

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 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**  
(Address of principal executive offices)

**30096**  
(Zip Code)

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

**Not Applicable**  
(Former name, former address and former fiscal year, if changed since last report)

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

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
Common stock, par value \$0.01 per share	EYE	Nasdaq

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

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

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

<b>Class</b>	<b>Outstanding at October 31, 2019</b>
Common stock, \$0.01 par value	79,117,971

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), 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-Q, 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-Q. Such risks, uncertainties and other important factors that could cause actual results to differ include, among others, the risks, uncertainties and factors set forth in Part I, Item 1A - “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 29, 2018 (the “Annual Report”), as filed with the Securities and Exchange Commission (the “SEC”), as such risk factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov), and also include the following:

- our ability to open and operate new stores in a timely and cost-effective manner, and to successfully enter new markets;
- our ability to recruit and retain vision care professionals for our stores;
- our ability to develop and maintain relationships with managed vision care companies, vision insurance providers and other third-party payors;
- our ability to maintain our current operating relationships with our host and legacy partners;
- our ability to adhere to extensive state, local and federal vision care and healthcare laws and regulations;
- our ability to maintain sufficient levels of cash flow from our operations to grow;
- the loss of, or disruption in the operations of, one or more of our distribution centers and/or optical laboratories;
- risks associated with vendors from whom our products are sourced;
- overall decline in the health of the economy and consumer spending affecting consumer purchases;
- our ability to successfully compete in the highly competitive optical retail industry;
- our dependence on a limited number of suppliers;
- our and our vendors’ ability to safeguard personal information and payment card data;
- any failure, inadequacy, interruption, security failure or breach of our information technology systems;
- our growth strategy straining our existing resources and causing the performance of our existing stores to suffer;
- our ability to retain our existing senior management team and attract qualified new personnel;
- the impact of wage rate increases, inflation, cost increases and increases in raw material prices and energy prices;
- our ability to successfully implement our marketing, advertising and promotional efforts;
- risks associated with leasing substantial amounts of space;
- the impact of certain technological advances, and the 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;
- product liability, product recall or personal injury issues;
- our compliance with managed vision care laws and regulations;
- our reliance on third-party reimbursement for a portion of our revenues;
- our ability to manage our inventory balances and inventory shrinkage;
- risks associated with our e-commerce business;
- seasonal fluctuations in our operating results and inventory levels;
- risks of losses arising from our investments in technological innovators in the optical retail industry;
- our failure to comply with, or changes in, laws, regulations, enforcement activities and other requirements;
- the impact of any adverse litigation judgments or settlements resulting from legal proceedings relating to our business operations;
- our ability to adequately protect our intellectual property;
- our leverage;

- restrictions in our credit agreement that limits our flexibility in operating our business;
- our ability to generate sufficient cash flow to satisfy our significant debt service obligations;
- our dependence on subsidiaries to fund all of our operations and expenses;
- risks associated with maintaining the requirements of being a public company;
- our ability to comply with requirements to maintain effective internal controls; and
- risks related to owning our common stock.

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-Q apply only as of the date of this Form 10-Q 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.

All references to “we,” “us,” “our,” or the “Company” in this Form 10-Q mean National Vision Holdings, Inc. and its subsidiaries, unless the context otherwise requires. References to “eye care practitioners” in this Form 10-Q mean optometrists and ophthalmologists and references to “vision care professionals” mean optometrists (including optometrists employed by us or by professional corporations owned by eye care practitioners with which we have arrangements) and opticians.

#### **Website Disclosure**

We use our website [www.nationalvision.com](http://www.nationalvision.com) as a channel of distribution of Company information. Financial and other important information regarding the Company is routinely accessible through and posted on our website. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about National Vision Holdings, Inc. when you enroll your e-mail address by visiting the “Email Alerts” page of the Investor Resources section of our website at [www.nationalvision.com/investors](http://www.nationalvision.com/investors). The contents of our website are not, however, a part of this Form 10-Q.

**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)**

**National Vision Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**As of September 28, 2019 and December 29, 2018**  
*In Thousands, Except Par Value*  
**(Unaudited)**

ASSETS	As of September 28, 2019	As of December 29, 2018
<b>Current assets:</b>		
Cash and cash equivalents	\$ 94,086	\$ 17,132
Accounts receivable, net	50,655	50,735
Inventories	111,894	116,022
Prepaid expenses and other current assets	22,014	30,815
Total current assets	278,649	214,704
<b>Property and equipment, net</b>	372,069	355,117
<b>Other assets:</b>		
Goodwill	777,613	777,613
Trademarks and trade names	240,547	240,547
Other intangible assets, net	58,792	64,532
Right of use assets	344,179	—
Other assets	6,575	8,876
<b>Total non-current assets</b>	1,799,775	1,446,685
<b>Total assets</b>	\$ 2,078,424	\$ 1,661,389
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 45,337	\$ 43,642
Other payables and accrued expenses	101,556	81,004
Unearned revenue	29,224	27,295
Deferred revenue	57,231	52,144
Current maturities of long-term debt and finance lease obligations	13,736	7,567
Current operating lease obligations	56,814	—
Total current liabilities	303,898	211,652
<b>Long-term debt and finance lease obligations, less current portion and debt discount</b>	584,250	570,545
<b>Non-current operating lease obligations</b>	326,492	—
<b>Other non-current liabilities:</b>		
Deferred revenue	22,115	20,134
Other liabilities	13,407	53,964
Deferred income taxes, net	62,791	61,940
Total other non-current liabilities	98,313	136,038
<b>Commitments and contingencies (See Note 9)</b>		
<b>Stockholders' equity:</b>		
Common stock, \$0.01 par value; 200,000 shares authorized; 79,920 and 78,246 shares issued as of September 28, 2019 and December 29, 2018, respectively; 79,022 and 78,167 shares outstanding as of September 28, 2019 and December 29, 2018, respectively	800	782
Additional paid-in capital	693,541	672,503
Accumulated other comprehensive loss	(4,921)	(2,810)
Retained earnings	103,212	74,840
Treasury stock, at cost; 898 and 79 shares as of September 28, 2019 and December 29, 2018, respectively	(27,161)	(2,161)
Total stockholders' equity	765,471	743,154
<b>Total liabilities and stockholders' equity</b>	\$ 2,078,424	\$ 1,661,389

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**National Vision Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations and Comprehensive Income**  
**For the Three and Nine Months Ended September 28, 2019 and September 29, 2018**  
*In Thousands, Except Earnings Per Share*  
**(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Revenue:</b>				
Net product sales	\$ 355,789	\$ 319,312	\$ 1,096,482	\$ 977,497
Net sales of services and plans	76,113	68,113	226,086	203,435
Total net revenue	431,902	387,425	1,322,568	1,180,932
<b>Costs applicable to revenue (exclusive of depreciation and amortization):</b>				
Products	144,518	130,951	444,177	389,560
Services and plans	59,984	51,637	174,801	150,541
Total costs applicable to revenue	204,502	182,588	618,978	540,101
<b>Operating expenses:</b>				
Selling, general and administrative	190,290	185,028	566,444	521,344
Depreciation and amortization	22,336	19,344	63,570	54,783
Asset impairment	3,516	2,137	7,387	2,137
Other expense, net	146	411	975	829
Total operating expenses	216,288	206,920	638,376	579,093
Income (loss) from operations	11,112	(2,083)	65,214	61,738
Interest expense, net	7,873	9,407	25,902	28,144
Loss on extinguishment of debt	9,786	—	9,786	—
Earnings (loss) before income taxes	(6,547)	(11,490)	29,526	33,594
Income tax provision (benefit)	(7,739)	(16,661)	647	(8,499)
Net income	\$ 1,192	\$ 5,171	\$ 28,879	\$ 42,093
<b>Earnings per share:</b>				
Basic	\$ 0.02	\$ 0.07	\$ 0.37	\$ 0.56
Diluted	\$ 0.01	\$ 0.06	\$ 0.35	\$ 0.54
<b>Weighted average shares outstanding:</b>				
Basic	78,474	76,118	78,387	75,361
Diluted	81,561	79,710	81,510	78,571
<b>Comprehensive income:</b>				
Net income	\$ 1,192	\$ 5,171	\$ 28,879	\$ 42,093
Unrealized gain (loss) on hedge instruments	681	2,267	(2,837)	11,842
Tax provision (benefit) of unrealized gain (loss) on hedge instruments	175	580	(727)	3,033
Comprehensive income	\$ 1,698	\$ 6,858	\$ 26,769	\$ 50,902

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**National Vision Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**For the Nine Months Ended September 28, 2019**  
*In Thousands*  
**(Unaudited)**

	Nine Months Ended September 28, 2019						
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount		Loss			
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	51	1	512	—	—	—	513
Stock based compensation	—	—	2,937	—	—	—	2,937
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	(947)	—	—	(947)
Net income	—	—	—	—	17,429	—	17,429
Balances at March 30, 2019	78,218	783	675,952	(3,757)	91,763	(2,161)	762,580
Issuance of common stock	266	3	1,550	—	—	—	1,553
Stock based compensation	—	—	1,714	—	—	—	1,714
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	(1,670)	—	—	(1,670)
Net income	—	—	—	—	10,257	—	10,257
Balances at June 29, 2019	78,484	786	679,216	(5,427)	102,020	(2,161)	774,434
Issuance of common stock	1,357	14	8,224	—	—	—	8,238
Stock based compensation	—	—	6,101	—	—	—	6,101
Purchase of treasury stock	(819)	—	—	—	—	(25,000)	(25,000)
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	506	—	—	506
Net income	—	—	—	—	1,192	—	1,192
Balances at September 28, 2019	79,022	\$ 800	\$ 693,541	\$ (4,921)	\$ 103,212	\$ (27,161)	\$ 765,471

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**National Vision Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**For the Nine Months Ended September 29, 2018**  
*In Thousands*  
**(Unaudited)**

Nine Months Ended September 29, 2018

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balances at December 30, 2017	74,654	\$ 746	\$ 631,798	\$ (9,868)	\$ 32,157	\$ (233)	\$ 654,600
Cumulative effect of change in accounting principle	—	—	—	—	19,030	—	19,030
Balances at December 31, 2017 - as adjusted	74,654	746	631,798	(9,868)	51,187	(233)	673,630
Issuance of common stock	449	5	2,243	—	—	—	2,248
Stock based compensation	—	—	1,596	—	—	—	1,596
Purchase of treasury stock	(25)	—	—	—	—	(855)	(855)
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	4,624	—	—	4,624
Net income	—	—	—	—	24,455	—	24,455
Balances at March 31, 2018	75,078	751	635,637	(5,244)	75,642	(1,088)	705,698
Issuance of common stock	256	2	1,216	—	—	—	1,218
Stock based compensation	—	—	1,524	—	—	—	1,524
Purchase of treasury stock	—	—	—	—	—	(5)	(5)
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	2,498	—	—	2,498
Net income	—	—	—	—	12,467	—	12,467
Balances at June 30, 2018	75,334	753	638,377	(2,746)	88,109	(1,093)	723,400
Issuance of common stock	1,803	17	10,485	—	—	—	10,502
Stock based compensation	—	—	10,618	—	—	—	10,618
Purchase of treasury stock	(1)	—	—	—	—	(40)	(40)
Unrealized gain (loss) on hedge instruments, net of tax	—	—	—	1,687	—	—	1,687
Net income	—	—	—	—	5,171	—	5,171
Balances at September 29, 2018	77,136	\$ 770	\$ 659,480	\$ (1,059)	\$ 93,280	\$ (1,133)	\$ 751,338

*The accompanying notes are an integral part of these condensed consolidated financial statements.*



**National Vision Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Nine Months Ended September 28, 2019 and September 29, 2018**  
*In Thousands*  
**(Unaudited)**

	Nine Months Ended	
	September 28, 2019	September 29, 2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 28,879	\$ 42,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,570	54,783
Amortization of loan costs	1,071	1,287
Asset impairment	7,387	2,137
Deferred income tax (benefit) expense	651	(8,696)
Stock based compensation expense	10,840	13,749
Inventory adjustments	3,065	2,491
Bad debt expense	6,265	4,981
Loss on extinguishment of debt	9,786	—
Other	1,963	1,555
Changes in operating assets and liabilities:		
Accounts receivable	(6,023)	(663)
Inventories	1,063	(10,620)
Other assets	11,373	381
Accounts payable	1,694	(4,823)
Deferred revenue	7,068	6,235
Other liabilities	22,286	11,062
Net cash provided by operating activities	170,938	115,952
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(76,472)	(78,813)
Other	564	136
Net cash used for investing activities	(75,908)	(78,677)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt, net of discounts	566,550	—
Proceeds from exercise of stock options	9,992	14,032
Principal payments on long-term debt	(564,300)	(4,275)
Purchase of treasury stock	(25,000)	(900)
Payments on finance lease obligations	(2,054)	(1,256)
Payments of debt issuance costs	(2,930)	—
Net cash provided by (used for) financing activities	(17,742)	7,601
Net change in cash, cash equivalents and restricted cash	77,288	44,876
Cash, cash equivalents and restricted cash, beginning of year	17,998	5,193
Cash, cash equivalents and restricted cash, end of period	\$ 95,286	\$ 50,069

**Supplemental cash flow disclosure information:**

Cash paid for interest	\$ 25,182	\$ 28,988
Property and equipment accrued at the end of the period	\$ 13,808	\$ 9,060
Right of use assets acquired under finance leases	\$ 9,551	\$ 9,722
Right of use assets acquired under operating leases	\$ 84,643	\$ —

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

	Nine Months Ended	
	September 28, 2019	September 29, 2018
Cash and cash equivalents	\$ 94,086	\$ 48,881
Restricted cash included in other assets	1,200	1,188
Total cash, cash equivalents and restricted cash	\$ 95,286	\$ 50,069

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

## **1. Description of Business and Basis of Presentation**

### *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 and its territories. We operated 1,145 and 1,082 retail optical locations as of September 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 stores, and our management and services arrangement with Walmart (“Legacy”).

### *Basis of Presentation*

We prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and, therefore, do not include all information and disclosures required by U.S. GAAP for complete consolidated financial statements. The condensed consolidated balance sheet as of December 29, 2018 has been derived from the audited consolidated balance sheet for the fiscal year then ended. These condensed consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary to present fairly the Company’s consolidated financial position as of September 28, 2019, the consolidated results of operations and comprehensive income, the statements of changes in stockholders’ equity for the three and nine months ended September 28, 2019 and September 29, 2018, and its statements of cash flows for the nine months ended September 28, 2019 and September 29, 2018.

Certain information and disclosures normally included in our annual consolidated financial statements have been condensed or omitted; however, we believe that the disclosures included herein are sufficient for a fair presentation of the information presented. These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto for the fiscal year ended December 29, 2018 included in the Company’s Annual Report on Form 10-K filed with the SEC on February 27, 2019. The Company’s significant accounting policies are set forth in Note 1 within those consolidated financial statements. We use the same accounting policies in preparing interim condensed consolidated financial information and annual consolidated financial statements. There were no changes to our significant accounting policies during the nine months ended September 28, 2019, except for the adoption of Accounting Standards Update (“ASU”) 2016-02, *Leases*. See “Adoption of New Accounting Pronouncements” below for further discussion.

The condensed 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.

### *Fiscal Year*

Our fiscal year consists of 52 or 53 weeks ending on the Saturday closest to December 31. Fiscal year 2019 contains 52 weeks and will end on December 28, 2019. All three and nine month periods presented herein contain 13 and 39 weeks, respectively. All references to years and quarters relate to fiscal periods rather than calendar periods.

### *Seasonality*

The consolidated results of operations for the three and nine months ended September 28, 2019 and September 29, 2018 are not necessarily indicative of the results to be expected for the full fiscal year due to seasonality and uncertainty of general economic conditions that may impact our key end markets. Historically, our business has realized a higher portion of net revenue, income from operations, and cash flows from operations in the first fiscal quarter, and a lower portion of net revenue, income from operations, and cash flows from operations in the fourth fiscal quarter. The seasonally larger first quarter is attributable primarily to the timing of our customers’ personal income tax refunds and annual health insurance program start or reset periods. Seasonality related to fourth quarter holiday spending by retail customers generally does not impact our business. Our quarterly consolidated results may also be affected by the timing of new store openings, store closings, and certain holidays.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**1. Description of Business and Basis of Presentation (continued)***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.

*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 shorter of the remaining useful life or the remaining term of the lease are less than the carrying value of the subject assets, we then measure impairment based on a discounted cash flow model and market-based indications of value of the ROU asset and record an impairment charge as the excess of carrying value over estimated fair value. As directed in the accounting guidance for long-lived assets held and used, we use entity-specific assumptions related to our anticipated use of the assets when developing the projected undiscounted cash flows.

We identified indicators of impairment of certain stores and recorded \$3.5 million and \$7.4 million of related asset impairment charges during the three and nine months ended September 28, 2019, respectively, in Corporate/Other. These impairment charges were primarily driven by lower than projected customer sales volume in certain stores. The estimated fair value of the impaired assets was \$14.6 million as of September 28, 2019; this value includes fair value estimates related to impairments recorded in the first and second quarters of 2019. The cash flows used in the estimation were discounted to fair value using a rate of 8%. 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. The market-based indications of value of ROU assets were based on third-party information without adjustment. These measurements were classified as Level 3 measurements in the fair value hierarchy.

*Income Taxes*

Our income tax rate for the three months ended September 28, 2019 reflected our statutory federal and state rate of 25.6%, offset by a discrete benefit of \$6.3 million associated primarily with stock option exercises. Our income tax benefit for the nine months ended September 28, 2019 reflected income tax expense at our statutory federal and state rate of 25.6%, offset by a discrete benefit of \$7.7 million associated primarily with stock option exercises. In comparison, the income tax rate associated with the three and nine months ended September 29, 2018 was reduced by \$13.9 million and \$18.0 million respective income tax benefit resulting from stock option exercises.

*Secondary Offering and Common Stock Repurchase*

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 owns any shares of our common stock as of September 28, 2019.

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 for the nine months ended September 28, 2019. As a result of the offering, we incurred \$4.2 million of non-cash stock-based compensation expense during the three months ended September 28, 2019. We additionally recorded \$1.1 million in long-term cash incentive compensation expense and \$0.4 million in offering related expenses in selling, general and administrative (“SG&A”) during the three months ended September 28, 2019.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**1. Description of Business and Basis of Presentation (continued)**

*Adoption of New Accounting Pronouncements*

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

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

Upon adoption, we recorded operating lease liabilities of approximately \$349.7 million as of December 30, 2018. The Company treated tenant improvement allowances (“TIAs”) and deferred rent of \$28.6 million and \$11.9 million, respectively, as of December 30, 2018 as reductions of 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.

*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. The Company is in the process of assessing the new guidance.

*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. The Company is in the process of assessing the new guidance.

**2. Details of Certain Balance Sheet Accounts**

<i>In thousands</i>	As of September 28, 2019	As of December 29, 2018
<b>Accounts receivable, net:</b>		
Trade receivables	\$ 27,879	\$ 27,356
Credit card receivables	15,131	16,636
Tenant improvement allowances receivable	6,183	5,149
Other receivables	4,544	4,206
Allowance for uncollectible accounts	(3,082)	(2,612)
	<u>\$ 50,655</u>	<u>\$ 50,735</u>

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**2. Details of Certain Balance Sheet Accounts (continued)**

<i>In thousands</i>	As of September 28, 2019	As of December 29, 2018
<b>Inventories:</b>		
Raw materials and work in process <sup>(1)</sup>	\$ 57,844	\$ 59,946
Finished goods	54,050	56,076
	<u>\$ 111,894</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 September 28, 2019	As of December 29, 2018
<b>Property and equipment, net:</b>		
Land and building	\$ 3,632	\$ 3,632
Equipment	186,181	160,958
Information systems hardware and software	113,127	101,809
Furniture and fixtures	53,922	48,992
Leasehold improvements	207,113	186,499
Construction in progress	28,299	40,697
Right of use assets under finance leases	36,437	25,446
	<u>628,711</u>	<u>568,033</u>
Less: Accumulated depreciation	256,642	212,916
	<u>\$ 372,069</u>	<u>\$ 355,117</u>

<i>In thousands</i>	As of September 28, 2019	As of December 29, 2018
<b>Other payables and accrued expenses:</b>		
Employee compensation and benefits	\$ 40,347	\$ 20,529
Advertising	2,565	2,076
Self-insurance reserves	8,464	8,117
Reserves for customer returns and remakes	7,606	4,645
Capital expenditures	11,532	14,078
Legacy management and services agreement	6,642	5,383
Fair value of derivative liabilities	6,260	3,130
Supplies and other store support expenses	3,038	4,929
Litigation settlements	3,894	3,938
Other	11,208	14,179
	<u>\$ 101,556</u>	<u>\$ 81,004</u>

<i>In thousands</i>	As of September 28, 2019	As of December 29, 2018
<b>Other non-current liabilities:</b>		
Fair value of derivative liabilities	\$ 3,214	\$ 3,505
Tenant improvements <sup>(1)</sup>	—	30,851
Deferred rental expenses <sup>(1)</sup>	—	11,926
Self-insurance reserves	5,528	5,114
Other	4,665	2,568
	<u>\$ 13,407</u>	<u>\$ 53,964</u>

(1) Tenant improvements and deferred rental expenses are used to measure ROU assets on the balance sheet under ASC 842, *Leases* as of September 28, 2019. See Note 8. "Leases" for further details.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

### **3. Fair Value Measurements 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 pricing based upon a reporting entity's own market assumptions.

The Company is required to measure certain assets and liabilities at fair value or disclose the fair values of certain assets and liabilities recorded at cost. Accounting standards define fair value as the price that would be received upon sale of an asset or paid upon transfer of 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, Cash Equivalents and Restricted Cash*

The carrying amount of cash and 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 (as defined below) 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 \$39.4 million and \$30.7 million as of September 28, 2019 and December 29, 2018, respectively, compared to carrying values of \$34.2 million and \$24.5 million, respectively.

#### *Interest Rate Derivatives*

The Company is party to three pay-fixed and receive-floating interest rate swap agreements to offset the variability of cash flows in LIBOR-indexed debt interest payments, subject to a 1.0% floor, attributable to changes in the benchmark interest rate from March 13, 2017 to March 13, 2021 related to its credit agreement. During the first quarter of 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.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

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

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. Fair value is based on information that is model-driven and whose inputs are observable (Level 2 inputs). Cumulative unrealized losses on derivative instruments are recorded in accumulated other comprehensive loss ("AOCL"), net of tax. As of September 28, 2019, the Company expects to reclassify \$4.7 million of unrealized losses on derivative instruments, net of tax, from AOCL into earnings in the next 12 months as the derivative instruments mature. See Note 12. "Accumulated Other Comprehensive Loss" for further details.

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 <sup>(1)</sup>
As of September 28, 2019	\$ 430,000	March 2021	\$ 6,260	\$ 3,214	\$ 4,921
As of December 29, 2018	\$ 465,000	March 2021	\$ 3,130	\$ 3,505	\$ 2,810

(1) Includes stranded 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.

**4. Long-term Debt**

Long-term debt consists of the following:

<i>In thousands</i>	As of September 28, 2019	As of December 29, 2018
First Lien - Term Loan B	\$ —	\$ 364,300
First Lien - Term Loan A	—	200,000
First Lien - Term Loan, due July 18, 2024	420,000	—
First Lien - Revolving credit facility, due July 18, 2024	148,000	—
Total term loans before unamortized discount	568,000	564,300
Unamortized discount	(4,196)	(10,673)
Total term loans	563,804	553,627
Less current maturities	(10,500)	(5,000)
Term loans - non-current portion	553,304	548,627
Finance lease obligations	34,182	24,485
Less current maturities	(3,236)	(2,567)
Long-term debt, less current portion and unamortized debt discount	\$ 584,250	\$ 570,545

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**4. Long-term Debt (continued)**

Scheduled maturities of the Term Loan and revolving credit facility are as follows:

Fiscal Period	<i>In thousands</i>
2019 - fourth quarter	\$ 2,625
2020	10,500
2021	10,500
2022	13,125
2023	21,000
Thereafter	510,250
	<u>\$ 568,000</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 (“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, 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.

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.



**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**5. Stock Incentive Plans**

The following tables summarize stock based compensation activity for the nine months ended September 28, 2019:

	Service-based options <sup>(1)</sup>	Performance-based options	Total options
Outstanding at December 29, 2018	2,583,380	4,143,781	6,727,161
Granted	299,207	—	299,207
Exercised	(644,766)	(987,340)	(1,632,106)
Forfeited	(17,832)	(1,258,280)	(1,276,112)
Outstanding at September 28, 2019	2,219,989	1,898,161	4,118,150
Vested and exercisable at September 28, 2019	1,386,225	1,767,727	3,153,952

(1) Includes 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.

	Service-based restricted stock unit (RSU) awards	Performance-based restricted stock unit (PSU) awards	Restricted stock (RSA) awards
Outstanding at December 29, 2018	98,076	—	11,431
Granted	108,256	115,665	13,712
Vested	—	—	(4,515)
Forfeited	(9,833)	(2,274)	—
Outstanding at September 28, 2019	196,499	113,391	20,628

During the nine months ended September 28, 2019, the Company made grants of stock options, performance-based restricted stock units (“PSUs”) and/or restricted stock units (“RSUs”) to eligible employees under the National Vision Holdings, Inc. 2017 Omnibus Incentive Plan (the “2017 Omnibus Incentive Plan”). The service-based options granted in fiscal 2019 vest in three equal annual installments, with one-third of the total options vesting on each of the first, second, and third anniversaries of the grant date, subject to continued employment through the applicable vesting date. 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 RSUs granted in fiscal 2019 vest in three equal installments. The weighted average grant date fair values per share of RSUs and PSUs granted during the nine months ended September 28, 2019 were \$34.82 and \$34.54, respectively.

During the nine months ended September 28, 2019, we granted an aggregate of 13,712 restricted stock awards (“RSAs”) to eligible members of the Company’s Board of Directors under the 2017 Omnibus Incentive Plan. The awards vest one year from the grant date. The weighted average grant date fair value per share of each of the awards, based on the stock price on the date of grant, was \$29.18.

The weighted average price of stock options exercised during the nine months ended September 28, 2019 was \$5.77. The weighted average grant date fair value of the stock options granted during the nine months ended September 28, 2019 was \$13.68.

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>	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Stock options	\$ 4,948	\$ 10,260	\$ 7,955	\$ 12,590
RSUs and PSUs	1,028	347	2,598	1,107
RSAs	125	11	201	41
Associate stock purchase plan	22	11	86	11
Total stock based compensation expense	\$ 6,123	\$ 10,629	\$ 10,840	\$ 13,749

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**5. Stock Incentive Plans (continued)**

The unrecognized compensation cost as of September 28, 2019 related to RSUs, PSUs, RSAs and service-based stock options granted in 2019 was \$2.7 million, \$3.2 million, \$0.3 million and \$3.3 million, respectively.

**6. Related Party Transactions**

*Transactions with KKR*

During the three months ended September 28, 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 the three months ended September 28, 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.

*Equity in Net Assets of Non-Consolidated Investee*

The Company has an investment in a private start-up company whose principal business is licensing software to eyeglass retailers. Under the equity method of accounting, we are required to record our interest in the investee’s reported net income or loss for each reporting period, which is presented in other expense, net in the Company’s condensed consolidated statements of operations. Our interest in the investee’s net losses was \$0.2 million and \$1.2 million for the three and nine months ended September 28, 2019, respectively and \$0.4 million and \$1.0 million for the three and nine months ended September 29, 2018, respectively. There is no remaining investment balance associated with this investee as of September 28, 2019.

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 net carrying amount of the convertible promissory note after applying the investee’s net losses of \$0.2 million was \$1.3 million, and is included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheets as of September 28, 2019. Interest income associated with the note was immaterial for the three and nine months ended September 28, 2019 and September 29, 2018.

**7. Revenue from Contracts with Customers**

The Company’s 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. 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.

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

<i>In thousands</i>	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Revenues recognized at a point in time	\$ 394,709	\$ 352,245	\$ 1,211,942	\$ 1,075,355
Revenues recognized over time	37,193	35,180	110,626	105,577
<b>Total net revenue</b>	<b>\$ 431,902</b>	<b>\$ 387,425</b>	<b>\$ 1,322,568</b>	<b>\$ 1,180,932</b>

Refer to Note 10. “Segment Reporting” for the Company’s disaggregation of net revenue by reportable segment. 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.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

## **7. Revenue From Contracts with Customers (continued)**

### *Contract Assets and Liabilities*

The Company's contract assets and contract liabilities primarily result from timing differences between the performance of our obligations and the customer's payment.

### Accounts Receivable

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. Trade receivables and credit card receivables are included in accounts receivable, net, on our condensed consolidated balance sheets, and are presented separately in Note 2. "Details of Certain Balance Sheet Accounts."

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. Impairment losses (i.e., bad debt expense) recognized on our receivables were approximately \$2.4 million and \$6.3 million for the three and nine months ended September 28, 2019, respectively, and \$1.7 million and \$5.0 million for the three and nine months ended September 29, 2018, respectively.

### Unsatisfied Performance Obligations (Contract Liabilities)

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 condensed consolidated balance sheets. Unearned revenue at the end of a reporting period is estimated based on delivery times throughout the current month and generally ranges from four to 10 days. All unearned revenue at the end of a reporting period is recognized in the next fiscal period.

Our contract liabilities also consist of deferred revenue on services and plans obligations, primarily product protection plans and eye care club memberships. The unamortized portion of amounts we collect in advance for these services and plans is reported as deferred revenue in the accompanying condensed consolidated balance sheets (current and non-current portions). Our deferred revenue balance as of September 28, 2019 was \$79.3 million. We expect future revenue recognition of this balance of \$20.3 million, \$42.2 million, \$13.4 million, \$3.2 million, and \$0.2 million in fiscal years 2019, 2020, 2021, 2022, and thereafter, respectively. We recognized \$27.9 million and \$83.2 million of previously deferred revenues during the three and nine months ended September 28, 2019, respectively and \$26.5 million and \$78.5 million during the three and nine months ended September 29, 2018, respectively.

## **8. Leases**

We lease our stores, laboratories, distribution centers, and corporate offices. These leases generally have noncancellable 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 noncancellable 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 and 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 September 28, 2019 (non-current liabilities as of December 29, 2018), and are amortized as a reduction in rental expense over the life of the respective leases.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**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>		As of September 28, 2019
<b>Type</b>	<b>Classification</b>	
<b>ASSETS</b>		
Finance	Property and equipment, net	\$ 29,314
Operating	Right of use assets <sup>(a)</sup>	344,179
<b>Total leased assets</b>		<b>\$ 373,493</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Finance	Current maturities of long-term debt and finance lease obligations	\$ 3,236
Operating	Current operating lease obligations	56,814
<b>Other non-current liabilities:</b>		
Finance	Long-term debt and finance lease obligations, less current portion and debt discount	30,946
Operating	Non-current operating lease obligations	326,492
<b>Total lease liabilities</b>		<b>\$ 417,488</b>

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) TIA of \$34.2 million and deferred rent of \$14.2 million are treated as reductions of lease payments used to measure ROU assets as of September 28, 2019.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**8. Leases (continued)**

Finance lease assets are recorded net of accumulated amortization of \$7.1 million and \$4.1 million as of September 28, 2019 and December 30, 2018, respectively.

<i>In thousands</i>	Three Months Ended September 28, 2019	Nine Months Ended September 28, 2019
<b>Lease cost by classification</b>		
<b><i>Selling, general and administrative:</i></b>		
Operating lease cost <sup>(a)</sup>	\$ 18,542	\$ 54,955
Variable lease cost <sup>(b)</sup>	6,745	19,803
Sublease income <sup>(c)</sup>	(965)	(2,881)
<b><i>Depreciation and amortization:</i></b>		
Amortization of lease assets	1,176	3,231
<b><i>Interest expense, net:</i></b>		
Interest on lease liabilities	903	2,689
<b>Net lease cost</b>	<b>\$ 26,401</b>	<b>\$ 77,797</b>

(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.

<b>Lease Term and Discount Rate</b>	As of September 28, 2019
<b><i>Weighted average remaining lease term (months)</i></b>	
Operating leases	82
Finance leases	91
<b><i>Weighted average discount rate <sup>(a)</sup></i></b>	
Operating leases	4.6%
Finance leases <sup>(b)</sup>	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; (iv) borrowing rates on five-year and ten-year US Treasuries; and (v) 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.

<i>In thousands</i>	Nine Months Ended September 28, 2019
<b>Other Information</b>	
<b><i>Cash paid for amounts included in the measurement of lease liabilities</i></b>	
Operating cash outflows - operating leases	\$ 55,817

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**8. Leases (continued)**

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

*In thousands*

Fiscal Year	Operating Leases <sup>(a)</sup>	Finance Leases <sup>(b)</sup>
2019 fourth quarter	\$ 13,090	\$ 1,398
2020	77,497	7,196
2021	71,292	7,116
2022	63,978	7,051
2023	56,958	6,077
Thereafter	168,637	20,021
<b>Total lease liabilities</b>	<b>451,452</b>	<b>48,859</b>
Less: Interest	68,146	14,677
<b>Present value of lease liabilities<sup>(c)</sup></b>	<b>\$ 383,306</b>	<b>\$ 34,182</b>

(a) Operating lease payments include \$75.9 million related to options to extend lease terms that are reasonably certain of being exercised.

(b) Finance lease payments include \$1.1 million related to options to extend lease terms that are reasonably certain of being exercised.

(c) The present value of lease liabilities excludes \$19.1 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
	<b>\$ 407,045</b>

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, \$14.9 million and \$13.9 million during the fiscal years ended 2018, 2017 and 2016, respectively.

**9. Commitments and Contingencies***Other Agreements*

In the fourth quarter of 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 vendor, including a cloud computing service arrangement. As a result, as previously disclosed, this arrangement includes minimum purchase commitments of approximately \$30.0 million over the four year term. Additionally, during the nine months ended September 28, 2019, we entered into minimum purchase commitments with our trade vendors of approximately \$17.0 million annually through 2021.

*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.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**9. Commitments and Contingencies (continued)**

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.

On January 29, 2016, FirstSight, our wholly-owned specialized health maintenance organization, was named as a defendant in a proposed class action filed on behalf of all persons who paid for an eye examination from an optometrist at a Walmart location in California from November 5, 2009 through the date of the resolution of the litigation. The complaint alleges in particular that FirstSight participated in arrangements that caused the illegal delivery of eye examinations to the plaintiffs, and that FirstSight thereby violated, among other statutes, the Unfair Competition and False Advertising laws of California. In March 2017, the Court granted a motion to dismiss previously filed by FirstSight. The plaintiffs filed an appeal to 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 seeking, among other claims, unspecified damages and attorneys' fees, and in November 2018, FirstSight filed a motion to dismiss. The Company believes that the claims are without merit and intends to continue to vigorously defend the litigation.

In May 2017, a complaint (the "1-800 Contacts Matter") was filed against the Company 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, the Company's subsidiary, to suppress certain online advertising and that each defendant thereby engaged in anticompetitive conduct in violation of the Sherman Antitrust Act. The Company has settled the 1-800 Contacts Matter for \$7.0 million, without admitting liability. Accordingly, the Company recorded a charge for this amount 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, the Company deposited 50% of the settlement amount, or \$3.5 million, into an escrow account, to be distributed subject to and in accordance with 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. Mediation has been scheduled in the first quarter of 2020. The Company continues to believe that the plaintiff's amended complaint lacks merit and will vigorously defend the litigation.

**10. Segment Reporting**

The Company provides its principal products and services through two reportable segments: Owned & Host and Legacy. The "Corporate/Other" category includes the results of operations of our other operating segments, AC Lens and FirstSight, as well as 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.

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**10. Segment Reporting (continued)**

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 condensed consolidated financial statements, except for net revenue and associated costs applicable to 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 chief operating decision maker (“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. 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. We measure assets in our reportable segments on the same basis as 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. As the reportable segments are aligned by similar economic factors, trends and customers, this disaggregation view best depicts how the nature, amount, and uncertainty of revenue and cash flows are affected by economic factors.

<i>In thousands</i>	Three Months Ended September 28, 2019				
	Owned & Host	Legacy	Corporate/Other	Reconciliations	Total
Segment product revenues	\$ 270,171	\$ 25,252	\$ 63,173	\$ (2,807)	\$ 355,789
Segment services and plans revenues	63,267	14,103	1	(1,258)	76,113
Total net revenue	333,438	39,355	63,174	(4,065)	431,902
Cost of products	77,670	11,681	55,684	(517)	144,518
Cost of services and plans	53,465	6,519	—	—	59,984
Total costs applicable to revenue	131,135	18,200	55,684	(517)	204,502
SG&A	128,054	13,920	48,316	—	190,290
Asset impairment	—	—	3,516	—	3,516
Other expense, net	—	—	146	—	146
Loss on extinguishment of debt	—	—	9,786	—	9,786
EBITDA	\$ 74,249	\$ 7,235	\$ (54,274)	\$ (3,548)	23,662
Depreciation and amortization					22,336
Interest expense, net					7,873
Loss before income taxes					\$ (6,547)



**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**10. Segment Reporting (continued)**

<i>In thousands</i>	Three Months Ended September 29, 2018				
	Owned & Host	Legacy	Corporate/Other	Reconciliations	Total
Segment product revenues	\$ 240,882	\$ 24,739	\$ 53,286	\$ 405	\$ 319,312
Segment services and plans revenues	55,673	12,489	912	(961)	68,113
Total net revenue	296,555	37,228	54,198	(556)	387,425
Cost of products	72,532	11,328	46,881	210	130,951
Cost of services and plans	45,581	5,124	932	—	51,637
Total costs applicable to revenue	118,113	16,452	47,813	210	182,588
SG&A	118,988	13,621	52,419	—	185,028
Asset impairment	—	—	2,137	—	2,137
Other expense, net	—	—	411	—	411
EBITDA	<u>\$ 59,454</u>	<u>\$ 7,155</u>	<u>\$ (48,582)</u>	<u>\$ (766)</u>	<u>17,261</u>
Depreciation and amortization					19,344
Interest expense, net					9,407
Loss before income taxes					<u>\$ (11,490)</u>

<i>In thousands</i>	Nine Months Ended September 28, 2019				
	Owned & Host	Legacy	Corporate/Other	Reconciliations	Total
Segment product revenues	\$ 827,957	\$ 81,178	\$ 189,389	\$ (2,042)	\$ 1,096,482
Segment services and plans revenues	191,117	42,019	12	(7,062)	226,086
Total net revenue	1,019,074	123,197	189,401	(9,104)	1,322,568
Costs of products	239,975	38,123	166,533	(454)	444,177
Costs of services and plans	155,710	19,090	1	—	174,801
Total costs applicable to revenue	395,685	57,213	166,534	(454)	618,978
SG&A	387,345	42,041	137,058	—	566,444
Asset impairment	—	—	7,387	—	7,387
Other expense, net	—	—	975	—	975
Loss on extinguishment of debt	—	—	9,786	—	9,786
EBITDA	<u>\$ 236,044</u>	<u>\$ 23,943</u>	<u>\$ (132,339)</u>	<u>\$ (8,650)</u>	<u>118,998</u>
Depreciation and amortization					63,570
Interest expense, net					25,902
Income before income taxes					<u>\$ 29,526</u>

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**10. Segment Reporting (continued)**

<i>In thousands</i>	Nine Months Ended September 29, 2018				
	Owned & Host	Legacy	Corporate/Other	Reconciliations	Total
Segment product revenues	\$ 738,886	\$ 80,004	\$ 153,856	\$ 4,751	\$ 977,497
Segment services and plans revenues	167,679	39,088	2,939	(6,271)	203,435
Total net revenue	906,565	119,092	156,795	(1,520)	1,180,932
Costs of products	217,195	36,356	134,731	1,278	389,560
Costs of services and plans	132,708	14,965	2,868	—	150,541
Total costs applicable to revenue	349,903	51,321	137,599	1,278	540,101
SG&A	351,019	40,519	129,806	—	521,344
Asset impairment	—	—	2,137	—	2,137
Other expense, net	—	—	829	—	829
EBITDA	\$ 205,643	\$ 27,252	\$ (113,576)	\$ (2,798)	116,521
Depreciation and amortization					54,783
Interest expense, net					28,144
Income before income taxes					\$ 33,594

Revenues associated with managing operations of our legacy partner were \$9.3 million and \$27.5 million for the three and nine months ended September 28, 2019, respectively and \$8.6 million and \$27.0 million for the three and nine months ended September 29, 2018, respectively. During the nine months ended September 28, 2019, sales associated with our legacy partner arrangement represented 9.3% of consolidated net revenue. This exposes us to concentration of customer risk.

**11. 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 common shares outstanding for the period and includes the dilutive impact of potential new common 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>	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	\$ 1,192	\$ 5,171	\$ 28,879	\$ 42,093
Weighted average shares outstanding for basic EPS	78,474	76,118	78,387	75,361
<b>Effect of dilutive securities:</b>				
Stock options	3,024	3,485	3,074	3,119
Restricted stock	63	107	49	91
Weighted average shares outstanding for diluted EPS	81,561	79,710	81,510	78,571
Basic EPS	\$ 0.02	\$ 0.07	\$ 0.37	\$ 0.56
Diluted EPS	\$ 0.01	\$ 0.06	\$ 0.35	\$ 0.54
Anti-dilutive options, RSUs outstanding excluded from EPS	315	—	289	—

**National Vision Holdings, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**12. Accumulated Other Comprehensive Loss**

Changes in the fair value of the Company's cash flow hedge derivative instruments since inception are recorded in AOCL. The following table presents the changes in AOCL during the three and nine months ended September 28, 2019 and September 29, 2018, respectively:

<i>In thousands</i>	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Cash flow hedging activity:</b>				
Balance at beginning of period	\$ (5,427)	\$ (2,746)	\$ (2,810)	\$ (9,868)
Other comprehensive income (loss) before reclassification	(439)	854	(5,760)	6,696
Tax effect of other comprehensive income (loss) before reclassification	112	(218)	1,476	(1,715)
Amount reclassified from AOCL into interest expense	1,120	1,413	2,922	5,146
Tax effect of amount reclassified from AOCL into interest expense	(287)	(362)	(749)	(1,318)
Net current period other comprehensive income (loss), net of tax	506	1,687	(2,111)	8,809
Balance at end of period	\$ (4,921)	\$ (1,059)	\$ (4,921)	\$ (1,059)

See Note 3. "Fair Value Measurements of Financial Assets and Liabilities" for a description of the Company's use of cash flow hedging derivatives.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following contains management's discussion and analysis of our financial condition and results of operations and should be read together with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Form 10-Q and the audited consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 27, 2019 (the "Annual Report"). 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 of the Annual Report 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-Q.*

### 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 cost-conscious and low-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 1,145 retail stores across five brands and 19 consumer websites as of September 28, 2019.

Our operations consist of two reportable segments:

- **Owned & Host** - As of September 28, 2019, our owned brands consisted of 718 America's Best Contacts and Eyeglasses ("America's Best") retail stores and 118 Eyeglass World retail stores. In America's Best stores, vision care services are provided by optometrists employed by us or by independent professional corporations. America's Best stores are primarily located in high-traffic strip centers next to nationally-known discount retailers. Eyeglass World locations primarily feature vision care services provided by independent optometrists 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-suite 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 September 28, 2019. We have strong, long-standing relationships with our host partners and have maintained each partnership for over 19 years. These brands provide eye exams principally 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 September 28, 2019. Under our management & services agreement with Walmart, 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 doctors or doctors employed by us or by independent professional corporations. During the nine months ended September 28, 2019, sales associated with our legacy partner arrangement represented 9.3% of consolidated net revenue. This exposes us to concentration of customer risk. Our agreements with our legacy partner expire on August 23, 2020, and will automatically renew for a three-year period unless a party elects not to renew.

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.
- 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 10. “Segment Reporting” in our condensed consolidated financial statements included in Part I. Item 1. of this Form 10-Q.

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 the last week 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 store opening date, 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 substantial 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 systems. 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 vision care professionals;
- the availability of optometrist 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 thirteenth 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. 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 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.

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 optometric labs is located in China. Historically, tariffs have not materially affected our financial results, and we believe that less than 16% 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. While costs with respect to products subject to these tariffs have increased, we have implemented mitigation plans and continue to focus on additional mitigation strategies to offset the impact of tariffs. 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.

### *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 fiscal quarter, and a lower portion of net revenue, operating income, and cash flows from operations in the fourth fiscal quarter. The seasonally larger first quarter 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 cost-conscious and low-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 25 of each year. Additionally, although the period between December 25 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 of the next fiscal year due to our policy of recognizing revenue only after the product has been accepted by the customer.

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*

The recently completed merger of large, global competitors and other 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 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 Expenses*

Selling, general and administrative expenses, or SG&A, include store associate (including optician) payroll, taxes and benefits, occupancy, advertising and promotion, field supervision, 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 ignored 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, asset impairment, new store pre-opening expenses, non-cash rent, secondary offering expenses, management realignment expense, long-term incentive plan expense, loss on extinguishment of debt 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, asset impairment, new store pre-opening expenses, non-cash rent, secondary offering expenses, management realignment expense, long-term incentive plan expense, loss on extinguishment of debt, other expenses, amortization of acquisition intangibles and deferred financing costs, the tax benefit of stock option exercises, effect of the Tax Cuts and Jobs Act, and the tax effect of adjustments. Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted Net Income are key metrics 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 store data</i>	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Revenue:</b>				
Net product sales	\$ 355,789	\$ 319,312	\$ 1,096,482	\$ 977,497
Net sales of services and plans	76,113	68,113	226,086	203,435
Total net revenue	431,902	387,425	1,322,568	1,180,932
<b>Costs applicable to revenue (exclusive of depreciation and amortization):</b>				
Products	144,518	130,951	444,177	389,560
Services and plans	59,984	51,637	174,801	150,541
Total costs applicable to revenue	204,502	182,588	618,978	540,101
<b>Operating expenses:</b>				
Selling, general and administrative	190,290	185,028	566,444	521,344
Depreciation and amortization	22,336	19,344	63,570	54,783
Asset impairment	3,516	2,137	7,387	2,137
Other expense, net	146	411	975	829
Total operating expenses	216,288	206,920	638,376	579,093
Income (loss) from operations	11,112	(2,083)	65,214	61,738
Interest expense, net	7,873	9,407	25,902	28,144
Loss on extinguishment of debt	9,786	—	9,786	—
Earnings (loss) before income taxes	(6,547)	(11,490)	29,526	33,594
Income tax provision (benefit)	(7,739)	(16,661)	647	(8,499)
Net income	\$ 1,192	\$ 5,171	\$ 28,879	\$ 42,093
<b>Operating data:</b>				
Number of stores open at end of period	1,145	1,067	1,145	1,067
New stores opened	17	18	67	58
Adjusted EBITDA	\$ 47,937	\$ 38,440	\$ 161,073	\$ 145,648

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Percentage of net revenue:</b>				
Total costs applicable to revenue	47.3%	47.1 %	46.8%	45.7%
Selling, general and administrative	44.1%	47.8 %	42.8%	44.1%
Total operating expenses	50.1%	53.4 %	48.3%	49.0%
Income (loss) from operations	2.6%	(0.5)%	4.9%	5.2%
Net income	0.3%	1.3 %	2.2%	3.6%
Adjusted EBITDA	11.1%	9.9 %	12.2%	12.3%

**Three Months Ended September 28, 2019 compared to Three Months Ended September 29, 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 the three months ended September 28, 2019 compared to the three months ended September 29, 2018.

<i>In thousands, except percentage and store data</i>	Comparable store sales growth <sup>(1)</sup>		Stores open at end of period		Net revenue <sup>(2)</sup>			
	Three Months Ended September 28, 2019	Three Months Ended September 29, 2018	September 28, 2019	September 29, 2018	Three Months Ended September 28, 2019		Three Months Ended September 29, 2018	
<b>Owned &amp; Host segment</b>								
America's Best	6.7 %	8.4 %	718	643	\$ 279,883	64.8 %	\$ 246,414	63.6 %
Eyeglass World	5.2 %	8.9 %	118	113	44,178	10.2 %	40,733	10.5 %
Military	2.5 %	(2.4)%	54	55	6,097	1.4 %	6,032	1.6 %
Fred Meyer	(2.8)%	(5.7)%	29	29	3,280	0.8 %	3,376	0.9 %
Owned & Host segment total			919	840	\$ 333,438	77.2 %	\$ 296,555	76.6 %
<b>Legacy segment</b>	5.7 %	0.0 %	226	227	39,355	9.1 %	37,228	9.6 %
<b>Corporate/Other</b>	— %	— %	—	—	63,174	14.6 %	54,198	13.9 %
<b>Reconciliations</b>	— %	— %	—	—	(4,065)	(0.9)%	(556)	(0.1)%
Total	5.7 %	7.0 %	1,145	1,067	\$ 431,902	100.0 %	\$ 387,425	100.0 %
Adjusted comparable store sales growth <sup>(3)</sup>	6.2 %	6.8 %						

(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 10. "Segment Reporting" in our unaudited condensed consolidated financial statements included in Part I. Item 1. of this Form 10-Q, 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 an increase of 0.6% and a decrease of 0.1% from total comparable store sales growth based on consolidated net revenue for the three months ended September 28, 2019 and September 29, 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 0.1% from total comparable store sales growth based on consolidated net revenue for each of the three months ended September 28, 2019 and September 29, 2018.

Total net revenue of \$431.9 million for the three months ended September 28, 2019 increased \$44.5 million, or 11.5%, from \$387.4 million for the three months ended September 29, 2018. This increase was driven approximately 50% by comparable store sales growth, approximately 40% by new stores, and approximately 10% by order volume in our AC Lens business.

In the three months ended September 28, 2019, we opened 17 new stores, including 16 America's Best stores and one Eyeglass World store. Overall, store count grew 7.3% from September 29, 2018 to September 28, 2019 (75 and five net new America's Best and Eyeglass World stores were added, respectively, and one Military store and one legacy store closed during that same period).

Comparable store sales growth and adjusted comparable store sales growth were 5.7% and 6.2%, respectively, for the three months ended September 28, 2019. Comparable store sales growth and adjusted comparable store sales growth were primarily driven by increases in average ticket and customer transactions. The increases in net revenue were primarily due to execution of our key strategies, including new store openings and maturation, advertising, expansion of our participation in managed care programs and the recent expansion of our AC Lens contact lens distribution business with Walmart.

Net product sales comprised 82.4% and 82.4% of total net revenue for the three months ended September 28, 2019 and September 29, 2018, respectively. Net product sales increased \$36.5 million, or 11.4%, in the three months ended September 28, 2019 compared to the three months ended September 29, 2018, driven primarily by eyeglass sales and, to a lesser extent, growth in our contact lens sales and AC Lens contact lens distribution business. Net sales of services and plans increased \$8.0 million, or 11.7%, driven primarily by eye exam sales in our owned & host segment resulting from expanding 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 of \$0.9 million in legacy segment eye exam revenue and optometrist payroll costs, in the three months ended September 28, 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 \$36.9 million, or 12.4%, due to comparable store sales growth and new store openings 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 increased \$2.1 million, or 5.7%, primarily driven by higher exam sales and an increase in average ticket. 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 200 basis points in comparable store sales growth in this segment.

*Corporate/Other segment net revenue.* Net revenue increased \$9.0 million, or 16.6%, driven by growth in our AC Lens contact lens distribution business and our online retail business, which was partially offset by a \$0.9 million reduction in sales as a result of the FirstSight operations changes discussed above.

*Net revenue reconciliations.* Reconciliations include increases in deferred revenue of \$1.3 million and \$1.0 million, and increases in unearned revenue of \$2.8 million and decreases in unearned revenue of \$0.4 million for the three months ended September 28, 2019 and September 29, 2018, respectively. The increase in deferred revenue for the three months ended September 28, 2019 was driven by growth in product protection plans and eye care club membership sales.

Differences between the changes in unearned revenue for the three months ended September 28, 2019 and September 29, 2018 were primarily the result of volume differences in sales of prescription eyewear during the last week to 10 days of the current quarters compared to the preceding quarters (i.e. three months ending June 29, 2019 and June 30, 2018, respectively), and to a lesser extent, an increase in the average length of time from customer purchase to customer pickup in the three months ending September 28, 2019 compared to September 29, 2018.

#### *Costs applicable to revenue*

Costs applicable to revenue of \$204.5 million for the three months ended September 28, 2019 increased \$21.9 million, or 12.0%, from \$182.6 million for the three months ended September 29, 2018. As a percentage of net revenue, costs applicable to revenue increased from 47.1% for the three months ended September 29, 2018 to 47.3% for the three months ended September 28, 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 a 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 decreased from 41.0% for the three months ended September 29, 2018 to 40.6% for the three months ended September 28, 2019, primarily driven by higher eyeglass margin partially offset by growth in the AC Lens business. Our AC Lens net revenue grew faster than our store brands in the three months ended September 28, 2019, and AC Lens had a higher cost of products as a percentage of net revenue than our store brands.

*Owned & Host segment costs of products.* Costs of products as a percentage of net product sales decreased from 30.1% for the three months ended September 29, 2018 to 28.7% for the three months ended September 28, 2019. The decrease was primarily driven by higher eyeglass margin in the three months ended September 28, 2019.

*Legacy segment costs of products.* Costs of products as a percentage of net product sales increased from 45.8% for the three months ended September 29, 2018 to 46.3% for the three months ended September 28, 2019. The increase was primarily driven by a higher mix of non-managed care customer transactions versus managed care customer transactions. Legacy segment managed care net product revenue is recorded in net product sales while revenue associated with servicing non-managed care customers is recorded in net sales of services and plans. Eyeglass and contact lens product costs for both managed care and non-managed care net revenue are recorded in costs of products. Decreases in managed care mix increase costs of products as a percentage of net product sales and have a corresponding positive impact on costs of services as a percentage of net sales of services and plans in our Legacy segment.

Costs of services and plans as a percentage of net sales of services and plans increased from 75.8% for the three months ended September 29, 2018 to 78.8% for the three months ended September 28, 2019. 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 planned increases in store coverage and to a lesser extent wage pressure 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 81.9% for the three months ended September 29, 2018 to 84.5% for the three months ended September 28, 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.

*Legacy segment costs of services and plans.* Costs of services and plans as a percentage of net sales of services and plans increased from 41.0% for the three months ended September 29, 2018 to 46.2% for the three months ended September 28, 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 in "Net Revenue" above.

#### *Selling, general and administrative*

SG&A of \$190.3 million for the three months ended September 28, 2019 increased \$5.3 million, or 2.8%, from the three months ended September 29, 2018. As a percentage of net revenue, SG&A decreased from 47.8% for the three months ended September 29, 2018 to 44.1% for the three months ended September 28, 2019. The decrease in SG&A as a percentage of net revenue was primarily due to lower stock compensation expense and cash expenses pursuant to a long-term incentive plan for non-executive employees, increased net revenue from our AC Lens contact lens distribution business growth and store payroll and advertising leverage.

*Owned & Host SG&A.* SG&A as a percentage of net revenue was 38.4% for the three months ended September 28, 2019 compared to 40.1% for the three months ended September 29, 2018, driven primarily by store payroll and advertising leverage.

*Legacy segment SG&A.* SG&A as a percentage of net revenue decreased from 36.6% for the three months ended September 29, 2018 to 35.4% for the three months ended September 28, 2019, driven primarily by store payroll leverage.

#### *Depreciation and amortization*

Depreciation and amortization expense of \$22.3 million for the three months ended September 28, 2019 increased \$3.0 million, or 15.5%, from \$19.3 million for the three months ended September 29, 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. Beginning in 2015, we accelerated our unit growth to approximately 75 new stores annually. We also invested in more efficient lab and IT technology to support our growth. Many of these incremental investments have depreciable lives of five to eight years; 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 to be finance leases, further increasing depreciation expense on finance lease assets. Our property and equipment balance, net, decreased \$7.9 million, or 2.1%, during the three months ended September 28, 2019, reflective of \$20.9 million in purchases of property and equipment less \$20.5 million in depreciation expense and \$8.3 million in impairment and other adjustments.

### Asset Impairment

We identified indicators of impairment of certain stores and recorded \$3.5 million and \$2.1 million of related asset impairment charges during the three months ended September 28, 2019 and September 29, 2018, respectively, in Corporate/Other. These increased impairment charges were primarily related to our Owned & Host segment, caused 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.

### Interest expense, net

Interest expense, net, of \$7.9 million for the three months ended September 28, 2019 decreased \$1.5 million, or 16.3%, from \$9.4 million for the three months ended September 29, 2018. Interest expense decreased \$1.8 million from the July 18, 2019 and October 9, 2018 refinancing impacts and the credit rating upgrades received during the third quarter of 2018 and the first quarter of 2019. These reductions were partially offset by \$0.3 million in additional interest expense relating to finance lease obligations during the three months ended September 28, 2019.

### Income tax provision

Our income tax expense for the three months ended September 28, 2019 reflected our combined statutory federal and state rate of 25.6%, offset by a discrete benefit of \$6.3 million associated primarily with the exercise of stock options. During the three months ended September 29, 2018, our expected combined statutory federal and state rate was reduced by a \$13.9 million income tax benefit resulting from stock option exercises.

## Nine Months Ended September 28, 2019 compared to Nine Months Ended September 29, 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 the nine months ended September 28, 2019 compared to the nine months ended September 29, 2018.

In thousands, except percentage and store data	Comparable store sales growth <sup>(1)</sup>		Stores open at end of period		Net revenue <sup>(2)</sup>			
	Nine Months Ended September 28, 2019	Nine Months Ended September 29, 2018	September 28, 2019	September 29, 2018	Nine Months Ended September 28, 2019		Nine Months Ended September 29, 2018	
<b>Owned &amp; Host segment</b>								
America's Best	6.5 %	7.6 %	718	643	\$ 851,759	64.4 %	\$ 749,896	63.5 %
EyeGlass World	5.7 %	8.2 %	118	113	138,451	10.5 %	126,620	10.7 %
Military	(0.7)%	(1.5)%	54	55	18,540	1.4 %	19,057	1.6 %
Fred Meyer	(6.1)%	1.9 %	29	29	10,324	0.8 %	10,992	0.9 %
Owned & Host segment total			919	840	\$ 1,019,074	77.1 %	\$ 906,565	76.7 %
<b>Legacy segment</b>	2.5 %	2.5 %	226	227	123,197	9.3 %	119,092	10.1 %
<b>Corporate/Other</b>	—	—	—	—	189,401	14.3 %	156,795	13.3 %
<b>Reconciliations</b>	—	—	—	—	(9,104)	(0.7)%	(1,520)	(0.1)%
Total	5.5 %	7.4 %	1,145	1,067	\$ 1,322,568	100.0 %	\$ 1,180,932	100.0 %
Adjusted comparable store sales growth <sup>(3)</sup>	5.6 %	6.6 %						

(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 10. "Segment Reporting" in our unaudited condensed consolidated financial statements included in Part I. Item 1. of this Form 10-Q, 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 an increase of 0.3% and a decrease of 0.7% from total comparable store sales growth based on consolidated net revenue for the nine months ended September 28, 2019 and September 29, 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% and 0.1% from total comparable store sales growth based on consolidated net revenue for the nine months ended September 28, 2019 and September 29, 2018, respectively.

Total net revenue of \$1,322.6 million for the nine months ended September 28, 2019 increased \$141.6 million, or 12.0%, from \$1,180.9 million for the nine months ended September 29, 2018. This increase was driven approximately 40% by new stores, approximately 40% by comparable store sales growth and approximately 20% by order volume in our AC Lens business within the corporate/other segment.

In the nine months ended September 28, 2019, we opened 67 new stores, including 63 America's Best stores and four Eyeglass World stores. Additionally, we closed two America's Best stores, one Eyeglass World store and one legacy store. Overall, store count grew 7.3% from September 29, 2018 to September 28, 2019 (75 and five net new America's Best and Eyeglass World stores were added, respectively, and one Military store and one legacy store closed during the same period). Comparable store sales growth and adjusted comparable store sales growth were 5.5% and 5.6%, respectively, for the nine months ended September 28, 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 role in our contact lens distribution business with Walmart.

Net product sales comprised 82.9% and 82.8% of total net revenue for the nine months ended September 28, 2019 and September 29, 2018, respectively. Net product sales increased \$119.0 million, or 12.2%, in the nine months ended September 28, 2019 compared to the nine months ended September 29, 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 \$22.7 million, or 11.1%, 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 \$2.7 million and \$2.9 million, respectively, in the nine months ended September 28, 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 \$112.5 million, or 12.4%, 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 \$4.1 million, or 3.4%, 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 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 190 basis points in comparable store sales growth in this segment.

*Corporate/Other segment net revenue.* Net revenue increased \$32.6 million, or 20.8%, driven by unit growth in our AC Lens contact lens distribution business and our online retail business, which was partially offset by a \$2.7 million reduction in sales as a result of the FirstSight operations changes discussed above.

*Net revenue reconciliations.* Reconciliations for the nine months ended September 28, 2019 and September 29, 2018 include increases in deferred revenue of \$7.1 million and \$6.3 million, respectively and increases in unearned revenue of \$2.0 million and decreases in unearned revenue of \$4.8 million, respectively. The increase in deferred revenue for the nine months ended September 28, 2019 was driven by growth in our product protection plans and eye care club membership sales.

Differences between the changes in unearned revenue for the nine months ended September 28, 2019 and September 29, 2018 were primarily the result of calendar influences on sales of prescription eyewear in our stores during the last week to 10 days of the current quarters compared to the preceding years. Unearned revenue was higher in December 2017 compared to December 2018 due to sales volume differences caused by shifts in the number of selling days after December 25. The higher opening balance for the nine months ended September 29, 2018 resulted in more unearned revenue being recognized during the nine months ended September 29, 2018 than for the nine months ended September 28, 2019.

#### *Costs applicable to revenue*

Costs applicable to revenue of \$619.0 million for the nine months ended September 28, 2019 increased \$78.9 million, or 14.6%, from \$540.1 million for the nine months ended September 29, 2018. As a percentage of net revenue, costs applicable to revenue increased from 45.7% for the nine months ended September 29, 2018 to 46.8% for the nine months ended September 28, 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 mix of exam sales as a result of the Company's growing managed care business and higher eyeglass margin 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 increased from 39.9% for the nine months ended September 29, 2018 to 40.5% for the nine months ended September 28, 2019, driven by our growing AC Lens business partially offset by higher eyeglass margin. Our AC Lens net revenue grew faster than our store brands in the nine months ended September 28, 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 the nine months ended September 29, 2018 to 29.0% for the nine months ended September 28, 2019 driven by higher eyeglass margin.

*Legacy segment costs of products.* Costs of products as a percentage of net product sales increased from 45.4% for the nine months ended September 29, 2018 to 47.0% for the nine months ended September 28, 2019. The increase was primarily driven by a higher mix of non-managed care customer transactions versus managed care customer transactions. Legacy segment managed care net product revenue is recorded in net product sales while revenue associated with servicing non-managed care customers is recorded in net sales of services and plans. Eyeglass and contact lens product costs for both managed care and non-managed care net revenue are recorded in costs of products. Decreases in managed care mix increase costs of products as a percentage of net product sales and have a corresponding positive impact on costs of services as a percentage of net sales of services and plans in our Legacy segment.

Costs of services and plans as a percentage of net sales of services and plans increased from 74.0% for the nine months ended September 29, 2018 to 77.3% for the nine months ended September 28, 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 79.1% for the nine months ended September 29, 2018 to 81.5% for the nine months ended September 28, 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.

*Legacy segment costs of services and plans.* Costs of services and plans as a percentage of net sales of services and plans increased from 38.3% for the nine months ended September 29, 2018 to 45.4% for the nine months ended September 28, 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 in "Net revenue" above.

#### *Selling, general and administrative*

SG&A of \$566.4 million for the nine months ended September 28, 2019 increased \$45.1 million, or 8.7%, from the nine months ended September 29, 2018. As a percentage of net revenue, SG&A decreased from 44.1% for the nine months ended September 29, 2018 to 42.8% for the nine months ended September 28, 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 and store payroll leverage.



*Owned & Host SG&A.* SG&A as a percentage of net revenue decreased from 38.7% for the nine months ended September 29, 2018 to 38.0% for the nine months ended September 28, 2019, driven primarily by store payroll leverage.

*Legacy segment SG&A.* SG&A as a percentage of net revenue increased from 34.0% for the nine months ended September 29, 2018 to 34.1% for the nine months ended September 28, 2019.

#### *Depreciation and amortization*

Depreciation and amortization expense of \$63.6 million for the nine months ended September 28, 2019 increased \$8.8 million, or 16.0%, from \$54.8 million for the nine months ended September 29, 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. Beginning in 2015, we accelerated our unit growth to approximately 75 new stores annually. We also invested in more efficient lab and IT 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 to be finance leases, further increasing depreciation expense on finance lease assets. Our property and equipment balance, net, increased \$17.0 million, or 4.8%, during the nine months ended September 28, 2019, reflective of \$76.2 million in purchases of property and equipment, \$9.6 million in new finance leases, less \$57.8 million in depreciation expense and \$11.1 million in impairment and other adjustments.

#### *Asset Impairment*

We identified indicators of impairment of certain stores and recorded \$7.4 million and \$2.1 million of related asset impairment charges during the nine months ended September 28, 2019 and September 29, 2018, respectively, in Corporate/Other. Impairment charges increased \$5.3 million reflective of \$0.7 million ROU asset impairment and \$4.6 million of long-lived asset impairment. These increased impairment charges were primarily related to our Owned & Host segment, 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.

#### *Interest expense, net*

Interest expense, net, of \$25.9 million for the nine months ended September 28, 2019 decreased \$2.2 million, or 8.0%, from \$28.1 million for the nine months ended September 29, 2018. Interest expense decreased \$3.4 million from the July 18, 2019 and October 9, 2018 refinancing impacts and the credit rating upgrades received during the third quarter of 2018 and the first quarter of 2019 and from a decrease in the notional amount of our derivatives during the first quarter of 2019. These reductions were partially offset by \$1.2 million in additional interest expense relating to finance lease obligations during the nine months ended September 28, 2019.

#### *Income tax provision*

Our income tax expense for the nine months ended September 28, 2019 reflected income tax expense at our statutory federal and state rate of 25.6%, offset by a discrete benefit of \$7.7 million associated primarily with the exercise of stock options. During the nine months ended September 29, 2018, our expected combined statutory federal and state rate was reduced by an \$18.0 million income tax benefit 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 and depreciation and amortization. We define Adjusted EBITDA as EBITDA, further adjusted to exclude stock compensation expense, asset impairment, new store pre-opening expenses, non-cash rent, secondary offering expenses, management realignment expenses, long-term incentive plan expense, loss on extinguishment of debt 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, asset impairment, new store pre-opening expenses, non-cash rent, secondary offering expenses, management realignment expenses, long-term incentive plan expense, loss on extinguishment of debt, other expenses, amortization of acquisition intangibles and deferred financing costs, the tax benefit of stock option exercises and 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>	Three Months Ended				Nine Months Ended			
	September 28, 2019		September 29, 2018		September 28, 2019		September 29, 2018	
Net income	\$ 1,192	0.3%	\$ 5,171	1.3%	\$ 28,879	2.2%	\$ 42,093	3.6%
Interest expense	7,873	1.8%	9,407	2.4%	25,902	2.0%	28,144	2.4%
Income tax provision (benefit)	(7,739)	(1.8)%	(16,661)	(4.3)%	647	—%	(8,499)	(0.7)%
Depreciation and amortization	22,336	5.2%	19,344	5.0%	63,570	4.8%	54,783	4.6%
<b>EBITDA</b>	<b>23,662</b>	<b>5.5%</b>	<b>17,261</b>	<b>4.5%</b>	<b>118,998</b>	<b>9.0%</b>	<b>116,521</b>	<b>9.9%</b>
Stock compensation expense <sup>(a)</sup>	6,123	1.4%	10,629	2.7%	10,840	0.8%	13,749	1.2%
Loss on extinguishment of debt <sup>(b)</sup>	9,786	2.3%	—	—%	9,786	0.7%	—	—%
Asset impairment <sup>(c)</sup>	3,516	0.8%	2,137	0.6%	7,387	0.6%	2,137	0.2%
New store pre-opening expenses <sup>(d)</sup>	848	0.2%	512	0.1%	2,862	0.2%	1,742	0.1%
Non-cash rent <sup>(e)</sup>	537	0.1%	661	0.2%	2,386	0.2%	1,934	0.2%
Secondary offering expenses <sup>(f)</sup>	401	0.1%	702	0.2%	406	—%	1,842	0.2%
Management realignment expenses <sup>(g)</sup>	—	—%	—	—%	2,155	0.2%	—	—%
Long-term incentive plan expense <sup>(h)</sup>	1,108	0.3%	4,611	1.2%	1,830	0.1%	4,611	0.4%
Other <sup>(i)</sup>	1,956	0.5%	1,927	0.5%	4,423	0.3%	3,112	0.3%
<b>Adjusted EBITDA/ Adjusted EBITDA Margin</b>	<b>\$ 47,937</b>	<b>11.1%</b>	<b>\$ 38,440</b>	<b>9.9%</b>	<b>\$ 161,073</b>	<b>12.2%</b>	<b>\$ 145,648</b>	<b>12.3%</b>

Note: Percentages reflect line item as a percentage of net revenue, adjusted for rounding.  
Some of the percentage totals in the table above do not foot due to rounding differences

<i>In thousands</i>	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	\$ 1,192	\$ 5,171	\$ 28,879	\$ 42,093
Stock compensation expense <sup>(a)</sup>	6,123	10,629	10,840	13,749
Loss on extinguishment of debt <sup>(b)</sup>	9,786	—	9,786	—
Asset impairment <sup>(c)</sup>	3,516	2,137	7,387	2,137
New store pre-opening expenses <sup>(d)</sup>	848	512	2,862	1,742
Non-cash rent <sup>(e)</sup>	537	661	2,386	1,934
Secondary offering expenses <sup>(f)</sup>	401	702	406	1,842
Management realignment expenses <sup>(g)</sup>	—	—	2,155	—
Long-term incentive plan expense <sup>(h)</sup>	1,108	4,611	1,830	4,611
Other <sup>(i)</sup>	1,956	1,927	4,423	3,112
Amortization of acquisition intangibles and deferred financing costs <sup>(i)</sup>	2,031	2,279	6,625	6,840
Tax benefit of stock option exercises <sup>(k)</sup>	(6,303)	(13,900)	(7,683)	(17,966)
Tax effect of total adjustments <sup>(l)</sup>	(6,734)	(6,005)	(12,467)	(9,207)
<b>Adjusted Net Income</b>	<b>\$ 14,461</b>	<b>\$ 8,724</b>	<b>\$ 57,429</b>	<b>\$ 50,887</b>

(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) Reflects write-off of deferred financing fees related to the extinguishment of debt.

- (c) Reflects write-off of property and equipment on closed or underperforming stores for the three and nine months ended September 28, 2019.
- (d) 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 and are not indicative of ongoing core operating performance. We adjust for these costs to facilitate comparisons of store operating performance from period to period.
- (e) 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.
- (f) Expenses related to our secondary public offerings for the three and nine months ended September 28, 2019 and September 29, 2018, respectively.
- (g) Expenses related to a non-recurring management realignment described in the current report on Form 8-K filed with the SEC on January 10, 2019.
- (h) Expenses pursuant to a long-term incentive plan for non-executive employees who were not participants in the management equity plan. This plan was effective in 2014 following the acquisition of the Company by affiliates of KKR & Co. Inc. (the "KKR Acquisition").
- (i) 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 \$0.2 million and \$0.4 million for the three months ended September 28, 2019 and September 29, 2018 and \$1.2 million and \$1.0 million for the nine months ended September 28, 2019 and September 29, 2018, respectively; the amortization impact of the KKR Acquisition-related adjustments (e.g., fair value of leasehold interests) of \$0.1 million and \$0.2 million for the three months ended September 28, 2019 and September 29, 2018 and \$0.3 million for each of the nine months ended September 28, 2019 and September 29, 2018; differences between the timing of expense versus cash payments related to contributions to charitable organizations of \$(0.3) million and \$(0.8) million for the three and nine months ended September 29, 2018, respectively; costs of severance and relocation of \$1.0 million and \$0.3 million for the three months ended September 28, 2019 and September 29, 2018, respectively and \$1.8 million and \$0.9 million for the nine months ended September 28, 2019 and September 29, 2018, respectively; excess payroll taxes related to stock option exercises of \$0.5 million and \$0.9 million for the three months ended September 28, 2019 and September 29, 2018, respectively and \$0.6 million and \$1.2 million for the nine months ended September 28, 2019 and September 29, 2018, respectively; and other expenses and adjustments totaling \$0.2 million and \$0.4 million for the three months ended September 28, 2019 and September 29, 2018, respectively and \$0.5 million for each of the nine months ended September 28, 2019 and September 29, 2018.
- (j) Amortization of the increase in carrying values of definite-lived intangible assets resulting from the application of purchase accounting to the KKR Acquisition of \$1.9 million for each of the three months ended September 28, 2019 and September 29, 2018, and \$5.6 million for each of the nine months ended September 28, 2019 and September 29, 2018. Amortization of deferred financing costs is primarily 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 \$0.2 million and \$0.4 million for the three months ended September 28, 2019 and September 29, 2018 and \$1.1 million and \$1.3 million for the nine months ended September 28, 2019 and September 29, 2018, respectively.
- (k) 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.
- (l) 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. 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 quarter. 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 September 28, 2019, we had \$94.1 million in cash and cash equivalents and \$146.5 million of availability under our revolving credit facility, which includes \$5.5 million in outstanding letters of credit.

We purchased \$76.5 million in capital items in the nine months ended September 28, 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). We plan on opening approximately 75 stores during fiscal year 2019 (inclusive of the 67 new stores opened through September 28, 2019). 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>	Nine Months Ended	
	September 28, 2019	September 29, 2018
Cash flows provided by (used for):		
Operating activities	\$ 170,938	\$ 115,952
Investing activities	(75,908)	(78,677)
Financing activities	(17,742)	7,601
Net increase in cash, cash equivalents and restricted cash	\$ 77,288	\$ 44,876

#### *Net Cash Provided by Operating Activities*

Cash flows provided by operating activities increased \$55.0 million from \$116.0 million during the nine months ended September 29, 2018 to \$170.9 million for the nine months ended September 28, 2019. Net income decreased \$13.2 million, primarily due to an increase in non-cash expense items, such as depreciation and amortization, asset impairment, and loss on extinguishment of debt. The impact of reduced net income was more than offset by an increase in non-cash expense items resulting in an increase to cash of \$32.3 million including loss on extinguishment of debt of \$9.8 million, deferred income tax expense of \$9.3 million, depreciation and amortization of \$8.8 million, and asset impairment charges of \$5.3 million.

Decreases in net working capital and other assets and liabilities contributed \$35.9 million in cash compared to the nine months ended September 29, 2018. Increases in other liabilities contributed \$11.2 million in year-over-year cash, primarily related to increases in compensation accruals due to the number of payroll days accrued. Decreases in other assets contributed \$11.0 million in year-over-year cash, primarily the result of decreases in prepaid advertising and rent-related items. Decreases in inventory contributed \$11.7 million in year-over-year cash, primarily related to the sale of late 2018 forward buys. Additionally, increases in accounts payable during the nine months ended September 28, 2019 contributed \$6.5 million in year-over-year cash, primarily due to timing of payments.

Off-setting these items was a \$5.4 million reduction in year-over-year cash related to increases in accounts receivable balances, reflective of year-over-year increases in the growth of our participation in managed care programs, increases in our contact lens distribution business with other major retailers, and increases in receivables for tenant improvements.

#### *Net Cash Used for Investing Activities*

Net cash used for investing activities decreased by \$2.8 million, to \$75.9 million, during the nine months ended September 28, 2019 from \$78.7 million during the nine months ended September 29, 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 Provided By (Used For) Financing Activities*

Net cash provided by (used for) financing activities decreased \$25.3 million, from \$7.6 million provision of cash to \$17.7 million use of cash during the nine months ended September 28, 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 \$25.0 million during the nine months ended September 28, 2019.

#### *Debt*

On July 18, 2019 (the "Closing Date"), we amended and restated 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, pursuant to a 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").

Pursuant to the Restatement Agreement, the initial new Applicable Margins are (i) 1.50% for the new first lien term loans that are LIBOR Loans and (ii) 0.50% for the new first lien term loans that are 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. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Credit Agreement and Restatement Agreement, as applicable, included in Exhibit 10.1 of Form 10-Q filed with the SEC on August 6, 2019.

As of September 28, 2019, we had \$420.0 million of first lien term loans outstanding under our Credit Agreement. As of September 28, 2019, we also had a \$300.0 million revolving credit facility with \$148.0 million outstanding, \$5.5 million in outstanding letters of credit, and \$146.5 million of additional availability. As of September 28, 2019, we were in compliance with all of our debt covenants under the Credit Agreement. Effective October 31, 2019, the Company used cash on hand to make a \$25.0 million voluntary prepayment of outstanding principal under the first lien term loans of the Credit Agreement.

In the event that LIBOR is phased out as is currently expected, the Credit Agreement provides that the Company and the administrative agent may amend such Credit Agreement to replace the LIBOR definition with a successor rate based on prevailing market convention, subject to notifying the lending syndicate of such change and not receiving within five business days of such notification written objections to such replacement rate form, with respect to any class of loans under the Credit Agreement, lenders holdings at least a majority of the aggregate principal amount of loans and commitments then outstanding in each class. The consequences of these developments cannot be entirely predicted, but could include an increase in the interest cost of our variable rate indebtedness.

#### **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 marketing and promotional commitments, or commitments to philanthropic endeavors. We have disclosed the amount of future commitments associated with these items in our fiscal year 2018 annual consolidated financial statements filed on the Form 10-K. We were not a party to any other off-balance sheet arrangements during the nine months ended September 28, 2019.

#### **Contractual Obligations**

During the nine months ended September 28, 2019, we entered into minimum purchase commitments with our trade vendors of approximately \$17.0 million annually through 2021. These purchase commitments represent a small portion of our costs applicable to revenue. There were no other material changes outside the ordinary course of business in our contractual obligations and commercial commitments from those reported as of December 29, 2018 in the Annual Report.

#### **Critical Accounting Policies and Estimates**

Management has evaluated the accounting policies used in the preparation of the Company's unaudited condensed consolidated financial statements and related notes and believes those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The most significant areas involving management judgments and estimates may be found in the Annual Report dated December 29, 2018, in the "Critical Accounting Policies and Estimates" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations." There have been no material changes to our critical accounting policies as compared to the critical accounting policies described in the Annual Report, except for the adoption of Accounting Standards Update ("ASU") No. 2016-02, *Leases* discussed in Note 1. "Description of Business and Basis of Presentation" of our unaudited condensed consolidated financial statements included in Part I. Item 1. of this Form 10-Q.

**Adoption of New Accounting Pronouncements**

The information set forth in Note 1. “Description of Business and Basis of Presentation” to our unaudited condensed consolidated financial statements under Part I. Item 1. under the heading “*Adoption of New Accounting Pronouncements*” of this Form 10-Q is incorporated herein by reference.

### **Item 3. 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 3. “Fair Value Measurement of Financial Assets and Liabilities,” to our unaudited condensed consolidated financial statements included in Part I. Item 1. of this Form 10-Q.

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 unaudited condensed consolidated balance sheets.

As of September 28, 2019, all of our \$568.0 million in term loan debt was subject to variable interest rates, with a weighted average borrowing rate of 3.6%. After inclusion of the notional amount of \$430.0 million of interest rate swaps fixing a portion of the variable rate debt, \$138.0 million, or 24.3% of our debt, is subject to variable interest rates. Assuming an increase to market rates of 1.0% as of September 28, 2019, we would incur an annual increase to interest expense of approximately \$1.4 million related to debt subject to variable rates. Refer to Note 4. “Long-term Debt” included in Part I. Item 1. of this Form 10-Q for information on the July 18, 2019 Joinder and Amendment and Restatement Agreement.

### **Item 4. 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 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 September 28, 2019. Based on that evaluation, the CEO and the CFO have concluded that, because the previously identified material weakness in our internal control over financial reporting described below had not been remediated by the end of the period covered by this Form 10-Q, our disclosure controls and procedures were not effective as of the end of the period covered by this Form 10-Q.

Notwithstanding the material weakness described below, based on the additional analysis and other post-closing procedures performed, management believes the financial statements included in this report are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

#### **Material Weakness and Status of Material Weakness Remediation**

As previously disclosed in our Annual Report on Form 10-K filed with the SEC on February 27, 2019, we had identified a control deficiency that constituted a material weakness in our internal control over financial reporting as of December 29, 2018. 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. In part due to errors discovered as a result of the implementation of controls associated with the new lease accounting standard, the Company concluded the following material weakness still exists as of September 28, 2019:

*The Company did not design and maintain effective entity level controls to identify and assess changes in our business environment that could significantly impact the system of internal control over financial reporting.*



## *Remediation Plan*

In 2018, we designed and implemented the following controls responsive to the remediation of this material weakness:

- 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.
- Established a disclosure committee, consisting of certain key members of management, to assist in formalizing our disclosure, risk assessment, internal controls and procedures.
- Added additional technical resources to enhance our overall control environment.

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 this material weakness:

- An internal control deficiency remediation project plan, overseen by the Chief Financial Officer and internal audit, and reviewed with the Audit Committee at least quarterly.
- 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.

These processes and the related internal controls were implemented this quarter and were not subject to the Company's most recent annual evaluation and assessment of internal control over financial reporting. As risk assessment is a dynamic process that occurs throughout the year, we will monitor the effectiveness of these risk assessment controls, including their ability to identify and assess changes in our business environment, through the end of this year. We will evaluate the results of our control assessments to determine whether these new controls are operating effectively and whether the material weakness described in Part II. Item 9A. "Controls and Procedures" of the 2018 10-K has been remediated.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) that occurred during the third quarter of fiscal year 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than as described above under "Material Weakness and Status of Material Weakness Remediation."

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are currently and may in the future become subject to various claims and pending or threatened lawsuits in the normal 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 seeking, among other claims, unspecified damages and attorneys' fees, 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.

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 Monterey County Superior 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. Mediation has been scheduled in the first quarter of 2020. The Company continues to believe that the plaintiff's amended complaint lacks merit and will vigorously defend the litigation.

We are not currently party to any other legal proceedings that we believe would have a material adverse effect on our financial position, results of operations or cash flows.

#### Item 1A. Risk Factors

There have been no material changes to the principal risks that we believe are material to our business, results of operations, and financial condition from those disclosed in Part I. Item 1A. of our Annual Report.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the repurchases of the Company's common stock during the three months ended September 28, 2019:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
June 30 - August 3, 2019	—	—	—	—
August 4 - August 31, 2019	819,134	\$ 30.52	819,134	—
September 1 - September 28, 2019	—	—	—	—
Total	819,134	\$ 30.52	819,134	—

<sup>(1)</sup> Information regarding the Company's share repurchases can be found in Note 1, Description of Business and Basis of Presentation, in the condensed consolidated financial statements included in Part I. Item 1. of this Form 10-Q.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

Not applicable.

#### Item 5. Other Information

None.

**Item 6. Exhibits****Exhibit Index**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
<a href="#">3.1</a>	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.
<a href="#">3.2</a>	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.
<a href="#">10.1</a>	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 Form 10-Q filed on August 6, 2019.
<a href="#">31.1</a>	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
<a href="#">31.2</a>	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
<a href="#">32.1</a>	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).
<a href="#">32.2</a>	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 Quarterly report on Form 10-Q for the quarter ended September 28, 2019, formatted in Inline XBRL (included within the Exhibit 101 attachments)

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

National Vision Holdings, Inc.

Dated: November 7, 2019

By: /s/ L. Reade Fahs

**Chief Executive Officer and Director**

*(Principal Executive Officer)*

Dated: November 7, 2019

By: /s/ Patrick R. Moore

**Senior Vice President, Chief Financial Officer**

*(Principal Financial Officer)*

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, L. Reade Fahs, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 28, 2019 of National Vision Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ L. Reade Fahs  
L. Reade Fahs  
Chief Executive Officer and Director  
(Principal Executive Officer)



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of National Vision Holdings, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 28, 2019 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, L. Reade Fahs, Chief Executive Officer and Director of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: November 7, 2019

/s/ L. Reade Fahs  
L. Reade Fahs  
Chief Executive Officer and Director  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of National Vision Holdings, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 28, 2019 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick R. Moore, Senior Vice President, Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: November 7, 2019

/s/ Patrick R. Moore

Patrick R. Moore  
Senior Vice President, Chief Financial Officer  
(Principal Financial Officer)