

**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 September 24, 2020
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____ to ____
Commission file number 001-38070

Floor & Decor Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

27-3730271
(I.R.S. Employer Identification No.)

**2500 Windy Ridge Parkway SE
Atlanta, Georgia**
(Address of principal executive offices)

30339
(Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

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

Class	Outstanding at October 27, 2020
Class A common stock, \$0.001 par value per share	103,997,182

Table of Contents

	<u>Page</u>
<u>Part I – Financial Information</u>	<u>3</u>
Item 1. Financial Statements	<u>3</u>
Condensed Consolidated Balance Sheets (Unaudited)	<u>3</u>
Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)	<u>4</u>
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)	<u>5</u>
Condensed Consolidated Statements of Cash Flows (Unaudited)	<u>6</u>
Notes to Condensed Consolidated Financial Statements	<u>7</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>19</u>
Forward-Looking Statements	<u>19</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>31</u>
Item 4. Controls and Procedures	<u>31</u>
<u>Part II – Other Information</u>	<u>32</u>
Item 1. Legal Proceedings	<u>32</u>
Item 1A. Risk Factors	<u>32</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>33</u>
Item 3. Defaults Upon Senior Securities	<u>33</u>
Item 4. Mine Safety Disclosures	<u>33</u>
Item 5. Other Information	<u>33</u>
Item 6. Exhibits	<u>34</u>
Signatures	<u>36</u>

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of September 24, 2020	As of December 26, 2019
<i>in thousands, except for share and per share data</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 271,126	\$ 27,037
Income taxes receivable	25,722	2,868
Receivables, net	55,293	69,301
Inventories, net	598,461	581,865
Prepaid expenses and other current assets	23,367	20,415
Total current assets	973,969	701,486
Fixed assets, net	506,789	456,289
Right-of-use assets	890,148	822,256
Intangible assets, net	109,275	109,299
Goodwill	227,447	227,447
Other assets	6,768	7,532
Total long-term assets	1,740,427	1,622,823
Total assets	<u>\$ 2,714,396</u>	<u>\$ 2,324,309</u>
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of term loans	\$ 2,745	\$ —
Current portion of lease liabilities	92,809	74,592
Trade accounts payable	362,457	368,459
Accrued expenses and other current liabilities	150,054	102,807
Deferred revenue	10,853	6,683
Total current liabilities	618,918	552,541
Term loans	206,793	142,606
Lease liabilities	914,701	844,269
Deferred income tax liabilities, net	40,551	18,378
Other liabilities	1,928	2,179
Total long-term liabilities	1,163,973	1,007,432
Total liabilities	<u>1,782,891</u>	<u>1,559,973</u>
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 September 24, 2020 and December 26, 2019	—	—
Common stock Class A, \$0.001 par value; 450,000,000 shares authorized; 103,909,036 shares issued and outstanding at September 24, 2020 and 101,457,858 issued and outstanding at December 26, 2019	104	101
Common stock Class B, \$0.001 par value; 10,000,000 shares authorized; 0 shares issued and outstanding at September 24, 2020 and December 26, 2019	—	—
Common stock Class C, \$0.001 par value; 30,000,000 shares authorized; 0 shares issued and outstanding at September 24, 2020 and December 26, 2019	—	—
Additional paid-in capital	399,489	370,413
Accumulated other comprehensive income (loss), net	56	(193)
Retained earnings	531,856	394,015
Total stockholders' equity	931,505	764,336
Total liabilities and stockholders' equity	<u>\$ 2,714,396</u>	<u>\$ 2,324,309</u>

See accompanying notes to condensed consolidated financial statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 24, 2020	September 26, 2019	September 24, 2020	September 26, 2019
<i>in thousands, except for per share data</i>				
Net sales	\$ 684,847	\$ 521,093	\$ 1,702,136	\$ 1,518,454
Cost of sales	390,219	307,305	974,784	885,469
Gross profit	294,628	213,788	727,352	632,985
Operating expenses:				
Selling and store operating	171,513	136,958	463,036	398,984
General and administrative	39,286	37,246	103,857	98,364
Pre-opening	5,027	8,184	13,894	18,580
Total operating expenses	215,826	182,388	580,787	515,928
Operating income	78,802	31,400	146,565	117,057
Interest expense, net	2,024	1,978	6,134	7,122
Gain on early extinguishment of debt	—	—	(1,015)	—
Income before income taxes	76,778	29,422	141,446	109,935
Provision (benefit) for income taxes	8,004	(11,552)	3,605	(5,355)
Net income	\$ 68,774	\$ 40,974	\$ 137,841	\$ 115,290
Change in fair value of hedge instruments, net of tax	89	—	249	(547)
Total comprehensive income	\$ 68,863	\$ 40,974	\$ 138,090	\$ 114,743
Basic earnings per share	\$ 0.67	\$ 0.41	\$ 1.35	\$ 1.17
Diluted earnings per share	\$ 0.65	\$ 0.39	\$ 1.30	\$ 1.10

See accompanying notes to condensed consolidated financial statements.

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

<i>in thousands</i>	Common Stock Class A		Additional Paid- in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance, December 27, 2019	101,458	\$ 101	\$ 370,413	\$ (193)	\$ 394,015	\$ 764,336
Stock-based compensation expense	—	—	2,908	—	—	2,908
Exercise of stock options	453	1	3,782	—	—	3,783
Issuance of restricted stock awards	368	—	—	—	—	—
Shares issued under employee stock plans	30	—	1,131	—	—	1,131
Other comprehensive gain, net of tax	—	—	—	68	—	68
Net income	—	—	—	—	37,063	37,063
Balance, March 26, 2020	102,309	\$ 102	\$ 378,234	\$ (125)	\$ 431,078	\$ 809,289
Stock-based compensation expense	—	—	4,234	—	—	4,234
Exercise of stock options	838	1	4,876	—	—	4,877
Other comprehensive gain, net of tax	—	—	—	92	—	92
Net income	—	—	—	—	32,004	32,004
Balance, June 25, 2020	103,147	\$ 103	\$ 387,344	\$ (33)	\$ 463,082	\$ 850,496
Stock-based compensation expense	—	—	4,400	—	—	4,400
Exercise of stock options	735	1	6,532	—	—	6,533
Shares issued under employee stock plans	27	—	1,213	—	—	1,213
Other comprehensive loss, net of tax	—	—	—	89	—	89
Net income	—	—	—	—	68,774	68,774
Balance, September 24, 2020	103,909	\$ 104	\$ 399,489	\$ 56	\$ 531,856	\$ 931,505

<i>in thousands</i>	Common Stock Class A		Additional Paid- in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance, December 28, 2018	97,588	\$ 98	\$ 340,462	\$ 186	\$ 243,563	\$ 584,309
Stock-based compensation expense	—	—	2,250	—	—	2,250
Exercise of stock options	348	—	1,776	—	—	1,776
Cumulative effect from adoption of ASU No. 2016-02	—	—	—	—	(179)	(179)
Shares issued under employee stock plans	61	—	1,419	—	—	1,419
Other comprehensive loss, net of tax	—	—	—	(334)	—	(334)
Net income	—	—	—	—	30,720	30,720
Balance, March 28, 2019	97,997	\$ 98	\$ 345,907	\$ (148)	\$ 274,104	\$ 619,961
Stock-based compensation expense	—	—	2,168	—	—	2,168
Exercise of stock options	1,090	1	5,375	—	—	5,376
Issuance of restricted stock awards	24	—	—	—	—	—
Other comprehensive loss, net of tax	—	—	—	(213)	—	(213)
Net income	—	—	—	—	43,596	43,596
Balance, June 27, 2019	99,111	\$ 99	\$ 353,450	\$ (361)	\$ 317,700	\$ 670,888
Stock-based compensation expense	—	—	2,242	—	—	2,242
Exercise of stock options	1,871	2	7,908	—	—	7,910
Shares issued under employee stock plans	43	—	1,026	—	—	1,026
Net income	—	—	—	—	40,974	40,974
Balance, September 26, 2019	101,025	\$ 101	\$ 364,626	\$ (361)	\$ 358,674	\$ 723,040

See accompanying notes to condensed consolidated financial statements.

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

<i>in thousands</i>	Thirty-nine Weeks Ended	
	September 24, 2020	September 26, 2019
Operating activities		
Net income	\$ 137,841	\$ 115,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,249	53,297
Gain on early extinguishment of debt	(1,015)	—
Loss on asset impairments and disposals, net	84	4,111
Deferred income taxes	22,173	(6,644)
Interest cap derivative contracts	264	323
Stock-based compensation expense	11,542	6,660
Changes in operating assets and liabilities:		
Receivables, net	14,008	6,166
Inventories, net	(16,596)	(12,943)
Trade accounts payable	(6,002)	4,847
Accrued expenses and other current liabilities	40,331	26,209
Income taxes	(22,849)	(4,871)
Deferred revenue	4,170	3,579
Other, net	18,485	13,570
Net cash provided by operating activities	269,685	209,594
Investing activities		
Purchases of fixed assets	(109,653)	(141,015)
Net cash used in investing activities	(109,653)	(141,015)
Financing activities		
Borrowings on revolving line of credit	275,000	100,100
Payments on revolving line of credit	(275,000)	(100,100)
Proceeds from term loans	75,000	—
Payments on term loans	(1,598)	(2,625)
Proceeds from exercise of stock options	15,193	15,063
Debt issuance costs	(6,882)	—
Proceeds from employee stock purchase plan	2,344	2,445
Net cash provided by financing activities	84,057	14,883
Net increase in cash and cash equivalents	244,089	83,462
Cash and cash equivalents, beginning of the period	27,037	644
Cash and cash equivalents, end of the period	\$ 271,126	\$ 84,106
Supplemental disclosures of cash flow information		
Buildings and equipment acquired under operating leases	\$ 129,803	\$ 177,953
Cash paid for interest, net of capitalized interest	\$ 4,897	\$ 5,726
Cash paid for income taxes, net of refunds	\$ 4,272	\$ 12,125
Fixed assets accrued at the end of the period	\$ 26,441	\$ 23,394

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation and Summary of Significant Accounting Policies

Nature of Business

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

As of September 24, 2020, the Company, through its wholly owned subsidiary, Floor and Decor Outlets of America, Inc. (“Outlets”), operates 128 warehouse-format stores, which average 77,000 square feet, and two small-format standalone design centers in 30 states, as well as four distribution centers and an e-commerce site, *FloorandDecor.com*.

Fiscal Year

The Company’s fiscal year is the 52- or 53-week period ending on the Thursday on or preceding December 31st. Fiscal year ending December 31, 2020 (“fiscal 2020”) includes 53 weeks, and the fiscal year ended December 26, 2019 (“fiscal 2019”) included 52 weeks. When a 53-week fiscal year occurs, we report the additional week at the end of the fiscal fourth quarter. 52-week fiscal years consist of thirteen-week periods in each quarter of the fiscal year.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. The Condensed Consolidated Balance Sheet as of December 26, 2019 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 2019, filed with the Securities and Exchange Commission (the “SEC”) on February 20, 2020 (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 thirty-nine weeks ended September 24, 2020 and September 26, 2019 are not necessarily indicative of the results to be expected for the full years.

Impact of the COVID-19 Pandemic

On March 11, 2020, the World Health Organization announced that infections of the coronavirus (COVID-19) had become a pandemic, and on March 13, 2020, the President of the United States announced a National Emergency relating to the COVID-19 pandemic. While the full impact that the COVID-19 pandemic could have on the Company’s business remains highly uncertain, it had a material negative impact on the Company’s fiscal 2020 operations and financial results during the first half of fiscal 2020. The following summarizes certain actions taken and impacts from the COVID-19 pandemic during and subsequent to the thirteen and thirty-nine weeks ended September 24, 2020:

- Beginning in late March 2020, for the health and safety of its customers and employees, the Company temporarily closed some of its stores and shifted its remaining stores to a curbside pickup model. Under this model, customers were not allowed to enter the Company’s stores, resulting in a significant decline in sales compared to the same period of the prior year.

- In May, the Company began a phased approach to reopening its stores for in-store shopping with enhanced safety and sanitation measures such as requiring associates to wear face masks, installing social distancing markers on floors and protective shields at cash registers, and regularly sanitizing shopping carts, pin pads, design desks, and other high-traffic areas. By the end of the second quarter of fiscal 2020, all of the Company's stores were reopened for in-store shopping and have remained open other than for temporary cleaning or in response to certain weather events. Sales have recovered since reopening stores, with third quarter fiscal 2020 sales higher than the same period of the prior year.
- To provide additional liquidity in response to the business uncertainties resulting from the evolving COVID-19 pandemic, the Company entered into a \$75.0 million incremental term loan on May 18, 2020. See Note 3, "Debt" for additional information.
- In response to the impact and uncertainties caused by the COVID-19 pandemic, the Company initially implemented a number of measures to minimize cash outlays, including lowering inventory purchases and related supply chain costs to align with reduced sales, temporarily reducing compensation for all executive officers and most employees, temporarily freezing new hiring, reducing or eliminating non-essential spending, reducing advertising spending, furloughing certain employees, and delaying or reducing rent payments and planned capital expenditures, including new store investments. Since the Company began to reopen stores for in-store shopping starting in May, many of these cost saving measures have been eliminated or relaxed as the Company's financial results have improved.
- On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted, which includes provisions related to income taxes, the temporary deferral of the employer portion of social security taxes, and retention credits for 50% of eligible wages and health benefits paid to employees not providing services due to the COVID-19 pandemic. Refer to Note 4, "Income Taxes" for additional information.

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

Summary of Significant Accounting Policies

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

Impairment Assessment of Goodwill and Other Indefinite-Lived Intangible Assets

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

Due to the impact of the COVID-19 pandemic on the Company's business, the Company qualitatively assessed whether it was more likely than not that the goodwill and indefinite-lived intangible assets were impaired as of March 26, 2020. As part of this assessment, the Company considered information available as of the April 30, 2020 filing date of its first quarter fiscal 2020 10-Q related to the negative financial impact that resulted from temporary store closures and limited curbside operations beginning in late March. Based on this interim impairment assessment, the Company determined that its goodwill and indefinite-lived intangible assets were not impaired as of March 26, 2020. Further, the Company considered events and changes in circumstances subsequent to April 30, 2020, including the improvement in sales since reopening stores to customers for in-store shopping, and did not identify an indication of impairment of its goodwill or indefinite-lived intangible assets as of September 24, 2020.

Leases

During the second and third quarters of fiscal 2020, the Company negotiated rent deferrals or abatements for a significant number of its stores due to the impact of the COVID-19 pandemic. The Company has also delayed rent payments for some stores as negotiations are in process with landlords. Total payments delayed or deferred as of September 24, 2020 were approximately \$8.1 million, of which \$7.1 million was included in the current portion of lease liabilities and \$1.0 million was included in lease liabilities on the condensed consolidated balance sheets.

In accordance with Financial Accounting Standards Board ("FASB") Staff Q&A - Topic 842: "*Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic*" issued in April 2020, the Company has elected to account for lease concessions that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee as though enforceable rights and obligations for those concessions existed in the original lease agreements. For qualified rent deferrals, the Company has recognized a non-interest bearing accrued liability, which will be reduced when the deferred payment is made in the future. For qualifying rent abatement concessions, which are immaterial in aggregate, the Company is recognizing negative lease expense for the amount of the abatement on a straight-line basis over the term of the lease. During the thirteen and thirty-nine weeks ended September 24, 2020, the Company recognized approximately \$0.1 million of negative lease expense related to rent abatement concessions.

Recently Adopted Accounting Pronouncements

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

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

Recently Issued Accounting Pronouncements

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

Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU No. 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*." The ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The ASU also clarifies and amends existing guidance to improve consistent application among reporting entities. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

2. Revenues

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

Deferred Revenue & Contract Liabilities

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

Contract liabilities within the Condensed Consolidated Balance Sheets as of September 24, 2020 and December 26, 2019 primarily consisted of deferred revenue as well as amounts in accrued expenses and other current liabilities related to the Pro Premier loyalty program and unredeemed gift cards. As of September 24, 2020, contract liabilities totaled \$23.6 million and included \$10.9 million of deferred revenue, \$10.5 million of loyalty program liabilities, and \$2.2 million of unredeemed gift cards. As of December 26, 2019, contract liabilities totaled \$15.5 million and included \$6.7 million of deferred revenue, \$6.6 million of loyalty program liabilities, and \$2.2 million of unredeemed gift cards. Of the contract liabilities outstanding as of December 26, 2019, \$8.7 million was recognized in revenue during the thirty-nine weeks ended September 24, 2020.

Disaggregated Revenue

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

Product Category	Thirteen Weeks Ended			
	September 24, 2020		September 26, 2019	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Tile	\$ 173,466	25 %	\$ 133,340	26 %
Laminate / luxury vinyl plank	157,795	23	116,037	22
Decorative accessories / wall tile	135,868	20	100,357	19
Installation materials and tools	113,202	17	88,197	17
Wood	60,515	9	51,807	10
Natural stone	41,712	6	31,511	6
Other (1)	2,289	—	(156)	—
Total	\$ 684,847	100 %	\$ 521,093	100 %

Product Category	Thirty-nine Weeks Ended			
	September 24, 2020		September 26, 2019	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Tile	\$ 427,359	25 %	\$ 394,969	26 %
Laminate / luxury vinyl plank	388,216	23	321,757	21
Decorative accessories / wall tile	337,012	20	292,391	19
Installation materials and tools	280,991	17	256,498	17
Wood	151,411	9	153,799	10
Natural stone	106,908	6	95,301	6
Other (1)	10,239	—	3,739	1
Total	\$ 1,702,136	100 %	\$ 1,518,454	100 %

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

3. Debt

The following table summarizes the Company's long-term debt as of September 24, 2020 and December 26, 2019:

<i>in thousands</i>	September 24, 2020	December 26, 2019
Credit Facilities:		
UBS Facility Term Loan B	\$ 143,902	\$ 145,500
UBS Facility Term Loan B-1	75,000	—
Wells Facility Revolving Line of Credit	—	—
Total secured debt at par value	218,902	145,500
Less: unamortized discount and debt issuance costs	9,364	2,894
Net carrying amount	209,538	142,606
Less: current maturities	2,745	—
Total long-term debt	\$ 206,793	\$ 142,606
Total debt at fair value	\$ 214,524	\$ 145,136

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

The following table summarizes scheduled maturities of the Company's debt, including current maturities, as of September 24, 2020:

<i>in thousands</i>	Amount
Fourteen weeks ending December 31, 2020	\$ 1,098
2021	1,647
2022	2,196
2023	2,196
2024	2,196
Thereafter (1)	209,569
Total minimum debt payments	\$ 218,902

(1) Thereafter maturities are comprised of \$137.8 million due under the term loan B facility and \$71.8 million due under the term loan B-1 facility through February 14, 2027.

Credit Facility Amendments

Term Loan Facility

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

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

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

The Term Loan Facility provides a margin for loans under the term loan B-1 facility of (x) in the case of ABR Loans (as defined in the Term Loan Facility), 3.00% per annum, and (y) in the case of Eurodollar Loans (as defined in the Term Loan Facility), 4.00% per annum (subject to a 1.00% floor on Eurodollar Loans). At September 24, 2020, the applicable interest rate for borrowings was 2.2% for the term loan B facility and 5.0% for the term loan B-1 facility.

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

Gain on Debt Extinguishment

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

ABL Facility

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

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

As of September 24, 2020, the Company's ABL Facility had a maximum availability of \$400.0 million with actual available borrowings limited to the sum, at the time of calculation, of (a) eligible credit card receivables multiplied by the credit card advance rate, plus (b) the cost of eligible inventory, net of inventory reserves, multiplied by the applicable appraisal percentage, plus (c) 85% of eligible net trade receivables, plus (d) all eligible cash on hand, plus (e) 100% of the amount for which the eligible letter of credit must be honored after giving effect to any draws, minus certain Availability Reserves (each component as defined in the ABL Facility). The ABL Facility is available for issuance of letters of credit and contains a sublimit of \$50.0 million for standby letters of credit and commercial letters of credit combined. Available borrowings under the facility are reduced by the face amount of outstanding letters of credit.

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

Net availability under the ABL Facility, as reduced by outstanding letters of credit of \$20.3 million, was \$357.4 million based on financial data as of September 24, 2020.

Covenants

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

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

4. Income Taxes

Effective tax rates for the thirteen and thirty-nine weeks ended September 24, 2020 and September 26, 2019 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 10.4% and (39.3)% for the thirteen weeks ended September 24, 2020 and September 26, 2019, respectively. The Company's effective income tax rate was 2.5% and (4.9)% for the thirty-nine weeks ended September 24, 2020 and September 26, 2019, respectively. For each period, the effective income tax rate was lower than the statutory federal income tax rate of 21.0% primarily due to the recognition of income tax benefits from tax deductions in excess of book expense related to stock option exercises and other discrete items. Additionally, the thirty-nine weeks ended September 24, 2020 included income tax benefits resulting from the enactment of the CARES Act.

The Company recognizes discrete expense for loss contingencies related to uncertain tax positions, including estimated interest and penalties. The Company recognized a \$0.3 million benefit related to uncertain tax positions during the thirteen weeks ended September 24, 2020; no expense related to uncertain tax positions was recognized during the thirteen weeks ended September 26, 2019. The Company recognized \$2.2 million and \$0.1 million of such expense during the thirty-nine weeks ended September 24, 2020 and September 26, 2019, respectively.

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

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

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

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

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

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

As of September 24, 2020, the Company has deferred \$7.1 million of employer social security taxes, of which 50% are required to be deposited by December 2021 and the remaining 50% by December 2022. Deferred employer social security taxes are included in accrued expenses and other current liabilities within the Condensed Consolidated Balance Sheets.

In addition, the Company recorded a credit of \$0.3 million related to employee retention credits made available under the CARES Act during the thirteen weeks ended September 24, 2020 that was recognized as an offset to selling and store operating expenses within the condensed consolidated statements of operations and comprehensive income. The Company recorded \$1.4 million of employee retention credits during the thirty-nine weeks ended September 24, 2020, of which \$1.2 million was recognized as an offset to selling and store operating expenses and \$0.2 million was recognized as an offset to general and administrative expenses within the condensed consolidated statements of operations and comprehensive income.

5. Commitments and Contingencies

Lease Commitments

The Company accounts for leases in accordance with ASC 842, *Leases*. The majority of the Company's long-term operating lease agreements are for its corporate office, retail locations, and distribution centers, which expire in various years through 2041. The majority of the Company's building leases also include options to extend, which are factored into the recognition of their respective assets and liabilities when appropriate based on management's assessment of the probability that the options will be exercised.

When readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, substantially all of the Company's leases do not provide a readily determinable implicit rate. If the rate implicit in the lease is not readily determinable, we use a third party to assist in the determination of a secured incremental borrowing rate, determined on a collateralized basis, to discount lease payments based on information available at lease commencement. The secured incremental borrowing rate is estimated based on yields obtained from Bloomberg for U.S. consumers with a BB- credit rating and is adjusted for collateralization as well as inflation. As of September 24, 2020 and September 26, 2019, the Company's weighted average discount rate was 5.3% and 5.2%, respectively. As of both September 24, 2020 and September 26, 2019, the Company's weighted average remaining lease term was 10 years.

Lease Costs

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

<i>in thousands</i>	<i>Classification (2)</i>	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
		September 24, 2020	September 26, 2019	September 24, 2020	September 26, 2019
Operating lease cost (1):	Selling and store operating	\$ 26,549	\$ 22,969	\$ 77,325	\$ 65,286
	Cost of sales	5,676	4,005	17,005	11,996
	Pre-opening	2,230	1,988	6,103	4,913
	General and administrative	1,029	1,016	3,088	2,712
Operating lease right-of-use asset impairment	General and administrative	—	4,136	—	4,136
Sublease income	Cost of sales	(597)	(588)	(1,791)	(1,817)
Total lease cost		<u>\$ 34,887</u>	<u>\$ 33,526</u>	<u>\$ 101,730</u>	<u>\$ 87,226</u>

(1) Includes variable lease costs, which were immaterial for the thirteen and thirty-nine weeks ended September 24, 2020 and September 26, 2019.

(2) Certain prior period balances related to operating lease costs and sublease income have been reclassified within this table to conform to the current period presentation.

Undiscounted Cash Flows

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 24, 2020 were as follows:

<i>in thousands</i>	Amount
Fourteen weeks ending December 31, 2020	\$ 135,857
2021	139,457
2022	133,226
2023	133,531
2024	124,733
Thereafter	663,679
Total minimum lease payments (2)	\$ 1,330,483
Less: amount of lease payments representing interest	322,973
Present value of future minimum lease payments	1,007,510
Less: current obligations under leases	92,809
Long-term lease obligations	\$ 914,701

(2) Future lease payments exclude approximately \$47.3 million of legally binding minimum lease payments for operating leases signed but not yet commenced.

For the thirty-nine weeks ended September 24, 2020 and September 26, 2019, cash paid for operating leases was \$92.6 million and \$80.2 million, respectively.

Litigation

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

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

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

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

6. Stock-based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation- Stock Compensation*, which requires measurement of compensation cost for all stock awards at fair value on the date of grant and recognition of compensation, net of forfeitures, over the requisite service period for awards expected to vest. Stock-based compensation expense for the thirty-nine weeks ended September 24, 2020 and September 26, 2019 was \$11.5 million and \$6.7 million, respectively, and was included in general and administrative expenses on the Company's condensed consolidated statement of operations and comprehensive income.

Stock Options

The stock options granted to eligible employees during the thirty-nine weeks ended September 24, 2020 vest in four ratable annual installments on each of the first four anniversaries of the grant date, subject to the grantee's continued service through the applicable vesting date. Stock option activity during the thirty-nine weeks ended September 24, 2020 was as follows:

	Options	Weighted Average Exercise Price
Outstanding at December 27, 2019	6,037,079	\$ 13.64
Granted	279,504	57.25
Exercised	(2,027,087)	7.49
Forfeited or expired	(100,539)	25.10
Outstanding at September 24, 2020	4,188,957	\$ 19.25
Vested and exercisable at September 24, 2020	2,083,405	\$ 11.03

The Company estimated the fair value of stock option grants using the Black-Scholes-Merton option pricing model with the following weighted average assumptions during the period:

	Thirty-nine Weeks Ended September 24, 2020
Risk-free interest rate	1.21 %
Expected volatility	38.7 %
Expected life (in years)	5.75
Dividend yield	— %

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

The weighted average grant date fair value of stock options granted during the thirty-nine weeks ended September 24, 2020 was \$21.81. The Company's total unrecognized compensation cost related to stock options as of September 24, 2020 was \$17,917 thousand, which is expected to be recognized over a weighted average period of 2.4 years.

Restricted Stock Units

During the thirty-nine weeks ended September 24, 2020, the Company granted restricted stock units to certain employees that represent an unfunded, unsecured right to receive a share of the Company's Class A common stock upon vesting. These awards vest in four ratable annual installments on each of the first four anniversaries of the grant date, subject to the grantee's continued service through the applicable vesting date. The fair value of the restricted stock units was determined based on the closing price of the Company's Class A common stock on the date of grant.

The following table summarizes restricted stock unit activity during the thirty-nine weeks ended September 24, 2020:

	Restricted Stock Units
Unvested at December 27, 2019	—
Granted	115,765
Vested	—
Forfeited	(3,728)
Unvested at September 24, 2020	112,037

The weighted average grant date fair value of the restricted stock units granted during the thirty-nine weeks ended September 24, 2020 was \$56.89. The Company's total unrecognized compensation cost related to restricted stock units as of September 24, 2020 was \$5,470 thousand, which is expected to be recognized over a weighted average period of 3.4 years.

Restricted Stock Awards

During the thirty-nine weeks ended September 24, 2020, the Company issued restricted stock awards to certain executive officers and non-employee directors comprised of performance-based restricted stock, total shareholder return ("TSR") awards, and service-based restricted stock. The performance-based restricted stock cliff vest based on (i) the Company's achievement of predetermined financial metrics at the end of a three-year performance period and (ii) the grantee's continued service through the vesting date. The TSR awards cliff vest based on (i) the Company's relative TSR compared to a specified peer group, with no vesting unless the Company's TSR exceeds the median of the specified peer group and (ii) the grant recipient continues service through the vesting date.

The following table summarizes restricted stock award activity during the thirty-nine weeks ended September 24, 2020:

	Restricted Stock Awards		
	Service-based	Performance-based	TSR
Unvested at December 27, 2019	37,032	—	—
Granted	102,931	160,315	104,456
Vested	(3,870)	—	—
Forfeited	—	—	—
Unvested at September 24, 2020	136,093	160,315	104,456

The fair value of performance-based and service-based restricted stock awards is based on the closing market price of the Company's Class A common stock on the date of grant. The fair value of the TSR awards is estimated on grant date using the Monte Carlo valuation method. Compensation cost for restricted stock awards is recognized using the straight-line method over the requisite service period, which for each of the awards is the service vesting period. The weighted average grant date fair value of the respective awards granted during the thirty-nine weeks ended September 24, 2020 was \$53.85. As of September 24, 2020, total unrecognized compensation cost related to unvested restricted stock awards was \$16,850 thousand, which is expected to be recognized over a weighted average period of 2.9 years.

7. Earnings Per Share

Net Income per Common Share

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

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 24, 2020	September 26, 2019	September 24, 2020	September 26, 2019
<i>in thousands, except per share data</i>				
Net income	\$ 68,774	\$ 40,974	\$ 137,841	\$ 115,290
Basic weighted average shares outstanding	103,180	100,137	102,308	98,855
Dilutive effect of share-based awards	3,199	5,043	3,500	5,957
Diluted weighted average shares outstanding	106,379	105,180	105,808	104,812
Basic earnings per share	\$ 0.67	\$ 0.41	\$ 1.35	\$ 1.17
Diluted earnings per share	\$ 0.65	\$ 0.39	\$ 1.30	\$ 1.10

The following share-based awards have been excluded from the computation of dilutive earnings per share because their effect would be anti-dilutive:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 24, 2020	September 26, 2019	September 24, 2020	September 26, 2019
<i>in thousands</i>				
Stock options	266	281	481	997

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 26, 2019 and filed with the Securities and Exchange Commission (the "SEC") on February 20, 2020 (the "Annual Report"). As used in this Quarterly Report, except where the context otherwise requires or where otherwise indicated, the terms "Floor & Decor," "Company," "we," "our" or "us" refer to Floor & Decor Holdings, Inc. and its subsidiaries.

Forward-Looking Statements

The discussion in this Quarterly Report, including under this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part I and Item 1A, "Risk Factors" of Part II, contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical fact contained in this Quarterly Report, including statements regarding the Company's future operating results and financial position, business strategy and plans, objectives of management for future operations, and the impact of the coronavirus (COVID-19) pandemic, are forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "could," "seeks," "target," "projects," "contemplates," "believes," "estimates," "predicts," "budget," "potential" or "continue" or the negative of these terms or other similar expressions.

The forward-looking statements contained in this Quarterly Report are only predictions. Although we believe that the expectations reflected in the forward-looking statements in this Quarterly Report are reasonable, we cannot guarantee future events, results, performance or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements in this Quarterly Report, including, without limitation, those factors described in this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part I and Item 1A, "Risk Factors" of Part II. Some of the key factors that could cause actual results to differ from our expectations include the following:

- an overall decline in the health of the economy, the hard surface flooring industry, consumer spending and the housing market, including as a result of the COVID-19 pandemic;
- an economic recession or depression, including as a result of the COVID-19 pandemic;
- the inability to staff our stores sufficiently, including for reasons due to the COVID-19 pandemic;
- the impacts of the COVID-19 pandemic or any natural disaster or unexpected event, including any impacts on the credit markets, our lenders, us, our operations, or our future financial or operational results;
- the resignation, incapacitation or death of any key personnel;
- any disruption in our distribution capabilities resulting from our inability to operate our distribution centers going forward;
- competition from other stores and internet-based competition;
- our failure to execute our business strategy effectively and deliver value to our customers;
- our inability to manage our growth;
- our inability to manage costs and risks relating to new store openings;
- our dependence on foreign imports for the products we sell, which may include the impact of tariffs and other duties;
- our inability to find, train and retain key personnel;
- 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;
- our failure to successfully anticipate consumer preferences and demand;

- our inability to find available locations for our stores or our store support center on terms acceptable to us;
- our inability to obtain merchandise on a timely basis at prices acceptable to us;
- suppliers may sell similar or identical products to our competitors;
- our inability to maintain sufficient levels of cash flow to meet growth expectations;
- our inability to manage our inventory obsolescence, shrinkage and damage;
- fluctuations in material and energy costs; and
- restrictions imposed by our indebtedness on our current and future operations.

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

Overview

Founded in 2000, Floor & Decor is a high growth, differentiated, multi-channel specialty retailer of hard surface flooring and related accessories with 128 warehouse format stores across 30 states as of September 24, 2020. We believe that we offer the industry's broadest in-stock assortment of tile, wood, laminate/luxury vinyl plank, and natural stone flooring along with decorative and installation accessories at everyday low prices positioning us as the one stop destination for our customers' entire hard surface flooring needs. We appeal to a variety of customers, including professional installers and commercial businesses ("Pro"), Do-it-Yourself customers ("DIY"), and customers who buy the products for professional installation.

We operate on a 52- or 53-week fiscal year ending the Thursday on or preceding December 31. The following discussion contains references to the first thirty-nine weeks of fiscal 2020 and fiscal 2019, which ended on September 24, 2020 and September 26, 2019, respectively.

During the thirty-nine weeks ended September 24, 2020, we continued to make long-term key strategic investments, including:

- opening eight new warehouse-format stores and one design center, ending the quarter with 128 warehouse-format stores and two design centers;
- focusing on innovative new products and localized assortments, supported by inspirational in-store and online visual merchandising solutions;
- investing in our connected customer, in-store designer, and Pro customer personnel and customer relationship technology;
- adding more resources dedicated to serving our Pro customers, including hiring a professional external sales staff to drive more commercial sales;
- increasing proprietary credit offerings, including launching our non-recourse Pro credit card;
- investing capital to continue enhancing the in-store shopping experience for our customers; and
- investing in the protection of the health of our employees and customers, including temporarily implementing a curbside pickup model, shortening store operating hours, and implementing enhanced safety and sanitation measures in our stores.

COVID-19 Update

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

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

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

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

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

There remains substantial uncertainty regarding the potential duration and severity of the COVID-19 pandemic. While we have reopened our stores to the public, we may face closure requirements and other operational restrictions at some or all of our physical locations for prolonged periods of time due to, among other factors, evolving and potentially more stringent federal, state, and local restrictions including shelter-in-place orders. We also may face store closures due to staffing challenges, including if store associates are in quarantine due to the COVID-19 pandemic. In addition, changes in consumer behavior due to financial, health, or other concerns may reduce consumer demand for our products. As a result of these and other uncertainties, the full financial impact of the pandemic cannot be reasonably estimated at this time.

Coronavirus Aid, Relief, and Economic Security Act

As discussed in Note 4, “Income Taxes,” on March 27, 2020, the President of the United States signed the CARES Act into law. Based on our assessment of the CARES Act, we estimate the following benefits to the Company:

- Due to the accelerated depreciation under the CARES Act of QIP placed in service during fiscal 2018 and 2019, we incurred a net operating loss for fiscal 2019 that we expect to carry back to prior years during which the federal tax rate was 35%, resulting in a \$7.7 million income tax benefit during the second quarter of fiscal 2020. We expect to receive an estimated \$28.4 million of cash refunds related to the accelerated QIP depreciation and the carry back of fiscal 2019 net operating losses. Furthermore, we anticipate the changes to QIP depreciation and net operating loss carryback rules to result in reductions to estimated income tax payments for fiscal 2020.
- Cash savings in fiscal 2020 from the temporary deferral of the employer portion of social security taxes. As of September 24, 2020, we have deferred \$7.1 million of employer social security taxes, of which 50% are required to be deposited by December 2021 and the remaining 50% by December 2022.
- The receipt of refundable payroll tax credits related to employee retention. For the thirteen and thirty-nine weeks ended September 24, 2020, we recognized employee retention credits totaling \$0.3 million and \$1.4 million, respectively.

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

While our revenue and earnings have improved during the third quarter of fiscal 2020 compared to the first and second quarters of the year, the full impact that the pandemic could have on our business remains highly uncertain. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - COVID-19 Update” and Item 1A., “Risk Factors” for more information about the potential impacts that the COVID-19 pandemic may have on our results of operations and overall financial performance for future periods. The following table summarizes key components of our results of operations for the periods indicated, both in dollars and as a percentage of net sales (actuals in thousands; dollar changes in millions):

	Thirteen Weeks Ended					
	September 24, 2020		September 26, 2019			
	Actual	% of Sales	Actual	% of Sales	\$ Increase/(Decrease)	% Increase/(Decrease)
Net sales	\$ 684,847	100.0 %	\$ 521,093	100.0 %	\$ 163.8	31.4 %
Cost of sales	390,219	57.0	307,305	59.0	82.9	27.0
Gross profit	294,628	43.0	213,788	41.0	80.8	37.8
Operating expenses:						
Selling and store operating	171,513	25.0	136,958	26.3	34.6	25.2
General and administrative	39,286	5.7	37,246	7.1	2.0	5.5
Pre-opening	5,027	0.7	8,184	1.6	(3.2)	(38.6)
Total operating expenses	215,826	31.5	182,388	35.0	33.4	18.3
Operating income	78,802	11.5	31,400	6.0	47.4	151.0
Interest expense, net	2,024	0.3	1,978	0.4	—	2.3
Income before income taxes	76,778	11.2	29,422	5.6	47.4	161.0
Provision/(benefit) for income taxes	8,004	1.2	(11,552)	(2.2)	19.6	NM
Net income	\$ 68,774	10.0 %	\$ 40,974	7.9 %	\$ 27.8	67.8 %

	Thirty-nine Weeks Ended					
	September 24, 2020		September 26, 2019			
	Actual	% of Sales	Actual	% of Sales	\$ Increase/(Decrease)	% Increase/(Decrease)
Net sales	\$ 1,702,136	100.0 %	\$ 1,518,454	100.0 %	\$ 183.7	12.1 %
Cost of sales	974,784	57.3	885,469	58.3	89.3	10.1
Gross profit	727,352	42.7	632,985	41.7	94.4	14.9
Operating expenses:						
Selling and store operating	463,036	27.2	398,984	26.3	64.1	16.1
General and administrative	103,857	6.1	98,364	6.5	5.5	5.6
Pre-opening	13,894	0.8	18,580	1.2	(4.7)	(25.2)
Total operating expenses	580,787	34.1	515,928	34.0	64.9	12.6
Operating income	146,565	8.6	117,057	7.7	29.5	25.2
Interest expense, net	6,134	0.4	7,122	0.5	(1.0)	(13.9)
Gain on early extinguishment of debt	(1,015)	(0.1)	—	—	(1.0)	NM
Income before income taxes	141,446	8.3	109,935	7.2	31.5	28.7
Provision/(benefit) for income taxes	3,605	0.2	(5,355)	(0.4)	9.0	NM
Net income	\$ 137,841	8.1 %	\$ 115,290	7.6 %	\$ 22.6	19.6 %

NM – Not meaningful

Selected Financial Information

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 24, 2020	September 26, 2019	September 24, 2020	September 26, 2019
Comparable store sales (% change)	18.4 %	4.6 %	— %	3.6 %
Comparable average ticket (% change)	(0.5)%	2.8 %	1.4 %	2.0 %
Comparable customer transactions (% change)	18.9 %	1.8 %	(1.4)%	1.6 %
Number of warehouse-format stores	128	113	128	113
Adjusted EBITDA (in thousands)	\$ 106,728	\$ 57,147	\$ 225,409	\$ 183,807
Adjusted EBITDA margin	15.6 %	11.0 %	13.2 %	12.1 %

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

Net Sales

Net sales during the thirteen weeks ended September 24, 2020 increased \$163.8 million, or 31.4%, compared to the corresponding prior year period due to an increase in comparable store sales of 18.4% and the opening of 15 new warehouse stores since September 26, 2019. The comparable store sales increase during the period of 18.4%, or \$95.9 million, was driven by an 18.9% increase in comparable customer transactions, partially offset by a 0.5% decrease in comparable average ticket. Comparable store sales increased among all six of our product categories during the period. Non-comparable store sales increased \$67.9 million during the same period primarily due to the increase in new stores. We believe the increase in third quarter fiscal 2020 sales relative to the first half of the year is due in part to (i) unprecedented government intervention to help mitigate the negative impacts of the COVID-19 pandemic and (ii) customers nesting at home and investing in home improvements while spending less on leisure activities like travel, eating out, sporting events, and hotels. Our unique business model, with substantial amounts of in-stock inventory, is also contributing to the sales increase.

Net sales during the thirty-nine weeks ended September 24, 2020 increased \$183.7 million, or 12.1%, compared to the corresponding prior year period due to an increase in non-comparable store sales from the opening of 15 new warehouse stores since September 26, 2019. Comparable store sales during the period were unchanged from the corresponding prior year period driven by a 1.4% decrease in comparable customer transactions that was offset by a 1.4% increase in comparable average ticket. Among our six product categories, three experienced comparable store sales increases including laminate/luxury vinyl plank, decorative accessories, and stone.

Gross Profit and Gross Margin

Gross profit during the thirteen weeks ended September 24, 2020 increased \$80.8 million, or 37.8%, compared to the corresponding prior year period. This increase in gross profit was driven by the 31.4% increase in net sales and an increase in gross margin to 43.0%, up approximately 200 basis points from 41.0% in the same period a year ago. The increase in gross margin was primarily due to higher product margin driven by continued enhancements to our merchandising strategies and improved leverage of our distribution center and supply chain infrastructure on higher sales, partially offset by higher clearance markdowns in our wood category.

Gross profit during the thirty-nine weeks ended September 24, 2020 increased \$94.4 million, or 14.9%, compared to the corresponding prior year period. This increase in gross profit was driven by the 12.1% increase in net sales and an increase in gross margin to 42.7%, up approximately 100 basis points from 41.7% in the same period a year ago. The increase in gross margin was primarily due to higher product margin driven by lower costs from the elimination of certain tariffs and improved merchandising strategies, partially offset by higher distribution center costs related to our new distribution center in Maryland and higher clearance markdowns in our wood category.

Selling and Store Operating Expenses

Selling and store operating expenses during the thirteen weeks ended September 24, 2020 increased \$34.6 million, or 25.2%, compared to the thirteen weeks ended September 26, 2019. The increase was primarily attributable to 15 new warehouse stores opened since September 26, 2019 as well as additional staffing to satisfy sales growth. As a percentage of net sales, selling and store operating expenses decreased approximately 130 basis points to 25.0% from 26.3% in the corresponding prior year period. This decline was primarily driven by leveraging our costs across an increase in comparable store sales. Comparable store selling and store operating expenses as a percentage of comparable store sales decreased by approximately 220 basis points as sales grew faster than new hiring during the current quarter and as our occupancy costs were lower as a percentage of net revenue due to the increase in sales.

Selling and store operating expenses during the thirty-nine weeks ended September 24, 2020 increased \$64.1 million, or 16.1%, compared to the thirty-nine weeks ended September 26, 2019, due primarily to opening 15 new warehouse stores since September 26, 2019. As a percentage of net sales, our selling and store operating expenses increased approximately 90 basis points to 27.2% from 26.3% in the corresponding prior year period. The increase was primarily attributable to higher occupancy costs for new stores open less than one year. Comparable store selling and store operating expenses as a percentage of comparable store sales decreased by approximately 30 basis points over this same period due to a decrease in advertising and other spending.

General and Administrative Expenses

General and administrative expenses, which are typically expenses incurred outside of our stores, increased \$2.0 million, or 5.5%, during the thirteen weeks ended September 24, 2020 compared to the corresponding prior year period due to higher incentive compensation expense and costs to support store growth, including increased depreciation related to technology and other store support center investments and higher occupancy costs for our new store support center that we moved into during the fourth quarter of fiscal 2019. Our general and administrative expenses as a percentage of net sales decreased approximately 140 basis points to 5.7%, down from 7.1% during the thirteen weeks ended September 26, 2019. Approximately 80 basis points of the decline was due to the prior year period including a \$4.1 million impairment charge related to the operating lease right-of-use asset for our former store support center in Smyrna, Georgia. There was no such impairment charge during the current quarter. The remaining 60 basis points of the decline was primarily due to leverage of our general and administrative costs on higher net sales and lower expenses for travel, meals, and meetings.

General and administrative expenses increased \$5.5 million, or 5.6%, during the thirty-nine weeks ended September 24, 2020 compared to the corresponding prior year period due to higher incentive compensation expense and costs to support store growth, including increased depreciation related to technology and other store support center investments and higher occupancy costs for our new store support center that we moved into during the fourth quarter of fiscal 2019. Our general and administrative expenses as a percentage of net sales decreased approximately 40 basis points to 6.1%, down from 6.5% during the thirty-nine weeks ended September 26, 2019. The decline was primarily due to the \$4.1 million operating lease right-of-use asset impairment recognized during the prior year period, while there was no such impairment charge during the thirty-nine weeks ended September 24, 2020. In addition, expenses for travel, meals, and meetings decreased year-over-year due to a reduction of in-person meetings during the pandemic.

Pre-Opening Expenses

Pre-opening expenses during the thirteen weeks ended September 24, 2020 decreased \$3.2 million, or 38.6%, compared to the corresponding prior year period. The decrease is primarily the result of a decline in the number of stores that we either opened or were preparing for opening compared to the prior year period. We opened three warehouse stores and one design center during the thirteen weeks ended September 24, 2020 as compared to opening seven warehouse stores during the thirteen weeks ended September 26, 2019.

Pre-opening expenses during the thirty-nine weeks ended September 24, 2020 decreased \$4.7 million, or 25.2%, compared to the corresponding prior year period. The decrease is primarily the result of a decline in the number of stores that we either opened or were preparing for opening compared to the prior year period. During the thirty-nine weeks ended September 24, 2020, we opened warehouse eight stores and one design center as compared to opening thirteen warehouse stores during the thirty-nine weeks ended September 26, 2019.

Interest Expense

Net interest expense during the thirteen weeks ended September 24, 2020 increased by less than \$0.1 million, or 2.3%, compared to the corresponding prior year period. The slight increase in interest expense was primarily due to interest on new borrowings in fiscal 2020 that was substantially offset by interest capitalized during the construction period of certain capital assets and higher interest income related to cash on hand during the thirteen weeks ended September 24, 2020 compared to the third quarter of fiscal 2019.

Net interest expense during the thirty-nine weeks ended September 24, 2020 decreased \$1.0 million, or 13.9%, compared to the corresponding prior year period. The decrease in interest expense was primarily due to a decrease in interest rates on borrowings, an increase in interest capitalized during the construction period of certain capital assets, and higher interest income related to cash on hand and tariff refund receivables during the thirty-nine weeks ended September 24, 2020 compared to the corresponding prior year period.

Income Taxes

The provision for income taxes was an \$8.0 million expense during the thirteen weeks ended September 24, 2020 compared to an \$11.6 million benefit during the thirteen weeks ended September 26, 2019. The effective tax rate was 10.4% for the thirteen weeks ended September 24, 2020 compared to (39.3)% in the corresponding prior year period. The increase in the effective tax rate was primarily due to the recognition of lower excess tax benefits related to stock option exercises during the current quarter compared to the same period of the prior year.

The provision for income taxes was a \$3.6 million expense during the thirty-nine weeks ended September 24, 2020 compared to a \$5.4 million benefit during the thirty-nine weeks ended September 26, 2019. The effective tax rate was 2.5% for the thirty-nine weeks ended September 24, 2020 compared to (4.9)% for the thirty-nine weeks ended September 26, 2019. The increase in the effective tax rate was primarily due to an increase in operating income, the recognition of discrete expense for loss contingencies related to uncertain tax positions, and a decrease in excess tax benefits related to stock option exercises, partially offset by income tax benefits related to the CARES Act.

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 Credit Facilities, to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, and to compare our performance against that of other peer companies using similar measures. EBITDA and Adjusted EBITDA are also frequently used by analysts, investors, and other interested parties as performance measures to evaluate companies in our industry.

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

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

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

<i>in thousands</i>	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 24, 2020	September 26, 2019	September 24, 2020	September 26, 2019
Net income	\$ 68,774	\$ 40,974	\$ 137,841	\$ 115,290
Depreciation and amortization (1)	22,566	18,188	66,230	52,451
Interest expense, net	2,024	1,978	6,134	7,122
Gain on early extinguishment of debt (2)	—	—	(1,015)	—
Income tax expense (benefit)	8,004	(11,552)	3,605	(5,355)
EBITDA	101,368	49,588	212,795	169,508
Stock compensation expense (3)	4,400	2,242	11,542	6,660
COVID-19 costs (4)	571	—	3,482	—
Tariff refunds (5)	—	—	(4,016)	—
Loss on asset impairments and disposals, net (6)	—	4,133	—	4,111
Other (7)	389	1,184	1,606	3,528
Adjusted EBITDA	\$ 106,728	\$ 57,147	\$ 225,409	\$ 183,807

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

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

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

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

(5) Represents income for estimated tariff refunds recognized for certain products. Interest income for the tariff refunds is included within interest expense, net in the table above.

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

(7) Other adjustments include amounts management does not consider indicative of our core operating performance. Amounts for the thirteen weeks ended September 24, 2020 primarily relate to costs associated with a secondary public offering of the Company's Class A common stock by certain of our stockholders, and amounts for the thirty-nine weeks ended September 24, 2020 relate to the costs associated with two such public offerings and the legal fees associated with the February 2020 amendment to our senior secured term loan credit facility. Amounts for the thirteen and thirty-nine weeks ended September 26, 2019 primarily relate to costs associated with the secondary public offering of our Class A common stock by certain of our stockholders, the relocation of our store support center in Smyrna, Georgia, and the closure of our Miami distribution center. The Company did not sell any shares in the offerings and did not receive any proceeds from the sale of shares by the selling stockholders.

Liquidity and Capital Resources

Liquidity is provided primarily by our cash flows from operations and our \$400.0 million ABL Facility. Unrestricted liquidity based on our September 24, 2020 financial data was \$628.5 million, consisting of \$271.1 million in cash and cash equivalents and \$357.4 million immediately available for borrowing under the ABL Facility without violating any covenants thereunder.

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

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

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

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

Twice a year, we conduct a clearance event with the goal of selling through discontinued inventory, followed by donations of the aged discontinued inventory that we are unable to sell. We generally conduct a larger clearance event during our third fiscal quarter followed by a smaller clearance event towards the end of the fiscal year. We define aged discontinued inventory as inventory in discontinued status for more than 12 months that we intend to sell or donate. As of September 24, 2020, we had \$2.4 million of aged discontinued inventory that we intend to donate if unable to sell.

Impact of the COVID-19 Pandemic on Liquidity

In more normal times and historically, our primary sources of funds for our business activities are cash flows from operations and our existing credit facilities. As described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations - COVID-19 Update” and “Item 1A. Risk Factors,” the COVID-19 pandemic had a significant negative impact on our business and financial results during the first half of fiscal 2020, and the full financial impact of the pandemic cannot be reasonably estimated at this time due to uncertainty regarding its potential severity and duration. As a result of the COVID-19 pandemic, we may be required to rely more heavily on our cash reserves and lines of credit than we have in recent years. In response to these uncertainties, we have taken proactive steps to improve liquidity and maintain financial flexibility, including making targeted reductions in operating expenses and capital expenditures and entering into a \$75.0 million incremental term loan (see Note 3, “Debt” for additional details).

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

Due to the increase in sales at our stores since reopening for in-store shopping, we have revised our planned capital expenditures for fiscal 2020 higher, although these amounts continue to remain below our initial 2020 estimates prior to the pandemic. The exact scope of changes in our capital plans is evolving and will ultimately depend on a variety of factors, including the impact of the COVID-19 pandemic on our business. Total capital expenditures are currently planned to be between approximately \$200.0 million to \$208.0 million, compared to the approximately \$188.0 million to \$196.0 million we had planned at the end of the second quarter of fiscal 2020, and will be funded primarily by cash generated from operations and borrowings under the ABL Facility. Our capital needs may change in the future due to changes in our business, including in response to the COVID-19 pandemic, or new opportunities that we choose to pursue; however, we currently expect the following for capital expenditures in fiscal 2020:

- open 13 warehouse-format stores as well as one small-format, standalone design center and start construction on stores opening in early 2021 using approximately \$132.0 million to \$136.0 million of cash;
- invest in existing store remodeling projects and our distribution centers using approximately \$46.0 million to \$48.0 million of cash; and
- invest in information technology infrastructure, e-commerce, and other store support center initiatives using approximately \$22.0 million to \$24.0 million of cash.

Cash Flow Analysis

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

<i>in thousands</i>	Thirty-nine Weeks Ended	
	September 24, 2020	September 26, 2019
Net cash provided by operating activities	\$ 269,685	\$ 209,594
Net cash used in investing activities	(109,653)	(141,015)
Net cash provided by financing activities	84,057	14,883
Net increase in cash and cash equivalents	\$ 244,089	\$ 83,462

Net Cash Provided by Operating Activities

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

Net cash provided by operating activities was \$269.7 million for the thirty-nine weeks ended September 24, 2020 and \$209.6 million for the thirty-nine weeks ended September 26, 2019. The increase in net cash provided by operating activities was primarily the result of an increase in net income and decreases in working capital and cash paid for income taxes.

Net Cash Used in Investing Activities

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

Capital expenditures during the thirty-nine weeks ended September 24, 2020 and September 26, 2019 were \$109.7 million and \$141.0 million, respectively. The decline is primarily related to the decrease in new stores that opened or were under construction during the thirty-nine weeks ended September 24, 2020 compared to the corresponding prior year period. We are preparing for an additional twelve new stores to be opened during the fourth quarter of fiscal 2020 and first quarter of fiscal 2021, and we generally incur significant capital expenditures for new stores a few to several months in advance of opening. During the thirty-nine weeks ended September 24, 2020, approximately 71% of capital expenditures were for new stores and 16% were for existing stores and distribution centers, while the remaining spending was associated with information technology, e-commerce, and store support center investments to support our growth.

Net Cash Provided by Financing Activities

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

Net cash provided by financing activities was \$84.1 million for the thirty-nine weeks ended September 24, 2020 compared to \$14.9 million for the thirty-nine weeks ended September 26, 2019. The increase in net cash provided by financing activities was primarily driven by net proceeds from borrowings under the incremental term loan facility during the second quarter of fiscal 2020.

Credit Facility Amendments

On February 14, 2020, we entered into a repricing and third amendment to the credit agreement governing our senior secured term loan facility (as amended, the “Term Loan Facility”) which, among other things, (a) refinanced our existing term loan B facility with a new term loan B facility in the aggregate principal amount of approximately \$144.6 million, (b) extended the stated maturity date under the Term Loan Facility to February 14, 2027, and (c) included an “accordion” feature that allows us to borrow additional amounts as described more fully in Note 3, “Debt.”

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

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

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

Credit Ratings

Our credit ratings are periodically reviewed by rating agencies. In November 2019, Moody's upgraded the Company's issuer corporate family rating from B1 to Ba3 and stable outlook for the Company. In April 2020, Moody's reaffirmed the Company's Ba3 rating but changed our outlook to negative from stable. In November 2019, S&P reaffirmed the Company's corporate credit rating of BB- and its stable outlook for the Company. These ratings and our current credit condition affect, among other things, our ability to access new capital. Negative changes to these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. Our credit ratings could be lowered or rating agencies could issue adverse commentaries in the future, which could have a material adverse effect on our business, financial condition, results of operations, and liquidity. In particular, a weakening of our financial condition, including any further increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, could result in a credit rating downgrade or change in outlook, or could otherwise increase our cost of borrowing.

U.S. Tariffs and Global Economy

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

Antidumping and Countervailing Duties

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

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

We took steps to mitigate the risk of future exposure by sourcing from alternative countries, and we are no longer importing applicable products from China. We have made duty deposits for applicable entries according to U.S. Customs and Border Protection entry procedures. While we do not currently believe additional duty deposits will apply, we believe our potential exposure could be up to approximately \$6.0 million. The actual additional duties, if applicable, could differ from this estimate. We have not established a reserve for this matter as we currently do not believe additional duties will be applicable. Potential costs and any attendant impact on pricing arising from these tariffs or potential duties, and any further expansion in the types or levels of tariffs or duties implemented, could require us to modify our current business practices and could adversely affect our business, financial condition, and results of operations.

Contractual Obligations

There were no material changes to our contractual obligations outside the ordinary course of our business during the thirty-nine weeks ended September 24, 2020.

Off-Balance Sheet Arrangements

For the thirty-nine weeks ended September 24, 2020, we were not party to any material off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, net sales, expenses, results of operations, liquidity, capital expenditures or capital resources. We do not have any relationship with unconsolidated entities or financial partnerships for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of Part II of the Annual Report. While our exposure to market risk has not changed materially since December 26, 2019, uncertainty with respect to the economic effects of the COVID-19 pandemic has introduced significant volatility in the financial markets, and the effects of this volatility could materially impact our risks related to foreign currencies, interest rates, and commodity prices. Given the evolving nature of the pandemic, its potential impact on these and other market risks remains uncertain at this time.

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 September 24, 2020, the remaining principal balance of our outstanding variable rate debt aggregated approximately \$218.9 million. A 1.0% increase in the effective interest rate for this debt would cause an increase in interest expense of approximately \$2.2 million over the next twelve months. To lessen our exposure to changes in interest rate risk, we entered into a \$102.5 million interest rate cap agreement in November 2016 with Wells Fargo that capped our LIBOR at 2.0% beginning in December 2016. We do not anticipate that the interest rate cap agreement with Wells Fargo will significantly impact interest expense in the near term as the U.S. Federal Reserve and other central banks have taken recent action to lower interest rates in response to the COVID-19 pandemic, and interest rates are near historic lows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to provide reasonable assurance that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in reports filed or submitted under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. The Company's management, including the chief executive officer and the chief financial officer, have reviewed the effectiveness of the Company's disclosure controls and procedures as of September 24, 2020 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 September 24, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report filed with the SEC on February 20, 2020, which could materially affect our business, financial condition and/or operating results, as well as the following:

During the first and second quarters of fiscal 2020, the effects of the COVID-19 pandemic negatively impacted our business and could re-emerge and have a negative impact on our net sales, results of operations, financial position, store operations, new store openings and earnings.

On March 11, 2020, the World Health Organization announced that infections of the coronavirus (COVID-19) had become a pandemic, and on March 13, 2020, the U.S. President announced a National Emergency relating to the COVID-19 pandemic. National, state and local authorities have recommended social distancing and some authorities have imposed quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures, while intended to protect human life, have had and are expected to continue to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The COVID-19 pandemic and preventative measures taken to contain or mitigate its spread have caused, and are continuing to cause, business shutdowns, or the re-introduction of business shutdowns, cancellations of events and restrictions on travel, significant reductions in demand for certain goods and services, reductions in business activity and financial transactions, supply chain interruptions and overall economic and financial market instability both globally and in the United States. Such effects will likely continue for the duration of the pandemic, which is uncertain, and for some period thereafter. While several countries, as well as certain states, counties and cities in the United States, have relaxed the public health restrictions with a view to partially or fully reopening their economies, recurring COVID-19 outbreaks have led to the re-introduction of such restrictions in certain states in the United States and globally and could continue to lead to the re-introduction of such restrictions elsewhere. Additionally, the absence or delay of viable treatment options or a vaccine could lead people to continue to self-isolate and not participate in the economy at pre-pandemic levels for a prolonged period of time. Even after the COVID-19 pandemic subsides, the U.S. economy and most other major global economies may experience or continue to experience a recession, and our business and operations could be materially adversely affected by a prolonged recession in the U.S. and other major markets.

In response to the COVID-19 pandemic and these changing conditions, beginning in mid-March, we closed some of our stores and shifted other stores to a curbside pickup model in the jurisdictions where government regulations permitted our stores to continue to operate and where the customer demand made such operations sustainable. We also furloughed or modified work hours for many of our employees and identified and implemented cost savings measures throughout our operations. Beginning in May and concluding in June, we implemented a phased approach to reopening stores for in-store shopping with enhanced safety and sanitation measures such as requiring associates to wear face masks, installing social distancing markers on floors and protective shields at cash registers, and regularly sanitizing shopping carts, pin pads, design desks, and other high-traffic areas. The COVID-19 pandemic and these responses had and may in the future have an adverse affect on our customer traffic, sales, operating costs, and profit, and we cannot predict how long the COVID-19 pandemic will last, whether we will be required to re-close stores or what other government responses may occur. The COVID-19 pandemic has also adversely affected our ability to staff our existing stores and open new stores, and we have experienced construction delays.

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

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

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

- Additional temporary store closures due to reduced workforces or government mandates or the need to utilize a curbside pickup model or otherwise modify our operations;
- Reduced workforces, which may be caused by, but not limited to, the temporary inability of the workforce to work due to illness, quarantine, or government mandates or the inability to sufficiently staff our stores;

- Failure of third parties on which we rely, including our suppliers, contract manufacturers, contractors, commercial banks, joint venture partners and external business partners to meet their obligations to the company, or significant disruptions in their ability to do so which may be caused by their own financial or operational difficulties and may adversely impact our operations;
- Supply chain risks such as scrutiny or embargoing of goods produced in infected areas;
- Construction delays or halts, preventing us from opening new stores;
- Liquidity strains, which could slow the rate at which we open new stores;
- Inability of our key leaders to visit our stores, which could negatively impact customer service and associate morale;
- Increased cybersecurity risks due to the number of associates working remotely;
- Increased litigation risk as a result of the pandemic; and
- Reduced consumer traffic and purchasing, which may be caused by, but not limited to, the temporary inability of customers to shop with us due to illness, quarantine or other travel restrictions, or financial hardship, shifts in demand away from discretionary spending, or shifts in demand from higher priced products to lower priced products.

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Exhibit Description
3.1	Restated Certificate of Incorporation of Floor & Decor Holdings, Inc. (1)
3.2	Second Amended and Restated Bylaws of Floor & Decor Holdings, Inc. (1)
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 Amendment No. 4 to the Registrant's Registration Statement on Form S-1 (File No. 333-216000) filed with the SEC on April 24, 2017, and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLOOR & DECOR HOLDINGS, INC.

Dated: October 29, 2020

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

Dated: October 29, 2020

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

**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 September 24, 2020;
 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: October 29, 2020

/s/ Thomas V. Taylor

Thomas V. Taylor

Chief Executive Officer

(Principal Executive Officer)

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

I, Trevor S. Lang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Floor & Decor Holdings, Inc. for the fiscal quarter ended September 24, 2020;
 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: October 29, 2020

/s/ Trevor S. Lang

Trevor S. Lang

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended September 24, 2020 of Floor & Decor Holdings, Inc. (the “Company”) as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), Thomas V. Taylor, as Chief Executive Officer of the Company, and Trevor S. Lang, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (“Section 906”), that, to the best of his knowledge:

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

Date: October 29, 2020

/s/ Thomas V. Taylor

Thomas V. Taylor

Chief Executive Officer

(Principal Executive Officer)

Date: October 29, 2020

/s/ Trevor S. Lang

Trevor S. Lang

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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