

**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 December 28, 2019

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

(State or other jurisdiction of incorporation or organization)

46-4841717

(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 29, 2019, 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 \$2.1 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

<u>Class</u>	<u>Outstanding at January 31, 2020</u>
Common stock, \$0.01 par value per share	80,207,244

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2020 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 December 28, 2019.

NATIONAL VISION HOLDINGS, INC. AND SUBSIDIARIES

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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 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.

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 1,151 retail stores across five brands and 19 consumer websites as of December 28, 2019, our 2019 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 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.

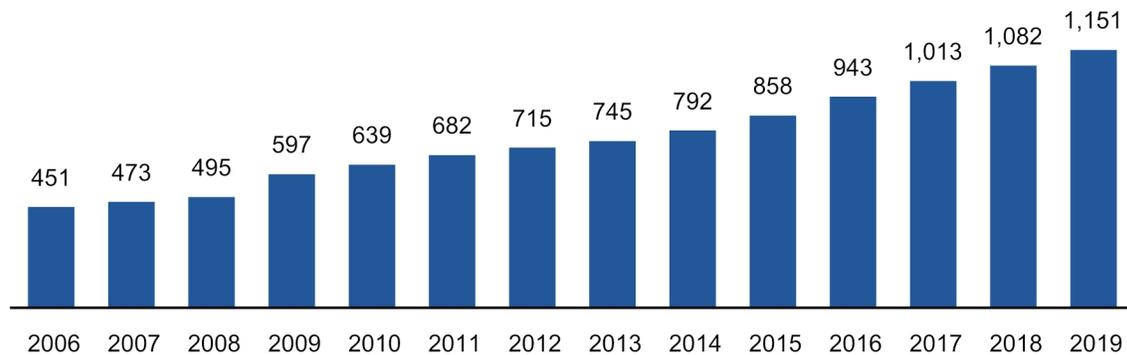
In March 2014, NVI was acquired (the “KKR Acquisition”) by affiliates of KKR & Co. Inc. (“KKR”). National Vision Holdings, Inc. was incorporated in Delaware on February 14, 2014 under the name “Nautilus Parent, Inc.” and NVI became our wholly-owned subsidiary in connection with the KKR Acquisition. In 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. Effective March 5, 2019, the remaining shares of our common stock held by private equity funds managed by Berkshire were distributed to its partners and members. Effective August 12, 2019, National Vision completed an underwritten offering and concurrent share repurchase pursuant to which KKR sold its remaining holdings of our common stock.

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 65% of total customers in 2019 and new customers representing the remaining 35% of total customers in 2019.
- ***Attractive Store Economics.*** Since 2006, we have opened 715 stores in the aggregate, including 690 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. 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. 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 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 staff 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 formation 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 the Boys & Girls Clubs of America and work with other 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 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 care benefit 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
				
Lowest Price	Eyewear Value Superstore	Shop-Within-A-Shop	Commissary Store	Shop-Within-A-Shop
		"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
725 Stores	117 Stores	29 Stores	54 Stores	226 Stores
~3,500 sq. ft.	~4,500 sq. ft.	~800 sq. ft.	~1,000 sq. ft.	~1,800 sq. ft.
~1,320 SKUs	~1,935 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)
				
				
				

Note: Store count as of December 28, 2019. 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 1,320 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" and eye exams starting at \$49. 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 1,935 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 226 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 December 28, 2019. Pursuant to a recent amendment to our management & services agreement with Walmart, we will be adding five additional Vision Centers in Walmart stores in 2020. We have strong, long-standing relationships with these partners. Our strategic relationship with Walmart is in its 30th 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.

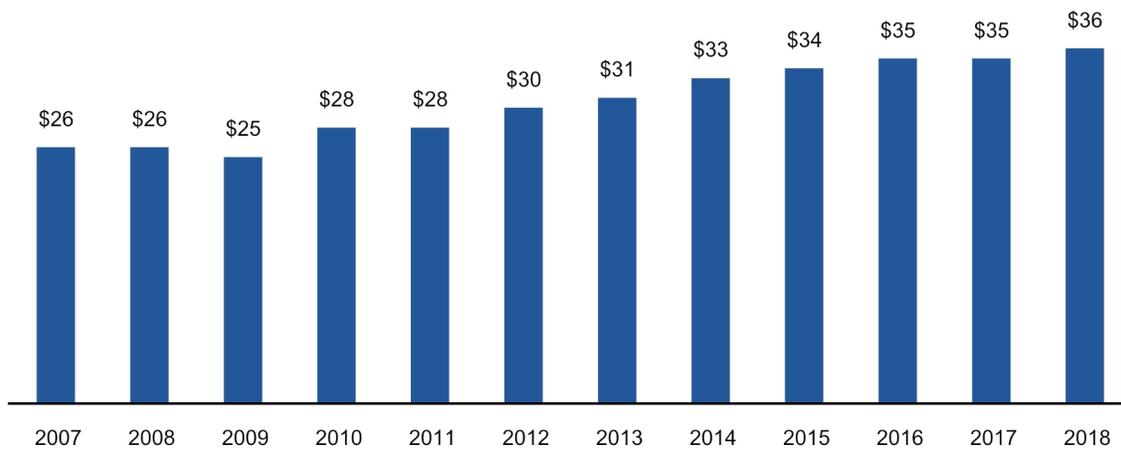
Our Omni-Channel and E-Commerce Platforms. We offer our customers an engaging digital shopping experience through an established platform of four omni-channel store websites, and 15 dedicated e-commerce consumer websites. Our omni-channel store websites augment our America's Best, Eyeglass World, Vision 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 represented approximately 4% of our net revenue in fiscal year 2019.

Our Industry

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 \$36 billion industry that has exhibited consistent, stable growth across economic cycles. According to Vision Monday, over the period from 2007 to 2018, the industry grew from \$26 billion to \$36 billion in annual sales, representing a compound annual growth rate ("CAGR") of 3.0%. The industry experienced only a modest decline during the 2008 to 2009 recession and rebounded with robust post-recession sales growth of 3.9% CAGR from 2009 to 2018, 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

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 2019. 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 90% 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 194 million people in the United States using vision correction devices in 2018 received nearly 117 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.
- ***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 1,935 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.

Within our Owned & Host segment, America's Best offers its Eyecare Club programs primarily to its contact lens customers. As of December 28, 2019, the Eyecare Club had approximately 1.4 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.

For our two owned brands, we have developed specific customer demographic profiles. More specifically, we estimate that our typical America's Best customer has a household income between \$35,000 to \$100,000, is a high school graduate, holds a blue collar job and is between 35 to 64 years old, while our typical Eyeglass World customer is slightly more affluent, has a college degree or higher, holds a professional or technical job and is between 35 to 79 years old. These profiles demonstrate that, even within the same market, our America's Best and Eyeglass World brands appeal to and attract a different consumer, which speaks favorably to our growth potential and our ability to open new stores of both brands in the same markets.

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. Additional advertising investments include digital media, search, direct mail, email and local store marketing. 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.

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 a 66,000 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.

Our Employees

As of December 28, 2019, we had 11,781 full-time and part-time employees. In addition, the professional corporations or similar entities with which we contract employed 1,159 optometrists as of December 28, 2019. 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 employees are good.

Managed Vision Care

Our managed care business relates to vision care programs and associated benefits (i) sponsored by employees 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.

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, 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 and customer engagement efforts, 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/Optomety 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 2019, the FTC published a Supplemental Notice of Proposed Rulemaking seeking comment regarding proposed 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 employee 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.

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 employee 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

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 226 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. Pursuant to a recent amendment to our management & services agreement with Walmart, we will be adding five additional Vision Centers in Walmart stores in fiscal year 2020. In addition, the amendment also extended the current term of the management & services agreement by six months, to February 23, 2021, and such term will automatically renew for an additional three-year term unless, no later than July 23, 2020, one party provides the other party written notice of non-renewal. Sales associated with our arrangement with Walmart represented 9.3% of consolidated net revenue in fiscal year 2019, 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 December 28, 2019, the carrying value of goodwill and intangible assets at our host and legacy brands was \$26.2 million and \$90.8 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. Additionally, Legacy segment fair value exceeded carrying value by 28%. 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 employees 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, including any proposed updates being considered, 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 7½%. 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 employees, 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 ongoing coronavirus outbreak since the beginning of 2020 in Wuhan, China has resulted in increased travel restrictions and affected certain companies' operations in China, 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, the previously mentioned ongoing coronavirus outbreak in China could impact our product sourcing if the travel restrictions and shut down of certain businesses in China continues for an extended period of time. 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 current presidential administration has also advocated for greater restrictions on international trade generally and has expressed antipathy toward certain international trade agreements and organizations, including 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, once ratified by all three countries, will replace NAFTA. It is currently difficult to predict what affect the USMCA will have on us and if the transition to the new trade agreement will have any negative effects 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. were to withdraw from trade organizations such as the WTO, 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 frames, 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 2019, 88% of lens expenditures were from this vendor, 92% of contact lens expenditures were with three vendors and 51% 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 employees 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, employees, 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 from time to time in order for such systems to withstand 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, employees 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. 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. If consumers accept the use of these technologies, we may not be able to successfully incorporate them in our business, and in turn, consumers could become less likely to obtain an in-person eye examination and therefore less likely to shop at our retail locations. 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. For example, in 2017 and 2018, we temporarily closed certain stores due to Hurricanes Harvey, Irma and Florence. Although these store closures did not have a material adverse impact on our business, similar events in the future 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.

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. For example, in the fiscal year ended December 30, 2017, we wrote off \$2.3 million of inventory related to a slow-moving contact lens product which had expired or would expire prior to possible sale. 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 no direct 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 managed 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 business faces distinct risks, and our failure to successfully manage it could have a negative impact on our profitability.

As an e-commerce retailer, we encounter risks and difficulties frequently experienced by internet-based businesses. The successful operation of our e-commerce 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 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 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, repack, 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 employee 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, employees, 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

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 December 28, 2019, we had approximately \$540.4 million of aggregate principal amount of indebtedness outstanding (excluding capital 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.

An increase 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 December 28, 2019, after inclusion of \$430.0 million interest rate swaps fixing a portion of the variable rate debt, \$110.4 million, or 20.4%, of our term loans was subject to variable rates. As a result, an increase in interest rates, whether because of an increase in market interest rates or a decrease in our creditworthiness, could increase the cost of servicing our debt and could materially reduce our profitability and cash flows.

The London Interbank Offered Rate (“LIBOR”) and certain other “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate (“SOFR”), a new index calculated by short-term repurchase agreements, backed by Treasury securities. It is unknown whether SOFR or any other alternative reference rate will attain market acceptance as replacements for LIBOR. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. As a result of this transition, interest rates on our floating rate obligations, may be adversely affected. Further, any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of our floating rate obligations.

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.

Risks Related to Ownership 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. We previously had a material weakness in our internal controls over financial reporting.

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.

As disclosed in our Annual Report on Form 10-K for the year ended December 29, 2018 and subsequent Form 10-Qs, management previously identified a control deficiency that constituted a material weakness in our internal control over financial reporting. As a result, management concluded that our internal control over financial reporting was not effective as of December 29, 2018. We have since remediated this material weakness, however, the remediated material weakness may reoccur or other material weaknesses could occur in the future. The recurrence of the remediated material weakness or the development of new material weaknesses in our internal control over financial reporting could result in material misstatements in our financial statements and cause us to fail to meet our reporting and financial obligations, which in turn could have a negative impact on our financial condition. In addition, any future required remediation measures may be time consuming, costly, and may place significant demands on our financial and operational resources.

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, employees 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 employee 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 employees 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 December 28, 2019 is as follows:

State	America’s Best	Eyeglass World	Legacy	Other	State	America’s Best	Eyeglass World	Legacy	Other
AK	—	—	1	7	MT	—	—	1	—
AL	12	1	3	3	NC	17	—	36	2
AR	—	—	—	1	ND	—	—	—	—
AZ	23	9	9	2	NE	3	1	—	1
CA	71	20	43	4	NH	—	—	2	—
CO	24	1	7	3	NJ	28	—	4	1
CT	—	—	7	—	NM	—	1	6	3
DE	—	—	—	—	NV	—	3	2	1
FL	63	34	2	2	NY	25	—	13	1
GA	38	3	25	5	OH	25	1	—	1
HI	—	—	3	—	OK	—	—	—	—
IA	6	1	—	—	OR	10	—	3	9
ID	5	—	—	—	PA	33	2	13	—
IL	49	2	—	—	RI	—	—	—	—
IN	10	10	—	—	SC	11	1	6	1
KS	—	1	8	2	SD	—	—	1	—
KY	2	1	—	2	TN	17	2	—	—
LA	15	—	1	1	TX	95	5	3	5
MA	—	—	2	—	UT	9	5	—	1
MD	19	—	1	1	VA	28	—	16	1
ME	—	—	—	—	VT	—	—	—	—
MI	30	11	—	—	WA	14	1	1	19
MN	16	—	—	—	WI	7	—	—	—
MO	19	1	—	1	WV	—	—	6	—
MS	—	—	—	2	WY	—	—	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 has been listed on the NASDAQ Global Select Market under the symbol “EYE” since October 26, 2017, the Company’s initial day of trading. Prior to that date, there was no public market for our common stock.

Holders

As of December 28, 2019, there were approximately 19 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 December 28, 2019, we did not purchase any of our equity securities that are registered under Section 12(b) of the Exchange Act.

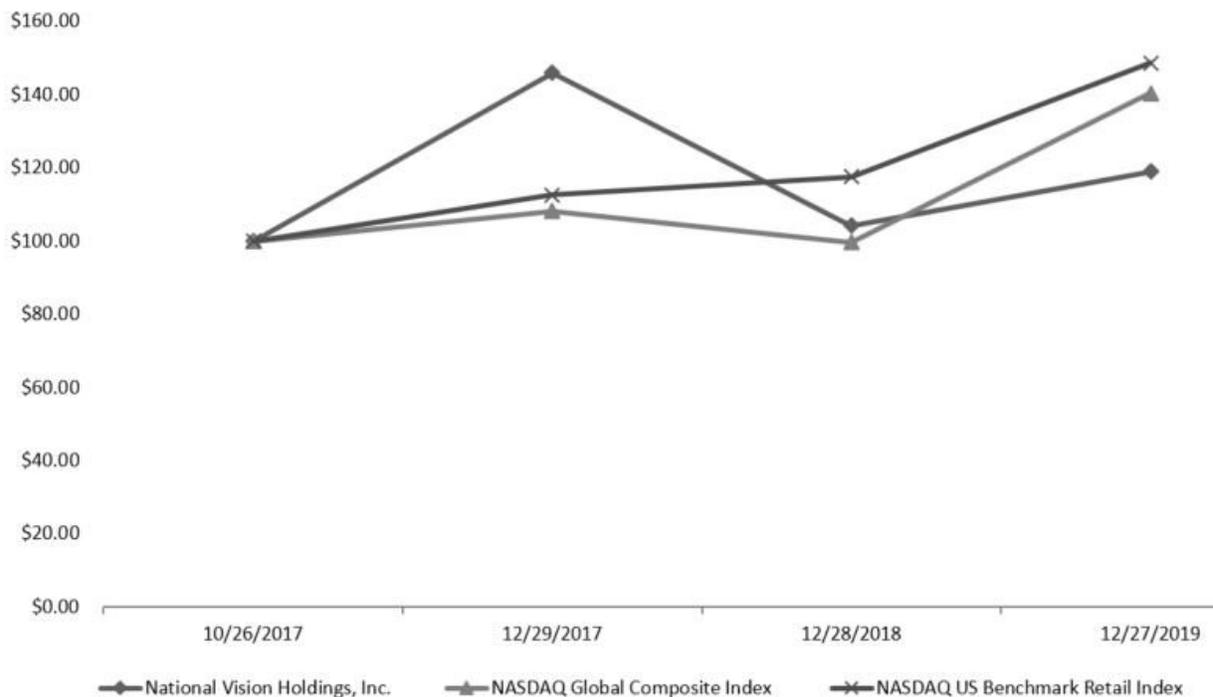
Dividends

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 December 28, 2019. 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

Set forth below is our selected historical consolidated financial data as of the dates and for the periods indicated. The selected historical consolidated financial data as of and for fiscal years 2019, 2018, and for the fiscal year 2017 have been derived from our audited consolidated financial statements included elsewhere in this Form 10-K. The selected historical consolidated financial data as of fiscal year 2017 and as of and for fiscal years 2016 and 2015 have been derived from our audited consolidated financial statements not included in this Form 10-K. The results of operations for any period are not necessarily indicative of the results to be expected for any future period. Share and per share data in the table below has been retroactively adjusted to give effect to the 1.96627-for-one reverse stock split, effected on October 24, 2017.

The selected historical consolidated financial data set forth below should be read in conjunction with, and is qualified by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements and related notes thereto, each included elsewhere in this Form 10-K.

<i>In thousands, except earnings per share</i>	Fiscal Year 2019 ⁽¹⁾	Fiscal Year 2018 ⁽¹⁾	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Consolidated Statement of Operations Data:					
Net revenue	\$ 1,724,331	\$ 1,536,854	\$ 1,375,308	\$ 1,196,195	\$ 1,062,528
Costs applicable to revenue	806,519	713,571	636,966	544,781	491,100
Operating expenses	844,237	780,932	674,051	587,345	527,965
Income (loss) from operations	73,575	42,351	64,291	64,069	43,463
Interest expense, net	33,300	37,283	55,536	39,092	36,741
Debt issuance costs	—	200	4,527	—	2,551
Loss on extinguishment of debt	9,786	—	—	—	—
Earnings (loss) before income taxes	30,489	4,868	4,228	24,977	4,171
Income tax provision (benefit)	(2,309)	(18,785)	(38,910)	11,634	1,300
Net income (loss)	<u>\$ 32,798</u>	<u>\$ 23,653</u>	<u>\$ 43,138</u>	<u>\$ 13,343</u>	<u>\$ 2,871</u>
Earnings (loss) per share:					
Basic	\$ 0.42	\$ 0.31	\$ 0.72	\$ 0.24	\$ 0.05
Diluted	\$ 0.40	\$ 0.30	\$ 0.70	\$ 0.23	\$ 0.05
Weighted average shares outstanding:					
Basic	78,608	75,899	59,895	56,185	55,962
Diluted	81,683	79,041	62,035	57,001	55,962
Statement of Cash Flow Data:					
Net cash provided by operating activities	\$ 165,081	\$ 106,628	\$ 90,252	\$ 97,588	\$ 83,131
Net cash used for investing activities	\$ (100,631)	\$ (104,221)	\$ (94,583)	\$ (90,972)	\$ (80,051)
Net cash provided by (used for) financing activities	\$ (42,141)	\$ 10,397	\$ 3,838	\$ (6,574)	\$ (4,317)
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$ 39,342	\$ 17,132	\$ 4,208	\$ 4,945	\$ 5,595
Total assets ⁽²⁾	\$ 2,032,725	\$ 1,661,389	\$ 1,581,939	\$ 1,530,124	\$ 1,475,286
Total debt	\$ 569,692	\$ 578,112	\$ 569,238	\$ 745,625	\$ 747,825
Total stockholders’ equity	\$ 776,437	\$ 743,154	\$ 654,600	\$ 399,581	\$ 385,339

(1) Net revenue for fiscal years 2019 and 2018 are presented under revenue recognition guidance that became effective in fiscal year 2018, while amounts for prior years are not adjusted and continue to be reported in accordance with the historic accounting under the previous revenue recognition guidance.

(2) Total assets as of the end of fiscal year 2019 reflect the recognition of right of use assets related to operating leases that were recorded as part of the adoption of new lease accounting guidance in fiscal year 2019 on a modified retrospective basis and are not comparable to total assets of prior years.

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 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 direct 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 2019” relate to the 52 weeks ended December 28, 2019, references herein to “fiscal year 2018” relate to the 52 weeks ended December 29, 2018 and references herein to “fiscal year 2017” relate to the 52 weeks ended December 30, 2017.

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, no matter what 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 1,151 retail stores across five brands and 19 consumer websites as of fiscal year end 2019.

Our operations consist of two reportable segments:

- **Owned & Host** – As of fiscal year end 2019, our owned brands consisted of 725 America’s Best Contacts and Eyeglasses (“America’s Best”) retail stores and 117 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 military bases and 29 Vista Optical locations within Fred Meyer stores as of fiscal year end 2019. 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, 226 Vision Centers in Walmart retail locations as of fiscal year end 2019. This strategic relationship with Walmart is in its 30th year. Pursuant to a recent amendment to our management & services agreement with Walmart, we will be adding five additional Vision Centers in Walmart stores in fiscal year 2020. In addition, the amendment also extended the current term of the management & services agreement by six months, to February 23, 2021, and such term will automatically renew for an additional three-year term unless, no later than July 23, 2020, one party provides the other party written notice of non-renewal. 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 2019, sales associated with our legacy partner arrangement represented 9.3% 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 our wholly-owned subsidiary, Arlington Contact Lens Service, Inc. ("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 8.7% of consolidated net revenue.
- Managed care business conducted by FirstSight Vision Services, Inc. ("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 care benefit 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 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 ("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:

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 employee 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.

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; and
- impact and timing of weather related store closures.

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 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. 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 no direct 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.

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. However, 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.

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.

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. We rely on a small number of vendors to supply the majority of our eyeglass frames, 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 2019, 88% of spectacle lens expenditures were from this vendor, 92% of contact lens expenditures were with three vendors and 51% 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 7½%. 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 ongoing coronavirus outbreak in China could impact our product sourcing if the travel restrictions and shutdown of certain businesses in China continues for an extended period of time. 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 January due to our policy of recognizing revenue only after the product has been accepted by the customer.

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. In addition to lower revenues in the fourth quarter compared to the other quarters, our fourth quarter operating income may include impairment charges, which may further reduce operating income relative to other quarters.

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.

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.

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 EBITDA, Adjusted EBITDA Margin and Adjusted Net Income.

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 Americas 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 includes 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 as described above in "—Trends and Other Factors Affecting Our Business."

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.

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 and Adjusted Net Income

We define Adjusted EBITDA as net income, plus interest expense, income tax provision (benefit) and depreciation and amortization, as further adjusted to exclude stock compensation expense, debt issuance costs, loss on the extinguishment of debt, asset impairment, new store pre-opening expenses, non-cash rent, 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 total net revenue. We define Adjusted Net Income as net income, adjusted to exclude stock compensation expense, debt issuance costs, loss on extinguishment of debt, asset impairment, new store pre-opening expenses, non-cash rent, secondary offering expenses, management realignment expenses, long-term incentive plan expenses, other expenses, amortization of acquisition intangibles and deferred financing costs, tax benefit of stock option exercises, less the tax effect of these adjustments. Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income are key measures used by management to assess our financial performance. Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income are also frequently used by analysts, investors and other interested parties. We use Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income to supplement 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 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.

<i>In thousands, except percentage and store data</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Revenue:			
Net product sales	\$ 1,426,136	\$ 1,269,612	\$ 1,129,313
Net sales of services and plans	298,195	267,242	245,995
Total net revenue	1,724,331	1,536,854	1,375,308
Costs applicable to revenue (exclusive of depreciation and amortization):			
Products	574,351	511,406	456,078
Services and plans	232,168	202,165	180,888
Total costs applicable to revenue	806,519	713,571	636,966
Operating expenses:			
Selling, general and administrative expenses	744,488	687,476	600,010
Depreciation and amortization	87,244	74,339	61,974
Asset impairment	8,894	17,630	4,117
Litigation settlement	—	—	7,000
Other expense, net	3,611	1,487	950
Total operating expenses	844,237	780,932	674,051
Income from operations	73,575	42,351	64,291
Interest expense, net	33,300	37,283	55,536
Debt issuance costs	—	200	4,527
Loss on extinguishment of debt	9,786	—	—
Earnings before income taxes	30,489	4,868	4,228
Income tax provision (benefit)	(2,309)	(18,785)	(38,910)
Net income	\$ 32,798	\$ 23,653	\$ 43,138
Operating data:			
Number of stores open at end of period	1,151	1,082	1,013
New stores opened during the period	75	74	76
Adjusted EBITDA	\$ 200,681	\$ 174,365	\$ 158,442

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Percentage of net revenue:			
Total costs applicable to revenue	46.8%	46.4%	46.3%
Selling, general and administrative	43.2%	44.7%	43.6%
Total operating expenses	49.0%	50.8%	49.0%
Income from operations	4.3%	2.8%	4.7%
Net income	1.9%	1.5%	3.1%
Adjusted EBITDA	11.6%	11.3%	11.5%

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.

<i>In thousands, except percentage and store data</i>	Comparable store sales growth ⁽¹⁾		Stores open at end of period		Net revenue ⁽²⁾			
	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, 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 0.1% 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 the current quarters 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 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.

Fiscal Year 2018 compared to Fiscal Year 2017

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 2018 compared to fiscal year 2017.

<i>In thousands, except percentage and store data</i>	Comparable store sales growth ⁽¹⁾		Stores open at end of period		Net revenue ⁽²⁾			
	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2018		Fiscal Year 2017	
Owned & Host segment								
America's Best	7.2 %	10.1 %	657	594	\$ 971,384	63.2 %	\$ 848,294	61.7 %
Eyeglass World	6.8 %	6.5 %	115	107	163,932	10.7 %	150,287	10.9 %
Military	(5.7)%	(6.4)%	54	56	23,748	1.5 %	25,340	1.8 %
Fred Meyer	(2.2)%	0.6 %	29	29	14,338	0.9 %	14,646	1.1 %
Owned & Host segment total			855	786	\$1,173,402	76.3 %	\$1,038,567	75.5 %
Legacy segment	0.6 %	1.0 %	227	227	154,412	10.0 %	153,842	11.2 %
Corporate/Other	—	—	—	—	212,427	13.8 %	191,890	14.0 %
Reconciliations	—	—	—	—	(3,387)	(0.1)%	(8,991)	(0.7)%
Total	6.7 %	8.4 %	<u>1,082</u>	<u>1,013</u>	<u>\$1,536,854</u>	<u>100.0 %</u>	<u>\$1,375,308</u>	<u>100.0 %</u>
Adjusted Comparable Store Sales Growth ⁽³⁾	5.7 %	7.5 %						

(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 0.8% and 0.7% from total comparable store sales growth based on consolidated net revenue for fiscal year 2018 and fiscal year 2017, 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), resulting in a decrease of 0.2% from total comparable store sales growth based on consolidated net revenue for each of the fiscal years 2018 and 2017.

Total net revenue of \$1,536.9 million for fiscal year 2018 increased \$161.5 million, or 11.7%, from \$1,375.3 million for fiscal year 2017. This increase was driven approximately 45% by comparable store sales growth, approximately 40% by new stores and approximately 15% by order volume in our AC Lens business within the Corporate/Other segment.

During fiscal year 2018, we opened 74 new stores, including 65 new America's Best stores and nine new Eyeglass World stores. Additionally, we closed two America's Best stores, one Eyeglass World store and two Military locations. Overall, store count grew 6.8% from the end of fiscal year 2017 to the end of fiscal year 2018. Comparable store sales growth and Adjusted Comparable Store Sales Growth was 6.7% and 5.7% for fiscal year 2018, respectively. Comparable store sales growth and Adjusted Comparable Store Sales Growth were driven by increases in customer transactions and, to a lesser extent, average ticket. We believe the increases in net revenue and customer transactions 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.

Net product sales comprised 82.6% and 82.1% of total net revenue for fiscal years 2018 and 2017, respectively. Net product sales increased \$140.3 million, or 12.4% during fiscal year 2018 compared to fiscal year 2017, driven primarily by eyeglass sales and, to a lesser extent, contact lens sales. Net sales of services and plans increased \$21.2 million, or 8.6%, driven primarily by eye exam sales in our Owned & Host segment. The eye exam increase was driven primarily by expanding participation in managed care programs and our store growth. To a lesser extent, product protection program sales and Eyecare Club membership sales also contributed to the increase. The increase in product protection program sales was driven by our America's Best brand. The increase in Eyecare Club membership revenue was primarily driven by the \$1.3 million deferred revenue accounting change in fiscal year 2018 discussed in Note 1. "Business and Significant Accounting Policies" of our audited consolidated financial statements included in Part II. Item 8. of this Form 10-K.

As a result of changes in applicable California law, optometrists employed by FirstSight were transferred to a professional corporation that contracts directly with our Legacy segment in part during the third quarter of fiscal year 2017 and the remainder in the fourth quarter of 2018. This change led to an increase in Legacy segment eye exam revenue and optometrist payroll costs of \$2.2 million and \$1.9 million, respectively, in fiscal year 2018. A corresponding decrease was recorded in our FirstSight subsidiary within the Corporate/Other segment. Therefore, the change had no impact on consolidated operating income. As of fiscal year end 2018, all of the applicable optometrists have been transferred.

Additionally, in connection with these changes in California law, effective October 1, 2017, FirstSight ceased the sale of vision managed care products in Walmart locations in California that are not operated by the Company. As a result, FirstSight net revenue and associated costs in fiscal year 2018 were both approximately \$5.4 million lower than fiscal year 2017.

Owned & Host segment net revenue. Net revenue for our Owned & Host segment increased \$134.8 million, or 13.0%, due to comparable store sales growth and new store openings which increased sales across our key product categories. The growth was predominantly driven by performance in America's Best and Eyeglass World.

Legacy segment net revenue. Net revenue for our Legacy segment grew \$0.6 million, or 0.4%, primarily driven by higher eye exam sales, partially offset by lower service fee income from our legacy partner resulting from lower customer transactions. The increased eye exam sales were primarily 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 115 basis points in comparable store sales growth in the Legacy segment.

Corporate/Other segment net revenue. Net revenue in the Corporate/Other segment increased \$20.5 million, or 10.7%, driven by unit growth in our AC Lens business from the recently expanded role in the contact lens distribution relationship with Walmart and our online retail business, which was partially offset by a \$7.6 million reduction in sales as a result of the combined FirstSight operations changes discussed above.

Net revenue reconciliations. Reconciliations include increases in deferred revenue of \$3.9 million and \$6.8 million, and a decrease in unearned revenue of \$0.5 million and an increase in unearned revenue of \$2.2 million for fiscal year 2018 and fiscal year 2017, respectively. The accounting change described in Note 1. "Business and Significant Accounting Policies" of our audited consolidated financial statements included in Part II. Item 8. of this Form 10-K contributed to the lower increase in deferred revenue for fiscal year 2018 compared to fiscal year 2017, due to acceleration of deferred revenue amortization in fiscal year 2018. Deferred revenue was also driven by slower growth in our product protection plan sales and Eyecare Club membership sales than other product categories.

Differences between the change in unearned revenue for fiscal year 2018 and fiscal year 2017 were primarily the result of calendar influences on cash basis sales of prescription eyewear in our stores during approximately the last seven to 10 days of the respective year. Unearned revenue was higher in December 2017 compared to December 2018 due to the sales volume during the last week of the fiscal year. Sales during the last week of fiscal year 2017 slightly exceeded the sales during last week of fiscal year 2018 impacted by shifts in selling days. These factors resulted in an overall decrease in unearned revenue in fiscal year 2018 when compared to fiscal year 2017.

Costs applicable to revenue

Costs applicable to revenue of \$713.6 million for fiscal year 2018 increased \$76.6 million, or 12.0%, from \$637.0 million for fiscal year 2017. As a percentage of net revenue, costs applicable to revenue increased from 46.3% for fiscal year 2017 to 46.4% for fiscal year 2018. The increase was primarily driven by increased optometrist costs and the growing AC Lens business described below, partially offset by a higher mix of eye exam sales as a result of our growing managed care business, higher vendor rebates primarily based on purchase volume, and a \$2.3 million inventory write-off in the second half of fiscal year 2017, not recurring in 2018.

Costs of products as a percentage of net product sales decreased from 40.4% for fiscal year 2017 to 40.3% for fiscal year 2018, driven by higher rebates from vendors, \$2.3 million inventory write-off in fiscal year 2017 not recurring in fiscal year 2018 and the impact of Legacy managed care business as further described below, partially offset by our growing AC Lens business. Our AC Lens net revenue grew faster than our store brands during fiscal year 2018, and AC Lens had a higher cost of products as a percentage of net revenue than our other businesses.

Owned & Host segment costs of products. Costs of products as a percentage of net product sales in the Owned & Host segment increased from 29.3% for fiscal year 2017 to 29.4% for fiscal year 2018.

Legacy segment costs of products. Costs of products as a percentage of net product sales in the Legacy segment decreased from 46.5% for fiscal year 2017 to 45.2% for fiscal year 2018. The decrease was primarily driven by increased eyeglass net revenue in fiscal year 2018 as a result of increased managed care business. 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. Increases in managed care mix will improve product margins and have a corresponding negative impact on service margins in our Legacy segment.

Costs of services and plans as a percentage of net sales of services and plans increased from 73.5% for fiscal year 2017 to 75.6% for fiscal year 2018. The increase was primarily driven by higher optometrist costs, partially offset by increased eye exam sales as a result of our growing managed care business. Optometrist costs increased as a result of store coverage in new markets and wage inflation in certain geographic markets.

Owned & Host segment costs of services and plans. Costs of services and plans as a percentage of net sales of services and plans in the Owned & Host segment increased from 80.6% for fiscal year 2017 to 82.2% for fiscal year 2018. The increase was driven by higher optometrist costs as described above, partially offset by increased eye exam sales as a result of our growing managed care business. Managed care customers are generally not eligible for the signature two-pair offer at our America's Best brand. Revenues related to managed care customer eye exams are therefore presented as services revenue, however the revenues associated with the exams included in the two-pair offer are reported as product revenues. 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 in the Legacy segment increased from 33.3% for fiscal year 2017 to 40.1% for fiscal year 2018. The increase was primarily driven by increased optometrist costs and lower management fees, 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 in "Net revenue" above. Management fees from our Legacy segment declined due to the corresponding impact of the increased managed care business as described above.

Selling, general and administrative

SG&A of \$687.5 million for fiscal year 2018 increased \$87.5 million, or 14.6%, from fiscal year 2017. As a percentage of net revenue, SG&A increased from 43.6% for fiscal year 2017 to 44.7% for fiscal year 2018. The increase as a percentage of net revenue was primarily due to stock compensation expense, cash expenses pursuant to a long-term incentive plan for non-executive employees, advertising expenses and incremental corporate expenses as a result of becoming a public company in the fourth quarter of fiscal year 2017, partially offset by a monitoring agreement termination fee paid to KKR and Berkshire in connection with the completion of our initial public offering ("IPO") in the fourth quarter of fiscal year 2017 that did not recur.

Owned & Host segment SG&A. SG&A as a percentage of net revenue increased from 38.9% for fiscal year 2017 to 39.0% for fiscal year 2018 in the Owned & Host segment.

Legacy segment SG&A. SG&A as a percentage of net revenue increased from 34.3% for fiscal year 2017 to 35.0% for fiscal year 2018 in the Legacy segment driven primarily by higher store payroll as a percentage of net revenue.

Depreciation and amortization

Depreciation and amortization expense of \$74.3 million for fiscal year 2018 increased \$12.4 million, or 20.0%, from \$62.0 million for fiscal year 2017 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. Beginning in 2015, we accelerated our unit growth to approximately 75 new stores annually. We also invested in more efficient lab and information technology to support our growth. Many of these incremental investments have depreciable lives in the five to eight year categories; therefore, we expect depreciation expense to continue to outpace revenue growth over the next few years. In recent years, a higher percentage of our new store leases were deemed capital leases, further incurring depreciation expense.

Our property and equipment balance, net increased \$52.8 million, or 17.5%, during fiscal year 2018, and included \$107.8 million in purchases of property and equipment, \$14.3 million in new capital leases, less \$66.0 million in depreciation expense and \$3.3 million in impairment and other adjustments.

Impairment of goodwill and other long-lived assets

Impairment expenses of \$17.6 million were recorded for fiscal year 2018 compared to \$4.1 million for fiscal year 2017. See “Critical Accounting Policies and Estimates” below for details regarding specific testing performed on various long-lived assets. During fiscal year 2018, \$11.4 million and \$3.7 million of goodwill impairment was identified at our Fred Meyer and Military brands, respectively. These impairment charges were primarily caused by sales underperformance resulting from decreases in projected customer transaction volume. For certain brands, including Fred Meyer and Military, the number of locations in which we operate has not increased. Further, the Company has limited control over advertising and traffic. As such, small changes in the revenue growth assumptions at such brands can result in goodwill impairment. The remaining fiscal year 2018 impairment charges of \$2.5 million related to our retail store long-lived assets resulting from decreased cash flow projections at individual stores.

Interest expense, net

Interest expense, net, of \$37.3 million for fiscal year 2018 decreased \$18.2 million, or 32.8%, from \$55.5 million for fiscal year 2017. As a result of the payoff of our \$125.0 million second lien term loans and \$235.0 million in outstanding amount of our Term Loan B, during the fourth quarter of fiscal year 2017, interest expense decreased \$14.9 million from lower debt balances and \$5.2 million from a reduction of deferred debt cost amortization and corresponding reduction of discounts. An additional decrease of \$2.2 million resulted from applicable margin reductions from refinancing the Term Loan B during the fourth quarter of fiscal year 2017 and from a Moody's credit rating upgrade received during the third quarter of 2018. These reductions were partially offset by approximately \$2.2 million in interest paid to counterparties associated with our derivative cash flow hedges which became effective in March 2017, but were in effect for the full fiscal year 2018 and \$1.3 million in additional interest expense relating to capital lease obligations during fiscal year 2018.

Income tax provision

Income tax benefit decreased \$20.1 million to \$18.8 million during fiscal year 2018 compared to \$38.9 million during fiscal year 2017, with the 2017 amount primarily resulting from a one-time tax benefit of \$42.1 million from re-measurement of deferred tax assets and liabilities as a result of the Tax Legislation. Income tax benefit of \$18.8 million during fiscal year 2018 related to an income tax provision on current year pre-tax net income at the Company's statutory federal and state rate, and \$25.5 million income tax benefit primarily resulting from stock option exercises.

Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income

We define EBITDA as net income, plus interest expense, income tax provision (benefit) and depreciation and amortization. We define Adjusted EBITDA as EBITDA, further adjusted to exclude stock compensation expense, debt issuance costs, loss on the extinguishment of debt, asset impairment, new store pre-opening expenses, non-cash rent, secondary offering expenses, management realignment expenses, long-term incentive plan expenses, and other expenses. We describe these adjustments reconciling net income to EBITDA and Adjusted EBITDA in the tables below. We define Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of total net revenue. We define Adjusted Net Income as net income, further adjusted to exclude stock compensation expense, debt issuance costs, loss on extinguishment of debt, asset impairment, new store pre-opening expenses, non-cash rent, secondary offering expenses, management realignment expenses, long-term incentive plan expenses, amortization of acquisition intangibles and deferred financing costs, tax benefit of stock option exercises, less the tax effect of these adjustments. We describe these adjustments reconciling net income to Adjusted Net Income in the tables below.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income have been presented as supplemental measures of financial performance that are not required by, or presented in accordance with 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, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income 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, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income to supplement 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 GAAP results with non-GAAP financial measures to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone.

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income are not recognized terms under 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 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. EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income should not be construed to imply that our future results will be unaffected by unusual or non-recurring items. In evaluating EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income 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 GAAP results in addition to using EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income.

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 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 and Adjusted EBITDA do not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- EBITDA and Adjusted EBITDA 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, including costs related to new store openings, which are incurred on a non-recurring basis with respect to any particular store when opened;
- 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, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income should not be considered as measures of discretionary cash available to invest in business growth or to reduce indebtedness. The following table reconciles our net income to EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income for the periods presented:

<i>In thousands</i>	Fiscal Year 2019		Fiscal Year 2018		Fiscal Year 2017	
Net income	\$ 32,798	1.9 %	\$ 23,653	1.5 %	\$ 43,138	3.1 %
Interest expense	33,300	1.9 %	37,283	2.4 %	55,536	4.0 %
Income tax provision (benefit)	(2,309)	(0.1)%	(18,785)	(1.2)%	(38,910)	(2.8)%
Depreciation and amortization	87,244	5.1 %	74,339	4.8 %	61,974	4.5 %
EBITDA	<u>151,033</u>	8.8 %	<u>116,490</u>	7.6 %	<u>121,738</u>	8.9 %
Stock compensation expense ^(a)	12,670	0.7 %	20,939	1.4 %	5,152	0.4 %
Debt issuance costs ^(b)	—	— %	200	— %	4,527	0.3 %
Loss on extinguishment of debt ^(c)	9,786	0.6 %	—	— %	—	— %
Asset impairment ^(d)	8,894	0.5 %	17,630	1.1 %	4,117	0.3 %
Non-cash inventory write-offs ^(e)	—	— %	—	— %	2,271	0.2 %
Management fees ^(f)	—	— %	—	— %	5,263	0.4 %
New store pre-opening expenses ^(g)	3,334	0.2 %	2,229	0.1 %	2,531	0.2 %
Non-cash rent ^(h)	3,208	0.2 %	2,801	0.2 %	1,919	0.1 %
Litigation settlement ⁽ⁱ⁾	—	— %	—	— %	7,000	0.5 %
Secondary offering expenses ⁽ⁱ⁾	401	— %	2,451	0.2 %	—	— %
Management realignment expenses ^(k)	2,155	0.1 %	—	— %	—	— %
Long-term incentive plan ^(l)	2,830	0.2 %	7,040	0.5 %	—	— %
Other ^(m)	<u>6,370</u>	0.4 %	<u>4,585</u>	0.3 %	<u>3,924</u>	0.3 %
Adjusted EBITDA/ Adjusted EBITDA Margin	<u>\$200,681</u>	11.6 %	<u>\$174,365</u>	11.3 %	<u>\$158,442</u>	11.5 %

Note: Percentages reflect line item as a percentage of net revenue

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Net income	\$ 32,798	\$ 23,653	\$ 43,138
Stock compensation expense ^(a)	12,670	20,939	5,152
Debt issuance costs ^(b)	—	200	4,527
Loss on extinguishment of debt ^(c)	9,786	—	—
Asset impairment ^(d)	8,894	17,630	4,117
Non-cash inventory write-offs ^(e)	—	—	2,271
Management fees ^(f)	—	—	5,263
New store pre-opening expenses ^(g)	3,334	2,229	2,531
Non-cash rent ^(h)	3,208	2,801	1,919
Litigation settlement ⁽ⁱ⁾	—	—	7,000
Secondary offering expenses ^(j)	401	2,451	—
Management realignment expenses ^(k)	2,155	—	—
Long-term incentive plan expense ^(l)	2,830	7,040	—
Other ^(m)	6,370	4,585	3,924
Amortization of acquisition intangibles and deferred financing costs ⁽ⁿ⁾	8,694	9,253	14,481
Tax benefit of stock option exercises ^(o)	(10,089)	(25,544)	—
Tax legislation adjustment ^(p)	—	—	(42,089)
Tax effect of total adjustments ^(q)	(14,933)	(13,309)	(20,475)
Adjusted Net Income	\$ 66,118	\$ 51,928	\$ 31,759

- (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 2018, fees associated with the issuance of new term loans during the fourth quarter of fiscal year 2018. For fiscal year 2017, includes \$2.7 million of fees associated with the borrowing of \$175.0 million in additional principal under our first lien credit agreement and \$1.8 million of fees associated with the refinancing of our first lien credit agreement.
- (c) For fiscal year 2019, reflects write-off of deferred financing fees related to the extinguishment of debt.
- (d) Reflects write-off of property and equipment on closed or underperforming stores for fiscal year 2019; non-cash charges related to impairment of long-lived assets, primarily goodwill in our Military and Fred Meyer brands for fiscal year 2018; and write-off of a cost basis investment, and impairment of capitalized software and property and equipment for fiscal year 2017.
- (e) Reflects write-offs of inventory relating to the expiration of a specific type of contact lens that could not be sold and required disposal.
- (f) Reflects management fees paid to KKR and Berkshire in accordance with our monitoring agreement with them. The monitoring agreement was terminated automatically in accordance with its terms upon the consummation of the IPO in October 2017.
- (g) Pre-opening expenses, which include marketing and advertising, labor and occupancy expenses incurred prior to opening a new store, are generally higher than comparable expenses incurred once such store is open and generating revenue. We believe that such higher pre-opening expenses are specific in nature, are not indicative of ongoing core operating performance. We adjust for these costs to facilitate comparisons of store operating performance from period to period.
- (h) Consists of the non-cash portion of rent expense, which reflects the extent to which our straight-line rent expense recognized under GAAP exceeds or is less than our cash rent payments.
- (i) Expenses associated with settlement of litigation. See Part I, Item 3, “Legal Proceedings” and Note 13, “Commitments and Contingencies” in our consolidated financial statements included in Part II, Item 8, of this Form 10-K for further details.
- (j) Expenses related to our secondary public offerings during fiscal years 2018 and 2019.
- (k) Expenses related to a non-recurring management realignment described in our Current Report on Form 8-K filed with the SEC on January 10, 2019.
- (l) Expenses pursuant to a long-term incentive plan for non-executive employees 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.

- (m) Other adjustments include amounts that management believes are not representative of our operating performance (amounts in brackets represent reductions in Adjusted EBITDA and Adjusted Net Income) including our share of losses on equity method investments of \$1.8 million, \$1.3 million and \$1.0 million for the fiscal years 2019, 2018 and 2017, respectively; the amortization impact of the KKR Acquisition-related adjustments (e.g., fair value of leasehold interests) of \$0.5 million, \$0.4 million and \$(0.3) million for the fiscal years 2019, 2018 and 2017, respectively; expenses related to preparation for being an SEC registrant that were not directly attributable to our IPO and therefore not charged to equity of \$1.8 million for the fiscal year 2017; differences between the timing of expense versus cash payments related to contributions to charitable organizations of \$(1.0) million for each of the fiscal years 2018 and 2017; costs of severance and relocation of \$2.3 million, \$1.0 million and \$1.4 million, for the fiscal years 2019, 2018 and 2017, respectively; excess payroll taxes related to stock option exercises of \$0.8 million and \$1.8 million for fiscal year 2019 and 2018, respectively; and other expenses and adjustments totaling \$1.0 million, \$1.1 million and \$1.0 million for fiscal years 2019, 2018 and 2017, respectively.
- (n) Amortization of the increase in carrying values of finite-lived intangible assets resulting from the application of purchase accounting to the KKR Acquisition of \$7.4 million for each of the fiscal years 2019, 2018 and 2017; and 2) Amortization of debt discounts associated with the March 2014 term loan borrowings in connection with the KKR Acquisition and, to a lesser extent, amortization of debt discounts associated with the May 2015 and February 2017 incremental First Lien - Term Loan B and the November 2017 First Lien - Term Loan B refinancing, aggregating to \$1.3 million, \$1.9 million and \$7.1 million of additional expense for fiscal years 2019, 2018 and 2017, respectively. The \$7.1 million additional expense for fiscal year 2017 includes a \$3.3 million write-off of debt discounts associated with the repayment of the entire \$125.0 million second lien term loan balance.
- (o) Tax benefit associated with accounting guidance adopted at the beginning of fiscal year 2017 (Accounting Standards Update 2016-09, Compensation - Stock Compensation), 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.
- (p) The adjustment represents re-measuring and reassessing the net realizability of our deferred tax assets and liabilities during fiscal year 2017. See Note 6. "Income Taxes" in Part II, Item 8. of this Form 10-K for additional information regarding the Tax Legislation.
- (q) Represents the income tax effect of the total adjustments, at our combined statutory federal and state income tax rates.

Liquidity and Capital Resources

We principally rely on cash flows from operations as our primary source of liquidity and, if needed, up to \$300.0 million in revolving loans under our Revolving Credit Facility (as defined below). Our primary cash needs are for inventory, payroll, store rent, 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. 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. Due to the seasonality of our business, any borrowings would generally occur in the fourth or first quarters as we prepare for our peak season, which is the first half of the fiscal year. We believe that cash expected to be generated from operations and the availability of borrowings under the Revolving Credit Facility will be sufficient for our working capital requirements, liquidity obligations, anticipated capital expenditures and payments due under our existing credit facilities for at least the next 12 months.

As of fiscal year end 2019, we had \$39.3 million in cash and cash equivalents and \$146.3 million of availability under our Revolving Credit Facility, which includes \$5.7 million in outstanding letters of credit.

We purchased \$101.3 million in capital items during fiscal year 2019. 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:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Cash flows provided by (used for):			
Operating activities	\$ 165,081	\$ 106,628	\$ 90,252
Investing activities	(100,631)	(104,221)	(94,583)
Financing activities	(42,141)	10,397	3,838
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 22,309	\$ 12,804	\$ (493)

Net Cash Provided by Operating Activities

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 by \$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 from 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 provided by operating activities increased \$16.4 million, or 18.1%, during the fiscal year 2018 compared to fiscal year 2017. Net cash provided by operating activities was \$106.6 million for the fiscal year 2018, as non-cash items of \$109.0 million and \$23.7 million of net income were partially offset by an increase in net working capital and other assets and liabilities of \$26.1 million. Net cash provided by operating activities was \$90.3 million for fiscal year 2017, which consisted of non-cash items of \$57.6 million, \$43.1 million of net income and an increase in net working capital and other assets and liabilities of \$10.4 million.

The increase in net working capital and other assets and liabilities during the fiscal year 2018 was primarily due to increases in inventories of \$28.7 million, accounts receivable of \$14.6 million, and other assets of \$7.0 million. Increases in inventory are generally expected each period, and reflect our growth in sales of products, including product replenishment needs at existing stores and inventory needed to outfit new stores. The increase in inventory also reflects an opportunistic forward buy of approximately \$10.0 million during the fourth quarter of 2018. Increases in accounts receivable generally reflect overall revenue growth, but primarily reflect an increase in credit card transactions the last week of fiscal year 2018. The increase in other assets is also reflective of overall store count growth such as prepaid advertising, prepaid rent, and prepaid store supplies. These changes were partially offset by increases in accounts payable of \$7.9 million, deferred revenues of \$3.8 million and accrued expenses and other liabilities of \$12.6 million. Increases in accounts payable reflect the timing of payments to vendors. Increases in deferred revenues are consistent with increases in cash basis sales of product protection plans and eyecare club memberships. Increases in accrued expenses and other liabilities were primarily due to new store growth. We opened 74 new stores during fiscal year 2018, with five closures.

With limited exception, due to overall store count growth and increases in the scale of our business, on an annual basis increases in working capital and other assets and liabilities are expected, with the net impact being overall use of cash.

We opened 76 new stores during fiscal year 2017, with six closures. The increase in net working capital and other assets and liabilities during the fiscal year 2017 was primarily due to an increase in inventories of \$9.6 million, accounts receivable of \$16.9 million, other assets of \$2.1 million and a decrease in accounts payable of \$3.7 million. These changes were partially offset by an increase in accrued expenses and other liabilities of \$15.0 million and deferred revenues of \$6.8 million. Increases in accrued expenses and other liabilities included a \$7.0 million litigation settlement discussed in Note 13. "Commitments and Contingencies" in in our consolidated financial statements included in Part II. Item 8. of this Form 10-K.

Net Cash Used for Investing Activities

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 the prior year for our Texas lab not recurring in the current year as well as timing of new store capital investments.

Net cash used for investing activities increased by \$9.6 million, to \$104.2 million, during fiscal year 2018 from \$94.6 million during fiscal year 2017. The change in cash used for investing activities included an increase of \$11.3 million in purchases of property and equipment to support our store growth, including new stores, improvements to our optical laboratories and distribution centers and continued development of our IT infrastructure. During fiscal year 2017, we made an investment of \$1.5 million in a secured convertible promissory note to our equity method investee as discussed in Note 10. “Equity in Net Assets of Non-Consolidated Investee” in our consolidated financial statements included in Part II. Item 8. of this Form 10-K. No investments were made during fiscal year 2018.

Net Cash Provided by (Used for) Financing Activities

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.

Net cash provided by financing activities was \$10.4 million and \$3.8 million during fiscal years 2018 and 2017, respectively. The change in cash provided by financing activities was primarily due to an increase of \$18.7 million in proceeds primarily related to exercise of stock options during fiscal year 2018. Other drivers were quarterly principal payments required under our long-term credit agreements.

Fiscal years 2018 and 2017 included material debt and equity transactions. In 2017, we used IPO proceeds of \$370.9 million to pay down debt of \$367.7 million. Prior to the IPO, we used debt proceeds of \$174.9 million (net of debt issuance costs of \$4.5 million) to pay a recapitalization dividend of \$171.0 million. Additionally, proceeds from exercise of stock options of \$1.1 million were offset by \$0.9 million of payments on capital lease obligations. The net cash impact of all of these transactions was \$3.8 million in cash proceeds. 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 first lien Credit Agreement and the interest rate on such outstanding amounts, and the amount available for additional borrowing thereunder, as of the end of fiscal year 2019:

<i>In thousands, except percentage data</i>	Interest Rate ⁽²⁾	Amount Outstanding	Amount Available for Additional Borrowing
Term Loan, due July 18, 2024	Variable	392,375	—
Revolving Credit Facility, due July 18, 2024 ⁽¹⁾	Variable	148,000	146,269
Total		\$ 540,375	\$ 146,269

(1) At December 28, 2019, the amount available under our Revolving Credit Facility reflected a reduction of \$5.7 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 1.50% for LIBOR Loans, and an Applicable Margin of 0.50% for the new term loans that are ABR Loans, as of fiscal year end 2019.

Term Loan and Revolving Credit Facility - Joinder and Amendment and Restatement Agreement

On July 18, 2019 (the “Closing Date”), the credit agreement, dated as of October 9, 2018 (the “Existing Credit Agreement”), by and among Nautilus Acquisition Holdings, Inc. (“Holdings”), a Delaware corporation and a wholly-owned subsidiary of the Company, NVI, Goldman Sachs Bank USA, as administrative agent and collateral agent, and the lenders from time to time party thereto and the other parties thereto, was amended and restated pursuant to that certain Joinder and Amendment and Restatement Agreement, dated as of July 18, 2019 (the “Restatement Agreement”) by and among Holdings, NVI, as borrower, certain subsidiaries of NVI, 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 (the Existing Credit Agreement, as amended and restated by the Restatement Agreement, the “Credit Agreement”).

The Existing Credit Agreement was amended and restated to, among other things, (i) establish new first lien term loans in an aggregate principal amount of \$420.0 million (the “Term Loan”) to repay all principal, interest fees and other amounts outstanding under the Existing Credit Agreement immediately prior to the Closing Date, (ii) establish a new revolving credit facility in an aggregate principal amount of \$300.0 million (the “Revolving Credit Facility”), of which \$148.0 million was drawn as of closing and (iii) replace Goldman Sachs Bank USA with Bank of America, N.A. as administrative agent and collateral agent under the Credit Agreement and related documentation. 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 2019.

Pursuant to the Restatement Agreement, the initial new Applicable Margins, as defined in the Credit Agreement, are (i) 1.50% for the new first lien term loans that are London Inter-bank Offered Rate (“LIBOR”) Loans and (ii) 0.50% for the new first lien term loans that are Alternative Base Rate (“ABR”) Loans. The Restatement Agreement further provides that following the Closing Date, the above Applicable Margins for the new first lien term loans will be based on NVI’s consolidated first lien leverage ratio as follows: (a) if NVI’s consolidated first lien leverage ratio is greater than 3.75 to 1.00, the Applicable Margin will be 2.00% for LIBOR Loans and 1.00% for ABR Loans, (b) if NVI’s consolidated first lien leverage ratio is less than or equal to 3.75 to 1.00, but greater than 2.75 to 1.00, the Applicable Margin will be 1.75% for LIBOR Loans and 0.75% for ABR Loans, (c) if NVI’s consolidated first lien leverage ratio is less than or equal to 2.75 to 1.00 but greater than 1.75 to 1.00, the Applicable Margin will be 1.50% for LIBOR Loans and 0.50% for ABR Loans, (d) if NVI’s consolidated first lien leverage ratio is less than or equal to 1.75 to 1.00 but greater than 0.75 to 1.00, the Applicable Margin will be 1.25% for LIBOR Loans and 0.25% for ABR Loans and (e) if NVI’s consolidated first lien leverage ratio is less than or equal to 0.75 to 1.00, the Applicable Margin will be 1.00% for LIBOR Loans and 0.00% for ABR Loans. The new first lien term loans 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.

In addition, pursuant to the Restatement Agreement, solely with respect to the Term Loan, commencing on the fiscal quarter ending on December 28, 2019, Holdings will not permit (i) the Consolidated Total Debt to Consolidated EBITDA Ratio, as defined in the Credit Agreement, as of the last day of any fiscal quarter of Holdings to be greater than 4.75 to 1.00 for the first two years, and 4.50 to 1.00 thereafter, subject to certain step-ups after the consummation of a Material Acquisition, as defined in the Credit Agreement, or (ii) the Consolidated Interest Coverage Ratio of Holdings, as defined in the Credit Agreement, as of the last day of any fiscal quarter of Holdings to be less than 3.00 to 1.00. We were in compliance with all covenants related to the Credit Agreement as of December 28, 2019.

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.

Capital Expenditures

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
New stores (owned brands)	\$ 37,734	\$ 47,389	\$ 41,894
Laboratories, distribution centers and optometric equipment	19,690	23,829	23,269
Information technology and other	43,901	33,275	28,056
Total	<u>\$ 101,325</u>	<u>\$ 104,493</u>	<u>\$ 93,219</u>

We expect capital expenditures in fiscal year 2020 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 2019, our lease commitments and contractual obligations are as follows:

<i>In thousands</i>	2020	2021	2022	2023	2024	Thereafter	Total
Term Loan ^(a)	\$ 10,500	\$ 10,500	\$ 13,125	\$ 21,000	\$ 337,250	\$ —	\$ 392,375
Revolving Credit Facility ^(b)	—	—	—	—	148,000	—	148,000
Estimated interest ^(c)	16,932	15,625	15,313	14,804	7,905	—	70,579
Noncancelable operating leases ^(d)	67,240	74,451	67,115	59,981	53,036	130,762	452,585
Finance leases ^(e)	6,742	7,127	7,062	6,088	4,520	15,561	47,100
Other commitments ^(f)	23,467	24,917	8,367	3,710	—	—	60,461
Total	\$ 124,881	\$ 132,620	\$ 110,982	\$ 105,583	\$ 550,711	\$ 146,323	\$ 1,171,100

- (a) Principal under the Term Loan is payable in equal quarterly installments of \$2.625 million through the third quarter of 2022 and \$5.25 million each quarter through the second quarter of 2024 when the outstanding principal balance of \$326.75 million is due.
- (b) No principal payments are required on the Revolving Credit Facility until the third quarter of 2024 when the outstanding principal balance of \$148.0 million is due. As of fiscal year 2019 we had \$5.7 million in outstanding letters of credit under our Revolving Credit Facility.
- (c) 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.
- (d) 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 26.5 million during fiscal year ended 2019.
- (e) 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 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. 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.
- (f) Other commitments include minimum purchase commitments with certain trade vendors and contributions made to our philanthropic endeavors.

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 believe 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 the 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 (generally leasehold improvements) 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 to forecasted store revenue growth rates and store profitability. The cash flows used in estimating fair value were discounted using a market rate of approximately 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. A significant decrease in the estimated cash flows would lead to a lower fair value measurement, as would a significant increase in the discount rate.

We assess non-store tangible 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.

We had \$366.8 million of property and equipment, net, and ROU assets of \$376.2 million as of December 28, 2019. 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 December 28, 2019, we had \$777.6 million of goodwill, \$240.5 million of non-amortizing intangible assets, and \$56.9 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 America's Best and Eyeglass World. Legacy fair value exceeded carrying value by 28% and represents 8% of consolidated goodwill. Future changes in Legacy 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 Legacy 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 membership 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 Owned & Host 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 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 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.

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.

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 December 28, 2019 was \$60.1 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 December 28, 2019, our total inventory balance was \$127.6 million. Changes in our assessment of the inventory carrying value could have a material impact on our financial position.

Derivative Financial Instruments

The Company uses interest rate swaps to manage its exposure to adverse fluctuations in interest rates by converting a portion of our debt portfolio from a floating rate to a fixed rate. We designate our interest rate swaps 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 swaps 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 swaps 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 on cash flow hedges are recorded in accumulated other comprehensive loss in the accompanying consolidated balance sheets until the hedged item is recognized as interest expense in the consolidated statements of operations. 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 counterparties based on their credit ratings and limit our exposure to any single counterparty. The counterparties to our derivative contracts are major domestic 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. Credit risk has not had a significant effect on the fair value of our derivative instruments. We do not have any credit risk-related contingent features or collateral requirements associated with our derivative contracts. As of December 28, 2019, the notional amount of our hedges was \$430.0 million. Any potential changes in hedge designations assumptions on instrument fair values could have a material impact on our results and our balance sheet.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)*. 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). This new guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. The amendments in this new guidance may be applied either retrospectively or prospectively. The Company is in the process of assessing the new guidance, but does not expect adoption to have a material effect on the Company's financial condition, results of operations, or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. 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. The Company is in the process of assessing the new guidance, but does not expect adoption to have a material effect on the Company's financial condition, results of operations, or cash flows.

For additional 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 Derivative" 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 swaps to manage such risk. The net amounts to be paid or received under interest rate swap agreements are accrued as interest rates change, and are recognized over the life of the swap agreements as an adjustment to interest expense from the underlying debt to which the swap is designated. 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 2019, all of our \$540.4 million in Term Loan debt was subject to variable interest rates, with a weighted average borrowing rate of 4.5%. After inclusion of the notional amount of \$430.0 million of interest rate swaps fixing a portion of the variable rate debt, \$110.4 million, or 20.4% of our debt, is subject to variable rates. Assuming an increase to market rates of 1.0% as of December 28, 2019, we would incur an annual increase to interest expense of approximately \$1.1 million related to debt subject to variable rates.

Item 8. Consolidated Financial Statements and Supplementary Data

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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 December 28, 2019 and December 29, 2018, the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended December 28, 2019, 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 December 28, 2019 and December 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2019, 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 December 28, 2019, 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 February 25, 2020, 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.

Asset Impairment - Store Assets Impairment - Refer to Notes 1, 2 and 8 to the financial statements

Critical Audit Matter Description

The Company's evaluation of long-lived tangible and right of use (ROU) store assets for impairment involves an initial assessment of each store asset group to determine whether events or conditions indicate that the carrying amounts of such assets may not be recoverable. Possible indications of impairment may include events or changes in circumstances regarding the financial performance of the stores, regional and local business climates, future plans for the store operations and other qualitative factors. When events or changes in circumstances exist, the Company evaluates its store assets for impairment by comparing projected undiscounted net cash flows expected to be generated over the life of the primary asset within the asset group (generally leasehold improvements) to the carrying value of the subject assets. If the carrying value exceeds the undiscounted net cash flows, an analysis is performed to determine the fair value of the store asset group.

For those store assets where indications of impairment have been identified, the Company makes significant estimates and assumptions to determine whether the asset group is impaired using undiscounted net cash flows expected to be generated over the life of the primary asset within the store asset group, including estimates and assumptions related to forecasted store revenue growth rates. As of December 28, 2019, total net property and equipment, which includes store assets, was \$366.8 million; and total ROU assets, which includes store ROU assets, were \$376.2 million. Impairment losses recorded on store assets in 2019 were \$8.9 million.

For those store assets where indications of impairment have been identified, we identified the forecasted store revenue growth rates for new markets where the Company has limited historical experience to be a critical audit matter. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the reasonableness of management's forecasted store revenue growth rates.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the assessment of forecasted store revenue growth rates for those stores with indicators of impairment included the following, among others:

- We tested the effectiveness of controls over management's estimates of undiscounted net cash flows used to test the store asset group for recoverability, including controls over management's selection of forecasted store revenue growth rates.
- We evaluated the Company's forecasted store revenue growth rates by:
 - Comparing management's estimate of forecasted store revenue growth rates to:
 - the trend of recent store revenue growth rates within the respective regional or local market,
 - external market sources of regional and local optical retail saturation data,
 - third party estimates of the impact of regional and local marketing strategies, and
 - regional and local doctor recruiting and retention activities.
 - Comparing the estimate of forecasted store revenue growth rates to the Company's financial forecasts communicated to investors and used to measure management performance.
 - Discussing with management the forecasted store revenue growth rates used in the Company's undiscounted net cash flows and evaluating the consistency of the assumptions used with evidence obtained in other areas of the audit.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 25, 2020

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

National Vision Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
As of December 28, 2019 and December 29, 2018
In Thousands, Except Par Value

ASSETS	As of December 28, 2019	As of December 29, 2018
Current assets:		
Cash and cash equivalents	\$ 39,342	\$ 17,132
Accounts receivable, net	44,475	50,735
Inventories	127,556	116,022
Prepaid expenses and other current assets	23,266	30,815
Total current assets	234,639	214,704
Property and equipment, net	366,767	355,117
Other assets:		
Goodwill	777,613	777,613
Trademarks and trade names	240,547	240,547
Other intangible assets, net	56,940	64,532
Right of use assets	348,090	—
Other assets	8,129	8,876
Total non-current assets	1,798,086	1,446,685
Total assets	<u>\$ 2,032,725</u>	<u>\$ 1,661,389</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 40,782	\$ 43,642
Other payables and accrued expenses	82,829	81,004
Unearned revenue	28,002	27,295
Deferred revenue	55,870	52,144
Current maturities of long-term debt and finance lease obligations	13,759	7,567
Current operating lease obligations	51,937	—
Total current liabilities	273,179	211,652
Long-term debt and finance lease obligations, less current portion and debt discount	555,933	570,545
Non-current operating lease obligations	331,769	—
Other non-current liabilities:		
Deferred revenue	21,530	20,134
Other liabilities	13,731	53,964
Deferred income taxes, net	60,146	61,940
Total other non-current liabilities	95,407	136,038
Commitments and contingencies (See Note 13)		
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000 shares authorized; 80,603 and 78,246 shares issued as of December 28, 2019 and December 29, 2018, respectively; 79,678 and 78,167 shares outstanding as of December 28, 2019 and December 29, 2018, respectively	805	782
Additional paid-in capital	700,121	672,503
Accumulated other comprehensive loss	(3,814)	(2,810)
Retained earnings	107,132	74,840
Treasury stock, at cost; 925 and 79 shares as of December 28, 2019 and December 29, 2018, respectively	(27,807)	(2,161)
Total stockholders' equity	776,437	743,154
Total liabilities and stockholders' equity	<u>\$ 2,032,725</u>	<u>\$ 1,661,389</u>

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 December 28, 2019, December 29, 2018 and December 30, 2017
In Thousands, Except Earnings Per Share

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Revenue:			
Net product sales	\$ 1,426,136	\$ 1,269,612	\$ 1,129,313
Net sales of services and plans	298,195	267,242	245,995
Total net revenue	<u>1,724,331</u>	<u>1,536,854</u>	<u>1,375,308</u>
Costs applicable to revenue (exclusive of depreciation and amortization):			
Products	574,351	511,406	456,078
Services and plans	232,168	202,165	180,888
Total costs applicable to revenue	<u>806,519</u>	<u>713,571</u>	<u>636,966</u>
Operating expenses:			
Selling, general and administrative expenses	744,488	687,476	600,010
Depreciation and amortization	87,244	74,339	61,974
Asset impairment	8,894	17,630	4,117
Litigation settlement	—	—	7,000
Other expense, net	3,611	1,487	950
Total operating expenses	<u>844,237</u>	<u>780,932</u>	<u>674,051</u>
Income from operations	73,575	42,351	64,291
Interest expense, net	33,300	37,283	55,536
Debt issuance costs	—	200	4,527
Loss on extinguishment of debt	9,786	—	—
Earnings before income taxes	30,489	4,868	4,228
Income tax provision (benefit)	(2,309)	(18,785)	(38,910)
Net income	<u>\$ 32,798</u>	<u>\$ 23,653</u>	<u>\$ 43,138</u>
Earnings per share:			
Basic	\$ 0.42	\$ 0.31	\$ 0.72
Diluted	\$ 0.40	\$ 0.30	\$ 0.70
Weighted average shares outstanding:			
Basic	78,608	75,899	59,895
Diluted	81,683	79,041	62,035
Comprehensive income:			
Net income	\$ 32,798	\$ 23,653	\$ 43,138
Unrealized gain (loss) on hedge instruments	(1,350)	9,488	7,613
Tax provision (benefit) of unrealized gain (loss) on hedge instruments	(346)	2,430	2,925
Comprehensive income	<u>\$ 31,794</u>	<u>\$ 30,711</u>	<u>\$ 47,826</u>

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 December 28, 2019, December 29, 2018 and December 30, 2017
In Thousands

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balances at December 31, 2016	56,202	\$ 562	\$ 424,789	\$ (14,556)	\$ (10,981)	\$ (233)	\$ 399,581
Dividends to stockholders	—	—	(170,983)	—	—	—	(170,983)
Issuance of common stock, net	18,452	184	372,840	—	—	—	373,024
Stock based compensation	—	—	5,152	—	—	—	5,152
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	4,688	—	—	4,688
Net income	—	—	—	—	43,138	—	43,138
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

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 December 28, 2019, December 29, 2018 and December 30, 2017
In Thousands

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Cash flows from operating activities:			
Net income	\$ 32,798	\$ 23,653	\$ 43,138
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	87,244	74,339	61,974
Amortization of loan costs	1,289	1,848	7,078
Asset impairment	8,894	17,630	4,117
Deferred income tax expense (benefit)	(2,378)	(19,340)	(39,997)
Stock based compensation expense	12,670	20,939	5,152
Inventory adjustments	4,352	3,868	5,496
Bad debt expense	8,210	7,107	8,035
Debt issuance costs	—	200	4,527
Loss on extinguishment of debt	9,786	—	—
Other	5,309	2,413	1,188
Changes in operating assets and liabilities:			
Accounts receivable, net	(6,925)	(14,649)	(16,858)
Inventories	(15,886)	(28,739)	(9,583)
Other assets	10,103	(7,011)	(2,075)
Accounts payable	(2,860)	7,934	(3,692)
Deferred revenue	5,122	3,839	6,787
Other liabilities	7,353	12,597	14,965
Net cash provided by operating activities	<u>165,081</u>	<u>106,628</u>	<u>90,252</u>
Cash flows from investing activities:			
Purchase of property and equipment	(101,325)	(104,493)	(93,219)
Purchase of investments	—	—	(1,500)
Other	694	272	136
Net cash used for investing activities	<u>(100,631)</u>	<u>(104,221)</u>	<u>(94,583)</u>
Cash flows from financing activities:			
Proceeds from issuance of long-term debt, net of discounts	566,550	200,000	174,924
Proceeds from issuance of common stock	14,767	19,802	373,024
Principal payments on long-term debt	(591,925)	(204,275)	(367,660)
Purchase of treasury stock	(25,646)	(1,928)	—
Payments on finance lease obligations	(2,957)	(1,802)	(940)
Payments of debt issuance costs	(2,930)	(1,400)	(4,527)
Dividend to stockholders	—	—	(170,983)
Net cash provided by (used for) financing activities	<u>(42,141)</u>	<u>10,397</u>	<u>3,838</u>
Net change in cash, cash equivalents and restricted cash	22,309	12,804	(493)
Cash and cash equivalents and restricted cash, beginning of year	17,998	5,194	5,687
Cash and cash equivalents and restricted cash, end of year	<u>\$ 40,307</u>	<u>\$ 17,998</u>	<u>\$ 5,194</u>
Supplemental cash flow information:			
Cash paid for interest	33,935	33,469	47,090
Cash paid (received) for taxes	684	1,447	2,647
Capital expenditures accrued at the end of the period	9,059	14,078	10,782
Right of use assets acquired under finance leases	9,713	14,303	10,117
Right of use assets acquired under operating leases	108,712	—	—
Non-cash issuance of common shares	—	446	—
Non-cash purchase of treasury stock	—	(446)	—

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 direct wholly owned subsidiaries. We are a leading value retailer of eyeglasses and contact lenses in the United States. We operated 1,151 and 1,082 retail optical locations in the United States and its territories as of the fiscal years ended December 28, 2019 and December 29, 2018, respectively, through our five store brands, including America’s Best Contacts and Eyeglasses (“America’s Best”), Eyeglass World, Vista Optical locations on U.S. Army/Air Force military bases (“Military”) and within 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 care benefit 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 includes 13 weeks of operations and the fourth quarter includes 14 weeks of operations.

References herein to “fiscal year 2019,” “fiscal year 2018,” and “fiscal year 2017,” relate to the 52 weeks ended December 28, 2019, December 29, 2018 and December 30, 2017, 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.

Initial and Secondary Public Offerings

On October 30, 2017, we completed an initial public offering of our common stock (“IPO”) in which we issued and sold 18,170,000 shares, including 2,370,000 shares pursuant to the exercise in full of the underwriters’ option to purchase additional shares. The shares sold in the offering were registered under the Securities Act pursuant to our Registration Statement on Form S-1 (File No. 333-220719), which was declared effective by the Securities and Exchange Commission on October 25, 2017. The shares were sold at an initial offering price of \$22.00 per share, which generated net proceeds of approximately \$375.8 million to the Company, after deducting underwriting discounts and commissions of approximately \$24.0 million which included \$0.7 million paid to KKR Capital Markets LLC (“KCM”), an affiliate of KKR, for underwriting services in connection with the IPO.

We primarily used the proceeds from the IPO to repay \$125.0 million in outstanding aggregate principal amount of our second lien term loans and approximately \$235.0 million of the outstanding principal amount of our Term Loan B under our first lien credit agreement and accrued and unpaid interest thereon. The repayment resulted in a retirement of debt in the amount of \$353.3 million. Additionally, we paid \$4.8 million of transaction related costs which are recorded as a charge against additional paid-in capital included in the consolidated balance sheets. The remaining \$11.0 million of the proceeds was used for general corporate purposes, and payment of the termination fees described below.

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

1. Business and Significant Accounting Policies (continued)

NVI was party to a Monitoring Agreement, dated as of March 14, 2014, with KKR and Berkshire Partners LLC (“Berkshire”), which was terminated automatically in accordance with its terms upon the completion of the IPO. The Company paid termination fees of approximately \$3.6 million and \$0.8 million to KKR and Berkshire, respectively, recorded in selling, general and administrative (“SG&A”) in the consolidated statements of operations. Affiliates of KKR and Berkshire retained 58.2% and 13.6% ownership interest, respectively, in the Company after the IPO.

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. See Note 5. “Stock Incentive Plan” for details.

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. Refer to Note 5. “Stock Incentive Plans” for further information on stock based compensation activity as of fiscal year end 2019. 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.

Second Amended and Restated Certificate of Incorporation and Bylaws

The Company’s Second Amended and Restated Certificate of Incorporation became effective in connection with the completion of the IPO on October 30, 2017, which among other things, provides that the Company’s authorized capital stock consists of 200,000,000 shares of common stock and 50,000,000 shares of preferred stock, par value \$0.01 per share. The Company’s bylaws were also amended and restated as of October 30, 2017.

Stock Split

On October 12, 2017, the Company’s Board of Directors approved a 1.96627-for-one reverse stock split of the Company’s common stock, effective October 24, 2017. The accompanying consolidated financial statements and notes thereto give retroactive effect to the reverse stock split for all periods presented.

Cash and Cash Equivalents

Cash consists of currency and demand deposits with financial institutions. 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 maintain the majority of our cash and cash equivalents in one large national banking institution. Such amounts are in excess of federally insured limits. 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 amounts that may become uncollectible. Estimates of our allowance for uncollectible accounts are based on our historical and current operating, billing and collection trends. Accounts receivable are written off after all collection attempts have been exhausted. Bad debt expense recognized on our receivables was approximately \$8.2 million, \$7.1 million and \$8.0 million for the fiscal years 2019, 2018 and 2017, respectively.

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

1. Business and Significant Accounting Policies (continued)

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 2019, 92% of contact lens expenditures were with three vendors, 51% of frame expenditures were with two vendors and 88% of lens expenditures were with one vendor. This exposes us to vendor concentration risk.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets primarily include prepaid software maintenance and licensing fees, prepaid rent, prepaid advertising, prepaid insurance, supplies and income taxes receivable.

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)	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 2019 and 2018 was September 29, 2019, and September 30, 2018, 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.

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

1. Business and Significant Accounting Policies (continued)

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, 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.

Other Assets

Other non-current assets consist primarily of our investment in and loans to our equity method investee, below market leases, self-insurance recoveries and technology support service contracts.

Equity Method Investment

The Company has an investment in a private start-up company whose principal business is licensing software to eyeglass retailers. We evaluate the recoverability of our investment by first reviewing the investment for any indicators of impairment. If indicators are present, we estimate the fair value of the investment. If the carrying value of the investment exceeds the estimated fair value, we assess whether the impairment is other-than-temporary ("OTTI"). In making this assessment, we consider the length of time and the extent to which fair value has been less than cost and our intent and ability to retain our interest long enough for a recovery in market value. Based on our current year assessment, we did not identify OTTI in our equity method investment. 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 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 treated as debt discounts. Loan discounts 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, employee 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 non-current liabilities on an undiscounted basis in the accompanying consolidated balance sheets.

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

1. Business and Significant Accounting Policies (continued)

We reinsure worker's compensation and medical claims above our retention levels of \$0.3 million per claim and \$0.2 million per individual, respectively, with a highly rated financial institution that can be expected to fully perform under the terms of the arrangement. Estimated recoveries from reinsurance are included in prepaid expenses and other current assets in the amounts of \$1.1 million and \$0.8 million (current portion) as of fiscal year end 2019 and fiscal year end 2018, respectively, and other assets in the amounts of \$2.4 million and \$1.1 million (non-current portion) as of fiscal year end 2019 and fiscal year end 2018, respectively, in the accompanying consolidated balance sheets. The accrued obligation for self-insurance programs was \$8.4 million and \$8.1 million (current portion) and \$7.3 million and \$5.1 million (non-current portion) as of fiscal year end 2019 and fiscal year end 2018, respectively.

Derivative Financial Instruments

The Company uses interest rate swaps to manage its exposure to adverse fluctuations in interest rates by converting a portion of our debt portfolio from a floating rate to a fixed rate. We designate our interest rate swaps 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 swaps 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 swaps 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 on 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. 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 counterparties based on their credit ratings and limit our exposure to any single counterparty. The counterparties to our derivative contracts are 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. Credit risk has not had a significant effect on the fair value of our derivative instruments. 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 membership 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 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.

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

1. Business and Significant Accounting Policies (continued)

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.

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 memberships, 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.

Selling, General and Administrative

SG&A includes store associate 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 \$113.3 million, \$107.5 million and \$93.2 million for fiscal years 2019, 2018 and 2017, respectively.

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 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 agreements 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.

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

1. Business and Significant Accounting Policies (continued)

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 and restricted shares to employees, consultants and non-employee directors, based on the estimated grant date fair value of the awards. We recognize compensation expense for service-based vesting awards over the requisite service period using a straight-line recognition method. 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.

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 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 (generally leasehold improvements) 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 a market rate of approximately 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. A significant 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.

As a result of our tests for impairment of our long-lived tangible store assets classified as held and used, an impairment of \$8.9 million, \$2.5 million and \$1.6 million was recorded for fiscal years 2019, 2018 and 2017, respectively. These impairment charges were primarily driven by lower than projected customer sales volume in certain stores. The estimated remaining fair value of the impaired assets was \$16.6 million during fiscal year 2019 and \$0.1 million remaining fair value of the assets that were impaired during fiscal year 2018. Substantially all of the remaining fair value of the impaired store assets in fiscal year 2019 represent the fair value of ROU assets recorded upon adoption of ASU 2016-02, *Leases*; the remaining fair value estimated in fiscal year 2019 includes amounts estimated at various dates during fiscal year 2019.

We assess non-store tangible 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. During fiscal years 2019 and 2018 there was no impairment of capitalized software. There was \$1.5 million in impairment of capitalized software during fiscal year 2017.

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.

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

1. Business and Significant Accounting Policies (continued)

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.

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the "Tax Legislation") was enacted into law. We are required to recognize the effect of tax law changes in the period of enactment, such as re-measuring and reassessing the net realizability of our deferred tax assets and liabilities. 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 Tax Legislation for which measurement could be reasonably estimated as of fiscal year end 2017. For fiscal year 2018, the Company recorded adjustments to the provisional estimates related to depreciation expense. The adjustments to the provisional estimates of fiscal year end 2017 did not materially impact the effective tax rate of the Company during fiscal year 2018. See Note 6. "Income Taxes" for additional information.

Adoption of New Accounting Pronouncements

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 provides new guidance related to the core principle that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments.

Under the new guidance, there is a five-step model to apply to revenue recognition, consisting of: (1) determination of whether a contract, an agreement between two or more parties that creates legally enforceable rights and obligations, exists; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when (or as) the performance obligation is satisfied.

The Company adopted this new guidance in the first quarter of 2018 using the modified retrospective transition method. The adoption resulted in a \$14.0 million and \$11.8 million decrease in current and non-current deferred revenue, respectively, for certain contracts where we satisfy performance obligations over time and a related \$6.8 million increase in deferred income tax liability, resulting in a net \$19.0 million increase to retained earnings on the consolidated balance sheet as of December 30, 2017. Under previous guidance, we recognized revenue for eyecare club memberships on a ratable basis over the service period. Currently, we have selected the portfolio approach because our historical club membership data demonstrated that our club customers behave similarly, such that the difference between the portfolio approach and applying ASC 606 to each contract is not material. This change did not have a significant impact on our ongoing consolidated results of operations and the cumulative effect and the impact on revenues is described in Note 7. "Revenue From Contracts with Customers".

Our results of operations for the reported periods after December 30, 2017 are presented under this amended guidance, while prior period amounts are not adjusted and continue to be reported in accordance with historical accounting guidance. Adoption of this new guidance did not result in significant changes to our business processes, systems or controls, or have a material impact on our results of operations and cash flows. The impact of adopting the amended guidance primarily relates to the timing of revenue recognition for our eyecare club memberships, which comprised approximately 3% of our consolidated net revenue during each of the most recent three fiscal years. See Note 7. "Revenue From Contracts with Customers" for additional information.

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

1. Business and Significant Accounting Policies (continued)

Restricted Cash. In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*. This new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted this new guidance during the first quarter of 2018 using full retrospective application to each period presented. The adoption of this new guidance did not have a material impact on the Company's financial condition, results of operations, or cash flows.

Share Based Payment Accounting. In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. This new guidance expands the scope of Topic 718 to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The Company adopted this new guidance effective beginning of fiscal year 2018. The adoption of this new guidance did not have a material impact on Company's financial condition, results of operations, or cash flows.

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 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.

Future Adoption of Accounting Pronouncements

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). 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 will adopt the accounting standard on a prospective basis and do not expect adoption to have a material effect on the Company's financial condition, results of operations, or cash flows.

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

1. Business and Significant Accounting Policies (continued)

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. 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 will adopt the accounting standard on a modified retrospective basis and do not expect adoption to have a material effect on the Company's financial condition, results of operations, or cash flows.

2. Details of Certain Balance Sheet Accounts

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
Accounts receivable, net:		
Trade receivables	\$ 28,635	\$ 27,356
Credit card receivables	14,173	16,636
Tenant improvement allowances receivable ⁽¹⁾	—	5,149
Other receivables	4,707	4,206
Allowance for uncollectible accounts	(3,040)	(2,612)
	<u>\$ 44,475</u>	<u>\$ 50,735</u>

(1) TIA receivable is used to measure current operating lease obligations on the balance sheet under new lease accounting guidance effective in fiscal year 2019. See Note 8. "Leases" for further details.

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
Inventories:		
Raw materials and work in process ⁽¹⁾	\$ 65,179	\$ 59,946
Finished goods	62,377	56,076
	<u>\$ 127,556</u>	<u>\$ 116,022</u>

(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.

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
Property and equipment, net:		
Land and building	\$ 3,632	\$ 3,632
Equipment	188,593	160,958
Information technology hardware and software	115,283	101,809
Furniture and fixtures	55,146	48,992
Leasehold improvements	213,124	186,499
Construction in progress	26,517	40,697
Right of use assets under finance leases	36,437	25,446
	<u>638,732</u>	<u>568,033</u>
Less: Accumulated depreciation	271,965	212,916
	<u>\$ 366,767</u>	<u>\$ 355,117</u>

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

2. Details of Certain Balance Sheet Accounts (continued)

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
Other payables and accrued expenses:		
Employee compensation and benefits	\$ 28,347	\$ 20,529
Self-insurance liabilities	8,403	8,117
Capital expenditures	6,782	14,078
Advertising	2,919	2,076
Reserves for customer returns and remakes	7,158	4,645
Legacy management & services agreement	4,461	5,383
Fair value of derivative liabilities	6,382	3,130
Supplies and other store support expenses	2,926	4,929
Litigation settlements	3,840	3,938
Other	11,611	14,179
	<u>\$ 82,829</u>	<u>\$ 81,004</u>

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
Other non-current liabilities:		
Fair value of derivative liabilities	\$ 1,603	\$ 3,505
Tenant improvements ⁽¹⁾	—	30,851
Deferred rental expenses ⁽¹⁾	—	11,926
Self-insurance liabilities	7,283	5,114
Other	4,845	2,568
	<u>\$ 13,731</u>	<u>\$ 53,964</u>

(1) Tenant improvements and deferred rental expenses are used to measure ROU assets on the balance sheet under new lease accounting guidance effective in fiscal year 2019. See Note 8. "Leases" for further details.

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 2019 and 2018 are as follows:

<i>In thousands</i>	As of December 28, 2019		As of December 29, 2018	
	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)
	<u>\$ 805,077</u>	<u>\$ (27,464)</u>	<u>\$ 805,077</u>	<u>\$ (27,464)</u>

Besides the goodwill impairments noted above, no other intangible asset impairment was identified during fiscal years 2019, 2018 and 2017.

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

3. Goodwill and Intangible Assets (continued)

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

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
Trademarks and trade names:		
America's Best	\$ 200,547	\$ 200,547
Eyeglass World	40,000	40,000
	<u>\$ 240,547</u>	<u>\$ 240,547</u>

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

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

<i>In thousands</i>	As of December 28, 2019			As of December 29, 2018		
	Gross Carrying Amount	Accumulated Amortization	Remaining Life (Years)	Gross Carrying Amount	Accumulated Amortization	Remaining Life (Years)
Contracts and relationships:						
Legacy	\$ 65,000	\$ 34,247	5	\$ 65,000	\$ 28,359	6
Fred Meyer	35,000	8,820	17	35,000	7,303	18
Customer database	4,400	4,400	—	4,400	4,224	—
Other	746	739	—	738	720	—
	<u>\$ 105,146</u>	<u>\$ 48,206</u>		<u>\$ 105,138</u>	<u>\$ 40,606</u>	

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	<i>In thousands</i>
2020	\$ 7,550
2021	7,408
2022	7,406
2023	7,405
2024	7,405
Thereafter	19,766
	<u>\$ 56,940</u>

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

4. Long-term Debt

Long-term debt consists of the following:

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
First Lien - Term Loan B	\$ —	\$ 364,300
First Lien - Term Loan A	—	200,000
Term Loan, due July 18, 2024	392,375	—
Revolving Credit Facility, due July 18, 2024	148,000	—
Total term loans before unamortized discount	540,375	564,300
Unamortized discount	(3,979)	(10,673)
Total term loans	536,396	553,627
Less current maturities	(10,500)	(5,000)
Term loans - non-current portion	525,896	548,627
Finance lease obligations	33,296	24,485
Less current maturities	(3,259)	(2,567)
Long-term debt, less current portion and unamortized debt discount	<u>\$ 555,933</u>	<u>\$ 570,545</u>

The dividend discussed in Note 9. "Related Party Transactions" was funded with \$175.0 million in borrowed funds under the Company's first lien credit agreement, which were then repaid with IPO proceeds, as discussed in Note 1. "Business and Significant Accounting Policies".

Scheduled annual maturities of debt are as follows:

Fiscal Year	<i>In thousands</i>
2020	\$ 10,500
2021	10,500
2022	13,125
2023	21,000
2024	485,250
	<u>\$ 540,375</u>

Term Loan - Joinder and Amendment and Restatement Agreement

On July 18, 2019 (the "Closing Date"), the credit agreement, dated as of October 9, 2018 (the "Existing Credit Agreement"), by and among Nautilus Acquisition Holdings, Inc. ("Holdings"), a Delaware corporation and a wholly-owned subsidiary of the Company, NVI, Goldman Sachs Bank USA, as administrative agent and collateral agent, and the lenders from time to time party thereto and the other parties thereto, was amended and restated pursuant to that certain Joinder and Amendment and Restatement Agreement, dated as of July 18, 2019 (the "Restatement Agreement") by and among Holdings, NVI, as borrower, certain subsidiaries of NVI, 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 (the Existing Credit Agreement, as amended and restated by the Restatement Agreement, the "Credit Agreement").

The Existing Credit Agreement was amended and restated to, among other things, (i) establish new first lien term loans in an aggregate principal amount of \$420.0 million (the "Term Loan") to repay all principal, interest fees and other amounts outstanding under the Existing Credit Agreement immediately prior to the Closing Date, (ii) establish a new revolving credit facility in an aggregate principal amount of \$300.0 million (the "Revolving Credit Facility"), of which \$148.0 million was drawn as of closing and (iii) replace Goldman Sachs Bank USA with Bank of America, N.A. as administrative agent and collateral agent under the Credit Agreement and related documentation. 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.

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

4. Long-term Debt (continued)

Pursuant to the Restatement Agreement, the initial new Applicable Margins, as defined in the Credit Agreement, are (i) 1.50% for the new first lien term loans that are London Inter-bank Offered Rate (“LIBOR”) Loans and (ii) 0.50% for the new first lien term loans that are Alternative Base Rate (“ABR”) Loans. The Restatement Agreement further provides that following the Closing Date, the above Applicable Margins for the new first lien term loans will be based on NVI’s consolidated first lien leverage ratio as follows: (a) if NVI’s consolidated first lien leverage ratio is greater than 3.75 to 1.00, the Applicable Margin will be 2.00% for LIBOR Loans and 1.00% for ABR Loans, (b) if NVI’s consolidated first lien leverage ratio is less than or equal to 3.75 to 1.00, but greater than 2.75 to 1.00, the Applicable Margin will be 1.75% for LIBOR Loans and 0.75% for ABR Loans, (c) if NVI’s consolidated first lien leverage ratio is less than or equal to 2.75 to 1.00 but greater than 1.75 to 1.00, the Applicable Margin will be 1.50% for LIBOR Loans and 0.50% for ABR Loans, (d) if NVI’s consolidated first lien leverage ratio is less than or equal to 1.75 to 1.00 but greater than 0.75 to 1.00, the Applicable Margin will be 1.25% for LIBOR Loans and 0.25% for ABR Loans and (e) if NVI’s consolidated first lien leverage ratio is less than or equal to 0.75 to 1.00, the Applicable Margin will be 1.00% for LIBOR Loans and 0.00% for ABR Loans. The new first lien term loans 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.

In addition, pursuant to the Restatement Agreement, solely with respect to the Term Loan, commencing on the fiscal quarter ending on December 28, 2019, Holdings will not permit (i) the Consolidated Total Debt to Consolidated EBITDA Ratio, as defined in the Credit Agreement, as of the last day of any fiscal quarter of Holdings to be greater than 4.75 to 1.00 for the first two years, and 4.50 to 1.00 thereafter, subject to certain step-ups after the consummation of a Material Acquisition, as defined in the Credit Agreement, or (ii) the Consolidated Interest Coverage Ratio of Holdings, as defined in the Credit Agreement, as of the last day of any fiscal quarter of Holdings to be less than 3.00 to 1.00. We were in compliance with all covenants related to the Credit Agreement as of December 28, 2019.

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.

5. Stock Incentive Plans

The Company has provided equity-based compensation awards to its employees under three plans. The Vision Holding Corp. 2013 Amended and Restated Stock Incentive Plans provided for the issuance of stock options to directors, certain employees 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. In connection with 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, restricted stock awards (“RSAs”), restricted stock units (“RSUs”), performance stock units (“PSUs”), other equity-based awards and other cash-based awards to our employees, directors, officers, consultants and advisers. 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.

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

5. Stock Incentive Plans (continued)

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

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Stock options	\$ 8,562	\$ 19,397	\$ 4,835
RSUs and PSUs	3,655	1,386	290
RSAs	334	108	27
Associate stock purchase plan	119	48	—
Total stock based compensation expense	\$ 12,670	\$ 20,939	\$ 5,152
Income tax benefit	(3,237)	(5,367)	(1,320)
After-tax share based compensation expense	\$ 9,433	\$ 15,572	\$ 3,832
	Stock options	RSUs and PSUs	RSAs
Unrecognized compensation cost (<i>in thousands</i>)	\$ 4,158	\$ 12,861	\$ 354
Expected remaining weighted-average period of expense recognition (in years)	2.15	2.99	0.88

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. Amounts also reflect the effects of modifications to exercise prices resulting from the recapitalization dividend discussed in Note 9. "Related Party Transactions".

	Number of Options Outstanding	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In Thousands) (\$)
Outstanding options at December 29, 2018	2,583,380	8.48		
Granted	300,201	34.18		
Exercised	(939,407)	6.45		
Forfeited	(38,016)	16.21		
Outstanding options at December 28, 2019	1,906,158	13.37	6.14	38,132
Vested and exercisable at December 28, 2019	1,173,256	7.90	4.94	29,576

There were no grants of service-based options during fiscal year 2018. The weighted average grant date fair value of service-based options granted during fiscal years 2019 and 2017 was \$13.67 and \$9.04, respectively. The fair value of service-based options vested during fiscal years 2019, 2018 and 2017 was \$5.7 million, \$5.9 million, and \$4.6 million respectively. The aggregate intrinsic value of service-based options exercised during fiscal years 2019, 2018 and 2017 was \$21.4 million, \$45.7 million, and \$1.5 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:

	2019	2017
Expected volatility	34.5% to 37.1%	60.4%
Expected term range (in years)	5.75 to 6.50	6.50
Expected risk-free interest rate	1.68% to 2.94%	1.60% to 2.00%

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

5. Stock Incentive Plans (continued)

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 29, 2018	4,143,781	6.23		
Exercised	(1,281,653)	6.10		
Forfeited	(1,258,280)	5.87		
Outstanding options at December 28, 2019	1,603,848	6.60	4.89	42,499
Vested and exercisable at December 28, 2019	1,473,414	5.79	4.65	40,235

There were no grants of performance-based options during fiscal years 2019 and 2018. The weighted average grant date fair value of performance-based options granted during fiscal year 2017 was \$3.68. The fair value of performance-based options vested during fiscal years 2019, 2018 and 2017 was \$4.4 million, \$16.1 million and \$0.4 million, respectively. The aggregate intrinsic value of performance-based options exercised during fiscal year 2019 and 2018 was \$29.9 million and \$70.2 million, respectively. No performance-based options were exercised during fiscal year 2017.

The fair value of performance-based options was estimated using a Monte Carlo simulation. The following is a summary of the assumptions used in this model for performance options granted in 2017:

	2017
Expected volatility range	48.2% to 54.0%
Expected term range (in years)	2.37 to 2.78
Expected risk-free interest rate	1.38% to 1.51%

The following summarizes RSU, PSU and RSA awards activity:

	Service- based restricted stock unit (RSU) awards	Weighted average grant date fair value (\$)	Performance -based restricted stock unit (PSU) awards	Weighted average grant date fair value (\$)	Restricted stock (RSA) awards	Weighted average grant date fair value (\$)
Outstanding at December 29, 2018	98,076	22.00	—	—	11,431	32.08
Granted	373,082	29.56	116,046	34.50	13,712	29.18
Vested	(82,640)	26.36	—	—	(4,515)	29.52
Forfeited	(12,373)	28.45	(3,032)	35.19	—	—
Outstanding at December 28, 2019	376,145	28.45	113,014	34.49	20,628	30.71

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

5. Stock Incentive Plans (continued)

Restricted stock units (RSUs)

During fiscal year 2017, we granted an aggregate of 182,138 RSUs, net of forfeitures, at a weighted average grant date fair value of \$22.00, to certain employees. During fiscal year 2019, we granted an additional 373,082 shares of RSUs. RSUs include 10,977 RSUs that vest in two equal installments on the first and second anniversaries of the grant date, 123,674 RSUs that vest in three equal installments on the first, second and third anniversaries of the grant date, and 241,494 RSUs that vest in three installments on the second, third and fourth anniversaries of the grant date. The RSUs outstanding as of December 28, 2019 have \$12.5 million intrinsic value and remaining weighted average requisite service period of 3.17 years.

Performance stock units (PSUs)

During fiscal year 2019, we granted an aggregate of 116,046 PSUs. The PSUs granted in fiscal 2019 are settled after the end of the performance period (i.e., cliff vesting), which begins on the first day of our 2019 fiscal year and ends on the last day of our 2021 fiscal year, and are based on the Company's achievement of certain performance targets. The performance stock units outstanding as of December 28, 2019 have \$3.7 million intrinsic value and remaining weighted average requisite service period of 2.21 years.

Restricted stock awards (RSAs)

During fiscal years 2018 and 2019, we granted an aggregate of 11,431 and 13,712 RSAs, respectively, to certain directors. These RSAs outstanding include 6,916 awards that vest proportionally over three years and 13,712 awards that vest one year from grant date. As of fiscal year end 2019, the intrinsic value of the awards was \$0.7 million, the remaining requisite service period was 0.71 years.

Associate Stock Purchase Plan (ASPP)

Under the ASPP, eligible employees 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 December 28, 2019, 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 2019	Fiscal Year 2018	Fiscal Year 2017
Current income tax:			
Federal	\$ 443	\$ 174	\$ 5
State	864	381	1,082
Deferred income tax:			
Federal	(2,972)	(15,687)	(40,136)
State	(644)	(3,653)	139
Income tax provision (benefit)	\$ (2,309)	\$ (18,785)	\$ (38,910)

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

6. Income Taxes (continued)

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:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Federal income tax provision at statutory rate	\$ 6,403	\$ 1,022	\$ 1,480
State income tax provision, net of federal income tax	1,387	226	165
Increase (decrease) in deferred tax asset valuation allowance	(386)	318	769
Goodwill impairment	—	3,879	—
Benefit of tax legislation	—	—	(42,089)
Tax benefit of equity-based compensation deductions	(10,089)	(25,544)	—
Other, net	376	1,314	765
Net income tax provision (benefit)	<u>\$ (2,309)</u>	<u>\$ (18,785)</u>	<u>\$ (38,910)</u>
Effective income tax rate	<u>(7.6)%</u>	<u>(385.9)%</u>	<u>(920.3)%</u>

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.

The effects of new legislation are required to be recognized upon enactment. Accordingly, recognition of the tax effects of the legislation is required in the annual period that includes December 22, 2017. The Company recorded a tax benefit of \$42.1 million due to a re-measurement of deferred tax assets and liabilities in fiscal year 2017.

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.

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

6. Income Taxes (continued)

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:

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
Deferred tax assets:		
NOL carry-forwards	\$ 12,006	\$ 13,614
Deferred interest expense carry-forwards	3,733	4,655
AMT payment and employment credits	4,155	4,679
Deferred revenue	5,145	4,984
Accrued expenses and reserves	12,542	11,370
Loss on equity and other investments	1,960	1,493
Stock option compensation	5,505	5,893
Unrealized losses on hedging instruments	2,039	1,700
Other	942	1,193
Subtotal	48,027	49,581
Valuation allowances	3,705	1,614
Total net deferred tax assets	44,322	47,967
Deferred tax liabilities:		
Depreciation of property and equipment	(27,953)	(32,631)
Amortization of intangible assets	(74,529)	(75,422)
Other	(1,986)	(1,854)
Total deferred tax liabilities	(104,468)	(109,907)
Net deferred tax liabilities	\$ (60,146)	\$ (61,940)

As of fiscal year end 2019, we had available U.S. federal NOL carry-forwards aggregating to \$54.1 million that can be utilized to reduce future federal income taxes. The Company has \$43.3 million of carry-forward losses that do not expire and \$10.8 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 \$6.1 million of NOL carry-forwards on our professional corporations where we recognized a full valuation allowance as of fiscal year end 2019.

As of fiscal year end 2019, we also have non-expiring federal and state AMT carry-forward credits and employment credits net of valuation allowance, totaling \$3.8 million available to offset certain future taxes.

We have a \$1.7 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 2019 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.

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

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. AC Lens sells contact lenses and optical accessory products to retail customers through e-commerce. 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 care benefit 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.

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

7. Revenue From Contracts With Customers (continued)

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 membership 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:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018
Revenues recognized at a point in time	\$ 1,578,379	\$ 1,397,801
Revenues recognized over time	145,952	139,053
Total net revenue	<u>\$ 1,724,331</u>	<u>\$ 1,536,854</u>

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.

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. The Company does not consider its management & services agreement with its legacy partner to contain a lease arrangement.

Our lease arrangements 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 2019 (non-current liabilities as of fiscal year 2018), and are amortized as a reduction in rental expense over the life of the respective leases.

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8. Leases (continued)

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.

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.

<i>In thousands</i>		<i>As of</i> <i>December 28, 2019</i>
Type	Classification	
ASSETS		
Finance	Property and equipment, net ^(a)	\$ 28,128
Operating	Right of use assets ^(b)	348,090
Total leased assets		\$ 376,218
LIABILITIES		
Current Liabilities:		
Finance	Current maturities of long-term debt and finance lease obligations	\$ 3,259
Operating	Current operating lease obligations ^(c)	51,937
Other non-current liabilities:		
Finance	Long-term debt and finance lease obligations, less current portion and debt discount	30,037
Operating	Non-current operating lease obligations	331,769
Total lease liabilities		\$ 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 \$8.3 million as of December 28, 2019.

(b) TIA of \$35.2 million and deferred rent of \$15.0 million are treated as reductions of lease payments used to measure ROU assets as of December 28, 2019.

(c) Current operating lease liabilities are measured net of TIA receivables of \$5.9 million as of December 28, 2019.

<i>In thousands</i>	<i>Fiscal Year</i> <i>2019</i>
Operating lease cost	
Fixed lease cost ^(a)	\$ 73,971
Variable lease cost ^(b)	26,466
Sublease income ^(c)	(2,930)
Finance lease cost	
Amortization of finance lease assets	4,418
Interest on finance lease liabilities	3,573
Net lease cost	\$ 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.

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

8. Leases (continued)

Lease Term and Discount Rate	Fiscal Year 2019
<i>Weighted average remaining lease term (months)</i>	
Operating leases	82
Finance leases	88
<i>Weighted average discount rate ^(a)</i>	
Operating leases	4.6%
Finance leases ^(b)	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 long-term debt; (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 2019
<i>Cash paid for amounts included in the measurement of lease liabilities</i>	
Operating cash outflows - operating leases	\$ 75,330

The following table summarizes the maturity of our lease liabilities as of December 28, 2019:

In thousands

Fiscal Year	Operating Leases ^(a)	Finance Leases ^(b)
2020	\$ 67,240	\$ 6,742
2021	74,451	7,127
2022	67,115	7,062
2023	59,981	6,088
2024	53,036	4,520
Thereafter	130,762	15,561
Total lease liabilities	452,585	47,100
Less: Interest	68,879	13,804
Present value of lease liabilities ^(c)	\$ 383,706	\$ 33,296

(a) Operating lease payments include \$72.2 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 \$16.4 million of legally binding minimum lease payments for leases signed but not yet commenced.

As of fiscal year end 2018, aggregate future minimum rental payments under our operating leases were as follows:

Fiscal Year	<i>In thousands</i>
2019	\$ 69,372
2020	63,218
2021	56,219
2022	49,303
2023	42,545
Thereafter	126,388
	\$ 407,045

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

8. Leases (continued)

The future minimum rental payments above do not include amounts for variable executory costs such as insurance, real estate taxes and the common area maintenance. These costs were approximately \$18.0 million and \$14.9 million during the fiscal years ended 2018 and 2017, respectively.

9. Related Party Transactions*Transactions with KKR*

During fiscal year 2019, KKR Capital Markets LLC acted as a lead arranger with respect to the refinancing of our Credit Agreement, and received \$1.0 million in fees in connection therewith. See Note 4. “Long-term Debt” for additional information on the refinancing.

During fiscal year 2019, the Company completed a secondary offering pursuant to which KKR Vision Aggregator L.P. sold 9,149,908 shares of the Company’s common stock in an underwritten offering. See Note 1. “Description of Business and Basis of Presentation-Secondary Offering and Common Stock Repurchase” for further details.

Transactions with KKR and Berkshire

During fiscal year 2018, KCM acted as a lead arranger with respect to the joinder and amendment agreement, dated as of October 9, 2018, relating to the first lien credit agreement, and received \$1.2 million in fees in connection therewith.

Under certain agreements we have entered into with KKR and Berkshire, we recorded the following expenses:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
KKR	\$ —	\$ —	\$ 7,259
Berkshire	\$ —	\$ —	\$ 955

Fees paid to KKR and Berkshire include retainer fees and certain other on-going project-oriented initiatives and are presented in SG&A in the accompanying consolidated statements of operations, except KKR fees during the fiscal year 2017 include \$2.3 million presented in debt issuance costs. Fiscal year 2017 expenses also include the monitoring agreement termination fee discussed in Note 1. “Business and Significant Accounting Policies.”

Dividend & Stockholders’ Equity

On February 2, 2017, the Company declared a recapitalization dividend to its stockholders. Common stockholders received a dividend per common share of \$1.51. There were 110.5 million common shares outstanding and eligible for the dividend. Vested and roll-over option holders received an additional cash payment of \$1.51 per option, for an aggregate payment of \$3.7 million. The income tax benefit of the additional cash payment was \$1.4 million. The exercise price of unvested options was reduced by \$1.51 per option. Since the Company was in an accumulated deficit position on the date of declaration, according to our accounting policy the combined total cash payment of \$171.0 million was recorded as a reduction to additional paid-in capital in the accompanying consolidated balance sheet.

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 26% equity interest in our investee as of fiscal year end 2019.

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, net in our 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 investment balance associated with this investee as of December 28, 2019. Our investment balance in the business was \$1.0 million at the end of fiscal year 2018, which is included in other assets in the accompanying consolidated balance sheets.

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.

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

10. Equity in Net Assets of Non-Consolidated Investee (continued)

Summarized balance sheet information for our investee is as follows:

<i>In thousands</i>	As of December 28, 2019	As of December 29, 2018
Current assets	\$ 1,351	\$ 2,197
Non-current assets	450	558
Total assets	1,801	2,755
Current liabilities	3,821	6,321
Non-current liabilities	8,200	3,000
Total liabilities	12,021	9,321
Net assets	\$ (10,220)	\$ (6,566)

Summarized income statement information for our investee is as follows:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Revenues	\$ 6,046	\$ 3,871	\$ 6,244
Net loss	\$ (5,481)	\$ (5,632)	\$ (3,433)
National Vision's share of net loss	\$ (1,804)	\$ (1,304)	\$ (1,001)

In the ordinary course of business we are a licensee of our investee. Additionally, on August 29, 2017, the investee issued a secured convertible promissory note to the Company, in the principal amount of \$1.5 million, due on August 29, 2020. The note bears interest at a fixed rate of 5.00% with an additional variable interest component based on the base rate of the Bank of England, as published each calendar year, which is 0.75% as of December 28, 2019 and is included in other assets in the accompanying consolidated balance sheets. Interest income associated with the note was immaterial for the fiscal year end 2019. The net carrying amount of the convertible promissory note after applying our share of the investee's net losses of \$0.8 million was \$0.7 million, and is included in other assets in the accompanying condensed consolidated balance sheets for the fiscal year end 2019.

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

<i>In thousands</i>	As of December 31, 2019	As of December 31, 2018
Balance sheets		
Other assets ⁽¹⁾	\$ 704	\$ 1,522

(1) Other assets represent a loan receivable from our investee.

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Statements of operations			
Licensing fees (SG&A)	\$ 132	\$ 172	\$ 955

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.

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

11. Fair Value Measurement of Financial Assets and Liabilities (continued)

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 accounts.

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.

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. Refer to Note 4. "Long-term Debt" for additional information on the Term Loan and Revolving Credit Facility.

Finance Lease Obligations

The fair value of finance lease obligations is based on estimated future contractual cash flows discounted at an appropriate market rate of interest (Level 2 inputs). The estimated fair values of our finance leases were \$38.2 million and \$30.7 million as of fiscal year end 2019 and 2018, respectively, compared to carrying values of \$33.3 million and \$24.5 million, respectively.

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 swaps 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). See Note 14. "Interest Rate Derivatives" for further details.

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

12. Deferred Revenue

The following depicts a roll-forward of deferred revenue:

<i>In thousands</i>	Fiscal Year 2019			
	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	<u>\$ 30,911</u>	<u>\$ 46,486</u>	<u>\$ 3</u>	<u>\$ 77,400</u>
Current	\$ 30,547	\$ 25,320	\$ 3	\$ 55,870
Non-current	364	21,166	—	21,530
	<u>\$ 30,911</u>	<u>\$ 46,486</u>	<u>\$ 3</u>	<u>\$ 77,400</u>

<i>In thousands</i>	Fiscal Year 2018			
	Product Protection Plans	Eye Care Clubs	HMO Memberships	Total
Beginning of the year	\$ 26,731	\$ 67,430	\$ 54	\$ 94,215
Adjustment for adoption of ASU 2014-09	—	(25,776)	—	(25,776)
Beginning of the year - As Adjusted	26,731	41,654	54	68,439
Sold	58,860	47,923	1,384	108,167
Revenue recognized	(56,816)	(46,089)	(1,423)	(104,328)
End of year	<u>\$ 28,775</u>	<u>\$ 43,488</u>	<u>\$ 15</u>	<u>\$ 72,278</u>
Current	\$ 28,403	\$ 23,726	\$ 15	\$ 52,144
Non-current	372	19,762	—	20,134
	<u>\$ 28,775</u>	<u>\$ 43,488</u>	<u>\$ 15</u>	<u>\$ 72,278</u>

Deferred revenue recorded as of fiscal year end 2019 is expected to be reflected in future operating results as follows:

Fiscal Year	<i>In thousands</i>
2020	\$ 55,870
2021	16,125
2022	5,185
2023	170
2024	50
	<u>\$ 77,400</u>

13. Commitments and Contingencies

Agreements

In 2018, the Company renewed an eyeglass lenses supply agreement with a trade vendor effective June 2019. The Company also renewed certain other agreements with the same eyeglass vendor, including a cloud computing service arrangement. Additionally, during the fiscal year of 2019, we entered into other minimum purchase commitments with our trade vendors. As a result of these arrangements, the Company has minimum purchase commitments of approximately \$23.5 million, \$24.9 million, \$8.4 million and \$3.7 million in fiscal years 2020, 2021, 2022 and 2023, respectively.

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

13. Commitments and Contingencies (continued)

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:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018
Beginning of year balance	\$ 1,742	\$ 1,593
Accrued obligation	33,014	29,943
Claims paid	(32,875)	(29,794)
End of year balance	<u>\$ 1,881</u>	<u>\$ 1,742</u>

401(k) Plan

The Company sponsors a 401(k) plan into which employees may defer a portion of their wages. We match a portion of such deferred wages. The expense for the plan was \$5.3 million, \$4.2 million and \$3.1 million in the fiscal years ended 2019, 2018 and 2017, 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. We believe that the claims alleged are without merit and intend to continue to defend the litigation vigorously.

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

13. Commitments and Contingencies (continued)

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 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.

In February 2019, we were served with a lawsuit by a former employee who alleges, on behalf of himself and a proposed class, several violations of California wage and hour laws and seeks 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. The Company continues to believe that the plaintiff's amended complaint lacks merit and will vigorously defend the litigation.

In November 2019, the Company agreed to enter into a pre-litigation settlement with six former employees 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 2019, in accordance with the original agreements with the counterparties, the notional amount of the first derivative decreased from \$140.0 million to \$105.0 million. There were no other changes in the terms of the arrangements. The fixed rates associated with the first derivative ("Derivative 1") notional amount of \$105.0 million and the second derivative ("Derivative 2") notional amount of \$225.0 million were 3.4063% and 3.5125%, respectively. The fixed rate associated with the third derivative ("Derivative 3") notional amount of \$100.0 million was 2.6000%. Derivative 1 will hedge the first amount of LIBOR-based interest payments up to its applicable notional amount and Derivative 2 will hedge the next amount (i.e., the first amount not already hedged by Derivative 1) up to its applicable notional amount. Derivative 3 will hedge interest payments not already hedged by Derivatives 1 and 2.

Changes in the cash flows of each derivative are expected to be highly effective in offsetting the changes in interest payments on a principal balance equal to the derivative's notional amount, attributable to the hedged risk. Our hedges have been deemed highly effective since inception as a result of our quarterly hedge effectiveness testing.

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

<i>In thousands</i>	Notional Amount	Maturity Date	Other Payables and Accrued Expenses	Other Liabilities	AOCL, Net of Tax ⁽¹⁾
As of December 28, 2019	\$ 430,000	March 2021	\$ 6,382	\$ 1,603	\$ 3,814
As of December 29, 2018	\$ 465,000	March 2021	\$ 3,130	\$ 3,505	\$ 2,810

(1) Includes stranded income tax benefit of \$2.1 million within AOCL from adopting provisions of the Tax Cuts and Jobs Act of 2017 during the year ended December 30, 2017.

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

14. Interest Rate Derivatives (continued)

As of December 28, 2019, the Company expects to reclassify \$4.7 million of unrealized losses on derivative instruments from AOCL into earnings in the next 12 months as the derivative instruments mature. See Note 18. “Accumulated Other Comprehensive Loss” for further detail regarding AOCL.

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 and vesting of restricted stock units. Potential shares of common stock are excluded from the computation of diluted EPS if their effect is anti-dilutive. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations is as follows:

<i>In thousands, except EPS</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Net income	\$ 32,798	\$ 23,653	\$ 43,138
Weighted average shares outstanding for basic EPS	78,608	75,899	59,895
Effect of dilutive securities:			
Stock options	3,019	3,129	2,140
Restricted Stock	56	13	—
Weighted average shares outstanding for diluted EPS	81,683	79,041	62,035
Basic EPS	\$ 0.42	\$ 0.31	\$ 0.72
Diluted EPS	\$ 0.40	\$ 0.30	\$ 0.70
Anti-dilutive options, RSUs outstanding excluded from EPS	294	—	254

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, 226 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. During fiscal year 2019, sales associated with our Legacy partner arrangement represented 9.3% of consolidated net revenue. This exposes us to concentration of customer risk. 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 \$35.5 million, \$34.7 million and \$36.7 million for fiscal years ended 2019, 2018 and 2017, 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.

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

16. Segment Reporting (continued)

On January 22, 2020, we entered into an amendment to our management & services agreement with Walmart. The amendment extended the current term of the management & services agreement by six months, to February 23, 2021, and such term will automatically renew for an additional three-year term unless, no later than July 23, 2020, one party provides the other party written notice of non-renewal. Pursuant to the amendment, we will also be adding five additional Vision Centers in Walmart stores in fiscal year 2020.

The “Corporate/Other” category includes the results of operations of our other operating segments and corporate overhead support. 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.

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. During fiscal year 2019, AC Lens sales associated with Walmart and Sam’s Club contact lenses distribution arrangements represented 8.7% of consolidated net revenue. 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.

Our reportable segment profit measure is earnings before interest, tax, depreciation and amortization (“EBITDA”), or net revenue, less costs applicable to revenue, less selling, general and administrative costs. Depreciation and amortization, asset impairment, litigation settlement and other corporate costs that are not allocated to the reportable segments, including interest expense and debt issuance costs are excluded from segment EBITDA. There are no 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.

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, which is 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.

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16. Segment Reporting (continued)

<i>In thousands</i>	Fiscal Year 2019				
	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, net	—	—	3,611	—	3,611
Loss on extinguishment of debt	—	—	9,786	—	9,786
EBITDA	<u>\$ 299,093</u>	<u>\$ 29,813</u>	<u>\$ (172,140)</u>	<u>\$ (5,733)</u>	
Depreciation and amortization					87,244
Interest expense, net					33,300
Income before income taxes					<u>\$ 30,489</u>

<i>In thousands</i>	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, net	—	—	1,487	—	1,487
Debt issuance cost	—	—	200	—	200
EBITDA	<u>\$ 256,702</u>	<u>\$ 33,063</u>	<u>\$ (169,647)</u>	<u>\$ (3,628)</u>	
Depreciation and amortization					74,339
Interest expense, net					37,283
Income before income taxes					<u>\$ 4,868</u>

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

16. Segment Reporting (continued)

<i>In thousands</i>	Fiscal Year 2017				
	Owned & Host	Legacy	Corporate/ Other	Reconciliations	Total
Segment product revenues	\$ 847,866	\$ 103,887	\$ 179,718	\$ (2,158)	\$ 1,129,313
Segment services and plans revenues	190,701	49,955	12,172	(6,833)	245,995
Total net revenue	1,038,567	153,842	191,890	(8,991)	1,375,308
Cost of products	248,548	48,275	159,789	(534)	456,078
Cost of services and plans	153,691	16,624	10,573	—	180,888
Total costs applicable to revenue	402,239	64,899	170,362	(534)	636,966
SG&A	403,848	52,705	143,457	—	600,010
Asset impairment	—	—	4,117	—	4,117
Debt issuance cost	—	—	4,527	—	4,527
Litigation settlement	—	—	7,000	—	7,000
Other expense, net	—	—	950	—	950
EBITDA	<u>\$ 232,480</u>	<u>\$ 36,238</u>	<u>\$ (138,523)</u>	<u>\$ (8,457)</u>	
Depreciation and amortization					61,974
Interest expense, net					55,536
Income before income taxes					<u>\$ 4,228</u>

Consolidated Net Product Revenue Information

The following table presents our consolidated net product revenue information:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Net Product Sales			
Eyeglasses and sunglasses	\$ 947,729	\$ 851,328	\$ 763,268
Contact lenses	471,042	410,839	358,808
Accessories and other	7,365	7,445	7,237
Total net product revenues	<u>\$ 1,426,136</u>	<u>\$ 1,269,612</u>	<u>\$ 1,129,313</u>

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:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Cash and cash equivalents	\$ 39,342	\$ 17,132	\$ 4,208
Restricted cash included in other assets	965	866	986
Total cash, cash equivalents and restricted cash	<u>\$ 40,307</u>	<u>\$ 17,998</u>	<u>\$ 5,194</u>

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

18. Accumulated Other Comprehensive Loss

Cash flow hedge derivative instruments are recorded in AOCL. The following table presents the changes in AOCL, net of tax during the fiscal years 2019, 2018 and 2017, respectively:

<i>In thousands</i>	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Cash flow hedging activity			
Balance at beginning of fiscal year	\$ (2,810)	\$ (9,868)	\$ (14,556)
Other comprehensive income (loss) before reclassification	(5,814)	3,182	(1,051)
Tax effect of other comprehensive income (loss) before reclassification	1,489	(815)	436
Amount reclassified from AOCL	4,464	6,306	8,664
Tax effect of amount reclassified from AOCL	(1,143)	(1,615)	(3,361)
Net current period other comprehensive income (loss), net of tax	(1,004)	7,058	4,688
Balance at end of fiscal year	<u>\$ (3,814)</u>	<u>\$ (2,810)</u>	<u>\$ (9,868)</u>

19. Quarterly Financial Information (Unaudited)

The unaudited quarterly financial information reflects all normal and recurring accruals and adjustments necessary for a fair presentation of net income for interim periods. Quarterly results are not necessarily indicative of a full year's operations because of various factors. The following tables present unaudited quarterly financial information:

<i>In thousands, except EPS</i>	Fiscal Year 2019			
	Fourth Quarter Ended December 28, 2019	Third Quarter Ended September 28, 2019	Second Quarter Ended June 29, 2019	First Quarter Ended March 30, 2019
Total net revenue	\$ 401,763	\$ 431,902	\$ 429,451	\$ 461,215
Total costs applicable to revenue	\$ 187,542	\$ 204,502	\$ 202,506	\$ 211,969
Income from operations	\$ 8,361	\$ 11,112	\$ 21,702	\$ 32,400
Net income	\$ 3,920	\$ 1,192	\$ 10,257	\$ 17,429
Weighted-average shares used in computing basic EPS	79,271	78,474	78,318	78,205
Weighted-average shares used in computing diluted EPS	81,785	81,561	81,424	81,466
Basic EPS	\$ 0.05	\$ 0.02	\$ 0.13	\$ 0.22
Diluted EPS	\$ 0.05	\$ 0.01	\$ 0.13	\$ 0.21
Anti-dilutive options, RSUs outstanding excluded from EPS	350	315	391	356

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

19. Quarterly Financial Information (Unaudited) (continued)

	Fiscal Year 2018			
	Fourth Quarter Ended December 29, 2018	Third Quarter Ended September 29, 2018	Second Quarter Ended June 30, 2018	First Quarter Ended March 31, 2018
<i>In thousands, except EPS</i>				
Total net revenue	\$ 355,922	\$ 387,425	\$ 385,532	\$ 407,975
Total costs applicable to revenue	\$ 173,470	\$ 182,588	\$ 177,059	\$ 180,454
Income (loss) from operations	\$ (19,387)	\$ (2,083)	\$ 24,973	\$ 38,848
Net income (loss)	\$ (18,440)	\$ 5,171	\$ 12,467	\$ 24,455
Weighted-average shares used in computing basic EPS	77,526	76,118	75,249	74,714
Weighted-average shares used in computing diluted EPS	77,526	79,710	77,858	77,837
Basic EPS	\$ (0.24)	\$ 0.07	\$ 0.17	\$ 0.33
Diluted EPS	\$ (0.24)	\$ 0.06	\$ 0.16	\$ 0.31
Anti-dilutive options outstanding excluded from EPS	3,130	—	—	—

20. Subsequent Events

On January 22, 2020, we entered into an amendment to our management & services agreement with Walmart. The amendment extended the current term of the management & services agreement by six months, to February 23, 2021, and such term will automatically renew for an additional three-year term unless, no later than July 23, 2020, one party provides the other party written notice of non-renewal. Pursuant to the amendment, we will also be adding five additional Vision Centers in Walmart stores in fiscal year 2020.

**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 December 28, 2019	As of December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 55	\$ 246
Accounts Receivable, net	534	—
Total current assets	589	246
Deferred income taxes	320	393
Investment in subsidiary	804,443	745,198
Total non-current assets	804,763	745,591
Total assets	\$ 805,352	\$ 745,837
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Other current liabilities	\$ 50	\$ 65
Non-current liabilities:		
Other non-current liabilities	28,865	2,618
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000 shares authorized; 80,603 and 78,246 shares issued as of December 28, 2019 and December 29, 2018, respectively; 79,678 and 78,167 shares outstanding as of December 28, 2019 and December 29, 2018, respectively	805	782
Additional paid-in capital	700,121	672,503
Accumulated other comprehensive loss	(3,814)	(2,810)
Retained earnings	107,132	74,840
Treasury stock, at cost; 925 and 79 shares as of December 28, 2019 and December 29, 2018, respectively	(27,807)	(2,161)
Total stockholders' equity	776,437	743,154
Total liabilities and stockholders' equity	\$ 805,352	\$ 745,837

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 2019	Fiscal Year 2018	Fiscal Year 2017
Total net revenue	\$ —	\$ —	\$ —
Cost applicable to revenue	—	—	—
Operating expenses	256	265	218
Income (Loss) before income taxes	(256)	(265)	(218)
Income tax provision (benefit)	71	(91)	(85)
Income (Loss) before equity in net income of subsidiaries	(327)	(174)	(133)
Net income of subsidiaries	33,125	23,827	43,271
Net income	<u>\$ 32,798</u>	<u>\$ 23,653</u>	<u>\$ 43,138</u>
Comprehensive income:			
Net income	32,798	23,653	43,138
Unrealized gain (loss) on hedge instruments	(1,350)	9,488	7,613
Tax provision (benefit) of unrealized gain (loss) on hedge instruments	(346)	2,430	2,925
Comprehensive income	<u>\$ 31,794</u>	<u>\$ 30,711</u>	<u>\$ 47,826</u>

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 2019	Fiscal Year 2018	Fiscal Year 2017
Operating Activities			
Net cash provided by (used for) operating activities	\$ 25,455	\$ 223	\$ 11
Investing Activities			
Dividend from subsidiary	—	—	170,983
Investment in subsidiary	(15,090)	(19,802)	(373,024)
Net cash provided by (used for) investing activities	(15,090)	(19,802)	(202,041)
Financing Activities			
Proceeds from stock option exercises and employee stock purchase plan	15,090	19,802	1,092
Proceeds from sale of common stock	—	—	371,932
Dividend to stockholders	—	—	(170,983)
Purchase of common stock	(25,646)	—	—
Net cash provided by (used for) financing activities	(10,556)	19,802	202,041
Net change in cash and cash equivalents	(191)	223	11
Cash and cash equivalents, beginning of year	246	23	12
Cash and cash equivalents, end of year	\$ 55	\$ 246	\$ 23

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.

The increase in other non-current liabilities on the Condensed Balance Sheets was primarily due to funds provided by NVI to facilitate the Company’s repurchase of common stock in 2019.

2. Guarantees and Restrictions

On February 2, 2017, the Company declared a recapitalization dividend to its stockholders. The dividend was funded with \$175.0 million in new term loans under NVI’s first lien credit agreement.

As described in the *Initial and Secondary Public Offerings* section included in Note 1. “Business and Significant Accounting Policies,” to the NVHI consolidated financial statements, NVI used proceeds from the NVHI IPO to repay all \$125.0 million outstanding aggregate amount of its second lien term loans and approximately \$235.0 million of the outstanding amount of its First Lien - Term Loan B and accrued and unpaid interest thereon. As of December 28, 2019, NVI had \$540.4 million of principal amount of long-term debt outstanding under its Term Loan and Revolving Credit Facility (as defined below). Pursuant to the Restatement Agreement, as described in Note 4. “Long-term Debt,” to the NVHI consolidated financial statements, the credit agreement also provides for up to \$300.0 million in revolving loans (“Revolving Credit Facility”). As of fiscal year end 2019, NVI had \$148.0 million outstanding revolving loan obligations and had \$5.7 million in outstanding letters of credit related to the Revolving Credit Facility.

Under the agreement, 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.

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 December 28, 2019. Based on that evaluation, the CEO and the CFO have concluded that the Company's current 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management, with the participation of our CEO and CFO, has assessed the effectiveness of the Company's internal control over financial reporting as of December 28, 2019 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 December 28, 2019. 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 December 28, 2019, has issued their attestation report on management's internal control over financial reporting which is set forth below.

Remediation of the Previously Reported Material Weakness in Internal Control Over Financial Reporting

As discussed in Item 9A. Controls and Procedures of our Form 10-K for the 2018 fiscal year, we identified a material weakness in our internal control over financial reporting as of December 29, 2018 related to a deficiency in the design of entity level controls to identify and assess changes in our business environment.

Management designed and implemented controls to remediate the material weakness, which included the following new policies, procedures and internal controls:

In 2018, we:

- Established a periodic meeting of senior leaders from key business groups, including operations and finance, for purposes of identifying and assessing changes in our business environment that could significantly impact the system of internal control over financial reporting;
- Designed and implemented a control to incorporate those changes into our risk assessment and control activities; and
- Established a disclosure committee, consisting of certain key members of management, to assist in formalizing our disclosure, risk assessment, internal controls and procedures.

Management tested the controls cited above and determined them to be effectively designed and implemented.

In addition, we designed the following controls in 2019 to complete the remediation of the material weakness:

- An internal control deficiency remediation project plan, overseen by the CFO and internal audit, and reviewed with the Audit Committee at least quarterly; and
- An enhanced risk assessment that incorporates cross-functional input, data analysis, and detailed reviews of accounting policies and operating procedures to identify and differentiate risks of material misstatement.

As of December 28, 2019, we have completed documentation and implementation of the new and revised internal controls described above. During the fourth quarter of 2019 and prior to the issuance of our consolidated financial statements for the year ended December 28, 2019, we completed sufficient instances of testing of the operating effectiveness of the new and revised internal controls and concluded that the above identified material weakness in our internal control over financial reporting has been fully remediated.

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, other than as described above under “Remediation of the Previously Reported Material Weakness in Internal Control Over Financial Reporting.”

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 December 28, 2019, 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 December 28, 2019, 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 December 28, 2019, of the Company and our report dated February 25, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of Accounting Standards Update No. 2016-02, *Leases*.

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
February 25, 2020

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 February 26, 2020.

Name	Age	Position
L. Reade Fahs	59	Chief Executive Officer and Director
Patrick R. Moore	56	Senior Vice President, Chief Financial Officer
Joan Blackwood	55	Chief Marketing Officer
Jared Brandman	43	Senior Vice President, General Counsel and Secretary
Bill Clark	45	Senior Vice President, Chief People Officer
Melissa Rasmussen	43	Senior Vice President, Chief Accounting Officer
John Vaught	66	Senior Vice President, Chief Information 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.

Joan Blackwood has served as the 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.

John Vaught has served as the Senior Vice President, Chief Information Officer of NVI since 2005, and was appointed the Senior Vice President, Chief Information Officer of National Vision Holdings, Inc. in June 2017. Mr. Vaught has been involved in all acquisition integrations and growth at National Vision beginning with the acquisition of America's Best in 2005. Mr. Vaught has 45 years of retail and manufacturing information technology experience, and has held technical and IT management positions at Revco Drug Stores (CVS), Invacare, and Office Depot.

Other

The additional information required by this item will be included in our definitive proxy statement for the 2020 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 2020 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 2020 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 2020 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 2020 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 [69](#)

	Page
Consolidated Balance Sheets as of December 28, 2019 and December 29, 2018	72
Consolidated Statements of Operations and Comprehensive income for the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017	73
Consolidated Statements of Stockholders' Equity for the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017	74
Consolidated Statements of Cash Flows for the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017	75
Notes to Consolidated Financial Statements	76
Schedule I – Condensed Financial Information of Registrant	111

- (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
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	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
10.3	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
10.4	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
10.5†	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
10.6†	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
10.7†	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
10.8†	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
10.9†	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
10.10†	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
10.11†	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
10.12†	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
10.13†	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
10.14†	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

10.15†	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
10.16†	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
10.17†	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
10.18†	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
10.19‡	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
10.20‡	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
10.21‡	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
10.22‡	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
10.23‡	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
10.24	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
10.25‡	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
10.26†	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
10.27†	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
10.28†	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
10.29†	Option Agreement for Jeff McAllister 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 10.39 to the Company’s Form 10-K filed on March 8, 2018
10.30†	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
10.31†	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
10.32†	Transition Agreement, dated as of February 1, 2019, between National Vision Holdings, Inc. and Jeff McAllister - incorporated herein by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on February 1, 2019.
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 December 28, 2019, 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.

By: /s/ L. Reade Fahs

L. Reade Fahs

Chief Executive Officer and Director

(Principal Executive Officer)

Date: February 26, 2020

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
<u>/s/ L. Reade Fahs</u> L. Reade Fahs	Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	February 26, 2020
<u>/s/ Patrick R. Moore</u> Patrick R. Moore	Senior Vice President, Chief Financial Officer <i>(Principal Financial Officer)</i>	February 26, 2020
<u>/s/ Melissa Rasmussen</u> Melissa Rasmussen	Senior Vice President, Chief Accounting Officer <i>(Principal Accounting Officer)</i>	February 26, 2020
<u>/s/ Heather Cianfrocco</u> Heather Cianfrocco	Director	February 26, 2020
<u>/s/ Virginia A. Hepner</u> Virginia A. Hepner	Director	February 26, 2020
<u>/s/ D. Randolph Peeler</u> D. Randolph Peeler	Director	February 26, 2020
<u>/s/ Nathaniel H. Taylor</u> Nathaniel H. Taylor	Chairman and Director	February 26, 2020
<u>/s/ Thomas V. Taylor, Jr.</u> Thomas V. Taylor, Jr.	Director	February 26, 2020
<u>/s/ David M. Tehle</u> David M. Tehle	Director	February 26, 2020