Risk Factors Comparison 2024-03-01 to 2023-03-01 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

The risks described below could materially and adversely affect our business, results of operations, financial condition and cash flows. These risks are not the only risks that we face. Our business operations could also be affected by additional factors that apply generally to companies operating in the United States and globally, as well as other risks that are not presently known to us or that we currently consider to be immaterial. Risks Related to Our Business Operations Reduced consumer spending due to slower economic growth, economic recession, inflation, higher interest rates, and consumer sentiment could adversely affect demand for our products, our sales and our profit margins. We face a volatile retail environment and changing economic conditions, including but not limited to slower economic growth, ~~economic recession,~~ inflation, a volatile interest and mortgage rate environment and lower existing home sales, which may further adversely affect consumer demand and spending. General economic conditions may result in ~~higher~~ **continued** inflation, which may increase our exposure to higher costs **and may decrease consumer demand** . If we are unable to offset these cost increases by price increases, growth, and / or cost reductions in our operations, these inflationary and other general cost increases could have a material adverse effect on our operating cash flows, profitability, and liquidity. The impact of price increases resulting from current economic conditions has resulted in a decrease in our transactions. Should current economic conditions continue to weaken, consumer sentiment and demand for our products could deteriorate which could adversely affect our sales and our profit margins. Our success depends upon the ability to attract, develop and retain highly qualified associates. We believe that our success has depended and continues to depend on the efforts and capabilities of our associates. If we fail to hire, train, manage, and retain qualified associates with expanded skill sets or the capabilities of delivering on strategic objectives, we could lose sales to our competitors, and our labor costs, results of operations, or the execution of growth strategies could be negatively affected. Our ability to meet our labor needs while controlling labor costs is subject to many external factors including market pressure on wage rates, the size and health of the labor market and our reputation within the labor market. Many associates are in entry- level ~~or part- time~~ roles **supporting the store warehouse** with historically high turnover rates, which has led to increased training and retention costs, particularly in a competitive labor market. Further, our ability to successfully execute organizational changes, including management transitions within the Company' s senior leadership, is critical to our business success. We may not be able to achieve our operational goals if we are unable to attract, develop and retain qualified associates by providing competitive compensation and benefits and an engaging work experience for an inclusive, diverse team and culture. In order to deliver on our vision is to be the customer' s first choice in hard ~~-~~ **and soft** surface flooring by providing the best experience, from inspiration to installation, our distributed operations are reliant upon different store managers and regional managers to motivate people. Our store associates must have expanded skill sets, and if we are unable to hire, train, manage, and retain qualified associates, it may result in inconsistent execution among different stores / different regions based on available labor force. Increased transportation costs could harm our results of operations. The efficient transportation of our products through our supply chain is a critical component of our operations. If the cost of fuel or other costs, such as duties and international container rates rise, it would result in increases in our inventory and cost of sales due to additional transportation charges and fees. Additionally, there are a limited number of delivery companies capable of efficiently transporting our products from our suppliers. Consolidation within this industry could result in increased transportation costs. A reduction in the availability of qualified drivers and / or an increase in driver regulations could continue to increase our costs. **International events in any region could impact our ability to transport goods or increase our costs.** We may be unable to increase the price of our products to offset increased transportation charges, which could cause our operating results to deteriorate. Even as transportation costs moderate, the trailing costs are included in our inventory values, which may result in elevated inventory and costs of goods sold as inventory turns. **Failure to achieve key elements of our growth strategy could prevent us from increasing revenues or returning to profitability.** Our growth strategy is ~~subject~~ **based primarily upon increased utilization of our new Customer Relationship Management (" CRM") system** to ~~many unpredictable factors including~~ **generate more sales opportunities, expanding our carpet offering across our store portfolio, and growing sales service to the Pro customer: • We completed the implementation of our CRM system during fiscal year 2023 and began using the capabilities that it provides to generate more sales opportunities with both Pros and consumers. This system is intended to improve functionality, capability and information flow as well as increase automation in servicing our customers. The failure to successfully realize these benefits** ~~our~~ - **or to drive higher sales as a result of these benefits could materially disrupt our operations, adversely impact customer satisfaction or prevent us from closing potential sales opportunities. • We began offering carpet in a select number of** stores ~~'~~ **in 2023. We anticipate offering carpet in the majority of our stores by the end of 2024. Costs related to expanding carpet offerings require significant capital investment which affects the speed with which we can expand this offering and may limit our profitability and** ability to ~~achieve~~ **invest in other initiatives. Additionally, the level of customer interest in our carpet options at each of our locations may vary from location to location. If customer acceptance of this new product offering fails to align with our targets, we may be unable to reach our** operating targets ~~. As of December 31~~ , ~~2022~~ **and our financial position** , ~~we had 442 stores throughout the United States~~ **liquidity, and results of operations may be adversely affected** . **•** We **generate significant business from** ~~continue to focus on executing~~ our ~~strategy~~ **sales** to **Pros** ~~deliver long- term growth, which includes opening new stores~~ . **Our** ~~We opened 18 new stores and did not close any stores in 2022. This growth strategy and the investment associated with the development of each new store may cause our~~ operating results **vary according** to ~~fluctuate~~ **the amount** and **type of products we are able to sell to Pros, by the amount of repeat transactions we have with**

existing Pro customers and by our ability to attract new Pro customers. If changes in our customer mix emerge, or we are unable to provide the products, services and experience that our Pros demand, we may be ~~unpredictable~~ **unable to achieve** ~~or~~ **our** ~~decrease~~ **target customer mix, expand sales to Pros** ~~our~~ - **or** ~~profits~~ **realize anticipated margins and growth from this initiative** . Our future results and ability to implement our growth strategy will depend on ~~various~~ **the** factors ~~, including~~ **above. Our growth strategy and the investment associated with** ~~the~~ **these initiatives** ~~following: • as we open more stores, our rate of expansion relative to the size of our store base will decline; • consumers in markets we' ve recently entered~~ may **continue to cause our operating results to fluctuate and** be **unpredictable** ~~less familiar with our brands,~~ and ~~we~~ may **adversely affect** ~~need to increase brand awareness in those markets through additional investments in advertising; • new stores may have higher construction, occupancy or~~ **our financial position, liquidity, and results of** ~~operating~~ **operations** ~~costs, inventory requirements, or may have lower average store net sales, than stores opened in the past; • competitive pressures and changes in our product assortment could cause changes to our store model and making necessary changes could prove costly; • newly opened stores may reach profitability more slowly than we expect in the future, as we enter more mid- sized and smaller markets and add stores to larger markets where we already have a presence; and • newly opened stores may cause sales to decline in our other existing stores within a given market or trade area~~ . Failure to manage our growth effectively could harm our business and operating results. We ~~are making~~ **have made and continue to make** technology investments **, including in our new CRM system,** designed to increase orders from our digital platform, customer contact center and dedicated Pro sales team. Our existing management information systems, including our store management systems, enterprise reporting platform, compliance procedures and financial and reporting controls, may be unable to support our expansion. Managing our growth effectively will require us to continue to enhance these systems, procedures and controls and to hire, train and retain regional and store managers and personnel for our compliance, IT, human resources and financial and reporting departments. We may not respond quickly enough to the changing demands that our expansion will impose on us. Any failure to manage our growth effectively could harm our business and operating results. **Our growth initiative to expand carpet to the product assortment in our stores may not generate the projected revenues or may not deliver the desired level of profitability. Part of our growth strategy is dependent upon our ability to attract and retain customers through the offering of an expanded product assortment. Adding carpet as a new flooring option in our stores was intended to enhance our overall product assortment, complement our existing product offerings and ultimately reach new areas of consumer demand and preference. If customer acceptance of this new product offering fails to align with our expectations, we may be unable to realize the added revenues or profitability we projected from the investment in this diversified product offering. In addition, carpeting options may decrease sales of our hard surface products, and our financial position, liquidity, and results of operations may be adversely affected.** Damage, destruction or disruption of our distribution centers could significantly impact our operations and impede our ability to distribute certain of our products. We have ~~two~~ **three** distribution centers that house products for the direct shipment of flooring to our stores. If ~~either~~ **any** of our distribution centers or our inventory held in those locations were damaged or destroyed by fire, tornado, flooding, wood infestation or other causes, our distribution processes would be disrupted. If the major highways or railways leading to and from our distribution centers were shut down due to weather or infrastructure conditions, our distribution processes would also be disrupted. Competition for premium warehousing space could affect our operating costs and distribution strategy. Any of these disruptions to the distribution centers could cause significant delays in delivery. This could impede our ability to stock our stores and deliver products to our customers and cause our net sales and operating results to deteriorate. Our representative office in China may present increased legal and operational risks. We have a representative office in Shanghai, China to facilitate our product sourcing in Asia. We may incur increased costs in complying with applicable local- country laws and regulations as they pertain to our products, operations and related activities. Further, if we fail to comply with applicable **Chinese** laws and regulations, we could be subject to, among other things, litigation and government and agency investigations. **Our operational results and sourcing strategy could be adversely affected by a worsening of relations between the U. S. and China, increasing political tensions related to Taiwan, or changes in Chinese law related to our ability to operate a representative office.** We ~~have experienced travel restrictions in and out of China and~~ **cannot predict the extent to which the U. S.** ~~for~~ - **or** ~~our sourcing office to be able to travel to~~ other countries **will impose new or additional quotas** ~~in Asia because of COVID- 19 policies. Those policies have eased up~~ , ~~but it is hard to~~ **duties, tariffs, taxes or other similar restrictions upon the import or export of our products in the future, nor can we** predict future ~~restrictions~~ **trade policy or the terms of any renegotiated trade agreements and their impact on our business** . ~~As~~ **Tariffs and the possibility of an escalation or further developments of current trade conflicts, particularly between the U. S. and China, could continue to negatively impact global trade and economic conditions in many of the regions where** we **do business. This could result** ~~have implemented our diversified sourcing strategy, travel restrictions~~ in ~~and out of China have made~~ **continued significant increases in our product costs. In addition,** it ~~hard~~ **may adversely impact demand** for our **products** ~~representatives in China to visit factories in other parts of Asia~~ . Failure to effectively manage our third- party installers may present increased legal and operational risks. We manage third- party professional independent contractors who provide installation services to some of our customers. In some jurisdictions, we are subject to regulatory requirements and risks applicable to general contractors, which include management of licensing, permitting and quality of our third- party installers. We have established procedures designed to manage these requirements and ensure customer satisfaction with the services provided by our third- party installers. If we fail to manage these procedures effectively or provide proper oversight of these services, we may be subject to regulatory enforcement and litigation, and our net sales, our profitability and our reputation could be harmed. Unfavorable allegations, government investigations and legal actions surrounding our products or us could harm our reputation and impair our ability to grow or sustain our business. We ~~have been~~ **historically were** involved in a number of government investigations and legal actions, many of which ~~have~~ resulted from unfavorable allegations regarding our products and us. Negative publicity surrounding these government investigations and legal actions could continue to harm our reputation and the demand for our products. Additional unfavorable allegations, government investigations and legal actions involving our products and us could also affect our perception in the market and our brands and negatively impact our business and financial condition. For instance, unfavorable allegations with certain regulators surrounding the compliance of our laminates that had previously been sourced from China has negatively affected and could continue to negatively affect our operations. If this negative impact is significant, our ability to maintain our liquidity and grow or sustain our business could be jeopardized. ~~The cost to defend ourselves and our former associates has been and could continue to be significant.~~ Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements, negatively affecting our business, financial condition and results of operations. We ~~are~~ **have been in the past** , and in the future may become, involved in lawsuits, including consumer, commercial, employment, tort and other litigation, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments ~~. Furthermore, defending against these proceedings may require a diversion of management' s attention and resources. For further information regarding legal proceedings in which we are currently involved, see Item 8. Note 10 to the consolidated financial statements~~ . Failure to manage our compliance programs could adversely affect our ability to conduct business, result in significant fines and other penalties, damage our brand and reputation, and consequently negatively impact our financial position and results of operations. The nature of our products and business is such that we have to comply with a complex set of compliance standards, including but not limited to the Lacey Act, consumer and product safety, environmental regulations. We operate our business in accordance with standards and procedures designed to comply with the applicable laws and regulations in these areas and work closely with our suppliers in order to comply with such laws and regulations. Compliance can require timely and costly procedures including but not limited to tracing raw materials, testing against emission standards, and maintaining vigorous quality assurance standards. If we violate or are alleged to have violated these laws, we could incur significant costs, be liable for damages, experience delays in shipments of our products, be subject to fines, penalties, criminal charges or other legal risks, or suffer reputational harm, any of which could reduce demand for our products and adversely affect our business, financial condition and operating results. In addition, there can be no assurance that such laws or regulations will not become more stringent in the future or that we will not incur additional costs in the future in order to comply with such laws or regulations. Our insurance coverage and self- insurance reserves may not cover existing or future claims. In the ordinary course of business, we may incur property, casualty or other losses not covered by our insurance. We maintain various insurance policies, including directors' and officers' insurance, as well as the following: • We are self- insured on certain health insurance plans and workers' compensation coverage and are responsible for losses up to a certain limit for these respective plans. • We continue to be responsible for losses up to a certain limit for general liability and property damage insurance. • Our professional liability and cybersecurity insurance policies contain limitations on the amount and scope of coverage. For policies under which we are responsible for losses, we record a liability that represents our estimated cost of claims incurred and unpaid as of the balance sheet date. Unanticipated changes may produce materially different amounts of expense than those recorded, which could adversely impact our operating results. Additionally, our experience could limit our ability to obtain satisfactory insurance coverage, subjecting us to further loss, or could require significantly increased premiums. **The cost of our employee health care benefit program may increase in the future. We maintain an employee benefits program that provides self- insured and insured coverage to employees that meet the applicable requirements under the program. Employees can elect to enroll dependents that meet eligibility criteria. Coverage includes health, dental, vision, short- and long- term disability, life insurance and other voluntary ancillary benefits. Employees share in the cost of other coverage at varying levels. The Company has historically funded a majority of the cost of health benefits. The Company routinely reviews its health benefit plans to assure conformity with government regulations and competitiveness within our industry. Approximately 75 % of eligible employees elect to participate in our health benefit plans. In the future, proportionately more employees may elect to participate in our health benefit plans. We are unable to reliably predict to what extent, if any, the percentage of eligible employees who elect health care coverage will increase in the future. Because we fund a majority of the cost of health benefits, our financial accounting expense will increase to the extent that additional employees elect to participate in the Company' s health benefit plans. Also, medical inflation has historically tended to outpace general inflation. We are unable to reliably predict the extent to which future medical inflation will outpace general inflation. Additionally, because our medical benefit program is self- insured, an unusual incidence of large claims may cause our costs to unexpectedly increase.** Federal, state or local laws and regulations, including tariffs, or our failure to comply with such laws and regulations related to our products could increase our expenses, restrict our ability to conduct our business and expose us to legal risks. We are subject to a wide range of general and industry- specific laws and regulations imposed by federal, state and local authorities in the countries in which we operate, including those related to tariffs, customs, foreign operations (such as the Foreign Corrupt Practices Act), truth- in- advertising, consumer protection, privacy, zoning and occupancy matters as well as the operation of retail stores and warehouses, production and distribution facilities and provision of installation services. In addition, various federal, provincial and state laws govern our relationship with and other matters pertaining to our associates, including wage and hour- related laws. If we fail to comply with these laws and regulations, we could be subject to legal risk, our operations could be impacted negatively, and our reputation could be damaged. Likewise, if such laws and regulations should change, our costs of compliance may increase, thereby impacting our results and our profitability. Certain portions of our operations are subject to laws and regulations governing hazardous materials and wastes, the remediation of contaminated soil and groundwater, and the health and safety of associates. If we are unable to comply with, extend or renew a material approval, license or permit required by such laws, or if there is a delay in renewing any material approval, license or permit, our net sales and operating results could deteriorate or otherwise cause harm to our business. With regard to our products, we spend significant resources in order to comply with applicable advertising, importation, exportation, environmental and health and safety laws and regulations. **Violations of** ~~If we should violate~~ these laws and regulations, ~~we could experience~~ **have in the past and may in the future result in** delays in **receipt of** shipments of our goods, ~~be subject to~~ fines, penalties, criminal charges, or other legal risks, **liability** ~~be liable~~ for costs and damages, or ~~suffer~~ reputational harm, which could reduce demand for our merchandise and hurt our business and results of operations. Further, if such laws ~~and~~ **,** regulations **, and tariffs** should change **, including those relating to antidumping and countervailing duties** , we may experience increased costs in order to adhere to the new standards **. Actions of activist or dissident shareholders could impact the pursuit of our business strategies and adversely affect our results of operations, financial condition, or share price. We value constructive input from investors and regularly engage in dialogue with our shareholders regarding strategy and performance. Our board of directors and management team are committed to acting in the best interests of all shareholders. The actions taken by our board of directors and management in seeking to maintain constructive engagement with certain shareholders, however, may not be successful. We strive to maintain constructive, ongoing communications with all shareholders and we welcome constructive input from all shareholders toward the shared goal of enhancing stakeholder value. Nonetheless, we may not be successful in engaging constructively with one or more shareholders, and any resulting activist campaign that contests, or seeks to change, our strategic direction or business mix could have an adverse effect on us because: (i) responding to a proxy contest or other actions by activist or dissident shareholders could disrupt our business and operations, be costly or time- consuming, or divert the attention of our board of directors or senior management from the pursuit of business strategies, which could adversely affect our results of operations or financial condition; (ii) perceived uncertainties as to our future direction may lead to the perception of a change in the direction of the business, instability, or lack of continuity, any of which may be exploited by our competitors, cause concern to our current or potential customers, cause concern in the minds of our employees and lead to the departure of critical employees, result in the loss of potential business opportunities, or make it more difficult to attract and retain qualified personnel and business partners; and (iii) these types of actions could cause significant fluctuations in our share price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business** . Risks Related to Our Suppliers, Products and Product Sourcing Our ability and cost to obtain cost- effective products, especially from Asia and other international suppliers, and the operations of many of our international suppliers are subject to risks that may be beyond our control and that could harm our operations and profitability. We rely on a select group of international suppliers to provide us with imported flooring products that meet our specifications. In ~~2022~~ **2023** , our imported product was sourced from Asia, Europe, and South America. As a result, we are subject to risks associated with obtaining products from abroad, including: • the imposition of duties (including antidumping and countervailing duties), tariffs, taxes and / or other charges on exports or imports ~~; • the impact of a pandemic~~ ; • political unrest, terrorism and economic instability resulting in the disruption of trade from foreign countries where our products originate; • currency exchange fluctuations; • the imposition of new laws and regulations, including those relating to environmental matters and climate change issues, labor conditions, **forced labor, including UFLPA holds,** quality and safety standards, trade restrictions **, supply chain traceability** , and restrictions on funds transfers; • disruptions or delays in production, shipments, delivery or processing through ports of entry; and • differences in product standards, acceptable business practices and legal environments of the country of origin. During ~~2022~~ **2023** , approximately ~~14~~ **11** % of our product was sourced from China down from ~~20~~ **14** % a year ago. Included in merchandise inventories are tariff- related costs, including Section 301 tariffs on certain products imported from China in recent years. In November 2019, a subset of these imports for certain click vinyl and other engineered products (the " Subset Products ") received an exemption that was made retroactive to the initial levying of the Section 301 Tariffs. However, as of August 7, 2020, the exclusions on subset products expired and certain flooring products imported from China were again subject to a 25 % Section 301 tariff. Potential costs and any attendant impact on pricing arising from these tariffs could have a material adverse effect on our results of operations, financial condition, and liquidity. These and other factors beyond our control could disrupt the ability of our suppliers to ship certain products to us cost- effectively or at all, which could harm our operations. If our product costs and consumer demand are adversely affected by foreign trade issues (including import tariffs and other trade restrictions with China), our sales and profitability may suffer. Failure to identify and develop relationships with a sufficient number of qualified suppliers could affect our ability to obtain products that meet our high quality standards. We purchase **hard surface** flooring directly from mills located around the world. We believe that these direct supplier relationships are important to our business. In order to retain the competitive advantage that we believe results from these relationships, we need to continue to identify, develop and maintain relationships with qualified suppliers that can satisfy our high standards for quality and our requirements for the delivery of hard- surface materials in a timely and efficient manner. We expect the need to develop new relationships to be particularly important as we seek to expand our operations, enhance our product offerings, and expand our product assortment and geographic source of origin in the future and to mitigate reliance on existing key relationships. Any inability to do so could reduce our competitiveness, slow our plans for further expansion and cause our net sales and operating results to deteriorate. We rely on a concentrated number of suppliers for a significant portion of our supply needs. We generally do not have long- term contracts with our suppliers. In the future, our suppliers may be unable to supply us, or supply us on acceptable terms, due to various factors, which could include political instability in the supplier' s country, insufficient production capacity, product line failures, collusion, a supplier' s financial instability, inability or refusal to comply with applicable laws, trade restrictions, tariffs or our standards, duties, insufficient transport capacity and other factors beyond our control. In these circumstances, we could experience deterioration in our net sales and operating results **. In addition, several of our suppliers have accounts receivable financing arrangements under which they hold credit insurance to**

cover payments due from us. If they are unable to maintain this insurance at a favorable rate, then they may require faster payment terms with us which could negatively affect our cash flow, ability to maintain appropriate inventory levels and ability to achieve our sales goals. For our carpet offerings, we currently rely on one domestic- based supplier. The unanticipated termination or interruption of our sole supplier of carpet, including failure by the supplier to meet our product specifications, could have a material adverse effect on us because we do not have the capability to manufacture our own carpet products or the warehouse capacity to store rolled carpet. Our supplier may not be able to meet our demand for a variety of reasons, including our inability to forecast our future needs accurately or a shortfall in production by the supplier for reasons unrelated to us, such as work stoppages, acts of war, terrorism, pandemics, fire, earthquake, energy shortages, flooding or other natural disasters. If our supply arrangements with our sole supplier of carpet are terminated or interrupted, we likely would incur increased costs and experience delays in our product deliveries (thus resulting in decreased sales and profitability) associated with developing new supply chain sources for carpet. A prolonged inability on our part to source carpet on a cost- effective basis could adversely impact our ability to deliver products on a timely basis, which could harm our customer relationships, financial position, liquidity, and results of operations . The Company and third- party suppliers on whom we rely source a significant portion of the merchandise we sell from Asia, which exposes us to the risk of supply chain disruptions. Beginning in 2020, the United States Government took significant steps to address the forced labor concerns in the Xinjiang Uyghur Autonomous Region of China (" Xinjiang Region"), including withhold release orders (“ WROs") issued by United States Customs and Border Protection (“ CBP ”). The WROs allow CBP to detain and deny entry of imports suspected of containing raw materials from Xinjiang, regardless of the origin of the finished products. This affected global supply chains, including those industries whose products are reliant upon polysilicon, tomatoes and cotton. In June 2022, the Uyghur Forced Labor Prevention Act (“ UFLPA ”) went into effect, which presumes goods produced in the Xinjiang Region, or with labor linked to specified Chinese government- sponsored labor programs, were produced using forced labor and prohibits importation of such goods into the United States absent clear and convincing evidence proving otherwise. In February 2023, CBP expanded its enforcement focus beyond the high priority sectors identified in the UFLPLA (i. e., cotton, tomatoes and polysilicon) to include additional sectors including aluminum products and polyvinyl chloride (PVC) products. In February 2023, the Company began to receive detention notices from CBP related to flooring products that contain PVC. The Company **worked** ~~is working~~ with ~~its~~ **our** affected vendors to provide the requested documentation to CBP **to attempt** to show that the affected products do not contain any inputs from the Xinjiang Region, in compliance with the Company’ s Standards for Vendor Partner Conduct and in compliance with certifications the Company has required of vendors related to the UFLPA. ~~While~~ **During the document collection process,** the Company ~~works to provide the requested documentation to CBP, we will incur~~ **incurred** costs related to storage, transportation and extra handling. ~~The Company~~ **This process** also ~~expects this process to~~ adversely ~~impact~~ **impacted** our ability to obtain adequate inventory in the vinyl product category on a timely basis, which ~~may result~~ **resulted** in lost sales, increased costs and an overall decrease in our profits. We ~~are working to mitigate~~ **mitigated** the impact of these customs delays by recommending to customers alternative products in our current assortment and ~~leveraging~~ **leveraged** our sourcing capabilities to look at alternative flooring categories and sourcing geographies. ~~We~~ **While we continue to require our vendors to comply with the UFLPA and we invest in automated tools and processes to trace our supply chain, we** cannot predict when, or the extent to which, CBP will ~~release detained products or whether CBP will continue to~~ issue new detention notices for additional vendors or products. Failure of our suppliers to comply with applicable laws, use ethical practices, and meet our quality standards could result in our suspending purchasing from them, negatively impacting net sales, and could expose us to reputational and legal risks. While our suppliers agree to operate in compliance with applicable laws and regulations and our vendor code of conduct, we do not control our suppliers. Accordingly, despite our continued investment in compliance and quality control, we cannot guarantee that they comply with such laws and regulations or operate in a legal, ethical and responsible manner. While we monitor our suppliers’ adherence to our compliance and quality standards, there is no guarantee that we will be able to identify non- compliance, and it may be costly and complex to comply. Moreover, the failure of our suppliers to adhere to applicable legal requirements and the quality standards that we set for our products could lead to government investigations, litigation, write- offs and recalls, any of which could damage our reputation and our brands, increase our costs, and otherwise hurt our business. Product liability claims could adversely affect our reputation, which could adversely affect our net sales and profitability. We have faced and continue to face the risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in economic loss, personal injury, property damage, or violated environmental or other laws. In the event that any of our products proves to be defective or otherwise in violation of applicable laws, we may be required to recall or redesign such products. Further, in such instances, we may be subject to legal action. We maintain insurance against some forms of product liability claims, but such coverage may not be available or adequate for the liabilities actually incurred. A successful claim brought against us in excess of available insurance coverage, or any claim or product recall that results in significant adverse publicity against us, may have a material adverse effect on our net sales and operating results. Our ability to offer hardwood flooring, particularly products made of certain species of hardwood, depends on the continued availability of sufficient suitable hardwood at reasonable cost. Our business strategy depends on offering a wide assortment of hardwood flooring to our customers. We sell flooring made from species ranging from domestic maple, oak and pine to imported acacia, cherry, koa, mahogany and teak. Some of these species are difficult to source, and we cannot be assured of their continued availability. Our ability to obtain an adequate volume and quality of hard- to- find species depends on our suppliers’ ability to furnish those species, which, in turn, could be affected by many things including events such as forest fires, insect infestation, tree diseases, prolonged drought and other adverse weather and climate conditions. Government regulations relating to forest management practices also affect our suppliers’ ability to harvest or export timber, and changes to regulations and forest management policies, or the implementation of new laws or regulations, could impede their ability to do so. If our suppliers cannot deliver sufficient hardwood and we cannot find replacement suppliers, our net sales and operating results may be negatively impacted. The cost of the various species of hardwood that are used in our products is important to our profitability. Hardwood lumber costs fluctuate as a result of a number of factors including changes in domestic and international supply and demand, labor costs, competition, market speculation, product availability, environmental restrictions, government regulation and trade policies, duties, weather conditions, processing and freight costs, and delivery delays and disruptions. We generally do not have long- term supply contracts or guaranteed purchase amounts. As a result, we may not be able to anticipate or react to changing hardwood costs by adjusting our purchasing practices, and we may not always be able to increase the selling prices of our products in response to increases in supply costs. If we cannot address changing hardwood costs appropriately, it could cause our operating results to deteriorate. Risks Relating to Our Competitive Positioning Ineffectiveness of our advertising strategy or inability to build sufficient awareness of the LL Flooring brand could result in reduced customer traffic, thereby impacting net sales and profitability. Historically, we have used extensive advertising to encourage customers to drive to our stores, which were, at times, located some distance from population centers in areas that have lower rents than traditional retail locations. Initially, a significant portion of our advertising was directed only to consumers, whose needs with respect to their flooring purchases vary from Pros such as flooring installers, remodelers, and small to medium home builders. As our brand and marketing strategies continue to evolve, we have broadened the content of our advertising to increase the awareness of our great value, superior service and broad selection of high- quality, hard ~~-~~ **and soft** surface flooring products. We ~~largely~~ **have** completed the physical rebranding of our stores ~~in 2022~~ , however, ~~consumer~~ **low brand** awareness **following the rebranding** ~~of our brand transformation~~ from Lumber Liquidators to LL Flooring ~~is taking longer than expected~~ **has been a limiting factor in driving sales** . If **awareness** ~~our value proposition~~ does not ~~resonate~~ **increase** with customers, we may not achieve desired return on investment resulting in declines in our net sales and operating results both in- store and through our digital platform. Competition could cause price declines, decrease demand for our products and decrease our market share. We operate **primarily** in the hard ~~-~~ **and soft** surface flooring industry, which is highly fragmented and competitive. We face significant competition from national and regional home improvement chains, national and regional specialty flooring chains, Internet-based companies and privately owned single- site enterprises. We compete on the basis of price, customer service, store location and the range, quality and availability of the hard ~~-~~ **and soft** surface flooring that we offer our customers. If our positioning with regard to one or more of these factors should erode, deteriorate, fail to resonate with consumers or misalign with demand or expectations, our business and results may be negatively impacted. Our competitive position is also influenced by the availability, quality and cost of merchandise, labor costs, distribution and sales efficiencies and our productivity compared to that of our competitors. Further, as we expand into new and unfamiliar markets, we may face different competitive environments than in the past. Likewise, as we continue to enhance and develop our product offerings, we may experience new competitive conditions. Some of our competitors are larger organizations, have existed longer, are more diversified in the products they offer and have a more established market presence with substantially greater financial, marketing, personnel and other resources than we have. In addition, our competitors may forecast market developments more accurately than we do, develop products that are superior to ours, produce similar products at a lower cost or adapt more quickly to new technologies or evolving customer requirements than we do. Intense competitive pressures from one or more of our competitors could cause price declines, decrease demand for our products and decrease our market share. **Our** ~~Hard- surface~~ flooring **offerings** may become less popular as compared to other types of floor coverings in the future. For example, **most of** our products are made using various hardwood species, and concern over the environmental impact of tree harvesting could shift consumer preferences towards synthetic or inorganic flooring. In addition, hardwood flooring competes against carpet, vinyl sheet, vinyl tile, ceramic tile, natural stone and other types of floor coverings. **Our attempted mitigation of this risk with the expansion into carpeted flooring may not be successful.** If consumer preferences shift toward types of floor coverings that we do not sell, we may experience decreased demand for our products. All of these competitive factors may harm us and reduce our net sales and operating results. Risks Related to Economic Factors and Our Access to Capital Cyclicality in the home flooring industry, coupled with our lack of diversity in our line of business, could cause volatility and risk to our business. The hard ~~-~~ **and soft** surface flooring industry is highly dependent on the remodeling of existing homes and new home construction. Remodeling and new home construction are cyclical and depend on a number of factors which are beyond our control, including interest and inflation rates, tax policy, real estate prices, employment levels, consumer confidence, credit availability, demographic trends, weather conditions, natural disasters and general economic conditions. In the event of a decrease in discretionary spending, home remodeling activity or new home construction, any of which could be due to slower growth or recession, increasing interest rates, increasing unemployment or inflation, demand for our products, including hard ~~-~~ **and soft** surface flooring, could be impacted negatively and our business and operating results could be harmed. The inability to access our Revolving Credit Facility or other sources of capital, could cause our financial position, liquidity, and results of operations to suffer. We have relied on and expect to continue to rely on a bank credit agreement to fund our needs for working capital. Information with respect to our Revolving Credit Facility may be found in Note 4, " Credit Agreement ", to the consolidated financial statements in Item 8 of Part II, which is incorporated herein by reference. Our access to the Revolving Credit Facility depends on our ability to meet the conditions for borrowing, including that all representations are true and correct at the time of the borrowing. Our failure to meet these requirements or obtain additional or alternative sources of capital could impact: • our ability to fund working capital, capital expenditures, store expansion and other general corporate purposes; • our ability to meet our liquidity needs ~~, arising from, among other things, legal matters~~ ; and • our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate **. Any non- compliance with any restrictive or financial covenants in our Revolving Credit Facility could result in a default and could result in our lenders declaring our senior debt immediately due and payable, which would have a material adverse effect on our financial position, consolidated results of operations and liquidity. If we are required to seek other sources of capital, additional capital may or may not be available. Our**

access to third- party sources of capital depends on a number of factors, including the market' s perception of our current and potential future earnings. If we are unable to access sufficient capital or enter into financing arrangements on favorable terms in the future, our financial condition and results of operations may be materially adversely affected. Tax assessments or unclaimed property audits by governmental authorities could adversely impact our operating results. We remit a variety of taxes and fees to various governmental authorities, including federal and state income taxes, excise taxes, property taxes, sales and use taxes, and payroll taxes. The taxes and fees remitted by us are subject to review and audit by the applicable governmental authorities, which could result in liability for additional assessments. In addition, we are subject to unclaimed or abandoned property (escheat) laws which require us to turn over to certain government authorities the property of others held by us that has been unclaimed for a specified period. We are subject to audits by individual U. S. states regarding our escheatment practices. The legislation and regulations related to tax and unclaimed property matters tend to be complex and subject to varying interpretations by both government authorities and taxpayers. Although management believes that the positions are reasonable, various taxing authorities may challenge certain of the positions we have taken, which may also potentially result in additional liabilities for taxes, unclaimed property and interest in excess of accrued liabilities. Our positions are reviewed as events occur such as the availability of new information, the lapsing of applicable statutes of limitations, the conclusion of tax audits, the measurement of additional estimated liability based on current calculations, the identification of new tax contingencies, or the rendering of relevant court decisions. An unfavorable resolution of assessments by a governmental authority could negatively impact our results of operations and cash flows in future periods . Risks Related to Our Information Technology If our management information systems, including our digital platform ~~or~~ **, CRM System** ~~our~~ **or** customer contact center, experience disruptions, it could disrupt our business and reduce our net sales. We depend on our management information systems to integrate the activities of our stores, digital platform and customer contact center, to process orders, make outgoing calls to customers, to respond to customer inquiries, to manage inventory, to purchase merchandise and to sell and ship goods on a timely basis **. Part of our growth strategy depends on increased utilization of our new CRM system to generate more sales opportunities** . We may experience operational problems with our information systems as a result of system failures, viruses, computer " hackers " or other causes. We may incur significant expenses in order to repair any such operational problems. Any significant disruption or slowdown of our systems could cause information, including data related to customer orders, to be lost or delayed, which could result in delays in the delivery of products to our stores and customers or lost sales. For example, as we previously disclosed in August 2019, we experienced a malicious network security incident during that year for approximately a week that prevented access to several of our information technology systems and data within our networks. Based on the nature of the network security incident, the impact on our information technology systems and the results of the forensic IT analysis, we do not believe confidential customer, employee or company data was lost or disclosed. Moreover, our entire corporate network, including our telephone lines, is on an Internet- based network, which is vulnerable to certain risks and uncertainties, including changes in the required technology interfaces, digital platform downtime and other technical failures, security breaches and customer privacy concerns. Accordingly, if our network is disrupted or if we cannot successfully maintain our digital platform and customer contact center in good working order, we may experience delayed communications within our operations and between our customers and ourselves and may not be able to communicate at all via our network, including via telephones connected to our network, **or may not see increased utilization of our CRM system that we expected, all of** which may result in lost sales, reputational harm, or impacts to operating results. In addition, we are currently making, and expect to continue to make, investments in our management information systems, infrastructure and personnel, in certain cases with the assistance of strategic partners and other third- party service providers. These investments involve replacing existing systems, some of which are older, legacy systems that are less flexible and efficient, with successor systems; outsourcing certain technology and business processes to third- party service providers; making changes to existing systems, including the migration of applications to the cloud; maintaining or enhancing legacy systems that are not currently being replaced; or designing or cost-effectively acquiring new systems with new functionality. These efforts can result in significant potential risks, including failure of the systems to operate as designed, potential loss or corruption of data, changes in security processes and internal controls, cost overruns, implementation delays or errors, disruption of operations, and the potential inability to meet business and reporting requirements. Any system implementation and transition difficulty may result in operational challenges, security failures, reputational harm, and increased costs that could adversely affect our business operations and results of operations. We may incur costs and losses resulting from security risks we face in connection with our electronic processing, transmission and storage of confidential customer information. We accept electronic payment cards for payment in our stores and through our customer contact center. In addition, our online operations depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments. As a result, we may become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings relating to these types of incidents. Further, a compromise of our security systems that results in our customers' personal information being obtained by unauthorized persons could adversely affect our reputation with our customers and others, as well as our operations, results of operations and financial condition, and could result in litigation against us or the imposition of penalties. A security breach could also require that we expend significant additional resources related to the security of information systems and could result in a disruption of our operations, particularly our online sales operations. Additionally, privacy and information security laws and regulations change, and compliance with them may result in cost increases due to necessary systems changes and the development of new administrative processes. If we fail to comply with these laws and regulations or experience a data security breach, our reputation could be damaged, possibly resulting in lost future business, and we could be subjected to additional legal risk as a result of non- compliance. Failure to maintain satisfactory compliance with certain privacy and data protections laws and regulations may subject us to substantial negative financial consequences and civil or criminal penalties. Complex local, state, national, foreign and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer and other processing of personal data. These privacy and data protection laws and regulations are quickly evolving, with new or modified laws and regulations proposed and implemented frequently and existing laws and regulations subject to new or different interpretations and enforcement. For example, California enacted legislation, the California Consumer Privacy Act (" CCPA "). The CCPA requires, among other things, covered companies to provide new disclosures to California consumers and allows such consumers new abilities to opt- out of certain sales of personal data. The CCPA also provides for civil penalties for violations as well as a private right of action for data breaches that may increase data breach litigation. Further, the California Privacy Rights Act, which **took** ~~was passed in November 2020 and is fully effective~~ --- **effect** in January 2023, significantly modifies the CCPA. Colorado, Connecticut, Utah and Virginia ~~recently~~ enacted similar data privacy legislation that ~~will~~ also ~~take~~ **took** effect in 2023, and several other states and countries are considering expanding or passing privacy laws in the near term. These modifications and new laws will require us to incur additional costs and expenses in our efforts to comply. Our failure to comply with applicable laws and regulations or other obligations to which we may be subject relating to personal data, or to protect personal data from unauthorized access, use or other processing, could result in enforcement actions and regulatory investigations against us, claims for damages by customers and other affected individuals, fines, damage to our brand reputation, any of which could have a material adverse effect on our operations, financial performance and business. Alternative e-commerce and online shopping offerings may erode our customer base and adversely affect our business. Our long- term future depends heavily upon the general public' s willingness to use our stores as a means to purchase goods. In recent years, e-commerce has become more widely accepted as a means of purchasing consumer goods and services, which could adversely impact customer traffic in our stores. Additionally, certain of our competitors offer alternative e- commerce and online shopping. If consumers use alternative e- commerce and online shopping offerings to conduct business as opposed to our store locations, it could materially adversely impact our net sales and operating results. Risks Relating to Our Common Stock Our common stock price may be volatile and all or part of any investment in our common stock may be lost. The market price of our common stock could fluctuate significantly based on various factors, including, but not limited to: • economic related factors including a recession and inflammatory pressures, etc.; • our concentration in the cyclical home improvement industry; • trading activity of our current or future stockholders, including common stock transactions by our directors and executive officers; • trading activity by retail investors participating in online investing forums or chat rooms; • industry- related trends and growth prospects; and • our inclusion in various market indices In addition, the stock market may experience significant price and volume fluctuations. These fluctuations may be unrelated to the operating performance of particular companies but may cause declines in the market price of our common stock. The price of our common stock could fluctuate based upon factors that have little or nothing to do with us or our performance. Our anti- takeover defense provisions may cause our common stock to trade at market prices lower than it might absent such provisions. Our certificate of incorporation and bylaws contain provisions that may make it more difficult or expensive for a third party to acquire control of us without the approval of our board of directors. These provisions include a staggered board, the availability of " blank check " preferred stock, provisions restricting stockholders from calling a special meeting of stockholders or from taking action by written consent and provisions that set forth advance notice procedures for stockholders' nominations of directors and proposals of topics for consideration at meetings of stockholders. Our certificate of incorporation also provides that Section 203 of the Delaware General Corporation Law, which relates to business combinations with interested stockholders, applies to us. These provisions may delay, prevent or deter a merger, or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock. In addition, these provisions may cause our common stock to trade at a market price lower than it might absent such provisions.