate or materially reduce, as applicable, his employment or other business relationship or affiliation with the Company or any of its affiliates. This provision is limited to those employees, independent contractors, or agents with whom Executive had material contact during the one-year period before Executive's date of termination or about which Executive possesses Confidential Information."

Additionally, Executive hereby acknowledges and agrees that "Good Reason" under the Employment Agreement has not occurred prior to or as a result of this Addendum. Except as expressly hereby amended, the Employment Agreement will remain in full force and effect in accordance with the terms thereof. To the extent a conflict arises between the terms of the Employment Agreement and this Addendum, the terms of this Addendum will prevail.

**EXECUTIVE**

By: /s/ David V. Christopherson
Name: David V. Christopherson

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

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

**FLOOR & DECOR HOLDINGS, INC.**

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

**Exhibit 10.4**

# ADDENDUM TO EMPLOYMENT AGREEMENT

THIS ADDENDUM TO EMPLOYMENT AGREEMENT (this "Addendum") is dated as of August 1, 2023, by and among Floor and Decor Outlets of America, Inc., a Delaware corporation (the "Operating Company"), Floor & Decor Holdings, Inc., a Delaware corporation ("Holdings" and, together with the Operating Company, the "Company"), and Brian K. Robbins, the undersigned individual ("Executive"), and is intended to modify the Amended and Restated Employment Agreement, dated as of February 3, 2020, as modified by the addendum dated March 26, 2020 (the "Employment Agreement"), by and between the Company and Executive. Any capitalized term not defined herein will have the meaning ascribed to such term in the Employment Agreement.

The Company and Executive desire to amend the non-solicitation provisions of the Employment Agreement to reflect changes in applicable law or other relevant guidance, as set forth below.

1. The Employment Agreement shall be amended to replace the entirety of Section 6(g) thereof with the following:

"Non-Solicitation of Employees. Executive shall not, during the Restricted Period (whether on Executive's own behalf or on behalf of some other Person) and in the Competitive Area, Georgia, or any state in which the Company conducts business in the United States, (a) directly or indirectly solicit or attempt to hire any individual who is at that time an employee, independent contractor or other agent of the Company or any of its affiliates or (b) induce or encourage any employee, independent contractor or other agent of the Company or any of its affiliates to terminate or materially reduce, as applicable, his employment or other business relationship or affiliation with the Company or any of its affiliates. This provision is limited to those employees, independent contractors, or agents with whom Executive had material contact during the one-year period before Executive's date of termination or about which Executive possesses Confidential Information."

Additionally, Executive hereby acknowledges and agrees that "Good Reason" under the Employment Agreement has not occurred prior to or as a result of this Addendum. Except as expressly hereby amended, the Employment Agreement will remain in full force and effect in accordance with the terms thereof. To the extent a conflict arises between the terms of the Employment Agreement and this Addendum, the terms of this Addendum will prevail.

**EXECUTIVE**

| | |
|---|---|
| By: | /s/ Brian K. Robbins |
| Name: | Brian K. Robbins |

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

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

**FLOOR & DECOR HOLDINGS, INC.**

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

[*Signature Page to Addendum to Employment Agreement – August 2023*]

**Exhibit 10.5**

# ADDENDUM TO EMPLOYMENT AGREEMENT

THIS ADDENDUM TO EMPLOYMENT AGREEMENT (this "Addendum") is dated as of August 1, 2023, by and among Floor and Decor Outlets of America, Inc., a Delaware corporation (the "Operating Company"), Floor & Decor Holdings, Inc., a Delaware corporation ("Holdings" and, together with the Operating Company, the "Company"), and Bryan Langley, the undersigned individual ("Executive"), and is intended to modify the Employment Agreement, dated as of February 23, 2023 (the "Employment Agreement"), by and between the Company and Executive. Any capitalized term not defined herein will have the meaning ascribed to such term in the Employment Agreement.

The Company and Executive desire to amend the non-solicitation provisions of the Employment Agreement to reflect changes in applicable law or other relevant guidance, as set forth below.

1. The Employment Agreement shall be amended to replace the entirety of Section 6(g) thereof with the following:

> "Non-Solicitation of Employees. Executive shall not, during the Restricted Period (whether on Executive's own behalf or on behalf of some other Person) and in the Competitive Area, Georgia, or any state in which the Company conducts business in the United States, (a) directly or indirectly solicit or attempt to hire any individual who is at that time an employee, independent contractor or other agent of the Company or any of its affiliates or (b) induce or encourage any employee, independent contractor or other agent of the Company or any of its affiliates to terminate or materially reduce, as applicable, his employment or other business relationship or affiliation with the Company or any of its affiliates. This provision is limited to those employees, independent contractors, or agents with whom Executive had material contact during the one-year period before Executive's date of termination or about which Executive possesses Confidential Information."

Additionally, Executive hereby acknowledges and agrees that "Good Reason" under the Employment Agreement has not occurred prior to or as a result of this Addendum. Except as expressly hereby amended, the Employment Agreement will remain in full force and effect in accordance with the terms thereof. To the extent a conflict arises between the terms of the Employment Agreement and this Addendum, the terms of this Addendum will prevail.

**EXECUTIVE**

By: /s/ Bryan Langley
Name: Bryan Langley

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

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

**FLOOR & DECOR HOLDINGS, INC.**

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

**Exhibit 31.1**

**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 June 29, 2023;

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 3, 2023

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

**Exhibit 31.2**

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

I, Bryan H. Langley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Floor & Decor Holdings, Inc. for the fiscal quarter ended June 29, 2023;

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 3, 2023

/s/ Bryan H. Langley

Bryan H. Langley
*Executive Vice President and Chief Financial Officer*
*(Principal Financial Officer)*

**Exhibit 32.1**

**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 June 29, 2023 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 Bryan H. Langley, 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 3, 2023

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

Date: August 3, 2023

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

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