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January 13, 2014

Top Hat Plan Exemption  
Employee Benefits Security Administration  
U.S. Department of Labor  
200 Constitution Avenue N.W., Room N-1513  
Washington, D.C. 20210

Re: Avalon Flooring Phantom Stock Plan

Dear Sir or Madam:

Pursuant to Department of Labor Regulation 2520.104-23, this statement is filed in compliance with reporting and disclosure requirements of Part 1 of Title I to the Employee Retirement Income Security Act of 1974. Avalon Flooring maintains a deferred compensation plan for a select group of management or highly compensated employees. The following information is provided in accordance with DOL Regulations 2520.104-23(b)(1):

Avalon Flooring  
2030 Springdale Road, Suite 400  
Cherry Hill, NJ 08003

Employer Identification Number: 22-2985143

It is hereby declared that Avalon Flooring maintains a plan primarily of the purpose of providing deferred compensation for a select group of management or highly compensated employees.

The number of top-hat plans maintained by the Employer: one (1)

The number of Participants in this top-hat plan is two (2).

The Plan was adopted effective April 1, 2011.

Sincerely,  
AVALON FLOORING

Maryanne Adams, President

Enclosures

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**SOVEREIGN DISTRIBUTORS, INC.  
PHANTOM STOCK PLAN**

**ARTICLE I  
PURPOSE AND ADOPTION OF THE PLAN**

1.01 Purpose. The purpose of the Sovereign Distributors, Inc. (the "Company") Phantom Stock Plan is to assist in retaining highly competent employees, and to act as an incentive in motivating such employees by providing the individuals who are responsible for the management, growth and financial success of the Company with the opportunity to share in that financial success through the acquisition of incentive awards that are tied to the value of the Common Stock of the Company, and thereby provide these individuals with a meaningful incentive to increase the value of the Company Stock.

1.02 Adoption and Term. The Plan has been approved by Board of Directors of the Company and shall be effective as of April 1, 2011. The Plan shall remain in effect until terminated by action of the Board of Directors; provided, however, that no Awards may be granted hereunder after December 31, 2021.

**ARTICLE II  
DEFINITIONS**

For the purpose of this Plan, capitalized terms shall have the following meanings:

2.01 Award means an award of Phantom Stock Units described in Article VI of the Plan.

2.02 Award Agreement means a written agreement between the Company and a Participant or a written acknowledgment from the Company to a Participant specifically setting forth the terms and conditions of an Award granted under the Plan.

2.03 Beneficiary means an individual, trust or estate who or which, by a written designation of the Participant filed with the Company, or if no such written designation is filed, by operation of law, succeeds to the rights and obligations of the Participant under the Plan and the Award Agreement upon the Participant's death.

2.04 Board or Board of Directors means the Board of Directors of the Company.

2.05 Change in Control means, and shall be deemed to have occurred upon the occurrence of, any one of the following events:

(a) The acquisition in one or more transactions, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than (i) the Company (or a person that directly or indirectly controls or is controlled by, or is under common control with, the Company), (ii) any employee benefit plan or related trust (including the ESOP) sponsored or maintained by the Company, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of a number of shares of Common Stock in excess of 50% of the outstanding shares of Common Stock, or (iii) Mary Millar, her issue or their spouses, or trusts for any one or more of them, whether acquired by purchase, gift, or otherwise, or pursuant to a will duly admitted to probate or by the laws of intestacy;

(b) The consummation (i.e., closing) of a reorganization, merger or consolidation involving the Company, unless securities representing more than 50% of the outstanding Common Stock of the successor entity are immediately thereafter beneficially owned, directly or indirectly, and in substantially the same proportion, by the persons who beneficially owned the shares of Common Stock immediately prior to such transaction;

(c) The consummation (i.e., closing) of a sale or other disposition of all or substantially all the assets of the Company in connection with a complete liquidation or dissolution of the Company.

2.06 Code means the Internal Revenue Code of 1986, as amended. References to a section of the Code shall include that section and any comparable section or sections of any future legislation that amends, supplements or supersedes such section, and shall include any regulations issued under such section.

2.07 Company means Sovereign Distributors, Inc., a New Jersey corporation, and its successors.

2.08 Common Stock means the shares of Common Stock of the Company.

2.09 Date of Grant means the date designated by the Board as the date as of which it grants an Award, which shall not be earlier than the date on which the Board approves the granting of such Award.

2.10 Disability means a physical or mental condition that entitles a Participant to benefits under Social Security Disability Insurance.

2.11 ESOP means the Avalon Carpet Tile & Flooring Employee Stock Ownership Plan established by the Company for the Benefit of its eligible employees.

2.12 Fair Market Value means the value per share of Common Stock underlying each Award determined on the basis of the most recent independent appraisal performed for purposes of the ESOP for the plan year ending on or immediately prior to the date of grant, purchase, settlement or payment, as applicable, of the Award. If the purchase of the Phantom Stock Unit is triggered by a Change in Control, then the Fair Market Value per share of Common Stock shall be equal to the consideration payable per share of Common Stock in the consummation of the Change in Control.

2.13 Participant means a person designated to receive an Award under the Plan in accordance with Section 5.01.

2.14 Plan means this Sovereign Distributors, Inc. Phantom Stock Plan.

2.15 Phantom Stock Unit means awards granted in accordance with Article VI.

### ARTICLE III ADMINISTRATION

3.01 Board.

(a) Duties and Authority. The Plan shall be administered by the Board of Directors. The Board shall have exclusive and final authority in each determination, interpretation or other action affecting the Plan and its Participants. The Board shall have the sole discretionary authority to interpret the Plan, to establish and modify administrative rules for the Plan, to impose such conditions and restrictions on Awards as it determines appropriate, and to take such steps in connection with the Plan and Awards granted hereunder as it may deem necessary or advisable. The Board may delegate such of its powers and authority under the Plan as it deems appropriate to a subcommittee of the Board and/or designated officers or employees of the Company. In the event of such delegation of authority or exercise of authority by the Board, references in the Plan to the Board shall be deemed to refer, as appropriate, to the delegate of the Board.

(b) Indemnification. Each person who is or shall have been a member of the Board, or an officer of the Company to whom authority was delegated in accordance with the Plan shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan; provided, however, that the foregoing indemnification shall not apply to any loss, cost, liability, or expense that is a result of his or her own willful misconduct.

#### ARTICLE IV AWARDS

4.01 Number of Awards Issuable. The total number of Awards of Phantom Stock Units authorized to be issued under the Plan shall be 87,000, which number is equivalent to 25% of the outstanding shares of Common Stock, determined on a fully diluted basis. The total number of Awards of Phantom Stock Units granted in any fiscal year shall not exceed 17,400, which number is equivalent to 5% of the outstanding shares of Common Stock. Notwithstanding the foregoing, if in any given year the Participants in this Plan shall have earned Phantom Stock Units in excess of 17,400, all such Phantom Stock Units in excess of 17,400 shall be carried over and awarded to such Participants in following years, provided that (i) the total number of Phantom Stock Units awarded in any following year does not exceed 17,400, and (ii) the total Phantom Stock Units awarded on a cumulative basis shall not exceed 87,000. The foregoing Award limits shall be subject to adjustment in accordance with Section 4.02.

4.02 Adjustments to Reflect Capital Changes. Should any change be made to the Common Stock by reason of any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other change in capitalization affecting the Common Stock without the Company's receipt of consideration, then appropriate adjustments shall be made to the maximum number of Awards and shares of Common Stock in respect of which Awards can be made to any Participant in any fiscal year in order to reflect such change and thereby preclude any dilution or enlargement of benefits under the Plan or any such Award. The Board shall have the power and sole discretion to determine the amount of the adjustment to be made in each case.

**ARTICLE V  
PARTICIPATION**

5.01 Eligible Participants. Eligible Participants shall be such employees of the Company as the Board, in its sole discretion, may designate from time to time. The Board shall consider such factors as it deems pertinent in selecting Participants and in determining the type and amount of their respective Awards.

**ARTICLE VI  
AWARDS**

6.01 Phantom Stock Units.

(a) Phantom Stock Unit Awards. The Board is authorized to grant to any Participant one or more Phantom Stock Units. Each grant of an Award shall be evidenced by a written Award Agreement executed by the Company and the Participant stating the number of Phantom Stock Units subject to such Award and such other terms and conditions of the Award as the Board may determine. All provisions of the Award Agreement shall be consistent with the terms of the Plan and the terms of the Plan shall govern and control each Award.

(b) Payment of Value Phantom Stock Unit. Upon sale to the Company of a Phantom Stock Unit with respect to a share of Common Stock, the Participant shall be entitled to receive an amount equal to the Fair Market Value of a share of Common Stock on the date of sale, which amount shall be payable as provided in this Article 6.

6.02 Terms of Awards.

(a) Grant Criteria. Subject to the limitations described in Section 4.01, the Board, in its sole discretion, may fix an amount of Awards for each Participant, based upon such performance criteria as the Board, in its sole discretion, shall determine, including individual performance criteria and Company performance criteria.

(b) Award Agreement. No person shall have any rights under any Award granted under the Plan unless and until the Company and the Participant to whom such Award shall have been granted shall have executed and delivered an Award Agreement or received any

other Award acknowledgment authorized by the Board expressly granting the Award to such person and containing provisions setting forth the terms of the Award.

(c) Conditions on Exercise or Sale. An Award Agreement with respect to Phantom Stock Units may contain such waiting periods and restrictions on sale or exercise (including, but not limited to, periodic installments) as may be determined by the Board at the time of grant.

(d) Vesting. All Awards granted under this Plan shall be fully vested as of the date such Awards are granted.

(e) Exercise/Sale Time. Each Award granted under the Plan shall become exercisable or saleable upon the earlier of (i) death; (ii) Disability; (iii) attainment of age 65; (iv) a Change in Control; or (v) March 31, 2020. Each Award shall be exercised or sold by written notice to the Company or by such other method as provided in the Award Agreement or as the Board may establish or approve from time to time.

(f) Acceleration or Extension of Time of Sale. The Board, in its sole discretion, shall have the right (but not the obligation), exercisable on or at any time after the Date of Grant, to accelerate or extend the time for the exercise or sale of any Award, provided that no such acceleration or extension of time shall violate Code Sections 409A or 409(p).

(g) Form of Payment. Any payment which may become due from the Company by reason of a Participant's sale of a Phantom Stock Unit shall be paid to the Participant in substantially equal annual installments of Phantom Stock Units over a period of five (5) years.

(h) Time of Payment. Any payment which may become due from the Company by reason of a Participant's sale of a Phantom Stock Unit shall be paid to the Participant as soon as administratively practicable following the completion of the appraisal required in connection with the determination of the Fair Market Value of the underlying Common Stock, provided that any such payment shall in all events be made no later than the close of the fiscal year in which the sale occurs or, if later, the 15<sup>th</sup> day of the third calendar month following the sale date.

## ARTICLE VII AMENDMENT AND TERMINATION

7.01 Amendment. The Board shall have the power and authority to amend the Plan at any time; provided, however, that except as provided in Sections 8.13 and 8.14, no termination or amendment of the Plan may, without the consent of the Participant to whom any Award shall theretofore have been granted under the Plan, materially adversely affect the right of such individual under such Award, and provided further that no such amendment shall violate Code Sections 409A or 409(p).

7.02 Termination. The Board shall have the right and the power to terminate the Plan at any time provided that such termination shall comply with Code Section 409A and there is no acceleration of payments that would have been payable under the terms of the Plan had it not been terminated.

**ARTICLE VIII**  
**TERMS APPLICABLE GENERALLY TO AWARDS**  
**GRANTED UNDER THE PLAN**

8.01 Plan Provisions Control Award Terms. The terms of the Plan shall govern all Awards granted under Plan, and in no event shall the Board have the power to grant any Award under the Plan which is contrary to any of the provisions of the Plan. In the event any provision of any Award granted under the Plan shall conflict with any term in the Plan as constituted on the Date of Grant of such Award, the term in the Plan as constituted on the Date of Grant of such Award shall control.

8.02 Modification of Award After Grant. Except as provided in Sections 8.13 and 8.14, no Award granted under the Plan to a Participant may be modified (unless such modification does not materially decrease the value of the Award, as determined by the Board) after the Date of Grant except by express written agreement between the Company and the Participant, provided that any such change (a) shall not be inconsistent with the terms of the Plan, (b) shall be approved by the Board and (c) shall not violate Code Sections 409A or 409(p).

8.03 Limitation on Transfer. A Participant's rights and interest under the Plan may not be assigned or transferred other than by will or the laws of descent and distribution, and during the lifetime of a Participant, only the Participant personally (or the Participant's personal representative) may exercise rights under the Plan. The Participant's Beneficiary may exercise

the Participant's rights to the extent they are exercisable under the Plan at the time of the Participant's death.

8.04 Taxes. The Company shall be entitled, if the Board deems it necessary or desirable, to withhold (or secure payment from the Participant in lieu of withholding) the amount of any withholding or other tax required by law to be withheld or paid by the Company with respect to any amount payable upon exercise or sale of an Award unless indemnified to its satisfaction against any liability for any such tax. The amount of such withholding or tax payment shall be determined by the Board and shall be payable by the Participant at such time as the Board determines.

8.05 No Right to Continued Service. No person shall have any claim of right to be granted an Award under this Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the service of the Company.

8.06 Awards Not Includable for Benefit Purposes. Payments received by a Participant pursuant to the provisions of the Plan shall not be included in the determination of benefits under the Company's ESOP or under any pension, group insurance or other benefit plan applicable to the Participant which is maintained by the Company except as may be provided under the terms of such plans or determined by the Board.

8.07 Governing Law. All determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of New Jersey without resort to that State's conflict of law rules.

8.08 No Strict Construction. No rule of strict construction shall be implied against the Company, the Board, or any other person in the interpretation of any of the terms of the Plan, any Award granted under the Plan or any rule or procedure established by the Board.

8.09 Captions. The captions (i.e., all Section headings) used in the Plan are for convenience only, do not constitute a part of the Plan, and shall not be deemed to limit, characterize or affect in any way any provisions of the Plan, and all provisions of the Plan shall be construed as if no captions have been used in the Plan.

8.10 Severability. Whenever possible, each provision in the Plan and every Award at any time granted under the Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of the Plan or any Award at any time granted under the Plan shall be held to be prohibited by or invalid under applicable law, then (a) such provision

shall be deemed amended to accomplish the objectives of the provision as originally written to the fullest extent permitted by law and (b) all other provisions of the Plan and every other Award at any time granted under the Plan shall remain in full force and effect.

8.11 No Rights as Shareholder. The Plan does not create in the Participant any rights as a shareholder of the Company including any voting rights, preemptive rights or right to receive financial statements. In the alternative, and in the event a court of competent jurisdiction determines otherwise, the Participant hereby waives any such rights.

8.12 Non-Uniform Determinations. The Board's determinations under the Plan (including, without limitation its determinations of the persons eligible to receive Awards, the form, amount and timing of such Awards and the terms and provisions of such Awards) need not be uniform and Awards may be made by the Board selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

8.13 Code Section 409A. This Plan is intended to conform to the provisions of Code Section 409A and shall be interpreted and administered accordingly. In the event that any provision that is necessary for the Plan to comply with Section 409A is determined by the Board to have been omitted, such omitted provision shall be deemed included in the Plan and is hereby incorporated as part of the Plan.

8.14 Section 409(p). In the event Awards made or to be made under the Plan would violate the restrictions of Code Section 409(p), the Board, at its discretion, may accelerate the time of exercise of an Award of Stock Appreciation Rights, require an accelerated sale of an Award of Phantom Stock Units, or reduce the amount of any Award to the extent necessary to avoid a violation of Code Section 409(p); provided that any amount distributed shall not exceed 125 percent of the minimum amount necessary to avoid the occurrence of a "nonallocation year" as defined in Code Section 409(p) and the applicable regulations thereunder.

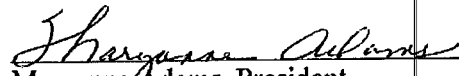
8.15 Notice. Any notice required to be given or delivered under the terms of the Plan or any Award Agreement shall be in writing and, if to the Company, addressed to the Company at its principal corporate offices and directed to the Board; and if to a Participant, addressed to the Participant at the address provided for the Participant in the Award Agreement. All notices shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

8.16 Successors and Assigns. The provisions of the Plan and any Award Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and, with respect to any particular Award Agreement, the Participant who is a party to the Award Agreement, the Participant's assigns, representatives, heirs and any beneficiaries of that Award Agreement as designated by the Participant.

To record the adoption of the Plan, the Company has caused this document to be executed this 16 day of October, 2012.

**SOVEREIGN DISTRIBUTORS, INC.**

By:

  
Maryanne Adams, President

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WED 15 JAN 2014 PM

**AVALON**

INSPIRING HOPE DESIGN

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