

FLOORS, INC.
EMPLOYEES' STOCK OWNERSHIP PLAN

SUMMARY PLAN DESCRIPTION

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Floors, Inc. (the "Company") adopted the Floors, Inc. Employees' Stock Ownership Plan ("ESOP") on October 25, 1996 which was effective as of July 1, 1996. The Company amended the Plan on December 29, 1997, effective January 1, 1997. The Company again amended the Plan on July 21, 2000, effective as set forth in such amendment. The purpose of the ESOP is to reward you and other eligible employees for your service by providing you with a benefit in the form of shares of Company stock. The Company may make contributions to the ESOP in either cash or stock. However, the ESOP will always be primarily invested in Company stock. As an owner of the Company through your participation in the ESOP, you will share in its growth and prosperity. When you terminate your employment with the Company, you will have the right to receive the value of the stock and any other assets allocated to your account, to the extent you are vested in your account after the ESOP Stock Acquisition Loan (defined later) is paid off.

This Summary Plan Description provides a brief description of the ESOP. This document is intended to summarize the ESOP and not to interpret, extend, or change it in any way. The actual ESOP document should be consulted with respect to the complete and technical operation of the ESOP. In the event of any discrepancy between this Summary Plan Description and the actual provisions of the ESOP document, the ESOP will govern. Because the ESOP document does not address every possible individual situation, the ESOP Committee appointed by the Company will have discretionary authority to interpret the intent of the ESOP with respect to specific situations as needed. The ESOP Committee will construe, interpret and make determinations regarding such things as terms of the ESOP, eligibility for benefits and the nature and amount of benefits, if any. This Committee's interpretation of the terms of the ESOP and decisions concerning the ESOP will be final and binding.

You may obtain a copy of the ESOP document from the Company. If you have any questions regarding the ESOP, you should contact a member of the ESOP Committee or the Company.

Table of Contents

Participation in the ESOP	1
Company Contributions/Allocations of Contributions	1
ESOP Investment Allocations to Participant Accounts	2
Vesting	2
Forfeiture of Nonvested Portion of Account	3
Distribution Upon Termination	4
Distribution Upon Death, Disability and Retirement	5
Diversification of Your Account	5
Additional Information	5
Statement of ERISA Rights	8

PARTICIPATION IN THE ESOP

You become eligible to participate in the ESOP when you are at least 21 years of age and have completed one year of service with the Company. However, if you were employed by the Company on July 1, 1996, you were automatically a Participant in the Plan as of July 1, 1996. You will enter the ESOP on the January 1st or July 1st coinciding with, or immediately following, the date you meet the eligibility requirements. A year of service is a 12 consecutive month period in which you have at least 1,000 hours of service, beginning on the day of your first hour of service. If you do not have 1,000 hours of service in your first 12 months of employment, the next 12 month period used for determining eligibility will be measured by the Plan Year, beginning with the January 1st immediately following your date of hire.

Example: Sue was hired on August 1, 2000 when she was 30 years old. On July 31, 2001, she completed 12 consecutive months of service and had a minimum of 1,000 hours of service during that period. Sue satisfied the eligibility requirements on July 31, 2001. She will enter the ESOP on January 1, 2002.

A participant who separates from service and who is later re-employed will resume participation immediately upon re-employment.

COMPANY CONTRIBUTIONS ALLOCATIONS OF CONTRIBUTIONS

Each year the Company will decide in its discretion the amount, if any, which it will contribute to the ESOP. Such contributions are held in the Floors, Inc. Employees' Stock Ownership Trust. The Company's decisions will depend in part on how much principal and interest is owed by the ESOP on any loans used by the ESOP to acquire Company stock. The contribution may be made in the form of Company stock or cash, or a combination of both. If a contribution is made for any Plan Year, your ESOP account will be allocated a contribution only if you have completed 500 hours of service during that year unless you leave your employment during that year due to death, disability, or upon your having attained age sixty-five (65).

The contribution for the year will be allocated among eligible participants in the ratio that the compensation of each participant, while a participant during the year, bears to the total of all such compensation of eligible participants.

Example: Suppose the Company had seven participants who earned, during the Plan Year, the salaries shown below:

<u>Employee</u>	<u>Salary</u>
A	\$20,000
B	\$22,000

<i>C</i>	<i>\$26,000</i>
<i>D</i>	<i>\$30,000</i>
<i>E</i>	<i>\$36,000</i>
<i>F</i>	<i>\$49,000</i>
<i>G</i>	<u><i>\$57,000</i></u>
<i>Total Salary Compensation</i>	<i>\$240,000</i>

In this Plan Year, the Company contributed 900 shares of Company stock to the ESOP. Participant E completed 1,000 hours of service during the year, was employed on December 31st, and is therefore eligible for an allocation of the contribution for the year. The allocation to E's account is 15% of the contributed shares. E's allocation percentage is determined by taking E's compensation (\$36,000) over the total amount of compensation for all participants, which is \$240,000. The result is 15% (\$36,000 divided by \$240,000). Therefore, 135 shares, which is 15% of the 900 shares contributed by the Company, will be allocated to E's account.

ESOP INVESTMENT ALLOCATIONS TO PARTICIPANT ACCOUNTS

All Company contributions to the ESOP and earnings (including S corporation distributions) on those contributions are held in trust by the ESOP trustee. Cash contributions made by the Company to the ESOP may be (i) invested primarily in Company stock, or (ii) used to pay interest and principal on any loans used by the ESOP to acquire Company stock. The Company may also contribute Company stock to the ESOP. An account will be established in your name and your share of ESOP assets will be credited to your account. As of the end of each Plan Year, your account will be credited with your share of Company contributions for the year and your share of the net income (or loss) of the ESOP trust for the year.

The Company has elected S corporation status for federal income tax purposes. As a result, all S corporation distributions will be allocated pursuant to the special provisions of the ESOP.

VESTING

Generally, the number of years of service you have with the Company determines the amount of your ESOP account which is vested. This is the amount of your account to which you are entitled if you terminate your employment with the Company. However, you are automatically 100% vested in your ESOP account:

- 1) after reaching age 65 while employed, or

2) if you terminate employment as a result of becoming disabled (as defined in the ESOP document), or die while employed.

In all other circumstances, you earn your right to your ESOP account by length of service with the Company in accordance with the following schedule:

<u>Years of Vesting Service</u>	<u>Vested Percentage</u>
Less than 5 Years	None
5 Years or More	100%

After completing five (5) years of service, you will have the right to the entire amount in your account if you leave employment with the Company for any reason.

A year of service is any Plan Year (July 1st – June 30th) in which you are credited with at least 1,000 hours of service. Generally, all your years of service with the Company will be taken into account in determining vesting, except those years of service which you had prior to the date the ESOP was established (July 1, 1996). For example, if you had 5 or more years of service prior to July 1, 1996, you will be 0% vested in your ESOP account from the first day. Years of service do not need to be served consecutively in order to be counted.

Example: Bob began working for the Company in March 2000. On April 1, 2004, Bob terminates his employment with the Company. At that time, the balance in his ESOP account (including the current market value of his shares, interest and dividends) is \$14,700. Bob had over 1,000 hours of service in each of the years 2000-2003, but has only 480 hours for 2004. Because he has not completed at least 1,000 hours of service during his 5th year, he is 0% vested in his account. The balance in his ESOP account to which he is not vested (100%) is forfeited back to the ESOP. (See discussion following regarding restoration of forfeited amounts if you are reemployed by the Company within five years of termination.)

Example: Bob began working for the Company in March 2000. On April 1, 2005, Bob terminates his employment with the Company. At that time, the balance in his ESOP account (including the current market value of his shares, interest and dividends) is \$14,700. Bob had over 1,000 hours of service in each of the years 2000-2004. Because he has completed five years of service with the Company, he is 100% vested in his account. Consequently, he is entitled to \$14,700 from his account.

FORFEITURE OF NONVESTED PORTION OF ACCOUNT

If you terminate employment before you are 100% vested in your ESOP account (assuming the Plan is not top heavy), you will forfeit the non-vested portion of the account. However, if you are re-employed by the Company on or before you have five consecutive breaks in service, the forfeited amount will be put back in your account. A break in service is a Plan Year in which you do not have more than 500 hours of service.

If the Plan was top heavy, you may be under a different vesting schedule and therefore may be partially vested (see discussion to follow under the heading "Top Heavy Rules"). If you terminate employment before you are 100% vested in your ESOP account (assuming the Plan was top heavy), and you do not receive a distribution of your vested account upon termination, the non-vested portion of your account will remain in your account until you have five consecutive breaks in service, at which time such amount will be permanently forfeited. A break in service is a Plan Year in which you do not have more than 500 hours of service.

As you can see, the break in service rules are somewhat complicated. If you are considering taking a leave of absence or terminating your employment, you should consult the Trustee or the ESOP Committee to determine the effect on your ESOP benefits.

Unless the ESOP provides otherwise, forfeitures during each year will be allocated among participants' accounts in the same manner as the Company contributions are allocated under the ESOP.

DISTRIBUTION UPON TERMINATION

The intent is to distribute the vested portion of your account shortly after you terminate employment. However, the right is reserved under the ESOP to make a distribution commencing the fifth Plan year following the year you terminate your employment with the Company if it is in the best interest of the ESOP and the Company to do so. Likewise, with respect to Company stock which is allocated to your Participant Employer Securities Account and was acquired with a loan ("ESOP Stock Acquisition Loan"), the distribution with respect to such Company stock may be postponed until the earlier of (i) your 65th birthday, (ii) the date you become disabled, (iii) you die, (iv) the date required by the Internal Revenue Code to satisfy the minimum distribution rules, or (v) the end of the year in which the ESOP Stock Acquisition Loan is fully repaid.

If you are terminating your employment for reasons other than death, Disability, or the attainment of Normal Retirement Age, the following provisions apply:

- A. If your vested account balance does not exceed \$5,000, your vested account balance will be paid to you in a lump sum as soon as administratively practicable commencing after the close of the Plan Year in which you terminated employment.
- B. If your vested account balance exceeds \$5,000, your vested account balance will be distributed to you under one of the following methods:
 - (i) In equal installments over a period of five (5) years (or possibly longer);
 - (ii) An installment option;
 - (iii) A deferred lump sum; or
 - (iv) A direct rollover.

- C. If your vested account balance exceeds \$5,000, you may elect to keep your funds in the ESOP until you reach age sixty-five (65). However, the Trustee will commence making distributions of your account on April 1st of the year after the year you reach age 70-1/2 if you are separated from service.

Your vested account balance will be paid to you as directed by the ESOP Committee in cash. Your distribution in cash will equal the fair market value of Company stock plus cash already in your vested account. For purposes of distributing your vested account balance to you, the account balance will be valued as of the end of the Plan Year which precedes or coincides with the date of distribution.

DISTRIBUTION UPON DEATH, DISABILITY AND RETIREMENT

If you should die, become disabled, or reach Normal Retirement Age (age 65) and terminate employment, your account, if elected by you or your beneficiary, will be distributed under one of the four methods listed in the previous section under (B). In the absence of an election, your account will be distributed to you in a lump sum commencing as soon as administratively practicable following the close of the Plan Year in which your death occurs, date you became disabled, or your separation from service after reaching Normal Retirement Age.

If you die, your benefit will be paid to your spouse if you are married at the time of your death, or to your designated beneficiary if you are single. If you are married and wish to designate someone other than your spouse as beneficiary, you may do so, but only if your spouse consents to this in a notarized written statement. As a participant, you may designate a beneficiary on forms provided for that purpose. **YOU SHOULD BE SURE TO FILE A CURRENT BENEFICIARY DESIGNATION. IF THERE IS A CHANGE IN YOUR WISHES OR CIRCUMSTANCES, OR IF YOUR DESIGNATED BENEFICIARY DIES, YOU SHOULD PROMPTLY CHANGE THE DESIGNATION BY FILING A NEW BENEFICIARY DESIGNATION.** If you should die without a spouse or designated beneficiary, your benefits will be paid to such persons as set forth in the ESOP.

DIVERSIFICATION OF YOUR ACCOUNT

If you have attained age 55 and have participated in the ESOP for at least ten years, you may elect to diversify a portion of your account which is primarily invested in Company stock. If you elect to diversify such account, you must make your election within the first 90 days of any Plan Year after you become eligible for this election. Your account will be diversified by distributing to you the portion of your account which can be diversified or you may choose a direct transfer of the portion of your account to another qualified plan of the Company which accepts such transfers.

ADDITIONAL INFORMATION

Claims Procedure

The ESOP Committee will respond to a claim for benefits within sixty (60) days after it receives your claim, unless special circumstances require an extension of time for processing the

claim. Any time a claim for benefits is denied by the ESOP Committee in whole or in part, you will be notified of such denial in writing. The notice will indicate the specific reasons for the denial along with any other additional information affecting your claim. You will have the right to have the decision to deny the claim reviewed by the ESOP Committee.

ESOP Name

The official name of the ESOP is the Floors, Inc. Employees' Stock Ownership Plan.

ESOP Sponsor and Plan Administrator

The ESOP is sponsored by:

Floors, Inc.
P.O. Box 3049
Grapevine, Texas 76099-3049
200 Bank Street
Southlake, Texas 76092
Tax Identification Number: 75-2351680
Telephone Number: (817) 421-2539
Telecopy Number: (817) 421-2541

Floors, Inc. is also the Plan Administrator.

ESOP Plan Year

For the purpose of maintaining the ESOP's financial records, the ESOP's Plan year is July 1st through June 30th.

ESOP Trustee

The current ESOP trustee is:

Bruce L. Mansfield
1550 N. Norwood Drive
Suite 107
Hurst, Texas 76054
Telephone Number: (817) 282-3450
Telecopy Number: (817) 282-3651

ESOP Identification

The ESOP is identified by the following numbers in accordance with the rules of the Internal Revenue Service:

Trust EIN: 75-2664921
Plan No.: 002

Type of Plan

The ESOP is a stock bonus plan which qualifies as an employee stock ownership plan and is designed to invest primarily in Company Stock.

Benefit Insurance

The ESOP is not insured by the Pension Benefit Guaranty Corporation because it is a defined contribution plan. Such plans are not insured by that Corporation.

Where to Serve Legal Process

Service of legal process may be made to the following:

Floors, Inc.
P.O. Box 3049
Grapevine, Texas 76099-3049
200 Bank Street
Southlake, Texas 76092

Bruce L. Mansfield
1550 N. Norwood Drive
Suite 107
Hurst, Texas 76054

ESOP Committee
c/o Floors, Inc.
P.O. Box 3049
Grapevine, Texas 76099-3049
200 Bank Street
Southlake, Texas 76092

Top Heavy Rules

If the ESOP becomes "top heavy," special rules requiring minimum contributions, accelerated vesting, and limitations on considered compensation may apply to some participants. The ESOP will become "top heavy" if 60% or more of all account balances are payable to certain highly compensated employees. The ESOP is not top heavy now, nor do we anticipate that it will become top heavy. In the event that this should occur, you will be notified of any effect that it will have on you.

ESOP Amendment and Termination

The Company intends to maintain the ESOP. However, it has reserved the right to amend or terminate the ESOP in its discretion at any time. If the ESOP is terminated (i) your ownership interest in your account balance will become 100% vested, and (ii) your account balance will be distributed to you in accordance with the terms of the ESOP.

Taxation of Your Benefit Payments

Under existing law, you will be taxed on amounts in your account when they are distributed to you unless you roll the funds over to another tax-qualified plan, individual retirement account or individual retirement annuity. Certain distributions made before you reach age 59 ½ can also be subject to a 10% penalty tax. When you become entitled to receive payment from the ESOP, YOU SHOULD SEEK TAX ADVICE TO DETERMINE HOW YOUR FUNDS WILL BE TAXED.

STATEMENT OF ERISA RIGHTS

As a participant in the ESOP you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 ("ERISA"). ERISA provides that all ESOP participants shall be entitled to:

(1) Examine, without charge, at the Human Resources Department and at other specified locations, such as work sites, all plan documents and copies of all documents filed by the ESOP with the U.S. Department of Labor, such as detailed annual reports and ESOP descriptions.

(2) Obtain copies of all ESOP documents and other ESOP information upon written request to the Human Resources Department. The Human Resources Department may assess a reasonable charge for the copies.

(3) Receive a summary of the ESOP's annual financial report. The Human Resources Department is required by law to furnish each participant with a copy of this summary annual report.

(4) Obtain a statement of your vested account balance. If you are not fully vested, the statement will tell you how many more years you have to work before you will be fully vested. This statement must be requested in writing, and it is not required to be given more than once a year. The ESOP must provide the statement free of charge.

In addition to creating rights for ESOP participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate the ESOP, called "fiduciaries" of the ESOP, have a duty to do so prudently and in the interest of you and other ESOP Participants and beneficiaries. No one, including your employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit from the ESOP or from exercising your rights under ERISA. If your claim for a benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the ESOP Committee review and reconsider your claim.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the ESOP and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the Company to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Company. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that ESOP fiduciaries misuse the ESOP funds, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about the ESOP, you should contact the Human Resources Department. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210.