UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 2, 2021

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-38257

National Vision Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**46-4841717**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2435 Commerce Ave,
Building 2200
Duluth, Georgia 30096
(Address of principal executive offices)

(770) 822-3600
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	EYE	NASDAQ

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of June 27, 2020, the last day of the registrant's most recently completed second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $2.3 billion (based upon the closing sale price of the common stock on last trading date of the quarter on the NASDAQ).

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date

Class	Outstanding at February 26, 2021
Common stock, $0.01 par value per share	81,311,893

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2021 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended January 2, 2021.

NATIONAL VISION HOLDINGS, INC. AND SUBSIDIARIES

Table of Contents

[This page intentionally left blank.]

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Form 10-K") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are subject to the "safe harbor" created by those sections. All statements, other than statements of historical facts included in this Form 10-K, including statements concerning our plans, objectives, goals, beliefs, business strategies, future events, business conditions, results of operations, financial position, business outlook, business trends and other information, may be forward-looking statements.

Words such as "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," or "anticipates," and variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not historical facts, or guarantees of future performance and are based upon our current expectations, beliefs, estimates and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond our control. Our expectations, beliefs, and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs and projections will result or be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Form 10-K. These risks and uncertainties include, but are not limited to, those described below in the "Risk Factors Summary," in Part I. Item 1A. "Risk Factors" and elsewhere in this Form 10-K and those described from time to time in our future reports to be filed with the Securities and Exchange Commission (the "SEC").

We caution you that the risks, uncertainties and other factors referenced above may not contain all of the risks, uncertainties and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. There can be no assurance that (i) we have correctly measured or identified all of the factors affecting our business or the extent of these factors' likely impact, (ii) the available information with respect to these factors on which such analysis is based is complete or accurate, (iii) such analysis is correct or (iv) our strategy, which is based in part on this analysis, will be successful. All forward-looking statements in this Form 10-K, apply only as of the date of this Form 10-K or as of the date they were made and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

RISK FACTORS SUMMARY

The following is only a summary of the principal risks that may materially adversely affect our business, financial condition, results of operations or liquidity. The following should be read in conjunction with the more complete discussion of the risk factors we face, which are set forth in the section entitled "Risk Factors" in this Form 10-K.

Risks Related to Our Business and Our Industry

- The COVID-19 pandemic has had, and may in the future continue to have, a material adverse impact on our business.
- If we fail to open and operate new stores in a timely and cost-effective manner or fail to successfully enter new markets, our financial performance could be materially and adversely affected.
- Failure to recruit and retain vision care professionals for our stores could adversely affect our business, financial condition and results of operations.
- Future operational success depends on our ability to develop, maintain and extend relationships with managed vision care companies, vision insurance providers and other third-party payors.
- If the performance of our host and legacy brands declines or we are unable to maintain our operating relationships with our host and legacy partners, our business, profitability and cash flows may be adversely affected and we may be required to incur impairment charges.
- We are subject to extensive state, local and federal vision care and healthcare laws and regulations and failure to adhere to such laws and regulations would adversely affect our business.
- We are subject to managed vision care laws and regulations.
- We require significant capital to fund our expanding business. If we are unable to maintain sufficient levels of cash flow from our operations, we may not be able to execute or sustain our growth strategy or we may require additional financing, which may not be available to us on satisfactory terms or at all.
- We depend on our distribution centers and optical laboratories. The loss of, or disruption in the operations of, one or more of these facilities may adversely affect our ability to process and fulfill customer orders and deliver our products in a timely manner, or at all, and may result in quality issues, which would adversely affect our reputation, our business and our profitability.
- We face risks associated with vendors from whom our products are sourced and are dependent on a limited number of suppliers.
- The optical retail industry is highly competitive, and if we do not compete successfully, our business may be adversely impacted.
- We rely heavily on our information technology systems, as well as those of our vendors, for our business to effectively operate and to safeguard confidential information; any significant failure, inadequacy, interruption or security breach could adversely affect our business, financial condition and operations.
- Our growth strategy could strain our existing resources and cause the performance of our existing stores to suffer.
- We are a low-cost provider and our business model relies on the low cost of inputs. Factors such as wage rate increases, inflation, cost increases, increases in raw material prices and energy prices could have a material adverse effect on our business, financial condition and results of operations.
- Our success depends upon our marketing, advertising and promotional efforts. If we are unable to implement them successfully, or if our competitors are more effective than we are, it could have a material adverse effect on our business, financial condition and results of operations.
- We are subject to risks associated with leasing substantial amounts of space, including future increases in occupancy costs.
- Certain technological advances, greater availability of, or increased consumer preferences for, vision correction alternatives to prescription eyeglasses or contact lenses, and future drug development for the correction of vision-related problems may reduce the demand for our products and adversely impact our business and profitability.
- If we fail to retain our existing senior management team or attract qualified new personnel, such failure could have a material adverse effect on our business, financial condition and results of operations.
- An overall decline in the health of the economy and other factors impacting consumer spending, such as recessionary conditions, the timing and issuance of tax refunds, governmental instability and natural

disasters, may affect consumer purchases, which could reduce demand for our products and materially harm our sales, profitability and financial condition.

- Our profitability and cash flows may be negatively affected if we are not successful in managing our inventory balances and inventory shrinkage.
- Our operating results and inventory levels fluctuate on a seasonal basis.
- We rely on third-party coverage and reimbursement, including government programs, for an increasing portion of our revenues, the future reduction of which could adversely affect our results of operations.
- Our e-commerce and omni-channel business faces distinct risks, and our failure to successfully manage it could have a negative impact on our profitability.
- We could be adversely affected by product liability, product recall or personal injury issues.
- Failure to comply with laws, regulations and enforcement activities or changes in statutory, regulatory, accounting and other legal requirements could potentially impact our operating and financial results.
- Adverse litigation judgments or settlements resulting from legal proceedings relating to our business operations could materially adversely affect our business, financial condition and results of operations.
- We may incur losses arising from our investments in technological innovators in the optical retail industry, which would negatively affect our financial results.
- We may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business.

Risks Related to Our Indebtedness and Ownership of Common Stock

- We have a significant amount of indebtedness which could adversely affect our business and financial position, including limiting our business flexibility and preventing us from meeting our debt obligations.
- A change in interest rates or discontinuation, reform or replacement of LIBOR and other benchmark rates, or uncertainty related to the potential for any of the foregoing, may adversely affect our business.
- Our credit agreement contains restrictions that limit our flexibility in operating our business.
- Conversion of the 2025 Notes could dilute the ownership interest of existing stockholders or may otherwise depress the price of our common stock.
- Our stock price may be volatile or may decline regardless of our operating performance.
- Because we have no current plans to pay cash dividends on our common stock, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.
- We are a holding company with no operations of our own and, as such, we depend on our subsidiaries for cash to fund all of our operations and expenses, including future dividend payments, if any.
- If securities or industry analysts do not publish research or reports about our business or if they downgrade our stock or our sector, our stock price and trading volume could decline.
- Maintaining the requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.
- Ineffective internal controls could have a material adverse effect on our business and stock price, and could result in our financial statements becoming unreliable.
- Anti-takeover provisions in our organizational documents could delay or prevent a change of control.
- Our Board of Directors is authorized to issue and designate shares of our preferred stock in additional series without stockholder approval.
- Our amended and restated certificate of incorporation provides, subject to limited exceptions, that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for certain stockholder litigation matters, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, associates or stockholders.

PART I

Item 1. Business

National Vision Holdings, Inc., a Delaware corporation, and its consolidated subsidiaries are referred to here as "we," "our," "us," "the Company," or "National Vision." National Vision Holdings, Inc. conducts substantially all of its activities through its indirect, wholly-owned subsidiary, National Vision, Inc. ("NVI"), and NVI's subsidiaries.

Our website is www.nationalvision.com. Investors can obtain copies of our SEC filings from this site free of charge, as well as from the SEC website at www.sec.gov. The information posted to our website is not incorporated into this Form 10-K.

General

We are one of the largest and fastest growing optical retailers in the United States and a leader in the attractive value segment of the U.S. optical retail industry. We believe that vision is central to quality of life and that people deserve to see their best to live their best, regardless of their budget. Our mission is to make quality eye care and eyewear affordable and accessible to all Americans. We achieve this by providing eye exams, eyeglasses and contact lenses to value seeking and lower income consumers. We deliver exceptional value and convenience to our customers, with an opening price point that strives to be among the lowest in the industry, enabled by our low-cost operating platform. We reach our customers through a diverse portfolio of 1,205 retail stores across five brands and 19 consumer websites as of January 2, 2021, our 2020 fiscal year end.

Our common stock trades on the NASDAQ Global Select Market ("NASDAQ") under the symbol "EYE." Our principal executive offices are located at 2435 Commerce Avenue, Bldg. 2200, Duluth, Georgia 30096.

Our Corporate History

Through its predecessors, NVI commenced operations in 1990. In 2005, private equity funds managed by Berkshire Partners LLC ("Berkshire") acquired both NVI and Consolidated Vision Group, Inc., which operated America's Best Contacts and Eyeglasses ("America's Best") stores, and merged these entities, with NVI surviving. In 2009, NVI acquired the Eyeglass World store chain. In 2011, after a multi-year partnership, NVI acquired Arlington Contact Lens Service, Inc. ("AC Lens") to bolster its e-commerce platform.

In March 2014, NVI was acquired (the "KKR Acquisition") by affiliates of KKR & Co. Inc. ("KKR"). National Vision Holdings, Inc. was incorporated in Delaware on February 14, 2014 under the name "Nautilus Parent, Inc." and NVI became our wholly-owned subsidiary in connection with the KKR Acquisition. In 2017, we changed our name to "National Vision Holdings, Inc."

In October 2017, we completed the initial public offering of our common stock (the "IPO"). National Vision was controlled by affiliates of KKR and private equity funds managed by Berkshire until July 30, 2018 and by August 2019, these private equity funds had sold their remaining holds of our common stock.

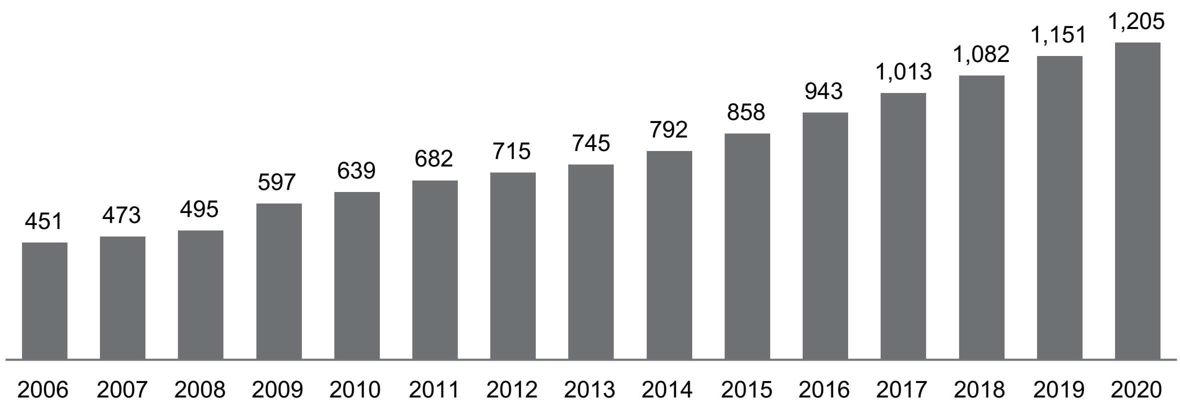
COVID-19 Pandemic Impact on NVI's Business

The outbreak of COVID-19 in 2020 resulted in a global pandemic and a significant slowdown of economic activity including worldwide travel restrictions, prohibitions of non-essential work activities, disruption and shutdown of businesses, changes in consumer behavior and greater uncertainty in global financial markets, which in turn, had a significant impact on our operations and performance in fiscal 2020. We prioritized the safety of our associates, optometrists, customers and patients by closing our stores to the public for a temporary period of time in the first half of 2020 in order to implement enhanced safety protocols. Through the dedication of our associates and doctors, we were able to continue to provide our customers and patients reliable and quality low cost eye care and eyewear. Our strategy has guided us during these most challenging times and reinforces our confidence in our business model. As the pandemic endures and continues to have an impact on global economic activity, the extent to which COVID-19 adversely impacts our future business operations, financial performance and results of operations is uncertain and will depend on many factors outside the Company's control. For a further discussion of the risks, uncertainties and actions taken in response to COVID-19, refer to Item 1A "Risk Factors" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Business Model

Our history of profitable growth is founded on a commitment to a relatively simple business model: providing exceptional value and convenience to customers, enabled by our low-cost operating platform. Our disciplined approach to new store openings, combined with our attractive store economics, has led to strong returns on investment. The following chart depicts our new store growth:

Proven Ability to Successfully Open New Stores



Note: Represents stores in operations across all five company retail brands at the end of each fiscal year.

The fundamentals of our model are described below:

- ***Differentiated and Defensible Value Proposition***. We believe our success is driven by our low prices, convenient locations, broad assortment of branded and private label merchandise and the high levels of in-store service provided by our well-trained and passionate store associates and vision care professionals. We believe our bundled offers, including two-pairs of eyeglasses plus an eye exam for $69.95 at America's Best and two-pairs of eyeglasses for $78 at Eyeglass World, represent among the lowest price offerings of any national chain. Our ability to utilize national advertising for America's Best allows us to communicate this value proposition to a meaningfully greater number of current and potential customers. We believe that our value proposition will continue to drive comparable store sales growth as we attract new customers and increase loyalty with existing customers.
- ***Recurring Revenue Characteristics***. Eye care purchases are predominantly a medical necessity and are therefore considered non-discretionary in nature. We estimate that optical consumers typically replace their eyeglasses every two to three years, while contact lens customers typically order new lenses every six to twelve months, reflecting the predictability of these recurring purchase behaviors. This is further demonstrated by the customer mix of our mature stores, with existing customers representing 66% of total customers in 2020 and new customers representing the remaining 34% of total customers in 2020.
- ***Attractive Store Economics***. Since 2006, we have opened 777 stores in the aggregate, including 747 stores under our America's Best and Eyeglass World retail brands. Our store economics are based on low capital investment, steady ramping of sales in new locations, low operating costs and consistent sales volume and earnings growth in mature stores, which result in attractive returns on capital. By consistently replicating the key characteristics of our store model, we execute a formula-based approach to opening new stores and managing existing stores, which has delivered predictable store performance across vintages, diverse geographies and new and existing markets. Our new store model targets a store size between 3,500 to 4,500 square feet and an average new store cash investment of approximately $0.4 million to $0.5 million, in furniture, fixtures, leaseholds and equipment for new stores, net of tenant incentives. Our new store model targets sales in the fifth year of operation in the range of $1.4 million to $1.6 million, with at least 60% of year five sales targeted in the first full year of operation. Our new store model targets vary for America's Best and Eyeglass World stores to reflect differences by brand, markets and geography. The majority of our owned stores have achieved profitability during the second year of operation and have paid back invested capital in three to five years.

- ***Grow Our Store Base.*** We believe that we continue to have significant expansion opportunities in the United States. We have adopted a disciplined expansion strategy designed to leverage the strengths of our compelling and distinct value proposition and recognized America's Best and Eyeglass World brand names to develop new stores successfully in an array of markets that are primed for growth, including new, existing, small and large markets. We have an established partnership with a third party real estate data analytics firm to evaluate potential new America's Best and Eyeglass World stores and updated our analysis during 2020. This updated analysis suggests that we can grow America's Best to at least 1,300 stores and Eyeglass World to at least 850 stores, inclusive of those already open. We believe that these two brands can accordingly grow from 892 stores as of January 2, 2021 to a total of at least 2,150 stores, with similar economics to the existing store base. We believe that our consistent track record of successfully opening stores across vintages, geographies and markets demonstrates our ability to further increase our store count and, as a result, we believe that our current level of new store growth of approximately 75 stores per annum is sustainable for the foreseeable future.

Our Mission and Philanthropic Efforts

Our mission is to help people by making quality eye care and eyewear more affordable and accessible. Our philanthropic culture instills a sense of purpose and engagement in our associates, from in-store team members to senior management. Our associates feel pride in the positive work they are doing, which allows us to attract and retain both store associates and vision care professionals, thus improving the customer experience in our stores. In addition, our mission has been essential to the recruitment and retention of our management team, whose extensive experience is a key component of our business success.

Our financial success has helped fuel our ever-growing philanthropic engine. In the U.S., through our partnership with charitable organizations, we provide free vision screenings, eye exams and eyeglasses to young Americans and other underserved communities. In addition, through multiple charitable partnerships with organizations such as VisionSpring, RestoringVision and VOSH International, we both directly assist and indirectly help improve the vision of millions of individuals globally. We also work collaboratively with others in the industry to help a portion of the world's population who live with uncorrected vision problems.

Our Business

We have two reportable segments: our Owned & Host segment and our Legacy segment. Our Owned & Host segment includes our two owned brands, America's Best and Eyeglass World, and our Vista Optical locations in select Fred Meyer stores. Within this segment, we also provide low-cost vision care products and services to American military service members by operating Vista Optical locations on select military bases across the country. Our Legacy segment consists of our long-term strategic relationship with Walmart to operate Vision Centers in select Walmart stores. In addition, our wholly-owned subsidiary, FirstSight Vision Services, Inc. ("FirstSight"), which is licensed as a single-service health plan under California law, issues individual vision plans in connection with our America's Best operations in California and arranges for the provision of optometric services at optometric offices next to certain Walmart stores throughout California. We support our owned brands and our Vista Optical military operations through our omni-channel offerings and we also have an established standalone e-commerce business. Our e-commerce platform, which is managed by our wholly-owned subsidiary AC Lens, serves our proprietary e-commerce websites and the e-commerce websites of third parties, including Walmart, Sam's Club and Giant Eagle. AC Lens handles site management, customer relationship management and order fulfillment and also sells a wide variety of contact lenses, eyeglasses and eye care accessories.

The following table provides an overview of our portfolio of brands:

Overview of Our Brands and Omni-channel & E-commerce Platform

Owned & Host Brands				Legacy
America's Best Contacts & Eyeglasses	Eyeglass World	Vista Optical In Selected Fred Meyer Stores	Vista Optical In Select Military Exchanges	Vision Center Brought to you by Walmart
Lowest Price	**Eyewear Value Superstore**	**Shop-Within-A-Shop**	**Commissary Store**	**Shop-Within-A-Shop**
2 Pairs $69.95 + free eye exam	Eyeglasses Two Pairs $78	"Great Deals Everywhere You Look"	"Fantastic Military Pricing"	"Everyday Low Price"
Employed ODs	**Mostly Independent ODs**	**Mostly Independent ODs**	**Mostly Independent ODs**	**Mostly Independent ODs**
773 Stores	119 Stores	29 Stores	54 Stores	230 Stores
~3,500 sq. ft.	~4,500 sq. ft.	~800 sq. ft.	~1,000 sq. ft.	~1,800 sq. ft.
~1,300 SKUs	~1,900 SKUs	~600 SKUs	~700 SKUs	~800 SKUs
Centralized Lab	Lab in Store / Centralized Lab	Centralized Lab	Centralized Lab	Centralized Lab

OMNI-CHANNEL & E-COMMERCE

Sister Sites (4)	Proprietary Sites (6)	Partner Sites (9)
America's Best Contacts & Eyeglasses; Eyeglass World	Military Optical.com; AC Lens; Discount Glasses; discount contactlenses	Walmart contacts; Sam's Club Contacts

Note: Store count as of January 2, 2021. SKU figures refer to eyeglass frame SKUs. ODs are Doctors of Optometry.

All of our brands leverage our highly-efficient centralized laboratory network and distribution system, which helps us minimize production and distribution costs. As one of the largest purchasers of eyeglass frames, spectacle lenses and contact lenses in the United States, we also benefit from centralized procurement efforts and purchasing economies of scale.

Our America's Best Brand. America's Best strives to be the value leader in virtually every market in which it operates. Its signature offer of "two pairs of eyeglasses for $69.95, including a free eye exam", is typically priced significantly lower than the competition on a per-pair basis and provides customers with a wide selection of frame choices at this entry point. In America's Best stores, vision care services are provided by optometrists employed either by us or by independent professional corporations or similar entities. This model facilitates the brand's bundled offer and its Eyecare Club programs, which offer two free eye exams per year for the duration of the membership plus a discount on contact lenses and eyeglasses. By leveraging our efficient centralized laboratory network, America's Best stores are able to minimize processing costs and drive significant economies of scale. These stores typically stock approximately 1,300 eyeglass frame SKUs, including imports from low-cost overseas manufacturers, higher-margin private label brands and discounted well-known frame brands. America's Best stores, which average approximately 3,500 square feet, are primarily located in high-traffic strip centers next to other value-focused retailers.

Our Eyeglass World Brand. Eyeglass World also offers a value price point for customers, with an opening offer of "two pairs of eyeglasses for $78." This brand is positioned as an eyeglass superstore with a broad selection of designer brands and price points, and offers a highly personalized level of service. We source eyeglass frames for our Eyeglass World stores from leading designer brands, private label manufacturers and low-cost overseas manufacturers. Eyeglass World locations offer eye exams, primarily from independent optometrists and optometrists employed by independent professional corporations or similar entities, and have on-site laboratories that enable stores to quickly fulfill customer orders and make repairs. Lens orders that are not completed in-store are completed by our centralized laboratory network. Due to the wider brand selection and on-site laboratories, Eyeglass World stores average approximately 4,500 square feet and typically stock approximately 1,900 eyeglass frame SKUs. These stores are primarily located in freestanding or in-line locations near high-foot-traffic shopping centers.

Our Partner Brands. We have three partner brands consisting of 230 Vision Centers in Walmart stores across the country, 54 Vista Optical locations on military bases and 29 Vista Optical locations within Fred Meyer stores as of January 2, 2021. Pursuant to a January 2020 amendment to our management & services agreement with Walmart, we added five additional Vision Centers in Walmart stores in fiscal year 2020. On July 17, 2020, NVI and Walmart extended the current term and economics of the management & services agreement by three years, to February 23, 2024. We have strong, long-standing relationships with these partners. Our strategic relationship with Walmart is in its 31st year and our partnerships with Fred Meyer and the U.S. military have been maintained for over 20 years. Our partner brands all compete within the value segment of the U.S. optical retail industry. These brands combine a broad selection of products and attentive customer service with the convenience of one-stop shopping. These brands also utilize our centralized laboratories and provide eye exams principally by independent optometrists in nearly all locations.

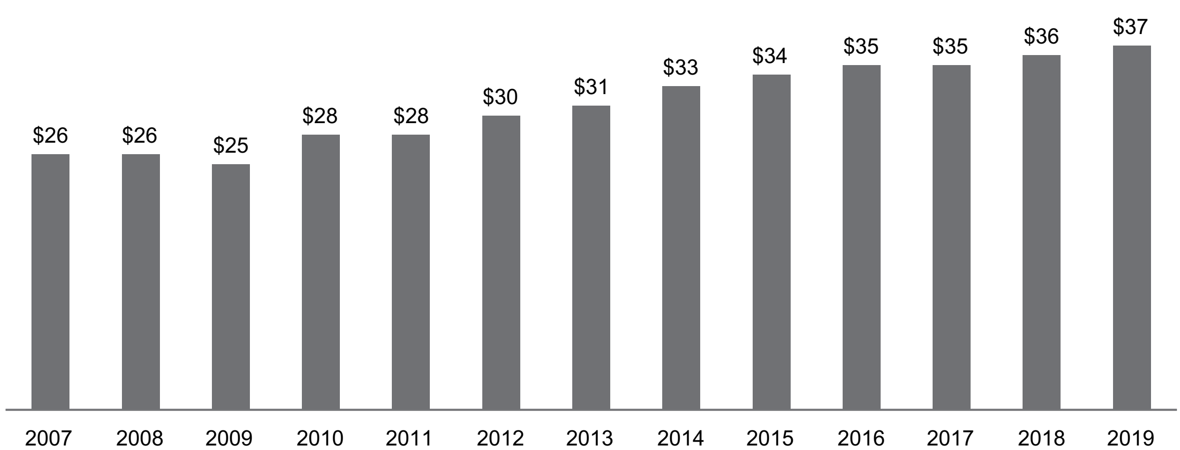
Our Omni-Channel and E-Commerce Platforms. We offer our customers an engaging digital shopping experience through an established platform of four omni-channel store websites, and 15 dedicated e-commerce consumer websites. Our omni-channel store websites augment our America's Best, Eyeglass World, Vision Center and Vista Optical in military brands and provide a customer experience that extends across our in-store, mobile and e-commerce channels. We offer a range of services to customers, including eyeglass purchasing, online scheduling and appointment reminders, contact lens purchasing, "buy-in-store and ship-to-home" capabilities and online frame browsing, among others. Our omni-channel offerings work in concert with these brands to enhance the overall quality of the customer experience.

Our dedicated e-commerce websites are managed by our subsidiary, AC Lens. AC Lens operates six proprietary branded websites including, among others, aclens.com and discountcontacts.com. In addition, AC Lens operates and provides support services for nine third-party websites owned by other companies, including Walmart, Sam's Club and Giant Eagle. AC Lens handles site management, customer relationship management and order fulfillment and also sells a wide variety of contact lenses, eyeglasses and eye care accessories. In the aggregate, sales from our omni-channel and e-commerce platforms, which includes "buy-in-store and ship-to-home" transactions, represented approximately 12.0% and 10.3% of our 2020 and 2019 fiscal year net revenue, respectively.

Our Industry[1]

The U.S. optical retail industry, defined by Vision Monday to include optical retailers' revenues from the sales of products (including managed vision care benefit revenues and omni-channel and e-commerce sales) and eye care services provided by vision care professionals, including eye exams, is a $37 billion industry that has exhibited consistent, stable growth across economic cycles. According to Vision Monday, over the period from 2007 to 2019, the industry grew from $26 billion to $37 billion in annual sales, representing a compound annual growth rate ("CAGR") of 3.2%. The industry experienced only a modest decline during the 2008 to 2009 recession and rebounded with robust post-recession sales growth of 4.0% CAGR from 2009 to 2019, according to Vision Monday. The steady growth of the industry and its resilience to economic cycles is due in large part to the medical, non-discretionary and recurring nature of eye care purchases.

Size of U.S. Optical Retail Market ($ in billion)



Source: Vision Monday

[1] *This section includes the most recently available industry information, primarily as of 2019. We expect industry data for 2020, that would include the impacts of COVID-19, to be available later in 2021.*

The majority of eyewear purchases are driven by need, with two primary drivers of demand: (i) diminishing eyesight with increasing age, causing new customers to buy corrective eyewear and (ii) a steady and consistent replacement cycle, as customers frequently replace or purchase new eyewear for a variety of reasons, including changes in prescriptions, fashion trends and necessity (e.g., lost or broken eyewear).

The need for eyesight correction is diagnosed through eye tests and eye exams.

We anticipate that there are four key secular growth trends that will continue to contribute to the stability and growth of the U.S. optical retail industry:

- ***Aging Population***. According to The Vision Council, 76% of adults in the United States used some form of vision correction as of September 2020. According to The Vision Council, at age 45, the need for vision correction begins to increase significantly, with approximately 88% of adults in the United States between the ages of 45 and 54 and approximately 89% of adults in the United States aged 55 and older using vision correction. As the U.S. population ages and life expectancy increases, the pool of potential customers and opportunities for repeat purchases in the optical retail industry are anticipated to rise. Given that eyesight deteriorates progressively with age, aging of the U.S. population should result in incremental sales of eyewear and related accessories.
- ***Frequent Replacement Cycle***. The repetitive and predictable nature of customer behavior results in a significant volume of recurring revenue for the optical retail industry. The purchasing cycle of vision correction devices is closely tied to the frequency with which consumers obtain eye exams. Most optometrists recommend annual eye exams as a preventive measure against serious eye conditions and to help patients identify changes in their vision correction needs. According to The Vision Council, an estimated 196 million people in the United States using vision correction devices in 2019 received nearly 118 million eye exams that year, implying an average interval between exams of 20 months. The interval between exams contributes to the industry’s stability and shortening this interval represents an opportunity to increase the frequency of customer purchases.
- ***Increased Usage of Computer and Mobile Screens***. Due to the proliferation of smartphones, laptops, tablets and other electronic devices, the U.S. population has experienced a dramatic increase in the amount of time spent viewing electronic screens. According to The Vision Council, about 80% of American adults report using digital devices for more than two hours per day with approximately 70% using two or more devices simultaneously, and approximately 60% reporting experiencing symptoms of digital eye strain. This is anticipated to result in a larger percentage of the population suffering from screen-related vision problems, driving incremental sales of vision correction devices, such as traditional eyeglasses and contact lenses, as well as higher margin products designed specifically to counteract the effect of looking at screens for prolonged stretches of time. We believe that remote working and learning arrangements that have been necessitated by the COVID-19 pandemic have led to increased use of electronic screens.
- ***Growing Focus on Health and Wellness***. The optical retail industry is poised to continue to benefit from expansive trends underlying an increasing societal focus on health and wellness. Consumers want personalized solutions that allow them to make informed decisions about their health. Additionally, rising healthcare costs are driving a growing emphasis on preventative healthcare. Eye exams can detect a host of physical ailments, such as hypertension or diabetes, and are one of the most inexpensive and effective forms of detection for many of these conditions. As consumers continue to develop greater awareness of health and wellness issues, there is an opportunity for retailers that are able to offer personalized, inexpensive, health-oriented products and services that can increase quality of life and reduce an individual’s overall level of healthcare expenditures. Furthermore, this increased focus on health means that people are living longer, which increases the overall demand for vision care and the frequency with which people visit their eye care practitioners for vision care products and services.

Our Products and Services

Within our two reportable segments, we primarily offer two products and one service: eyeglasses, contact lenses and eye exams. Nonetheless, our diverse product portfolio encompasses many brand names and thousands of SKUs. Depending on the brand, our stores display approximately 600 to 1,900 eyeglass frame SKUs, covering all age groups. Offerings include both brand name designers, like Ray-Ban, Guess and Calvin Klein, as well as private label options at attractive prices. Our brand-name frame offerings are manufactured by market leaders and we partner with several overseas factories to direct source our private label products. We also offer a broad portfolio of lenses, including single vision and bifocal lenses, with a variety of treatments to enhance vision. Through one-on-one consultative-selling, our sales associates have a number of opportunities to share information about value-added lenses, including thinner, higher-quality lenses and photochromatic options, which carry higher margins. As a result, a significant number of America’s Best customers and Eyeglass World customers who purchase eyeglasses choose upgraded lenses and/or frames instead of each brand’s base offer. We also offer contact lenses and accessories from all major contact lens manufacturers, including our own private label brands (Softmed and Natural Eyes HydraWear, made by CooperVision) that are offered in our America’s Best and Eyeglass World stores. Collectively, our broad product offerings deliver consistent financial results and reduce our reliance on any individual product, style or trend.

In both of our reportable segments, eye exam services are provided by optometrists employed by us or by professional corporations or similar entities owned by eye care practitioners with whom we have contractual arrangements or by independent optometrists with whom we have contracted. In addition, in certain locations, eye exam services may be provided utilizing a remote medicine platform.

Within our Owned & Host segment, America’s Best offers its Eyecare Club programs primarily to its contact lens customers. As of January 2, 2021, the Eyecare Club had approximately 1.5 million active members. Benefits of the Eyecare Club include two free eye exams per year for the duration of the multi-year membership, 10% off all contact lenses and eyeglasses and other periodic benefits and discounts. Memberships can be purchased in stores or on our America’s Best website. There is a high adoption rate of Eyecare Club membership by America’s Best customers who are not part of a managed care program and who visited an America’s Best store for a contact lens examination. The disposable nature of contact lenses means that customers must replenish their contacts frequently, and in order to refill their prescriptions, contact lens users must have a current prescription. For a prescription to be current, customers generally need to have an eye exam every one or two years, depending on the state in which they reside. The multi-year nature of these memberships, which customers pay in full at the time they join, facilitates repeat traffic to America’s Best stores for exams and contact lens purchases and builds customer loyalty.

See Note 7. “Revenue from Contracts With Customers” in our audited consolidated financial statements included in Part II. Item 8. of this Form 10-K for additional information.

Our Customers

Our customers need to see their best to perform their jobs, care for their families and contribute to their communities. Purchasing decisions are based on value, quality of service, fashion, location and eye health, among others. Based on a variety of third-party research studies, we have found that our customers typically prioritize value and convenience above other considerations. Value encompasses a combination of eye health with quality products and services, all offered at a fair price. Convenience encompasses multiple vectors: (i) retail locations near where our customers work and shop, with easy, convenient parking, (ii) store hours that fit their lifestyles, (iii) product selection that achieves aesthetic and/or fashion goals, (iv) availability of on-site eye exams and (v) acceptance of certain vision insurance benefits.

Our Sales and Marketing

We developed our marketing strategy based on the in-depth knowledge we have of our customers. Our brands are positioned to stand for low prices and great value, which resonate with our target consumers and leave a lasting impression that is distinct from the competition.

We believe that television is a key channel for connecting with our customers. A significant portion of America’s Best and Eyeglass World’s advertising investments are on traffic-driving television advertisements, which we leverage broadly across multiple stores in each television market to gain a larger share of voice, and, in turn, drive traffic and margins. We continue to benefit from America’s Best national television advertising campaigns, which we believe are cost effective and help raise our brand awareness in both existing and new markets. Additional advertising investments include digital media, search, direct mail, email and local store marketing. We are continually tracking consumer media consumption behaviors and adjusting our media plan accordingly.

For our host and legacy brands, we rely on our host and legacy partners' marketing initiatives to drive traffic into their stores, and then we develop and execute highly targeted local marketing campaigns within stores to create awareness of our service and product offerings.

Our customer relationship management ("CRM") system is used to collect customer demographic data. With this information and the third-party data that we use to supplement the customer information, we enhance our customer relationships with communications based on their vision needs and interests to help improve existing customer retention. In addition to our CRM program, digital advertising is a critical component of our media mix, as we believe both of these programs generate a high rate of return. Potential customers gain awareness of our brands through paid and organic digital efforts via content, video and social media that lead them to our websites.

Our Sourcing and Supplier Relationships

We purchase our merchandise from a wide variety of vendors, with a limited number of vendors supplying the majority of our eyeglass lenses and contact lenses. We are a large customer for all of our suppliers and we strive to form meaningful, long-lasting and mutually beneficial relationships with our vendors. We have long-term contracts with certain of our suppliers, including Essilor and CooperVision. Under our agreement with Essilor, Essilor has the sole and exclusive right to supply certain lenses for eyeglasses to us. We extended our agreement with Essilor in November 2018 and the current term runs through May 2023. Thereafter, the agreement will automatically renew on a month-to-month basis unless either party gives 30 days' prior written notice of termination, and we also have the ability to unilaterally extend the agreement an additional calendar quarter after the proposed termination date. We are collaborative in our vendor negotiations so as to develop a partnership with our vendors and, in time, a sense of loyalty to National Vision. Each of our top 10 vendors has been with us for approximately 10 years, and several of these vendors have been with us since our inception in 1990. We focus on sourcing low-cost products, including discounted well-known frame brands, secondary frame brands, direct import frames and private label contact lenses. By investing in our sourcing operations, we have increased our direct importation of eyeglass frames, which has enabled us to offer high quality frames at low prices while also generating strong gross margins.

Our Optical Laboratories and Distribution Network

We use a highly-efficient mix of four domestic, company-operated processing facilities and two international, outsourced facilities. We have state-of-the-art lens processing capabilities in our four geographically-diverse, company-operated production facilities in Lawrenceville, Georgia; St. Cloud, Minnesota; Plano, Texas; and Salt Lake City, Utah. Our centralized optical laboratories handle all aspects of customizing eyeglass lenses, and have digital capabilities for grinding, coating and edging to customer prescription and eyeglass frame specifications. We have developed a high-volume, low-cost lens processing model to provide seven-day turnaround service through our domestic owned laboratories and our international partner laboratories. This network was created through significant investment by us, and is leveraged across our portfolio of brands in both segments to provide efficiency and scale. We route eyeglass orders to both our owned and outsourced laboratories through an automated decision tree that incorporates information on (i) the nature of the job; (ii) the technical capabilities of each laboratory; (iii) the capacity of each laboratory; (iv) the inventory at each laboratory; and (v) the cost of that particular type of job at each laboratory. This architecture is integrated with the point-of-sale system and enables us to minimize our processing costs, while ensuring on-time deliveries. The processing system is designed such that the more eyeglasses we sell, the more efficient the laboratories become, creating significant cost savings over time.

In addition, our Eyeglass World stores are equipped with on-site laboratories, which typically process less complicated customer orders with same-day service. All lens orders that are not processed or completed in-store are processed or completed by our centralized laboratory network.

We have an 86,000 square foot distribution center in Lawrenceville, Georgia and a 52,000 square foot distribution center in Columbus, Ohio. We utilize third-party carriers to transport products from these centers to customers and store locations.

Human Capital Management

We aim to maintain a strong and resonating culture guided by our Vision, Mission and Values. We believe everyone deserves to see their best to live their best and our goal is to help people achieve this by making quality eye care and eyewear more affordable and accessible. This purpose is supported by our associates and their values – they are empowered to do what is right, committed to creating happiness every day and energized to serve.

With an inclusive and people-first culture, we are focused on celebrating and respecting our backgrounds, empowering, rewarding and developing our associates and aiming to give back to the communities in which we serve. Our human capital initiatives are focused on attracting highly qualified individuals and providing them with continued opportunities for growth and development.

As of January 2, 2021, we had 12,792 full-time and part-time associates. In addition, the professional corporations or similar entities with which we contract employed 1,200 optometrists as of January 2, 2021. We are not a party to any collective bargaining agreements. We have never experienced a strike or work stoppage, and we believe that our relations with our associates and optometrists are good.

Talent Acquisition

At National Vision, we are committed to attracting talent aligned with our Vision, Mission and Values. We have invested in key leadership roles within the talent organization to refine our approach and have incorporated new technology to improve both the candidate and hiring manager experience. In addition, we have partnered with schools and other organizations to promote the profession of optometry, including continuing our multi-year sponsorship of the Association of Schools and Colleges campaign "Optometry Gives Me Life" targeted at high school and college students. To mitigate the impact the COVID-19 pandemic and temporary closure of our stores had on our traditional recruiting efforts and hiring cycles, we transitioned to online platforms for job fairs and on-campus events, selectively offered key incentives, such as a student loan repayment program, and educated applicants on the health and safety protocols implemented in our stores.

Talent Development

We have a proven record of opening new stores with high-quality training support. As a result of the COVID-19 pandemic, we adapted our new store training approach by introducing and enhancing virtual instructor-led training classes, allowing for a continuation of high touch training to prepare stores to open safely and effectively. We also increased ongoing training, especially in the areas of safety protocol procedures and customer interactions. We provide our associates and optometrists with several opportunities and mechanisms through which they can provide feedback and allow us to continue developing programs for training and growth.

Benefits and Wellness

We strive to ensure our people always feel supported so they can bring their best selves to work every day. We demonstrate this commitment through many of our benefits and wellness offerings. Programs like our health plan, wellness and disease management programs, including personalized programs for diabetes and hypertension, and a financial protection resource, provide the needed resources essential for helping our people care for themselves and their families.

We also offer free on-demand mental and behavioral health resources, to provide needed guidance when work and personal challenges affect an associate's overall well-being.

Shortly after our IPO, we established the National Vision Crisis Relief Fund to help support associates who are facing financial hardship as a result of a natural disaster, family emergency or other unexpected events. Donations made to the Crisis Relief Fund are matched by the Company. Since its creation, over $800,000 have been provided to associates for assistance, with over 90% provided since the beginning of the COVID-19 pandemic.

Diversity, Equity and Inclusion

We are committed to a diverse and inclusive culture and in 2020, we formed a new Diversity, Equity and Inclusion ("DEI") department within the Company. The DEI department is supported by our DEI Council, composed of a cross-section of associates and optometrists. In 2020, we focused on reviewing best practices and initiatives and conducted listen and learn sessions with associates and optometrists to solicit feedback and identify opportunity areas. As we move forward in our DEI journey, we are focused on advancing diversity in our recruitment, training, career mentorship and development, employment branding and community service. As a part of these efforts, in 2020, we collaborated with non-profit and educational institutions with the goal of increasing the percentage of Black doctors in the industry, including sponsoring and participating in the first ever "Impact HBCU" event sponsored by Black Eyecare Perspectives with the goal of increasing awareness in the field among HBCU students.

COVID-19

The COVID-19 pandemic has presented unique challenges for our associates, doctors, customers and patients. We prioritized the safety of our associates, optometrists, customers and patients by voluntarily closing our stores to the public for a temporary period of time in 2020 to implement enhanced safety and cleaning protocols in order to serve our customers and patients with everyone's health and safety in mind.

We also created multiple resources for associates, including frequent and transparent communication tools, additional leave of absence and paid leave options, and centralized support to address COVID-19 questions and concerns, including regarding the availability of vaccines. We paid one-time appreciation bonuses to customer-facing associates, granted additional company holidays in the fourth quarter of fiscal year 2020 and paid benefits for associates furloughed in response to the COVID-19 pandemic. In addition, contributions to our Crisis Relief Fund more than doubled, reflecting the empathetic nature of our community.

Managed Vision Care

Our managed care business relates to vision care programs and associated benefits (i) sponsored by associates or other groups, (ii) provided by insurers and managed care entities, such as health maintenance organizations to individuals, and (iii) delivered, typically on a fee-for-service or capitated basis, by health care providers, such as ophthalmologists, optometrists and opticians. Our managed care business primarily consists of participation in private managed care programs. While our managed care business has continued to grow, we are underpenetrated in the managed care market relative to the broader optical retail industry, and we believe that this continues to represent a growth opportunity.

Through our point-of-sale system and our back-office electronic data interchange, or EDI, capabilities, we attempt to create a seamless transactional experience for our managed care customers. From time to time, vision care insurance payors may make changes to their EDI claim systems. Such changes may require us to update our processes and could impact our ability to submit claims or to timely receive reimbursements from our managed care partners. As such, when asked, we have assisted a number of our larger vision care insurance payors to either implement or improve their existing EDI claim systems.

Competition

The optical retail industry is highly competitive. Competition is generally based upon brand name recognition, price, convenience, selection, service and product quality.

We operate within the value segment of the U.S. optical retail industry, which emphasizes price and value. This segment is fragmented. We compete with mass merchants and warehouse club stores, specialty retail chains and independent eye care practitioners and opticians. In the broader optical retail industry, we also compete with large national retailers such as (in alphabetical order) LensCrafters, Pearle Vision and Visionworks. This competition takes place both in physical retail locations and online.

We also compete with online sellers of contact lenses and eyewear. The online sale of contact lenses has steadily increased in particular since the passage of the Fairness to Contact Lens Consumers Act. See "Government Regulation" below for more detail. The online sale of eyeglasses has not developed as quickly, but a number of firms are focused on this market, including Warby Parker and Zenni Optical. We also face potential competition from companies that employ emerging technologies in the optical industry, including, for example, online vision exams.

We also compete to be a provider under managed care contracts, which can provide us with access to new customers and also allow us to better serve our customers who are covered by managed care by filing claims directly with the payor and collecting only the applicable co-pay amount from these customers. Competition is based on many factors, including price and the density of the provider network. Several large managed care payors are vertically integrated, with substantial retail networks. We have, in the past, and may, in the future, experience heightened challenges to be admitted as a provider to these networks or to maintain our status in them.

Seasonality

Our business is moderately seasonal in nature. Historically, our business has realized a higher portion of net revenue, operating income and cash flows from operations in the first half of the year, and a lower portion of net revenue, operating income and cash flows from operations in the fourth fiscal quarter. The first half seasonality is attributable primarily to the timing of our customers' income tax refunds and annual health insurance program start/reset periods. We believe that many customers in our target market, which consists of value seeking and lower income consumers, rely on tax refunds to pay for eyewear and eye care. A delay in the issuance of tax refunds can accordingly have a timing impact on our quarterly financial results in the first half of the year. Consumers could also alter how they utilize tax refund proceeds.

With respect to our fourth quarter results, compared to other retailers, our products and services are less likely to be included in consumer's holiday spending budgets, therefore reducing spending on personal vision correction during the weeks preceding December 25th of each year. Additionally, although the period between December 25th and the end of our fiscal year is typically a high-volume period, the net revenue associated with substantially all orders of prescription eyeglasses and contact lenses during that period is deferred until January due to our policy of recognizing revenue only after the product has been accepted by the customer, further contributing to higher first half of the year results. Our quarterly results may also be affected by the timing of new store openings and store closings, the amount of sales contributed by new and existing stores, the timing of certain holidays, as well as the timing of weather-related store closures.

Due to the COVID-19 pandemic and the resulting temporary closure of our stores for a portion of the first half of 2020, there have been changes in fiscal year 2020 seasonality and COVID-19 may cause changes beyond 2020 to the seasonality we have historically experienced.

Information Technology

Information technology systems are critical to our day-to-day operations as well as to our long-term growth strategies. Our systems are designed to deliver a consistent, scalable, high-performing and secure experience for our customers and partners. We utilize a combination of co-location data center and cloud-based solutions for our infrastructure and the majority of our applications consist of standard, integrated software solutions. Our systems provide the data analysis and automation necessary to support our marketing, merchandising, inventory, distribution, store operations and point-of-sale, e-commerce, remote medicine, finance, accounting and human resources initiatives. We believe our current systems allow us to identify and respond to operating trends in our business.

Examples of areas in which we have invested and continue to invest in include software systems to enhance the growth of our omni-channel, customer engagement efforts, remote medicine, cybersecurity programs and our overall security posture and our point-of-sale system. We believe these investments, along with maintenance of our existing information technology capabilities, will provide the flexibility and capacity to accommodate our future growth plans.

Intellectual Property

We own a number of registered and common law trademarks and pending applications for trademark registrations in the United States, primarily through our subsidiaries. Solely for convenience, the trademarks, service marks and trade names referred to in this report are presented without the ®, SM and ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and trade names. All trademarks, service marks and trade names appearing in this Form 10-K (or in documents we have incorporated by reference) are the property of their respective owners.

Government Regulation

Our operations are subject to extensive federal, state and local laws and regulations. Because of the various facets of our business, the scope and extent of laws and regulations applicable to our business are always subject to the risk of change or material increase. Noncompliance with these laws and regulations can subject us to sanctions (including suspension and loss of operating licenses), fines or various forms of civil or criminal prosecution, any of which could have a material adverse effect on our reputation, business, financial position, results of operations and cash flows. See Item 1A. “Risk Factors” below for a discussion of these and other risks. A summary of certain laws and regulations is described below.

Corporate Practice of Medicine/Optometry and Similar Laws

Many states prohibit the corporate practice of medicine/optometry where a business corporation practices medicine or employs a physician to provide professional medical services. Many states interpret the corporate practice of medicine/optometry rules broadly to prohibit employment of eye care practitioners by corporations like us and to prohibit various financial arrangements, such as fee-splitting, between eye care practitioners and other entities. Many states also regulate certain business practices as well as landlord-tenant arrangements between optical companies and optometrists. For example, some states prohibit a common entrance to a retail optical location and an optometric office. These laws and regulations can vary significantly by state, requiring us to tailor our operations in each state to the particular laws of such state. Many of these laws and regulations are vague and are subject to the interpretation of regulators and enforcement authorities, which may change over time. States periodically revisit these laws and regulations and we are subject to the ongoing risk that the regulatory scheme in any state can change in ways adverse to us. Our America’s Best operations, which feature a bundled offer of eyeglasses and an eye examination, are particularly implicated by these laws.

Professional Licensure and Regulation

Our operations are subject to state licensing laws. All states license the practice of ophthalmology and optometry and many states license opticians. The dispensing of prescription eyewear is also regulated in most states in which we do business. In some states, we are required to register our stores.

Fairness to Contact Lens Consumers Act ("FCLCA") and E-commerce Laws

In connection with our sales of contact lenses, we must comply with the FCLCA, and its implementing regulations promulgated by The Federal Trade Commission ("FTC"), and the Contact Lens Rule, which establish a national uniform standard in the United States with regard to releasing and verifying contact lens prescriptions. This law and rule require that we verify the prescriptions we receive from our customers prior to selling contact lenses online. A violation of the Contact Lens Rule constitutes an unfair or deceptive act or practice under the FTC Act. In 2020, the FTC adopted changes to the Contact Lens Rule under the FCLCA, that include, among other topics, updates to the "passive verification" requirement, updates to certain other prescription requirements and new requirements regarding automated telephone verification messages.

Our e-commerce business must comply with various federal and state laws, most notably the FCLCA. Our online business must also be registered in various states.

Managed Care Regulation

We are engaged in managed vision care, both as a managed care entity and as a provider to managed care payors and insurers. In California, our subsidiary, FirstSight, a specialized health maintenance organization ("HMO"), is subject to the managed care laws of the State of California and is licensed and comprehensively regulated by the California Department of Managed Health Care (the "DMHC"). These regulations contain operating, disclosure, reporting and financial viability requirements, among others. Material changes to the operations of FirstSight, including the opening of America's Best locations outside of defined service areas, must be approved by the DMHC. This approval process can be complex and can cause delays in the projected opening of our stores. We also offer Eyecare Club programs pursuant to which, in exchange for a fixed payment, individuals can obtain eye examinations and discounts on eyeglasses, contact lenses and accessories during the program period. These programs may be subject to regulation under managed care and related state laws, including those of California, where these programs are offered as managed care products by FirstSight. In addition, our Eyecare Club programs may subject us to state statutes regulating discount medical plans. These laws, which have been adopted in a number of states, require the licensing or registration of organizations that provide discounted access to health care providers. It is possible that state regulators could determine that we are operating as a discount medical plan and as such are subject to the various registration, disclosure and solvency requirements.

Privacy and Security

We directly collect, use, access, disclose, transmit and/or store protected health information ("PHI") and personally identifiable information ("PII") in connection with the sales of our products and services, customer service, billing and employment practices. As a health care provider and as a business associate to health care providers, we are subject to federal and comparable state laws governing privacy and security, including the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and its implementing regulations, such as the Privacy Rule, the Security Rule and the Breach Notification Rule. The Health Information Technology for Economic and Clinical Health Act of 2009 (the "HITECH Act") extends the Privacy Rule and the Security Rule directly to business associates. We are also subject to comparable state health privacy laws to the extent they are more protective of individual privacy than the Privacy Rule. Nearly all states have adopted their own data breach laws with comparable (and sometimes conflicting) standards and requirements. These state laws apply to breaches of specified elements of personal information. In addition, states may amend or adopt new laws or regulations regarding data privacy that may be applicable to us, such as the California Consumer Privacy Act of 2018, which went into effect January 2020.

Laws Related to Reimbursement by Government Programs

Our participation in federal reimbursement programs, such as Medicare and Medicaid, subjects us to federal anti-kickback, false claims, self-referral and similar laws. The federal Anti-Kickback Statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, paying, receiving or providing remuneration, directly or indirectly, to induce, or in exchange for, the referral of an individual or purchasing, furnishing, recommending or arranging for a good or service for which payment may be made under a federal healthcare program, such as Medicare or Medicaid. The definition of "remuneration" has been broadly interpreted to include anything of value, including, for example, gifts, certain discounts, the furnishing of free supplies, equipment or services, credit arrangements, payment of cash and waivers of payments. Several courts have found a violation of the statute's intent requirement if a single purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered businesses. There are also a number of healthcare fraud statutes that impose criminal and civil liability for, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, or knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement, in connection with the delivery of, or payment for, healthcare benefits, items or services. A person or entity does not need to have actual knowledge of the Anti-Kickback Statute or healthcare fraud statutes, or specific intent to violate them in order to have committed a violation. Many states have adopted similar laws that apply to any third-party payors including commercial plans.

In addition, the federal Anti-Kickback Statute provides that any claim for government reimbursement in violation of the statute also violates the False Claims Act ("FCA"). The FCA prohibits intentionally submitting, conspiring to submit, or causing to be submitted, false or otherwise improper claims, records or statements to the federal government, or intentionally failing to return overpayments, in connection with reimbursement by federal government programs. Most states have enacted false claims laws analogous to the FCA, and both federal and state false claims laws permit private individuals to file *qui tam* or "whistleblower" lawsuits on behalf of the federal or state government. The Social Security Act also imposes significant penalties for false or improper Medicare and Medicaid billings.

The U.S. Physician Self-Referral Law, or the Stark Law, generally prohibits physicians (which the Stark Law defines to also include optometrists) from referring, for certain services, Medicare or Medicaid beneficiaries to any entity with which the physician or an immediate family member of the physician has a financial relationship. This law further prohibits the entity receiving a prohibited referral from presenting a claim for reimbursement by Medicare or Medicaid for services furnished pursuant to the prohibited referral. Many states have adopted similar self-referral laws which are not limited to Medicare or Medicaid reimbursed services. In some cases, the rental of space constitutes a financial relationship under this law.

Federal Food and Drug Administration ("FDA") Regulation

The FDA generally has authority to, among other things, regulate the manufacture, distribution, sale and labeling of medical devices, including contact and spectacle lenses. Under the U.S. Federal Food, Drug and Cosmetic Act (the "FDC Act"), medical devices must meet a number of regulatory requirements. We engage in certain manufacturing, repackaging and relabeling activities at our optical laboratories and at certain Eyeglass World stores, which subject us to the FDA's registration, listing and quality requirements. We are required to register our centralized laboratories with the FDA.

Consumer Protection Laws

Federal and state consumer protection laws and regulations can apply to our operations and retail offers. Some of our promotions, such as our America's Best offer of a "free" eye exam, are subject to compliance with laws and regulations governing use of this term. The FTC has authority under Section 5 of the Federal Trade Commission Act (the "FTC Act") to investigate and prosecute practices that are "unfair trade practices," "deceptive trade practices," or "unfair methods of competition." State attorneys general typically have comparable authority and many states permit private plaintiffs to bring actions on the basis of these laws. In addition, state regulators or boards of optometry may challenge our promotional practices, including America's Best's bundled offers, as, among other things, violating applicable state laws regarding unfair competition or false advertising to consumers.

Foreign Corrupt Practices Act ("FCPA")

We source a significant portion of our products from outside the United States. The FCPA and other similar anti-bribery and anti-kickback laws and regulations generally prohibit companies and their intermediaries from making improper payments or offering anything of value to non-U.S. officials for the purpose of obtaining or retaining business. Our policies and our code of conduct mandate compliance with applicable law, including these laws and regulations.

Payment Card Industry Data Security Standard ("PCI Standard")

Because we accept debit and credit cards for payment, we are subject to the PCI Standard, which contains compliance guidelines with regard to our security surrounding the physical and electronic storage, processing and transmission of cardholder data. Certain states have incorporated these requirements into state law. Our credit card agreements with our banks require that we comply with this standard and pay for any fines and assessments imposed by the credit card companies in the event of a compromise of card data.

Service Contract Regulations

We offer product protection plans for our eyeglasses; in certain states, service contract and similar laws regulate these plans. These laws, which vary by state, mandate that sellers of such contracts comply with various registration, disclosure and financial requirements. It is possible that regulators in certain states could determine that our extended warranty plans should be subject to these laws.

Environmental and Safety Regulation

Our optical laboratories in the United States and our in-store laboratories in our Eyeglass World locations subject us to various federal, state and local laws, regulations and other requirements pertaining to protection of the environment, public health and associate safety, including, for example, regulations governing the management of hazardous substances, and the maintenance of safe working conditions. These laws also apply generally to all our properties. Our failure to comply with these laws can subject us to criminal and civil liabilities.

COVID-19-Related Regulations

Certain federal and state laws and regulations have been adopted in response to the COVID-19 pandemic that, among other things, include liability protections for certain businesses. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, provides tax relief to businesses, including the deferral of certain payroll taxes, relief for retaining employees, accelerating a company's ability to recover Alternative Minimum Tax ("AMT") refundable credits and other income tax provisions. We have elected to apply the AMT refundable credit provision and the employee retention credit provisions of the CARES Act. See Note 1. "Business and Significant Accounting Policies" for more details. Additional federal or state laws and regulations may be adopted in the future in response to the pandemic and continued impact of the pandemic.

We are also subject to the requirements of the Occupational Safety and Health Administration (OSHA) and other federal and state agencies that address employee health, including from infectious diseases such as COVID-19, and safety. In general, we believe we are meeting state and federal rules and regulations protecting the health and safety of our employees. Based on new or revised regulatory developments, we may be required to increase expenditures in the future to comply with higher industry and regulatory safety standards. However, there are no known new or revised regulations which will require a material increase in our expenditures.

Insurance and Risk Management

We use a combination of insurance and self-insurance for workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and associate health-care benefits, among others. Liabilities associated with the risks that are retained by us are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Where we have retained risk through self-insurance or similar arrangements, we utilize third-party firms to assist management in assessing the financial impact of risk retention.

Item 1A. Risk Factors

You should carefully consider the risks described below and the other information contained in this report and other filings that we make from time to time with the SEC, including our consolidated financial statements and accompanying notes. Any of the following risks could materially and adversely affect our business, financial condition, results of operations or liquidity. These risks are not the only risks we face. Our business, financial condition, results of operations or liquidity could also be adversely affected by additional factors that apply to all companies generally or by risks not currently known to us or that we currently view to be immaterial. We can provide no assurance and make no representation that our risk mitigation efforts, although we believe they are reasonable, will be successful.

Risks Related to Our Business and Our Industry

The COVID-19 pandemic has had, and may in the future continue to have, a material adverse impact on our business.

The COVID-19 pandemic and the travel restrictions, quarantines, other and related public health measures and actions taken by governments and the private sector have adversely affected global economies, financial markets and the overall environment for our business, and the extent to which it may continue to impact our future results of operations and overall financial performance remains uncertain. The global macroeconomic effects of the pandemic may persist for an indefinite period of time, even after the pandemic has subsided.

As a result of the pandemic and the recommendations of U.S. government and health authorities, our retail stores closed to the public beginning on March 19, 2020. We began reopening our stores to the public on April 27, 2020 and on June 8, 2020, we announced the successful completion of the reopening process. While we expect to be able to continue operations for the duration of the pandemic, our store operations are subject to change based on market conditions and the continued evolution of the pandemic.

The resurgence of the COVID-19 pandemic and its continued evolution has impacted and may continue to impact the following areas:

- a disruption to our growth strategy, supply chain, delivery of merchandise, professional recruitment, ability to staff stores, typical seasonality, customer demand;
- newly enacted state, local and federal healthcare laws in response to COVID-19 and exposure to potential lawsuits; and
- an inability to maintain sufficient levels of cash flow from our operations to fund our business and growth strategy and difficulty in obtaining additional financing on terms that are favorable to us;

The scope and duration of the pandemic, including the current resurgences in various regions in the United States and globally and other future resurgences, the pace at which government restrictions are lifted or whether additional actions may be taken to contain the virus, the impact on our customers and suppliers, the speed and extent to which markets fully recover from the disruptions caused by the pandemic, and the impact of these factors on our business, will depend on future developments that are highly uncertain and cannot be predicted with confidence. It is possible that changes in economic conditions and steps taken by the federal government and the Federal Reserve in response to the COVID-19 pandemic could lead to higher inflation than we had anticipated, which could in turn lead to an increase in our costs of products and services and other operating expenses. In addition, to the extent COVID-19 adversely affects our operations and global economic conditions more generally, it may also have the effect of heightening many of the other risks described herein.

While we believe that the long-term fundamentals of our business are largely unchanged, and anticipate that our operating results in future fiscal years will begin to reflect a more normal operating environment, the current economic and public health climate has created a high degree of uncertainty. As such, we continue to closely monitor this global health crisis and will continue to reassess our strategy and operational structure on a regular, ongoing basis as the situation evolves. We refer you to "Management's Discussion and Analysis of Financial Position and Results of Operations" for a more detailed discussion of the potential impact of the COVID-19 pandemic and associated economic disruptions, and the actual operational and financial impacts that we have experienced to date.

If we fail to open and operate new stores in a timely and cost-effective manner or fail to successfully enter new markets, our financial performance could be materially and adversely affected.

Our growth strategy depends, in large part, on growing our store base and expanding our operations, both in existing and new markets, and operating our new stores successfully. We cannot assure you that our contemplated expansion will be successful. Our costs in some markets are higher due to the supply and demand for real estate sites as well as increased labor and other costs.

Our ability to successfully open and operate new stores depends on many factors, including, among others, our ability to:

- recruit and retain qualified vision care professionals (who may be licensed or unlicensed, depending on state regulations) for any new store;
- address regulatory, competitive, merchandising, marketing, distribution and other challenges encountered in connection with expansion into new markets where we have limited historical experience;
- hire, train and retain an expanded workforce of store managers and other personnel;
- maintain adequate laboratory, distribution facility, information technology and other operational system capabilities;
- successfully integrate new stores into our existing management structure and operations, including information technology integration;
- negotiate acceptable lease terms at suitable retail locations;
- source sufficient levels of inventory at acceptable costs;
- obtain necessary permits and licenses;
- construct and open our stores on a timely basis;
- generate sufficient levels of cash or obtain financing on acceptable terms to support our expansion;
- participate in managed care arrangements for new stores;
- achieve and maintain brand awareness in new and existing markets; and
- identify and satisfy the merchandise and other preferences of our customers.

Our failure to effectively address challenges such as these could adversely affect our ability to successfully open and operate new stores in a timely and cost-effective manner.

Accordingly, we cannot assure you that we will achieve our planned growth or, even if we are able to grow our store base as planned, that our new stores will perform as expected. There can be no assurance that newly-opened stores will achieve net sales or profitability levels comparable to those of our existing stores in the time periods estimated by us, or at all. If our stores fail to achieve, or are unable to sustain, acceptable total net sales and profitability levels, our business may be materially harmed and we may incur significant costs associated with closing those stores. Our failure to implement our growth strategy and to successfully open and operate new stores in the time frames and at the costs estimated by us could have a material adverse effect on our business, financial condition and results of operations.

Failure to recruit and retain vision care professionals for our stores could adversely affect our business, financial condition and results of operations.

Our ability to hire and/or contract with vision care professionals for our stores is critical to our operations as well as our growth strategy. Our operations, like those of many of our competitors, depend on our ability to offer both eyewear and eye exams. In particular, our America's Best brand promotes bundled offers of eyewear and eye exams, which require the availability of optometrists in or near our stores. Furthermore, many states require that opticians be licensed to dispense and fit eyeglasses and contact lenses. In addition, failure to have vision care professionals available in or near our stores could adversely affect our ability to win managed vision care contracts.

Our ability to attract and retain vision care professionals depends on several factors. We compete with other optical retail companies, health systems and group practices for vision care professionals. We, as well as the professional corporations or similar entities that employ optometrists in certain of our retail locations, could face difficulties attracting and retaining qualified professionals if we or such corporations fail to offer competitive compensation and benefits. Increased compensation for vision care professionals could raise our costs and put pressure on our margins. We believe that the demand for optometrists in particular may continue to exceed supply in certain areas for a period of time and that the costs to employ or retain optometrists may increase, potentially materially, from current levels.

Additionally, our ability to recruit, hire and/or contract with vision care professionals is closely regulated. For example, there is a risk that state authorities in some jurisdictions may find that our contractual relationships with optometrists or professional corporations or similar entities that employ optometrists violate laws prohibiting the corporate practice of medicine/optometry, in which case we may be required to restructure these arrangements, which may make it more difficult for us to attract and retain their services. See Item 1. "Business-Government Regulation."

A material change in our relationship with vision care professionals, whether resulting from a dispute with an eye care practitioner or a group of eye care practitioners controlling multiple practice locations, a government or regulatory authority challenging our operating structure or our relationship with vision care professionals, or other changes to applicable laws or regulations (or interpretations of the same), or the loss of these relationships, could impair our ability to provide services to our customers, cause our customers to go elsewhere for their optical needs, or result in legal sanctions against us. In addition, some professional corporations or similar entities provide for the vision care services at a number of our retail locations, exposing us to some concentration risk. A material change to any of the foregoing relationships could have a material adverse effect on our business, financial condition and results of operations. Any difficulties or delays in securing the services of these professionals could also adversely affect our relationships with our host and legacy partners.

Future operational success depends on our ability to develop, maintain and extend relationships with managed vision care companies, vision insurance providers and other third-party payors.

An increasing percentage of our customers receive vision insurance coverage through managed care payors. These payors represent an increasingly significant portion of our overall revenues and our revenue growth. While we have relationships with almost all vision care insurers in the United States and with all of the major carriers, currently, a relatively small number of payors comprise the majority of our managed care revenues, subjecting us to concentration risk. Our future operational success could depend on our ability to negotiate contracts with managed vision care companies, vision insurance providers and other third-party payors, several of whom have significant market share. As our managed care business continues to expand, we have incurred and expect to incur additional costs related to this area of our business. In addition, as our managed care business continues to grow closer to overall industry penetration levels, we expect our associated revenue growth rate to slow over time.

We may be unable to establish or maintain satisfactory relationships with managed care and other third-party payors. In addition, many managed care payors have existing provider structures in place that they may be unable or unwilling to change. Some vertically-integrated payors also have their own networks, and these payors may take actions to maintain or protect these networks in ways that negatively affect us, including by increasing costs or not allowing our new or existing stores to participate in their networks. Increasing consolidation in the optical industry may give such payors greater market power which may adversely affect our ability to negotiate reimbursement rates under managed care arrangements. Our inability to enter into arrangements with managed care payors in the future or to maintain existing relationships with managed care payors on commercially reasonable terms could have a material adverse effect on our business, financial condition and results of operations. In addition, delays in receiving or the failure to receive reimbursements under our managed care arrangements, significant changes to the economics of a managed care contract or relationship or the loss of a significant managed care contract or relationship could have a significant negative impact on our business, financial condition and results of operations.

If the performance of our host and legacy brands declines or we are unable to maintain our operating relationships with our host and legacy partners, our business, profitability and cash flows may be adversely affected and we may be required to incur impairment charges.

We derive significant revenues and operating cash flows from our relationships with our legacy and host partners through our operations of 230 Vision Centers in Walmart stores, 29 Vista Optical locations within Fred Meyer stores and 54 Vista Optical locations on military bases.

Termination of our host and legacy agreements would result in a reduction of our revenues and operating cash flows, which could be material and which could adversely affect our business, financial condition and results of operations including an impairment of the intangible assets. The loss of our Vision Centers or Vista Optical locations could impair our ability to attract and retain management and retail associates, compete for managed vision care contracts, obtain favorable terms, such as discounts and rebates, from optical vendors and generate cash to fund our business and service our debt obligations. We may seek to replace any lost host or legacy locations with new America's Best or Eyeglass World stores but we may not be able to support the carrying value of the intangible assets at these brands or replace the lost revenues and cash flows.

For example, our current management & services agreement with Walmart presents a variety of risks. The current term of the management & services agreement ends on February 23, 2024. Sales associated with this arrangement with Walmart represented 8.3% of consolidated net revenue in fiscal year 2020, which exposes us to concentration of customer risk. In addition, the agreement permits Walmart to control many aspects of the retail operations at the Vision Centers we manage on behalf of Walmart, including pricing, merchandising and similar matters. If Walmart exercises its rights under this agreement in a way that adversely affects us, our sole remedy would be to terminate the agreement after participating in an informal resolution and, if necessary, a mediation process. There are no assurances that Walmart will not seek to exercise these rights in a manner that is materially adverse to our interests. In addition, under our current management & services agreement, we earn fees based on a percentage of the revenues from the Vision Centers we manage. The agreement also allows Walmart to collect penalties from us if the Vision Centers do not generate a requisite amount of revenues, which penalties equal a percentage of the shortfall. We may not be able to maintain the performance levels required and, as a result, may be forced to pay penalties to Walmart or default under this agreement at a point in time when our fees from the arrangement will already be lower than anticipated. Further, a breach by us of the terms and conditions of this agreement could cause us to lose all management fees derived under this agreement, which could adversely affect our financial position and results of operations.

At January 2, 2021, the carrying value of goodwill and intangible assets at our host and legacy brands was $24.7 million and $84.9 million, respectively. We review the carrying value of our goodwill and intangibles for impairment annually, or more frequently when impairment indicators exist. The impairment test requires us to analyze a number of factors, including evaluating the useful life of intangible assets, and make estimates that require judgment. During the fourth quarter of fiscal 2018, we fully impaired goodwill at the Military and Fred Meyer brands of approximately $15.1 million. Future changes in the business profitability, expected cash flows, changes in our business strategy and external market conditions, among other factors, could require us to record impairment charges for goodwill or intangible assets, which could lead to decreased assets and reduced net income. If a significant write down were required, the charge could have a material adverse effect on our operating results and stockholders' equity, and could impact the trading price of our common stock.

We are subject to extensive state, local and federal vision care and healthcare laws and regulations and failure to adhere to such laws and regulations would adversely affect our business.

We are subject to extensive state, local and federal vision care and healthcare laws and regulations. See Part I. Item 1. "Business-Government Regulation." The laws applicable to us are also subject to evolving interpretations. As such, we must monitor our compliance with laws in every jurisdiction in which we operate on an ongoing basis and we cannot guarantee that subsequent interpretation of, or changes to, the applicable laws will not negatively affect our business operations.

For example, the arrangements we have implemented with optometrists and professional corporations or similar entities owned by eye care practitioners could subject us to scrutiny by federal and state regulatory bodies regarding federal and state fraud and abuse or other laws. In addition, our failure, or the failure of vision care professionals who are our associates or with whom we have contractual arrangements, to obtain and maintain appropriate licenses could result in the unavailability of vision care professionals in or near our stores, loss of sales and/or the closure of our stores without licensed professionals.

We must comply with the FCLCA and its implementing regulations with respect to verifying contact lens prescriptions in connection with our online sales of contact lenses. Our extended warranty plans may subject us to state laws, which vary by state, that regulate the sale of product service contracts. It is possible that regulators in certain states could determine that our warranty plans should be subject to these laws and mandate that we comply with various registration, disclosure and financial requirements. In such event, we could be required to incur enhanced compliance costs, as well as the risk of cease and desist orders and monetary penalties.

We are subject to HIPAA, the HITECH Act and the health data privacy, security and breach notification regulations issued pursuant to these statutes, which govern our collection, use, access, disclosure, transmission and/or storage of PHI, in connection with the sales of our products and services, customer service, billing and employment practices. In addition, there are existing state privacy, security and breach notification laws and regulations that apply to both PHI and PII collected by us. These existing laws and regulations may be amended and states may adopt new laws or regulations regarding data privacy (such as the California Consumer Privacy Act of 2018, which became effective in January 2020). Our failure to effectively implement the required or addressable data privacy and security safeguards and breach notification procedures, or our failure to accurately anticipate the application or interpretation of these statutes, regulations and standards, could lead to invalidation or modification of our agreements with optometrists or professional corporations or similar entities owned by eye care practitioners, create material civil and/or criminal liability for us or require us to change our business practices, which could result in adverse publicity, and have a material adverse effect on our business, financial condition and results of operations.

Our participation in federal healthcare programs, such as Medicare and Medicaid, requires us to comply with laws regarding the way in which we conduct business and submit claims. These laws include the federal anti-kickback statute, which attaches criminal liability to unlawful inducements for the referral of business reimbursable under federally-funded healthcare programs; the federal self-referral laws, which attach repayment and monetary damages where a healthcare service provider seeks reimbursement for providing certain services to a patient who was referred by a physician that has certain types of direct or indirect financial relationships with such service provider; and the FCA, which attaches per-claim liability and potentially treble damages to the filing of false claims for federal payment. Many states have also adopted similar laws that apply to any third-party payor including commercial plans. Our operating results could be negatively impacted by developments in these areas due to the costs of compliance in addition to possible civil and criminal penalties, litigation and exclusion from government healthcare programs in the event of deemed noncompliance.

In addition, a person who offers or transfers to a federal healthcare program beneficiary any remuneration, including the transfer of items or services for free or other than fair market value, that the person knows or should know is likely to influence the beneficiary's selection of a particular provider, practitioner or supplier of Medicare or Medicaid payable items or services, may be liable for significant civil monetary penalties. Although this prohibition applies only to federal healthcare program beneficiaries, the provision of free items and services to patients covered by commercial payors may implicate applicable state laws related to, among other things, unlawful schemes to defraud, excessive fees for services, tortious interference with patient contracts and statutory or common law fraud. In addition, state regulators or boards of optometry may also challenge our promotional practices, including America's Best's bundled offers, as, among other things, violating applicable state laws regarding unfair competition or false advertising to consumers. To the extent our promotional programs are found to be inconsistent with applicable laws, we may be required to restructure or discontinue such programs, or be subject to other significant penalties.

Eyeglasses and contact lenses are regulated as medical devices in the United States by the FDA, and under the FDC Act, such medical devices must meet a number of regulatory requirements. We do not hold any marketing authorizations for the eyeglasses and contact lenses that we sell as we serve as the retailer for third-party manufacturers' devices. We cannot provide assurance that such third-party manufacturers' eyeglasses or contact lenses we sell comply with these regulatory requirements. We also engage in certain manufacturing, repackaging and relabeling activities that subject us to direct oversight by the FDA under the FDC Act and its implementing regulations. If we, or any of the third-party manufacturers whose products we sell, fail to comply with applicable requirements, we or they may be subject to legal action by the U.S. Department of Justice, on behalf of the FDA and/or various forms of FDA enforcement and compliance actions, which include recalls, fines, penalties, injunctions, seizures, prosecutions, adverse publicity (such as FDA press releases) or other adverse actions.

Our failure to comply with the applicable regulations could have severe consequences, including the closure of our stores, possible breaches of the agreements relating to certain of our brands, changes to our way of doing business and the imposition of fines and penalties.

We are subject to managed vision care laws and regulations.

We are engaged in managed vision care, both as a managed care entity through our subsidiary, FirstSight, and as a provider to managed care payors and insurers, and are subject to additional regulations as a result. FirstSight is licensed as a single-service HMO and is subject to the managed care laws of the State of California and is comprehensively regulated by the DMHC. FirstSight's failure to comply with the regulations and requirements under such managed care laws may result in the imposition of various sanctions, including the suspension or revocation of FirstSight's license, civil penalties and appointment of a receiver, among others. Material changes to the operations of FirstSight, including the opening of America's Best locations outside of defined service areas, must be approved by the DMHC. This approval process can be complex and can cause delays in the projected opening of our stores. The sale of managed care products by FirstSight is essential to our expansion of America's Best in California, and the suspension or loss of our license and our failure to comply with applicable regulatory requirements could have a material adverse impact on our expansion plans in California.

In addition, our Eyecare Club programs may be subject to regulation under managed care and related state laws, including those of California, where these programs are offered by FirstSight. Our Eyecare Club programs may also subject us to state statutes regulating discount medical plans, requiring the licensing or registration of organizations that provide discounted access to health care providers. It is possible that state regulators could determine that we are operating as a discount medical plan and as such are subject to various registration, disclosure and solvency requirements. We could incur increased compliance costs as a result. We would also be subject to the risk of cease and desist orders and monetary penalties.

We require significant capital to fund our expanding business. If we are unable to maintain sufficient levels of cash flow from our operations, we may not be able to execute or sustain our growth strategy or we may require additional financing, which may not be available to us on satisfactory terms or at all.

To support our expanding business and execute our growth strategy, we need significant amounts of capital, including funds to pay our lease obligations, build out new store spaces, laboratories and distribution centers, purchase inventory, pay personnel and further invest in our infrastructure and facilities. Further, our plans to grow our store base may create cash flow pressure if new locations do not perform as projected. We have and expect to continue to primarily depend on cash flow from operations to fund our business and growth plans. If we do not generate sufficient cash flow from operations, we may need to obtain additional equity or debt financing. Tightening in the credit markets, low liquidity, volatility in the capital markets and a downturn in the economy could result in diminished availability of credit, higher cost of borrowing and lack of confidence in the equity markets, making it more difficult to obtain additional financing on terms that are favorable to us. If such financing is not available to us, or is not available on satisfactory terms, our ability to operate and expand our business could be curtailed and we may need to delay, limit or eliminate planned store openings or operations or other elements of our growth strategy.

We depend on our distribution centers and optical laboratories. The loss of, or disruption in the operations of, one or more of these facilities may adversely affect our ability to process and fulfill customer orders and deliver our products in a timely manner, or at all, and may result in quality issues, which would adversely affect our reputation, our business and our profitability.

Substantially all of our inventory is shipped directly from suppliers to our two distribution centers in Lawrenceville, Georgia and Columbus, Ohio. Inventory is then processed, sorted and shipped using third-party carriers to our stores, to our laboratories for further processing, to our online customers or to Walmart stores and Sam's Club locations. We operate laboratory facilities in Lawrenceville, Georgia; St. Cloud, Minnesota; Plano, Texas; and Salt Lake City, Utah. We also have outsourcing relationships with third-party laboratories in Mexico and China. These laboratories process most of the lenses ordered by our customers in our stores, as well as on our websites. Once processed at the laboratories, the finished products are returned to our distribution centers for shipment to stores, our customers or our business partners.

We depend in large part on the orderly operation of this receiving and distribution process, which depends, in turn, on adherence to shipping schedules and effective management of our distribution centers. Increase in transportation costs (including increases in fuel costs), increased shipping costs, issues with overseas shipments, supplier-side delays, reductions in the transportation capacity of carriers, labor strikes or shortages in the transportation industry, disruptions to the national and international transportation infrastructure and unexpected delivery interruptions or delays also have the potential to derail our distribution process. We face additional risks related to the laboratories in China and Mexico, including port of entry risks such as longshoremen strikes, import restrictions, foreign government regulations, trade restrictions, customs and duties.

We source merchandise from suppliers located in China, a significant amount of domestically-purchased merchandise is manufactured in China, and one of our outsourced third-party laboratories is located in China. Historically, tariffs have not materially affected our financial results, and we believe that less than 15% of costs applicable to revenue are subject to tariffs on Chinese imports. Effective September 1, 2019, the U.S. government implemented a 15% tariff on specified products imported into the U.S. from China and effective February 14, 2020, the 15% tariff was reduced to 7.5%. In June 2020, the U.S. government granted a temporary exclusion for plastic and metal frames with a retroactive effective date of September 1, 2019, and such exclusion expired in September 2020. Given the recent change in the U.S. presidential administration, there is uncertainty whether there will be, and the resulting impacts of, any changes to U.S. government trade policy. While we have implemented mitigation plans and continue to focus on additional mitigation strategies to offset the impact of tariffs, costs with respect to products subject to these tariffs have increased. If we are unable to mitigate the full impact of the enacted tariffs or if there is a further escalation of tariffs, costs on a significant portion of our products may increase further and our financial results may be negatively affected. While it is too early to predict how the China tariffs will impact our business, our financial results may also be impacted by consumers' fear of a prolonged trade war with China and an economic slowdown.

If we change the transportation companies we use, we could face logistical difficulties that could adversely affect deliveries and we could incur costs and expend resources in connection with such change. We also may not be able to obtain terms as favorable as those received from the third-party transportation providers we currently use, which could increase our costs. We also may not anticipate changing demands on our distribution system, including the effect of any expansion we may need to implement in our distribution centers.

Additionally, events beyond our control, such as disruptions in operations due to natural or man-made disasters, inclement weather conditions, accidents, system failures, power outages, political instability, break-in, server failure, work stoppages, slowdowns or strikes by associates, acts of terrorism, widespread illness, health concerns regarding infectious diseases, and other unforeseen or catastrophic events, could damage our optical laboratories and/or distribution centers or render them inoperable, making it difficult or impossible for us to process customer orders for an extended period of time. For example, the COVID-19 pandemic has resulted in increased travel restrictions and affected certain companies' operations globally, which may impact our outsourced laboratory in China and our processing of customer orders. Such events may also result in delays in our receipt of inventory and the delivery of merchandise between our stores, our optical laboratories and our distribution centers. We could also incur significantly higher costs and longer lead times associated with distributing inventory during the time it takes for us to reopen or replace one or both of our distribution centers. In addition, the unavailability of, or disruptions to, equipment to process lenses and assemble custom-made eyeglasses or trained operators of such equipment in our optical laboratories could adversely affect our ability to fulfill customer orders in a timely manner. Any disruption to the laboratories' operations may reduce or impair the quality of assembled eyeglasses.

The inability to fulfill, or any delays in processing, customer orders through our laboratory network or any quality issues could result in the loss of customers, issuances of refunds or credits and may also adversely affect our reputation. The success of our stores depends on their timely receipt of products for sale and any repeated, intermittent or long-term disruption in, or failures of, the operations of our distribution centers and/or optical laboratories could result in lower sales and profitability, a loss of loyalty to our brands and excess inventory. The insurance we maintain for business interruption may not cover all risk, or be sufficient to cover all of our potential losses, may not continue to be available to us on acceptable terms, if at all, and any insurance proceeds may not be paid to us in a timely manner.

We face risks associated with vendors from whom our products are sourced and are dependent on a limited number of suppliers.

We purchase all of our merchandise from domestic and international vendors. For our business to be successful, our suppliers must be willing and able to provide us with products in substantial quantities, in compliance with regulatory requirements, at acceptable costs and on a timely basis. Our ability to obtain a sufficient selection or volume of merchandise on a timely basis at competitive prices could suffer as a result of any deterioration or change in our vendor relationships or events that adversely affect our vendors.

Other than our contracts for the supply of spectacle lenses and our private label contact lenses, we typically do not enter into long-term contracts with our vendors and, as such, we operate without significant contractual assurances of continued supply, pricing or access to new products. Any of our vendors could discontinue supplying us with desired products in sufficient quantities or offer us less favorable terms on future transactions for a variety of reasons. The benefits we currently experience from our vendor relationships could be adversely affected if our vendors:

- discontinue selling merchandise to us;
- enter into arrangements with competitors that could impair our ability to sell their products, including by giving our competitors exclusivity arrangements or limiting our access to certain products;
- sell similar or identical products to our competitors with similar or better pricing, some of whom may already purchase merchandise in significantly greater volume and at lower prices than we do;
- raise the prices they charge us;
- refuse to allow us to return merchandise purchased from them;
- change pricing terms to require us to pay on delivery or upfront, including as a result of changes in the credit relationships some of our vendors have with their various lending institutions;
- lengthen their lead times; or
- initiate or expand sales of their products to retail customers directly through their own stores, catalogs or on the Internet and compete with us directly.

Events that adversely impact our vendors could impair our ability to obtain adequate and timely supplies. Such events include, among others, difficulties or problems associated with our vendors' business, the financial instability and labor problems of vendors, merchandise quality and safety issues, natural or man-made disasters, inclement weather conditions, war, acts of terrorism and other political instability, economic conditions, shipment issues, the availability of raw materials and increased production costs. Our vendors may be forced to reduce their production, shut down their operations or file for bankruptcy. The occurrence of one or more of these events could impact our ability to get products to our customers, result in disruptions to our operations, increase our costs and decrease our profitability.

We also source merchandise directly from suppliers outside of the United States. Additionally, a significant amount of our domestically-purchased merchandise is manufactured abroad. Global sourcing and foreign trade involve numerous factors and uncertainties beyond our control including increased shipping costs, the imposition of additional import or trade restrictions, including legal or economic restrictions on overseas suppliers' ability to produce and deliver products, increased custom duties and tariffs, unforeseen delays in customs clearance of goods, more restrictive quotas, loss of a most favored nation trading status, currency exchange rates, transportation delays, port of entry issues and foreign government regulations, political instability and economic uncertainties in the countries from which we or our vendors source our products. For example our product sourcing could be impacted by current and future travel restrictions and/or the shut-down of certain businesses in China or elsewhere due to the COVID-19 pandemic. Our sourcing operations may also be hurt by health concerns regarding infectious diseases in countries in which our merchandise is produced. Moreover, negative press or reports about internationally manufactured products may sway public opinion, and thus customer confidence, away from the products sold in our stores. These and other issues affecting our international vendors or internationally manufactured merchandise could have a material adverse effect on our business, financial condition and results of operations.

The former presidential administration advocated for greater restrictions on international trade generally, including with respect to the North American Free Trade Agreement ("NAFTA") and the World Trade Organization (the "WTO"). In December 2019, the United States, Mexico and Canada signed the amended United States-Mexico-Canada Agreement (the "USMCA"), which replaced NAFTA. In July 2020, the U.S. notified the United Nations of its intention to withdraw from the WTO. While the current presidential administration has rejoined the WTO, it remains difficult to predict what affect the USMCA, the WTO or other trade agreements and organizations will have on our business. If the U.S. were to withdraw from or materially modify any other international trade agreements to which it is a party or if the U.S. imposes significant additional tariffs or other restrictions on imports from China and Mexico, where our outsourced optical laboratories are located and where the majority of our frames are sourced and manufactured, it could have an adverse impact on our business. Any such tariffs, restrictions or other changes could lead to additional costs, delays in shipments, embargoes and other uncertainties that could negatively impact our relationships with our international vendors and labs and materially adversely affect our business, including by requiring us to increase our prices and identify alternative sources for merchandise and labs. See also "*We depend on our distribution centers and optical laboratories. The loss of, or disruption in the operations of, one or more of these facilities may adversely affect our ability to process and fulfill customer orders and deliver our products in a timely manner, or at all, and may result in quality issues, which would adversely affect our reputation, our business and our profitability*."

Material changes in the pricing practices of our suppliers could negatively impact our profitability. For example, we have in the past been subject to the unilateral pricing policies implemented by certain contact lens manufacturers, which policies mandated the minimum prices at which certain contact lenses could be sold to consumers. Such manufacturers could refuse to supply us with their products if they deemed us in breach of such policies. Our vendors may also increase their pricing if their raw materials became more expensive. The raw materials used to manufacture our products are subject to availability constraints and price volatility. Our vendors may pass the increase in sourcing costs to us through price increases, thereby impacting our margins.

In addition, some of our vendors may not have the capacity to supply us with sufficient merchandise to keep pace with our growth plans, especially if we need significantly greater amounts of inventory. In such cases, our ability to pursue our growth strategy will depend in part upon our ability to develop new vendor relationships.

Some of our suppliers are owned by vertically-integrated companies with retail divisions that compete with us and, as such, we are exposed to the risk that these suppliers may not be willing, or may become unwilling, to sell their products to us on acceptable terms, or at all.

We rely on a limited number of vendors to supply the majority of our eyeglass lenses and contact lenses and are thus exposed to concentration of supplier risk. In particular, we have agreed to exclusively purchase almost all of our spectacle lenses from one supplier. During fiscal year 2020, 89% of lens expenditures were from this vendor and 93% of contact lens expenditures were with three vendors. We are less exposed to a supplier risk for our eyeglass frames as only 52% of frame expenditures were with two vendors. If we were to lose any significant supplier, we may be unable to establish additional or replacement sources for our products that meet our quality controls and standards in a timely manner or on commercially reasonable terms, if at all. As a few major suppliers dominate the optical retail industry, the risks associated with finding alternative sources may be exacerbated. For example, effective October 1, 2018, Essilor and Luxottica completed their merger to become EssilorLuxottica, which exacerbates our concentration of supplier risk.

The optical retail industry is highly competitive, and if we do not compete successfully, our business may be adversely impacted.

We compete directly with national, regional and local retailers, including other optical retail chains, warehouse clubs, mass merchandisers and internet-based retailers. We also compete with independent ophthalmologists, optometrists and opticians located in our markets as they often provide many of the same goods and services we provide. The retail landscape is changing as a result of changes in consumers' shopping habits, as well as the introduction of new technologies such as online vision exams. See Part I. Item 1. "Business-Competition."

Some of our competitors are larger companies and have greater financial and operational resources, greater brand recognition and broader geographic presence than we do. As a result, they may be able to engage in extensive and prolonged price promotions or otherwise offer competitive prices, which may adversely affect our business. They may also be able to spend more than we do for advertising. We may be at a substantial disadvantage to larger competitors with greater economies of scale. If our costs are greater compared to those of our competitors, the pricing of our products and services may not be as attractive, thus depressing sales or the profitability of our products and services. Our competitors may expand into markets in which we currently operate and we remain vulnerable to the marketing power and high level of customer recognition of these larger competitors and to the risk that these competitors or others could attract our customer base. Some of our competitors are vertically integrated and are also engaged in the manufacture and distribution of eyewear as well as managed care. These competitors can advantageously leverage this structure to better compete and certain vertically-integrated organizations with significant market power could potentially utilize this power to make it more difficult for us to compete. We purchase many of our products from suppliers who are affiliates of our competitors. We also compete for managed vision care contracts with certain of our competitors who are affiliates of managed care payors. In addition, if any of our competitors were to consolidate operations, such consolidation would exacerbate the aforementioned risks.

We may not continue to be able to successfully compete against existing or future competitors. Our inability to respond effectively to competitive pressures, improved performance by our competitors and changes in the retail markets could result in lost market share and have a material adverse effect on our business, financial condition and results of operations.

We rely heavily on our information technology systems, as well as those of our vendors, for our business to effectively operate and to safeguard confidential information; any significant failure, inadequacy, interruption or security breach could adversely affect our business, financial condition and operations.

We rely heavily on our information technology systems for many functions across our operations, including managing our supply chain and inventory, processing customer transactions in our stores, allocating lens processing jobs to the appropriate laboratories, our financial accounting and reporting, compensating our associates and operating our websites. Our ability to effectively manage our business and coordinate the sourcing, distribution and sale of our products depends significantly on the reliability and capacity of these systems. We also collect, process and store sensitive and confidential information, including our proprietary business information and that of our customers, associates, suppliers and business partners, including Walmart and Sam's Club. The secure processing, maintenance and transmission of this information is critical to our operations.

Our systems may be subject to damage or interruption from power outages or damages, telecommunications problems, data corruption, software errors, network failures, acts of war or terrorist attacks, fire, flood and natural disasters, our existing safety systems, data backup, access protection, user management and information technology emergency planning may not be sufficient to prevent data loss or long-term network outages. Our existing safety systems, data backup, access protection, user management and information technology emergency planning may not be sufficient to prevent data loss or long-term network outages. In addition, we may have to upgrade our existing information technology systems or choose to incorporate new technology systems from time to time in order for such systems to support the increasing needs of our expanding business. Costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could disrupt or reduce the efficiency of our operations.

Our systems and those of our third-party service providers and business partners may be vulnerable to security breaches, attacks by hackers, acts of vandalism, computer viruses, misplaced or lost data, human errors or other similar events. If unauthorized parties gain access to our networks or databases, or those of our third-party service providers or business partners, they may be able to steal, publish, delete, use inappropriately or modify our private and sensitive third-party information including personal health information, credit card information and personal identification information. In addition, associates may intentionally or inadvertently cause data or security breaches that result in unauthorized release of personal or confidential information. Because the techniques used to circumvent security systems can be highly sophisticated, change frequently, are often not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address all possible techniques or implement adequate preventive measures for all situations. Like most corporations, the Company's systems are a target of attacks. Although the incidents that we have experienced to date have not had a material effect on our business, there can be no assurance that such incidents will not have a material adverse effect on us in the future. Any such breach, attack, virus or other event could result in costly investigations and litigation exceeding applicable insurance coverage or contractual rights available to us, civil or criminal penalties, operational changes or other response measures, loss of consumer confidence in our security measures, and negative publicity that could adversely affect our financial condition, results of operations and reputation.

The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and changing requirements across our business. For instance, as a health care provider, we could be forced, in the event of a data breach, to report the breach not only to affected customers, but also to various public agencies and media outlets, potentially harming our reputation and our business Our business partners may have contractual rights of indemnification against us or seek to terminate our contracts with them in the event that their customer or proprietary business information is released as a result of a breach of our information technology. Further, if we are unable to comply with the security standards established by banks and the payment card industry, we may be subject to fines, restrictions and expulsion from card acceptance programs, which could adversely affect our retail operations. As privacy and information security laws and regulations change, we may incur additional compliance costs.

Any material disruption or slowdown of our systems or those of our third-party service providers and business partners, could have a material adverse effect on our business, financial condition and results of operations.

Our growth strategy could strain our existing resources and cause the performance of our existing stores to suffer.

Our planned expansion will place increased demands on our existing operational, managerial, supply-chain and administrative resources. These increased demands could strain our resources and cause us to operate our business less effectively, which in turn could cause the performance of our new and existing stores to suffer.

As our store base grows, we will need to continually evaluate the adequacy of our laboratory, distribution and information technology capabilities. Our laboratories and distribution centers have a finite capacity and, to the extent we grow beyond this capacity, we will need to expand our current laboratories and/or distribution centers or add new laboratories and/or distribution capabilities, the cost of which could be material. Implementing new operating capabilities or changing existing operating capabilities could present challenges we do not anticipate and could negatively affect our business, financial condition and results of operations. Should we open additional laboratories or distribution centers, any related construction or expansion projects entail risks which could cause delays and cost overruns, such as unavailability of suitable space, shortages of materials, shortages of skilled labor or work stoppages, unforeseen construction, scheduling, engineering, environmental or geological problems, weather interference, fires or other casualty losses and unanticipated cost increases. For example, we entered into a lease for an additional laboratory facility in 2018 which became operational in the first quarter of 2019. The completion date and ultimate cost of future projects could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that any project will be completed on time or within established budgets. Any delay or increased costs associated with any project could adversely affect the financial and overall performance of our existing and planned new stores.

In addition, opening new stores in our established markets may result in inadvertent oversaturation, temporarily or permanently divert customers and sales from our existing stores to new stores and reduce comparable store sales, thus adversely affecting our overall financial performance. Furthermore, we have opened and expect to continue to open America's Best and Eyeglass World stores in close proximity to one another. However, we may not be able to effectively manage stores of both brands in the same market, and this close proximity may cause the performance of such America's Best and/or Eyeglass World stores to suffer. In addition, oversaturation, or the risk of oversaturation, may reduce or adversely affect the number or location of stores we plan to open, and could thereby materially and adversely affect our growth plans overall or in particular markets.

We cannot anticipate all of the demands that our expanding operations will impose on our business, personnel and systems and our failure to address such demands and to profitably manage our growth could have a material adverse effect on our business, financial condition and results of operations.

We are a low-cost provider and our business model relies on the low cost of inputs. Factors such as wage rate increases, inflation, cost increases, increases in raw material prices and energy prices could have a material adverse effect on our business, financial condition and results of operations.

Increases in compensation, wage pressure and other expenses for vision care professionals, as well as our other associates, may adversely affect our profitability. Increases in minimum wages and other wage and hour regulations can exacerbate this risk. Additional tariffs or other future cost increases, such as increases in the cost of merchandise, shipping rates, raw material prices, freight costs and store occupancy costs, may also reduce our profitability. These cost increases may be the result of inflationary pressures which could further reduce our sales or profitability. Increases in other operating costs, including changes in energy prices and lease and utility costs, may increase our cost of products sold or selling, general and administrative expenses. Our low price model and competitive pressures in the optical retail industry may inhibit our ability to reflect these increased costs in the prices of our products, in which case such increased costs could have a material adverse effect on our business, financial condition and results of operations.

Our success depends upon our marketing, advertising and promotional efforts. If we are unable to implement them successfully, or if our competitors are more effective than we are, it could have a material adverse effect on our business, financial condition and results of operations.

We use marketing and promotional programs to attract customers to our stores and to encourage purchases by our customers. If we fail to successfully develop and implement marketing, advertising and promotional strategies, we may be unable to achieve and maintain brand awareness, and customer traffic to our stores and/or websites may be reduced. We may not be able to advertise cost-effectively in new or smaller markets in which we have lower store density, which could slow growth at such stores. Changes in the amount and degree of promotional intensity or merchandising strategy by our competitors could cause us to have difficulties in retaining existing customers and attracting new customers. If the efficacy of our marketing or promotional activities declines or if such activities of our competitors are more effective than ours, or if for any other reason we lose the loyalty of our customers, it could have a material adverse effect on our business, financial condition and results of operations. Further, since our expansion in California, we have a national advertising campaign for America's Best as opposed to only utilizing local advertising campaigns. We cannot provide assurances that a national advertising campaign will be cost-effective or successful or that we will continue such campaigns.

We are subject to risks associated with leasing substantial amounts of space, including future increases in occupancy costs.

We lease our America's Best and Eyeglass World store locations, our corporate headquarters, the AC Lens corporate office, the FirstSight corporate office, our laboratories in Georgia, Texas and Utah and our distribution centers. We also lease our Vista Optical locations inside Fred Meyer stores. As a result, we are susceptible to changes in the property rental market and increases in our occupancy costs.

The success of our business depends, in part, on our ability to identify suitable premises for our stores and to negotiate acceptable lease terms. Our ability to effectively renew our existing store leases or obtain store leases to open new stores depends on the availability of store premises that meet our criteria for traffic, square footage, lease economics, demographics and other factors. We may not be able to renew or extend our existing store leases on acceptable terms, or at all, and may have to abandon desirable locations or renew leases on unfavorable terms. In addition, tenants at shopping centers in which we are located or have executed leases, or to which our locations are near, may fail to open or may cease operations. Decreases in total tenant occupancy in shopping centers in which we are located, or to which our locations are near, may affect traffic at our stores. In addition, the potential default or bankruptcy of landlords in existing or pending leasehold locations may affect our ability to maintain or renew our existing leases. All of these factors could have a material adverse impact on our operations.

Most leases for our stores provide for a minimum rent and typically include escalating rent increases over time. In certain circumstances we pay a percentage rent based upon sales after certain minimum thresholds are achieved. Our failure to achieve these thresholds could cause our occupancy costs for these locations to increase materially on a percentage of sales basis. The leases generally require us to pay insurance, utilities, real estate taxes and common area maintenance expenses. Our substantial lease obligations could have significant negative consequences, including:

- requiring that a substantial portion of our available cash be applied to pay our rental obligations, reducing cash available for other purposes and reducing our operating profitability;

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to changes in, our business or in the industry in which we compete; and
- limiting our ability to obtain additional financing.

We depend on cash flows from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings or other sources, we may not be able to service our lease expenses, grow our business, respond to competitive changes or fund our other liquidity and capital needs, which could harm the business. If we are not able to make the required payments under our leases, landlords with a contractual or statutory security interest in the assets of the relevant stores may, among other things, repossess those assets, which could adversely affect our ability to conduct our operations.

Further, the substantial majority of our leased sites are both currently and in the future expected to be subject to long-term noncancelable leases. If an existing or future store is not profitable and we decide to close it, we may nonetheless be obligated to perform our obligations under the applicable lease including, among other things, paying the base rent and other charges for the balance of the lease term. Even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease.

As we expand our store base, particularly in certain markets that are more expensive, such as California and the Northeast, our lease expense and our cash outlays for rent under lease agreements may increase. Our inability to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for stores that we close could materially and adversely affect our business, financial condition and results of operations.

Certain technological advances, greater availability of, or increased consumer preferences for, vision correction alternatives to prescription eyeglasses or contact lenses, and future drug development for the correction of vision-related problems may reduce the demand for our products and adversely impact our business and profitability.

Technological advances in vision care, including the development of telemedicine and other new or improved products, as well as future drug development for the correction of vision-related problems, could significantly change how eye exams may be conducted and make our existing products less attractive or even obsolete. Several companies have developed technologies for and some companies are incorporating the remote delivery of eye examinations and eye refractions. We have begun to pilot remote medicine technologies in a limited number of locations to enable the provision of remote eye examinations. If consumers accept the use of these technologies, consumers could become less likely to obtain an in-person eye examination and therefore less likely to shop at our retail locations. We also may not be able to successfully incorporate remote medicine technologies into our business which could make our exam process less attractive to customers. Additionally, the greater availability and acceptance, or reductions in the cost, of vision correction alternatives to prescription eyeglasses and contact lenses, such as corneal refractive surgery procedures, including radial-keratotomy, photo-refractive keratotomy, or PRK and LASIK, may reduce the demand for our products, lower our sales and thereby adversely impact our business and profitability.

If we fail to retain our existing senior management team or attract qualified new personnel, such failure could have a material adverse effect on our business, financial condition and results of operations.

Our business requires disciplined execution at all levels of our organization. This execution requires an experienced and talented management team. If we were to lose the benefit of the experience, efforts and abilities of key executive personnel, it could have a material adverse effect on our business, financial condition and results of operations. Competition for skilled and experienced management is intense, and we may not be successful in attracting and retaining new qualified personnel required to grow and operate our business profitably.

An overall decline in the health of the economy and other factors impacting consumer spending, such as recessionary conditions, the timing and issuance of tax refunds, governmental instability and natural disasters, may affect consumer purchases, which could reduce demand for our products and materially harm our sales, profitability and financial condition.

Our business depends on consumer demand for our products and, consequently, is sensitive to a number of factors that influence consumer confidence and spending, such as general economic conditions, consumer disposable income, energy and fuel prices, recession and fears of recession, unemployment, minimum wages, availability of consumer credit, consumer debt levels, conditions in the housing market, interest rates, tax rates and policies, inflation, consumer confidence in future economic conditions and political conditions, war and fears of war, inclement weather, natural disasters, terrorism, outbreak of viruses or widespread illness and consumer perceptions of personal well-being and security. As a result of the COVID-19 pandemic, we temporarily closed our retail stores to the public in the first half of 2020, which had a material adverse impact on our sales and profitability. In addition, from time to time we have temporarily closed certain stores due to hurricanes, natural disasters or civil unrest. Such store closures due to factors that are outside of our control could materially adversely affect our sales and profitability.

Reduced customer confidence and spending cutbacks may result in reduced demand for our merchandise and may force us to take inventory markdowns. Reduced demand also may require increased selling and promotional expenses. Prolonged or pervasive economic downturns could slow the pace of new store openings or cause current stores to close.

Furthermore, our target market, which consists of value seeking and lower income consumers, is sensitive to various factors outside of our control. For example, this population relies on tax refunds to pay for eyewear and eye care. A delay in the issuance of tax refunds can accordingly have a negative impact on our quarterly financial results. Consumers could also alter how they utilize tax refund proceeds. In addition, periods of instability in the government generally, or a renewed emphasis on immigration matters, can also cause this population to either delay or refrain from making such purchases. A continuation of these and similar circumstances could have a material negative impact on our financial performance. Because of the importance of the first half of the fiscal year for us, a significant downward trend in the first half could have a substantial negative impact on our annual financial results.

We benefited from U.S. government assistance that we received through the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act in fiscal year 2020. Such assistance under the CARES Act or pursuant to additional relief efforts may not be available in future years.

Our profitability and cash flows may be negatively affected if we are not successful in managing our inventory balances and inventory shrinkage.

Efficient inventory management is a key component of our business success and profitability. To be successful, we must maintain sufficient inventory levels to meet our customers’ demands without allowing those levels to increase to such an extent that the costs to distribution centers, laboratories and stores to hold the goods unduly impacts our financial results. If our buying and distribution decisions do not accurately predict customer trends or spending levels in general or at particular stores or if we inappropriately price products, we may have to take unanticipated markdowns and discounts to dispose of obsolete or excess inventory or record potential write-downs relating to the value of obsolete or excess inventory. Conversely, if we underestimate future demand for a particular product or do not respond quickly enough to replenish our best performing products, we may have a shortfall in inventory of such products, likely leading to unfulfilled orders, reduced revenue and customer dissatisfaction.

Our business is partly dependent on our ability to strategically source a sufficient volume and variety of brand name merchandise at opportunistic pricing. Some of our products are sourced from suppliers or with significantly reduced prices for specific reasons, and we are not always able to purchase specific merchandise on a recurring basis and we may not have control over the supply, design, cost or availability of some products we offer for sale in our stores. We also compete with other retailers for discounted merchandise to sell in our stores. To the extent that certain of our suppliers are better able to manage their inventory levels and reduce the amount of their excess inventory, the amount of discount merchandise available to us could also be materially reduced, potentially compromising our profit margin for procured merchandise.

Maintaining adequate inventory requires significant attention and monitoring of market trends, local markets, developments with suppliers and our distribution network, and it is not certain that we will be effective in our inventory management. We are subject to the risk of inventory loss or theft and we may experience higher rates of inventory shrinkage or incur increased security costs to combat inventory theft. In addition, any casualty or disruption to our laboratories, distribution centers or stores may damage or destroy our inventory located there. As we expand our operations, it may be more difficult to effectively manage our inventory. If we are not successful in managing our inventory balances, it could have a material adverse effect on our business, financial condition and results of operations.

Our operating results and inventory levels fluctuate on a seasonal basis.

Our business is subject to seasonal fluctuation. We typically realize a higher portion of net sales during the first half of the fiscal year, due, among other things, to the timing of tax refunds and the impact of healthcare plan resets after the close of the prior year. Adverse events, such as higher unemployment, lapses in or the lack of insurance coverage, delays in the issuance of tax refunds, deteriorating economic conditions, public transportation disruptions, or unanticipated adverse weather or travel conditions can deter consumers from shopping. Any significant decrease in net sales during the first half of the fiscal year could have a material adverse effect on us and could negatively impact our annual results. In addition, in order to prepare for our peak shopping quarters, we must increase the staffing at our stores and order and keep in stock more merchandise than we carry during other parts of the year. This staffing increase and inventory build-up may require us to expend cash faster than is generated by our operations during this period. Any unanticipated decrease in demand for our products during such period could require us to sell excess inventory at a substantial markdown, which could have a material adverse effect on our business, financial condition and results of operations.

We rely on third-party coverage and reimbursement, including government programs, for an increasing portion of our revenues, the future reduction of which could adversely affect our results of operations.

We rely on third-party coverage and reimbursement, including government and private insurance plans, such as managed vision care plans, for an increasing portion of our net revenue. We are generally reimbursed for the vision care services and products that we provide through payment systems managed by private insurance companies, managed care organizations and governmental agencies. Coverage and payment levels are determined at each third-party payor's discretion, and we have limited control over third-party payor's decision-making with respect to coverage and payment levels. Coverage restrictions and reductions in reimbursement levels or payment methodologies may negatively impact our sales and profits. Many third-party payors may continue to explore cost-containment strategies that may potentially impact coverage and/or payment levels for our services and products and impose utilization restrictions and risk-based compensation arrangements. We cannot provide any assurances that we will be able to maintain or increase our participation in managed care arrangements or that we will be adequately reimbursed by managed care payors, vision insurance providers and other third-party payors for the services we provide and the products we sell. From time to time, vision care insurance payors may make changes to their EDI claim systems. Such changes may require us to update our processes and could impact our ability to submit claims or to timely receive reimbursements from our managed care partners. If claims for payment are disputed by managed care payors or if we fail to timely or accurately submit claims, we may not receive payment for such claims in a timely manner or at all, which could negatively impact our relationship with manage care organizations and could require us to take write-offs or otherwise have a significant negative impact on our business, financial condition and results of operations. Furthermore, any changes to or repeal of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or any other significant changes to the healthcare regulatory landscape may reduce or eliminate coverage or reimbursement rates of insurance-funded eye exams or eyewear.

Our e-commerce and omni-channel business faces distinct risks, and our failure to successfully manage it could have a negative impact on our profitability.

As an e-commerce and omni-channel retailer, we encounter risks and difficulties frequently experienced by internet-based businesses. The successful operation of our business as well as our ability to provide a positive shopping experience that will generate orders and drive subsequent visits depends on efficient and uninterrupted operation of our order-taking and fulfillment operations. Risks associated with our e-commerce and omni-channel business include:

- uncertainties associated with our websites including changes in required technology interfaces, website downtime and other technical failures, costs and technical issues as we upgrade our website software, inadequate system capacity, computer viruses, human error, security breaches, legal claims related to our website operations and e-commerce fulfillment;
- disruptions in telephone service or power outages;
- reliance on third parties for computer hardware and software, as well as delivery of merchandise to our customers;
- rapid technology changes;
- credit or debit card fraud and other payment processing related issues;
- changes in applicable federal, state and international regulations;
- liability for online content;
- cybersecurity and consumer privacy concerns and regulation; and
- natural disasters or adverse weather conditions.

In addition, we have contractual relationships with several third parties, including Walmart and Sam's Club, whereby we host websites for the online sale of contact lenses and other optical products and perform related back office functions for these parties. We could be exposed to contractual liability to these third parties in the event of a failure, security breach or disruption to these websites or our failure to properly provide the services called for by these agreements.

Our online sales also expose us to broader applicability of regulations, as well as additional regulations, such as the prescription verification and other requirements under the FCLCA, rules relating to registration of internet sellers, certain requirements under the Treasury Department's OFAC, FCPA, anti-money laundering and trade sanction laws and similar anti-corruption, anti-bribery and international trade laws. Problems in any of these areas could result in a reduction in sales, increased costs, sanctions or penalties and damage to our reputation and brands.

In addition, we must keep up to date with competitive technology trends, including the use of new or improved technology, creative user interfaces and other e-commerce marketing tools such as paid search and mobile applications, among others, which may increase our costs and which may not increase sales or attract customers. Our competitors, some of whom have greater resources than we do, may also be able to benefit from changes in e-commerce technologies, which could harm our competitive position. If we are unable to allow real-time and accurate visibility to product availability when customers are ready to purchase, quickly and efficiently fulfill our customers' orders using the fulfillment and payment methods they demand, provide a convenient and consistent experience for our customers regardless of the ultimate sales channel or effectively manage our online sales, our ability to compete and our results of operations could be adversely affected.

Furthermore, if our e-commerce and omni-channel business successfully grows, it may do so in part by attracting existing customers, rather than new customers, who choose to purchase products from us online rather than from our brick and mortar stores, thereby detracting from the financial performance of our stores.

We could be adversely affected by product liability, product recall or personal injury issues.

We could be adversely impacted by the supply of defective products, including the infiltration of counterfeit products into the supply chain and contamination or product mishandling issues. Product liability or personal injury claims may be asserted against us with respect to any of the products we sell or services we provide. The provision of professional eye care services by the vision care professionals employed by us or with whom we have contractual arrangements also increases our exposure to professional liability claims. There is a risk that these claims may exceed, or fall outside the scope of, our insurance coverage. In addition, a government or other regulatory agency could require us or one of our vendors or suppliers to remove a particular product from the market for, among other reasons, failure to adhere to product safety requirements or quality control standards. Product recalls can result in the disposal or write-off of merchandise, harm our reputation and cause us to lose customers, particularly if those recalls cause consumers to question the performance, quality, safety or reliability of our products. Any significant returns or warranty claims, as well as the timing of such returns or claims, could result in significant additional costs to us and could adversely affect our results of operations.

We rely on our suppliers to control the quality of both eyeglass components and contact lenses. We are not involved in the manufacture of the merchandise we purchase from our vendors for sale to our customers, and we do not independently investigate whether these vendors legally hold sufficient intellectual property rights to the merchandise that they are manufacturing or distributing. Our ability to seek recourse for liabilities and recover costs from our vendors depends on our contractual rights as well as on the financial condition and integrity of the vendors. If we purchase products on a closeout basis, some of these products may be obtained through brokers or intermediaries rather than through manufacturers, which may make it more difficult for us to investigate all aspects of these products. Moreover, we engage in certain manufacturing, repackaging and relabeling activities at our optical laboratories and at certain Eyeglass World stores. If the products that we manufacture, repackage, or relabel are defective or otherwise result in product liability or personal injury claims against us, our business could be adversely affected and we could be subject to adverse regulatory action.

If our merchandise or services do not meet applicable governmental safety standards or our customers' expectations regarding quality or safety, we could experience lost sales and increased costs, be exposed to legal and reputational risk and face fines or penalties which could materially adversely affect our financial results.

Failure to comply with laws, regulations and enforcement activities or changes in statutory, regulatory, accounting and other legal requirements could potentially impact our operating and financial results.

In addition to the vision care and healthcare laws and regulations discussed above, we are subject to numerous federal, state, local and foreign laws and governmental regulations including those relating to environmental protection, personal injury, intellectual property, consumer product safety, building, land use and zoning requirements, workplace regulations, wage and hour, privacy and information security, consumer protection laws, immigration and employment law matters. If we fail to comply with existing or future laws or regulations, or if these laws or regulations are violated by importers, manufacturers or distributors, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs. In addition, our capital expenditures could increase due to remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations.

Further, the FTC has authority to investigate and prosecute practices that constitute "unfair trade practices," "deceptive trade practices" or "unfair methods of competition." State attorneys general typically have comparable authority, and many states also permit private plaintiffs to bring actions on the basis of these laws. Federal and state consumer protection laws and regulations may apply to our operations and retail offers. For example, our America's Best offer of a "free" eye exam is subject to compliance with laws and regulations governing the use of this term.

Our transactions with the international laboratories we contract with may subject us to the FCPA and trade sanction laws, and similar anti-corruption, anti-bribery and international trade laws, any violation of which could create substantial liability for us and also harm our reputation. Our four laboratories in the United States and our in-store laboratories at our Eyeglass World locations subject us to various federal, state and local laws, regulations and other requirements pertaining to protection of the environment, public health and associate safety, including regulations governing the management of hazardous substances and the maintenance of safe working conditions, such as the Occupational Safety and Health Act of 1970, as amended. These laws also apply generally to all our properties. Our failure to comply with these laws can subject us to criminal and civil liabilities. In connection with our Vista Optical military locations, we must comply with regulations governing the occupancy of military bases. In connection with our philanthropic endeavors, we must also comply with additional federal, state and local tax and other laws and regulations.

Additionally, because we accept debit and credit cards for payment, we are subject to the PCI Standard issued by the Payment Card Industry Security Standards Council, with respect to payment card information. The PCI Standard contains compliance guidelines with regard to our security surrounding the physical and electronic storage, processing and transmission of cardholder data. Compliance with the PCI Standard and implementing related procedures, technology and information security measures requires significant resources and ongoing attention. Costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology such as those necessary to achieve compliance with the PCI Standard or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations. Any material interruptions or failures in our payment-related systems could have a material adverse effect on our business, financial condition and results of operations. If there are amendments to the PCI Standard, the cost of re-compliance could also be substantial and we may suffer loss of critical data and interruptions or delays in our operations as a result.

Adverse litigation judgments or settlements resulting from legal proceedings relating to our business operations could materially adversely affect our business, financial condition and results of operations.

From time to time, we are subject to allegations, and may be party to legal claims and regulatory proceedings, relating to our business operations. See Part I. Item 3. "Legal Proceedings." Such allegations, claims and proceedings may be brought by third parties, including our customers, associates, governmental or regulatory bodies or competitors and may include class actions. Defending against such claims and proceedings is costly and time consuming and may divert management's attention and personnel resources from our normal business operations, and the outcome of many of these claims and proceedings cannot be predicted. If any of these claims or proceedings were to be determined adversely to us, a judgment, a fine or a settlement involving a payment of a material sum of money were to occur, or injunctive relief were issued against us, our business, financial condition and results of operations could be materially adversely affected.

We may incur losses arising from our investments in technological innovators in the optical retail industry, which would negatively affect our financial results.

We are regularly presented with opportunities to invest and have invested in certain venture-backed emerging companies and technological innovators across the optical retail industry. Such investments could include equity or debt instruments in companies that may be non-marketable. The success of these companies may depend on product development, market acceptance, operational efficiency and other key business factors. If any of these companies fail, we could lose all or part of our investment in that company. If we determine that impairment indicators exist and that there are other-than-temporary declines in the fair value of the investment, we may be required to write down the investments to their fair value and recognize the related write-down as an investment loss.

We may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business.

Our ability to implement our business plan successfully depends in part on our ability to further build brand recognition using our trademarks, service marks and other proprietary intellectual property, including our name and logos. While it is our policy to protect and defend vigorously our rights to our intellectual property, we cannot predict whether steps taken by us to protect our intellectual property rights will be adequate to prevent infringement or misappropriation of these rights. It may be difficult for us to prevent others from copying elements of our products and any litigation to enforce our rights could be costly, divert attention of management, and may not be successful. Although we believe that we have sufficient rights to all of our trademarks, service marks and other intellectual property rights, we may face claims of infringement that could interfere with our ability to market and promote our brands. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks, service marks or other intellectual property rights in the future and may be liable for damages, which in turn could materially adversely affect our business, financial condition or results of operations.

Risks Related to Our Indebtedness and Ownership of Common Stock

We have a significant amount of indebtedness which could adversely affect our business and financial position, including limiting our business flexibility and preventing us from meeting our debt obligations.

We have a significant amount of indebtedness. As of January 2, 2021, we had approximately $719.9 million of aggregate principal amount of indebtedness associated with our first lien term loan in the aggregate principal amount of $420.0 million (the "Term Loan") and 2025 Notes outstanding (excluding finance lease obligations). Our leverage could have important consequences for us, including:

- requiring us to utilize a substantial portion of our cash flows from operations to make payments on our indebtedness, reducing the availability of our cash flows to fund working capital, capital expenditures, general corporate and other purposes;
- increasing our vulnerability to adverse economic, industry, or competitive developments;
- making it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including any financial maintenance and restrictive covenants, could result in an event of default under the agreements governing our indebtedness;
- restricting us from capitalizing on business opportunities;
- limiting our ability to obtain additional financing for working capital, capital expenditures, execution of our business strategy, debt service requirements, acquisitions and other general corporate purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business or market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who, therefore, may be able to take advantage of opportunities that our leverage prevents us from exploiting.

Our ability to make principal and interest payments on and to refinance our indebtedness will depend on our ability to generate cash in the future and is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we cannot generate sufficient cash flow from operations to make scheduled principal and interest payments in the future, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets, delay capital expenditures or seek additional equity. The terms of our existing or future debt agreements may also restrict us from affecting any of these alternatives. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. Further, changes in the credit and capital markets, including market disruptions and interest rate fluctuations, may increase the cost of financing, make it more difficult to obtain favorable terms, or restrict our access to these sources of future liquidity. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, could have a material adverse effect on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations in respect of our indebtedness.

A change in interest rates or discontinuation, reform or replacement of LIBOR and other benchmark rates, or uncertainty related to the potential for any of the foregoing, may adversely affect our business.

As of January 2, 2021, after inclusion of $317.0 million interest rate swaps fixing a portion of the variable rate debt, $0.4 million, or 0.1%, of our Term Loan was subject to variable rates. In fiscal year 2021, following the maturity of the interest rate swaps, the interest rate collar will hedge some of the variability in Company's interest rates. A decrease in LIBOR below a certain threshold could require payments to the counterparty of our interest rate collar derivative and could materially reduce our profitability and cash flows. An increase in interest rates, whether because of an increase in market interest rates or a decrease in our creditworthiness, could also increase the cost of servicing our debt and could materially reduce our profitability and cash flows.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. Further, on November 30, 2020 the ICE Benchmark Administration Limited announced its plan to extend the date that most USD-LIBOR values would cease being computed to June 30, 2023. The Alternative Reference Rates Committee and the International Swaps and Derivatives Association have identified the Secured Overnight Financing Rate ("SOFR") as its preferred alternative rate for USD-LIBOR in debt, derivatives, and other financial contracts. Even if financial instruments are transitioned to alternative benchmarks, such as SOFR, successfully, the new benchmarks are likely to differ from LIBOR, and our interest expense associated with our outstanding indebtedness or any future indebtedness we incur may increase. Further, transitioning to an alternative benchmark rate, such as SOFR, may result in us incurring significant expense and legal risks, as renegotiation and changes to documentation may be required in effecting the transition. Any alternative benchmark rate may be calculated differently than LIBOR and may increase the interest expense associated with our existing or future indebtedness.

Our credit agreement contains restrictions that limit our flexibility in operating our business.

Our credit agreement imposes significant operating and financial restrictions. These covenants may limit our ability and the ability of our subsidiaries, under certain circumstances, to, among other things:

- incur additional indebtedness;
- create or incur liens;
- engage in certain fundamental changes, including mergers or consolidations;
- sell or transfer assets;
- pay dividends and distributions on our subsidiaries' capital stock;
- make acquisitions, investments, loans or advances;
- pay or modify the terms of certain indebtedness;
- engage in certain transactions with affiliates; and
- enter into negative pledge clauses and clauses restricting subsidiary distributions.

Our credit agreement also contains certain customary affirmative covenants and events of default, including a change of control and financial maintenance covenants prohibiting us from exceeding a certain total leverage ratio or falling below a certain interest coverage ratio. As a result of these covenants and restrictions, we are limited in how we conduct our business, and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot guarantee that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants.

Our failure to comply with the restrictive covenants described above as well as others contained in our future debt instruments from time to time could result in an event of default, which, if not cured or waived, could result in our being required to repay these borrowings before their maturity dates. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default under one or more of our other debt instruments. If we are unable to repay, refinance or restructure our indebtedness under our secured debt, the holders of such debt could proceed against the collateral securing that indebtedness. If we are forced to refinance these borrowings on less favorable terms or if we are unable to repay, refinance or restructure such indebtedness, our financial condition and results of operations could be adversely affected.

Conversion of the 2025 Notes could dilute the ownership interest of existing stockholders or may otherwise depress the price of our common stock.

On May 12, 2020, we completed the issuance of 2.50% convertible senior notes due on May 15, 2025 (the “2025 Notes”). The 2025 Notes will be convertible into cash, shares of common stock or a combination of cash and shares of common stock at our election, based on the applicable conversion rate at such time. Prior to February 15, 2025, the 2025 Notes will be convertible at the option of the holders of such notes under certain circumstances as provided in the governing indenture. Based on the initial conversion rate of the 2025 Notes, which is subject to adjustment, the 2025 Notes are convertible into 12.9 million shares of our common stock with a maximum possible issuance of 16.5 million shares. The conversion of some or all of the 2025 Notes could dilute the ownership interests of existing stockholders to the extent we elect to deliver shares of our common stock upon conversion of any of the 2025 Notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock.

Our stock price may be volatile or may decline regardless of our operating performance.

The trading price of our common stock may be volatile and subject to fluctuations due to a number of factors, most of which we cannot control, including those listed under these “Risk Factors,” and the following:

- actual or anticipated variations in our results of operations;
- changes in expectations as to our future financial performance, including financial estimates and investment recommendations by securities analysts and investors;
- additions or departures of key management personnel;
- strategic actions by us or our competitors, including announcements by us, our competitors, our suppliers or our host and legacy organizations of significant contracts, price reductions, new products or technologies, acquisitions, joint marketing relationships, joint ventures, other strategic relationships or capital commitments;
- changes in general economic or market conditions or trends in our industry or the economy as a whole and, in particular, in the consumer spending environment;
- changes in business or regulatory conditions;
- investor perceptions of or the investment opportunity associated with our common stock relative to other investment alternatives;
- the public’s response to press releases or other public announcements by us or third parties, including our filings with the SEC;
- announcements relating to litigation or governmental investigations;
- guidance, if any, that we provide to the public, any changes in this guidance or our failure to meet this guidance;

Furthermore, the stock market may experience extreme volatility that, in some cases, may be unrelated or disproportionate to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance. In addition, price volatility may be greater if the public float and trading volume of our common stock is low.

In the past, following periods of market volatility, stockholders have instituted securities class action litigation. If we were to become involved in securities litigation, it could have a substantial cost and divert resources and the attention of executive management from our business regardless of the outcome of such litigation.

Because we have no current plans to pay cash dividends on our common stock, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We have no current plans to pay cash dividends on our common stock. The declaration, amount and payment of any future dividends on our common stock will be at the sole discretion of our Board of Directors. Our Board of Directors may take into account general and economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us, including restrictions under our credit agreement and other indebtedness we may incur, and such other factors as our Board of Directors may deem relevant. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than your purchase price.

We are a holding company with no operations of our own and, as such, we depend on our subsidiaries for cash to fund all of our operations and expenses, including future dividend payments, if any.

Our operations are conducted entirely through our subsidiaries and our ability to generate cash to meet our debt service obligations or to make future dividend payments, if any, is highly dependent on the earnings and the receipt of funds from our subsidiaries via dividends or intercompany loans. We do not currently expect to declare or pay dividends on our common stock for the foreseeable future; however, to the extent that we determine in the future to pay dividends on our common stock, the agreements governing our indebtedness may restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us.

If securities or industry analysts do not publish research or reports about our business or if they downgrade our stock or our sector, our stock price and trading volume could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, if one or more of the analysts who do cover us downgrade our stock or our industry, or change their views regarding the stock of any of our competitors, or publish inaccurate or unfavorable research about our business, the price of our stock could decline. If one or more of these analysts stop covering us or fail to publish reports on us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

Maintaining the requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we incur significant legal, accounting, insurance and other expenses that we did not incur as a private company, including costs associated with public company governance and reporting requirements. We also have incurred and will continue to incur costs associated with our compliance with the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, as well as rules and regulations implemented by the SEC, and costs in connection with continued listing on NASDAQ. Our efforts to comply with these rules and regulations have significantly increased our legal and financial compliance costs, including costs associated with the hiring of additional personnel, and have made some activities more difficult, time-consuming or costly. Our management devotes a substantial amount of time to ensure that we comply with all of these requirements, diverting the attention of management away from revenue-producing activities. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. These laws and regulations also could make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

Ineffective internal controls could have a material adverse effect on our business and stock price, and could result in our financial statements becoming unreliable.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and financial results could be harmed and we could fail to meet our financial reporting obligations.

Anti-takeover provisions in our organizational documents could delay or prevent a change of control.

Certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws may have an anti-takeover effect and may delay, defer or prevent a merger, acquisition, tender offer, takeover attempt, or other change of control transaction that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by our stockholders.

These provisions provide for, among other things:

- a classified board of directors, as a result of which our Board of Directors is divided into three classes, with each class serving for staggered three-year terms;
- the ability of our Board of Directors to issue one or more series of preferred stock;
- advance notice requirements for nominations of directors by stockholders and for stockholders to include matters to be considered at our annual meetings;
- certain limitations on convening special stockholder meetings;
- the removal of directors only for cause and only upon the affirmative vote of the holders of at least 66 2⁄3 % of the shares of common stock entitled to vote generally in the election of directors; and
- that certain provisions may be amended only by the affirmative vote of at least 66 2⁄3 % of shares of common stock entitled to vote generally in the election of directors.

These anti-takeover provisions could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many of our stockholders. As a result, our stockholders may be limited in their ability to obtain a premium for their shares.

Our Board of Directors is authorized to issue and designate shares of our preferred stock in additional series without stockholder approval.

Our amended and restated certificate of incorporation authorizes our Board of Directors, without the approval of our stockholders, to issue 50,000,000 shares of our preferred stock, subject to limitations prescribed by applicable law, rules and regulations and the provisions of our amended and restated certificate of incorporation, as shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The powers, preferences and rights of these additional series of preferred stock may be senior to or on parity with our common stock, which may reduce its value.

Our amended and restated certificate of incorporation provides, subject to limited exceptions, that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for certain stockholder litigation matters, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, associates or stockholders.

Our amended and restated certificate of incorporation provides, subject to limited exceptions, that unless we consent to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for any (i) derivative action or proceeding brought on behalf of our company, (ii) action asserting a claim of breach of a fiduciary duty owed by any director, officer, or other associate or stockholder of our company to the Company or our stockholders, creditors or other constituents, (iii) action asserting a claim against the Company or any director or officer of the Company arising pursuant to any provision of the Delaware General Corporation Law, or the DGCL, or our amended and restated certificate of incorporation or our amended and restated bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware, or (iv) action asserting a claim against the Company or any director or officer of the Company governed by the internal affairs doctrine.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to the forum provisions in our amended and restated certificate of incorporation. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers, other associates or stockholders which may discourage lawsuits with respect to such claims. Alternatively, if a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease all of our America's Best and Eyeglass World retail stores. Our leases generally have noncancelable lease terms of between five and 10 years, with an option to renew for additional terms of one to 10 years or more. Over the past few years, we have been entering into more leases with 10 year initial terms, with renewal options. Most leases for these retail stores provide for a minimum rent, typically with escalating rent increases. In certain circumstances we pay a percentage rent based upon sales after certain minimum thresholds are achieved. These leases generally require us to pay insurance, utilities, real estate taxes and common area maintenance expenses.

We occupy our host and legacy locations through master agreements with our host partners, which contain standard terms and conditions, such as fixed and percentage-based payments.

A summary of our stores by location as of January 2, 2021 is as follows:

State	America's Best	Eyeglass World	Legacy	Other
AK	—	—	1	7
AL	15	1	3	3
AR	—	—	—	1
AZ	23	10	9	2
CA	68	20	43	4
CO	24	1	7	3
CT	—	—	7	—
DE	—	—	—	—
FL	68	34	2	2
GA	39	3	30	5
HI	—	—	3	—
IA	6	1	—	—
ID	5	—	—	—
IL	50	2	—	—
IN	13	10	—	—
KS	—	1	8	2
KY	5	1	—	2
LA	15	—	1	1
MA	—	—	2	—
MD	22	—	1	1
ME	—	—	—	—
MI	30	11	—	—
MN	15	—	—	—
MO	20	1	—	1
MS	—	—	—	2

State	America's Best	Eyeglass World	Legacy	Other
MT	—	—	1	—
NC	19	—	36	2
ND	—	—	—	—
NE	3	1	—	1
NH	—	—	2	—
NJ	29	—	3	1
NM	—	1	6	3
NV	—	3	2	1
NY	31	—	13	1
OH	31	1	—	1
OK	—	—	—	—
OR	10	—	3	9
PA	35	2	13	—
RI	—	—	—	—
SC	13	2	6	1
SD	—	—	1	—
TN	20	2	—	—
TX	103	5	3	5
UT	11	5	—	1
VA	28	—	16	1
VT	—	—	—	—
WA	13	1	1	19
WI	7	—	—	—
WV	—	—	6	—
WY	1	—	1	—

Note: 'Other' includes Vista Optical in Fred Meyer stores and on military bases. There is one America's Best location in Washington, D.C. and one Vista Optical location in Puerto Rico.

We lease laboratories in Georgia, Texas and Utah and distribution centers in Georgia and Ohio, and we own our laboratory in Minnesota.

Our corporate offices are located in leased space in Duluth, Georgia. In addition, we lease office space for our AC Lens corporate office in Columbus, Ohio and office space for our FirstSight corporate office in Upland, California.

Item 3. Legal Proceedings

See Note 13. “Commitments and Contingencies” in our consolidated financial statements included in Part II. Item 8. of this Form 10-K for information regarding certain legal proceedings in which we are involved, which discussion is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the symbol "EYE".

Holders

As of February 26, 2021, there were approximately 22 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered at such date and does not represent the actual number of beneficial owners of our common stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners.

Issuer Purchases of Equity Securities

During the quarter ended January 2, 2021, we did not purchase any of our equity securities that are registered under Section 12(b) of the Exchange Act.

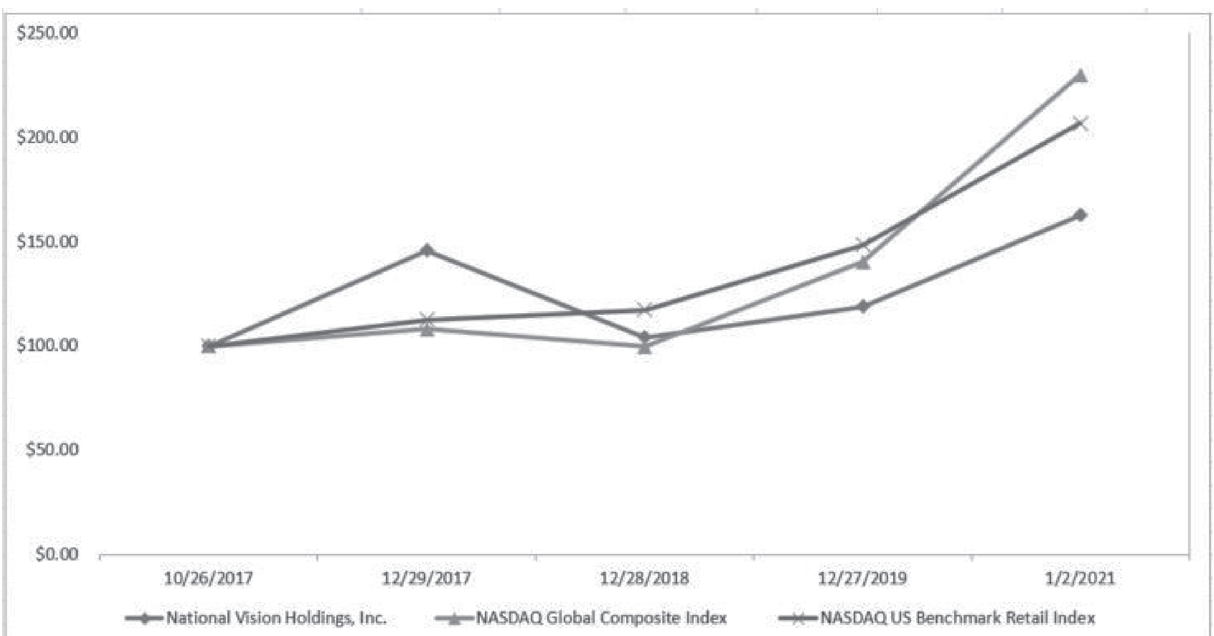
Dividends

We have not paid dividends in the past and have no current plans to pay dividends on our common stock.

Performance Graph

This performance graph shall not be deemed "soliciting material" or "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act.

The graph below presents the Company's cumulative total stockholder returns relative to the performance of the NASDAQ Global Composite Index and the NASDAQ US Benchmark Retail Index commencing October 26, 2017 (the Company's initial day of trading) through January 2, 2021. All values assume a $100 initial investment at the opening price of the Company's common stock on NASDAQ and data for the NASDAQ Global Composite Index and the NASDAQ US Benchmark Retail Index assumes all dividends were reinvested on the date paid. The points on the graph represent fiscal quarter-end values based on the last trading day of each fiscal quarter. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our common stock.



Unregistered Sales of Equity Securities

None.

Item 6. Selected Financial Data

The selected financial data and quarterly financial data previously required by Items 301 and 302 of Regulation S-K has been omitted in reliance on SEC Release No. 33-10890, Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains management's discussion and analysis of our financial condition and results of operations and should be read together with the consolidated financial statements and the related notes thereto included elsewhere in this Form 10-K (this "Form 10-K"). This discussion contains forward-looking statements that reflect our plans, estimates and beliefs and involve numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section included in Part I. Item 1A. in this Form 10-K, as such risk factors may be updated from time to time in our periodic filings with the SEC. Actual results may differ materially from those contained in any forward-looking statements. You should carefully read "Special Note Regarding Forward-Looking Statements" in this Form 10-K.

We conduct substantially all of our activities through our indirect wholly-owned subsidiary, NVI, and its subsidiaries. We operate on a retail fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31. In a 52-week fiscal year, each quarter contains 13 weeks of operations; in a 53-week fiscal year, each of the first, second and third quarters includes 13 weeks of operations and the fourth quarter includes 14 weeks of operations. References herein to "fiscal year 2020" relate to the 53 weeks ended January 2, 2021, references herein to "fiscal year 2019" relate to the 52 weeks ended December 28, 2019 and references herein to "fiscal year 2018" relate to the 52 weeks ended December 29, 2018.

The disclosures contained in this Form 10-K are made only as of the date hereof, and we undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law. For further information, please see "Risk Factors" and "Forward-Looking Statements."

Overview

We are one of the largest and fastest growing optical retailers in the United States and a leader in the attractive value segment of the U.S. optical retail industry. We believe that vision is central to quality of life and that people deserve to see their best to live their best, regardless of their budget. Our mission is to make quality eye care and eyewear affordable and accessible to all Americans. We achieve this by providing eye exams, eyeglasses and contact lenses to value seeking and lower income consumers. We deliver exceptional value and convenience to our customers, with an opening price point that strives to be among the lowest in the industry, enabled by our low-cost operating platform. We reach our customers through a diverse portfolio of 1,205 retail stores across five brands and 19 consumer websites as of fiscal year end 2020.

Brand and Segment Information

Our operations consist of two reportable segments:

- Owned & Host – As of fiscal year end 2020, our owned brands consisted of 773 America's Best Contacts and Eyeglasses ("America's Best") retail stores and 119 Eyeglass World retail stores. In America's Best stores, vision care services are provided by optometrists employed by us or by independent professional corporations or similar entities. America's Best stores are primarily located in high-traffic strip centers next to value-focused retailers. Eyeglass World locations primarily feature eye care services provided by independent optometrists and optometrists employed by independent professional corporations or similar entities and on-site optical laboratories that enable stores to quickly fulfill many customer orders and make repairs on site. Eyeglass World stores are primarily located in freestanding or in-line locations near high-foot-traffic shopping centers. Our host brands consisted of 54 Vista Optical locations on select military bases and 29 Vista Optical locations within select Fred Meyer stores as of fiscal year end 2020. We have strong, long-standing relationships with our host partners and have maintained each partnership for over 20 years. These brands provide eye exams primarily by independent optometrists. All brands utilize our centralized laboratories. This segment also includes sales from our America's Best, Eyeglass World, and Military omni-channel websites.

- Legacy – We manage the operations of, and supply inventory and laboratory processing services to, 230 Vision Centers in Walmart retail locations as of fiscal year end 2020. This strategic relationship with Walmart is in its 31st year. Pursuant to a January 2020 amendment to our management & services agreement with Walmart, we added five additional Vision Centers in Walmart stores in fiscal year 2020. On July 17, 2020, NVI and Walmart extended the current term and economics of the management & services agreement by three years to February 23, 2024; refer to Note 16. "Segment Reporting" included in Part II. Item 8. of this Form 10-K for further information. Under the management & services agreement, our responsibilities include ordering and maintaining merchandise inventory; arranging the provision of optometry services; providing managers and staff at each location; training personnel; providing sales receipts to customers; maintaining necessary insurance; obtaining and holding required licenses, permits and accreditations; owning and maintaining store furniture, fixtures and equipment; and developing annual operating budgets and reporting. We earn management fees as a result of providing such services and therefore we record revenue related to sales of products and product protection plans to our legacy partner's customers on a net basis. Our management & services agreement also allows our legacy partner to collect penalties if the Vision Centers do not generate a requisite amount of revenues. No such penalties have been assessed under our current arrangement, which began in 2012. We also sell to our legacy partner merchandise that is stocked in retail locations we manage pursuant to a separate supplier agreement, and provide centralized laboratory services for the finished eyeglasses for our legacy partner's customers in stores that we manage. We lease space from Walmart within or adjacent to each of the locations we manage and use this space for vision care services provided by independent optometrists or optometrists employed by us or by independent professional corporations or similar entities. During the fiscal year 2020, sales associated with this arrangement represented 8.3% of consolidated net revenue. This exposes us to concentration of customer risk.

Our consolidated results also include the following activity recorded in our Corporate/Other category:

- Our e-commerce platform of 15 dedicated websites managed by AC Lens. Our e-commerce business consists of six proprietary branded websites, including aclens.com, discountglasses.com and discountcontactlenses.com, and nine third-party websites with established retailers, such as Walmart, Sam's Club and Giant Eagle as well as mid-sized vision insurance providers. AC Lens handles site management, customer relationship management and order fulfillment and also sells a wide variety of contact lenses, eyeglasses and eye care accessories.
- AC Lens also distributes contact lenses wholesale to Walmart and Sam's Club. We incur costs at a higher percentage of sales than other product categories. AC Lens sales associated with Walmart and Sam's Club contact lenses distribution arrangements represented 7.4% of consolidated net revenue.
- Managed care business conducted by FirstSight, our wholly-owned subsidiary that is licensed as a single-service health plan under California law, which arranges for the provision of optometric services at the offices next to certain Walmart stores throughout California, and also issues individual vision plans in connection with our America's Best operations in California.
- Unallocated corporate overhead expenses, which are a component of selling, general and administrative expenses and are comprised of various home office expenses such as payroll, occupancy costs and consulting and professional fees. Corporate overhead expenses also include field services for our five retail brands.

Reportable segment information is presented on the same basis as our consolidated financial statements, except reportable segment sales which are presented on a cash basis, including point of sales for managed care payors and excluding the effects of unearned and deferred revenue, consistent with what our chief operating decision maker ("CODM") regularly reviews. Reconciliations of segment results to consolidated results include financial information necessary to adjust reportable segment revenues to a consolidated basis in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), specifically the change in unearned and deferred revenues during the period. There are no revenue transactions between reportable segments, and there are no other items in the reconciliations other than the effects of unearned and deferred revenue. See Note 16. "Segment Reporting" in our consolidated financial statements included in Part II. Item 8. of this Form 10-K.

Deferred revenue represents the timing difference of when we collect the cash from the customer and when services related to product protection plans and eye care club memberships are performed. Increases or decreases in deferred revenue during the reporting period represent cash collections in excess of or below the recognition of previous deferrals.

Unearned revenue represents the timing difference of when we collect cash from the customer and delivery/ customer acceptance, and includes sales of prescription eyewear during approximately the last seven to 10 days of the reporting period.

Trends and Other Factors Affecting Our Business

Various trends and other factors will affect or have affected our operating results, including:

Impact of COVID-19

The COVID-19 pandemic and related federal, state and local governmental and healthcare authority guidelines continue to impact our business results and cause business disruption in the U.S. and globally. To date, the COVID-19 pandemic and related healthcare authority actions have directly and indirectly impacted our operations, including the temporary closure of our stores to the public between March and June 2020, consumer behavior, comparable store sales, our associates and optometrists and the overall market. While we experienced stronger comparable store sales growth in the third and fourth quarters of 2020, the comparable store sales growth figure for the fiscal year 2020 reflect the effects of store closures and the pandemic. The COVID-19 pandemic has resulted in, and may continue to result in, state, city or local quarantines, labor stoppages and shortages, changes in consumer purchasing patterns, mandatory or voluntary shut-downs of retail locations, severe market volatility, liquidity disruptions, and overall economic instability, which, in many cases, have had, and could continue to have, material adverse impacts on our business, financial condition and results of operations. The scope and nature of these impacts continue to evolve on a daily basis, including with a resurgence in COVID-19 cases during the latter portion of this fiscal year.

Since the onset of the COVID-19 pandemic, we have focused on ensuring the health and safety of our associates and customers, securing liquidity, reducing expenses and deferring discretionary capital expenditures. In response to the pandemic, we temporarily closed all of our stores to the public across the U.S. on March 19, 2020 and successfully re-opened all stores with enhanced safety and cleaning protocols by June 8, 2020. We also suspended all non-essential travel for our associates and have implemented a remote work policy for certain corporate associates. The decrease in revenue from our temporary store closures was not offset by proportional decreases in expense, as we continued to incur store occupancy costs even while stores were temporarily closed, costs directly related to adapting the Company's operations to the COVID-19 pandemic such as personal protective equipment and other supplies needed to operate our stores safely and certain other costs such as compensation, a tangible appreciation bonus paid to our customer-facing doctors and associates, and other administrative expenses, resulting in a negative effect on profitability. Since the beginning of the pandemic, we have also implemented capital spending and expense reduction initiatives, including a temporary pause in new store openings between March and June 2020, reduced near term marketing, a temporary reduction in compensation across the organization until the second quarter of 2020, and worked with a base of vendors and landlords to extend payment terms and modify existing contracts.

On March 17, 2020, as a precautionary measure to preserve financial flexibility during the COVID-19 pandemic, we borrowed the remaining $146.3 million in available funds under our $300.0 million revolving credit facility (the "Revolving Credit Facility"). On May 12, 2020, we completed the issuance of $402.5 million principal amount of 2.50% convertible senior notes due on May 15, 2025 (the "2025 Notes") and used the net proceeds to repay the full amount outstanding under our Revolving Credit Facility and part of our outstanding borrowings under our Term Loan. We also entered into an amendment (the "Credit Agreement Amendment") to our Amended and Restated Credit Agreement, dated as of July 18, 2019 (the "Credit Agreement") to suspend certain financial maintenance covenants until testing at the end of the second fiscal quarter of 2021, allowing us to focus on the prudent management of the business. We also recorded income totaling $11.0 million as a result of the employee retention credits made available under the CARES Act for U.S. associates during fiscal year 2020; recognizing $6.2 million as a reduction to costs of services and plans, $0.4 million as a reduction to costs of products and $4.4 million as a reduction to SG&A during fiscal year 2020.

We continue to monitor the evolving situation as there remain many uncertainties regarding the pandemic and its resurgence through new variants, including its anticipated duration, related healthcare authority guidelines and efficacy of vaccination initiatives, impacts on our domestic labs and our outsourced third party optical laboratories in China and Mexico, and potential disruptions of product deliveries. To date, we have been able to meet customer demand with operations at our laboratories. We source merchandise from suppliers located in China and a significant amount of domestically-purchased merchandise is manufactured in China. We have partnered with our suppliers and third party laboratories to mitigate any potential significant delays in delivery of merchandise. Our e-commerce business remained open to serve our customers during the unprecedented period of temporary store closures. We could experience further material impacts as a result of COVID-19, including, but not limited to, charges from additional asset impairment, deferred tax valuation allowances and further changes in the effectiveness of our hedging instruments. We will continue to evaluate additional measures that we may elect to take as a response to the pandemic, including, where appropriate, future action to reduce store hours and patient appointments or temporarily close stores. There can be no assurance whether or when any such measures will be adopted.

It is possible that our preparations for the events listed above are not adequate to mitigate their impact, and that these events could further adversely affect our business and results of operations. For a discussion of significant risks that have the potential to cause our actual results to differ materially from our expectations, refer to "Item 1A. Risk Factors."

New Store Openings

We expect that new stores will be a key driver of growth in our net revenue and operating profit in the future. Our results of operations have been and will continue to be materially affected by the timing and number of new store openings. As stores mature, profitability typically increases significantly. The performance of new stores is dependent upon factors such as the time of year of a particular opening, the amount of store pre-opening costs, labor and occupancy costs in the specified market, level of participation in managed care plans, and location, including whether they are in new or existing markets. We typically incur higher than normal associate costs at the time of a new store opening associated with set-up and other opening costs, including training and development of our store associates. The multi-year maturation process of our stores is influenced by customer purchasing behavior in our industry. Consumers return for eye exams every 20 months on average and a considerable majority of our customers are repeat buyers. Our planned store expansion will place increased demands on our operational, managerial, administrative and other resources. Managing our growth effectively will require us to continue to enhance our store management systems, financial and management controls and information technology. We will also be required to hire, train and retain optometric professionals, store management and store personnel, which, together with increased marketing costs, may affect our operating margins. The impact of the COVID-19 pandemic on our multi-year maturation process of our stores, customer purchasing behaviors and patterns remain uncertain and affects and relevant risk exposures may be exacerbated by the immediate and ongoing threat of the COVID-19 pandemic.

Comparable Store Sales Growth

Comparable store sales growth is a key driver of our business. Many factors affect comparable store sales, including:

- consumer preferences, buying trends and overall economic trends including amount and timing of tax refunds;
- advertising strategies
- participation in managed care programs;
- the recurring nature of eye care purchases;
- our ability to identify and respond effectively to customer preferences and trends;
- our ability to provide an assortment of high quality/low cost product offerings that generate new and repeat visits to our stores;
- foot traffic in retail shopping centers where our stores are predominantly located;
- the customer experience we provide in our stores;
- the availability of optometrists and other vision care professionals;
- our ability to source and receive products accurately and timely;
- changes in product pricing, including promotional activities;
- the number of items purchased per store visit;
- the number of stores that have been in operation for more than 12 months;
- impact and timing of weather related store closures; and
- affects and relevant risk exposures may be exacerbated by the immediate and ongoing threat of the COVID-19 pandemic

A new store is included in the comparable store sales calculation during the 13th full fiscal month following the store's opening. Closed stores are removed from the calculation for time periods that are not comparable. In the past, we have closed stores as a result of poor store performance, lease expiration or non-renewal and/or the terms of our arrangements with our host and legacy partners.

Managed Care and Insurance

Our managed care business relates to vision care programs and associated benefits which are either: (i) sponsored by employers or other groups, (ii) provided by insurers and managed care entities, such as health maintenance organizations to individuals, and (iii) delivered, typically on a fee-for-service or capitated basis, by health care providers, such as ophthalmologists, optometrists and opticians. Managed care has become increasingly important to the optical retail industry.

An increasing percentage of our customers receive vision care insurance coverage through managed care payors. Our participation in these programs represent an increasingly significant portion of our overall revenues and represented approximately one third of our overall revenues in fiscal year 2020. While we have relationships with almost all vision care insurers in the United States and with all of the major carriers, currently, a relatively small number of payors comprise the majority of our managed care revenues, subjecting us to concentration risk. As our participation in managed care programs continues to expand, we have incurred and expect to incur additional costs related to this area of our business. Our future operational success could depend on our ability to negotiate, maintain and extend contracts with managed vision care companies, vision insurance providers and other third-party payors, several of whom have significant market share. Coverage and payment levels are determined at each third-party payor's discretion, and we have limited control over third-party payor's decision-making with respect to coverage and payment levels. Coverage restrictions and reductions in reimbursement levels or payment methodologies may negatively impact our sales and profits. In addition, as our participation in managed care programs continues to approach overall industry penetration levels, we expect our associated managed care revenue growth rate to slow over time.

Vision Care Professional Recruitment and Coverage

Our ability to continue to attract and retain qualified vision care professionals is key to store operations, as well as maintaining our relationships with independent optometrists and professional corporations owned by eye care practitioners that provide vision care services in our stores; however the affects and relevant risk exposures may be exacerbated by the immediate and ongoing threat of the COVID-19 pandemic.

Overall Economic Trends

Macroeconomic factors that may affect customer spending patterns, and thereby our results of operations, include employment rates, business conditions, changes in the housing market, the availability of credit, interest rates, tax rates and fuel and energy costs. During periods of economic downturn and uncertainty, our customers especially benefit from our low prices. Additionally, eye care purchases are predominantly a medical necessity and are considered non-discretionary in nature. Therefore, the overall economic environment and related changes in consumer behavior may have less of an impact on our business than for retailers in other industries; however, the long-term effects of the COVID-19 pandemic on overall economic trends and consumer spending patterns remain uncertain.

Consumer Preferences and Demand

Our ability to maintain our appeal to existing customers and attract new customers depends on our ability to originate, develop and offer a compelling product assortment responsive to customer preferences and design trends. We estimate that optical consumers typically replace their eyeglasses every two to three years, and contact lens customers order new lenses every six to 12 months, reflecting the predictability of these recurring purchase behaviors; however, the long-term effects of the COVID-19 pandemic on consumer preferences and recurring purchase behaviors remain uncertain.

Infrastructure Investment

Our historical results of operations reflect the impact of our ongoing investments in infrastructure to support our growth. We have made significant investments in information technology systems, supply chain systems, marketing, and personnel, including experienced industry executives, and management and merchandising teams to support our long-term growth objectives. We intend to continue to make targeted investments in our infrastructure to support our growth.

Pricing Strategy

We are committed to providing our products to our customers at low prices. We generally employ a simple low price/high value strategy that consistently delivers savings to our customers without the need for extensive promotions.

Our Ability to Source and Distribute Products Effectively

Our revenue and operating income are affected by our ability to purchase our products in sufficient quantities at competitive prices. While we believe our vendors have adequate capacity to meet our current and anticipated demand, our level of revenue could be adversely affected in the event we face constraints in our supply chain, including the inability of our vendors to produce sufficient quantities of merchandise in a manner that is able to match market demand from our customers due to a worsening COVID-19 pandemic or other factors. We rely on a small number of vendors to supply the majority of our eyeglass lenses and contact lenses, and are thus exposed to supplier concentration risk. In particular, we have agreed to exclusively purchase almost all of our spectacle lenses from one supplier. During fiscal year 2020, 89% of spectacle lens expenditures were from this vendor and 93% of contact lens expenditures were with three vendors. We are less exposed to a supplier risk for our eyeglass frames as only 52% of frame expenditures were with two vendors.

We source merchandise from suppliers located in China, a significant amount of our domestically-purchased merchandise is manufactured in China, and one of our outsourced third-party laboratories is located in China. Historically, tariffs have not materially affected our financial results, and we believe that less than 15% of costs applicable to revenue are subject to tariffs on Chinese imports. Effective September 1, 2019, the U.S. government implemented a 15% tariff on specified products imported into the U.S. from China and effective February 14, 2020, the 15% tariff was reduced to 7.5%. The temporary reduction of tariff rates expired in September, 2020. We continue to monitor ongoing political relations between China and the United States.

While we have implemented mitigation plans and continue to focus on additional mitigation strategies to offset the impact of tariffs, costs with respect to products subject to these tariffs have increased. If we are unable to mitigate the full impact of the enacted tariffs or if there is a further escalation of tariffs, costs on a significant portion of our products may increase further and our financial results may be negatively affected. In addition, the COVID-19 pandemic could impact our product sourcing if travel restrictions and a shutdown of businesses in China arises due to a resurgence in cases. While it is too early to predict how the China tariffs or the coronavirus will impact our business, our financial results may also be impacted by consumers' fear of a prolonged trade war with China, a slowdown in sourcing and an economic slowdown.

Inflation

Substantial increases in product costs due to increases in materials cost or general inflation could lead to greater profitability pressure as we may not be able to pass costs on to consumers. To date, changes in materials prices and general inflation have not materially impacted our business.

Interim Results and Seasonality

Historically, our business has realized a higher portion of net revenue, operating income, and cash flows from operations in the first half of the fiscal year, and a lower portion of net revenue, operating income, and cash flows from operations in the fourth fiscal quarter. The seasonally larger first half of the fiscal year is attributable primarily to the timing of our customers' income tax refunds and annual health insurance program start/reset periods. Because our target market consists of value seeking and lower income consumers, a delay in the issuance of tax refunds or changes in the amount of tax refunds can have a negative impact on our financial results. Consumers could also alter how they utilize tax refund proceeds. With respect to our fourth quarter results, compared to other retailers, our products and services are less likely to be included in consumer's holiday spending budgets, therefore reducing spending on personal vision correction during the weeks preceding December 25th of each year. Additionally, although the period between December 25th and the end of our fiscal year is typically a high-volume period, the net revenue associated with substantially all orders of prescription eyeglasses and contact lenses during that period is deferred until the following fiscal period due to our policy of recognizing revenue only after the product has been accepted by the customer. Consumer behavior driven by the COVID-19 pandemic has resulted in a departure from seasonal norms we have experienced in recent years and may continue to disrupt the historical quarterly cadence of our results of operations for an unknown period of time.

For fiscal years 2019 and 2018, approximately 23% of our revenues were recorded in the fourth quarter, but approximately 24% of annual SG&A costs were also recorded in the fourth quarter for those years, due to certain SG&A costs being more fixed in nature. For fiscal year 2020, approximately 29% of our revenue was recorded in the fourth quarter, but approximately 28% of annual SG&A costs were recorded in the fourth quarter. Compared to prior fiscal years, in fiscal year 2020 we experienced stronger comparable store sales growth in the fourth quarter from strong customer demand, including the effect of our stores being temporarily closed to the public earlier in the year. Additionally, SG&A costs, primarily advertising expense, during the second and third quarters of fiscal year 2020 were lower than in the corresponding quarters prior fiscal years due to impacts of the COVID-19 pandemic.

Our quarterly results may also be affected by the timing of new store openings and store closings, the amount of sales contributed by new and existing stores, as well as the timing of certain holidays. As a result of these factors, our working capital requirements and demands on our product distribution and delivery network may fluctuate during the year.

Competition

The U.S. optical retail industry is highly competitive and fragmented. Competition is generally based upon brand name recognition, price, convenience, selection, service and product quality. We operate within the value segment of the U.S. optical retail industry, which emphasizes price and value. We compete with mass merchants, specialty retail chains, online retailers and independent eye practitioners and opticians. We also compete with large national retailers such as, in alphabetical order, LensCrafters, Pearle Vision and Visionworks. The COVID-19 pandemic may lead to changes in both the number and positioning of our competitors.

Consolidation in the Industry

Ongoing consolidation activity has created, and further consolidation activity may create, organizations that are involved in virtually every sector of the optical industry, from retail and wholesale to frames, spectacle lenses, and managed vision care. This increased consolidation activity may enable these companies to benefit from purchasing advantages and the ability to leverage management capabilities across a larger business base. Other trends include an increase in private equity-backed consolidation of smaller and mid-size independent practices and the formation of buying groups and similar forms of practice affiliations. The COVID-19 pandemic may lead to increases in consolidation activity and trends.

How We Assess the Performance of Our Business

We consider a variety of financial and operating measures in assessing the performance of our business. The key measures we use to determine how our consolidated business and operating segments are performing are net revenue, costs applicable to revenue, and selling, general, and administrative expenses. In addition, we also review store growth, Adjusted Comparable Store Sales Growth, Adjusted Operating Income, Adjusted Operating Margin, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Diluted EPS.

Net Revenue

We report as net revenue amounts generated in transactions with retail customers who are the end users of our products, services, and plans. Net product sales include sales of prescription and non-prescription eyewear, contact lenses, and related accessories as well as eye exam services associated with our America's Best brand's signature offer of two pairs of eyeglasses and a free eye exam for one low price ("two-pair offer") to retail customers and sales of inventory in which our customer is another retail entity. Net sales of services and plans include sales of eye exams, eye care club memberships, product protection plans (i.e., warranties), and single service eye care plans in California. Net sales of services and plans also include fees we earn for managing certain Vision Centers located in Walmart stores and for laboratory services provided to Walmart.

Costs Applicable to Revenue

Costs applicable to revenue include both costs of net product sales and costs of net sales of services and plans. Costs of net product sales include (i) costs to procure non-prescription eyewear, contact lenses, and accessories, which we purchase and sell in finished form, (ii) costs to manufacture finished prescription eyeglasses, including direct materials, labor, and overhead, and (iii) remake costs, warehousing and distribution expenses, and internal transfer costs. Costs of services and plans include costs associated with product protection plan programs, eye care club memberships, single service eye care plans in California, eye care practitioner and eye exam technician payroll, taxes and benefits and optometric service costs. Customer tastes and preferences, product mix, changes in technology, significant increases or slowdowns in production, and other factors impact costs applicable to revenue. The components of our costs applicable to revenue may not be comparable to other retailers.

Selling, General and Administrative

Selling, general and administrative expenses, or SG&A, include store associate (including optician) payroll, taxes and benefits, occupancy, advertising and promotion, field services, corporate support and other costs associated with the provision of vision care services. Non-capital expenditures associated with opening new stores, including rent, store maintenance, marketing expenses, travel and relocation costs, and training costs, are recorded in SG&A as incurred. SG&A generally fluctuates consistently with revenue due to the variable store, field office and corporate support costs; however, some fixed costs slightly improve as a percentage of net revenue as our net revenues grow over time.

New Store Openings

The total number of new stores per year and the timing of store openings has, and will continue to have, an impact on our results. In an effort to conserve cash early in the COVID-19 pandemic, we temporarily paused new store openings during a portion of fiscal year 2020. We opened 57 stores and transitioned five additional Legacy stores to our management during fiscal year 2020. We will continue to monitor and determine our plans for future new store openings based on health, safety and economic conditions.

Adjusted Comparable Store Sales Growth

We measure Adjusted Comparable Store Sales Growth as the increase or decrease in sales recorded by the comparable store base in any reporting period, compared to sales recorded by the comparable store base in the prior reporting period, which we calculate as follows: (i) sales are recorded on a cash basis (i.e., when the order is placed and paid for or submitted to a managed care payor, compared to when the order is delivered), utilizing cash basis point of sale information from stores; (ii) stores are added to the calculation during the 13th full fiscal month following the store's opening; (iii) closed stores are removed from the calculation for time periods that are not comparable; (iv) sales from partial months of operation are excluded when stores do not open or close on the first day of the month; and (v) when applicable, we adjust for the effect of the 53rd week. Quarterly, year-to-date and annual adjusted comparable store sales are aggregated using only sales from all whole months of operation included in both the current reporting period and the prior reporting period. When a partial month is excluded from the calculation, the corresponding month in the subsequent period is also excluded from the calculation. There may be variations in the way in which some of our competitors and other retailers calculate comparable store sales. As a result, our adjusted comparable store sales may not be comparable to similar data made available by other retailers. We did not revise our calculation of Adjusted Comparable Store Sales Growth for the temporary closure of our stores to the public as a result of the COVID-19 pandemic.

Adjusted Comparable Store Sales Growth is a non-GAAP financial measure, which we believe is useful because it provides timely and accurate information relating to the two core metrics of retail sales: number of transactions and value of transactions. We use Adjusted Comparable Store Sales Growth as the basis for key operating decisions, such as allocation of advertising to particular markets and implementation of special marketing programs. Accordingly, we believe that Adjusted Comparable Store Sales Growth provides timely and accurate information relating to the operational health and overall performance of each brand. We also believe that, for the same reasons, investors find our calculation of Adjusted Comparable Stores Sales Growth to be meaningful.

Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Operating Income, Adjusted Operating Margin, and Adjusted Diluted EPS (collectively, the "Company Non-GAAP Measures")

The Company Non-GAAP Measures are key measures used by management to assess our financial performance. The Company Non-GAAP Measures are also frequently used by analysts, investors and other interested parties. We use the Company Non-GAAP Measures to supplement U.S. GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, to establish discretionary annual incentive compensation and to compare our performance against that of other peer companies using similar measures. See "Non-GAAP Financial Measures" for definitions of the Company Non-GAAP Measures and for additional information.

Results of Operations

The following table summarizes key components of our results of operations for the periods indicated, both in dollars and as a percentage of our net revenue.

In thousands, except earnings per share, percentage and store data	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Revenue:			
Net product sales	$ 1,418,283	$ 1,426,136	$ 1,269,612
Net sales of services and plans	293,477	298,195	267,242
Total net revenue	1,711,760	1,724,331	1,536,854
Costs applicable to revenue (exclusive of depreciation and amortization):			
Products	551,783	574,351	511,406
Services and plans	234,841	232,168	202,165
Total costs applicable to revenue	786,624	806,519	713,571
Operating expenses:			
Selling, general and administrative expenses	720,590	744,488	687,476
Depreciation and amortization	91,585	87,244	74,339
Asset impairment	22,004	8,894	17,630
Litigation settlement	4,395	—	—
Other expense (income), net	(445)	3,611	1,487
Total operating expenses	838,129	844,237	780,932
Income from operations	87,007	73,575	42,351
Interest expense, net	48,171	33,300	37,283
Debt issuance costs	156	—	200
Loss on extinguishment of debt	—	9,786	—
Earnings before income taxes	38,680	30,489	4,868
Income tax provision (benefit)	2,403	(2,309)	(18,785)
Net income	$ 36,277	$ 32,798	$ 23,653
Operating data:			
Number of stores open at end of period	1,205	1,151	1,082
New stores opened during the period	62	75	74
Adjusted Operating Income	$ 134,148	$ 114,300	$ 102,401
Diluted EPS	$ 0.44	$ 0.40	$ 0.30
Adjusted Diluted EPS	$ 0.91	$ 0.75	$ 0.61
Adjusted EBITDA [1]	$ 218,307	$ 194,139	$ 169,335

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.

[1] Adjusted EBITDA no longer excludes new store pre-opening expenses and non-cash rent. Refer to Non-GAAP Financial Measures section below for our presentation of Adjusted EBITDA.

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Percentage of net revenue:			
Total costs applicable to revenue	46.0 %	46.8 %	46.4 %
Selling, general and administrative	42.1 %	43.2 %	44.7 %
Total operating expenses	49.0 %	49.0 %	50.8 %
Income from operations	5.1 %	4.3 %	2.8 %
Net income	2.1 %	1.9 %	1.5 %
Adjusted Operating Income	7.8 %	6.6 %	6.7 %
Adjusted EBITDA	12.8 %	11.3 %	11.0 %

Fiscal Year 2020 compared to Fiscal Year 2019

As a result of the COVID-19 pandemic, our retail stores closed to the public beginning on March 19, 2020. We began reopening our stores to the public on April 27, 2020 and on June 8, 2020, we announced the successful completion of the reopening process. Fiscal year 2020 consists of 53 weeks compared to 52 weeks in fiscal year 2019.

Net revenue

The following presents, by segment and by brand, comparable store sales growth, stores open at the end of the period and net revenue for fiscal year 2020 compared to fiscal year 2019.

	Comparable store sales growth[1]		Stores open at end of period		Net revenue[2]			
In thousands, except percentage and store data	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2020		Fiscal Year 2019	
Owned & Host segment								
America's Best	(5.2)%	7.1 %	773	725	$1,131,016	66.1 %	$1,108,760	64.3 %
Eyeglass World	(2.7)%	5.8 %	119	117	179,934	10.5 %	178,841	10.4 %
Military	(15.5)%	1.4 %	54	54	20,428	1.2 %	23,694	1.4 %
Fred Meyer	(21.6)%	(4.4)%	29	29	11,021	0.6 %	13,705	0.8 %
Owned & Host segment total			975	925	$1,342,399	78.4 %	$1,325,000	76.9 %
Legacy segment	(12.3)%	3.1 %	230	226	142,017	8.3 %	160,049	9.3 %
Corporate/Other	—	—	—	—	234,403	13.7 %	245,218	14.2 %
Reconciliations	—	—	—	—	(7,059)	(0.4)%	(5,936)	(0.4)%
Total	(5.6)%	6.5 %	1,205	1,151	$1,711,760	100.0 %	$1,724,331	100.0 %
Adjusted Comparable Store Sales Growth[3]	(6.1)%	6.2 %						

Note: Fiscal year 2020 includes 53 weeks. Fiscal year 2019 includes 52 weeks.

(1) We calculate total comparable store sales based on consolidated net revenue excluding the impact of (i) Corporate/Other segment net revenue, (ii) sales from stores opened less than 13 months, (iii) stores closed in the periods presented, (iv) sales from partial months of operation when stores do not open or close on the first day of the month and (v) if applicable, the impact of a 53rd week in a fiscal year. Brand-level comparable store sales growth is calculated based on cash basis revenues consistent with what the CODM reviews, and consistent with reportable segment revenues presented in Note 16. "Segment Reporting" in our consolidated financial statements included in Part II. Item 8. of this Form 10-K, with the exception of the Legacy segment, which is adjusted as noted in clause (ii) of footnote (3) below.

(2) Percentages reflect line item as a percentage of net revenue, adjusted for rounding.

(3) There are two differences between total comparable store sales growth based on consolidated net revenue and Adjusted Comparable Store Sales Growth: (i) Adjusted Comparable Store Sales Growth includes the effect of deferred and unearned revenue as if such revenues were earned at the point of sale, resulting in a decrease of 0.4% and a decrease of 0.1% from total comparable store sales growth based on consolidated net revenue for fiscal year 2020 and fiscal year 2019, respectively, and (ii) Adjusted Comparable Store Sales Growth includes retail sales to the legacy partner's customers (rather than the revenues recognized consistent with the management & services agreement with the legacy partner), resulting in a decrease of 0.1% and a decrease of 0.2% from total comparable store sales growth based on consolidated net revenue for the fiscal years 2020 and 2019, respectively.

Total net revenue of $1,711.8 million for fiscal year 2020 decreased $12.5 million, or 0.7%, from $1,724.3 million for fiscal year 2019. This decrease was driven by the temporary closure of our stores to the public for a portion of fiscal year 2020 due to the COVID-19 pandemic, and was partially offset by new store sales as well as $32.2 million of net revenue attributable to the 53rd week in fiscal year 2020. Total net revenue was also negatively impacted by changes in unearned revenue.

During fiscal year 2020, we opened 55 new America's Best stores, two new Eyeglass World stores, and transitioned five additional Legacy stores to our management. During fiscal year 2020, we closed seven America's Best stores and one Legacy store as a result of our Legacy partner's decision to cease its overall operations at the location. The total net new locations in fiscal year 2020 for America's Best, Eyeglass Word, and Legacy are 48, two and four, respectively. Overall, store count grew 4.7% from the end of fiscal year 2019 to the end of fiscal year 2020.

Comparable store sales growth and Adjusted Comparable Store Sales Growth for fiscal year 2020 were (5.6)% and (6.1)%, respectively. The decreases in comparable store sales growth and Adjusted Comparable Store Sales Growth were driven by the temporary closure of our stores to the public.

Net product sales comprised 82.9% and 82.7% of total net revenue for fiscal years 2020 and 2019, respectively. Net product sales decreased $7.9 million, or 0.6% during fiscal year 2020 compared to fiscal year 2019, primarily due to the temporary closure of our stores to the public and lower wholesale fulfillment that was partially offset by additional revenue from the 53rd week and increased sales of contact lenses. Net sales of services and plans decreased $4.7 million, or 1.6%, primarily due to the temporary closure of our stores to the public.

Owned & Host segment net revenue. Net revenue increased $17.4 million, or 1.3% as stronger sales in fiscal year 2020, and in the 53rd week, were partially offset by declines due to the temporary closure of our stores to the public.

Legacy segment net revenue. Net revenue declined $18.0 million, or 11.3%, due to the temporary closure of our stores to the public.

Corporate/Other segment net revenue. Net revenue declined $10.8 million, or 4.4%, due to lower wholesale fulfillment, partially offset by growth in our online retail business.

Net revenue reconciliations. Reconciliations for fiscal year 2020 and fiscal year 2019 include increases in deferred revenue of $2.3 million and $5.1 million, respectively and increases in unearned revenue of $4.8 million and $0.8 million, respectively. The increase in deferred revenue for fiscal year 2020 was driven by growth in eye care club membership sales; we believe that the increases in deferred revenue were limited somewhat by the temporary closure of our stores to the public. The increase in unearned revenue compared to the prior period is due to higher sales in the 53rd week of the fiscal year. In 53-week fiscal years we have historically experienced higher volumes in the 53rd week compared to the 52nd week.

Costs applicable to revenue

Costs applicable to revenue of $786.6 million for fiscal year 2020 decreased $19.9 million, or 2.5%, from $806.5 million for fiscal year 2019. As a percentage of net revenue, costs applicable to revenue decreased from 46.8% for fiscal year 2019 to 46.0% for fiscal year 2020. This decrease as a percentage of net revenue was driven by higher eyeglass margin, partially offset by increased contact lens mix and optometrist costs while our stores were temporarily closed to the public.

Costs of products as a percentage of net product sales decreased from 40.3% for fiscal year 2019 to 38.9% for fiscal year 2020, driven by higher eyeglass margin, partially offset by increased contact lens mix.

Owned & Host segment costs of products. Costs of products as a percentage of net product sales decreased from 28.9% for fiscal year 2019 to 28.0% for fiscal year 2020 driven by higher eyeglass margin, partially offset by increased contact lens mix.

Legacy segment costs of products. Costs of products as a percentage of net product sales increased from 46.2% for fiscal year 2019 to 47.8% for fiscal year 2020. The increase was primarily driven by increased contact lens mix and a higher mix of non-managed care customer transactions versus managed care customer transactions. Legacy segment managed care net product revenue is recorded in net product sales while revenue associated with servicing non-managed care customers is recorded in net sales of services and plans. Eyeglass and contact lens product costs for both managed care and non-managed care net revenue are recorded in costs of products. Decreases in managed care mix increase costs of products as a percentage of net product sales and have a corresponding positive impact on costs of services as a percentage of net sales of services and plans in our Legacy segment.

Costs of services and plans as a percentage of net sales of services and plans increased from 77.9% for fiscal year 2019 to 80.0% for fiscal year 2020. The increase was primarily driven by optometrist costs incurred during the temporary closure of our stores to the public.

Owned & Host segment costs of services and plans. Costs of services and plans as a percentage of net sales of services and plans increased from 83.2% for fiscal year 2019 to 86.0% for fiscal year 2020. The increase was driven by optometrist and technician costs incurred during the temporary closure of our stores to the public.

Legacy segment costs of services and plans. Costs of services and plans as a percentage of net sales of services and plans increased from 46.3% for fiscal year 2019 to 46.5% for fiscal year 2020. The increase was primarily driven by optometrist costs incurred during the temporary closure of our stores to the public.

Selling, general and administrative

SG&A of $720.6 million for fiscal year 2020 decreased $23.9 million, or 3.2%, from fiscal year 2019. As a percentage of net revenue, SG&A decreased from 43.2% for fiscal year 2019 to 42.1% for fiscal year 2020. This decrease as a percentage of net revenue was primarily driven by lower advertising investment partially offset by store and corporate payroll and occupancy costs incurred during the temporary closure of our stores to the public. SG&A for fiscal year 2020 includes $8.6 million of incremental costs directly related to adapting the Company's operations during the COVID-19 pandemic; of these costs, $0.6 million were reflected as adjustments for the Company's presentation of non-GAAP measures below.

Owned & Host segment SG&A. SG&A as a percentage of net revenue decreased from 38.4% for fiscal year 2019 to 36.5% for fiscal year 2020. This decrease as a percentage of net revenue was primarily driven by lower advertising investment partially offset by store payroll and occupancy costs incurred during the temporary closure of our stores to the public.

Legacy segment SG&A. SG&A as a percentage of net revenue increased from 35.1% for fiscal year 2019 to 36.5% for fiscal year 2020 primarily driven by store payroll costs incurred during the temporary closure of our stores to the public.

Depreciation and amortization

Depreciation and amortization expense of $91.6 million for fiscal year 2020 increased $4.3 million, or 5.0%, from $87.2 million for fiscal year 2019 primarily driven by new store openings and investments in information technology and doctor equipment. Our property and equipment balance, net, decreased $25.5 million, or 6.9%, during fiscal year 2020, reflective of $76.2 million in purchases of property and equipment, $1.1 million in new finance leases, less $84.2 million in depreciation expense and $18.6 million in impairment and other adjustments.

Asset impairment

We recognized $22.0 million for impairment primarily of tangible long-lived assets and ROU assets associated with our retail stores in fiscal year 2020 compared to $8.9 million recognized in fiscal year 2019. Expenses recognized in fiscal year 2020 were related to impairments of long-lived tangible assets at our retail stores and right of use ("ROU") assets related to our retail stores. The increase in store asset impairment charges during fiscal year 2020 was primarily related to our Owned & Host segment and was driven by lower than projected customer sales volume in certain stores and other entity-specific assumptions. We considered multiple factors including, but not limited to: forecasted scenarios related to store performance and the likelihood that these scenarios would be ultimately realized; the historical performance of the stores before the temporary closure of our stores to the public; the effect of store closures and uncertainty in store revenues over the remaining useful life of the asset group as a result of the COVID-19 pandemic; and the remaining useful lives of the assets. The asset impairment expense for fiscal year 2020 also includes $1.1 million related to a write-off of certain software assets that were deemed to be obsolete. Asset impairment expenses were recognized in Corporate/Other.

Interest expense, net

Interest expense, net, of $48.2 million for fiscal year 2020 increased $14.9 million, or 44.7%, from $33.3 million for fiscal year 2019. The increase was primarily driven by losses related to immediate recognition of changes in fair value of ineffective hedges of $4.0 million and charges related to interest payments and amortization of debt discounts related to the 2025 Notes of $17.3 million that were partially offset by a reduction in our Term Loan and Revolving Credit Facility utilization.

Income tax provision

Our income tax provision for fiscal year 2020 reflected our statutory federal and state rate of 25.5%, combined with a discrete benefit of $8.0 million associated primarily with the exercise of stock options. In comparison, the income tax benefit associated with fiscal year 2019, reflected income tax expense at our statutory federal and state rate of 25.5% offset by a $10.1 million income tax benefit resulting from stock option exercises.

Fiscal Year 2019 compared to Fiscal Year 2018

Net revenue

The following presents, by segment and by brand, comparable store sales growth, stores open at the end of the period and net revenue for fiscal year 2019 compared to fiscal year 2018.

	Comparable store sales growth[1]		Stores open at end of period		Net revenue[2]			
In thousands, except percentage and store data	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2019		Fiscal Year 2018	
Owned & Host segment								
America's Best	7.1 %	7.2 %	725	657	$1,108,760	64.3 %	$ 971,384	63.2 %
Eyeglass World	5.8 %	6.8 %	117	115	178,841	10.4 %	163,932	10.7 %
Military	1.4 %	(5.7)%	54	54	23,694	1.4 %	23,748	1.5 %
Fred Meyer	(4.4)%	(2.2)%	29	29	13,705	0.8 %	14,338	0.9 %
Owned & Host segment total			925	855	$1,325,000	76.9 %	$1,173,402	76.3 %
Legacy segment	3.1 %	0.6 %	226	227	160,049	9.3 %	154,412	10.0 %
Corporate/Other	—	—	—	—	245,218	14.2 %	212,427	13.8 %
Reconciliations	—	—	—	—	(5,936)	(0.4)%	(3,387)	(0.1)%
Total	6.5 %	6.7 %	1,151	1,082	$1,724,331	100.0 %	$1,536,854	100.0 %
Adjusted Comparable Store Sales Growth[3]	6.2 %	5.7 %						

(1) We calculate total comparable store sales based on consolidated net revenue excluding the impact of (i) Corporate/Other segment net revenue, (ii) sales from stores opened less than 13 months, (iii) stores closed in the periods presented, (iv) sales from partial months of operation when stores do not open or close on the first day of the month and (v) if applicable, the impact of a 53rd week in a fiscal year. Brand-level comparable store sales growth is calculated based on cash basis revenues consistent with what the CODM reviews, and consistent with reportable segment revenues presented in Note 16. "Segment Reporting" in our consolidated financial statements included in Part II. Item 8. of this Form 10-K, with the exception of the Legacy segment, which is adjusted as noted in clause (ii) of footnote (3) below.

(2) Percentages reflect line item as a percentage of net revenue.

(3) There are two differences between total comparable store sales growth based on consolidated net revenue and Adjusted Comparable Store Sales Growth: (i) Adjusted Comparable Store Sales Growth includes the effect of deferred and unearned revenue as if such revenues were earned at the point of sale, resulting in a decrease of 0.1% and a decrease of 0.8% from total comparable store sales growth based on consolidated net revenue for fiscal year 2019 and fiscal year 2018, respectively, and (ii) Adjusted Comparable Store Sales Growth includes retail sales to the legacy partner's customers (rather than the revenues recognized consistent with the management & services agreement with the legacy partner), resulting in a decrease of 0.2% from total comparable store sales growth based on consolidated net revenue for each of the fiscal years 2019 and 2018.

Total net revenue of $1,724.3 million for fiscal year 2019 increased $187.4 million, or 12.2%, from $1,536.9 million for fiscal year 2018. This increase was driven approximately 41% by new stores, approximately 45% by comparable store sales growth and approximately 14% by order volume in our AC Lens business within the Corporate/Other segment.

During fiscal year 2019, we opened 75 new stores, including 71 new America's Best stores and four new Eyeglass World stores. Additionally, we closed three America's Best stores and two Eyeglass World stores, for a total of 68 and two net new America's Best and Eyeglass World stores, respectively. We closed one Legacy store during fiscal year 2019 as a result of our Legacy partner's decision to cease its overall operations at the location. Overall, store count grew 6.4% from the end of fiscal year 2018 to the end of fiscal year 2019.

Comparable store sales growth and Adjusted Comparable Store Sales Growth were 6.5% and 6.2%, respectively, for fiscal year 2019. Comparable store sales growth and Adjusted Comparable Store Sales Growth were driven primarily by increases in average ticket and customer transactions. We believe the increases in net revenue were primarily due to execution of our key strategies, including new store openings and maturation, advertising and expansion of our participation in managed care programs as well as our expanded contact lens distribution business with Walmart.

Net product sales comprised 82.7% and 82.6% of total net revenue for fiscal years 2019 and 2018, respectively. Net product sales increased $156.5 million, or 12.3% during fiscal year 2019 compared to fiscal year 2018, driven primarily by eyeglass sales and, to a lesser extent, unit growth in our AC Lens contact lens distribution business and contact lens sales. Net sales of services and plans increased $31.0 million, or 11.6%, driven primarily by eye exam sales in our Owned & Host segment, resulting from expanded participation in managed care programs and our store count growth.

As a result of changes in applicable California law, certain optometrists employed by FirstSight were transferred to a professional corporation that contracts directly with our Legacy segment in the fourth quarter of fiscal year 2018, similar to optometrist transfers that occurred in the third quarter of 2017. This completed the transfer of optometrists from FirstSight to our Legacy segment. This change led to an increase in Legacy segment eye exam revenue and optometrist payroll costs of $3.3 million and $3.6 million, respectively, in fiscal year 2019. A corresponding decrease was recorded in our FirstSight subsidiary within the Corporate/Other segment. Therefore, the change had no impact on consolidated income from operations.

Owned & Host segment net revenue. Net revenue increased $151.6 million, or 12.9%, due to new store openings and comparable store sales growth, which increased sales across our product categories. The growth was predominantly driven by performance in America's Best and Eyeglass World.

Legacy segment net revenue. Net revenue grew $5.6 million, or 3.7%, primarily driven by higher eye exam sales and an increase in average ticket, partially offset by a decline in customer transactions. The increased eye exam sales were the result of changes to our FirstSight operations required by changes in applicable California law discussed above. The FirstSight operations changes resulted in a favorable impact of approximately 180 basis points in comparable store sales growth in this segment.

Corporate/Other segment net revenue. Net revenue increased $32.8 million, or 15.4%, driven by unit growth in our AC Lens contact lens distribution business and our online retail business, which was partially offset by a $3.3 million reduction in sales as a result of the FirstSight operations changes discussed above.

Net revenue reconciliations. Reconciliations for fiscal year 2019 and fiscal year 2018 include increases in deferred revenue of $5.1 million and $3.9 million, respectively and an increase in unearned revenue of $0.8 million and a decrease in unearned revenue of $0.5 million, respectively. The increase in deferred revenue for fiscal year 2019 was driven by growth in eye care club membership sales.

Differences between the changes in unearned revenue for fiscal year 2019 and fiscal year 2018 were primarily the result of calendar influences on sales of prescription eyewear in our stores during approximately the last seven to 10 days of 2019 compared to the preceding years. Unearned revenue was higher at the end of fiscal year 2017 compared to the end of fiscal year 2018 due to sales volume differences caused by shifts in the number of selling days after December 25th. The higher balance of unearned revenue at the beginning of fiscal year 2018 compared to the beginning of fiscal year 2019 resulted in more unearned revenue being recognized during fiscal year 2018 than for fiscal year 2019.

Costs applicable to revenue

Costs applicable to revenue of $806.5 million for fiscal year 2019 increased $92.9 million, or 13.0%, from $713.6 million for fiscal year 2018. As a percentage of net revenue, costs applicable to revenue increased from 46.4% for fiscal year 2018 to 46.8% for fiscal year 2019. This increase as a percentage of net revenue was primarily driven by increased net revenue from AC Lens contact lens distribution business growth. Additionally, higher eyeglass margin and higher mix of exam sales as a result of the Company's growing managed care business were partially offset by higher optometrist costs due to planned increases in store coverage and to a lesser extent wage pressure in certain geographic markets.

Costs of products as a percentage of net product sales was 40.3% for fiscal year 2018 and fiscal year 2019, as costs related to our growing AC Lens business offset higher eyeglass margin. Our AC Lens net revenue grew faster than our store brands revenue during fiscal year 2019, and AC Lens had a higher cost of products as a percentage of net revenue than our other store brands.

Owned & Host segment costs of products. Costs of products as a percentage of net product sales decreased from 29.4% for fiscal year 2018 to 28.9% for fiscal year 2019 driven by higher eyeglass margin.

Legacy segment costs of products. Costs of products as a percentage of net product sales increased from 45.2% for fiscal year 2018 to 46.2% for fiscal year 2019. The increase was primarily driven by a higher mix of non-managed care customer transactions. Decreases in managed care mix increase costs of products as a percentage of net product sales and have a corresponding positive impact on costs of services as a percentage of net sales of services and plans in our Legacy segment. Legacy segment managed care net product revenue is recorded in net product sales while revenue associated with servicing non-managed care customers is recorded in net sales of services and plans. Eyeglass and contact lens product costs for both managed care and non-managed care net revenue are recorded in costs of products.

Costs of services and plans as a percentage of net sales of services and plans increased from 75.6% for fiscal year 2018 to 77.9% for fiscal year 2019. The increase was primarily driven by higher optometrist costs as described above, partially offset by increased eye exam sales as a result of increased managed care transactions.

Owned & Host segment costs of services and plans. Costs of services and plans as a percentage of net sales of services and plans increased from 82.2% for fiscal year 2018 to 83.2% for fiscal year 2019. The increase was driven by higher optometrist costs as described above, partially offset by increased eye exam sales as a result of increased managed care transactions. Eye exams purchased by managed care customers are excluded from our signature two-pair offer at our America's Best brand, and are therefore recorded as services revenue. See Note 1. "Business and Significant Accounting Policies" in Part II. Item 8. of this Form 10-K for additional information regarding our revenue recognition accounting policy.

Legacy segment costs of services and plans. Costs of services and plans as a percentage of net sales of services and plans increased from 40.1% for fiscal year 2018 to 46.3% for fiscal year 2019. The increase was primarily driven by increased optometrist costs, partially offset by increased eye exam sales. The higher optometrist costs and increased eye exam sales were both primarily the result of the FirstSight operations changes discussed above.

Selling, general and administrative

SG&A of $744.5 million for fiscal year 2019 increased $57.0 million, or 8.3%, from fiscal year 2018. As a percentage of net revenue, SG&A decreased from 44.7% for fiscal year 2018 to 43.2% for fiscal year 2019. The decrease in SG&A as a percentage of net revenue was primarily due to increased net revenue from our AC Lens contact lens distribution business, store payroll leverage and lower stock-based compensation expense.

Owned & Host segment SG&A. SG&A as a percentage of net revenue decreased from 39.0% for fiscal year 2018 to 38.4% for fiscal year 2019, driven primarily by store payroll leverage.

Legacy segment SG&A. SG&A as a percentage of net revenue increased from 35.0% for fiscal year 2018 to 35.1% for fiscal year 2019.

Depreciation and amortization

Depreciation and amortization expense of $87.2 million for fiscal year 2019 increased $12.9 million, or 17.4%, from $74.3 million for fiscal year 2018 primarily driven by new store openings, as well as investments in optical laboratories, distribution centers and information technology infrastructure, including omni-channel platform related investments. Our property and equipment balance, net, increased $11.7 million, or 3.3%, during fiscal year 2019, reflective of $96.3 million in purchases of property and equipment, $9.7 million in new finance leases, less $79.6 million in depreciation expense and $14.7 million in impairment and other adjustments.

Asset impairment

We recognized asset impairment expenses of $8.9 million in fiscal year 2019 compared to $17.6 million recognized in fiscal year 2018. Expenses recognized in fiscal year 2019 were related to impairments of long-lived tangible assets at our retail stores and right of use ("ROU") assets related to our retail stores. During fiscal year 2018, we recognized $11.4 million and $3.7 million of goodwill impairment at our Fred Meyer and Military brands, respectively, which did not recur in the current year, as well as $2.5 million for impairment of tangible long-lived assets at our retail stores. The increase in store asset impairment charges during fiscal year 2019 was primarily related to our Owned & Host segment. Long-lived and ROU asset impairments were driven by lower than projected customer sales volume in certain stores, and were determined using entity-specific assumptions related to our anticipated use of store assets. Asset impairment expenses were recognized in Corporate/Other. See "Critical Accounting Policies and Estimates" below for details regarding specific testing performed on various long-lived assets.

Interest expense, net

Interest expense, net, of $33.3 million for fiscal year 2019 decreased $4.0 million, or 10.7%, from $37.3 million for fiscal year 2018. Interest expense, net decreased $5.3 million primarily as a result of term loan refinancings and credit rating upgrades in 2019 and 2018, partially offset by $1.3 million in additional interest expense relating to finance lease obligations during the fiscal year 2019.

Income tax provision

Our income tax expense for fiscal year 2019 reflected income tax expense at our statutory federal and state rate of 25.5%, offset by a discrete benefit of $10.1 million associated primarily with the exercise of stock options. During fiscal year 2018, our expected combined statutory federal and state rate was reduced by a $25.5 million income tax benefit resulting from stock option exercises.

Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Operating Income, Adjusted Operating Margin and Adjusted Diluted EPS

We define EBITDA as net income, plus interest expense, income tax provision (benefit) and depreciation and amortization. We define Adjusted EBITDA as net income, plus interest expense, income tax provision (benefit) and depreciation and amortization, further adjusted to exclude stock compensation expense, debt issuance costs, loss on the extinguishment of debt, asset impairment, litigation settlement, secondary offering expenses, management realignment expenses, long-term incentive plan expenses, and other expenses. We define Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of net revenue. We define Adjusted Operating Income as net income, plus interest expense and income tax provision (benefit), further adjusted to exclude stock compensation expense, debt issuance costs, loss on extinguishment of debt, asset impairment, litigation settlement, secondary offering expenses, management realignment expenses, long-term incentive plan expenses, amortization of acquisition intangibles and other expenses. We define Operating Margin as Adjusted Operating Income as a percentage of net revenue. We define Adjusted Diluted EPS as diluted earnings per share, adjusted for the per share impact of stock compensation expense, debt issuance costs, loss on extinguishment of debt, asset impairment, litigation settlement, secondary offering expenses, management realignment expenses, long-term incentive plan expenses, amortization of acquisition intangibles, amortization of debt discounts and deferred financing costs of our Term Loan borrowings, amortization of the conversion feature and deferred financing costs of our 2025 Notes when not required under U.S. GAAP to be added back for diluted earnings per share, losses (gains) on change in fair value of derivatives, other expenses, and tax benefit of stock option exercises, less the tax effect of these adjustments.

In 2020, we introduced Adjusted Operating Income and Adjusted Operating Margin as measures of performance we planned to use in addition to Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Diluted EPS. We believe Adjusted Operating Income and Adjusted Operating Margin enhance an understanding of our performance by highlighting the results from ongoing operations and the profitability of our business. We continue to evaluate our use of the Company Non-GAAP measures in the context of the development of our business, and may introduce or discontinue certain measures in the future as we deem appropriate.

Further, consistent with our presentation of Adjusted Operating Income, we no longer exclude new store pre-opening expenses and non-cash rent from our presentation of Adjusted EBITDA and Adjusted Diluted EPS. New store pre-opening expenses totaled $2.6 million, $3.3 million and $2.2 million for the fiscal years 2020, 2019 and 2018, respectively; and non-cash rent totaled $2.6 million, $3.2 million and $2.8 million for fiscal years 2020, 2019 and 2018, respectively. The presentation of Adjusted EBITDA and Adjusted Diluted EPS for the fiscal year end 2019 has been recast to reflect these changes. See our Form 8-K filed with the SEC on February 26, 2020, which is incorporated herein by reference, for more information.

EBITDA and the Company Non-GAAP Measures can vary substantially in size from one period to the next, and certain types of expenses are non-recurring in nature and consequently may not have been incurred in any of the periods presented below. EBITDA and the Company Non-GAAP Measures have been presented as supplemental measures of financial performance that are not required by, or presented in accordance with U.S. GAAP, because we believe they assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. Management believes EBITDA, and the Company Non-GAAP Measures are useful to investors in highlighting trends in our operating performance, while other measures can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which we operate and capital investments. We also use EBITDA and the Company Non-GAAP Measures to supplement U.S. GAAP measures of performance in the evaluation of the effectiveness of our business strategies, to make budgeting decisions, to establish discretionary annual incentive compensation and to compare our performance against that of other peer companies using similar measures. Management supplements U.S. GAAP results with Non-GAAP financial measures to provide a more complete understanding of the factors and trends affecting the business than U.S. GAAP results alone.

EBITDA and the Company Non-GAAP Measures are not recognized terms under U.S. GAAP and should not be considered as an alternative to net income or income from operations as a measure of financial performance or cash flows provided by operating activities as a measure of liquidity, or any other performance measure derived in accordance with U.S. GAAP. Additionally, these measures are not intended to be a measure of free cash flow available for management's discretionary use as they do not consider certain cash requirements such as interest payments, tax payments and debt service requirements. In evaluating EBITDA and the Company Non-GAAP Measures we may incur expenses in the future that are the same as or similar to some of the adjustments in this presentation. Our presentation of EBITDA and the Company Non-GAAP Measures should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by primarily relying on our U.S. GAAP results in addition to using EBITDA and the Company Non-GAAP Measures.

The presentations of these measures have limitations as analytical tools and should not be considered in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- they do not reflect costs or cash outlays for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA, Adjusted EBITDA and Adjusted Operating Income do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- EBITDA, Adjusted EBITDA and Adjusted Operating Income do not reflect period to period changes in taxes, income tax expense or the cash necessary to pay income taxes;
- they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, EBITDA and the Company Non-GAAP Measures should not be considered as measures of discretionary cash available to invest in business growth or to reduce indebtedness.

The following table reconciles our Adjusted Operating Income, Adjusted Operating Margin, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin to net income; and Adjusted Diluted EPS for the periods presented:

In thousands	Fiscal Year 2020		Fiscal Year 2019		Fiscal Year 2018	
Net income	$ 36,277	2.1 %	$ 32,798	1.9 %	$ 23,653	1.5 %
Interest expense	48,171	2.8 %	33,300	1.9 %	37,283	2.4 %
Income tax provision (benefit)	2,403	0.1 %	(2,309)	(0.1)%	(18,785)	(1.2)%
Stock compensation expense [(a)]	10,740	0.6 %	12,670	0.7 %	20,939	1.4 %
Loss on extinguishment of debt [(b)]	—	— %	9,786	0.6 %	—	— %
Asset impairment [(c)]	22,004	1.3 %	8,894	0.5 %	17,630	1.1 %
Litigation settlement [(d)]	4,395	0.3 %	—	— %	—	— %
Secondary offering expenses [(e)]	—	— %	401	— %	2,451	0.2 %
Management realignment expenses [(f)]	—	— %	2,155	0.1 %	—	— %
Long-term incentive plan [(g)]	—	— %	2,830	0.2 %	7,040	0.5 %
Amortization of acquisition intangibles [(h)]	7,426	0.4 %	7,405	0.4 %	7,405	0.5 %
Other [(k)]	2,732	0.2 %	6,370	0.4 %	4,785	0.3 %
Adjusted Operating Income / Adjusted Operating Margin	$134,148	7.8 %	$114,300	6.6 %	$102,401	6.7 %

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.
Percentages reflect line item as a percentage of net revenue, adjusted for rounding.
Some of the percentage totals in the table above do not foot due to rounding differences.

In thousands	Fiscal Year 2020		Fiscal Year 2019		Fiscal Year 2018	
Net income	$ 36,277	2.1 %	$ 32,798	1.9 %	$ 23,653	1.5 %
Interest expense	48,171	2.8 %	33,300	1.9 %	37,283	2.4 %
Income tax provision (benefit)	2,403	0.1 %	(2,309)	(0.1)%	(18,785)	(1.2)%
Depreciation and amortization	91,585	5.4 %	87,244	5.1 %	74,339	4.8 %
EBITDA	178,436	10.4 %	151,033	8.8 %	116,490	7.6 %
Stock compensation expense [(a)]	10,740	0.6 %	12,670	0.7 %	20,939	1.4 %
Loss on extinguishment of debt [(b)]	—	— %	9,786	0.6 %	—	— %
Asset impairment [(c)]	22,004	1.3 %	8,894	0.5 %	17,630	1.1 %
Litigation settlement [(d)]	4,395	0.3 %	—	— %	—	— %
Secondary offering expenses [(e)]	—	— %	401	— %	2,451	0.2 %
Management realignment expenses [(f)]	—	— %	2,155	0.1 %	—	— %
Long-term incentive plan [(g)]	—	— %	2,830	0.2 %	7,040	0.5 %
Other [(k)]	2,732	0.2 %	6,370	0.4 %	4,785	0.3 %
Adjusted EBITDA / Adjusted EBITDA Margin	$218,307	12.8 %	$194,139	11.3 %	$169,335	11.0 %

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.
Percentages reflect line item as a percentage of net revenue, adjusted for rounding.
Some of the percentage totals in the table above do not foot due to rounding differences.

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Diluted EPS	$ 0.44	$ 0.40	$ 0.30
Stock compensation expense [(a)]	0.13	0.16	0.26
Loss on extinguishment of debt [(b)]	—	0.12	—
Asset impairment [(c)]	0.27	0.11	0.22
Litigation settlement [(d)]	0.05	—	—
Secondary offering expenses [(e)]	—	—	0.03
Management realignment expenses [(f)]	—	0.03	—
Long-term incentive plan expense [(g)]	—	0.03	0.09
Amortization of acquisition intangibles [(h)]	0.09	0.09	0.09
Amortization of debt discounts and deferred financing costs [(i)]	0.14	0.02	0.02
Losses (gains) on change in fair value of derivatives [(j)]	0.05	—	—
Other [(k)]	0.03	0.08	0.06
Tax benefit of stock option exercises[(l)]	(0.10)	(0.12)	(0.32)
Tax effect of total adjustments [(m)]	(0.19)	(0.16)	(0.15)
Adjusted Diluted EPS	$ 0.91	$ 0.75	$ 0.61
Weighted average diluted shares outstanding	82,793	81,683	79,041

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.
Some of the totals in the table above do not foot due to rounding differences.

(a) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on the timing of awards and performance vesting conditions.
(b) For fiscal year 2019, reflects write-off of deferred financing fees related to the extinguishment of debt.
(c) Reflects write-off of property, equipment and lease related assets on closed or underperforming stores for fiscal years 2019 and 2020; non-cash charges related to impairment of long-lived assets, primarily goodwill in our Military and Fred Meyer brands for fiscal year 2018.
(d) Expenses associated with settlement of litigation. See Note 13. "Commitments and Contingencies" in our consolidated financial statements included in Part II. Item 8. of this Form 10-K for further details.
(e) Expenses related to our secondary public offerings during fiscal years 2018 and 2019.
(f) Expenses related to a non-recurring management realignment described on Form 8-K filed with the SEC on January 10, 2019.

(g) Expenses pursuant to a long-term incentive plan for non-executive associates who were not participants in the management equity plan for fiscal year 2019. This plan was effective in 2014 following the acquisition of the Company by affiliates of KKR & Co. Inc. (the "KKR Acquisition"). During fiscal year 2018, a $4.6 million cash payout was triggered as a result of the second secondary offering of common stock by KKR and other selling shareholders. The remaining $2.4 million relates to the third secondary offering and was accrued but not paid as of fiscal year end 2018.

(h) Amortization of the increase in carrying values of finite-lived intangible assets resulting from the application of purchase accounting to the KKR Acquisition.

(i) Amortization of debt discounts is associated with the amortization of the conversion feature related to the 2025 Notes and amortization of deferred financing costs related to the 2025 Notes, Term Loan and Revolving Credit Facility borrowings. Amortization of debt discount and deferred financing costs in aggregate total $11.9 million, $1.3 million and $1.9 million for the fiscal years 2020, 2019 and 2018, respectively.

(j) Reflects losses (gains) recognized in interest expense on change in fair value of de-designated hedges of $4.0 million for fiscal year end 2020.

(k) Other adjustments include amounts that management believes are not representative of our operating performance (amounts in brackets represent reductions in Adjusted Operating Income, Adjusted Diluted EPS and Adjusted EBITDA) including our share of losses on equity method investments of $1.8 million and $1.3 million for the fiscal years 2019 and 2018, respectively; the amortization impact adjustments related to the KKR Acquisition, (e.g., fair value of leasehold interests) of $0.4 million, $0.5 million and $0.4 million for the fiscal years 2020, 2019 and 2018, respectively; differences between the timing of expense versus cash payments related to contributions to charitable organizations of $(1.0) million for the fiscal year 2018; costs of severance and relocation of $1.3 million, $2.3 million and $1.0 million, for the fiscal years 2020, 2019 and 2018, respectively; excess payroll taxes related to stock option exercises of $0.7 million, $0.8 million and $1.8 million for fiscal years 2020, 2019 and 2018, respectively; incremental costs directly related to adapting the Company's operations during the COVID-19 pandemic of $0.6 million for the fiscal year 2020; and other expenses and adjustments totaling $(0.3) million, $1.0 million and $1.3 million for fiscal years 2020, 2019 and 2018, respectively.

(l) Tax benefit associated with accounting guidance requiring excess tax benefits related to stock option exercises to be recorded in earnings as discrete items in the reporting period in which they occur.

(m) Represents the income tax effect of the total adjustments at our combined statutory federal and state income tax rates.

Liquidity and Capital Resources

As described in more detail below, on May 5, 2020, we entered into the Credit Agreement Amendment with the lenders under our credit facility in order to prevent the effects of the COVID-19 pandemic, including the temporary closure of our stores, from creating uncertainty relative to our ability to comply with certain financial covenants and allow the Company to focus on prudent management of the business over the quarters ahead. In addition, on May 12, 2020, we completed the issuance of the 2025 Notes and we used the net proceeds of this offering to repay the full amount outstanding under our Revolving Credit Facility and part of our outstanding borrowings under our Term Loan. Our primary cash needs are for inventory, payroll, store rent, advertising, capital expenditures associated with new stores and updating existing stores, as well as information technology and infrastructure, including our corporate office, distribution centers and laboratories. When appropriate, the Company may utilize excess liquidity towards debt service requirements, including voluntary debt prepayments, or required interest and principal payments, if any, as well as repurchases of common stock, based on excess cash flows. We continue to prioritize cash conservation and prudent use of cash, while safely conducting normal operations. The most significant components of our operating assets and liabilities are inventories, accounts receivable, prepaid expenses and other assets, accounts payable, deferred and unearned revenue and other payables and accrued expenses. While we have historically exercised prudence in our use of cash, the COVID-19 pandemic has required us to closely monitor various items related to cash flow including, but not limited to, cash receipts, cash disbursements, payment terms and alternative sources of funding. We continue to be focused on these items in addition to other key measures we use to determine how our consolidated business and operating segments are performing. We believe that cash on hand, cash expected to be generated from operations and the availability of borrowings under the Revolving Credit Facility will be sufficient to fund our working capital requirements, liquidity obligations, anticipated capital expenditures and payments due under our existing debt for at least the next 12 months. Depending on our liquidity levels, conditions in the capital markets and other factors, we may from time to time consider the refinancing or issuance of debt, issuance of equity or other securities, the proceeds of which could provide additional liquidity for our operations, as well as modifications to our Term Loan where possible. However, our ability to maintain sufficient liquidity may be affected by numerous factors, many of which are outside of our control.

As of January 2, 2021, we have outstanding a total of $402.5 million aggregate principal of 2025 Notes. The 2025 Notes are senior unsecured obligations, and interest on the 2025 Notes is paid semi-annually. The Company can choose to settle upon conversion in cash, shares or a combination, at a conversion rate of 32.0783 shares of common stock per $1,000 principal amount. Based on the initial conversion rate, the 2025 Notes are convertible into 12.9 million shares of our common stock and we reserved for the possible issuance of 16.5 million shares, which is the maximum amount that could be issued upon conversion. As of January 2, 2021, the "if-converted value" exceeded the principal amount of the 2025 Notes by $182.3 million. See Note 15. "Earnings Per Share" for the treatment of earnings per share in relation to the 2025 Notes.

As of fiscal year end 2020, we had $373.9 million in cash and cash equivalents and $293.6 million of availability under our Revolving Credit Facility, which includes $6.4 million in outstanding letters of credit.

We purchased $76.8 million in capital items during fiscal year 2020. Approximately 80% of our capital spend is related to our expected growth (i.e., new stores, optometric equipment, additional capacity in our optical laboratories and distribution centers, and our IT infrastructure, including omni-channel platform related investments). Our working capital requirements for inventory will increase as we continue to open additional stores. We primarily fund our working capital needs using cash provided by operations.

The following table summarizes cash flows provided by (used for) operating activities, investing activities and financing activities for the periods indicated:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Cash flows provided by (used for):			
Operating activities	$ 234,981	$ 165,081	$ 106,628
Investing activities	(76,410)	(100,631)	(104,221)
Financing activities	176,281	(42,141)	10,397
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 334,852	$ 22,309	$ 12,804

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.

Net Cash Provided by Operating Activities

Cash flows provided by operating activities increased by $69.9 million to $235.0 million, or 42.3%, during fiscal year 2020 from $165.1 million during fiscal year 2019. The increase in net cash provided by operating activities consisted of an increase in net income of $3.5 million, and an increase in non-cash expense items of $12.0 million including asset impairment charges of $13.1 million, amortization of debt discount and deferred financing costs of $10.6 million, depreciation and amortization of $4.3 million, deferred income tax expense of $2.1 million and losses recognized for the changes in fair value of derivatives of $4.0 million partially offset by a decrease in loss on extinguishment of debt of $9.8 million, decrease of stock compensation expense of $1.9 million, and decrease of $10.5 million in other non-cash expenses.

Changes in net working capital and other assets and liabilities contributed an additional $54.5 million in cash compared to fiscal year 2019. Increases in other liabilities contributed $24.3 million in year-over-year cash primarily due to an increase in deferral of employer payroll taxes of $12.8 million as a result of the CARES Act, a $3.9 million increase in year-over-year cash due to timing of unearned revenue, increases in compensation related accruals of $2.2 million due primarily to timing, increases of $3.1 million due to lease concessions and deferrals and other increases in miscellaneous accruals due to timing, partially offset by decreases in accrued advertising and payments of litigation settlements during the year. Increases in accounts payable contributed $26.9 million in year-over-year cash, primarily as a result of increased purchases and replenishing activity due to both store growth and increased sales in December of 2020 as compared to the same period of 2019 and increases in advertising. Decreases in inventory contributed $27.3 million in year-over-year cash, primarily due to no forward buys occurring after the first quarter of 2020.

Offsetting these items were increases in other assets which used $14.5 million in year-over-year cash, consisting of $8.9 million of cloud hosted software asset development costs, $6.2 million in rent-related items and other prepaid balances. Additionally, accounts receivable balances used $6.8 million in year-over-year cash, primarily reflective of year-over-year increases in outstanding credit card receivables due to higher sales in the last week of 2020 as compared to the same period of 2019 and timing of credit card processing. Changes in deferred revenue contributed $2.8 million less cash when compared to 2019 driven by decreased sales of our eye care club membership and product protection plans.

Cash flows provided by operating activities increased by $58.5 million to $165.1 million, or 54.8%, during the fiscal year 2019 from $106.6 million during fiscal year 2018. The increase in net cash provided by operating activities consisted of an increase in net income of $9.1 million and an increase in non-cash expense items of $26.4 million including loss on extinguishment of debt of $9.8 million, deferred income tax expense of $17.0 million, depreciation and amortization of $12.3 million, and $4.3 million in other non-cash expenses, partially offset by a decrease of asset impairment charges of $8.7 million and a decrease of stock compensation expense of $8.3 million.

In addition, decreases in net working capital and other assets and liabilities contributed an additional $22.9 million in cash compared to fiscal year 2018. Decreases in other assets contributed $17.1 million in year-over-year cash, primarily due to decreases in prepaid advertising and rent-related items. The year-over-year cash contribution of $12.9 million from inventories in fiscal year 2019 was primarily a result of decreased year-over-year inventory expenditures. The Company commenced a forward inventory purchase program in fiscal year 2018 and continued this program to a lesser extent in fiscal year 2019. Additionally, accounts receivable balances contributed $7.7 million in year-over-year cash, reflective of year-over-year decreases in outstanding credit card receivables, partially offset by increases in our managed care receivables as a result of increased participation in managed care programs which historically have a longer collection cycle than trade and credit card receivables. Increases in deferred revenue contributed an additional $1.3 million in year over-year-cash.

Offsetting these items were decreases in accounts payable during fiscal year 2019 which used $10.8 million in year-over-year cash, primarily due to timing of payments. In addition, decreases in other liabilities used $5.2 million in year-over-year cash, primarily related to decreases in accrued liabilities related to capital expenditures after the completion of our Texas lab partially offset by increases in payroll related accruals due to timing.

Net Cash Used for Investing Activities

Net cash used for investing activities decreased by $24.2 million, to $76.4 million, during fiscal year 2020 from $100.6 million during fiscal year 2019. The decrease was primarily due to cash conservation measures during the temporary store closure period, which resulted in reduced store openings and lower IT investment for the full year.

Net cash used for investing activities decreased by $3.6 million, to $100.6 million, during fiscal year 2019 from $104.2 million during fiscal year 2018. The decrease was primarily due to capital investments made in fiscal year 2018 for our Texas lab not recurring in fiscal year 2019 as well as timing of new store capital investments.

Net Cash Provided by (Used for) Financing Activities

Net cash provided by (used for) financing activities increased $218.4 million, from $42.1 million use of cash to $176.3 million provision of cash during fiscal year 2020. The increase in cash provided by financing activities was primarily due to lower repayments on long-term debt of $222.6 million and decreased purchases of treasury stock of $25 million, offset by decreases in cash provided by borrowings on long-term debt of $17.8 million and an increase in cash used for payments of debt issuance costs of $9.5 million.

Net cash provided by (used for) financing activities decreased $52.5 million, from $10.4 million provision of cash to $42.1 million use of cash during fiscal year 2019. The change in cash provided by (used for) financing activities was due to the repurchase of shares of common stock of the Company of $25.6 million during fiscal year 2019, a $25.0 million voluntary prepayment of outstanding principal under the Term Loan of its Credit Agreement and lower proceeds from the issuance of common stock as compared to fiscal year 2018.

Fiscal year 2018 included material debt and equity transactions. In fiscal year 2018, we refinanced our first lien credit agreement, resulting in debt issuance costs of $1.4 million and $200.0 million in proceeds which were used to make $200.0 million in principal payments. Principal payments of $4.3 million, purchases of treasury stock of $1.9 million and payments on capital lease obligations of $1.8 million were offset by $19.8 million in proceeds from exercises of stock options.

Long-term Debt

The following table sets forth the amounts owed under our Term Loan and the 2025 Notes and the interest rate on such outstanding amounts, and the amount available for additional borrowing thereunder, as of the end of fiscal year 2020:

In thousands, except percentage data	Interest Rate [2]	Amount Outstanding	Amount Available for Additional Borrowing
2025 Notes, due May 15, 2025	Fixed	$ 402,500	$ —
Term Loan, due July 18, 2024	Variable	317,375	—
Revolving Credit Facility, due July 18, 2024[1]	Variable	—	293,600
Total		$ 719,875	$ 293,600

(1) At January 2, 2021, the amount available under our Revolving Credit Facility reflected a reduction of $6.4 million of letters of credit outstanding.

(2) The interest rate on the Term Loan and Revolving Credit Facility pursuant to the Credit Agreement is at an Applicable Margin of 1.75% for LIBOR Loans with LIBOR to not be lower than 1.00% in any period, and an Applicable Margin of 0.75% for the new term loans that are ABR Loans, as of fiscal year end 2020. The 2025 Notes will pay interest semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2020, at an annual rate of 2.50%.

Term Loan and Revolving Credit Facility

As of fiscal year end 2020, we had $317.4 million of Term Loan outstanding under our credit agreement. As of fiscal year end 2020, we also had $293.6 million of availability under our $300.0 million Revolving Credit Facility, which includes $6.4 million in outstanding letters of credit.

The interest rate payable on the Term Loan is based on either LIBOR or an alternative borrowing rate plus an additional margin that varies dependent on NVI's consolidated first lien leverage ratio. The Term Loan will amortize in quarterly installments equal to 2.50% per annum in the first three years of the loan and 5.00% per annum thereafter. As a result of the $75.0 million pay down of the Term Loan and the $25.0 million principal prepayment in 2019; we have no additional mandatory principal payments on the Term Loan until maturity on July 18, 2024.

In addition, under our Credit Agreement we must maintain certain covenants based on our financial results. The Credit Agreement also contains covenants that, among other things, limit NVI's ability to incur additional debt, create liens against assets, make acquisitions, pay dividends or distributions on its stock, merge or consolidate with another entity and transfer or sell assets. We were in compliance with all covenants related to the Credit Agreement as of January 2, 2021.

Credit Agreement Amendment

On May 5, 2020, we entered into the Credit Agreement Amendment with the lenders under our credit facility in order to amend certain provisions of the Credit Agreement. As set forth in greater detail below, the principal purpose of the Credit Agreement Amendment was to suspend certain financial maintenance covenants contained in the Credit Agreement until testing at the end of the second fiscal quarter of 2021. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Credit Agreement and Amendment, as applicable.

Pursuant to the Credit Agreement Amendment, the financial covenants relating to maintenance of a maximum Consolidated Total Debt to Consolidated EBITDA Ratio and a minimum Consolidated Interest Coverage Ratio are suspended until testing at the end of the second fiscal quarter of 2021. From and after such time, such covenants will be reinstated on a modified basis so that, subject to certain exceptions and limitations as described in the Credit Agreement Amendment, (i) with respect to the second and third fiscal quarters of 2021, the Consolidated Total Debt to Consolidated EBITDA Ratio shall not exceed 4.50 to 1.00 and, with respect to the fourth fiscal quarter of fiscal 2021 and thereafter, the Consolidated Total Debt to Consolidated EBITDA Ratio shall not exceed 4.00 to 1.00, in each case with NVI being able to elect to annualize certain quarterly periods so that quarterly performance from fiscal 2020 is excluded and (ii) with respect to the second fiscal quarter of 2021 and thereafter, the Consolidated Interest Coverage Ratio shall not be less than 3.00 to 1.00. In lieu of such financial covenants, pursuant to the Credit Agreement Amendment NVI has agreed during the suspension period, (i) not to have Consolidated EBITDA for any six fiscal quarter period be less than $0, with the second fiscal quarter of 2020 permitted to be excluded in certain circumstances, and (ii) to have a minimum level of liquidity (defined as cash and cash equivalents plus the unused portion of the Revolving Credit Facility) equal to the lesser of (x) $100,000,000 and (y) $40,000,000 plus the amount of any net proceeds from capital markets financings during such period in excess of $75,000,000.

In addition, the Credit Agreement was amended pursuant to the Credit Agreement Amendment to, among other things, (i) limit the flexibility of NVI and Holdings with respect to certain transactions during the covenant suspension period, including the ability to declare or pay dividends, incur debt and make investments and dispositions, (ii) require prepayments of the term loans under certain circumstances during the covenant suspension period from the net proceeds from debt or equity capital markets transactions by the Company (with the amount of the term loans to be paid down equal to $75 million from the first $400 million of capital raised and 50% of any proceeds above such amount) and (iii) restrict NVI's ability to borrow under the Revolving Credit Facility if unrestricted cash and cash equivalents exceeds $50 million (and, in the event of any such excess, to require a mandatory prepayment of such amount). Also pursuant to the Credit Agreement Amendment, the margins upon which interest is calculated for the term loans were amended to a range of 1.75% to 2.75% (for LIBOR Loans) and 0.75% to 1.75% (for ABR Loans), in each case based on NVI's Consolidated First Lien Secured Debt to Consolidated EBITDA Ratio at such time, with such margins subject to an increase of 50 basis points in the event that either (i) the Company has not raised at least $135 million in additional proceeds from certain capital markets transactions within 30 days of the date of the Credit Agreement Amendment or (ii) Consolidated EBITDA for the most recently ended four quarters is less than $0.

2025 Notes

In May 2020, we completed the issuance of the 2025 Notes. The 2025 Notes were sold only to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The 2025 Notes will pay interest semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2020, at an annual rate of 2.50% and will be convertible into cash, shares of common stock or a combination of cash and shares of common stock, at our election, based on the applicable conversion rate at such time. The 2025 Notes have a maturity date of May 15, 2025. Refer to Note 4. "Long-term Debt" for more information.

We received proceeds from the offering of $390.9 million, net of $11.6 million in underwriter fees and other issuance costs.

Capital Expenditures

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
New stores (owned brands)	$ 27,865	$ 37,734	$ 47,389
Laboratories, distribution centers and optometric equipment	19,882	19,690	23,829
Information technology and other	29,076	43,901	33,275
Total	$ 76,823	$ 101,325	$ 104,493

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.

We expect capital expenditures in fiscal year 2021 to be approximately between $100 million and $105 million and to be used primarily in supporting the Company's growth through investments in new stores and information technology improvements. We expect to fund capital expenditures with cash flows from operations, but may also use existing cash balances or funds available through our Revolving Credit Facility.

Contractual Obligations and Commercial Commitments

As of fiscal year end 2020, our lease commitments and contractual obligations are as follows:

In thousands	2021	2022	2023	2024	2025	Thereafter	Total
Term Loan[(a)]	$ —	$ —	$ —	$ 317,375	$ —	$ —	$ 317,375
2025 Notes[(b)]	—	—	—	—	402,500	—	402,500
Revolving Credit Facility[(c)]	—	—	—	—	—	—	—
Estimated interest[(d)]	20,377	20,377	20,377	15,793	3,773	—	80,697
Noncancelable operating leases[(e)]	73,867	77,874	70,103	60,998	51,974	116,272	451,088
Finance leases[(f)]	6,676	7,215	6,241	4,673	4,451	12,008	41,264
Other commitments[(g)]	41,827	13,935	5,934	454	404	317	62,871
Total	$ 142,747	$ 119,401	$ 102,655	$ 399,293	$ 463,102	$ 128,597	$ 1,355,795

(a) As a result of $75.0 million prepayment of debt principal during 2020, the Company does not owe principal payments on its Term Loan until the July 18, 2024 when the outstanding principal balance of $317.4 million is due.

(b) The principal payment on the 2025 Notes are due on May 15, 2025.

(c) No principal payments are required on the Revolving Credit Facility as we have $293.6 million of availability under our $300.0 million Revolving Credit Facility, which includes $6.4 million in outstanding letters of credit.

(d) We have estimated our interest payments on our Term Loan based on our current interest elections described in "Liquidity and Capital Resources." Amounts and timing may be different from our estimated interest payments due to potential voluntary prepayments, borrowings and interest rate fluctuations. Expected obligations on our hedging instruments are excluded from estimated interest presented in the table above.

(e) We lease our retail stores, optometric examination offices, distribution centers, office space and all of our optical laboratories with the exception of our St. Cloud, Minnesota lab, which we own. The vast majority of our leases are classified as operating leases under current accounting guidance. Although rent expense on operating leases is recorded in SG&A on a straight-line basis over the term of the lease, contractual obligations above represent required cash payments. Our lease arrangements require us to pay executory costs such as insurance, real estate taxes and common area maintenance and some of our leases are based on a percentage of sales. These expenses are generally variable, not included above, and were approximately $28.2 million during fiscal year ended 2020.

(f) For leases classified as finance leases, the finance lease asset is recorded as property and equipment and a corresponding amount is recorded as a long-term debt obligation in the consolidated balance sheets to the lesser of the net present value of minimum lease payments to be made over the lease term or the fair value of the property for leases in existence as of fiscal year end 2019 and at the net present value of the minimum lease payments to be made over the lease term for new finance leases entered into subsequent to fiscal year end 2019. We allocate each lease payment between a reduction of the lease obligation and interest expense using the effective interest method. Finance lease amounts above represent required contractual cash payments in the periods presented.

(g) Other commitments include minimum purchase commitments with certain trade vendors and contractual agreements to purchase goods or services in the ordinary course of business.

Off-balance Sheet Arrangements

We follow U.S. GAAP in making the determination as to whether or not to record an asset or liability related to our arrangements with third parties. Consistent with current accounting guidance, we do not record an asset or liability associated with long-term purchase, marketing and promotional commitments, or commitments to philanthropic endeavors. We have disclosed the amount of future commitments associated with these items in our consolidated financial statements. We are not a party to any other off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions about future events that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Management evaluates the accounting policies, estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Management has evaluated the accounting policies used in the preparation of the Company's consolidated financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. More information on all of our significant accounting policies can be found in Note 1. "Business and Significant Accounting Policies," to our consolidated financial statements included in Part II. Item 8. of this Form 10-K.

Impairment of P&E and ROU assets

We evaluate impairment of long-lived tangible and ROU store assets at the store level, which is the lowest level at which independent cash flows can be identified, when events or conditions indicate the carrying value of such assets may not be recoverable. In making this evaluation, we may consider multiple factors including financial performance of the stores, regional and local business climates, future plans for the store operations and other qualitative factors. If the store's projected undiscounted net cash flows expected to be generated by the related assets over the life of the primary asset within the asset group are less than the carrying value of the subject assets, we determine an estimate of the fair value of the asset group using an income approach based on discounted cash flows, which require estimates and assumptions of forecasted store revenue growth rates and store profitability. The cash flows used in estimating fair value were discounted using market rates from 6.3% to 8%. If the fair value of the asset group is less than its carrying value, the loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long lived asset of the group shall not reduce the carrying amount of that asset below its fair value. We consider market-based indications of prevailing rental rates, lease incentives and discount rates for retail space when estimating the fair value of ROU assets. A decrease in the estimated cash flows would lead to a lower fair value measurement, as would a significant increase in the discount rate. These non-recurring fair value measurements are classified as Level 3 measurements in the fair value hierarchy.

We assess non-store tangible assets, as well as capitalized software costs in use or under development, for impairment if events or changes in circumstances indicate that the carrying value of those assets may not be recoverable.

We had $341.3 million of property and equipment, net, and ROU assets of $340.1 million as of January 2, 2021. Changes in estimates and assumptions used in our impairment testing of property and equipment could result in future impairment losses, which could be material. Significant judgments and assumptions are required in our impairment evaluations.

Impairment of Goodwill and Intangible Assets

If impairment indicators related to amortizing intangible assets are present, we estimate cash flows expected to be generated over the remaining useful lives of the related assets based on current projections. If the projected net undiscounted cash flows are less than the carrying value of the related assets, we then measure impairment based on a discounted cash flow model and record an impairment charge as the excess of carrying value and estimated fair value.

We evaluate indefinite-lived, non-amortizing trademarks and trade names for impairment annually or whenever events or changes in circumstances indicate that those assets may be impaired. We use the relief-from-royalty method to estimate fair value, whereby an estimated royalty rate is determined based on comparable licensing arrangements, which is then applied to the revenue projections for the subject asset. The estimated fair value is calculated using a discounted cash flow analysis. We record an impairment charge as the excess of carrying value over estimated fair value.

Goodwill impairment is present if a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. We consider each of our operating segments to be reporting units. We calculate the fair value of our reporting units using the income approach, which is based on a discounted cash flow analysis and calculates the fair value of reporting units by estimating after-tax cash flows discounted using the Company's consolidated weighted average cost of capital. The cash flows used in the analysis are based on financial forecasts developed internally by management and require significant judgment. The significant unobservable inputs used in the fair value measurement of the reporting units are revenue growth rate, payroll expense growth rate and other store expenses growth rate. These assumptions are sensitive to future changes in the business profitability, changes in our business strategy and external market conditions, among other factors. See Note 1. "Business and Significant Accounting Policies" and Note 3. "Goodwill and Intangible Assets" to our consolidated financial statements included in Part II. Item 8. of this Form 10-K for further detail on goodwill impairment.

As of January 2, 2021, we had $777.6 million of goodwill, $240.5 million of non-amortizing intangible assets, and $49.5 million of other intangible assets, net of accumulated amortization. Changes in estimates and assumptions used in our impairment testing could result in future impairment losses, which could be material. Significant judgments and assumptions are required in our impairment evaluations.

In the impairment analysis for goodwill, fair value exceeded carrying value by a substantial margin for all of our reporting units. Future changes in reporting unit's business profitability, expected cash flows, changes in business strategy and external market conditions, among other factors, could require us to record an impairment charge for goodwill.

Revenue Recognition

Product revenues include sales of prescription and non-prescription eyewear, contact lenses, related accessories to retail customers (including those covered by managed care) and sales of inventory in which our customer is another retail entity. Revenues from services and plans include eye exams, eyecare club membership fees, product protection plans (i.e. warranties), and HMO vision plan fees. Service revenue also includes fees we earn for managing certain Vision Centers and performing laboratory processing services for our legacy partner.

At our America's Best brand, our signature offer is two pairs of eyeglasses and a free eye exam for one low price. Since an eye exam is a key component in the ability for acceptable prescription eyewear to be delivered to a customer, we concluded that the eye exam service, while capable of being distinct from the eyeglass product delivery, was not distinct in the context of the two-pair offer. As a result, we do not allocate revenue to the eye exam associated with the two-pair offer, and we record all revenue associated with the offer in net product sales when the customer has received and accepted the merchandise.

We offer product protection plans for our eyeglasses and three- or five-year eyecare club memberships in our Owned & Host segment to our contact lens customers. The unamortized portion of amounts we collect in advance for these services and plans are reported as deferred revenue (current and non-current portions). For these programs we apply the portfolio approach of recognizing revenues of contracts with similar characteristics and use estimates and assumptions that reflect the size and composition of the portfolio of contracts. We selected the portfolio approach because our historical club membership data demonstrate that our club customers behave similarly, such that the difference between the portfolio approach and calculating revenue of each individual contract is not material. We recognize revenue across the contract portfolio based on the value delivered to the customers relative to the remaining services promised under the programs. We determine the value delivered based on the expected timing and amount of customer usage of benefits over the terms of the contracts.

Our retail customers generally make payments for prescription eyewear products at the time they place an order. Amounts we collect in advance for undelivered merchandise are reported as unearned revenue in the accompanying consolidated balance sheets. Unearned revenue at the end of a reporting period is estimated based on processing and delivery times throughout the current month and generally ranges from approximately seven to 10 days. All unearned revenue at the end of a reporting period is recognized in the next fiscal period.

Revenue is recognized net of sales taxes and returns. The returns allowance is based on historical return patterns. Provisions for estimated returns are established and the expected costs continue to be recognized as contra-revenue when the products are sold.

See Note 1. “Business and Significant Accounting Policies” and Note 7. “Revenue from Contracts With Customers” in our audited consolidated financial statements included in Part II. Item 8. of this Form 10-K for additional information.

Leases

We lease our stores, laboratories, distribution centers, and corporate offices. These leases generally have noncancelable lease terms of between 5 years and 10 years, with an option to renew for additional terms of 1 year to 10 years or more. The lease term includes renewal option periods when the renewal is deemed reasonably certain after considering the value of the leasehold improvements at the end of the noncancelable lease period. Most leases for our stores provide for a minimum rent and typically include escalating rent over time with the exception of Military for which lease payments are variable and based on a percentage of sales. For Vista Optical locations in Fred Meyer stores, we pay fixed rent plus a percentage of sales after certain minimum thresholds are achieved. The Company’s leases generally require us to pay insurance, real estate taxes and common area maintenance expenses, substantially all of which are variable and not included in the measurement of the lease liability. Our lease arrangements include tenant improvement allowances (TIAs), which are contractual amounts received or receivable from a lessor for improvements made to leased properties by the Company. Our lease arrangements do not contain any material residual value guarantees or material restrictive covenants. The Company does not consider its management & services agreement with its Legacy partner to contain a lease arrangement.

The lease liability is measured at the present value of future lease payments over the lease term less TIAs receivable, and the ROU asset is measured at the lease liability amount, adjusted for prepaid lease payments, TIAs received and the lessee’s initial direct costs. As the rate implicit in the Company’s leases is not easily determinable, the Company’s incremental borrowing rate is used in calculating the present value of the sum of the lease payments. Factors incorporated into the calculation of the lease incremental borrowing rate include lease term, borrowing rates on the Company’s long-term debt, fixed rates on the Company’s interest rate swaps, LIBOR margins for issuers of similar credit rating to NVI and effect of collateralization.

See Note 8. “Leases” to our consolidated financial statements included in Part II. Item 8 of this Form 10-K for additional information.

Income Taxes

We account for deferred income taxes based on the asset and liability method. The Company must make certain estimates and judgments in determining income tax expense. Judgment is required in determining our provision for income taxes. We are required to determine the aggregate amount of income tax expense to accrue and the amount which will be currently payable or refundable based upon tax statutes of each jurisdiction in which the Company does business. Deferred income taxes are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets also include future tax benefits to be derived from the utilization of tax loss carry-forwards and application of certain carry-forward credits. The net carrying amount of deferred income tax assets and liabilities is recorded in non-current deferred income tax liabilities in the accompanying consolidated balance sheets.

Deferred income taxes are measured using enacted tax rates in effect for the years in which those differences are expected to be recovered or settled. The effect on deferred taxes from a change in the tax rate is recognized through continuing operations in the period that includes the enactment of the change. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future.

A valuation allowance is recorded if it is more likely than not that some portion of a deferred tax asset will not be realized. Valuation allowances are released as positive evidence of future taxable income sufficient to realize the underlying deferred tax assets becomes available.

We establish a liability for tax positions for which there is uncertainty as to whether the position will ultimately be sustained. We assess our tax positions by determining whether it is more likely than not that the position will be sustained upon examination by the appropriate taxing authorities, including resolution of any related appeals or litigation, based solely on the technical merits of the position. These calculations and assessments involve estimates and complex judgments because the ultimate tax outcomes are uncertain and future events are unpredictable. Our net deferred liability balance as of January 2, 2021 was $80.9 million. Changes in assumptions in our estimates could result in material changes to these balances. See Note 6. “Income Taxes” to our consolidated financial statements included in Part II. Item 8 of this Form 10-K.

Inventories

The cost of inventory is determined using the weighted average cost method. Inventories at retail stores are comprised of finished goods and are valued at the lower of cost or estimated net realizable value ("NRV"). Manufactured inventories are valued using absorption accounting, which includes material, labor, other variable costs and other applicable manufacturing overhead. Inventory values are adjusted for estimated obsolescence and written down to NRV based on estimates of current and anticipated demand, customer preference, merchandise age, planned promotional activities, compliance with contact lens vendor return policies, and estimates of future retail sales prices. Shrinkage is estimated and recorded throughout the period as a percentage of cost of sales based on historical results and current inventory levels. Actual shrinkage is recorded throughout the year based upon periodic physical counts. As of January 2, 2021, our total inventory balance was $111.3 million. Changes in our assessment of the inventory carrying value could have a material impact on our financial position.

2025 Notes

In May 2020, the Company issued $402.5 million principal amount of 2.50% convertible senior notes due 2025. In accordance with accounting guidance on embedded conversion features indexed to and settled in equity, the Company valued and bifurcated the conversion option associated with the 2025 Notes from the respective host debt instrument. The carrying amount of the equity component is recorded as a debt discount and represents the difference between the proceeds from the issuance of the Notes and the fair value of the liability component of the Notes. The significant assumptions used in the fair value of the liability component of the Notes were risk-free rate, discount rate based on the Company's implied credit spread and term of the 2025 Notes, expected volatility of Company's stock price and dividend yield. The resulting debt discount on the 2025 Notes is amortized to interest expense using the effective interest rate method over the contractual term of the 2025 Notes. In addition, the debt issuance costs related to the issuance of the 2025 Notes were allocated between the liability and equity components based on their relative values. Debt issuance costs attributable to the liability component were recorded as a contra-liability and are presented net against the 2025 Notes balance on the Company's consolidated balance sheets. These costs are amortized to interest expense using the effective interest method over the term of the 2025 Notes.

Recently Issued Accounting Pronouncements

For information on recently issued accounting pronouncements, see Note 1. "Business and Significant Accounting Policies" to our consolidated financial statements included in Part II. Item 8 of this Form 10-K.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We have market risk exposure from changes in interest rates. When appropriate, we use derivative financial instruments to mitigate the risk from such exposure. A discussion of our accounting policies for derivative financial instruments is included in Note 11. "Fair Value Measurement of Financial Assets and Liabilities" and Note 14 "Interest Rate Derivatives" to our consolidated financial statements included in Part II. Item 8 of this Form 10-K.

A substantial portion of our debt bears interest at variable rates. If market interest rates increase, the interest rate on our variable rate debt will increase and will create higher debt service requirements, which would adversely affect our cash flow and could adversely impact our results of operations. We also have a revolving line of credit at variable interest rates. The general levels of LIBOR affect interest expense. We periodically use interest rate derivative contracts to manage such risk. For contracts that are designated, and highly effective, as cash flow hedges, the net amounts to be paid or received are accrued as interest rates change, and are recognized over the life of the contracts as an adjustment to interest expense from the underlying debt to which the contracts are designated. For contracts that are not designated as cash flow hedges, the gains or losses from changes in fair value are recognized in interest expense, net. The related amounts payable to, or receivable from, the contract counterparties are included in accrued liabilities or accounts receivable in the consolidated balance sheets.

As of fiscal year 2020, all of our $317.4 million of Term Loan borrowings was subject to variable interest rates, with a weighted average borrowing rate of 5.7%. After inclusion of the notional amount of $317.0 million of interest rate swaps fixing a portion of the variable rate debt, $0.4 million, or 0.1% of our debt, is subject to variable rates. Assuming an increase to market rates of 1.0% as of January 2, 2021, the resulting impact to interest expense related to debt subject to variable rates would be immaterial. Assuming a decrease to market rates of 1.0%, the resulting impact to interest expense related to the interest rate collar would be approximately $11.7 million.

Item 8. Consolidated Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of National Vision Holdings, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of National Vision Holdings, Inc. and subsidiaries (the "Company") as of January 2, 2021 and December 28, 2019, the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended January 2, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 2, 2021 and December 28, 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 2, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 2, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for leases for the year ended December 28, 2019 due to the adoption of Accounting Standards Update No. 2016-02, Leases.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Long-term Debt – 2025 Notes - Refer to Note 4 to the financial statements

Critical Audit Matter Description

In May 2020, the Company issued $402.5 million principal amount of 2.50% convertible senior notes due 2025 (the "2025 Notes"). In accordance with accounting guidance on embedded conversion features indexed to and settled in equity, the Company valued and bifurcated the conversion option associated with the 2025 Notes from the respective host debt instrument. The carrying amount of the equity component is recorded as a debt discount and represents the difference between the proceeds from the issuance of the Notes and the fair value of the liability component of the Notes. The significant assumptions used in the fair value of the liability component of the Notes were the discount rate based on the Company's implied credit spread and term of the 2025 Notes and the expected volatility of Company's stock price.

Application of the accounting framework for the 2025 Notes is complex, and the determination of the fair value of the liability component requires the Company to make significant estimates and assumptions relating to the implied credit spread and expected volatility. Therefore, performing audit procedures to evaluate the appropriateness of the accounting framework and the reasonableness of the significant estimates and assumptions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the accounting for the 2025 Notes, including the Company's judgments and calculations related to the fair value of the liability component, included the following procedures, among others:

- We tested the effectiveness of internal controls over the Company's accounting treatment for the recording of the 2025 Notes and the internal controls over the determination of the fair value of the liability component.
- With the assistance of professionals in our firm having expertise in debt issuance accounting, we evaluated the Company's conclusions regarding the accounting treatment applied to the recording of the 2025 Notes.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the valuation methodology and the significant assumptions used to determine the fair value of the liability component, by:
    - Testing the source information underlying the fair value of the liability component and the mathematical accuracy of the calculation.
    - Developing an independent expectation of certain significant assumptions, including the implied credit spread and expected volatility, and comparing our independent expectation to the Company's estimate.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
March 2, 2021

We have served as the Company's auditor since 2002.

National Vision Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
As of January 2, 2021 and December 28, 2019
In Thousands, Except Par Value

ASSETS	As of January 2, 2021	As of December 28, 2019
Current assets:		
Cash and cash equivalents	$ 373,903	$ 39,342
Accounts receivable, net	57,989	44,475
Inventories	111,274	127,556
Prepaid expenses and other current assets	23,484	23,266
Total current assets	566,650	234,639
Property and equipment, net	341,293	366,767
Other assets:		
Goodwill	777,613	777,613
Trademarks and trade names	240,547	240,547
Other intangible assets, net	49,511	56,940
Right of use assets	340,141	348,090
Other assets	17,743	8,129
Total non-current assets	1,766,848	1,798,086
Total assets	$ 2,333,498	$ 2,032,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 64,861	$ 40,782
Other payables and accrued expenses	110,309	82,829
Unearned revenue	32,657	28,002
Deferred revenue	58,899	55,870
Current maturities of long-term debt and finance lease obligations	3,598	13,759
Current operating lease obligations	58,356	51,937
Total current liabilities	328,680	273,179
Long-term debt and finance lease obligations, less current portion and debt discount	651,763	555,933
Non-current operating lease obligations	327,371	331,769
Other non-current liabilities:		
Deferred revenue	20,828	21,530
Other liabilities	17,415	13,731
Deferred income taxes, net	80,939	60,146
Total other non-current liabilities	119,182	95,407
Commitments and contingencies (See Note 13)		
Stockholders' equity:		
Common stock, $0.01 par value; 200,000 shares authorized; 82,183 and 80,603 shares issued as of January 2, 2021 and December 28, 2019, respectively; 81,239 and 79,678 shares outstanding as of January 2, 2021 and December 28, 2019, respectively	821	805
Additional paid-in capital	795,697	700,121
Accumulated other comprehensive loss	(4,400)	(3,814)
Retained earnings	142,880	107,132
Treasury stock, at cost; 944 and 925 shares as of January 2, 2021 and December 28, 2019, respectively	(28,496)	(27,807)
Total stockholders' equity	906,502	776,437
Total liabilities and stockholders' equity	$ 2,333,498	$ 2,032,725

Note: Fiscal year 2020 includes 53 weeks. Fiscal year 2019 includes 52 weeks.
The accompanying notes are an integral part of these consolidated financial statements.

National Vision Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income
For the Years Ended January 2, 2021, December 28, 2019 and December 29, 2018
In Thousands, Except Earnings Per Share

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Revenue:			
Net product sales	$ 1,418,283	$ 1,426,136	$ 1,269,612
Net sales of services and plans	293,477	298,195	267,242
Total net revenue	1,711,760	1,724,331	1,536,854
Costs applicable to revenue (exclusive of depreciation and amortization):			
Products	551,783	574,351	511,406
Services and plans	234,841	232,168	202,165
Total costs applicable to revenue	786,624	806,519	713,571
Operating expenses:			
Selling, general and administrative expenses	720,590	744,488	687,476
Depreciation and amortization	91,585	87,244	74,339
Asset impairment	22,004	8,894	17,630
Litigation settlement	4,395	—	—
Other expense (income), net	(445)	3,611	1,487
Total operating expenses	838,129	844,237	780,932
Income from operations	87,007	73,575	42,351
Interest expense, net	48,171	33,300	37,283
Debt issuance costs	156	—	200
Loss on extinguishment of debt	—	9,786	—
Earnings before income taxes	38,680	30,489	4,868
Income tax provision (benefit)	2,403	(2,309)	(18,785)
Net income	$ 36,277	$ 32,798	$ 23,653
Earnings per share:			
Basic	$ 0.45	$ 0.42	$ 0.31
Diluted	$ 0.44	$ 0.40	$ 0.30
Weighted average shares outstanding:			
Basic	80,565	78,608	75,899
Diluted	82,793	81,683	79,041
Comprehensive income:			
Net income	$ 36,277	$ 32,798	$ 23,653
Unrealized gain (loss) on hedge instruments	(780)	(1,350)	9,488
Tax provision (benefit) of unrealized gain (loss) on hedge instruments	(194)	(346)	2,430
Comprehensive income	$ 35,691	$ 31,794	$ 30,711

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.
The accompanying notes are an integral part of these consolidated financial statements.

National Vision Holdings, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the Years Ended January 2, 2021, December 28, 2019 and December 29, 2018
In Thousands

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balances at December 30, 2017	74,654	$ 746	$ 631,798	$ (9,868)	$ 32,157	$ (233)	$ 654,600
Cumulative effect of change in accounting principle	—	—	—	—	19,030	—	19,030
Balances at December 31, 2017 - as adjusted	74,654	746	631,798	(9,868)	51,187	(233)	673,630
Issuance of common stock	3,564	36	19,766	—	—	—	19,802
Stock based compensation	—	—	20,939	—	—	—	20,939
Purchase of treasury stock	(51)	—	—	—	—	(1,928)	(1,928)
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	7,058	—	—	7,058
Net income	—	—	—	—	23,653	—	23,653
Balances at December 29, 2018	78,167	782	672,503	(2,810)	74,840	(2,161)	743,154
Cumulative effect of change in accounting principle	—	—	—	—	(506)	—	(506)
Balances at December 30, 2018 - as adjusted	78,167	782	672,503	(2,810)	74,334	(2,161)	742,648
Issuance of common stock	2,357	23	15,067	—	—	—	15,090
Stock based compensation	—	—	12,551	—	—	—	12,551
Purchase of treasury stock	(846)	—	—	—	—	(25,646)	(25,646)
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	(1,004)	—	—	(1,004)
Net income	—	—	—	—	32,798	—	32,798
Balances at December 28, 2019	79,678	805	700,121	(3,814)	107,132	(27,807)	776,437
Cumulative effect of change in accounting principle	—	—	—	—	(529)	—	(529)
Balances at December 29, 2019 - as adjusted	79,678	805	700,121	(3,814)	106,603	(27,807)	775,908
Issuance of common stock	1,580	16	13,575	—	—	—	13,591
Stock based compensation	—	—	10,616	—	—	—	10,616
Purchase of treasury stock	(19)	—	—	—	—	(689)	(689)
Conversion option related to convertible senior notes, net of allocated costs and tax	—	—	71,385	—	—	—	71,385
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	(586)	—	—	(586)
Net income	—	—	—	—	36,277	—	36,277
Balances at January 2, 2021	81,239	$ 821	$ 795,697	$ (4,400)	$ 142,880	$(28,496)	$ 906,502

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.
The accompanying notes are an integral part of these consolidated financial statements.

National Vision Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended January 2, 2021, December 28, 2019 and December 29, 2018
In Thousands

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Cash flows from operating activities:			
Net income	$ 36,277	$ 32,798	$ 23,653
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	91,585	87,244	74,339
Amortization of debt discount and deferred financing costs	11,895	1,289	1,848
Asset impairment	22,004	8,894	17,630
Deferred income tax expense (benefit)	(233)	(2,378)	(19,340)
Stock based compensation expense	10,740	12,670	20,939
Losses (gains) on change in fair value of derivatives	4,014	—	—
Inventory adjustments	4,852	4,352	3,868
Credit loss expense	671	8,210	7,107
Loss on extinguishment of debt	—	9,786	—
Other	1,813	5,309	2,613
Changes in operating assets and liabilities:			
Accounts receivable, net	(13,697)	(6,925)	(14,649)
Inventories	11,430	(15,886)	(28,739)
Other assets	(4,422)	10,103	(7,011)
Accounts payable	24,079	(2,860)	7,934
Deferred revenue	2,327	5,122	3,839
Other liabilities	31,646	7,353	12,597
Net cash provided by operating activities	234,981	165,081	106,628
Cash flows from investing activities:			
Purchase of property and equipment	(76,823)	(101,325)	(104,493)
Other	413	694	272
Net cash used for investing activities	(76,410)	(100,631)	(104,221)
Cash flows from financing activities:			
Borrowings on long-term debt, net of discounts	548,769	566,550	200,000
Repayments on long-term debt	(369,269)	(591,925)	(204,275)
Proceeds from exercise of stock options	13,105	14,767	19,802
Purchase of treasury stock	(689)	(25,646)	(1,928)
Payments of debt issuance costs	(12,439)	(2,930)	(1,400)
Payments on finance lease obligations	(3,196)	(2,957)	(1,802)
Net cash provided by (used for) financing activities	176,281	(42,141)	10,397
Net change in cash, cash equivalents and restricted cash	334,852	22,309	12,804
Cash and cash equivalents and restricted cash, beginning of year	40,307	17,998	5,194
Cash and cash equivalents and restricted cash, end of year	$ 375,159	$ 40,307	$ 17,998
Supplemental cash flow information:			
Cash paid for interest	30,786	33,935	33,469
Cash paid (received) for taxes	894	684	1,447
Capital expenditures accrued at the end of the period	8,455	9,059	14,078
Right of use assets acquired under finance leases	1,257	9,713	14,303
Right of use assets acquired under operating leases	68,081	108,712	—
Non-cash issuance of common shares	—	—	446
Non-cash purchase of treasury stock	—	—	(446)

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.
The accompanying notes are an integral part of these consolidated financial statements.

National Vision Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Business and Significant Accounting Policies

Nature of Operations

National Vision Holdings, Inc. ("NVHI," the "Company," "we," "our," or "us") is a holding company whose operating subsidiaries include its indirect wholly owned subsidiary, National Vision, Inc. ("NVI") and NVI's wholly owned subsidiaries. We are a leading value retailer of eyeglasses and contact lenses in the United States. We operated 1,205 and 1,151 retail optical locations in the United States and its territories as of the fiscal years ended January 2, 2021 and December 28, 2019, respectively, through our five store brands, including America's Best Contacts and Eyeglasses ("America's Best"), Eyeglass World, Vista Optical locations on select U.S. Army/Air Force military bases ("Military") and within select Fred Meyer ("Fred Meyer") stores, and our management & services arrangement with Walmart ("Legacy").

We sell contact lenses and optical accessory products to retail customers through proprietary retail web sites and web sites on behalf of certain independent retailers and insurance companies. We also distribute contact lenses to Walmart and Sam's Club store locations.

We also operate a specialized health maintenance organization ("HMO") that is licensed as a single-service health plan under California law. The HMO issues individual vision plans in connection with our America's Best operations in California, and provides, or arranges for the provision of, optometric services at the offices next to certain Walmart stores throughout California.

Fiscal Year

We operate on a retail fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31. In a 52-week fiscal year, each quarter contains 13 weeks of operations; in a 53-week fiscal year, each of the first, second and third quarters include 13 weeks of operations and the fourth quarter includes 14 weeks of operations.

References herein to "fiscal year 2020," relate to the 53 weeks ended January 2, 2021, and references to "fiscal year 2019," and "fiscal year 2018," relate to the 52 weeks ended December 28, 2019 and December 29, 2018, respectively. Unless otherwise stated, references to years in this report relate to fiscal years rather than calendar years.

Basis of Presentation and Principles of Consolidation

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include our accounts and those of our subsidiaries, all of which are wholly-owned. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Secondary Public Offerings

During fiscal year 2018, we completed three underwritten public offerings in which KKR, Berkshire and certain management stockholders ("selling stockholders") sold an aggregate of 42,914,852 shares of the Company's common stock. The Company did not receive any proceeds from the offerings. However, the second and third offerings resulted in certain incentive compensation expenses relating to vesting of performance-based stock options and a payout under a non-executive long-term incentive plan.

On August 7, 2019, the Company entered into an Underwriting Agreement by and among the Company, KKR Vision Aggregator L.P. (the "Selling Stockholder"), and Goldman Sachs & Co. LLC, as underwriter (the "Underwriter"), relating to an underwritten offering of 9,149,908 shares of the Company's common stock, par value $0.01 per share. The offering was completed on August 12, 2019. In connection with the offering, our Board of Directors authorized, and the Company completed, a repurchase of 819,134 shares out of the 9,149,908 shares of common stock subject to the offering from the Underwriter at $30.52 per share, which was the price the Underwriter purchased the shares from the Selling Stockholder in the offering. The Company did not receive any proceeds from the offering. As a result of this underwritten offering and concurrent share repurchase, the Selling Stockholder no longer owned any shares of our common stock.

The secondary offering constituted a vesting event whereby a final portion of the performance-based options vested and the remaining portion of unvested performance options awarded under the 2014 Stock Incentive Plan was forfeited. As a result of the offering, we incurred \$4.2 million of non-cash stock-based compensation expense and additionally recorded \$2.8 million in long-term cash incentive compensation expense and \$0.4 million in offering related SG&A expenses for fiscal year end 2019.

CARES Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, accelerates a company's ability to recover Alternative Minimum Tax ("AMT") refundable credits that otherwise could have been claimed in 2020 and 2021, to 2018 and 2019, with an option to elect recovery of the full credit amount for 2018. The Company has elected to apply the AMT refundable credit provision of the CARES Act and has reclassified \$1.3 million of AMT credits from Deferred income taxes, net as of December 28, 2019 to Prepaid expenses and other assets as of January 2, 2021. The CARES Act also includes a technical correction wherein qualified improvement property placed in service in 2018 and after is eligible for 100% bonus depreciation. This provision of the CARES Act resulted in an increase in our NOL carry-forwards with an offsetting increase in our gross deferred tax liability relating to property and equipment of approximately \$25.0 million (\$6.4 million tax impact) as of January 2, 2021. In addition, as a result of the employee retention credits made available under the CARES Act for U.S. associates the Company recognized \$0.4 million as a reduction to costs of products, \$6.2 million as a reduction to costs of services and plans, and \$4.4 million as a reduction to SG&A during fiscal year 2020. The Company recognizes government grants for which there is a reasonable assurance of compliance with grant conditions and receipt of credits. We believe there is a reasonable assurance that the Company will comply with the relevant conditions of the employee retention credit provision of the CARES Act, and that we will receive the credits for which we have applied. We elected to offset credits recognized under the CARES against payroll taxes that would otherwise be payable. We will continue to assess our treatment of the CARES Act to the extent additional guidance and regulations are issued, the further applicability of the CARES Act to the Company, and the potential impacts on our business.

In addition to the CARES Act, the Consolidated Appropriations Act, 2021, H.R. 133 was signed into law on December 27, 2020 and, among other things, allows for 100% deductibility of meals and entertainment expenses for the tax years ending in 2021 and 2022.

Cash and Cash Equivalents

Cash consists of currency and demand deposits with financial institutions and money market funds. We consider all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. We also review cash balances on a bank by bank basis to identify book overdrafts. Book overdrafts occur when the amount of outstanding checks exceed the cash deposited at a bank. We reclassify book overdrafts, if any, to accounts payable in the accompanying consolidated balance sheets.

Accounts Receivable, Net

Accounts receivable associated with revenues consist primarily of trade receivables and credit card receivables. Trade receivables consist primarily of receivables from managed care payors and receivables from major retailers. While we have relationships with almost all vision care insurers in the United States and with all of the major carriers, currently, a relatively small number of payors comprise the majority of our managed care revenues, subjecting us to concentration risk. Accounts receivable are reduced by allowances for credit losses. Estimates of our allowance for credit losses are based on our historical and current operating, billing, and collection trends, as well as current conditions and reasonable and supportable forecasts about the future. Accounts receivable are written off after all collection attempts have been exhausted. Credit loss expense recognized on our receivables, which is presented in SG&A expenses in the Company's consolidated statements of operations, were approximately \$0.7 million, \$8.2 million and \$7.1 million for the fiscal years 2020, 2019 and 2018, respectively. See Note 7 "Revenues from Contracts with Customers" for further details on the allowance for expected credit losses.

Inventories

The cost of inventory is determined using the weighted average cost method. Inventories at retail stores consist of finished goods and are valued at the lower of cost or estimated net realizable value ("NRV"). Manufactured inventories are valued using absorption accounting which includes material, labor, other variable costs and other applicable manufacturing overhead. Inventory values are adjusted for estimated obsolescence and written down to NRV based on estimates of current and anticipated demand, customer preference, merchandise age, planned promotional activities, contact lens vendor return acceptance activity, and estimates of future retail sales prices. Shrinkage is estimated and recorded throughout the period as a percentage of cost of sales based on historical results and current inventory levels. Actual shrinkage is recorded throughout the year based upon periodic physical counts. See Note 2. "Details of Certain Balance Sheet Accounts" for further details.

The Company's inventory consists primarily of contact lenses, eyeglass frames and unprocessed eyeglass lenses. A significant portion of our inventory is supplied by a small number of key vendors. During fiscal year 2020, 93% of contact lens expenditures were with three vendors and 89% of lens expenditures were with one vendor. This exposes us to vendor concentration risk. We are less exposed to a supplier risk for our eyeglass frames as only 52% of frame expenditures were with two vendors.

Property and Equipment

Property and equipment ("P&E") is stated at cost less accumulated depreciation. Depreciation associated with P&E is included in depreciation and amortization in the accompanying consolidated statements of operations. When we retire or otherwise dispose of P&E, we remove the cost and related accumulated depreciation from our accounts and recognize any gain or loss on the sale of such assets in SG&A in the consolidated statements of operations. We capitalize major replacements and remodeling, and recognize expenditures for maintenance and repairs in SG&A.

We depreciate P&E for financial accounting purposes using the straight-line method over the following estimated useful lives:

Buildings	34 years
Equipment	3 - 7 years
Information technology hardware and software [(a)]	2 - 5 years
Furniture and fixtures	6 years
Leasehold improvements[(b)]	5 - 10 years
P&E under capital leases [(b)]	10 years

(a) Costs of developing or obtaining software for internal use, such as direct costs of materials or services and internal payroll costs related to the software development projects, are capitalized to information technology hardware and software.

(b) Depreciation of leasehold improvements is recognized over the shorter of the estimated useful life of the asset or the term of the lease. The term of the lease includes renewal options for additional periods if the exercise of the renewal is considered to be reasonably assured.

Goodwill and Intangible Assets

Indefinite-lived intangible assets include goodwill and our trademarks and tradenames; we evaluate these assets annually for impairment, or more frequently if events and circumstances indicate that it is more likely than not that goodwill is impaired. Our annual testing date for impairment of goodwill and indefinite-lived intangible assets is the first day of the fourth fiscal quarter, which for fiscal years 2020 and 2019 was September 27, 2020, and September 29, 2019, respectively.

Finite-lived, amortizing intangible assets primarily consist of our contracts and relationships with certain retailers and our customer database tool. We amortize finite-lived intangible assets on a straight-line basis over their estimated useful lives, ranging from four to 23 years. Amortization expense associated with finite-lived intangible assets is included in depreciation and amortization in the accompanying consolidated statements of operations.

Goodwill is impaired if a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. We consider each of our operating segments to be reporting units. We estimate the fair value of our reporting units using the income approach, which is based on a discounted cash flow analysis and calculate the fair value of reporting units by estimating after-tax cash flows discounted using a weighted average cost of capital. The cash flows used in the analysis are based on financial forecasts developed internally by management and require significant judgment. The significant unobservable inputs used in the fair value measurement of the reporting units are revenue growth rate, cost of sales, payroll expense growth rate and other store expenses growth rate. These assumptions are sensitive to future changes in the business profitability, changes in our business strategy and external market conditions, among other factors. A decrease to the long term revenue growth rate assumption or an increase to the expense growth rate assumptions could require us to record goodwill impairment charges.

If impairment indicators related to amortizing intangible assets are present, we estimate cash flows expected to be generated over the remaining useful lives of the related assets based on current projections. If the projected net undiscounted cash flows are less than the carrying value of the related assets, we then measure impairment based on a discounted cash flow model and record an impairment charge as the excess of carrying value and estimated fair value.

We use the relief-from-royalty method to estimate fair value of our trademarks and tradenames, which involves estimating a royalty rate based on comparable licensing arrangements, applying that rate to the revenue projections for the subject asset, and then estimating fair value using a discounted cash flow analysis. We record an impairment charge as the excess of carrying value over estimated fair value.

See Note 3. “Goodwill and Intangible Assets” for further detail on impairment of goodwill and intangible assets.

Equity Method Investment

The Company has an investment in a private start-up company whose principal business is licensing software to eyeglass retailers. The carrying value of our equity method investment is $0 as of the end of the fiscal year 2020. See Note 10. “Equity in Net Assets of Non-Consolidated Investee,” for further discussion relating to this investment.

Fair Value Measurement of Assets and Liabilities (Non-Recurring Basis)

Non-financial assets such as P&E, ROU assets and intangible assets are subject to nonrecurring fair value measurements if impairment indicators are present. Factors we consider important that could trigger an impairment review include a significant under-performance compared to expected operating results, a significant or adverse change in customer business climate, and a significant negative industry or economic trend.

Deferred Financing Costs and Loan Discounts

Costs incurred in connection with long-term debt which are paid directly to the Company’s lenders and to third parties are presented as reductions to our long-term debt balance, except for the costs related to our revolving credit facility (the “Revolving Credit Facility”) which are presented as assets. These costs are amortized over the term of the related financing agreement and included in interest expense in the accompanying consolidated statements of operations.

Self-Insurance Liabilities

We are primarily self-insured for workers’ compensation, associate health benefits and general liability claims. We record self-insurance liabilities based on claims filed, including the development of those claims and an estimate of claims incurred but not yet reported. Should a different amount of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, liabilities may need to be adjusted accordingly. We periodically update our estimates and record such adjustments in the period in which such determination is made. Self-insurance liabilities are recorded in Other payables and accrued expenses (current portion) and Other liabilities (non-current portion) on an undiscounted basis in the accompanying consolidated balance sheets.

We reinsure worker’s compensation and medical claims above our retention levels with a highly rated financial institution that can be expected to fully perform under the terms of the arrangement. Estimated recoveries from reinsurance in the amount of $1.1 million (current portion) are included in Prepaid expenses and other current assets for both fiscal year end 2020 and fiscal year end 2019, and Other assets in the amounts of $2.3 million and $2.4 million (non-current portion) as of fiscal year end 2020 and fiscal year end 2019, respectively, in the accompanying consolidated balance sheets. The accrued obligation for self-insurance programs was $8.7 million and $8.4 million (current portion) and $7.0 million and $7.3 million (non-current portion) as of fiscal year end 2020 and fiscal year end 2019, respectively.

Derivative Financial Instruments

The Company uses interest rate derivatives to manage the exposure of its LIBOR-based debt to fluctuations in interest rates. We designate certain of our interest rate derivatives as cash flow hedges and formally document our hedge relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking the hedge transactions. We record all interest rate derivatives in our consolidated balance sheets on a gross basis at fair value. Fair value represents estimated amounts we would receive or pay upon a termination of interest rate derivatives prior to their scheduled expiration dates. The fair value was based on information that is model-driven and whose inputs were observable (Level 2 inputs). We do not hold or enter into financial instruments for trading or speculative purposes.

The gain or loss resulting from fair value adjustments for highly effective cash flow hedges is recorded in Accumulated other comprehensive loss (“AOCL”) in the accompanying consolidated balance sheets until the hedged item is recognized as interest expense in the consolidated statements of operations. The gain or loss resulting from fair value adjustments of derivatives not deemed to be highly effective cash flow hedges is recognized in interest expense immediately. We perform periodic assessments of the effectiveness of our derivative contracts designated as hedges, including the possibility of counterparty default.

To manage credit risk associated with our interest rate hedging program, we select as counterparties major financial institutions with investment grade credit ratings. The impact of credit risk, as well as the ability of each party to fulfill its obligations under our derivative financial instruments, is considered in determining the fair value of the contracts. We do not have any credit risk-related contingent features or collateral requirements associated with our derivative contracts. See Note 14. “Interest Rate Derivatives” for further details.

Accumulated Other Comprehensive Loss

AOCL is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Accumulated other comprehensive loss, net of income tax, is entirely composed of the cumulative unrealized loss on our hedging instruments. See Note 18. “Accumulated Other Comprehensive Loss” for details of reclassifications out of AOCL.

Revenue Recognition

Product revenues include sales of prescription and non-prescription eyewear, contact lenses, related accessories to retail customers (including those covered by managed care) and sales of inventory in which our customer is another retail entity. Revenues from services and plans include eye exams, eyecare club membership fees, product protection plans (i.e. warranties) and HMO vision plan fees. Service revenue also includes fees we earn for managing certain Vision Centers and performing laboratory processing services for our legacy partner.

At our America’s Best brand, our signature offer is two pairs of eyeglasses and a free eye exam for one low price (“two-pair offer”). Since an eye exam is a key component in the ability for acceptable prescription eyewear to be delivered to a customer, we concluded that the eye exam service, while capable of being distinct from the eyeglass product delivery, was not distinct in the context of the two-pair offer. As a result, we do not allocate revenue to the eye exam associated with the two-pair offer, and we record all revenue associated with the offer in Owned & Host net product sales when the customer has received and accepted the merchandise.

Our retail customers generally make payments for prescription eyewear products at the time they place an order. Amounts we collect in advance for undelivered merchandise are reported as unearned revenue in the accompanying consolidated balance sheets. Unearned revenue at the end of a reporting period is estimated based on processing and delivery times throughout the current month which generally range from approximately seven to 10 days; all unearned revenue at the end of a reporting period is recognized in the next fiscal period.

Revenue is recognized net of sales taxes and returns and include amounts billed to customers related to shipping and handling costs. The returns allowance is based on historical return patterns. Provisions for estimated returns are established and the expected costs continue to be recognized as reductions to revenue when the products are sold. Shipping and handling costs are accounted for as fulfillment costs and are included in costs applicable to revenue.

We record reductions in revenue for estimated price concessions granted to managed care providers. The Company considers its revenue from managed care customers to include variable consideration and estimates such amounts associated with managed care customer revenues using the history of concessions provided and cash receipts from managed care providers; we reduced our net revenue for variable considerations of $7.5 million during the fiscal year 2020.

Refer to Note 7. “Revenue from Contracts With Customers” for further details of our revenues.

Costs Applicable To Revenue

Costs applicable to revenue consist primarily of cost of products sold and costs of administering services and plans. Costs of products sold include (i) costs to procure non-prescription eyewear, contacts and accessories which we purchase and sell in their finished form, (ii) costs to manufacture finished prescription eyeglasses, including direct materials, labor and overhead and (iii) remake costs, warehousing and distribution expenses and internal transfer costs. Costs of services and plans include costs associated with warranty programs, eyecare club memberships, HMO vision plan fees, eyecare practitioner and eye exam technician payroll, taxes and benefits and optometric and other service costs. Depreciation and amortization are excluded from costs applicable to revenue and are presented separately on the accompanying consolidated statements of operations.

As a component of the Company’s procurement program, the Company frequently enters into contracts with its vendors that provide for payments of rebates or other allowances. These vendor payments are reflected in the carrying value of the inventory when earned or as progress is made toward earning the rebate or allowance and as a component of cost of products as the inventory is sold. Rebates that have been earned but not yet received are recognized as an increase to Accounts receivable, net or a reduction to Accounts payable, depending on the nature of the agreement with the vendor, until the rebate has been received.

Selling, General and Administrative

SG&A includes store associate (including optician) payroll, taxes and benefits, occupancy and other store expenses, advertising and promotion, field services, and corporate support. Advertising and promotion costs, including online marketing arrangements, newspaper, direct mail, television and radio, are recorded in SG&A and expensed at the time the advertising first occurs. Production costs of future media advertising and related promotional campaigns are deferred until the advertising events occur. Non-capital expenditures associated with opening new stores, including rent, marketing expenses, travel and relocation costs, and training costs, are recorded in SG&A as incurred.

Advertising expenses were $86.5 million, $113.3 million and $107.5 million for fiscal years 2020, 2019 and 2018, respectively.

Leases

We lease our stores, laboratories, distribution centers, and corporate offices. These leases generally have noncancelable lease terms of between 5 years and 10 years, with an option to renew for additional terms of 1 year to 10 years or more. The lease term includes renewal option periods when the renewal is deemed reasonably certain after considering the value of the leasehold improvements at the end of the noncancelable lease period. Most leases for our stores provide for a minimum rent and typically include escalating rent over time with the exception of Military for which lease payments are variable and based on a percentage of sales. For Vista Optical locations in Fred Meyer stores, we pay fixed rent plus a percentage of sales after certain minimum thresholds are achieved. The Company's leases generally require us to pay insurance, real estate taxes and common area maintenance expenses, substantially all of which are variable and not included in the measurement of the lease liability. Our lease arrangements frequently include tenant improvement allowances (TIAs), which are contractual amounts received or receivable from a lessor for improvements made to leased properties by the Company. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. With respect to lease accounting guidance, the Company's management & services agreement with its legacy partner does not contain a lease arrangement.

The lease liability is measured at the present value of future lease payments over the lease term less TIAs receivable, and the ROU asset is measured at the lease liability amount, adjusted for prepaid lease payments, TIAs received and the lessee's initial direct costs. As the rate implicit in the Company's leases is not easily determinable, the Company's incremental borrowing rate is used in calculating the present value of the sum of the lease payments. Factors incorporated into the calculation of the lease incremental borrowing rate include lease term, borrowing rates on the Company's long-term debt, fixed rates on the Company's interest rate swaps, LIBOR margins for issuers of similar credit rating to NVI and effect of collateralization.

For finance leases, a lease ROU asset is recorded as property and equipment and corresponding amounts are recorded as finance lease debt obligations at an amount equal to the lesser of the net present value of minimum lease payments to be made over the lease term or the fair value of the property for leases in existence as of fiscal year end 2018 and at the net present value of the minimum lease payments to be made over the lease term for new finance leases entered into subsequent to fiscal year end 2018.

Stock-Based Compensation

We measure stock-based compensation cost, which consists of grants of stock options, restricted stock units ("RSUs"), performance stock units ("PSUs"), performance stock options and restricted stock awards ("RSAs") to associates and non-associate directors, based on the estimated grant date fair value of the awards. We recognize compensation expense for all awards over the requisite service period using a straight-line recognition method. Additionally, for awards that are subject to performance conditions, we recognize compensation expense once achievement of the conditions is considered to be probable. We account for forfeitures as they occur. See Note 5. "Stock Incentive Plan" for further details related to our stock-based compensation plans.

Long-lived Asset Impairment

We evaluate impairment of long-lived tangible and right of use ("ROU") store assets at the store level, which is the lowest level at which independent cash flows can be identified, when events or conditions indicate the carrying values of such assets may not be recoverable. In making this evaluation, we may consider multiple factors including financial performance of the stores, regional and local business climates, future plans for the store operations and other qualitative factors. If the store's projected undiscounted net cash flows expected to be generated by the related assets over the life of the primary asset within the asset group are less than the carrying value of the subject assets, we determine an estimate of the fair value of the asset group using an income approach based on discounted cash flows, which require estimates and assumptions related to forecasted store revenue growth rates and store profitability. The cash flows used in estimating fair value were discounted using market rates from 6.3% to 8%. If the fair value of the asset group is less than its carrying value, the loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long lived asset of the group shall not reduce the carrying amount of that asset below its fair value. We consider market-based indications of prevailing rental rates for retail space, market participant discount rates, and lease incentives when estimating the fair values of ROU assets. A decrease in the estimated cash flows would lead to a lower fair value measurement, as would an increase in the discount rate. These non-recurring fair value measurements are classified as Level 3 measurements in the fair value hierarchy.

We recognized impairments of $22.0 million, $8.9 million and $2.5 million in fiscal years 2020, 2019 and 2018, respectively. These impairment charges were primarily related to our long-lived tangible store assets classified as held and used, and were primarily driven by lower than projected customer sales volume in certain stores; we also considered the historical performance of the stores before the temporary store closures in response to the COVID-19 pandemic, the effect of store closures and uncertainty in store revenues over the remaining useful life of the asset group as a result of the COVID-19 pandemic. The estimated remaining fair value of the assets impaired during fiscal year 2020 was $30.6 million and the estimated remaining fair value of the assets impaired during fiscal year 2019 was $16.6 million; the estimated remaining fair values include amounts estimated at various dates during the related fiscal years. Substantially all of the remaining fair value of the impaired store assets in fiscal year 2020 represent the fair value of ROU assets.

We assess non-store long-lived assets, including capitalized software costs in use or under development, for impairment if events or changes in circumstances indicate that the carrying value of those assets may not be recoverable. The asset impairments recognized in fiscal year 2020 includes $1.1 million related to a write-off of certain capitalized software costs that were deemed to be obsolete due to a decision to cease further development. During fiscal years 2019 and 2018 there was no impairment of non-store long-lived assets or capitalized software costs.

Income Taxes

We account for deferred income taxes based on the asset and liability method. The Company must make certain estimates and judgments in determining income tax expense. We are required to determine the aggregate amount of income tax expense to accrue and the amount which will be currently payable or refundable based upon tax statutes of each jurisdiction in which the Company does business. Deferred income taxes are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets also include future tax benefits to be derived from the utilization of tax loss carry-forwards and application of certain carry-forward credits. The net carrying amount of deferred income tax assets and liabilities is recorded in non-current deferred income tax liabilities in the accompanying consolidated balance sheets.

Deferred income taxes are measured using enacted tax rates in effect for the years in which those differences are expected to be recovered or settled. The effect on deferred taxes from a change in the tax rate is recognized through continuing operations in the period that includes the enactment of the change. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future.

A valuation allowance is recorded if it is more likely than not that some portion of a deferred tax asset will not be realized. Valuation allowances are released as positive evidence of future taxable income sufficient to realize the underlying deferred tax assets becomes available.

We establish a liability for tax positions for which there is uncertainty as to whether the position will ultimately be sustained. We assess our tax positions by determining whether it is more likely than not that the position will be sustained upon examination by the appropriate taxing authorities, including resolution of any related appeals or litigation, based solely on the technical merits of the position. These calculations and assessments involve estimates and judgments because the ultimate tax outcomes are uncertain and future events are unpredictable. See Note 6. "Income Taxes" for further details.

Adoption of New Accounting Pronouncements

Leases. In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, *Leases*. This new guidance establishes a ROU model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with such classification affecting the pattern of expense recognition in the statement of operations. Disclosure of key information about leasing arrangements is also required.

We adopted ASU No. 2016-02, as amended, as of December 30, 2018 (the first day of fiscal year 2019), using the modified retrospective transition approach without adjusting the comparative periods presented. We elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed us to carry forward historical lease classification for leases in existence as of the adoption date, to not assess whether any expired or existing contracts are leases or contain leases and to not assess whether unamortized initial direct costs for existing leases meet the definition of initial direct costs. In addition, we elected the practical expedients to not separate lease components from non-lease components and to not apply this new guidance to leases with terms of less than 12 months.

Upon adoption, we recorded operating lease liabilities of approximately $339.6 million as of December 30, 2018. The Company treated TIAs and deferred rent of $24.3 million and $11.9 million, respectively, as of December 30, 2018 as reductions of lease payments and prepaid rent of $5.8 million as of December 30, 2018 as an increase in lease payments used to measure ROU assets and recorded $308.5 million of lease ROU assets upon adoption. The difference between the additional lease assets and lease liabilities net of the deferred tax impact was $0.5 million, which was recorded as an adjustment to fiscal year 2019 opening retained earnings. Adoption of this new guidance did not result in significant changes to our results of operations or cash flows. See Note 8. "Leases" for additional information.

Other Comprehensive Income. In February 2018, the FASB issued Accounting Standards Update ASU 2018-02, *Income Statement–Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02")*. This guidance allows for an optional reclassification from accumulated other comprehensive income or loss to retained earnings for stranded tax effects as a result of the newly enacted federal corporate income tax rate under the 2017 Tax Cuts and Jobs Act enacted into law on December 22, 2017 (the "Tax Legislation"). This guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We adopted the guidance during the first quarter of fiscal year 2019, and did not reclassify the stranded income tax benefit resulting from adoption of the Tax Legislation from AOCL into earnings. There were no other impacts to the Company's financial condition, result of operations, or cash flows.

Cloud Computing. In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* This new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). We obtain a variety of software solutions and tools through cloud computing arrangements. This new guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years and may be adopted on a prospective or retrospective basis. We adopted the accounting standard on a prospective basis in the first quarter of 2020. The adoption of this guidance did not have a material impact on the Company's financial condition, results of operations, or cash flows.

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). This new guidance requires an entity to assess impairment of its financial instruments based on its estimate of expected credit losses. Initial adoption of ASU 2016-13 is required to be reported on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for certain provisions that are required to be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2019, and for interim reporting periods within those fiscal years.

We adopted ASU No. 2016-13 as of December 29, 2019 (the first day of fiscal year 2020), using the modified retrospective approach without adjusting the comparative periods presented. Upon adoption, the Company recorded a $0.7 million increase to the allowance for credit losses as a result of increases in our allowance for credit losses of notes receivable. Refer to Note 11. "Equity in Assets of Non-Consolidated Investee" for more information on our non-consolidated investee's secured convertible promissory note. After adjusting for deferred taxes, we recorded a $0.5 million decrease in Retained earnings through a cumulative-effect adjustment. Adoption of this new guidance did not have a material impact on the Company's financial condition, results of operations or cash flows.

Future Adoption of Accounting Pronouncements

Reference Rate Reform. In March 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). This guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that may be affected by the cessation of the London Inter-bank Offered Rate ("LIBOR.") An entity may elect to apply the amendments for contract modifications as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 through December 31, 2022. A substantial portion of our debt is subject to interest payments that are indexed to LIBOR; additionally, we are party to multiple interest rate derivatives based on LIBOR. We are currently evaluating the effect of this guidance and have not applied the provisions of this guidance during the current fiscal year.

Convertible Instruments and Contracts in an Entity's Own Equity. In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"). This new guidance simplifies and adds disclosure requirements for the accounting and measurement of convertible instruments and the settlement assessment for contracts in an entity's own equity. The guidance also requires the application of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share. ASU 2020-06 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021, with early adoption possible for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020. We plan to early adopt the accounting standard in the first quarter of 2021. Upon adoption we expect this guidance to result in a reclassification of conversion feature balances from additional paid-in capital to debt and to decrease reported non-cash interest expense for the convertible senior notes (the "2025 Notes"). We currently expect the net impact of the reclassification will be an increase to long term debt of approximately $83 million, a decrease to deferred tax liabilities of approximately $19 million, a decrease to additional paid-in capital of $71 million and an increase to retained earnings of approximately $7 million on the consolidated balance sheet as of January 3, 2021. We also expect incremental reductions to interest expense in post-adoption periods compared pre-adoption periods. Ultimate decisions regarding the timing of adoption, as well as the quantification of the effects of adoption on the financial statements, are subject to further evaluation.

2. Details of Certain Balance Sheet Accounts

In thousands	As of January 2, 2021	As of December 28, 2019
Accounts receivable, net:		
Trade receivables	$ 28,405	$ 28,635
Credit card receivables	21,557	14,173
Other receivables	8,460	4,707
Allowance for credit losses	(433)	(3,040)
	$ 57,989	$ 44,475

In thousands	As of January 2, 2021	As of December 28, 2019
Inventories:		
Raw materials and work in process [(1)]	$ 55,473	$ 65,179
Finished goods	55,801	62,377
	$ 111,274	$ 127,556

(1) Due to the immaterial amount of estimated work in process and the short lead times for the conversion of raw materials to finished goods, the Company does not separately present raw materials and work in process.

In thousands	As of January 2, 2021	As of December 28, 2019
Property and equipment, net:		
Land and building	$ 3,624	$ 3,632
Equipment	207,265	188,593
Information technology hardware and software	129,008	115,283
Furniture and fixtures	56,277	55,146
Leasehold improvements	220,720	213,124
Construction in progress	23,859	26,517
Right of use assets under finance leases	36,757	36,437
	677,510	638,732
Less: Accumulated depreciation	(336,217)	(271,965)
	$ 341,293	$ 366,767

In thousands	As of January 2, 2021	As of December 28, 2019
Other payables and accrued expenses:		
Associate compensation and benefits [(1)]	$ 51,081	$ 28,347
Self-insurance liabilities	8,650	8,403
Capital expenditures	8,455	6,782
Advertising	2,173	2,919
Reserves for customer returns and remakes	8,084	7,158
Legacy management & services agreement	5,386	4,461
Fair value of derivative liabilities	5,116	6,382
Supplies and other store support expenses	3,461	2,926
Litigation settlements	1,107	3,840
Lease concessions	3,142	—
Other	13,654	11,611
	$ 110,309	$ 82,829

(1) Includes CARES Act deferred employer payroll taxes in the amount of $12.8 million as of January 2, 2021.

In thousands	As of January 2, 2021	As of December 28, 2019
Other non-current liabilities:		
Fair value of derivative liabilities	$ 7,663	$ 1,603
Self-insurance liabilities	7,046	7,283
Other	2,706	4,845
	$ 17,415	$ 13,731

3. Goodwill and Intangible Assets

During fiscal year 2018, as a result of our annual goodwill impairment test, we fully impaired the remaining carrying value of goodwill at Fred Meyer and Military of $11.4 million and $3.7 million, respectively. Management lowered the revenue growth rate assumptions at Fred Meyer and Military resulting in the fair values at these reporting units to be lower than their carrying values. The lower revenue growth rate assumptions at Fred Meyer and Military were primarily the result of recent sales underperformance resulting from decreases in projected customer transaction volume.

The gross carrying amount and accumulated impairment of the Company's goodwill balances for 2020 and 2019 are as follows:

	As of January 2, 2021		As of December 28, 2019	
In thousands	Gross Carrying Amount	Accumulated Impairment	Gross Carrying Amount	Accumulated Impairment
Owned & Host Segment	$ 736,901	$ (19,357)	$ 736,901	$ (19,357)
Legacy Segment	60,069	—	60,069	—
Corporate/Other	8,107	(8,107)	8,107	(8,107)
	$ 805,077	$ (27,464)	$ 805,077	$ (27,464)

Besides the goodwill impairments noted above, no other intangible asset impairment was identified during fiscal years 2020, 2019 and 2018.

Indefinite-lived intangible assets by major asset class are as follows:

In thousands	As of January 2, 2021	As of December 28, 2019
Trademarks and trade names:		
America's Best	$ 200,547	$ 200,547
Eyeglass World	40,000	40,000
	$ 240,547	$ 240,547

We intend to maintain our trademarks; renewals will take place as needed.

Finite-lived, amortizing intangible assets by major asset class are as follows:

	As of January 2, 2021			As of December 28, 2019		
In thousands	Gross Carrying Amount	Accumulated Amortization	Remaining Life (Years)	Gross Carrying Amount	Accumulated Amortization	Remaining Life (Years)
Contracts and relationships:						
Legacy	$ 65,000	$ 40,154	4	$ 65,000	$ 34,247	5
Fred Meyer	35,000	10,339	16	35,000	8,820	17
Customer database	4,400	4,400	—	4,400	4,400	—
Other	746	742	—	746	739	—
	$ 105,146	$ 55,635		$ 105,146	$ 48,206	

We extended our relationship with Walmart in fiscal year 2020. Refer to Note 16. "Segment Reporting" for more information. Our current agreement with Fred Meyer expires on December 31, 2021; we intend to maintain our intangible assets and renewals will take place as needed.

Aggregate amortization expense is included in depreciation and amortization in the accompanying consolidated statements of operations. Aggregate future estimated amortization expense is shown in the following table:

Fiscal Year	*In thousands*
2021	$ 7,491
2022	7,490
2023	7,488
2024	7,488
2025	2,519
Thereafter	17,035
	$ 49,511

4. Long-term Debt

Long-term debt consists of the following:

In thousands	As of January 2, 2021	As of December 28, 2019
2025 Notes, due May 15, 2025	$ 402,500	$ —
Term Loan, due July 18, 2024	317,375	392,375
Revolving Credit Facility, due July 18, 2024	—	148,000
Long-term debt before debt discount	719,875	540,375
Unamortized discount and issuance costs - 2025 Notes	(93,123)	—
Unamortized discount and issuance costs - term loan	(2,141)	(3,979)
Long-term debt less debt discount	624,611	536,396
Less current maturities	—	(10,500)
Long-term debt - non-current portion	624,611	525,896
Finance lease obligations	30,750	33,296
Less current maturities	(3,598)	(3,259)
Long-term debt and finance lease obligations, less current portion and debt discount	$ 651,763	$ 555,933

2025 Notes

In May 2020, we completed the issuance of the 2025 Notes, pursuant to an indenture between the Company and U.S. Bank, dated as of May 12, 2020 (the "Indenture"). The 2025 Notes were sold only to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The 2025 Notes will pay interest semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2020, at an annual rate of 2.50% and will be convertible into cash, shares of common stock or a combination of cash and shares of common stock, at our election, based on the applicable conversion rate at such time.

We received proceeds from the offering of $390.9 million, net of $11.6 million in underwriter fees and other issuance costs. We used $294.3 million of the net proceeds from the offering to repay all outstanding amounts under the Revolving Credit Facility and $75.0 million to partially repay the first lien term loan in an aggregate principal amount of $420.0 million (the "Term Loan"). We intend to use the remainder of the net proceeds for general corporate purposes.

Prior to February 15, 2025, the 2025 Notes will be convertible at the option of the holder only under the following circumstances:

(i) during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the Last Reported Sale Price (as defined in the Indenture) per share of the Company's common stock exceeds 130% of the Conversion Price (as defined in the Indenture) for each of at least 20 Trading Days (as defined in the Indenture), whether or not consecutive, during the 30 consecutive Trading Days ending on, and including, the last Trading Day of the immediately preceding calendar quarter;

(ii) during the five consecutive business days immediately after any ten consecutive Trading Day period (such ten consecutive trading day period, the "measurement period") in which the Trading Price (as defined in the Indenture) per $1,000 principal amount of the 2025 Notes for each Trading Day of the measurement period was less than 98% of the product of the Last Reported Sale Price per share of the Company's common stock on such Trading Day and the conversion rate (as described below) on such Trading Day;

(iii) upon the occurrence of certain corporate events or distributions on the Company's common stock, as described in the Indenture; or

(iv) if the Company calls such Notes for redemption.

On or after February 15, 2025 until 5:00 p.m., New York City time, on the second Scheduled Trading Day (as defined in the Indenture) immediately before the maturity date, the 2025 Notes will be convertible at the option of the holder at any time.

The 2025 Notes will initially be convertible at a conversion rate of 32.0783 shares of common stock per $1,000 principal amount of 2025 Notes, which is equivalent to an initial conversion price of approximately $31.17 per share of common stock. The conversion rate is subject to adjustment upon certain events. The Company can choose to settle upon conversion in cash, shares or a combination. Based on the initial conversion rate, the 2025 Notes are convertible into 12.9 million shares of our common stock and we reserved for the possible issuance of 16.5 million shares, which is the maximum amount that could be issued upon conversion. As of January 2, 2021, the 2025 Notes can be converted by holders based on condition (i) above. The "if-converted value" exceeded the principal amount of the 2025 Notes by $182.3 million. See Note 15. "Earnings Per Share" for the treatment of earnings per share in relation to the 2025 Notes.

In accordance with accounting guidance on embedded conversion features indexed to and settled in equity, the Company valued and bifurcated the conversion option associated with the 2025 Notes from the respective host debt instrument, which is referred to as debt discount, and initially recorded the post-tax conversion option of $73.5 million ($95.2 million pre-tax) for the 2025 Notes in stockholders' equity. The resulting debt discount on the 2025 Notes is amortized to interest expense using the effective interest rate method over the contractual term of the 2025 Notes. The Company allocated post-tax debt issuance costs of $2.2 million ($2.7 million pre-tax) to the equity component and the remaining debt issuance costs of $8.9 million are amortized to interest expense under the effective interest rate method at 9.1% over the contractual term of the 2025 Notes. We recognized $17.3 million in interest expense for the interest coupon and amortization of debt discount and issuance costs during fiscal 2020. As of January 2, 2021, the remaining period for the unamortized debt discount balance was approximately four and a half years.

Credit Agreement

On July 18, 2019, the credit agreement, dated as of October 9, 2018 (the "Existing Credit Agreement") was amended and restated to establish a new Term Loan of $420.0 million to repay all principal, interest fees and other amounts outstanding under the Existing Credit Agreement immediately and establish a new Revolving Credit Facility in an aggregate principal amount of $300.0 million, including a $20.0 million letter of credit sublimit. In connection with the principal repayments of our existing debt, the Company wrote off associated deferred debt issuance costs of $6.0 million and associated unamortized debt discount of $3.8 million, in the third quarter of 2019.

On March 17, 2020, as a precautionary measure to preserve financial flexibility during the COVID-19 pandemic, we borrowed the remaining $146.3 million in available funds under our Revolving Credit Facility. On May 5, 2020, certain of the Company's subsidiaries entered into an agreement (the "Credit Agreement Amendment") with the lenders to amend certain provisions of the Amended and Restated Credit Agreement, dated as of July 18, 2019 (as amended by the Credit Agreement Amendment, the "Credit Agreement"), by and among Nautilus Acquisition Holdings, Inc. ("Holdings"), National Vision, Inc. ("NVI"), the other subsidiaries of the Company party thereto, as guarantors, each lender party thereto and Bank of America, N.A., in its capacity as administrative agent and as collateral agent. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Credit Agreement and Amendment, as applicable.

This Credit Agreement Amendment is intended to prevent the effects of the COVID-19 pandemic, including the temporary closure of our stores, from creating uncertainty relative to our ability to comply with certain financial covenants and allow the Company to focus on prudent management of the business over the quarters ahead. As set forth in greater detail below, the Amendment suspends certain financial maintenance covenants contained in the Credit Agreement until testing at the end of the second fiscal quarter of 2021. Based on our current plans and management operational assumptions, we anticipate we will be in compliance with these amended covenants.

Pursuant to the Credit Agreement Amendment, the financial covenants relating to maintenance of a maximum Consolidated Total Debt to Consolidated EBITDA Ratio and a minimum Consolidated Interest Coverage Ratio are suspended until testing at the end of the second fiscal quarter of 2021. From and after such time, such covenants will be reinstated on a modified basis so that, subject to certain exceptions and limitations as described in the Credit Agreement Amendment, (i) with respect to the second and third fiscal quarters of 2021, the Consolidated Total Debt to Consolidated EBITDA Ratio shall not exceed 4.50 to 1.00 and, with respect to the fourth fiscal quarter of fiscal 2021 and thereafter, the Consolidated Total Debt to Consolidated EBITDA Ratio shall not exceed 4.00 to 1.00, in each case with NVI being able to elect to annualize certain quarterly periods so that quarterly performance from fiscal 2020 is excluded and (ii) with respect to the second fiscal quarter of 2021 and thereafter, the Consolidated Interest Coverage Ratio shall not be less than 3.00 to 1.00. In lieu of such financial covenants, pursuant to the Credit Agreement Amendment NVI has agreed during the suspension period, (i) not to have Consolidated EBITDA for any six fiscal quarter period be less than $0, with the second fiscal quarter of 2020 permitted to be excluded in certain circumstances, and (ii) to have a minimum level of liquidity (defined as cash and cash equivalents plus the unused portion of the Revolving Credit Facility) equal to the lesser of (x) $100,000,000 and (y) $40,000,000 plus the amount of any net proceeds from capital markets financings during such period in excess of $75,000,000.

In addition, the Credit Agreement was amended pursuant to the Credit Agreement Amendment to, among other things, (i) limit the flexibility of NVI and Holdings with respect to certain transactions during the covenant suspension period, including the ability to declare or pay dividends, incur debt and make investments and dispositions, (ii) require prepayments of the term loans under certain circumstances during the covenant suspension period from the net proceeds from debt or equity capital markets transactions by the Company (with the amount of the term loans to be paid down equal to $75 million from the first $400 million of capital raised and 50% of any proceeds above such amount) and (iii) restrict NVI's ability to borrow under the Revolving Credit Facility if unrestricted cash and cash equivalents exceeds $50 million (and, in the event of any such excess, to require a mandatory prepayment of such amount). Also pursuant to the Credit Agreement Amendment, the margins upon which interest is calculated for the term loans were amended to a range of 1.75% to 2.75% (for LIBOR Loans) and 0.75% to 1.75% (for ABR Loans), in each case based on NVI's Consolidated First Lien Secured Debt to Consolidated EBITDA Ratio at such time, with such margins subject to an increase of 50 basis points in the event that either (i) the Company has not raised at least $135 million in additional proceeds from certain capital markets transactions within 30 days of the date of the Credit Agreement Amendment or (ii) Consolidated EBITDA for the most recently ended four quarters is less than $0.

On May 12, 2020, we fully repaid the $294.3 million outstanding under our Revolving Credit Facility and partially repaid $75 million on the Term Loan. As a result of the repayments made in 2020 and the $25.0 million principal prepayment in 2019, the Company has no additional mandatory principal payments on the Term Loan until maturity on July 18, 2024 and no amounts outstanding under the Revolving Credit Facility. The borrowing capacity remaining as of January 2, 2021 was $293.6 million due to a reduction of $6.4 million for letters of credit outstanding. As a result of the repayment of the outstanding balance on our Revolving Credit Facility, the Company reclassified a proportionate share of unamortized debt issuance costs to Other assets.

The Credit Agreement Amendment also contains covenants that, among other things, limit NVI's ability to incur additional debt, create liens against assets, make acquisitions, pay dividends or distributions on its stock, merge or consolidate with another entity and transfer or sell assets. We were in compliance with all covenants related to our long-term debt as of January 2, 2021.

Scheduled annual maturities of debt are as follows:

Fiscal Year	*In thousands*
2021	$ —
2022	—
2023	—
2024	317,375
2025	402,500
	$ 719,875

5. Stock Incentive Plans

The Company has provided equity-based compensation awards to its associates under three plans. In connection with the initial public offering of our common stock (the "IPO"), on October 23, 2017, the Company's Board of Directors adopted, and its stockholders approved, the National Vision Holdings, Inc. 2017 Omnibus Incentive Plan (the "2017 Omnibus Incentive Plan"). The total number of shares of common stock that may be issued under the plan is 4,000,000. The plan authorizes the grant of stock options, stock appreciation rights, RSAs, RSUs, PSUs, other equity-based awards and other cash-based awards to our associates, directors, officers, consultants and advisers. The Vision Holding Corp. 2013 Amended and Restated Stock Incentive Plans provided for the issuance of stock options to directors, certain associates and consultants of Vision Holding Corp., its subsidiaries and affiliates. In 2014, our Board of Directors and stockholders of the Company approved the 2014 Stock Incentive Plan for Key Employees of National Vision Holdings, Inc. (formerly known as Nautilus Parent, Inc.) and its subsidiaries (the "2014 Stock Incentive Plan"). There were 10,988,827 stock options authorized for issuance pursuant to the 2014 Stock Incentive Plan. All awards under these plans have a contractual life of 10 years.

The Company also provides associates the opportunity to purchase Company common shares through the Associate Stock Purchase Plan (the "ASPP"), which the Company's Board of Directors adopted and its stockholders approved on June 6, 2018. The ASPP provides that up to 850,000 shares of common stock, at par value of $0.01 per share, may be offered and issued under the ASPP.

The following table summarizes stock compensation expense under the Company's plans, which is included in SG&A in the accompanying statements of operations:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Stock options	$ 2,827	$ 8,562	$ 19,397
RSUs and PSUs	7,201	3,655	1,386
RSAs	588	334	108
Associate stock purchase plan	124	119	48
Pre-tax stock based compensation expense	$ 10,740	$ 12,670	$ 20,939
Income tax benefit	(2,743)	(3,237)	(5,367)
After-tax share based compensation expense	$ 7,997	$ 9,433	$ 15,572

	Stock options	RSUs and PSUs	RSAs
Unrecognized compensation cost (*in thousands*)	$ 3,248	$ 14,156	$ 366
Expected remaining weighted-average period of expense recognition (in years)	1.69	2.20	0.58

Service-based options

The following table summarizes service-based stock option activity, including service-based options under the Vision Holding Corp. Amended and Restated 2013 Equity Incentive Plan, the 2014 Stock Incentive Plan, and the 2017 Omnibus Incentive Plan.

	Number of Options Outstanding	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In Thousands) ($)
Outstanding options at December 28, 2019	1,906,158	13.37		
Granted	160,574	34.47		
Exercised	(823,685)	8.83		
Forfeited	(49,061)	23.54		
Outstanding options at January 2, 2021	1,193,986	18.92	6.19	31,490
Vested and exercisable at January 2, 2021	665,781	12.94	4.94	21,540

The weighted average grant date fair value of service-based options granted during fiscal years 2020 and 2019 was \$13.71 and \$13.67, respectively. There were no grants of service-based options during fiscal year 2018. The fair value of service-based options vested during fiscal years 2020, 2019 and 2018 was \$3.3 million, \$5.7 million, and \$5.9 million respectively. The aggregate intrinsic value of service-based options exercised during fiscal years 2020, 2019 and 2018 was \$22.5 million, \$21.4 million, and \$45.7 million, respectively.

The fair value of service-based options was estimated using the Black-Scholes-Merton option pricing model. The following is a summary of the assumptions used in this model for service-based options:

	2020	2019
Expected volatility	39.54% to 55.81%	34.50% to 37.10%
Expected term range (in years)	6.00	5.75 to 6.50
Expected risk-free interest rate	0.47% to 1.13%	1.68% to 2.94%

The expected term was based on the mid-point between the weighted average time to vesting and the contractual time to maturity. Since all options granted in the 2014 Stock Incentive Plan were issued prior to the IPO, expected volatility was based on the volatility of comparable publicly traded companies. The volatility assumption subsequent to the IPO was calculated using daily closing prices of the stock. The risk free interest rate was based on the U.S. Treasury yield curve. The dividend yield was based on our expectation of not paying dividends on the common stock of NVHI for the foreseeable future.

Performance-based options

The following table summarizes performance-based stock option activity:

	Number of Options Outstanding	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In Thousands) ($)
Outstanding options at December 28, 2019	1,603,848	6.60		
Exercised	(705,414)	7.37		
Forfeited	(43,478)	15.74		
Outstanding options at January 2, 2021	854,956	5.50	3.42	34,018
Vested and exercisable at January 2, 2021	854,956	5.50	3.42	34,018

There were no grants of performance-based options during fiscal years 2020, 2019, and 2018. The fair value of performance-based options vested during fiscal years 2020, 2019 and 2018 was $1.4 million, $4.4 million and $16.1 million, respectively. The aggregate intrinsic value of performance-based options exercised during fiscal years 2020, 2019, and 2018 was $20.0 million, $29.9 million, and $70.2 million, respectively.

The following summarizes RSU, PSU and RSA awards activity:

	RSUs	Weighted average grant date fair value ($)	PSUs	Weighted average grant date fair value ($)	RSAs	Weighted average grant date fair value ($)
Outstanding at December 28, 2019	376,145	28.45	113,014	34.49	20,628	30.71
Granted	162,468	34.73	125,387	34.34	19,583	30.65
Vested	(52,466)	25.65	—	—	(18,229)	29.27
Forfeited	(31,656)	30.62	(18,217)	34.98	—	—
Outstanding at January 2, 2021	454,491	30.85	220,184	34.36	21,982	31.85

Restricted stock units (RSUs)

During fiscal years 2020 and 2019, we granted 162,468 and 373,082 shares of RSUs, respectively. RSUs include 11,233 RSUs that vest in two equal installments on the first and second anniversaries of the grant date, 216,400 RSUs that vest in three equal installments on the first, second and third anniversaries of the grant date, and 226,858 RSUs that vest in three installments on the second, third and fourth anniversaries of the grant date. The RSUs outstanding as of January 2, 2021 have $20.6 million intrinsic value and remaining weighted average requisite service period of 2.36 years.

Performance stock units (PSUs)

During fiscal year 2020 and 2019, we granted an aggregate of 125,387 and 116,046 PSUs, respectively. The PSUs granted in fiscal 2020 and 2019 are settled after the end of the performance period (i.e., cliff vesting), which begins on the first day of the grant year and ends on the last day of our fiscal years 2022 and 2021, respectively and are based on the Company's achievement of certain performance targets. The performance stock units outstanding as of January 2, 2021 have $10.0 million intrinsic value and remaining weighted average requisite service period of 1.75 years.

Restricted stock awards (RSAs)

During fiscal years 2020 and 2019, we granted an aggregate of 19,583 and 13,712 RSAs, respectively, to certain directors. These RSAs outstanding include 2,399 awards that vest proportionally over three years and 19,583 awards that vest one year from grant date. As of fiscal year end 2020, the intrinsic value of the awards was $1.0 million, the remaining requisite service period was 0.50 years.

Associate Stock Purchase Plan (ASPP)

Under the ASPP, eligible associates receive a 10% discount from the market trading value of common stock of the Company at the time of purchase. Participants may contribute to the ASPP, not to exceed $25,000 under the ASPP in any calendar year. As of January 2, 2021, the amount of shares held by eligible participants through the ASPP was not material.

6. Income taxes

The income tax provision (benefit) consists of:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Current income tax:			
Federal	$ 86	$ 443	$ 174
State	2,550	864	381
Deferred income tax:			
Federal	(219)	(2,972)	(15,687)
State	(14)	(644)	(3,653)
Income tax provision (benefit)	$ 2,403	$ (2,309)	$ (18,785)

Our income tax provision (benefit) differs from the amounts computed by multiplying earnings before income taxes by the statutory federal income tax rate as shown in the following table:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Federal income tax provision at statutory rate	$ 8,123	$ 6,403	$ 1,022
State income tax provision, net of federal income tax	1,755	1,387	226
Increase (decrease) in deferred tax asset valuation allowance	(216)	(386)	318
Goodwill impairment	—	—	3,879
Tax benefit of equity-based compensation deductions	(7,996)	(10,089)	(25,544)
Other, net	737	376	1,314
Net income tax provision (benefit)	$ 2,403	$ (2,309)	$ (18,785)
Effective income tax rate	6.2 %	(7.6)%	(385.9)%

The Tax Legislation signed into law on December 22, 2017 makes broad and complex changes to the U.S. tax code including, but not limited to: (1) reducing the U.S. federal rate from 35% to 21%, effective January 1, 2018; (2) eliminating the corporate alternative minimum tax ("AMT") and changing how the credits can be realized; (3) creating new limitations on deductions for interest expense; (4) changing rules related to limitations of net operating loss ("NOL") carryforwards, and (5) enhancing and extending through 2026 the option to claim accelerated depreciation deductions on qualified property.

Pursuant to SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Legislation, the Company recognized provisional effects of the enactment of the 2017 Tax Legislation for which measurement could be reasonably estimated as of fiscal year end 2018. As of fiscal year end 2018, the Company recorded adjustments to the provisional estimates related to depreciation expense. The adjustments to the provisional estimates of December 30, 2017 did not materially impact the effective tax rate of the Company during fiscal year 2018.

The sources of the differences between the financial accounting and tax bases of our assets and liabilities that give rise to the deferred tax assets and deferred tax liabilities and the tax effects of each are as follows:

In thousands	As of January 2, 2021	As of December 28, 2019
Deferred tax assets:		
NOL carry-forwards	$ 10,841	$ 12,006
Deferred interest expense carry-forwards	180	3,733
AMT payment and employment credits	3,541	4,155
Deferred revenue	5,498	5,145
Accrued expenses and reserves	9,361	12,542
Loss on equity and other investments	2,135	1,960
Stock option compensation	5,135	5,505
Unrealized losses on hedging instruments	2,237	2,039
Other	15,842	942
Subtotal	54,770	48,027
Valuation allowances	(3,486)	(3,705)
Total net deferred tax assets	51,284	44,322
Deferred tax liabilities:		
Depreciation of property and equipment	(37,592)	(27,953)
Amortization of intangible assets	(73,590)	(74,529)
Convertible debt discount	(18,819)	—
Other	(2,222)	(1,986)
Total deferred tax liabilities	(132,223)	(104,468)
Net deferred tax liabilities	$ (80,939)	$ (60,146)

As of fiscal year end 2020, we had available U.S. federal NOL carry-forwards aggregating to $46.9 million that can be utilized to reduce future federal income taxes. The Company has $44.5 million of carry-forward losses that do not expire and $0.8 million of carry-forward losses expiring at the end of fiscal year 2037, respectively. In addition, we have NOL carry-forwards in varying amounts and with varying expiration dates in various states in which we operate. We believe it is more likely than not that we will realize a tax benefit for these NOL's in the future except for $4.2 million of NOL carry-forwards on our professional corporations where we recognized a full valuation allowance as of fiscal year end 2020. As of fiscal year end 2020, the Company has gross deferred tax assets of $100.8 million related to operating lease liabilities and gross deferred tax liabilities of $86.3 million related to ROU assets. These amounts are presented net in Other deferred tax assets as of fiscal year end 2020.

As of fiscal year end 2020, previously reported Federal AMT carry-forward credits of $1.3 million were requested to be refunded in accordance with the CARES Act. Non-expiring federal and state AMT carry-forward credits and employment credits totaling $3.5 million are available to offset certain future taxes.

We have a $1.9 million deferred income tax asset on losses associated with our equity method non-consolidated investee and a $0.2 million deferred income tax asset for capital losses associated with the impairment of an investment recorded during fiscal year 2018. We do not expect to generate significant capital gains from these investments, or other sources, in the near future. Therefore, we believe it is more likely than not that we will not realize a tax benefit for the majority of these deferred income tax assets, and accordingly we have established a full valuation allowance for the amount deemed unrealizable.

As a result of our utilization of NOL carry-forwards to reduce or eliminate subsequent years' tax obligations, our federal and a substantial number of our state income tax returns for fiscal years 2001 through 2020 remain open for examination by the tax authorities.

The Company evaluates uncertain tax positions using a "more-likely-than-not" threshold, and recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by tax authorities. The Company evaluates uncertain tax positions on a quarterly basis and considers various factors, including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, information obtained during in-process audit activities and changes in facts or circumstances related to a tax position.

7. Revenue From Contracts With Customers

The majority of our annual revenues are recognized either at the point of sale or upon delivery and customer acceptance, paid for at the time of sale in cash, credit card, or on account with managed care payors having terms generally between 14 and 120 days, with most paying within 90 days. For sales of in-store non-prescription eyewear and related accessories, and paid eye exams, we recognize revenue at the point of sale. Our point in time revenues include 1) retail sales of prescription and non-prescription eyewear, contact lenses and related accessories to retail customers (including those covered by managed care), 2) eye exams and 3) wholesale sales of inventory in which our customer is another retail entity. Revenues recognized over time primarily include product protection plans, eye care club memberships and management fees earned from our legacy partner.

Revenues Recognized at a Point in Time

Owned & Host

Within our Owned & Host segment, product revenues include sales of prescription and non-prescription eyewear, contact lenses and related accessories to retail customers.

For sales of in-store non-prescription eyewear and related accessories, we recognize revenue at the point of sale. For sales of prescription eyewear, we recognize revenue when the performance obligations identified under the terms of contracts with our customers are satisfied, which generally occurs, for products, when those products have been delivered and accepted by our customers. Within our Owned & Host segment services and plans revenues, eye exam services sold on a stand-alone basis are also recognized at the point of sale which occurs immediately after the exam is performed.

Legacy

Within our Legacy segment, product revenues include sales of prescription and non-prescription eyewear, contact lenses and related accessories to retail customers in transactions where the retail customer uses a managed-care payor; and wholesale sales of the same inventory types to the legacy partner.

The revenue recognition for the retail sales are identical to similar sales in the Owned & Host segment.

Wholesale sales of inventory to the legacy partner are recognized at the point in time when control of the inventory has been transferred in accordance with the contractual terms and conditions of sale. Since the wholesale sales of inventory to the legacy partner are a separate performance obligation in our management & services agreement with the legacy partner, we considered the appropriate allocation of consideration to wholesale inventory sales. We concluded that the difference between the stand-alone-selling price of the wholesale inventory and the contractual prices was not material.

Within our Legacy segment services and plans revenues, eye exam services sold to retail customers are recognized at the point of sale which occurs immediately after the exam is performed.

Corporate/Other

Revenues from our non-reportable Corporate/Other segment are attributable to wholly owned subsidiaries AC Lens and FirstSight Vision Services Inc. (“FirstSight”). AC Lens sells contact lenses and optical accessory products to retail customers through e-commerce, and recognizes revenue when products have been delivered to the customer. AC Lens also distributes contact lenses at its cost to Walmart and Sam’s Club under fee for services arrangements. This revenue is recorded on a gross basis as AC Lens is the principal in the arrangement since AC Lens controls the products in those transactions before the products are transferred to the customer.

FirstSight issues individual vision plans in connection with our America’s Best operations in California, and provides or arranges for the provision of optometric services at certain optometric offices next to Walmart and Sam’s Club stores in California.

Revenues Recognized Over Time

Owned & Host

Within our Owned & Host segment, services and plans revenues include revenues from product protection plans (i.e. warranties), eyecare club memberships and HMO vision plan fees. We offer extended warranty plans in our Owned & Host segment that generally provide for repair and replacement of eyeglasses for primarily a one-year term after purchase. We recognize service revenue under these programs on a straight-line basis over the warranty or service period which is consistent with our efforts expended to satisfy the obligation. We offer three- or five-year eyecare club memberships in our Owned & Host segment to our contact lens customers. For these programs we apply the portfolio approach of recognizing revenues of contracts with similar characteristics and use estimates and assumptions that reflect the size and composition of the portfolio of contracts. We selected the portfolio approach because our historical club membership data demonstrate that our club customers behave similarly, such that the difference between the portfolio approach and calculating revenue of each individual contract is not material. We recognize revenue across the contract portfolio based on the value delivered to the customers relative to the remaining services promised under the programs. We determine the value delivered based on the expected timing and amount of customer usage of benefits over the terms of the contracts. The unamortized portion of amounts we collect in advance for these services and plans are reported as deferred revenue (current and non-current portions) in the accompanying consolidated balance sheets.

Legacy

Sales of services and plans in our Legacy segment include fees earned for managing the operations of our legacy partner. These fees are recorded on a net basis and are based primarily on sales of products and product protection plans to non-managed care customers. We determined that under the terms of the arrangement our legacy partner controls the products and services in the transaction with the retail customer and therefore we act as the agent in those transactions. We recognize this service revenue using the “right to invoice” method because our right to payment corresponds directly with the value of the management services provided to our legacy partner.

The following disaggregation of revenues depicts our revenues based on the timing of revenue recognition:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Revenues recognized at a point in time	$ 1,569,757	$ 1,578,379	$ 1,397,801
Revenues recognized over time	142,003	145,952	139,053
Total net revenue	$ 1,711,760	$ 1,724,331	$ 1,536,854

Refer to Note 16. “Segment Reporting” for the Company’s disaggregation of net revenue by reportable segment and product type. As the reportable segments are aligned by similar economic factors, trends and customers, the reportable segment disaggregation view best depicts how the nature, amount and uncertainty of revenue and cash flows are affected by economic factors.

The following table summarizes the activity of allowance for expected credit losses for the fiscal year end 2020.

In thousands	Fiscal Year 2020
Beginning balance as of December 28, 2019	$ (3,040)
Current-period provision for expected credit losses	(671)
Write-offs charged against the allowance	1,071
Other adjustments [1]	2,207
Ending balance as of January 2, 2021	$ (433)

[1] As part of our adoption of ASU 2016-13, we adjusted the allowance for certain amounts recognized in prior periods that no longer represented an allowance for credit losses. The adjustment was immaterial to the financial results of current and prior periods. See Note 2. “Details of Certain Balance Sheet Accounts” for further details.

8. Leases

We lease our stores, laboratories, distribution centers, and corporate offices. These leases generally have noncancelable lease terms of between five and 10 years, with an option to renew for additional terms of one to 10 years or more. The lease term includes renewal option periods when the renewal is deemed reasonably certain after considering the value of the leasehold improvements at the end of the noncancelable lease period. Most leases for our stores provide for a minimum rent and typically include escalating rent over time with the exception of Military for which lease payments are variable and based on a percentage of sales. For Vista Optical locations in Fred Meyer stores, we pay fixed rent plus a percentage of sales after certain minimum thresholds are achieved. The Company's leases generally require us to pay insurance, real estate taxes and common area maintenance expenses, substantially all of which are variable and not included in the measurement of the lease liability. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. With respect to lease accounting guidance, the Company's management & services agreement with its legacy partner does not contain a lease arrangement.

Our lease arrangements frequently include TIAs, which are contractual amounts received from a lessor for improvements made to leased properties by the Company. For operating leases, TIAs are treated as a reduction of the lease payments used to measure the ROU assets in the accompanying consolidated balance sheet as of fiscal year 2020 and are amortized as a reduction in rental expense over the life of the respective leases.

We rent or sublease certain parts of our stores to third parties. Our sublease portfolio consists mainly of operating leases with our ophthalmologists and optometrists within our stores.

In response to the COVID-19 pandemic, we began seeking relief from our landlords while our stores were temporarily closed to the public. On April 10, 2020, the Financial Accounting Standards Board staff issued a question-and-answer document providing guidance for lease concessions provided to lessees in response to the effects of COVID-19. Such guidance allows lessees to make an election to account for lease concessions as though the enforceable rights and obligations existed in the original lease. This election is only available when the concessions do not result in a substantial increase in the obligations of the lessee.

During the second quarter of 2020, we reached rent concession agreements where certain of these concession arrangements included lease payment and term extensions between three and 12 months. The Company has elected to account for lease concessions and deferrals resulting directly from the COVID-19 pandemic as though the enforceable rights and obligations to the deferrals existed in the respective contracts at lease inception and will not account for the concessions as lease modifications, unless the concession results in a substantial increase in the Company's obligations. The majority of leases where we received a concession did not result in a substantial increase in our obligations. Lease concessions of $3.1 million were recorded in Other payables and accrued expenses as of January 2, 2021. See Note 2. "Details of Certain Balance Sheet Accounts" for further details.

In thousands		As of January 2, 2021	As of December 28, 2019
Type	**Classification**		
	ASSETS		
Finance	Property and equipment, net [(a)]	$ 24,373	$ 28,128
Operating	Right of use assets [(b)]	340,141	348,090
	Total leased assets	$ 364,514	$ 376,218
	LIABILITIES		
	Current Liabilities:		
Finance	Current maturities of long-term debt and finance lease obligations	$ 3,598	$ 3,259
Operating	Current operating lease obligations [(c)]	58,356	51,937
	Other non-current liabilities:		
Finance	Long-term debt and finance lease obligations, less current portion and debt discount	27,152	30,037
Operating	Non-current operating lease obligations	327,371	331,769
	Total lease liabilities	$ 416,477	$ 417,002

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the net present value of minimum lease payments. We used the incremental borrowing rate on December 30, 2018 for operating leases that commenced prior to that date.

(a) Finance lease assets are recorded net of accumulated amortization of $12.4 million and $8.3 million as of January 2, 2021 and December 28, 2019, respectively.

(b) TIA of $36.0 million and $35.2 million are treated as reductions of lease payments used to measure ROU assets as of January 2, 2021 and December 28, 2019, respectively. Deferred rent of $17.5 million and $15.0 million are treated as reductions of lease payments used to measure ROU assets as of January 2, 2021 and December 28, 2019, respectively.

(c) Current operating lease liabilities are measured net of TIA receivables of $3.8 million and $5.9 million as of January 2, 2021 and December 28, 2019, respectively.

In thousands		Fiscal Year 2020		Fiscal Year 2019
Operating lease cost				
Fixed lease cost [a]	$	79,387	$	73,971
Variable lease cost [b]		28,158		26,466
Sublease income[c]		(2,700)		(2,930)
Finance lease cost				
Amortization of finance lease assets		4,561		4,418
Interest expense, net:				
Interest on finance lease liabilities		3,656		3,573
Net lease cost	$	113,062	$	105,498

(a) Includes short-term leases, which are immaterial.

(b) Includes costs for insurance, real estate taxes and common area maintenance expenses, which are variable as well as lease costs above minimum thresholds for Fred Meyer stores and lease costs for Military stores.

(c) Income from sub-leasing of stores includes rental income from operating lease properties to ophthalmologists and optometrists who are independent contractors.

Lease Term and Discount Rate	As of January 2, 2021	As of December 28, 2019
Weighted average remaining lease term (months)		
Operating leases	77	82
Finance leases	79	88
Weighted average discount rate [a]		
Operating leases	4.7 %	4.6 %
Finance leases [b]	12.3 %	13.1 %

(a) The discount rate used to determine the lease assets and lease liabilities was derived upon considering (i) incremental borrowing rates on our term loan and revolving credit facility; (ii) fixed rates we pay on our interest rate swaps; (iii) LIBOR margins for issuers of similar credit rating; and (iv) effect of collateralization. As a majority of our leases are five-year and 10-year leases, we determined a lease discount rate for such tenors and determined this discount rate is reasonable for leases that were entered into during the period.

(b) The discount rate on finance leases is higher than operating leases because the present value of minimum lease payments was higher than the fair value of leased properties for certain leases entered into prior to adoption of ASC 842. The discount rate differential for those leases is not material to our results of operations.

In thousands **Other Information**		Fiscal Year 2020		Fiscal Year 2019
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash outflows - operating leases	$	84,913	$	75,330

The following table summarizes the maturity of our lease liabilities as of January 2, 2021:

In thousands **Fiscal Year**		Operating Leases [a]		Finance Leases [b]
2021	$	73,867	$	6,676
2022		77,874		7,215
2023		70,103		6,241
2024		60,998		4,673
2025		51,974		4,451
Thereafter		116,272		12,008
Total lease liabilities		451,088		41,264
Less: Interest		65,361		10,514
Present value of lease liabilities[c]	$	385,727	$	30,750

(a) Operating lease payments include $60.8 million related to options to extend lease terms that are reasonably certain of being exercised.
(b) Finance lease payments include $1.7 million related to options to extend lease terms that are reasonably certain of being exercised.
(c) The present value of lease liabilities excludes $26.4 million of legally binding minimum lease payments for leases signed but not yet commenced.

9. Related Party Transactions

Transactions with KKR

During fiscal years 2019 and 2018, KKR Capital Markets LLC acted as a lead arranger with respect to debt issuance and refinancing transactions, and received $1.0 million and $1.2 million in fees, respectively, in connection therewith.

See Note 1. "Description of Business and Basis of Presentation-Secondary Public Offerings" for details on a common stock offering in 2019 through which KKR ceased to be a related party.

10. Equity in Net Assets of Non-Consolidated Investee

From time to time the Company invests in technological innovators across the optical retail industry. One of these investments is a nonconsolidated investee (the "investee") in which an equity ownership interest is maintained and for which the equity method of accounting is used due to our ability to exert significant influence over decisions relating to our investee's operations and financial affairs. We hold a 24% equity interest in our investee as of fiscal year end 2020.

Revenues and expenses of the investee are not consolidated into our financial statements; rather, our proportionate share of the earnings or losses of the investee is reflected as equity income or loss in Other expense (income), net in the Company's consolidated statements of operations. We have determined that we should not consolidate our investee because, although it is a variable interest entity, we are not the primary beneficiary. After adjusting the carrying value of our interest in the investee's reported net losses, there is no remaining equity investment balance associated with this investee as of January 2, 2021.

Our investee's fiscal year ends on December 31 of each year. The investee recognized no material transactions on the days between its fiscal year end and our fiscal year end for all periods presented below.

Summarized balance sheet information for our investee is as follows:

In thousands	As of January 2, 2021	As of December 28, 2019
Current assets	$ 1,815	$ 1,351
Non-current assets	387	450
Total assets	2,202	1,801
Current liabilities	3,464	3,821
Non-current liabilities	4,421	8,200
Total liabilities	7,885	12,021
Net assets	$ (5,683)	$ (10,220)

Summarized income statement information for our investee is as follows:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Revenues	$ 6,771	$ 6,046	$ 3,871
Net loss	$ (5,739)	$ (5,481)	$ (5,632)
Our share of net loss (1)	$ (1,383)	$ (1,804)	$ (1,304)

(1) We did not record our share of the 2020 net loss as there is no obligation to absorb losses in excess of the equity investment.

In the ordinary course of business we are a licensee of our investee. Upon adoption of ASU 2016-13 in 2020, the Company wrote-off the carrying value of the secured convertible promissory note held by the Company for estimated credit losses. In April 2020, the Company converted the promissory note to an equity investment. The equity investment has a carrying value of zero as of January 2, 2021. Interest income associated with the note was immaterial for the 2019 fiscal year.

Balances and transactions related to our non-consolidated investee included in our consolidated balance sheets and statements of operations were as follows:

In thousands	As of January 2, 2021	As of December 28, 2019
Balance sheets		
Other assets [(1)]	$ —	$ 704
(1) Other assets represent a loan receivable from our investee.		

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Statements of operations			
Licensing fees (SG&A)	$ 151	$ 132	$ 172

11. Fair Value Measurement of Financial Assets and Liabilities

The Company uses a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's own market assumptions.

The Company is required to measure certain assets and liabilities at fair value or disclose the fair values of certain assets and liabilities recorded at cost. Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated assuming the transaction occurs in the principal or most advantageous market for the asset or liability and includes consideration of non-performance risk and credit risk of both parties. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1 - Valuation inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 - Valuation inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the instruments.
- Level 3 - Valuation inputs are unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are determined using model-based techniques that include discounted cash flow models and similar techniques.

The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material impact on the estimated fair value amounts.

Cash Equivalents and Restricted Cash

The carrying amount of cash equivalents approximates fair value due to the short term maturity of the instruments. All cash and cash equivalents are denominated in U.S. currency.

Accounts Receivable, Net

The carrying amount of accounts receivable approximates fair value due to the short-term nature of those items and the effect of related allowances for doubtful credit losses.

Accounts Payable and Other Payables and Accrued Expenses

The carrying amounts of accounts payable and other payables and accrued expenses approximate fair value due to the short-term nature of those items.

Tangible Long-lived and Right of Use ("ROU") Store Assets

The non-recurring fair value measurements associated with these tangible long-lived and ROU store assets are classified as Level 3 measurements in the fair value hierarchy. Refer to Note 1. "Description of Business and Basis of Presentation".

Long-term Debt - Term Loan and Revolving Credit Facility

Since the borrowings under the Term Loan and Revolving Credit Facility utilize variable interest rate setting mechanisms such as LIBOR, the fair values of these borrowings are deemed to approximate the carrying values. We also considered the effect of our own credit risk on the fair values of our Term Loan and Revolving Credit Facility. Refer to Note 4. “Long-term Debt”.

Long-term Debt - 2025 Notes

The Company has $402.5 million in aggregate principal amount of 2.50% convertible senior notes due on May 15, 2025 issued and outstanding as of January 2, 2021. The estimated fair value of the 2025 Notes was approximately $655.3 million as of January 2, 2021. The estimated fair value of the 2025 Notes is based on the prices the 2025 Notes have traded in the market as of January 2, 2021, as well as overall market conditions on the date of valuation, stated coupon rates, the number of coupon payments each year and the maturity dates, and represents a Level 2 measurement. Refer to Note 4. “Long-term Debt” for more information on the 2025 Notes.

Interest Rate Derivatives

We recognize as assets or liabilities at fair value the estimated amounts we would receive or pay upon a termination of interest rate derivatives prior to their scheduled expiration dates. The fair value is based on information that is model-driven and whose inputs were observable (Level 2 inputs). See Note 14. “Interest Rate Derivatives” for further details.

12. Deferred Revenue

The following depicts a roll-forward of deferred revenue:

	Fiscal Year 2020			
In thousands	Product Protection Plans	Eye Care Clubs	HMO Memberships	Total
Beginning of the year	$ 30,911	$ 46,486	$ 3	$ 77,400
Sold	63,535	47,445	—	110,980
Revenue recognized	(60,299)	(48,351)	(3)	(108,653)
End of year	$ 34,147	$ 45,580	$ —	$ 79,727
Current	$ 33,810	$ 25,089	$ —	$ 58,899
Non-current	337	20,491	—	20,828
	$ 34,147	$ 45,580	$ —	$ 79,727

	Fiscal Year 2019			
In thousands	Product Protection Plans	Eye Care Clubs	HMO Memberships	Total
Beginning of the year	$ 28,775	$ 43,488	$ 15	$ 72,278
Sold	63,105	52,438	—	115,543
Revenue recognized	(60,969)	(49,440)	(12)	(110,421)
End of year	$ 30,911	$ 46,486	$ 3	$ 77,400
Current	$ 30,547	$ 25,320	$ 3	$ 55,870
Non-current	364	21,166	—	21,530
	$ 30,911	$ 46,486	$ 3	$ 77,400

Deferred revenue recorded as of fiscal year end 2020 is expected to be reflected in future operating results as follows:

Fiscal Year	*In thousands*
2021	$ 58,899
2022	15,484
2023	5,141
2024	152
2025	51
	$ 79,727

13. Commitments and Contingencies

Contractual Commitments

As of January 2, 2021, the Company had contractual commitments of approximately $62.9 million consisting of agreements for merchandise purchases, technology and advertising.

Warranty Costs

The Company records an allowance for the estimated amount of future warranty costs when the related revenue is recognized, which is recorded in other payables and accrued expenses on the accompanying consolidated balance sheets. Expense associated with warranty costs is presented in cost of services and plans in the accompanying consolidated statements of operations. Estimated future warranty costs are primarily based on historical experience of identified warranty claims. However, there can be no assurance that future warranty costs will not exceed historical amounts. The following details the activity in our product warranty liability accounts:

In thousands		Fiscal Year 2020		Fiscal Year 2019
Beginning of year balance	$	1,881	$	1,742
Accrued obligation		28,415		33,014
Claims paid		(28,067)		(32,875)
End of year balance	$	2,229	$	1,881

401(k) Plan

The Company sponsors a 401(k) plan into which associates may defer a portion of their wages. We match a portion of such deferred wages. The expense for the plan was $5.3 million, $5.3 million and $4.2 million in the fiscal years ended 2020, 2019 and 2018, respectively. Expense associated with our 401(k) plan is presented in SG&A in the consolidated statements of operations.

Legal Proceedings

From time to time, the Company is involved in various legal proceedings incidental to its business. Because of the nature and inherent uncertainties of litigation, we cannot predict with certainty the ultimate resolution of these actions and, should the outcome of these actions be unfavorable, the Company's business, financial position, results of operations or cash flows could be materially and adversely affected.

The Company reviews the status of its legal proceedings and records a provision for a liability when it is considered probable that both a liability has been incurred and the amount of the loss can be reasonably estimated. This review is updated periodically as additional information becomes available. If either or both of the criteria are not met, we reassess whether there is at least a reasonable possibility that a loss, or additional losses, may be incurred. If there is a reasonable possibility that a loss may be incurred, we disclose the estimate of the amount of the loss or range of losses, or that an estimate of loss cannot be made. The Company expenses its legal fees as incurred.

We are currently and may in the future become subject to various claims and pending or threatened lawsuits in the ordinary course of our business.

Our subsidiary, FirstSight, is a defendant in a purported class action in the U.S. District Court for the Southern District of California that alleges that FirstSight participated in arrangements that caused the illegal delivery of eye examinations and that FirstSight thereby violated, among other laws, the corporate practice of optometry and the unfair competition and false advertising laws of California. The lawsuit was filed in 2013 and FirstSight was added as a defendant in 2016. In March 2017, the court granted the motion to dismiss previously filed by FirstSight and dismissed the complaint with prejudice. The plaintiffs filed an appeal with the U.S. Court of Appeals for the Ninth Circuit in April 2017. In July 2018, the U.S. Court of Appeals for the Ninth Circuit vacated in part, and reversed in part, the district court's dismissal and remanded for further proceedings. In October 2018, the plaintiffs filed a second amended complaint with the district court, and, in November 2018, FirstSight filed a motion to dismiss. On March 23, 2020, the district court granted FirstSight's motion to dismiss the second amended complaint. On April 24, 2020, the plaintiffs filed a third amended complaint. FirstSight filed a motion to dismiss the third amended complaint on May 8, 2020. On February 4, 2021, the district court granted FirstSight's motion in part and denied it in part. FirstSight's answer to the remaining claims was filed February 18, 2021. We believe that the claims alleged are without merit and intend to continue to defend the litigation vigorously.

In May 2017, a complaint was filed against us and other defendants alleging, on behalf of a proposed class of consumers who purchased contact lenses online, that 1-800 Contacts, Inc. entered into a series of agreements with the other defendants, including our wholly-owned subsidiary, Arlington Contact Lens Service, Inc. ("AC Lens"), to suppress certain online advertising and that each defendant thereby engaged in anticompetitive conduct in violation of the Sherman Antitrust Act. We have settled this litigation for $7.0 million, without admitting liability. Accordingly, we recorded a charge for this amount in litigation settlement in the consolidated statement of operations during the second quarter of fiscal year 2017. On November 8, 2017, the court in the 1-800 Contacts matter entered an order preliminarily approving the settlement agreement, subject to a settlement hearing. Pursuant to this order, we deposited 50% of the settlement amount, or $3.5 million, into an escrow account, to be distributed subject to and in accordance the terms of the settlement agreement and any further order of the court. On May 15, 2020, the plaintiffs filed a motion seeking preliminary approval of their settlement with the remaining defendant, 1-800 Contacts, Inc., as well as conditional certification of the class and approval of the plan of distribution of settlement funds. This motion was granted by the court on June 3, 2020. The court held a hearing on plaintiffs' motion for final approval of class action settlements, approval of the plan of distribution, and final certification of the settlement classes on October 20, 2020. There were no objections and the court entered final judgment and order of dismissal following the hearing. Based on that order, we deposited the final 50% of the settlement amount, $3.5 million, into the designated escrow account to be distributed subject to and in accordance with the settlement agreement.

In February 2019, we were served with a lawsuit by a former associate who alleged, on behalf of himself and a proposed class, several violations of California wage and hour laws and sought unspecified alleged unpaid wages, monetary damages, injunctive relief and attorneys' fees. On March 21, 2019, we removed the lawsuit from state court to the United States District Court for the Northern District of California. The plaintiff moved to remand the action to state court on April 18, 2019, and the Court denied this motion on July 8, 2019. On July 22, 2019, the plaintiff filed an amended complaint. On July 26, 2019, the parties filed a joint stipulation wherein the Company denied all claims in the amended complaint but joined the plaintiff in seeking a stay of further proceedings in the lawsuit based on the parties' agreement to attend early mediation in an effort to avoid further costs and expenses of protracted litigation. The parties participated in mediation on February 19, 2020, but a resolution of the matter was not reached at that time. On February 27, 2020, following mediation, the parties agreed to a settlement of all claims alleged by the named claimant on behalf of himself and all putative class members and other aggrieved associates. The Company will pay $3.5 million as the gross settlement fund in connection with this settlement. This settlement was preliminarily approved by the court on April 29, 2020. A final approval hearing was conducted by the court on October 27, 2020. The court approved the settlement according to the terms of the parties' agreement and final judgment and order of dismissal was then entered. The Company deposited the settlement amount, or $3.5 million, into the designated account pursuant to the terms of the settlement agreement.

In November 2019, the Company agreed to enter into a pre-litigation settlement with six former associates who asserted, on behalf of themselves and a proposed class, violations of the Fair Labor Standards Act and of California wage and hour laws. In order to avoid the burden, expense and uncertainty of litigation, and without admitting liability, the Company agreed to a settlement with the named claimants and all participating class members for a maximum settlement amount of $895,000. This settlement is subject to approval by a tribunal following a fairness hearing.

14. Interest Rate Derivatives

The Company is party to pay-fixed and receive-floating interest rate swap agreements to offset the variability of cash flows in LIBOR-indexed debt interest payments, subject to a 1.0% floor, attributable to changes in the benchmark interest rate from March 13, 2017 to March 13, 2021 related to its credit agreement. During the first quarter of 2020, in accordance with the original agreements with the counterparties, the notional amount of one swap decreased from $105.0 million to $70.0 million. The aggregate notional amount of the interest rate swaps was $395.0 million and $430.0 million for the year ended January 2, 2021 and December 28, 2019, respectively. There were no other changes in the terms of the agreements. Also, during the first quarter of 2020, the Company entered into a forward-starting interest rate collar that will hedge variability of cash flows of LIBOR-indexed debt interest payments from March 13, 2021 to July 18, 2024, following the maturity of the interest rate swap agreements, with an aggregate notional amount of $375 million. See Note 11. "Fair Value Measurement of Financial Assets and Liabilities" for further details.

During the second quarter of 2020, as a result of the partial repayment of the Company's LIBOR based debt balances, certain forecasted hedged transactions were deemed not probable of occurring. The Company subsequently discontinued hedge accounting on $78.0 million of interest rate swap notional and $58.0 million of interest rate collar notional, reclassifying net unrealized losses of approximately $2.5 million from AOCL to interest expense, net during fiscal year 2020. Additionally, due to changes in the interest rates applicable to the Company's Term Loan and Revolving Credit Facility, the interest rate collar ceased to be a highly effective hedge. Losses on the change in fair value of the interest rate collar of approximately $2.6 million were recorded in interest expense, net during fiscal year 2020. Interest expense, net related to derivatives considered to be highly effective hedges for fiscal year 2020 was $7.7 million.

Changes in the cash flows of interest rate swap derivatives designated as hedges are expected to be highly effective in offsetting the changes in interest payments on a principal balance equal to the designated derivative's notional amount, attributable to the hedged risk. Cash flows related to derivatives qualifying as hedges are included in the same section of the Consolidated Statements of Cash Flows as the underlying assets and liabilities being hedged. Cash flows during fiscal year 2020 related to derivatives not qualifying as hedges were included in the operating section of the Consolidated Statements of Cash Flows and were immaterial. As of January 2, 2021, the Company expects to reclassify approximately $2.5 million of unrealized losses on derivative instruments, net of tax, from AOCL into earnings in the next 12 months as the derivative instruments mature. See Note 18. "Accumulated Other Comprehensive Loss" for further details.

Our cash flow hedge position related to interest rate derivative contracts is as follows:

In thousands	Balance Sheet Classification	As of January 2, 2021	As of December 28, 2019
Derivatives designated as hedging instruments under ASC 815			
Interest rate swaps	Other Payables and Accrued Expenses	$ 1,528	$ 6,382
Interest rate swaps	Other Liabilities	—	1,603
Total derivative liabilities designated as hedging instruments		$ 1,528	$ 7,985
Derivatives not designated as hedging instruments under ASC 815			
Interest rate swap	Other Payables and Accrued Expenses	$ 248	$ —
Interest rate collar	Other Payables and Accrued Expenses	3,340	—
Interest rate collar	Other Liabilities	7,663	—
Total derivative liabilities not designated as hedging instruments		$ 11,251	$ —

15. Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted average shares outstanding for the period and includes the dilutive impact of potential new shares issuable upon vesting and exercise of stock options, vesting of restricted stock units, and assumed conversion of $402.5 million of aggregate principal amount of 2025 Notes. Potential shares of common stock are excluded from the computation of diluted EPS if their effect is anti-dilutive.

Prior to the fourth quarter of the fiscal year 2020, we intended to settle the principal amount of the outstanding 2025 Notes in cash and, therefore, used the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. Under the treasury stock method, the shares underlying the conversion option of the 2025 Notes will have an impact on our diluted EPS when net income is reported and when the average market price of our common stock for the period exceeds the conversion price of $31.17 per share. Beginning with the fourth quarter of the current fiscal year, we are no longer asserting cash settlement of the principal amount of the outstanding 2025 Notes, therefore share settlement is now presumed. Thus, on a prospective basis we will apply the if-converted method for calculating any potential dilutive effect of the conversion of the outstanding 2025 Notes on Diluted EPS, if applicable. If the if-converted method is anti-dilutive, the anti-dilutive share count for the 2025 notes will represent the maximum number of shares of common stock issuable upon conversion. See Note 4. "Long-term Debt" for more information on the 2025 Notes.

A reconciliation of the numerators and denominators of the basic and diluted EPS calculations is as follows:

In thousands, except EPS	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Net income	$ 36,277	$ 32,798	$ 23,653
Weighted average shares outstanding for basic EPS	80,565	78,608	75,899
Effect of dilutive securities:			
Stock options	1,737	3,019	3,129
Restricted Stock	183	56	13
2025 Notes	308	—	—
Weighted average shares outstanding for diluted EPS	82,793	81,683	79,041
Basic EPS	$ 0.45	$ 0.42	$ 0.31
Diluted EPS	$ 0.44	$ 0.40	$ 0.30
Anti-dilutive options, RSUs outstanding, and 2025 Notes excluded from EPS	13,325	294	—

16. Segment Reporting

The Company's reportable segments were determined on the same basis as used by the Chief Operating Decision Maker ("CODM") to evaluate performance internally. Our operations consist of two reportable segments:

- Owned & Host store brands - Our owned brands consist of our America's Best and Eyeglass World operating segments. In America's Best stores, vision care services are provided by optometrists employed either by us or by independent professional corporations. Eyeglass World locations primarily feature independent optometrists to perform eye exams and on-site laboratories. Our two host operating segments consist of Military and Fred Meyer. These brands provide eye exams principally by independent optometrists in nearly all locations. We have aggregated our America's Best, Eyeglass World, Military and Fred Meyer operating segments into a single reportable segment due to similar economic characteristics and similarity of the nature of products and services, production processes, class of customers, regulatory environment and distribution methods of those brands.

- Legacy - The Company manages the operations of, and supplies inventory and lab processing services to, 230 Legacy retail Vision Centers. We earn management fees as a result of providing such services and therefore we record revenue related to sales of products and product protection plans to our Legacy partner's customers on a net basis. We also sell to our Legacy partner wholesale merchandise that is stocked in retail locations, and provide central lab processing for the finished eyeglasses and frames expected to be sold to our Legacy partner's customers. We lease space from our Legacy partner within or adjacent to each of the locations we manage and use this space for providing optometric examination services. Sales of services and plans in our Legacy segment consist of fees earned for managing the operations of our Legacy partner and revenues associated with the provision of eye exams for our managed care customers. Revenues associated with managing operations of our Legacy partner were $33.4 million, $35.5 million and $34.7 million for fiscal years ended 2020, 2019 and 2018, respectively. Our management & services agreement also allows our Legacy partner to collect penalties if the Vision Centers do not generate a requisite amount of revenues. No such penalties have been assessed under our current arrangement.

  On January 22, 2020, we entered into an amendment to our management & services agreement with Walmart which provided for a six month extension of the term and added five additional Vision Centers in Walmart stores to the agreement in fiscal year 2020.

  On July 17, 2020, NVI and Walmart entered into a further amendment to the management & services agreement, to extend the current term and economics of the agreement by three years, to February 23, 2024, and provide that the agreement will automatically renew for an additional three year term unless, no later than seven months prior to the end of the term, one party gives the other party written notice of non-renewal. In addition, the amendment deleted certain provisions that are no longer applicable and updated certain administrative provisions. All other terms and conditions of the agreement remain in effect.

The "Corporate/Other" category includes the results of operations of our other operating segments and corporate overhead support. Revenues from the Corporate/Other segments are attributable to the AC Lens and FirstSight operating segments. AC Lens primarily sells contact lenses and optical accessory products to retail customers through e-commerce. AC Lens also distributes contact lenses to certain Walmart and Sam's Club under fee for services arrangements. FirstSight sells single service health plans in connection with the operations of America's Best operations in California, and arranges for the provision of optometric services at the offices next to Walmart and Sam's Club stores throughout California. None of those segments met the quantitative thresholds for determining reportable segments for any of the periods presented.

The "Reconciliations" category represents other adjustments to reportable segment results necessary for the presentation of consolidated financial results in accordance with U.S. GAAP for the two reportable segments.

The operating segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by our CODM to allocate resources and assess performance. Our CODM is our chief executive officer. The Company considers each of our brands to be an operating segment and has further concluded that presenting the results of our reportable segments provides meaningful information consistent with the objectives of ASC 280, *Segment Reporting*. Strategic initiatives and financial objectives for each reportable segment are determined at the corporate level. Each operating segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives, and has a general manager responsible for the sales and marketing initiatives and financial results for product lines within the segment.

Our reportable segment profit measure is earnings before interest, tax, depreciation and amortization ("EBITDA"), or net revenue, less costs applicable to revenue, less SG&A expenses. Depreciation and amortization, asset impairment, litigation settlement and other corporate costs that are not allocated to the reportable segments (including interest expense) are excluded from segment EBITDA. There are no revenue transactions between our reportable segments. There are no differences between the measurement of our reportable segments' assets and consolidated assets. There have been no changes from prior periods in the measurement methods used to determine reportable segment profit or loss, and there have been no asymmetrical allocations to segments.

In fiscal year 2020, revenues from Walmart, recognized in our Legacy segment and Corporate/Other category, represent $268.6 million of our total net revenue, subjecting us to customer concentration risk. We incurred $8.6 million of costs during fiscal year 2020, directly related to adapting the Company's operations to the COVID-19 pandemic such as personal protective equipment and other supplies needed to operate our stores safely and certain other costs such as compensation, a tangible appreciation bonus paid to our customer-facing doctors and associates, and other administrative expenses. These incremental expenses related to the COVID-19 pandemic are not allocated to the reportable segments, but are included in the Corporate/Other category.

The following is a summary of certain financial data for each of our segments. Reportable segment information is presented on the same basis as our consolidated financial statements, except for net revenue and associated costs applicable to revenue, which are presented on a cash basis, including point of sales for managed care payors and excluding the effects of unearned and deferred revenue, consistent with what the CODM regularly reviews. Asset information is not included in the following summary since the CODM does not regularly review such information for the reportable segments.

	Fiscal Year 2020				
In thousands	Owned & Host	Legacy	Corporate/ Other	Reconciliations	Total
Segment product revenues	$ 1,097,749	$ 90,909	$ 234,403	$ (4,778)	$ 1,418,283
Segment services and plans revenues	244,650	51,108	—	(2,281)	293,477
Total net revenue	1,342,399	142,017	234,403	(7,059)	1,711,760
Cost of products	307,813	43,452	201,880	(1,362)	551,783
Cost of services and plans	210,313	23,777	751	—	234,841
Total costs applicable to revenue	518,126	67,229	202,631	(1,362)	786,624
SG&A	489,449	51,809	179,332	—	720,590
Asset impairment	—	—	22,004	—	22,004
Litigation settlement	—	—	4,395	—	4,395
Other expense (income), net	—	—	(445)	—	(445)
Debt issuance costs	—	—	156	—	156
EBITDA	$ 334,824	$ 22,979	$ (173,670)	$ (5,697)	
Depreciation and amortization					91,585
Interest expense, net					48,171
Income before income taxes					$ 38,680

	Fiscal Year 2019				
In thousands	Owned & Host	Legacy	Corporate/ Other	Reconciliations	Total
Segment product revenues	$ 1,076,315	$ 105,450	$ 245,206	$ (835)	$ 1,426,136
Segment services and plans revenues	248,685	54,599	12	(5,101)	298,195
Total net revenue	1,325,000	160,049	245,218	(5,936)	1,724,331
Cost of products	310,790	48,712	215,052	(203)	574,351
Cost of services and plans	206,878	25,289	1	—	232,168
Total costs applicable to revenue	517,668	74,001	215,053	(203)	806,519
SG&A	508,239	56,235	180,014	—	744,488
Asset impairment	—	—	8,894	—	8,894
Other expense (income), net	—	—	3,611	—	3,611
Loss on extinguishment of debt	—	—	9,786	—	9,786
EBITDA	$ 299,093	$ 29,813	$ (172,140)	$ (5,733)	
Depreciation and amortization					87,244
Interest expense, net					33,300
Income before income taxes					$ 30,489

In thousands	Fiscal Year 2018 Owned & Host	Legacy	Corporate/ Other	Reconciliations	Total
Segment product revenues	$ 956,355	$ 103,890	$ 208,875	$ 492	$ 1,269,612
Segment services and plans revenues	217,047	50,522	3,552	(3,879)	267,242
Total net revenue	1,173,402	154,412	212,427	(3,387)	1,536,854
Cost of products	280,720	46,986	183,459	241	511,406
Cost of services and plans	178,362	20,272	3,531	—	202,165
Total costs applicable to revenue	459,082	67,258	186,990	241	713,571
SG&A	457,618	54,091	175,767	—	687,476
Asset impairment	—	—	17,630	—	17,630
Other expense (income), net	—	—	1,487	—	1,487
Debt issuance cost	—	—	200	—	200
EBITDA	$ 256,702	$ 33,063	$ (169,647)	$ (3,628)	
Depreciation and amortization					74,339
Interest expense, net					37,283
Income before income taxes					$ 4,868

Consolidated Net Product Revenue Information

The following table presents our consolidated net product revenue information:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Net Product Sales			
Eyeglasses and sunglasses	$ 946,025	$ 947,729	$ 851,328
Contact lenses	466,262	471,042	410,839
Accessories and other	5,996	7,365	7,445
Total net product revenues	$ 1,418,283	$ 1,426,136	$ 1,269,612

17. Restricted Cash

The following table provides a reconciliation of cash and cash equivalents reported within the consolidated balance sheets to the total of cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Cash and cash equivalents	$ 373,903	$ 39,342	$ 17,132
Restricted cash included in other assets	1,256	965	866
Total cash, cash equivalents and restricted cash	$ 375,159	$ 40,307	$ 17,998

18. Accumulated Other Comprehensive Loss

Changes in the fair value of the Company's cash flow hedge derivative instruments from their inception are recorded in AOCL if the instruments are deemed to be highly effective as cash flow hedges. The following table presents the changes in AOCL, net of tax during the fiscal years 2020, 2019 and 2018, respectively:

In thousands	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Cash flow hedging activity			
Balance at beginning of fiscal year	$ (3,814)	$ (2,810)	$ (9,868)
Other comprehensive income (loss) before reclassification	(11,108)	(5,814)	3,182
Tax effect of other comprehensive income (loss) before reclassification	2,830	1,489	(815)
Amount reclassified from AOCL	10,328	4,464	6,306
Tax effect of amount reclassified from AOCL	(2,636)	(1,143)	(1,615)
Net current period other comprehensive income (loss), net of tax	(586)	(1,004)	7,058
Balance at end of fiscal year	$ (4,400)	$ (3,814)	$ (2,810)

See Note 14. "Interest Rate Derivatives" for a description of the Company's use of cash flow hedging derivatives.

Schedule I - Condensed Financial Information of Registrant
National Vision Holdings, Inc. and Subsidiaries (Parent Company Only)
Condensed Balance Sheets
In Thousands, Except Par Value

	As of January 2, 2021	As of December 28, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10	$ 55
Accounts Receivable, net	1,409	534
Prepaid expenses and other current assets	5	—
Total current assets	1,424	589
Deferred income taxes	—	320
Investment in subsidiary	1,268,846	804,443
Total non-current assets	1,268,846	804,763
Total assets	$ 1,270,270	$ 805,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Other current liabilities	$ 1,341	$ 50
Long-term debt, less current portion and debt discount	309,377	—
Non-current liabilities:		
Other non-current liabilities	36,308	28,865
Deferred income taxes	16,742	—
Total other non-current liabilities	53,050	28,865
Stockholders' equity:		
Common stock, $0.01 par value; 200,000 shares authorized; 82,183 and 80,603 shares issued as of January 2, 2021 and December 28, 2019, respectively; 81,239 and 79,678 shares outstanding as of January 2, 2021 and December 28, 2019, respectively	821	805
Additional paid-in capital	795,697	700,121
Accumulated other comprehensive loss	(4,400)	(3,814)
Retained earnings	142,880	107,132
Treasury stock, at cost; 944 and 925 shares as of January 2, 2021 and December 28, 2019, respectively	(28,496)	(27,807)
Total stockholders' equity	906,502	776,437
Total liabilities and stockholders' equity	$ 1,270,270	$ 805,352

Note: Fiscal year 2020 includes 53 weeks. Fiscal year 2019 includes 52 weeks.
The accompanying notes are an integral part of these condensed financial statements.

Schedule I - Condensed Financial Information of Registrant
National Vision Holdings, Inc. And Subsidiaries (Parent Company Only)
Condensed Statements of Operations and Comprehensive Income
In Thousands

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Total net revenue	$ —	$ —	$ —
Cost applicable to revenue	—	—	—
Operating expenses	264	256	265
Interest expense, net	17,296	—	—
Income (Loss) before income taxes	(17,560)	(256)	(265)
Income tax provision (benefit)	(3,959)	71	(91)
Income (Loss) before equity in net income of subsidiaries	(13,601)	(327)	(174)
Net income of subsidiaries	49,878	33,125	23,827
Net income	$ 36,277	$ 32,798	$ 23,653
Comprehensive income:			
Net income	36,277	32,798	23,653
Unrealized gain (loss) on hedge instruments	(780)	(1,350)	9,488
Tax provision (benefit) of unrealized gain (loss) on hedge instruments	(194)	(346)	2,430
Comprehensive income	$ 35,691	$ 31,794	$ 30,711

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.
The accompanying notes are an integral part of these condensed financial statements.

Schedule I - Condensed Financial Information of Registrant
National Vision Holdings, Inc. and Subsidiaries (Parent Company Only)
Condensed Statements of Cash Flows
In Thousands

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Operating Activities			
Net cash provided by (used for) operating activities	$ 1,189	$ 25,455	$ 223
Investing Activities			
Investment in subsidiary	(404,537)	(15,090)	(19,802)
Net cash provided by (used for) investing activities	(404,537)	(15,090)	(19,802)
Financing Activities			
Proceeds from stock option exercises and associate stock purchase plan	13,105	15,090	19,802
Proceeds from issuance of convertible notes	402,500	—	—
Payments of debt issuance costs	(11,613)	—	—
Purchase of treasury stock	(689)	(25,646)	—
Net cash provided by (used for) financing activities	403,303	(10,556)	19,802
Net change in cash and cash equivalents	(45)	(191)	223
Cash and cash equivalents, beginning of year	55	246	23
Cash and cash equivalents, end of year	$ 10	$ 55	$ 246

Note: Fiscal year 2020 includes 53 weeks. Fiscal years 2019 and 2018 include 52 weeks.
The accompanying notes are an integral part of these condensed financial statements.

Schedule I - Condensed Financial Information of Registrant
National Vision Holdings, Inc. and Subsidiaries (Parent Company Only)
Notes to Condensed Financial Statements

1. Basis of Presentation

National Vision Holdings, Inc. ("NVHI," or the "Company") conducts substantially all of its activities through its indirect wholly owned subsidiary, National Vision, Inc. ("NVI") and its subsidiaries. NVHI was incorporated in Delaware on February 14, 2014 under the name Nautilus Parent, Inc. There were no financial transactions between the inception date and March 13, 2014, the date the majority ownership of NVI was transferred from private equity funds managed by Berkshire Partners LLC to affiliates of Kohlberg Kravis Roberts & Co. L.P. In the parent-company-only financial statements, NVHI's investment in subsidiaries is stated at cost, plus equity in undistributed earnings of subsidiaries since the date of acquisition, less dividends. The parent-company-only financial statements should be read in conjunction with the NVHI consolidated financial statements.

In May 2020, the Company issued $402.5 million principal amount of 2.50% convertible senior notes due 2025. The 2025 Notes will pay interest semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2020, at an annual rate of 2.50% and will be convertible into cash, shares of common stock or a combination of cash and shares of common stock, at our election, based on the applicable conversion rate at such time. NVHI contributed the proceeds from of the 2025 Notes to NVI as additional investments during the fiscal year 2020. See Note 4. "Long-term Debt" to the NVHI consolidated financial statements for details of the 2025 Notes.

2. Guarantees and Restrictions

As described in the *Credit Agreement* section included in Note 4. "Long-term Debt" to the NVHI consolidated financial statements, NVI used proceeds from the 2025 Notes to fully repay the outstanding amount on its Revolving Credit Facility of $294.3 million and partially repaid $75 million on the Term Loan. As of January 2, 2021, NVI had $317.4 million of principal amount of long-term debt outstanding under its Term Loan and no outstanding balance under its $300.0 million Revolving Credit Facility, which includes $6.4 million in outstanding letters of credit.

Under the Credit Agreement Amendment, provided no event of default has occurred and is continuing, NVI is permitted to pay dividends to NVHI with certain restrictions as stated in the Credit Agreement Amendment.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

In accordance with Rule 13a-15(b) of the Exchange Act, the Company carried out an evaluation, under the supervision and with the participation of its management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of January 2, 2021. Based on that evaluation, the CEO and the CFO have concluded that, as of January 2, 2021, the Company's disclosure controls and procedures are effective in ensuring that material information relating to the Company required to be disclosed in the Company's periodic filings with the U.S. Securities and Exchange Commission ("SEC") is made known to them in a timely manner.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Company. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements of the Company in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, with the participation of our CEO and CFO, has assessed the effectiveness of the Company's internal control over financial reporting as of January 2, 2021 in accordance with the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of January 2, 2021. The Company's independent registered public accounting firm, Deloitte & Touche LLP, as auditors of our consolidated financial statements as of and for the year ended January 2, 2021, has issued their attestation report on management's internal control over financial reporting which is set forth below.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most corporate employees of the Company began working remotely due to the COVID-19 pandemic, though we will continue to assess the impact on the design and operating effectiveness of our internal controls.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of National Vision Holdings, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of National Vision Holdings, Inc. and subsidiaries (the "Company") as of January 2, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended January 2, 2021, of the Company and our report dated March 2, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Atlanta, Georgia

March 2, 2021

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors and Executive Officers

The following table sets forth the names, ages and positions of our executive officers as of March 3, 2021.

Name	Age	Position
L. Reade Fahs	60	Chief Executive Officer and Director
Patrick R. Moore	57	Senior Vice President, Chief Financial Officer
Ravi Acharya	46	Senior Vice President, Chief Technology Officer
Joan Blackwood	56	Senior Vice President, Chief Marketing Officer
Jared Brandman	44	Senior Vice President, General Counsel and Secretary
Bill Clark	46	Senior Vice President, Chief People Officer
Melissa Rasmussen	44	Senior Vice President, Chief Accounting Officer

L. Reade Fahs has served as the Chief Executive Officer of NVI since January 2003, having joined NVI in April 2002 as the President and Chief Operating Officer, and was appointed the Chief Executive Officer of National Vision Holdings, Inc. in March 2014. Mr. Fahs has also served as our director since March 2014. Prior to joining NVI, Mr. Fahs served as the Chief Executive Officer of First Tuesday and was Managing Director of Vision Express U.K. Previously, Mr. Fahs worked at LensCrafters, which he joined in 1986 for a decade of their most rapid growth. Mr. Fahs is the chairman of the board of directors of VisionSpring and co-founder of Frames for the World. Mr. Fahs also serves on the boards of RestoringVision, Ditto Technologies, Inc., Affordable Care, Inc. and Atlanta's Alliance Theatre. Mr. Fahs holds a B.A. degree in English Literature from Harvard College.

Patrick R. Moore has served as the Senior Vice President, Chief Financial Officer of NVI since September 2014, and was appointed the Senior Vice President, Chief Financial Officer of National Vision Holdings, Inc. in February 2015. Prior to joining NVI, Mr. Moore served in both divisional and group chief financial officer roles for Fiserv, Inc. (where he served as Senior Vice President, Finance and Chief Financial Officer of the Digital Solutions Group from March 2014 until September 2014), First Data Corporation (where he served as Senior Vice President, Business Transformation from August 2013 until February 2014 and Division Chief Financial Officer/Senior Vice President of First Data North America from October 2009 until July 2013), Fluor Corporation and BellSouth Corporation (now AT&T). Mr. Moore began his career with BellSouth Corporation, serving in roles involving engineering, operations, finance, strategy, investor relations and merger integration. Mr. Moore holds a B.A. degree in Mechanical Engineering, as well as an MBA degree from the University of Alabama. Mr. Moore also attended the Stanford Executive program in 2002.

Ravi Acharya has served as the Senior Vice President, Chief Technology Officer of National Vision Holdings, Inc. since March 2020. Previously, from June 2015 until March 2019, Mr. Acharya served as the Divisional CIO and Vice President of eCommerce for Medtronic's global Diabetes business unit and led direct-to-consumer and e-Commerce technology-driven solutions across multiple industries at companies including Equifax, Sears and Capgemini. Mr. Acharya earned an MBA from the Kellogg School of Management at Northwestern University and a B.S. in Electrical Engineering from the Illinois Institute of Technology.

Joan Blackwood has served as the Senior Vice President, Chief Marketing Officer of National Vision Holdings, Inc. since December 2019. Prior to joining National Vision, Ms. Blackwood served most recently as the Chief Marketing Officer of the University of Phoenix from February 2015 until December 2019 and served as the Chief Marketing Officer for Zumba Fitness from May 2013 until October 2014. Prior to Zumba Fitness, Ms. Blackwood held chief marketing officer roles at 1-800-Contacts/Glasses.com and Monster Worldwide. Ms. Blackwood holds a B.A. degree in Journalism from Indiana University.

Jared Brandman has served as the Senior Vice President, General Counsel and Secretary of National Vision Holdings, Inc. since February 2019. Mr. Brandman joined National Vision in 2017 as Vice President, Assistant General Counsel and Assistant Secretary. Prior to joining the Company, Mr. Brandman was Securities Counsel for The Coca-Cola Company from 2010 to 2017. Mr. Brandman holds a B.A. degree in organizational studies from the University of Michigan and a J.D. degree from Emory University School of Law.

Bill Clark has served as the Senior Vice President, Chief People Officer of National Vision Holdings, Inc. since June 2019. Prior to joining National Vision, he served as Senior Vice President, Human Resources at Five Below, Inc. from October 2014 until May 2019. Prior to Five Below, Mr. Clark served as Vice President of Retail HR at Dollar General Corporation from April 2012 until October 2014 and spent 10 years in key executive leadership roles at Walmart and Sam's Club, including as Vice President of Field Human Resources, Vice President of Talent Management and Vice President of HR Administration and Strategy. Mr. Clark holds both a B.S. degree in Biology and a Master of Science degree in College Teaching from Northeastern State University in Oklahoma.

Melissa Rasmussen has served as the Senior Vice President, Chief Accounting Officer of National Vision Holdings, Inc. since July 2019. Ms. Rasmussen joined National Vision after spending 21 years at Lexmark International, Inc., where she was most recently Vice President and Corporate Controller from November 2016 to July 2019. From February 2012 to November 2016, Ms. Rasmussen served as Director of SEC Reporting and Corporate Consolidation for Lexmark. Prior to that, she held numerous finance and accounting leadership roles, including North America Controller and Global Consolidation Manager. Ms. Rasmussen holds a B.S. degree in Accounting from the University of Kentucky and is a certified public accountant.

Other

The additional information required by this item will be included in our definitive proxy statement for the 2021 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be included in our definitive proxy statement for the 2021 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included in our definitive proxy statement for the 2021 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this item will be included in our definitive proxy statement for the 2021 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item will be included in our definitive proxy statement for the 2021 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV
Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as a part of this report:

(1) Consolidated financial statements

For the following consolidated financial information included herein, see Part II. Item 8.on Page 72

(2) Financial statement Schedule I as filed in Part II. Item 8. of this Form 10-K:

Schedule I - Condensed financial information of the Registrant

All other financial schedules have been omitted because the required information is not presented in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements, including notes thereto.

(3) Exhibits:

The exhibits listed in the accompanying Exhibit Index attached hereto are filed or incorporated by reference into this Form 10-K.

Exhibit Index

Exhibit No.	Exhibit Description
3.1	Second Amended and Restated Certificate of Incorporation of National Vision Holdings, Inc. - incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 31, 2017
3.2	Second Amended and Restated Bylaws of National Vision Holdings, Inc. - incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on October 31, 2017
4.1	Description of Securities of the Registrant
4.2	Indenture, dated as of May 12, 2020, between National Vision Holdings, Inc. and U.S. Bank National Association, as trustee - incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 12, 2020
4.3	Form of 2.50% Convertible Senior Note due 2025 - incorporated herein by reference to Exhibit A within Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 12, 2020
10.1	Joinder and Amendment and Restatement Agreement, including as Exhibit A thereto, the Amended and Restated Credit Agreement, dated as of July 18, 2019, by and among Nautilus Acquisition Holdings, Inc., National Vision, Inc., certain subsidiaries of National Vision, Inc., as guarantors, Goldman Sachs Bank USA, as former administrative agent and collateral agent, Bank of America, N.A., as new administrative agent and collateral agent, and the lenders from time to time party thereto - incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2019
10.2	Amendment No. 1, dated as of May 5, 2020, to the Amended and Restated Credit Agreement, dated as of July 18, 2019 by and among Nautilus Acquisition Holdings, Inc., National Vision, Inc., certain subsidiaries of National Vision, Inc., as guarantors, Bank of America, N.A., as administrative agent and collateral agent, and the lenders from time to time party thereto - incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 7, 2020
10.3	First Lien Guarantee, dated as of March 13, 2014, by the guarantors party thereto - incorporated herein by reference to Exhibit 10.6 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.4	First Lien Security Agreement, dated as of March 13, 2014, among Nautilus Acquisition Holdings, Inc., Nautilus Merger Sub, Inc., Vision Holdings Corp., National Vision, Inc., subsidiary grantors party thereto, Goldman Sachs Bank USA, as collateral agent - incorporated herein by reference to Exhibit 10.7 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.5	First Lien Pledge Agreement, dated as of March 13, 2014, among Nautilus Acquisition Holdings, Inc., Nautilus Merger Sub, Inc., Vision Holdings Corp., National Vision, Inc. subsidiary pledgors party thereto, Goldman Sachs Bank USA, as collateral agent - incorporated herein by reference to Exhibit 10.8 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.6†	National Vision Holdings, Inc. 2017 Omnibus Incentive Plan - incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 31, 2017
10.7†	Form of Restricted Stock Agreement for Non-Employee Directors under the 2017 Omnibus Incentive Plan - incorporated herein by reference to Exhibit 10.15 to the Company's Amendment No. 2 to Form S-1 Registration Statement filed on October 16, 2017
10.8†	Form of Stock Option Agreement under the 2017 Omnibus Incentive Plan, as adopted February 2019 - incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2019
10.9†	Form of Restricted Stock Unit Agreement under the 2017 Omnibus Incentive Plan, as adopted February 2019 - incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2019
10.10†	Form of Performance Stock Unit Agreement under the 2017 Omnibus Incentive Plan, as adopted February 2019 - incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2019
10.11†	Form of Performance Stock Unit Agreement under the 2017 Omnibus Incentive Plan, as adopted February 2020 – incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 7, 2020
10.12†	Form of Restricted Stock Agreement for Non-Employee Directors under the 2017 Omnibus Incentive Plan, as adopted February 2019 - incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on May 9, 2019
10.13†	2014 Stock Incentive Plan for Key Employees of National Vision Holdings, Inc. (formerly known as Nautilus Parent, Inc.) and its Subsidiaries - incorporated herein by reference to Exhibit 10.16 to the Company's Form S-1 Registration Statement filed on September 29, 2017

10.14†	Amendment No. 1 to the 2014 Stock Incentive Plan for Key Employees of National Vision Holdings, Inc. (formerly known as Nautilus Parent, Inc.) and its Subsidiaries - incorporated herein by reference to Exhibit 10.17 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.15†	Amendment No. 2 to the 2014 Stock Incentive Plan for Key Employees of National Vision Holdings, Inc. (formerly known as Nautilus Parent, Inc.) and its Subsidiaries - incorporated herein by reference to Exhibit 10.18 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.16†	Form of Stock Option Agreement under the 2014 Stock Incentive Plan for Key Employees of National Vision Holdings, Inc. (formerly known as Nautilus Parent, Inc.) and its Subsidiaries - incorporated herein by reference to Exhibit 10.19 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.17†	Form of Management Stockholder's Agreement - incorporated herein by reference to Exhibit 10.20 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.18†	National Vision, Inc. Severance Plan, as amended and restated as of March 15, 2017 - incorporated herein by reference to Exhibit 10.24 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.19†	National Vision, Inc. Severance Plan Summary Plan Description (Executives), effective as of July 21, 2011 - incorporated herein by reference to Exhibit 10.25 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.20†	National Vision Holdings, Inc. Executive Severance Plan - incorporated by reference to Exhibit 10.1 filed to the Company's Current Report on Form 8-K filed on December 18, 2018
10.21‡	Letter Agreement between National Vision, Inc. and Essilor of America, Inc., dated as of May 25, 2011 - incorporated herein by reference to Exhibit 10.29 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.22‡	Letter of Amendment between National Vision, Inc. and Essilor of America, Inc., dated as of December 2, 2014 - incorporated herein by reference to Exhibit 10.30 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.23‡	Letter Agreement between National Vision, Inc. and Essilor of America, Inc. dated as of March 9, 2018 - incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q filed on May 15, 2018
10.24‡	Letter Agreement between National Vision, Inc. and Essilor of America, Inc., dated as of November 12, 2018 - incorporated herein by reference to Exhibit 10.36 to the Company's Form 10-K filed on February 27, 2019
10.25	Letter Agreement by and between National Vision, Inc. and Wal-Mart Stores, Inc. re: Management & Services Agreement, dated as of January 11, 2017 - incorporated herein by reference to Exhibit 10.32 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.26‡	Management & Services Agreement by and between National Vision, Inc. and Wal-Mart Stores, Inc., dated as of May 1, 2012 - incorporated herein by reference to Exhibit 10.31 to the Company's Form S-1 Registration Statement filed on October 16, 2017
10.27‡	Amendment 3 to the Management and Services Agreement between Walmart, Inc. and National Vision, Inc. effective as of January 23, 2020 -incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 22, 2020.
10.28‡	Amendment 4 to the Management & Services Agreement between Walmart Inc. and National Vision, Inc., effective as of July 17, 2020 - incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 20, 2020.
10.29‡	Amended and Restated Supplier Agreement between National Vision, Inc. and Walmart, dated as of January 17, 2017 - incorporated herein by reference to Exhibit 10.33 to the Company's Form S-1 Registration Statement filed on September 29, 2017
10.30†	Option Agreement for Patrick R. Moore under the 2017 Omnibus Incentive Plan - incorporated herein by reference to Exhibit 10.34 to the Company's Amendment No. 2 to Form S-1 Registration Statement filed on October 16, 2017
10.31†	Restricted Stock Award Agreement for David M. Tehle under the 2014 Stock Incentive Plan for Key Employees of National Vision Holdings, Inc. (formerly known as Nautilus Parent, Inc.) and its Subsidiaries - incorporated herein by reference to Exhibit 10.35 to the Company's Amendment No. 2 to Form S-1 Registration Statement filed on October 16, 2017
10.32†	Form of Director Indemnification Agreement - incorporated herein by reference to Exhibit 10.36 to the Company's Amendment No. 2 to Form S-1 Registration Statement filed on October 16, 2017
10.33†	Form of Director Stockholder's Agreement - incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 23, 2018

10.34†	Vision Holding Corp. Amended and Restated 2013 Equity Incentive Plan - incorporated herein by reference to Exhibit 4.4 to the Company's Form S-8 Registration Statement filed on October 26, 2017
21.1	Subsidiaries of National Vision Holdings, Inc.
23.1	Consent of Deloitte & Touche LLP
31.1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
31.2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page of the Company's Annual Report on Form 10-K for the year ended January 2, 2021, formatted in Inline XBRL (included within the Exhibit 101 attachments)

(†) Identifies exhibits that consist of a management contract or compensatory plan or arrangement.

(‡) Confidential treatment has been requested with respect to certain portions of identified exhibits. Omitted portions have been filed separately with the Securities and Exchange Commission.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

National Vision Holdings, Inc.
(Registrant)

By: /s/ L. Reade Fahs

L. Reade Fahs
Chief Executive Officer
(Principal Executive Officer)

Date: March 3, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ L. Reade Fahs L. Reade Fahs	Chief Executive Officer and Director *(Principal Executive Officer)*	March 3, 2021
/s/ Patrick R. Moore Patrick R. Moore	Senior Vice President, Chief Financial Officer *(Principal Financial Officer)*	March 3, 2021
/s/ Melissa Rasmussen Melissa Rasmussen	Senior Vice President, Chief Accounting Officer *(Principal Accounting Officer)*	March 3, 2021
/s/ Jose Armario Jose Armario	Director	March 3, 2021
/s/ Heather R. Cianfrocco Heather R. Cianfrocco	Director	March 3, 2021
/s/ Virginia A. Hepner Virginia A. Hepner	Director	March 3, 2021
/s/ Susan S. Johnson Susan S. Johnson	Director	March 3, 2021
/s/ Naomi Kelman Naomi Kelman	Director	March 3, 2021
/s/ D. Randolph Peeler D. Randolph Peeler	Chairman and Director	March 3, 2021
/s/ Thomas V. Taylor, Jr. Thomas V. Taylor, Jr.	Director	March 3, 2021
/s/ David M. Tehle David M. Tehle	Director	March 3, 2021

[This page intentionally left blank.]

[This page intentionally left blank.]