UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): **February 14, 2020**

FRANCHISE GROUP, INC.
(Exact name of registrant as specified in charter)

Delaware	001-35588	27-3561876
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

1716 Corporate Landing Parkway, Virginia Beach, Virginia 23454
(Address of Principal Executive Offices) (Zip Code)

(757) 493-8855
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**FRG**	**NASDAQ Global Market**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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. ☐

Explanatory Note

This Current Report on Form 8-K/A amends the Current Report on Form 8-K previously filed by Franchise Group, Inc. (the "Company") on February 18, 2020. This Current Report on Form 8-K/A includes the financial statements that had been omitted from the previously filed Current Report on Form 8-K as permitted by Item 9.01(a)(4) of Form 8-K.

On February 14, 2020, the Company completed its acquisition (which was previously announced in the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on December 30, 2019) of American Freight Group, Inc. ("American Freight"), pursuant to the terms of that certain Agreement and Plan of Merger (as amended, the "Merger Agreement") by and among Franchise Group Newco Intermediate AF, LLC ("Parent"), American Freight, Franchise Group Merger Sub AF, Inc., a Delaware limited liability company and a subsidiary of Parent ("Merger Sub"), and The Jordan Company, L.P., a Delaware limited partnership, solely in its capacity as representative for the Fully-Diluted Stockholders (as defined in the Merger Agreement), pursuant to which, among other things, Merger Sub merged with and into American Freight, with American Freight surviving as a wholly owned subsidiary of Parent (the "Merger").

The Company is filing this Current Report on Form 8-K/A to provide certain financial statements of American Freight and unaudited pro forma financial information of American Freight and the Company required by Item 9.01 of Form 8-K and should be read in conjunction with the Company's Current Report on Form 8-K previously filed on February 18, 2020.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The audited consolidated financial statements of American Freight as of and for the years ended December 29, 2019 and December 30, 2018, including the notes to such financial statements and the report of PricewaterhouseCoopers LLP, are filed with this Current Report on Form 8-K/A as Exhibit 99.1 and are incorporated by reference herein.

(b) Pro forma Financial Information

The unaudited pro forma financial information included with this Current Report on Form 8-K/A has been prepared to illustrate the pro forma effects of the Merger, the Company's previously announced merger with Buddy's Newco, LLC, the Company's previously announced acquisition of the Sears Outlet segment and Buddy's Home Furnishing Stores businesses of Sears Hometown and Outlet Stores, Inc. ("SHOS")**,** the Company's previously announced acquisition of Vitamin Shoppe, Inc. and the completion of the Company's previously announced tender offer to purchase certain of its outstanding shares of common stock and the related debt and equity financings (collectively, the "Transactions"). The unaudited pro forma combined balance sheet as of December 28, 2019 and the unaudited pro forma combined statement of operations for the eight months ended December 28, 2019 and year ended April 30, 2019 are filed with this Current Report on Form 8-K/A as Exhibit 99.2 and are incorporated by reference herein. The unaudited pro forma combined balance sheet as of December 28, 2019 gives effect to the Transactions as if they had occurred as of December 28, 2019. The unaudited pro forma combined statements of operations for the eight months ended December 28, 2019 and year ended April 30, 2019 gives effect to the Transactions as if they had occurred as of May 1, 2018. All pro forma information in this Current Report on Form 8-K/A has been prepared for informational purposes only and is not necessarily indicative of the past or future results of operations or financial position of American Freight or the Company.

(d) Exhibits

The following exhibits are filed herewith:

Exhibit No.	Description of Exhibits
23.1	Consent of PricewaterhouseCoopers LLP
99.1	Consolidated Financial Statements for American Freight as of and for the years ended December 29, 2019 and December 30, 2018
99.2	Unaudited pro forma combined balance sheet as of December 28, 2019 and the unaudited pro forma combined statement of operations for the eight months ended December 28, 2019 and year ended April 30, 2019

EXHIBIT INDEX

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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 hereunto duly authorized.

FRANCHISE GROUP, INC.

Date: May 4, 2020	By: /s/ Eric Seeton
	Eric Seeton
	Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-236211) and S-8 (No. 333-236209 and No. 333-182585) of Franchise Group, Inc. of our report dated May 4, 2020 relating to the financial statements of American Freight Group, Inc., which appears in this Current Report on Form 8-K/A.

/s/PricewaterhouseCoopers LLP

Columbus, Ohio
May 4, 2020

Exhibit 99.1

American Freight Group, Inc. and Subsidiaries

Consolidated Financial Statements

December 29, 2019 and December 30, 2018

American Freight Group, Inc. and Subsidiaries
Index
December 29, 2019 and December 30, 2018

Report of Independent Auditors

To the Management of American Freight Group, Inc.

We have audited the accompanying consolidated financial statements of American Freight Group, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 29, 2019 and December 30, 2018, and the related consolidated statements of operations, of changes in mezzanine and stockholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Freight Group, Inc. and its subsidiaries as of December 29, 2019 and December 30, 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the consolidated financial statements, in connection with the acquisition of the Company by a subsidiary of Franchise Group, Inc., the acquirer entered into a $675,000,000 credit facility under which the Company is a named borrower along with other Franchise Group, Inc. subsidiaries. Without the support of Franchise Group, Inc., the Company does not expect to have the liquidity needed to pay the full amount coming due under the credit facility within the year from when the consolidated financial statements were available to be issued. The Company obtained a support letter from Franchise Group, Inc. under which Franchise Group, Inc. will fully support the operating, investing, and financing activities of the Company until at least May 5, 2021. Our opinion is not modified with respect to this matter.

/s/ PricewaterhouseCoopers LLP

Columbus, Ohio
May 4, 2020

American Freight Group, Inc. and Subsidiaries
Consolidated Balance Sheets
December 29, 2019 and December 30, 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 16,384,157	$ 11,195,563
Prepaid expenses and other assets	5,006,839	3,809,599
Inventory	54,795,696	48,895,542
Total current assets	76,186,692	63,900,704
Property and equipment, net	9,258,392	7,971,939
Goodwill	229,209,580	229,209,580
Intangible assets	56,000,000	56,000,000
Deposits and other assets	1,658,903	1,536,184
Total assets	$ 372,313,567	$ 358,618,407
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 21,004,231	$ 13,666,683
Accounts payable - related parties	4,291,746	3,196,715
Layaway deposits and deferred rent	10,178,956	11,815,176
Accrued salaries and related benefits	2,316,744	3,261,579
Accrued expenses and other current liabilities	10,310,236	9,163,205
Term debt - current portion	3,210,000	3,210,000
Total current liabilities	51,311,913	44,313,358
Long-term liabilities		
Term debt	98,690,345	101,566,595
Deferred rent obligation	2,335,053	1,819,049
Deferred tax liabilities	21,605,460	17,146,561
Total long-term liabilities	122,630,858	120,532,205
Total liabilities	173,942,771	164,845,563
Mezzanine Equity		
Redeemable Series A preferred stock $0.001 par value 200,000 shares authorized, 114,400 issued and outstanding	114,400,000	114,400,000
Stockholders' Equity		
Common stock $0.001 par value: 100,000 shares authorized, 28,663 issued and 28,600 outstanding	29	29
Additional paid-in capital	30,985,978	30,586,442
Retained earnings	52,984,789	48,786,373
Total stockholders' equity	83,970,796	79,372,844
Total liabilities, mezzanine equity and stockholders' equity	$ 372,313,567	$ 358,618,407

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

American Freight Group, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 29, 2019 and December 30, 2018

	2019	2018
Revenue	$ 462,339,607	$ 419,095,139
Cost of sales		
Merchandise	232,198,304	208,147,083
Freight	22,211,158	20,811,682
Total cost of sales (exclusive of depreciation shown separately below)	254,409,462	228,958,765
Depreciation expense	2,451,245	1,698,503
Operating and selling expenses	161,062,105	147,830,407
Operating income	44,416,795	40,607,464
Interest expense, net	5,487,581	9,028,710
Pretax income	38,929,214	31,578,754
Income tax expense	9,730,798	8,168,051
Net income	$ 29,198,416	$ 23,410,703

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

American Freight Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Mezzanine and Stockholders' Equity
Years Ended December 29, 2019 and December 30, 2018

	Redeemable Series A Preferred Stock		Common Stock		Additional	Retained	
	Shares	Amount	Shares	Amount	Paid-In Capital	Earnings	Total
Balances at December 31, 2017	114,400	$ 114,400,000	28,600	$ 29	$ 29,878,709	$ 44,712,220	$ 74,590,958
Cash dividends	—	—	—	—	—	(19,336,550)	(19,336,550)
Share-based compensation	—	—	—	—	707,733	—	707,733
Net income	—	—	—	—	—	23,410,703	23,410,703
Balances at December 30, 2018	114,400	114,400,000	28,600	29	30,586,442	48,786,373	79,372,844
Cash dividends	—	—	—	—	—	(25,000,000)	(25,000,000)
Share-based compensation	—	—	—	—	399,536	—	399,536
Net income	—	—	—	—	—	29,198,416	29,198,416
Balances at December 29, 2019	114,400	$ 114,400,000	28,600	$ 29	$ 30,985,978	$ 52,984,789	$ 83,970,796

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

American Freight Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 29, 2019 and December 30, 2018

	2019	2018
Cash flow from operating activities		
Net income	$ 29,198,416	$ 23,410,703
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation expense	2,451,245	1,698,503
Share-based compensation	399,536	707,733
Amortization of deferred rent obligation	516,004	322,427
Amortization of debt issue costs	356,855	1,399,945
Loss on disposal of property and equipment	17,512	16,237
Changes in assets and liabilities		
Prepaid expenses and other assets	(1,343,486)	2,525,651
Inventory	(5,900,154)	(6,064,076)
Accounts payable	7,337,548	2,205,928
Accounts payable - related parties	1,095,031	(867,500)
Layaway deposits and deferred revenue	(1,636,220)	(4,284,789)
Accrued salaries and related benefits	(944,835)	1,589,012
Accrued expenses and other liabilities	1,147,031	3,975,216
Deferred income taxes	4,458,899	4,648,468
Cash provided by operating activities	37,153,382	31,283,458
Cash flows from investing activities		
Purchase of property and equipment	(3,754,788)	(2,417,402)
Cash used in investing activities	(3,754,788)	(2,417,402)
Cash flows from financing activities		
Borrowings on revolving credit facility	10,000,000	10,000,000
Payments on revolving credit facility	(10,000,000)	(10,000,000)
Cash dividends	(25,000,000)	(19,336,550)
Borrowings of term debt	—	49,458,825
Payments of term debt	(3,210,000)	(79,760,974)
Payments of debt issue costs	—	(1,247,663)
Cash used in financing activities	(28,210,000)	(50,886,362)
Net change in cash and cash equivalents	5,188,594	(22,020,306)
Cash and cash equivalents		
Beginning of year	11,195,563	33,215,869
End of period	$ 16,384,157	$ 11,195,563
Supplemental disclosure for cash flow information		
Cash paid for interest	$ 5,448,388	$ 7,426,147
Cash paid for income taxes	6,450,164	30,960

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

1. **The Company**

American Freight Group, Inc. (the "Company") was formed on August 7, 2014 as a Delaware corporation. The Company, through its operating subsidiaries, operates discount retail furniture stores in the United States of America.

2. **Summary of Significant Accounting Policies**

Principles of Consolidation
The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of our wholly owned subsidiaries. All significant intercompany balances or transactions have been eliminated in consolidation.

Fiscal Year
The Company's fiscal year ends on the Sunday closest to December 31. The fiscal years 2019 and 2018 refer to the period from December 30, 2018 through December 29, 2019 and January 1, 2018 through December 30, 2018, respectively.

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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Subsequent to year-end, the Company has been negatively affected by actions taken by state and local governments in response to COVID-19 which has required certain temporary store closures, and the duration and total impact cannot be reasonably estimated at this time. The Company's liquidity needs have been affected by events occurring subsequent to year-end. Refer to further discussion in Note 12 Subsequent Events.

Revenue Recognition and Layaway Deposits
Furniture revenue is recognized when the furniture has been paid in full and has been delivered to or collected by the customer from the store. Incremental costs of obtaining sales in the form of commissions paid to employees are expensed as incurred. Cash received from customers is recorded as layaway deposits and deferred revenue until the order is paid in full and delivery or pickup of the furniture occurs. All delivered sales are considered final. After six months of inactivity, delinquent layaway deposits are charged a monthly service fee, unless prohibited by state law. The Company reports revenue net of sales and use taxes collected from customers and remitted to governmental taxing authorities. The customer may choose to finance purchases through a third-party finance company. The Company earns a commission from the finance company for offering this service. The commission is recorded in revenue and recognized at the same point in time as the related furniture sale is recognized.

The Company has disaggregated revenue by geographical region for the year ending December 29, 2019 as follows:

Northeast	$	36,109,642
Midwest		151,926,682
South		259,856,425
West		14,446,858
	$	462,339,607

Concentration of Risk
The Company is a retailer of furniture and sells primarily to customers in surrounding communities. The Company believes they are not exposed to any significant credit risk on customer sales. The Company maintains cash deposits in banks which, from time to time, exceed the amount of deposit insurance available by the Federal Deposit Insurance Corporation. Management periodically assesses the financial condition of the institutions and believes that any potential credit loss is minimal.

The Company purchases inventory from a small number of vendors. Approximately 59% and 66% of merchandise purchases were from five vendors in the aggregate during the years ended December 29, 2019 and December 30, 2018, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, and deposits with financial institutions. The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less, which are not subject to withdrawal restrictions or penalties, to be cash and cash equivalents.

Cash and cash equivalents as of December 29, 2019 and December 30, 2018 also includes $5,044,237 and $3,702,883, respectively, of accounts receivable from credit card and financing companies because they are highly liquid in nature and typically converted to cash within a few days of the sales transaction.

Inventory

Inventories, which are comprised of finished goods, are valued at the lower of cost or market, with cost determined by the first-in, first out method. The Company writes down inventory, the impact of which is reflected in cost of sales in the Consolidated Statements of Operations, if the cost of specific inventory items on hand exceeds the amount they expect to be realized from the ultimate sale or disposal of the inventory. These estimates are based on management's judgment regarding future demand and market conditions and analysis of historical experience. At December 29, 2019 and December 30, 2018, inventory reserves for excess and obsolete inventory totaled $1,336,048 and $784,303, respectively.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred. Major renewals and improvements are capitalized. The cost and accumulated depreciation of disposed assets are eliminated from the accounts and resulting gain or loss is reflected in earnings. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset. Depreciation is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	1-15 years (not to exceed the lease term)
Machinery and equipment	5-10 years
Furniture and fixtures	3-15 years
Vehicles	5-10 years
Computer software and equipment	3-5 years

The Company assesses the recoverability of property and equipment and other amortizable long-lived assets whenever events and circumstances indicate that the carrying value of the asset may not be recoverable from its undiscounted cash flows. If it is determined an impairment has occurred, an impairment loss is recognized by the amount by which the carrying amount of the asset exceeds its estimated fair value.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. The Company has concluded it has one reporting unit. Goodwill is not amortized and is tested for impairment at least annually and also when a triggering event occurs that indicates that the fair value of the reporting unit may be below its carrying amount. The Company first assesses qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not goodwill is impaired, the Company performs the quantitative test to compare the entity's fair value with its carrying amount. The goodwill impairment loss, if any, represents the excess of the carrying amount of the reporting unit over its fair value. The Company did not record any impairment charges related to goodwill for the years ended December 29, 2019 and December 30, 2018.

Intangible Assets

The Company has intangible assets, primarily its tradename. The Company concluded that its tradename has an indefinite useful life. The Company plans to use the American Freight Furniture name for an indefinite period of time and plans to continue to make investments to enhance the value of the brand into the future. There are no legal, regulatory, contractual, competitive, economic or other factors that the Company is aware of or that the Company believes would limit the useful life of the trade name.

Intangible assets with indefinite lives are reviewed for impairment annually in the fourth quarter, or more frequently if indicators of impairment are present, by comparing the carrying value to the estimated fair value, determined using a relief from royalty methodology. Factors used in the valuation of the intangible asset include, but are not limited to, estimated growth rates, royalty rates, risk adjusted discount rates, and future economic and market conditions. The Company did not record any impairment charges for the years ended December 29, 2019 and December 30, 2018.

Leases and Rent Expense
The Company has leases that contain pre-determined fixed escalations of minimum rentals and/or rent abatements subsequent to taking possession of the leased property. The related rent expense is recognized on a straight-line basis commencing upon possession date. The Company records the difference between the recognized rent expense and amounts payable under the leases as deferred or prepaid rent obligations.

Shipping and Handling Costs
Warehousing and distribution costs, including costs associated with delivering product to customers, are included in operating and selling expenses in the Consolidated Statements of Operations.

Advertising Costs
Advertising costs are expensed as they are delivered to the public and included in operating and selling expenses in the Consolidated Statements of Operations. Advertising costs were $41,243,170 and $37,850,499 for the years ended December 29, 2019 and December 30, 2018, respectively.

Income Taxes
Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. Deferred tax assets and liabilities are presented on a net basis, by jurisdiction, as noncurrent in the Consolidated Balance Sheets. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include the Company’s forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company’s effective tax rate on future earnings.

The Company recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. The Company recognizes interest and penalties related to income tax matters in income tax expense.

Debt Issuance Costs
Debt issuance costs are capitalized and amortized using the effective interest method over the term of the respective term debt and straight-line over the term of the line of credit facility. Debt issuance costs related to term debt are recorded as a reduction to the debt proceeds as a debt discount. Debt issuance costs related to the line of credit are recorded as a deferred financing cost and included in Deposits and other assets in the Consolidated Balance Sheets. Accretion of the debt discount and amortization of deferred financing costs are recorded as a component of interest expense in the Consolidated Statements of Operations and totaled $356,855 and $1,399,945 for the years ended December 29, 2019 and December 30, 2018, respectively.

Share-Based Compensation
The Company grants share-based compensation awards to certain directors and key employees of the Company. The fair values of stock option grants are determined as of the grant date using the Black-Scholes option pricing method. This method incorporates the fair value of the Company’s common stock at the date of each grant and various assumptions such as the risk-free interest rate, expected volatility based on the Company’s analysis of historical volatility of similar companies in the retail industry, expected dividend yield, and expected term of the options. The fair values of the stock-based awards, including the effect of estimated forfeitures, are then expensed using the straight-line method over the requisite service period, which is generally the award’s vesting period. The Company records and classifies share-based compensation expense in the Consolidated Statements of Operations in the same manner in which the respective award recipient’s payroll costs are classified.

Recently Issued Accounting Standards
The following accounting standards applicable to the Company were recently issued by the Financial Accounting Standards Board ("FASB").

Recently Adopted Accounting Pronouncements
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance requires companies to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. It also results in enhanced disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On December 31, 2018, the Company adopted the revenue standard using the modified retrospective approach. However, there was no material adjustment to our Consolidated Balance Sheet or Statement of Operations.

Accounting Standards not yet Effective
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. This ASU is effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted. The Company is currently assessing the impact of this ASU and anticipates the new guidance will have a material impact to its consolidated financial statements.

3. **Property and Equipment**

The components of property and equipment at December 29, 2019 and December 30, 2018 are as follows:

	2019	2018
Leasehold improvements	$ 9,363,919	$ 6,827,878
Machinery and equipment	2,543,670	2,387,160
Furniture and fixtures	1,884,886	1,302,823
Vehicles	62,692	62,692
Computer software and equipment	1,948,248	1,543,939
Construction in progress	412,631	377,186
	16,216,046	12,501,678
Less: Accumulated depreciation	(6,957,654)	(4,529,739)
Property and equipment, net	$ 9,258,392	$ 7,971,939

The Company recorded depreciation expense for the years ended December 29, 2019 and December 30, 2018 of $2,451,245 and $1,684,547, respectively.

4. **Related Party Transactions**

The Company purchases inventory from related parties. The Company purchased inventory from related parties totaling $48,697,000 and $52,336,000 during the years ended December 29, 2019 and December 30, 2018, respectively. Amounts due to the related companies, related to purchases of inventory, as of December 29, 2019 and December 30, 2018 were $3,886,276 and $2,744,638, respectively.

The Company is a party to a management consulting and advisory agreement with The Jordan Company, L.P., the management company for The Resolute Fund Ill, L.P., which is an affiliate of the majority stockholder. The related parties are referred to herein as The Jordan Company. This consulting and advisory agreement provides for the payment of fees based upon the Company's consolidated earnings before interest, tax, depreciation, and amortization ("EBITDA"). An estimate is paid quarterly and adjusted to actual after the completion of each audited fiscal year. For the years ended December 29, 2019 and December 30, 2018, the Company incurred fees of $1,371,418 and $1,354,181, respectively, pursuant to this agreement. As of December 29, 2019, and December 30, 2018, there was $405,470 and $452,077 due to The Jordan Company, respectively. The consulting and advisory agreement also provides for fees to be paid to The Jordan Company for their assistance with various transactions, including acquisitions made by the Company, a sale of the Company or the Company's subsidiaries, and debt and equity financing obtained with assistance from The

Jordan Company. The Company is also obligated to reimburse out-of-pocket expenses incurred by The Jordan Company in connection with providing the above services. The Company reimbursed The Jordan Company for $16,830 and $14,669 of out-of-pocket expenses during the years ended December 29, 2019 and December 30, 2018, respectively.

5. **Leases**

The Company leases certain buildings under long-term noncancelable operating leases. The leases require the Company to pay taxes, maintenance, insurance and certain operating expenses applicable to leased facilities. Rent expense to third parties was $19,616,152 and $16,986,785 for the years ended December 29, 2019 and December 30, 2018, respectively. Rent expense to related parties was $3,483,395 and $3,549,702 for the years ended December 29, 2019 and December 30, 2018, respectively.

Future minimum lease payments are as follows as of December 29, 2019:

	Operating Leases	
	Third Parties	**Related Parties**
2020	$ 20,414,779	$ 3,482,836
2021	18,293,697	3,517,657
2022	14,843,050	3,507,811
2023	11,507,526	2,506,569
2024	8,203,973	1,888,548
All years after 2024	12,054,053	606,592
Total minimum lease payments	$ 85,317,078	$ 15,510,013

6. **Debt**

On October 31, 2014, the Company executed a credit agreement with financial institutions that provided a revolving credit facility for maximum available borrowings of $20,000,000, a Tranche A Term Loan for $75,000,000 and a Tranche B Term Loan for $75,000,000.

On July 25, 2018 the Company entered into Amendment No. 1 to its credit agreement (the "Amendment"). In connection with the Amendment, the Company repaid all principal outstanding under its Tranche B Term Loan, totaling $67,291,175. The Company also borrowed an incremental $49,458,825 under its Tranche A Term Loan, bringing the new closing principal balance outstanding on the Company's Tranche A Term Loan to $107,000,000. The maturity date on the Tranche A Term Loan was extended from April 30, 2020 to April 30, 2023, with principal payments of $802,500 due quarterly beginning on September 30, 2018 and any remaining outstanding principal balance due upon maturity. With the Amendment, the interest rate on Tranche A borrowings decreased from LIBOR plus 3.5% to LIBOR plus 3.25% subject to a step-down to LIBOR plus 3.00% or LIBOR plus 2.75% based on the Net Leverage Ratio, as defined in the credit agreement.

The Amendment also reduced the interest rate on the Company's revolving credit facility from LIBOR plus 3.5% to LIBOR plus 3.25% subject to a step-down to LIBOR plus 3.00% or LIBOR plus 2.75% based on the Net Leverage Ratio, as defined in the credit agreement, and extended the expiration date of the Revolver from October 31, 2019 to October 31, 2022. The interest rate on the Term Loan was 4.45% and 5.34% at December 29, 2019 and December 30, 2018, respectively.

The term debt consisted of the following at December 29, 2019 and December 30, 2018:

	2019	2018
Tranche A Term Loan	$ 102,987,500	$ 106,197,500
Less: Debt discount	(1,087,155)	(1,420,905)
	101,900,345	104,776,595
Less: Current maturities	(3,210,000)	(3,210,000)
Total noncurrent term debt	$ 98,690,345	$ 101,566,595

Aggregate maturities of long-term debt are as follows:	
2020	$ 3,210,000
2021	3,210,000
2022	3,210,000
2023	93,357,500
	$ 102,987,500

The credit agreement is collateralized by substantially all of the Company's assets.

The Company's credit agreement contains certain covenants that requires the maintenance of certain financial measures. The financial covenants specify a maximum net leverage ratio of debt to EBITDA. The nonfinancial covenants include restrictions on indebtedness, liens and dividends.

Annually the credit agreement requires the Company to determine if any additional payments are required based on an excess cash flow calculation as defined by the credit agreement. No payments are required if the Company meets certain net leverage ratio requirements.

7. **Redeemable Preferred Stock and Stockholders' Equity**

The Company is authorized to issue 400,000 shares of stock consisting of: 100,000 shares of Common Stock and 300,000 shares of Preferred Stock of which 200,000 shares are designated Series A Preferred Stock.

Holders of the Series A Preferred Stock are entitled to accrue and receive, when, as and if declared by the Board of Directors, cumulative annual dividends per share in an amount equal to 10% of the issued and outstanding Series A Preferred Stock. The preferred dividends accrue and compound semi-annually and are payable in full and in cash upon the declaration of a dividend payment by the Board of Directors, or upon the closing of any merger, combination, sale or similar business transaction of the Company. The Board of Directors approved, and the Company paid cash dividend payments of $25,000,000 on September 20, 2019 and $19,336,550 on July 18, 2018.

As of December 29, 2019, and December 30, 2018, cumulative preferred dividends of $27,112,850 and $37,282,159, respectively, were outstanding. The cumulative preferred dividends were not accrued on the Company's Consolidated Balance Sheets as of December 29, 2019 and December 30, 2018, since the Board of Directors had not declared dividend payments and the Company had not closed upon any merger, combination, sale or similar business transaction as of those dates.

The Company has 1,504 stock warrants outstanding. Holders of the stock warrants have the right to purchase 1,504 shares of common stock of the Company for an exercise price of $1,000 per share. Holders of the stock warrants may exercise their rights upon the closing of any merger, combination, sale or similar business transaction of the Company as long as the proceeds exceed a specified rate of return on preferred and common shares. The value assigned to the stock warrants at issuance was immaterial and therefore not presented on the Consolidated Balance Sheets.

8. **Share-Based Compensation Plans**

The Company established the 2015 Nonqualified Stock Option Plan ("2015 Plan") to award nonqualified stock options of common stock to certain directors, consultants, advisors, and key employees. The aggregate number of options of the Company's common shares that may be granted under the 2015 Plan may not exceed 3,175 shares. All option grants have an exercise price equal to the fair market value of the underlying stock on the grant date. All of the options issued are subject to time vesting conditions and vest ratably and become exercisable over a period of five years from grant date. As defined by the 2015 Plan upon a change of control 100% of any unvested options shall vest and become exercisable.

The vesting schedule of the common shares is based on the anniversary date of the option grant and is as follows:

Year 2	40%
Year 3	20%
Year 4	20%
Year 5	20%

For the years ended December 29, 2019 and December 30, 2018, the Company recorded a total of $399,536 and $707,733, respectively, of share-based compensation expense which is included as operating and selling expenses in the accompanying Consolidated Statements of Operations; resulting in $767,123 and $1,580,627 of unrecognized share-based compensation expense as of December 29, 2019 and December 30, 2018.

The following table summarizes the activity for stock options for the years ended December 29, 2019 and December 30, 2018, respectively:

	2019		2018	
	Shares	Weighted Average Exercise Price per Share	Shares	Weighted Average Exercise Price per Share
Outstanding - beginning of year	2,858	$ 2,345	2,333	$ 1,988
Granted	—	—	525	3,935
Exercised	—	—	—	—
Forfeited	(175)	(3,935)	—	—
Outstanding - end of year	2,683	$ 2,242	2,858	$ 2,345
Exercisable - end of year	1,717	$ 1,805	1,251	$ 1,737

The weighted-average grant-date fair value of stock options granted during the year ended December 30, 2018 was $1,743.

9. Intangible Assets

	December 29, 2019			
	Estimated Useful Lives Years	Cost	Accumulated Amortization	Net
Trade name		$ 56,000,000	—	$ 56,000,000
Total intangible assets		$ 56,000,000	—	$ 56,000,000

	December 30, 2018			
	Estimated Useful Lives Years	Cost	Accumulated Amortization	Net
Trade name		$ 56,000,000	—	$ 56,000,000
Total intangible assets		$ 56,000,000	—	$ 56,000,000

10. **Income Taxes**

The income tax expense is summarized as follows:

	2019	2018
Current income tax (benefit) expense		
Federal	$ 4,076,824	$ 2,617,538
State and local	1,195,075	902,045
Total current income tax expense	$ 5,271,899	$ 3,519,583
Deferred income tax (benefit) expense		
Federal	$ 3,651,510	$ 3,613,876
State and local	807,389	1,034,592
Total deferred income tax expense	$ 4,458,899	$ 4,648,468
Total income tax expense (benefit)		
Federal	$ 7,728,334	$ 6,231,414
State and local	2,002,464	1,936,637
Total income tax expense	$ 9,730,798	$ 8,168,051

The tax effect of temporary differences that give rise to deferred tax assets (liabilities) is as follows:

	2019	2018
Deferred tax assets		
Inventories	$ 553,700	$ 363,487
Accrued expenses	547,691	847,049
Deferred rent obligation	584,580	459,055
Stock options	518,477	421,813
Other	89,526	41,693
Total deferred tax assets	2,293,974	2,133,097
Deferred tax liabilities		
Goodwill and intangible assets	(23,132,046)	(18,371,696)
Depreciation	(537,469)	(701,562)
Other	(229,919)	(206,400)
Total deferred tax liabilities	(23,899,434)	(19,279,658)
Net deferred tax asset (liability)	$ (21,605,460)	$ (17,146,561)

The differences between income taxes determined based on statutory federal tax rate and the effective tax rate is as follows:

	2019	2018
Federal income tax at the statutory rate	$ 8,223,519	$ 6,653,713
State and local taxes net of federal benefit	1,581,946	1,529,943
Permanent items	16,097	14,823
Other	(90,764)	(30,428)
	$ 9,730,798	$ 8,168,051

The Company did not have any unrecognized tax benefits in 2019 or 2018 and does not expect unrecognized tax positions to change significantly over the next 12 months. During the years ended December 29, 2019 and December 30, 2018, the Company did not record any expenses for penalties and interest.

11. **Retirement Plan**

The Company maintains a Profit Sharing and 401(k) Savings Retirement Plan (the "Plan") which covers all employees who meet certain eligibility requirements. The Plan does not have a matching contribution. The Company reserves the right to terminate or amend the Plan at any time. The Company did not make any discretionary contributions for the years ended December 29, 2019 and December 30, 2018.

12. **Subsequent Events**

On February 12, 2020, the Company elected to make an optional prepayment of $5,000,000 on its term debt.

On December 28, 2019, the Company entered into a merger agreement with a subsidiary of Franchise Group, Inc. In consideration of the merger, the stockholders will receive $450,000,000 less outstanding debt and transaction related expenses. The merger closed on February 14, 2020, and all term debt of the Company was paid in full and all Company stock redeemed, including $28,880,253 in accumulated Series A preferred dividends, which became due and payable at the time of the merger.

On February 14, 2020 in connection with the acquisition of the Company by a subsidiary of Franchise Group, Inc., the acquirer entered into a $675,000,000 credit facility, which was used, in part, to fund the acquisition. The Company is a named borrower on the credit facility along with other Franchise Group, Inc. subsidiaries. Without the support of Franchise Group, Inc., the Company does not expect to have the liquidity required to pay the full amount coming due under the credit facility within the year from when the consolidated financial statements were available to be issued. The Company obtained a support letter from Franchise Group, Inc. under which Franchise Group, Inc. will fully support the operating, investing, and financing activities of the Company until at least May 5, 2021.

In March 2020, the COVID-19 outbreak was declared to be a global pandemic by the World Health Organization. The Company operates stores in 30 states in the U.S., some of which have implemented various degrees of mandatory retail store closures in response to COVID-19. Beginning in late March 2020 and continuing into April 2020, the Company temporarily closed a number of its stores, based on the orders from state and local governments. The Company is currently not able to predict when these stores will reopen, which may occur on a location-by-location basis. The Company has realized material reductions in revenue during the first three weeks of April 2020 as a result of the COVID-19 closures. Although not anticipated at this time, the Company could experience other material impacts as a result of COVID-19, including, but not limited to, charges from potential adjustments of the carrying amount of inventory, and asset impairment charges. The current circumstances are dynamic and the impacts of COVID-19 on the Company's business operations, including the duration and impact on overall customer demand, cannot be reasonably estimated at this time.

The Company considered subsequent events through May 4, 2020, the date the consolidated financial statements were available to be issued.

Exhibit 99.2

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS OF THE COMBINED COMPANY AND RELATED NOTES

Introduction

The following unaudited pro forma combined statement of operations for the eight months ended December 28, 2019 (the "Transition Period') and for the year ended April 30, 2019 and the pro forma combined balance sheet as of December 28, 2019 are based on the historical financial statements of Franchise Group, Buddy's Newco, LLC ("Buddy's"), the Sears Outlet segment and Buddy's Home Furnishing Stores businesses, each as described in Sears Hometown and Outlet Stores, Inc's ("SHOS") annual report on Form 10-K for the fiscal year ended February 2, 2019 ("Sears Outlet"), Vitamin Shoppe, Inc. ("VSI"), and American Freight Group, Inc. ("American Freight").

The unaudited pro forma combined financial statements give effect to the acquisitions of Buddy's, Sears Outlet, VSI and American Freight, and the completion of the offer to acquire any and all outstanding shares of Franchise Group common stock other than shares of Franchise Group common stock held by the Vintage Group and B. Riley and certain of its affiliates, who agreed not to tender their shares of Franchise Group common stock in the offer, for a purchase price of $12.00 per share in cash, and the related debt and equity financings (collectively, the "Transactions"). On October 1, 2019, the Company changed its fiscal year end from April 30 to the Saturday closest to December 31 and filed a transition report on Form 10-K/T for the eight months ended December 28, 2019 on April 24, 2020. The unaudited pro forma combined financial statements are based on the assumptions, adjustments and eliminations described in the accompanying notes to the unaudited pro forma combined financial statements.

The unaudited pro forma combined statement of operations for the fiscal year ended April 30, 2019 and eight months ended December 28, 2019 give effect to the Transactions as if they had occurred on the first day of the fiscal year May 1, 2018. Prior to October 1, 2019, Franchise Group had a fiscal year ending on April 30 while Buddy's reported its results of operations on a calendar year basis, Sears Outlet had a fiscal year ending on February 2, VSI had a fiscal year ending on the last Saturday in December and American Freight had a fiscal year ending on the last Sunday in December. As a result:

- the historical statement of operations for the fiscal year ended December 31, 2018 of Buddy's, the historical statement of operations for the fiscal year ended December 29, 2018 of VSI, and the historical statement of operations for the fiscal year ended December 30, 2018 of American Freight have been adjusted to reflect a trailing twelve months ended March 31, 2019 by adding Buddy's, VSI's and American Freight's statement of operations for the three months ended March 31, 2019, March 30, 2019, and March 31, 2019, respectively, and subtracting their statement of operations for the three months ended March 31, 2018; and

- the historical combined statement of operations for the fiscal year ended February 2, 2019 of Sears Outlet has been adjusted to reflect a trailing twelve months ended May 4, 2019 by adding Sears Outlet's statement of operations for the three months ended May 4, 2019 and subtracting Sears Outlet's statement of operations for the three months ended May 5, 2018.

The unaudited pro forma combined statement of operations for the eight months ended December 28, 2019 combines the historical consolidated statement of operations for the eight months ended December 28, 2019 of Franchise Group (that includes certain post-acquisition financial information of Buddy's, VSI and Sears Outlet), the historical consolidated statement of operations for the three months ended June 30, 2019 of Buddy's, the historical combined statement of operations for the six months ended August 3, 2019 of Sears Outlet, the historical consolidated statement of operations for the eight months ended November 30, 2019 of VSI, and the historical consolidated statement of operations for the eight months ended December 29, 2019 of American Freight.

The unaudited pro forma combined balance sheet as of December 28, 2019 combines the historical consolidated balance sheet of Franchise Group as of December 28, 2019, which includes Buddy's, Sears Outlet and VSI, and the historical consolidated balance sheet of American Freight as of December 29, 2019, giving effect to the Transactions as if they had occurred on December 28, 2019. On November 12, 2019, Franchise Group completed its previously announced tender offer with 3.94 million shares tendered for an aggregate purchase price of approximately $47.2 million. As result of the offer, including additional equity contributions made by the Vintage Group or other members of Buddy's, and ultimate financing to consummate all of the Transactions, the pre-closing Franchise Group stockholders had an ownership interest of 68.31% in the Franchise Group and the pre-closing members of Buddy's held 31.69% of non-controlling interest in Franchise Group.

Under the acquisition method of accounting, the preliminary purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values, with any excess purchase price allocated to goodwill. The pro forma purchase price allocation was based on an estimate of the fair market values of the tangible and intangible assets and liabilities related to Buddy's, Sears Outlet, VSI, and American Freight. Franchise Group considered multiple factors in arriving at the estimated fair market values, which were based on a preliminary and limited review of the assets and liabilities related to Buddy's, Sears Outlet, VSI and American Freight acquisitions. We expect to complete the purchase price allocation after considering Buddy's, Sears Outlet's, VSI's, and American Freight's assets and liabilities at the level of detail necessary to finalize the required purchase price allocation under the acquisition method of accounting. The final purchase price allocation may be different than that reflected in the pro forma purchase price allocation presented herein, and these differences may be material.

The unaudited pro forma combined financial statements contain only adjustments that are factually supportable and directly attributable to the Transactions and do not reflect the costs of any integration activities or benefits that may result from realization of future revenue growth or operational synergies expected to result from the Transactions.

The unaudited pro forma combined financial statements should be read in conjunction with:

- the accompanying notes to the unaudited pro forma combined financial statements;
- Franchise Group's audited historical consolidated financial statements and related notes for the year ended April 30, 2019 and for the Transition Period ended December 28, 2019;
- Buddy's' audited and unaudited historical consolidated financial statements and related notes for the fiscal year ended December 31, 2018 and for the three months ended June 30, 2019, March 31, 2019 and March 31, 2018;
- Sears Outlet's audited and unaudited historical combined financial statements and related notes for the fiscal year ended February 2, 2019 and for the six months ended August 3, 2019 and August 4, 2018;
- VSI's audited historical consolidated financial statements and related notes for the fiscal year ended December 29, 2018; and
- American Freight's audited historical consolidated financial statements and related notes for the fiscal year ended December 29, 2019.

Description of the Transactions

Buddy's merger and the offer

Pursuant to a business combination agreement, Franchise Group and Buddy's consummated a merger whereby Buddy's became a wholly-owned subsidiary of Franchise Group New Holdco, LLC, a wholly-owned direct subsidiary of Franchise Group ("New Holdco"). In connection with the merger, Franchise Group formed New Holdco, which holds, directly or indirectly, all of Franchise Group's and Buddy's operating subsidiaries. In connection with the business combination agreement and the merger, Franchise Group designated its voting non-economic preferred stock pursuant to a certificate of designation. The certificate of designation, which was approved by the Company's board of directors on July 10, 2019, and filed by Franchise Group with the Secretary of State of the State of Delaware on July 10, 2019, designates 1,616,667 shares of voting non-economic preferred stock, substantially all of which were issued to the Buddy's equity holders as consideration in the merger along with approximately 8,083,333 New Holdco common units. Buddy's equity holders had the option to exchange each New Holdco common unit and one-fifth (1/5) of a share of Franchise Group preferred stock, respectively, for one share of Franchise Group common stock beginning six months following the date of the merger. Following the merger, Franchise Group became the sole managing member of New Holdco and consolidates New Holdco for financial reporting purposes. The New Holdco common units held by Buddy's equity holders were recorded as a non-controlling interest on the consolidated financial statements.

Concurrently with the execution of the business combination agreement, Franchise Group and the Buddy's equity holders entered into a tax receivable agreement. Subject to certain exceptions set forth in the tax receivable agreement, the tax receivable agreement generally provides that Franchise Group will pay the Buddy's equity holders 40% of the cash savings, if any, in federal, state and local taxes that Franchise Group realizes or is deemed to realize as a result of any increase in tax basis of the assets of New Holdco resulting from future redemptions or exchanges of New Holdco common units held by Buddy's equity holders. In connection with the merger, none of the New Holdco common units were purchased or exchanged by Franchise Group and the Buddy's equity holders and therefore an initial tax receivable liability was not recorded. However, subsequent to the merger, the effects of each purchase or exchange of New Holdco common units may result in adjustments to record a change in deferred tax balances, tax receivable liabilities equal to 40% of the estimated realizable tax benefits, and an increase to additional paid-in capital for the remainder. The total amount of future payments under the tax receivable agreement could be substantial. The timing and amount of these payments will depend on a number of factors, including, among other things, (1) the amount and timing of exchanges of New Holdco common units by the Buddy's equity holders, and the extent to which these exchanges are taxable, (2) the price per share of the Franchise Group common stock at the time of exchange, (3) the amount and timing of future income against which to offset the potential tax benefits resulting from the exchange of New Holdco common units pursuant to the certificate of designation and (4) the tax laws then in effect. As of April 1, 2020, all New Holdco common units held by the Buddy's equity holders were exchanged for shares of Franchise Group common stock. However, Franchise Group is not able to quantify the dollar amount of these payments at this time.

Following the merger, on August 1, 2019, Franchise Group commenced the offer to acquire any and all outstanding shares of its common stock other than shares of its common stock held by the Vintage Group and B. Riley and certain of its affiliates, who had agreed not to tender their shares of Franchise Group common stock in the offer, for a price per share of $12.00 in cash. The offer was subject to a minimum tender condition and was completed on November 13, 2019. The offer and transaction costs related to the Buddy's merger were financed through both term loan financing and equity investments:

- Term loan financing: Buddy's executed the Buddy's credit agreement with various lenders from time to time party thereto and Kayne Solutions Fund, L.P., as administrative agent and as collateral agent, with proceeds, net of financing costs, of approximately $80.2 million. The Buddy's credit agreement was used to repay approximately $25.0 million of the existing line of credit financing of Buddy's, $22.2 million towards the tender offer and the remaining amount of approximately $23.0 million was used towards the acquisition costs.

- Equity investment from Tributum, L.P. ("Tributum"): Contemporaneously with the consummation of the merger and pursuant to the closing subscription agreement between Franchise Group and Tributum, an affiliate of Vintage Capital Management, LLC, Tributum purchased approximately 2,083,333 shares of Franchise Group common stock at a purchase price of $12.00 per share, for an aggregate purchase price of $25.0 million in cash. Such commitment financed the first $25.0 million of tender offer acceptances.

The unaudited pro forma combined financial information has been prepared based on Franchise Group's final results of the offer completed on November 13, 2019. Franchise Group stockholders accepted the offer for 3.94 million shares of Franchise Group common stock, or approximately $47.2 million, financed by the closing subscription agreement of $25.0 million and $22.2 million cash from the Buddy's term loan financing, all discussed above.

Sears Outlet Acquisition

On October 23, 2019, Franchise Group completed its acquisition of Sears Outlet pursuant to the terms of a purchase agreement dated as of August 27, 2019. Pursuant to the terms of the purchase agreement, Franchise Group paid SHOS an aggregate purchase price of $128.8 million including working capital adjustments. The acquisition costs related to the Sears Outlet acquisition were financed through the following term loan and equity contributions:

- Term loan financing: Franchise Group Newco S, LLC, an indirect subsidiary of Franchise Group, executed a term loan agreement with Guggenheim Credit Services, LLC providing Franchise Group with a senior secured term loan facility in an amount equal to $105.0 million (the "Sears Outlet term loan"). The Sears Outlet term loan will mature on October 23, 2023 and bear interest at a rate per annum based on LIBOR for an interest period of one, two, three or six months, plus an interest margin of 6.5% with a 1.50% LIBOR floor.

- Equity contributions from the Investors: On October 23, 2019, Stefac LP, an affiliate of Vintage Capital Management, LLC, Brian R. Kahn, Lauren Kahn, and B. Riley FBR, Inc. (collectively, the "Investors") provided Franchise Group with an aggregate $40.0 million of equity financing to fund a portion of the Sears Outlet acquisition through the purchase of Franchise Group common stock at $12.00 per share.

VSI acquisition

On December 16, 2019, pursuant to the term of a merger agreement, Franchise Group completed the acquisition of VSI for an all-cash transaction valued at $161.8 million. The acquisition of VSI, including the related acquisition costs, were financed through a mix of a term loan, credit facility and equity contributions:

- Term loan financing: On December 16, 2019, Vitamin Shoppe Industries, LLC, an indirect subsidiary of Franchise Group executed a term loan agreement with GACP Finance Co., LLC for an amount of $70.0 million (the "VSI term loan"). The VSI term loan will mature on December 16, 2022, unless the maturity is accelerated subject to the terms set forth in the VSI term loan. The VSI term loan will bear interest at a rate per annum based on LIBOR for an interest period of one month plus an interest rate margin of 9.0%.

- Credit facility financing: On December 16, 2019, Franchise Group entered into a Second Amendment and Restated Loan and Security Agreement (the "ABL Agreement") with JPMorgan Chase Bank, N.A. whereby JP Morgan Chase Bank, N.A. provided Franchise Group with a $100.0 million credit facility (the "VSI credit facility"). On December 16, 2019, Franchise Group borrowed $70.0 million on the VSI credit facility to finance the acquisition of VSI. The VSI credit facility will mature on December 16, 2022 unless the maturity is accelerated subject to the terms set forth in the ABL Agreement. The VSI credit facility bears interest at a rate per annum based on LIBOR for an interest period of one, two, three or six months, plus an interest rate margin that ranges from 1.25% to 1.75% depending on excess availability.

- Equity contribution from Tributum: In addition, on December 16, 2019, Tributum, an affiliate of Vintage, purchased 2.5 million shares of common stock which provided Franchise Group with an aggregate of approximately $31.0 million of equity financing in order to partially fund the closing of the acquisition (the "VSI equity contribution").

- Equity contribution from Vintage in connection with the repurchase of VSI Convertible Notes: On January 3, 2020, Franchise Group entered into a subscription agreement with an affiliate of Vintage, pursuant to which the affiliate of Vintage purchased from the Company 2.4 million shares of common stock for an aggregate purchase price of $28.2 million in cash.

- Equity contributions from certain other investors: On February 7, 2020, in connection with the Company's repurchases of VSI's outstanding 2.25% Convertible Senior Notes due 2020 (the "VSI Convertible Notes"), certain investors purchased approximately 3.9 million shares of the Company's common stock for approximately $65.9 million. Franchise Group used the proceeds to complete the repurchase of approximately $60.4 million in aggregate principal amount of outstanding VSI Convertible Notes for a purchase price of approximately $60.6 million, which includes accrued interest.

American Freight acquisition and the refinancing of Buddy's and Sears Outlet's term loan

On February 14, 2020, pursuant to the term of a merger agreement, dated December 28, 2019, Franchise Group completed the acquisition of American Freight for $356.9 million in cash. The acquisition costs related to the American Freight acquisition were financed through a term loan and credit facility:

1. Term loan financing: On February 14, 2020, Franchise Group Intermediate Holdco, LLC and Franchise Group New Holdco, LLC, an indirect subsidiary of Franchise Group executed a term loan agreement with GACP Finance Co., LLC for an amount of $575.0 million (the "New Holdco term loan"), which consists of a $375.0 million first out tranche (the "New Holdco Tranche A-1") and a $200.0 million last out Tranche (the "New Holdco Tranche A-2"). The New Holdco term loan will mature on May 14, 2025, unless the maturity is accelerated subject to the terms set forth in the New Holdco term loan. The New Holdco term loan will bear interest at a rate per annum based on LIBOR for an interest period of one, two, three or six months plus an interest rate margin of 8.0% for the New Holdco Tranche A-1 and 12.5% for the New Holdco Tranche A-2.

2. ABL credit facility financing: On February 14, 2020, Franchise Group entered into an ABL credit agreement with various lenders which provided Franchise Group with a $100.0 million credit facility (the "New Holdco credit facility"). On February 14, 2020, Franchise Group borrowed $100.0 million on the New Holdco credit facility to finance the acquisition of American Freight. The New Holdco credit facility will mature on September 30, 2020 and it bears interest at a rate per annum based on LIBOR for an interest period of one, two, three or six months, plus an interest rate margin of 7.5%, as amended on April 3, 2020.

In addition to financing the American Freight acquisition and its related acquisition costs, a portion of the proceeds from the New Holdco term loan and the New Holdco credit facility were used to repay the Buddy's and Sears Outlet's term loan discussed above for an outstanding amount of $104.6 million and $106.6 million including accrued interest, respectively.

Other transactions

On August 23, 2019, the Buddy's segment of Franchise Group entered into an asset purchase agreement with A-Team Leasing, LLC pursuant to which Buddy's completed the acquisition of 41 Buddy's Home Furnishings stores from A-Team for total consideration of $26.6 million. To finance the acquisition, Buddy's entered into a first amendment to the Buddy's credit agreement which provided for an additional term loan in an amount of $23.0 million. The additional term loan was used to consummate the acquisition, including to repay certain existing indebtedness of A-Team and secure the release of liens on the assets acquired in connection with the acquisition and to pay fees and expenses in connection with the acquisition.

On September 30, 2019, the Buddy's segment of Franchise Group entered into and completed an asset purchase agreement with various parties to acquire certain Buddy's stores previously franchised in exchange for 1.35 million shares of New Holdco common units and 0.27 million share of Franchise Group voting non-economic preferred stock for an estimated fair value of $16.2 million.

While these other transactions are included in Franchise Group's historical financial statements, the pro forma statement of operations was not adjusted to give effect to these other transactions as they were not deemed significant pursuant to Rule 3-05 of Regulation S-X.

The unaudited pro forma combined financial statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or financial position of the Combined Company (as defined below) would have been had the Transactions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or financial position of the Combined Company on a standalone basis.

Unaudited Pro Forma Combined Statement of Operations
Year Ended April 30, 2019

(Dollars in thousands except per share amounts)	Adjusted Franchise Group (Note 2) Year Ended April 30, 2019	Adjusted Buddy's (Note 2b) Year Ended March 31, 2019	Adjusted Sears Outlet (Note 2c) Year Ended May 4, 2019	Adjusted VSI (Note 2d) Year Ended March 30, 2019	Adjusted American Freight (Note 2e) Year Ended March 30, 2019	Acquisition and related Pro Forma Adjustments (Note 3)	Financing and offer Pro Forma Adjustments (Note 4)	Pro Forma Combined Year Ended April 30, 2019
Revenue:								
Product	$ —	$ 2,592	$ 448,573	$ 1,101,528	$ 443,954	$ —	$ —	$ 1,996,647
Service and other	132,546	23,005	41,626	—	—	(177)	—	197,000
Rental	—	26,504	—	—	—	—	—	26,504
Total Revenues	**132,546**	**52,101**	**490,199**	**1,101,528**	**443,954**	**(177)**	**—**	**2,220,151**
Operating Expenses:								—
Cost of revenue:								—
Product	—	1,844	334,068	745,028	243,548	—	—	1,324,488
Service and other	—	—	20,428	—	—	(177)	—	20,251
Rental	—	9,230	—	—	—	—	—	9,230
Total cost of revenue	**—**	**11,074**	**354,496**	**745,028**	**243,548**	**(177)**	**—**	**1,353,969**
Selling, general, and administrative expenses	124,060	29,098	133,364	347,191	155,810	1,012	—	790,535
Restructuring Costs	9,345	—	—	—	—	—	—	9,345
Total operating expenses	133,405	40,172	487,860	1,092,219	399,358	835	—	2,153,849
Gain (loss) from operations	**(859)**	**11,929**	**2,339**	**9,309**	**44,596**	**(1,012)**	**—**	**66,302**
Other income (expense):								—
Interest expense, net	(3,023)	(1,412)	(6,410)	(5,227)	(8,161)	—	(75,723)	(99,956)
Other	(113)	259	1,440	4,400	—	—	—	5,986
Income (loss) before income taxes	(3,995)	10,776	(2,631)	8,482	36,435	(1,012)	(75,723)	(27,668)
Income tax (benefit) expense	(1,839)	—	271	1,101	9,399	—	(14,456)	(5,524)
Net (loss) income	**(2,156)**	**10,776**	**(2,902)**	**7,381**	**27,036**	**(1,012)**	**(61,267)**	**(22,144)**
Less: Income/ (Loss) attributable to noncontrolling interests	—	—	—	—	—	—	(7,481)	(7,481)
Net (loss) income attributable to common stockholders	**$ (2,156)**	**$ 10,776**	**$ (2,902)**	**$ 7,381**	**$ 27,036**	**$ (1,012)**	**$ (53,786)**	**$ (14,663)**
Earnings per common share								
Basic (a)	$ (0.16)							$ (0.57)
Diluted (b)	(0.16)							(0.57)
Weighted average common share								
Basic (a)	13,800,884							25,565,373
Diluted (b)	13,800,884							25,565,373

See accompanying notes to the unaudited pro forma combined financial statements

Unaudited Pro Forma Combined Statement of Operations
for the eight months ended December 28, 2019

(Dollars in thousands except per share amounts)	Adjusted Franchise Group (Note 2a) Eight Months Ended, December 28, 2019	Adjusted Buddy's (Note 2b) Three Months Ended, June 30, 2019	Adjusted Sears Outlet (Note 2c) Six Months Ended, August 3, 2019	Adjusted VSI (Note 2d) Eight Months Ended, November 30, 2019	Adjusted American Freight (Note 2e) Eight Months Ended, November 30, 2019	Acquisition and related Pro Forma Adjustments	Financing and offer Pro Forma Adjustments	Pro Forma Combined Eight Months Ended, December 28, 2019
Revenue:								
Product	$ 54,266	$ 549	$ 217,187	$ 670,796	$ 273,771	$ —	$ —	$ 1,216,569
Service and other	27,528	5,935	16,998	—	—	(261)	—	50,200
Rental	22,303	6,589	—	—	—	—	—	28,892
Total Revenues	**104,097**	**13,073**	**234,185**	**670,796**	**273,771**	**(261)**	**—**	**1,295,661**
Operating Expenses:								—
Cost of revenue:								—
Product	44,684	441	161,350	425,839	—	—	—	632,314
Service and other	(442)	—	7,975	—	—	(261)	—	7,272
Rental	8,121	2,400	—	—	151,951	—	—	162,472
Total cost of revenue	**52,363**	**2,841**	**169,325**	**425,839**	**151,951**	**(261)**	**—**	**802,058**
Selling, general, and administrative expenses	142,488	8,466	53,695	257,659	100,220	(16,752)	—	545,776
Restructuring Costs	—	—	—	—	—	(895)	—	(895)
Total operating expenses	194,851	11,307	223,020	683,498	252,171	(17,908)	—	1,346,939
Gain (loss) from operations	**(90,754)**	**1,766**	**11,165**	**(12,702)**	**21,600**	**17,647**	**—**	**(51,278)**
Other income (expense):								—
Interest expense, net	(7,960)	(360)	(1,786)	(2,828)	(3,503)	—	(47,929)	(64,366)
Other	37	11	2,883	—	—	—	—	2,931
Income (loss) before income taxes	(98,677)	1,417	12,262	(15,530)	18,097	17,647	(47,929)	(112,713)
Income tax (benefit) expense	(10,445)	—	(290)	(3,616)	4,494	—	(12,648)	(22,505)
Net (loss) income	**(88,232)**	**1,417**	**12,552**	**(11,914)**	**13,603**	**17,647**	**(35,281)**	**(90,208)**
Less: Income/ (Loss) attributable to noncontrolling interests	(36,039)	—	—	—	—	—	5,565	(30,474)
Net (loss) income attributable to common stockholders	**$ (52,193)**	**$ 1,417**	**$ 12,552**	**$ (11,914)**	**$ 13,603**	**$ 17,647**	**$ (40,846)**	**$ (59,734)**
Earnings per common share								
Basic (a)	$ (3.13)							$ (2.34)
Diluted (b)	(3.13)							(2.34)
Weighted average common share								
Basic (a)	16,669,065							25,565,373
Diluted (b)	16,669,065							25,565,373

See accompanying notes to the unaudited pro forma combined financial statements

(a) Pro forma basic earnings per share and pro forma weighted average basic shares outstanding for the year ended April 30, 2019 and the eight months ended December 28, 2019 reflect the number of shares of the Company's common stock that are outstanding upon completion of the Transactions. The following represents the pro forma adjustments to the basic and weighted average earnings per share:

	Number of shares
Weighted average common share at April 30, 2019	13,800,884
Common stock repurchased as part of the offer	(3,935,738)
Common stock purchased by Tributum in connection with the offer	2,083,333
Common stock purchased by Stefac LP, Brian R. Kahn and Lauren Kahn, and B. Riley FBR, Inc. in connection with the Sears Outlet acquisition	3,333,333
Common stock purchased by Tributum/Stefac LP in connection with the VSI acquisition	2,438,748
Common stock purchased by Tributum/Stefac LP in connection with the repayment of VSI convertible note	2,354,000
Common stock purchased by certain investors, in connection with the repayment of VSI's convertible note	3,877,965
Common stock issued and sold to Kayne FRG Holdings, LP for the financing services rendered by Kayne FRG	1,250,000
Other	362,848
Pro Forma weighted average common share at April 30, 2019	25,565,373

	Number of shares
Weighted average common share at December 28, 2019	16,669,065
Additional weighted average impact of common stock repurchased as part of the offer	(2,113,437)
Additional weighted average impact of common stock purchased by Tributum in connection with the offer	399,543
Additional weighted average impact of common stock purchased by Stefac LP, Brian R. Kahn and Lauren Kahn, and B. Riley FBR, Inc. in connection with the Sears Outlet acquisition	1,598,173
Additional weighted average impact of common stock purchased by Tributum/Stefac LP in connection with the VSI acquisition	1,530,064
Common stock purchased by Tributum/Stefac LP in connection with the repayment of VSI convertible note	2,354,000
Common stock purchased by certain investors, in connection with the repayment of VSI's convertible note	3,877,965
Common stock issued and sold to Kayne FRG Holdings, LP for the financing services rendered by Kayne FRG	1,250,000
Pro Forma weighted average common share at December 28, 2019	25,565,373

(b) Due to the pro forma combined net loss attributable to the Franchise Group common stockholders for the year ended April 30, 2019 and the eight months ended December 28, 2019, dilutive common share-equivalents, including the potential conversion of New Holdco common units to shares of Franchise Group common stock and the potential issuance of shares of Franchise Group common stock under equity plans in which Franchise Group employees participate, were excluded from diluted weighted average common shares outstanding as they would have been anti-dilutive.

Unaudited Pro Forma Combined Balance Sheet
as of December 28, 2019

(Dollars in thousands, except per share amounts)	Historical: Franchise Group As of December 28, 2019	Historical: American Freight (Note 2e) As of December 29, 2019	Acquisition and related Pro Forma Adjustments (Note 3)		Financing and offer Pro Forma Adjustments (Note 4)		Pro Forma Combined As of December 28, 2019
Assets							
Current assets:							
Cash and cash equivalents	$ 39,581	$ 16,384	$ (359,951)	(3h)	$ 387,511	(4d)	$ 83,525
Current receivables, net	79,693	—	—		—		79,693
Inventories, net	300,312	54,796	11,951	(3b)	—		367,059
Other current assets	20,267	5,007	(1,128)	(3d)	—		24,146
Total Current Assets	**439,853**	**76,187**	**(349,128)**		**387,511**		**554,423**
Operating lease right-of-use assets	462,610	—	91,236	(3d)	—		553,846
Property, equipment, and software, net	150,147	9,258	2,074	(3b)	—		161,479
Non-current receivable, net	18,638	—	—		—		18,638
Goodwill	134,301	229,210	107,430	(3e)	—		470,941
Intangible assets, net	77,590	56,000	14,200	(3b)	—		147,790
Other non-current assets	15,406	1,659	(67)	(3a)	9,117	(4d)	26,115
Total Assets	**1,298,545**	**372,314**	**(134,255)**		**396,628**		**1,933,232**
Liabilities and Equity							
Current liabilities:							
Current installments of long-term obligations	218,384	3,210	—		(50,225)	(4d)	171,369
Revolving credit facility	—	—	—		100,000	(4d)	100,000
Accounts payable and accrued expenses	158,995	33,631	—		(4,396)	(4d)	188,230
Current portion of operating lease liabilities	107,680	—	17,457	(3d)	—		125,137
Accounts payable - related parties	—	4,292	—		—		4,292
Layaway deposits and deferred revenue	—	10,179	—		—		10,179
Other current liabilities	16,409	—	—		—		16,409
Total current Liabilities	**501,468**	**51,312**	**17,457**		**45,379**		**615,616**
Long-term obligations, excluding current installments, net	245,236	98,690	1,087	(3a)	226,063	(4d)	571,076
Operating Lease Liabilities - non-current	394,307	—	62,289	(3d)	—		456,596
Other non-current liabilities	5,773	23,941	(14,491)	(3c,d,i)	—		15,223
Total Liabilities	**$ 1,146,784**	**$ 173,943**	**$ 66,342**		**$ 271,442**		**$ 1,658,511**
Redeemable series A preferred stock $0.001 par value	—	114,400	(114,400)	(3f)	—		—
Stockholders and Members' equity:							—
Preferred stock, $0.01 par value per share,	19	—	—		—		19
Common stock, $0.01 par value per share	183	28,600	(28,600)	(3f)	75	(4d)	258
Contributed capital	—	2,368	(2,368)	(3f)	—		—
Additional paid-in capital	108,339	—	—		125,111	(4d)	233,450
					(47,905)	(4e)	(47,905)
Accumulated other comprehensive loss, net of taxes	(1,538)	—	—		—		(1,538)
Retained earnings	18,388	52,985	(55,211)	(3f,j)	—		16,162
Total stockholders' equity attributable to Liberty	**125,391**	**83,971**	**(86,197)**		**77,281**		**200,446**
Non-controlling interest	26,370	—	—		47,905	(4e)	74,275
Total stockholders' equity	**151,761**	**83,971**	**(86,197)**		**125,186**		**274,721**
Total Liabilities, Mezzanine Equity and Equity	**$ 1,298,545**	**$ 372,314**	**$ (134,255)**		**$ 396,628**		**$ 1,933,232**

See accompanying notes to the unaudited pro forma combined financial statements

Notes to the Unaudited Pro Forma Combined Financial Statements
(dollars in thousands, except share and per share data)

Note 1: Basis of Presentation

The accompanying pro forma financial statements were prepared in accordance with Article 11 of Regulation S-X and present the pro forma statements of operations and pro forma balance sheet of the combined company based on the historical financial statements of Franchise Group, Buddy's, Sears Outlet, VSI, and American Freight (the "Combined Company"), after giving effect to the Transactions as described above. The historical financial statements of Franchise Group, Buddy's, Sears Outlet, VSI, and American Freight have been adjusted in the accompanying pro forma financial statements to give effect to pro forma events that are (i) directly attributable to the Transactions, (ii) factually supportable and (iii) with respect to the statement of operations, expected to have a continuing impact on the combined results of operations of the Combined Company.

The accompanying pro forma financial statements are presented for illustrative purposes only and do not purport to be indicative of the actual results that would have been achieved by the Combined Company if the Transactions had been consummated for the periods presented or that will be achieved in the future. The pro forma financial statements do not reflect the costs of any integration activities or benefits that may result from realization of revenue growth or operational synergies expected to result from the Transactions.

In addition, the historical statement of operations for the fiscal year ended December 31, 2018 of Buddy's, fiscal year ended December 29, 2018 of VSI, and the fiscal year ended December 30, 2018 of American Freight have been adjusted to reflect a trailing twelve months ended March 31, 2019 for Buddy's and a trailing twelve months ended March 30, 2019 for VSI and American Freight by adding the statement of operations for the three months ended March 31, 2019 for Buddy's and the statement of operations for the three months ended March 30, 2019 for VSI and American Freight, and subtracting the statement of operations for the three months ended March 31, 2018. Similarly, the historical combined statement of operations for the fiscal year ended February 2, 2019 of Sears Outlet has been adjusted to reflect a trailing twelve-months ended May 4, 2019 by adding Sears Outlet's statement of operation for the three months ended May 4, 2019 and subtracting Sears Outlet's statement of operations for the three months ended May 5, 2018.

Note 2: Adjustments to Franchise Group's, Buddy's, Sears Outlet's, VSI's and American Freight's Historical Financial Statements

(2a) Adjustments and reclassifications to Franchise Group's historical financial statements:

Certain reclassifications have been made to the historical presentation of the statement of operations for the fiscal year ended April 30, 2019 of Franchise Group to conform to its financial statement presentation for the eight months ended December 28, 2019. The pro forma combined statement of operations for the eight months ended December 28, 2019 was prepared by combining the historical consolidated statement of operations for the eight months ended December 28, 2019 of Franchise Group and the pre-merger historical consolidated statement of operations for the three months ended June 30, 2019 of Buddy's, the pre-acquisition historical combined statement of operations for the six months ended August 3, 2019 of Sears Outlet, the pre-acquisition historical consolidated statement of operations for the eight months ended November 30, 2019 of VSI, and the pre-acquisition historical consolidated statement of operations for the eight months ended December 29, 2019 of American Freight and giving effect to the Transactions as if they had occurred on the first day of the fiscal year May 1, 2018.

Unaudited Pro Forma Combined Statement of Operations
for the year-ended April 30, 2019

Dollars in thousands, except per share amounts	Historical Franchise Group	Reclassification	After Reclassification
Revenue:			
Franchise fees	$ 2,766	$ (2,766)	$ —
Area Developer fees	3,146	(3,146)	—
Royalties and advertising fees	63,716	(63,716)	—
Financial products	33,478	(33,478)	—
Interest income	8,189	(8,189)	—
Assisted tax preparation fees, net of discounts	14,611	(14,611)	—
Electronic Filing Fee	2,675	(2,675)	—
Product	—	—	—
Service and other	—	132,546	132,546
Rental	—	—	—
Other revenues	3,965	(3,965)	—
Total revenues	**132,546**		**132,546**
Operating Expenses:			—
Cost of revenue:	—	—	—
Product	—	—	—
Service and other	—	—	—
Rental	—	—	—
Total cost of revenue	—	—	—
Employee compensation and benefits	39,822	(39,822)	—
Selling, general, and administrative expenses	42,038	82,022	124,060
Area Developer expense	15,584	(15,584)	—
Advertising expense	12,532	(12,532)	—
Depreciation, amortization, and impairment charges	14,084	(14,084)	—
Restructuring Costs	9,345	—	9,345
Total operating expenses	133,405	—	133,405
Gain (loss) from operations	**(859)**	—	**(859)**
Other (expense) income:			
Foreign currency transaction (loss) gain	(113)	113	—
Interest expense, net	(3,203)	—	(3,203)
Other	—	(113)	(113)
Loss before income taxes	(3,995)	—	(3,995)
Income tax benefit	1,839	—	1,839
Net loss	(2,156)	—	(2,156)
Less: Net (loss) income attributable to participating securities	—	—	—
Net loss attributable to Class A and Class B common stockholders	$ (2,156)		$ (2,156)
Net (loss) income per share attributable to Class A and Class B common stockholders:			—
Basic	$ (0.16)		$ (0.16)
Diluted	(0.16)		(0.16)
Weighted-average shares used to compute net income (loss) per share attributable to Class A and Class B common stockholders:			
Basic	13,800,884		13,800,884
Diluted	13,800,884		13,800,884

The statement of operations for the eight months ended December 28, 2019 include post-merger operations of Buddy’s for the period July 10, 2019 to December 28, 2019, post-acquisition operations of Sears Outlet for the period October 23, 2019 to December 28, 2019, and post-acquisition operations of VSI for the period December 16, 2019 to December 28, 2019. Accordingly, the following adjustments to Franchise Group’s statement of operations were made to eliminate the post-merger operations of Buddy’s for the period July 11, 2019 to July 31, 2019, the post-acquisition operations of Sears Outlet for the period October 23, 2019 to October 31, 2019, and the post-acquisition operations of VSI for the period December 16, 2019 to December 28, 2019 in order to avoid combining operating results of Buddy’s, Sears Outlet, and VSI that exceed an eight-month period.

	Historical Franchise Group	**Less: Buddy's adjustments**	**Less: Sears Outlet adjustments**	**Less: VSI adjustments**	**Adjusted Franchise Group**
Dollars in thousands, except per share amounts	**Eight Months Ended December 28, 2019**	**July 10, 2019 - July 31, 2019**	**October 23, 2019 - October 31, 2019**	**December 16, 2019 - December 28, 2019**	**Eight Months Ended December 28, 2019**
Revenue:					
Product	$ 96,139	$ 118	$ 11,181	$ 30,574	$ 54,266
Service and other	29,735	1,191	1,016	—	27,528
Rental	23,636	1,334	(1)	—	22,303
Total revenues	**149,510**	**2,643**	**12,196**	**30,574**	**104,097**
Operating expenses:					
Cost of revenue:					
Product	71,820	93	7,565	19,478	44,684
Service and other	768	—	1,210	—	(442)
Rental	8,661	540	—	—	8,121
Total cost of revenue	81,249	633	8,775	19,478	52,363
Selling, general, and administrative expenses	173,860	1,479	5,288	24,605	142,488
Total operating expenses	**255,109**	**2,112**	**14,063**	**44,083**	**194,851**
Loss from operations	**(105,599)**	**531**	**(1,867)**	**(13,509)**	**(90,754)**
Other income (expense):					
Interest expense, net	(9,349)	(487)	(212)	(690)	(7,960)
Other	37	—	—	—	37
Loss before income taxes	**(114,911)**	**44**	**(2,079)**	**(14,199)**	**(98,677)**
Income tax benefit	(10,445)	—	—	—	(10,445)
Loss before income taxes	**(104,466)**	**44**	**(2,079)**	**(14,199)**	**(88,232)**
Less: Net loss attributable to non-controlling interest	36,039	—	—	—	36,039
Net loss attributable to Franchise Group, Inc.	**$ (68,427)**	**$ 44**	**$ (2,079)**	**$ (14,199)**	**$ (52,193)**

(2b) Adjustments and reclassifications of Buddy’s historical financial statements:
Certain reclassifications have been made to the historical presentation of the statement of operations of Buddy’s to conform to the financial statement presentation of Franchise Group. In addition, certain operations of Buddy’s, including its Flexi Buddy’s, BGTG LLC and 1357 LLC subsidiaries, were divested to the Buddy’s equity holders in December 2018 and therefore were not acquired or assumed by Franchise Group. The following summarizes the reclassification adjustments and elimination of the operations that were not acquired as part of the merger in the unaudited pro forma combined statement of operations for the trailing twelve months ended March 31, 2019 and the three months ended June 30, 2019.

Buddy's Statement of Operations

(in thousands)	April 1, 2018 - March 31, 2019 Before Adjustment	Operations not contributed	Reclassification	After Adjustment	April 1, 2019 - June 30, 2019 Before Adjustment	Reclassification	After Adjustment
Revenue							
Lease revenue	$ 30,560	$ (4,056)	$ (26,504)	$ —	$ 6,589	$ (6,589)	$ —
Agreement, club and damage waiver fee	6,160	(792)	(5,368)	—	1,352	(1,352)	—
Retail sales	2,874	(282)	(2,592)	—	549	(549)	—
Franchising and licensing fees	15,204	532	(15,736)	—	4,270	(4,270)	—
Other support revenue	2,023	(122)	(1,901)	—	313	(313)	—
Product	—	—	2,592	2,592	—	549	549
Service	—	—	23,005	23,005	—	5,935	5,935
Leasing	—	—	26,504	26,504	—	6,589	6,589
Revenue, net	56,821	(4,720)	—	52,101	13,073	—	13,073
Leasing cost of sales	10,949	(1,719)	(9,230)	—	2,400	(2,400)	—
Retail cost of sales	2,197	(353)	(1,844)	—	441	(441)	—
Cost of revenue:							—
Product	—	—	1,844	1,844	—	441	441
Leasing	—	—	9,230	9,230	—	2,400	2,400
Total cost of revenue	13,146	(2,072)	—	11,074	2,841	—	2,841
Operating expenses:							
Personnel expense	16,375	(2,074)	(14,301)	—	3,722	(3,722)	—
Occupancy expense	4,845	(635)	(4,210)	—	1,050	(1,050)	—
Marketing expense	1,927	(89)	(1,838)	—	603	(603)	—
Delivery/Vehicle expense	1,356	(208)	(1,148)	—	257	(257)	—
General & Administrative expense	7,426	(339)	(7,087)	—	2,490	(2,490)	—
Selling, general, and administrative expenses	—	—	29,098	29,098	—	8,466	8,466
Depreciation expenses	608	(95)	(513)	—	107	(107)	—
Total operating costs	45,683	(5,512)	1	40,172	11,070	237	11,307
Operating income	11,138	792	(1)	11,929	2,003	(237)	1,766
Other income (expense)							
Net gain on sale of store related assets	178	81	(259)	—	11	(11)	—
Other	—	—	259	259	—	11	11
Amortization expense	(178)	177	1	—	(237)	237	—
Interest expense	(1,453)	41	—	(1,412)	(360)	—	(360)
Total other income (expense)	(1,453)	299	1	(1,153)	(586)	237	(349)
Net income before income taxes	9,685	1,091	—	10,776	1,417	—	1,417
Income taxes	—	—		—	—		—
Net income from continuing operations	**$ 9,685**	**$ 1,091**	**$ —**	**$ 10,776**	**$ 1,417**	**$ —**	**$ 1,417**

(2c) Reclassification of Sears Outlet's historical combined financial statements:

Certain reclassifications have been made to the historical presentation of the statement of operations and balance sheet of Sears Outlet to conform to the financial statement presentation of Franchise Group. The following summarizes the reclassification adjustments in the unaudited pro forma carve-out statement of operations for the trailing twelve months ended May 4, 2019 and reclassification adjustment in the unaudited pro forma carve-out statement of operations for the six months ended August 3, 2019.

Sears Outlet Statement of Operations

	May 5, 2018 - May 4, 2019			February 5, 2019 - August 3, 2019		
(in thousands)	**Before Adjustment**	**Reclassification**	**After Adjustment**	**Before Adjustment**	**Reclassification**	**After Adjustment**
Revenue						
Product	$ —	$ 448,573	$ 448,573	$ —	$ 217,187	$ 217,187
Service	—	41,626	41,626	—	16,998	16,998
Net sales	490,199	(490,199)	—	234,185	(234,185)	—
Operating expenses:						
Cost of revenue:						
Product	—	334,068	334,068	—	161,350	161,350
Service	—	20,428	20,428		7,975	7,975
Cost of goods sold	354,496	(354,496)	—	169,325	(169,325)	—
Selling, general, and administrative expenses	126,296	7,068	133,364	51,582	2,113	53,695
Impairment of property and equipment	1,082	(1,082)	—	—	—	—
Depreciation and amortization	5,986	(5,986)	—	2,113	(2,113)	—
Loss (gain) on sale of assets	(1,306)	1,306	—	(2,877)	2,877	—
Total costs and expenses	486,554	1,306	487,860	220,143	2,877	223,020
Operating income (loss)	3,645	(1,306)	2,339	14,042	(2,877)	11,165
Other income (expense)						
Interest expense	(6,410)	—	(6,410)	(1,786)	—	(1,786)
Other income	134	1,306	1,440	6	2,877	2,883
Income (loss) before income taxes	(2,631)	—	(2,631)	12,262	—	12,262
Income tax expense (benefit)	271	—	271	(290)	—	(290)
Net income (loss)	**$ (2,902)**	**$ —**	**$ (2,902)**	**$ 12,552**	**$ —**	**$ 12,552**

(2d) Reclassification of VSI's historical financial statements:

Certain reclassifications have been made to the historical presentation of the statement of operations and balance sheet of VSI to confirm to the financial statement presentation of Franchise Group. The following summarizes the reclassification adjustments in the unaudited pro forma combined statement of operations for the trailing twelve months ended March 31, 2019 and reclassification adjustment in the unaudited pro forma combined statement of operations for the eight months ended November 30, 2019.

VSI Statement of Operations

(in thousands)	April 1, 2018 - March 30, 2019 Before Adjustment	Reclassification	After Adjustment	April 1, 2019 - November 30, 2019 Before Adjustment	Reclassification	After Adjustment
Revenue						
Product	$ —	$ 1,101,528	$ 1,101,528	$ —	$ 670,796	$ 670,796
Net sales	1,101,528	(1,101,528)	—	670,796	(670,796)	—
Cost of revenue:						
Product	—	745,028	745,028	—	425,839	425,839
Cost of goods sold	745,028	(745,028)	—	425,839	(425,839)	—
Gross profit	356,500	—	356,500	244,957	—	244,957
Selling, general, and administrative expenses	344,174	3,017	347,191	246,255	11,404	257,659
Goodwill, tradename and store fixed-assets impairment charges	3,017	(3,017)	—	11,404	(11,404)	—
Income (loss) from operations	9,309	—	9,309	(12,702)	—	(12,702)
Gain on extinguishment of debt	4,400	—	4,400	—	—	—
Interest expense	(5,227)	—	(5,227)	(2,828)	—	(2,828)
Income (loss) before provision (benefit) for income taxes	8,482	—	8,482	(15,530)	—	(15,530)
Income tax expense (benefit)	1,101	—	1,101	(3,616)	—	(3,616)
Net income (loss) from continuing operations	**$ 7,381**	**$ —**	**$ 7,381**	**$ (11,914)**	**$ —**	**$ (11,914)**

(2e) Reclassification of American Freight's historical financial statements:

Certain reclassifications have been made to the historical presentation of the statement of operations and balance sheet of American Freight to conform to the financial statement presentation of Franchise Group. The following summarizes the reclassification adjustments in the unaudited pro forma combined statement of operations for the trailing twelve months ended March 30, 2019 and reclassification adjustment in the unaudited pro forma combined statement of operations and balance sheet as of and for the eight months ended December 29, 2019.

American Freight Statement of Operations

(in thousands)	April 1, 2018 - March 30, 2019 Before Adjustment	April 1, 2018 - March 30, 2019 Reclassification	April 1, 2018 - March 30, 2019 After Adjustment	May 1, 2019 - December 29, 2019 Before Adjustment	May 1, 2019 - December 29, 2019 Reclassification	May 1, 2019 - December 29, 2019 After Adjustment
Revenue						
Product	$ —	$ 443,954	$ 443,954	$ —	$ 273,771	$ 273,771
Revenue	443,954	(443,954)	—	273,771	(273,771)	—
Cost of revenue						—
Merchandise	220,365	(220,365)	—	139,231	(139,231)	—
Freight	23,183	(23,183)	—	12,720	(12,720)	—
Product	—	243,548	243,548	—	151,951	151,951
Gross profit	200,406	—	200,406	121,820	—	121,820
Depreciation expense	1,843	(1,843)	—	1,745	(1,745)	
Selling, general, and administrative expenses	153,967	1,843	155,810	98,475	1,745	100,220
Gain (loss) from operations	44,596	(1,843)	44,596	21,600	(1,745)	21,600
Interest expense	(8,161)	—	(8,161)	(3,503)	—	(3,503)
Income (loss) before provision (benefit) for income taxes	36,435	(1,843)	36,435	18,097	(1,745)	18,097
Income tax expense (benefit)	9,399	—	9,399	4,494	—	4,494
Net income (loss) from continuing operations	**$ 27,036**	**$ (1,843)**	**$ 27,036**	**$ 13,603**	**$ (1,745)**	**$ 13,603**

American Freight Group, Inc. Balance sheet

	As of December 29, 2019		
(in thousands)	Before Reclassification	Reclassification	As Adjusted
Assets			
Cash and cash equivalents	$ 16,384	$ —	$ 16,384
Other current assets	—	5,007	5,007
Prepaid expenses and other current assets	5,007	(5,007)	—
Inventories, net	54,796	—	54,796
Total Current Assets	76,187	—	76,187
Property, equipment, and software, net	9,258	—	9,258
Goodwill	229,210	—	229,210
Intangible assets	56,000		56,000
Other Assets	1,659	—	1,659
Total Assets	$ 372,314	$ —	$ 372,314
Liabilities and Equity			
Account payable	$ 21,004	$ (21,004)	$ —
Accounts payable - related parties	4,292	—	4,292
Layaway deposits and deferred revenue	10,179	—	10,179
Other current liabilities	—	—	—
Accrued salaries and related benefits	2,317	(2,317)	—
Accrued expenses and other current liabilities	10,310	(10,310)	—
Accounts payable and accrued expenses	—	33,631	33,631
Term debt - current portion	3,210	(3,210)	—
Current installments of long-term obligations	—	3,210	3,210
Total Current Liabilities	51,312	—	51,312
Term debt	98,690	(98,690)	—
Long-term obligations, excluding current installments, net	—	98,690	98,690
Deferred rent obligations	2,335	(2,335)	—
Other non-current liabilities	—	23,941	23,941
Deferred tax liabilities	21,606	(21,606)	—
Total Liabilities	$ 173,943	$ —	$ 173,943
Redeemable series A preferred stock $0.001 par value	$ 114,400	$ —	$ 114,400
Stockholders' Equity			
Common stock	$ 28,600	$ —	$ 28,600
Contributed capital	2,386	—	2,386
Additional paid-in-capital	—	—	—
Retained earnings	52,985	—	52,985
Total stockholders' equity	83,971	—	83,971
Total Liabilities, Mezzanine Equity and Stockholders' Equity	$ 372,314	$ —	$ 372,314

Note 3: Purchase Price Accounting and Related Adjustments

The unaudited pro forma combined balance sheet as of December 28, 2019 has been adjusted to reflect the preliminary allocation of the purchase price to identifiable assets acquired and liabilities assumed related to American Freight, with the excess recorded as goodwill. The historical audited balance sheet of Franchise Group as of December 28, 2019 already reflects the acquisitions of Buddy's, Sears Outlet, and VSI. However, the unaudited pro forma statement of operations for the eight months ended December 28, 2019 and the year ended April 30, 2019 gives effect to the American Freight, VSI, Sears Outlet, and Buddy's acquisitions as if they occurred on May 1, 2018.

The fair value adjustments of the Buddy's merger and the acquisitions of Sears Outlet, VSI, and American Freight to the pro forma statements of operations are stated below:

	For the year ended April 30, 2019									
(in thousands)	**Buddy's**		**Sears Outlet**		**VSI**		**American Freight**		**Total Acquisition Pro Forma Adjustments**	**Notes**
Revenue:										
Service	$ (177)	(3g)	$ —		$ —		$—		$ (177)	(3g)
Total	**(177)**		**—**		**—**		**—**		**(177)**	
Operating Expenses:										
Cost of revenue:										
Service			(177)	(3g)					(177)	(3g)
Selling, general, and administrative expenses	1,942	(3b3)	4,754	(3b2)	(8,259)	(3b1)	2,575	(3b),(3d)	1,012	(3b)
Total	**1,942**		**4,577**		**(8,259)**		**2,575**		**835**	
Total operating income/ (expense)	$ (2,119)		$ (4,577)		$ 8,259		$ (2,575)		$ (1,012)	

	For the 8-months ended December 28, 2019									
(in thousands)	**Buddy's**		**Sears Outlet**		**VSI**		**American Freight**		**Total Acquisition Pro Forma Adjustments**	
Revenue:										
Service	$ (261)	(3g)	$ —		$ —		$ —		$ (261)	(3g)
Total	**(261)**		**—**		**—**		**—**		**(261)**	
Operating Expenses:										
Cost of revenue:										
Service	—		(261)	(3g)	—		—		(261)	(3g)
Selling, general, and administrative expenses	(6,367)	(3k)	(5,179)	(3k)	(3,704)	(3k)	(1,502)	(3k)	(16,752)	(3k)
Selling, general, and administrative expenses	486	(3b3)	2,377	(3b2)	(5,474)	(3b1)	1,716	(3b),(3d)	(895)	(3b)
Total	**(5,881)**		**(3,063)**		**(9,178)**		**214**		**(17,908)**	
Total operating income/ (expense)	**$ 5,620**		**$ 3,063**		**$ 9,178**		**$ (214)**		**$ 17,647**	

Estimated purchase price and purchase price allocation of American Freight

Below includes the preliminary calculation of assets acquired and liabilities assumed performed for the purpose of these unaudited pro forma financial statements. The allocation of the purchase price to the fair values of the assets acquired and liabilities assumed includes pro forma adjustments to the fair values of American Freight assets and liabilities. As of the time of this filing, the Company has not yet finalized the detailed valuation analysis related to the fair values of identifiable assets to be acquired and liabilities to be assumed. The final amounts recorded for the acquisition may differ materially from the information presented below. The preliminary purchase price for American Freight is $356.9 million.

The preliminary estimated purchase price allocation of American Freight is calculated as follows:

(in thousands)	December 29, 2019 American Freight Group, Inc. Historical Information	AF Fair Value Adjustments		Purchase Price Allocation	
Cash and cash equivalents	$ 16,384	$ —		$ 16,384	
Other current assets	5,007	(1,128)	(3d)	3,879	
Inventories, net	54,796	11,951	(3b)	66,747	
Lease right-of-use assets	—	91,236	(3d)	91,236	
Property, equipment, and software, net	9,258	2,074	(3b)	11,332	
Intangible assets	56,000	14,200	(3b)	70,200	
Goodwill	229,210	107,430	(3e)	336,640	
Other Assets	1,659	(67)	(3a)	1,592	
Total assets acquired	**$ 372,314**	**$ 225,696**		**$ 598,010**	
Accounts payable - related parties	$ 4,292	$ —		$ 4,292	
Layaway deposits and deferred revenue	10,179	—		10,179	
Current operating lease liabilities	—	17,457	(3d)	17,457	
Accrued expenses and other current liabilities	33,631	—		33,631	
Current installments of long-term obligations	3,210	—		3,210	
Long-term obligations, excluding current installments, net	98,690	1,087	(3a)	99,777	
Non-current operating lease liabilities	—	62,289	(3d)	62,289	
Other non-current liabilities	23,941	(13,652)	(3c), (3d)	10,289	
Total liabilities assumed	**$ 173,943**	**$ 67,181**		**$ 241,124**	
Redeemable series A preferred stock $0.001 par value	114,400	(114,400)	(3f)	—	
Historical equity value of AF					
Common stock, $0.01 par value per share	28,600	(28,600)	(3f)	—	
Contributed capital	2,386	(2,386)	(3f)	—	
Additional paid-in capital	—	—		—	
Retained earnings	52,985	(52,985)	(3f)	—	
Total purchase consideration	**$ 198,371**	**$ (198,371)**		**$ 356,886**	(3h)

(3a) Represents the elimination of deferred financing costs on American Freight's existing revolver of $0.1 million and the deferred financing costs on its existing term loan of $1.1 million.

(3b) Represents adjustments to record the preliminary estimated fair value adjustments to increase Property, equipment, and software, net (“PP&E”) by $2.1 million, intangible assets by $14.2 million related to an indefinite-lived tradename and inventory by $12.0 million. The preliminary fair value adjustment to PP&E results in an increase to depreciation expense recorded within Selling, general and administrative expense by $0.2 million for the year ended April 30, 2019 and $0.1 million for the eight months ended December 29, 2019. The estimated depreciation expenses were computed using the straight-line method based on the estimated useful life of the PP&E.

The pro forma combined statements of operations do not reflect adjustments related to the step-up in fair value of the inventory because the inventory turn period is less than one year and therefore there is no continuing impact.

The final determination of fair value of inventory, tradename and other intangible assets, PP&E, as well as their estimated useful lives, if any, remains subject to change and will be finalized during the measurement period that does not exceed twelve months.

(3c) Reflects the income tax differences and related impact on deferred tax liabilities of the fair value adjustments, exclusive of goodwill, applying an estimated statutory income tax rate of 27.4%. The statutory rate may differ materially from the Company’s effective tax rate following the acquisition and does not consider any historical or future tax events that may impact the combined company. The adjustment reduces the deferred tax liabilities by $11.0 million.

(3d) Represents adjustments to align the accounting policies of American Freight to reflect the adoption of the new lease standard, including adjustments to the operating lease right-of-use assets of $91.2 million (inclusive of an adjustment for favorable lease market terms of $11.5 million), the current operating lease liabilities of $17.4 million, and non-current operating lease liabilities of $62.3 million. In addition, American Freight’s historical prepaid rent of $1.1 million and historical accrued rent of $2.6 million were eliminated in connection with the fair value adjustments to the operating lease right-of-use assets.

The favorable lease market terms of $11.5 million is amortized on a straight-line basis over the average remaining lease terms and is recognized to Selling, general, and administrative expenses.

	American Freight				
				Amortization expense	
	Fair Value	**Estimated Useful Life**	**Amortization Method**	**Eight months ended December 29, 2019**	**Year ended April 30, 2019**
Trademark / trade name	14,200	Indefinite	N/A	$ —	$ —
Above/ (below) market leases	11,490	4.9	Straight-line	1,563	2,345
Total acquired intangible assets	25,690			1,563	2,345
Less: historical intangible assets				—	—
Pro forma adjustment				**$ 1,563**	**$ 2,345**

(3e) Represents the excess of the purchase price over the preliminary fair value of the underlying net tangible and identifiable intangible assets, net of liabilities, and is estimated to be $336.6 million, which is an increase of $107.4 million over American Freight’s book value of goodwill prior to the acquisition. The estimated goodwill to be recognized is attributable to the assembled workforce and operational synergies in the expected franchise models.

(3f) Represents the elimination of American Freight's historical mezzanine equity preferred stock of $114.4 million that was settled in the acquisition and historical equity accounts, including common stock of $28.6 million, contributed capital of $2.4 million, and retained earnings of $53.0 million.

(3g) Represents intercompany elimination of balances and transactions between the Buddy’s segment of Franchise Group and Buddy’s franchise stores owned by Sears Outlet.

(3h) Represents adjustments related to the payment of the cash purchase price of American Freight and estimated Transaction-related costs, as follows:

Pro forma adjustment to cash		**Cash**
(in thousands)		
Purchase of American Freight	$	(356,886)
Transaction-related costs		(3,065)
Pro forma adjustment to cash	$	(359,951)

These transaction-related expenses are not reflected in the pro forma combined statements of operations because they do not have a continuing impact.

(3i) Reflects the income tax-effect related to the acquisition-related costs for an amount of $ 0.8 million using an estimated statutory income tax rate of 27.4%. The statutory rate may differ materially from the Company's effective tax rate following the Acquisition and does not consider any historical or future tax events that may impact the combined company.

(3j) Reflects $2.2 million of additional Transaction-related expenses, net of tax, that were incurred subsequent to December 28, 2019 to close the American Freight Acquisition. Therefore, an adjustment is reflected to retained earnings. These costs are not reflected in the pro forma statements of operations because they are nonrecurring in nature.

(3k) Represents the removal of actual transaction costs related to the Transactions included in the statement of operations of Franchise Group for the eight months ended December 28, 2019 as follows:

Buddy's Original Acquisition	$	6,367
Vitamin Shoppe		3,704
Sears Outlet Stores		5,179
American Freight		1,502
Total	**$**	**16,752**

Fair value adjustment of VSI

(3b1) Upon consummation of the VSI acquisition, Franchise Group identified VSI's tradename as an indefinite-lived intangible asset with a fair value of $12.0 million. Upon consummation of the VSI acquisition, Franchise Group recognized a fair value adjustment to the right-of-use assets balance relating to above market leases for an amount of ($54.3) million.

	VSI					
				Amortization expense		
	Fair Value	**Estimated Useful Life**	**Amortization Method**	**Eight months ended November 30, 2019**		**Year ended April 30, 2019**
Trademark / trade name	$ 12,000	Indefinite	N/A	$	—	$ —
Above/ (below) market leases	(54,311)	5.2	Straight-line		(6,963)	(10,444)
Total acquired intangible assets	(42,311)				(6,963)	(10,444)
Less: historical intangible assets					(190)	(333)
Pro forma adjustment				**$**	**(7,153)**	**$ (10,777)**

The preliminary fair value of PP&E increased the book value of furniture, fixture and equipment by $17.6 million. This resulted in a pro forma adjustment to increase the depreciation charge recorded to Selling, general, and administrative expenses by $2.5 million for the year ended April 30, 2019 and by $1.7 million for the eight months ended December 28, 2019. The estimated depreciation expenses were computed using the straight-line method based on an estimated useful life of the PP&E.

Fair value adjustment of Sears Outlet

(3b2) Upon consummation of the Sears Outlet acquisition, Franchise Group recognized a fair value adjustment to the right-of-use assets balance relating to below market leases for an amount $19.3 million.

	Sears Outlet				
				Amortization expense	
	Fair Value	Estimated Useful Life	Amortization Method	Six months ended August 3, 2019	Year ended April 30, 2019
Above/ (below) market leases	$ 19,260	4.1	Straight-line	$ 2,349	$ 4,698
Total acquired intangible assets				2,349	4,698
Less: historical intangible assets				—	—
Pro forma adjustment				**$ 2,349**	**$ 4,698**

The fair value of PP&E increased the book value of furniture, fixture and equipment by $0.3 million. This resulted in a pro forma adjustment to increase the depreciation charge recorded to Selling, general, and administrative expenses by $0.1 million for the year ended April 30, 2019 and by a minimal amount for the eight months ended December 28, 2019. The estimated depreciation expenses were computed using the straight-line method based on an estimated useful life of the PP&E.

Fair value adjustment of Buddy's

(3b3) Upon consummation of the merger with Buddy's, Franchise Group identified the Buddy's tradename as an indefinite-lived intangible asset with a fair value of $11.1 million. Franchise Group also recognized an asset of $10.5 million for franchise agreements, $7.7 million for customer contracts and ($2.3) million for above market operating leases.

	Buddy's				
				Amortization expense	
	Fair Value	Estimated Useful Life	Amortization Method	Three months ended June 30, 2019	Year ended April 30, 2019
Trademark / trade name	$ 11,100	Indefinite	N/A	$ —	$ —
Franchise agreements / relationships	10,500	10	Straight-line	263	1,050
Customer contacts / relationships	7,700	6	Straight-line	321	1,283
Above/ (below) market leases	(2,345)	6	Straight-line	(98)	(391)
Total acquired intangible assets	26,955			486	1,942
Less: historical intangible assets				—	—
Pro forma adjustment				**$ 486**	**$ 1,942**

All amortization adjustments related to identified intangible assets as a result of the merger of Buddy's are recorded to Selling, general, and administrative expenses. The estimated amortization expense was computed using the straight-line method based on an estimated useful life of the identifiable definite-lived intangible assets.

Note 4: Financing and Offer Adjustments

(4a) Represents an increase to interest expense of $75.7 million and $47.9 million for the fiscal year ended April 30, 2019 and eight months ended December 28, 2019, respectively, which includes the following:

(in thousands)	For the twelve months ended April 30, 2019				
	Buddy's	**Sears Outlet**	**VSI**	**New Holdco (4)**	**Total**
Estimated interest expense on new financing (1)	$ —	$ —	$ 9,544	$ 72,829	$ 82,373
Elimination of historical interest expenses (2)	(1,412)	(6,410)	(5,227)	(8,161)	(21,210)
Amortization of deferred debt issuance costs (3)	—	—	2,792	11,768	14,560
Total pro forma adjustment to interest expense	$ (1,412)	$ (6,410)	$ 7,109	$ 76,436	**$ 75,723**

(in thousands)	For the eight months ended December 28, 2019				
	Buddy's	**Sears Outlet**	**VSI**	**New Holdco (4)**	**Total**
Estimated interest expense on new financing (1)	$ —	$ —	$ 5,346	$ 47,586	$ 52,932
Elimination of historical interest expenses (2)	(4,881)	(3,383)	(2,828)	(3,503)	(14,595)
Amortization of deferred debt issuance costs (3)	—	—	1,606	7,985	9,591
Total pro forma adjustment to interest expense	$ (4,881)	$ (3,383)	$ 4,124	$ 52,068	**$ 47,929**

(1) Represents additional interest expense calculated at an estimated 9.69% interest rate in connection with the New Holdco Tranche A-1, an estimated 14.19% interest rate in connection with the New Holdco Tranche A-2, an estimated 9.19% interest rate in connection with the $100 million New Holdco credit facility, an estimated 11.00% interest rate on the $70.0 million 3-year VSI term loan, and an estimated 3.66% on the $70.0 million 3-year VSI credit facility. The estimated interest rates and adjustments are based on current LIBOR rates and estimated interest rate spreads based on the terms of the executed debt agreements. Refer to Note 4d for further summary of the financing transactions.

(2) Represents the elimination of Buddy’s, Sears Outlet’s, VSI’s, and American Freight’s historical interest expense as a result of the extinguishment of its historical term loans and line of credits pursuant to the acquisition agreements. The adjustment also reflects the elimination of the Buddy’s term loan interest incurred from July 10, 2019 to December 28, 2019 and Sears Outlet term loan interest incurred from October 23, 2019 to December 28, 2019 as these two loans were refinanced by using the proceeds from the New Holdco term loan and ABL credit facility.

(3) Represents the amortization of the estimated deferred financing costs in connection with the New Holdco term loan and the New Holdco credit facility.

(4) New Holdco is the Company’s subsidiary created in connection with the Transactions that owns Buddy’s, Sears Outlet, VSI and American Freight and issued debt on February 14, 2020 to finance the American Freight acquisition and repay the Buddy’s and Sears Outlet existing term loans.

A 1/8 percent change in the interest assumed above would result in an aggregate increase or decrease to interest expense of $1.0 million for the twelve months ended April 30, 2019 and $0.6 million for the eight months ended December 28, 2019.

(4b) Represents adjustments to income tax (benefit) expense. The income of New Holdco which includes the operations of Liberty Tax, Buddy’s, Sears Outlet, VSI, and American Freight attributable to Franchise Group’s controlling interest is subject to U.S. income taxes, in addition to state, and local taxes. The income tax expense is based on estimated U.S. statutory tax rates of the Combined Company of 27.4% for the year ended April 30, 2019 and eight months ended December 28, 2019. The actual effective tax rate of Franchise Group may differ materially from the pro forma tax rates due to, among other factors, changes in tax laws, the impact of permanent tax differences, income tax reserves determined in connection with the merger and tax planning.

(4c) Represents the adjustment to the loss attributable to non-controlling interests based on the outcome of the Buddy’s merger, the acquisitions of Sears Outlet, VSI, and American Freight and the final acceptances of the offer as described in Note

4(e) below. Accordingly, the loss attributable to the non-controlling interests is ($7.5) million for the twelve months ended April 30, 2019 and ($30.5) million for the eight months ended December 28, 2019.

(4d) Various agreements were executed to finance the Transactions. The following agreements are fully reflected in the historical balance sheet of Franchise Group as of December 28, 2019:

1. In connection with the Buddy's merger and offer, Buddy's has signed the Buddy's initial credit agreement for debt financing of the Transactions consisting of a $82.0 million, 5-year term loan, which bears interest at variable rates. The proceeds were used to finance transaction costs, a portion of the tender offer acceptances and general working capital purposes.

2. In connection with the Sears Outlet acquisition, Franchise Group Newco S, LLC, an indirect subsidiary of Franchise Group, signed the Sears Outlet term loan to finance the acquisition of Sears Outlet in an amount equal to $105.0 million. The Sears Outlet term loan bears a variable interest rate. The total proceeds from the debt financing and the equity contribution from the Investors of $40 million as explained above were used to pay the cash consideration in connection with the Sears Outlet acquisition.

3. In connection with the VSI acquisition, Vitamin Shoppe Industries, LLC, an indirect subsidiary of Franchise Group has executed a 3-year term loan in the amount of $70.0 million and borrowed $70.0 million of 3-year credit facility and the total proceeds were used to finance the VSI acquisition. The VSI term loan and the VSI credit facility bear variable interest rates. The total proceeds from the debt financing and the equity contribution from Vintage of $30 million as explained above were used to pay the cash consideration in connection with the VSI acquisition.

4. In connection with the A-team Asset Acquisition, the Buddy's segment of Franchise Group entered into the Buddy's first amendment to the Buddy's initial term loan to provide for a $23.0 million first priority senior secured term loan. The proceeds from the debt were used to acquire 41 Buddy's Home Furnishings stores from A-Team. The purchase price allocation related to the Asset Acquisition of the 41 stores is reflected in the historical financial statements of Franchise Group but is not reflected in the pro forma statements of operations as the A-team Asset Acquisition was not considered material to the pro forma results.

5. The historical balance sheet of Franchise Group as of December 28, 2019 also reflects the purchase of shares in connection with the final offer acceptances of $47.2 million.

The pro forma balance sheet reflects:

- the issuance of debt to finance the American Freight acquisition and repay the existing Buddy's and the Sears Outlet term loans. Franchise Group through certain of its subsidiaries, entered into the New Holdco term loan agreement with GACP Finance Co., LLC for an amount of $575.0 million which consists of a $375.0 million first out tranche and a $200.0 million last out tranche. The term loan will mature on May 14, 2025. In addition, Franchise Group entered into an ABL Credit Agreement with various lenders which provided the Company with a $100.0 million credit facility. The pro forma adjustments, as illustrated below, reflect the incurrence of the debt, net of financing costs and the repayment of the existing Buddy's and the Sears Outlet term loans;

- the equity issuance to Kayne FRG Holdings, L.P. ("Kayne FRG") of 1.3 million shares of common as a consideration and payment for debt financing services rendered to the Company. The fair value of the 1.3 million of shares issued to Kayne FRG is $31.0 million, which has been capitalized as deferred financing costs with an offset to common stock par and Additional Paid In Capital ("APIC"); and

- the additional equity contribution from affiliates of Vintage for $65.9 million or 3.9 million shares to finance the repurchase of the VSI Convertible Notes for $60.6 million including $0.2 million of accrued interest with the excess cash used to fund general, working capital and cash needs of the Company.

A summary of the total pro forma adjustments to cash related to the financing transactions include the following:

Pro forma adjustment to cash	American Freight transaction	VSI transaction	Total
(in thousands)			
Increase from issuance of New Holdco term loan	$ 566,814	$ —	$ 566,814
Increase of New Holdco credit facility	95,477	—	95,477
Repayment of Buddy's existing term loan	(104,576)	—	(104,576)
Repayment of Sears' existing term loan	(106,574)	—	(106,574)
Repayment of American Freight's existing term loan	(97,364)	—	(97,364)
Repurchase of VSI's existing convertible notes		(60,439)	(60,439)
Vintage additional equity contribution		94,173	94,173
Pro forma adjustment to cash	**$ 353,777**	**$ 33,734**	**$ 387,511**

The total pro forma adjustment to debt and the credit facility includes the following:

Pro forma adjustment to debt	Issuance of New Holdco term loan and credit facility	Redemption of VSI's existing convertible notes	Prepayment of American Freight's existing term loan	Prepayment of Buddy's existing term loan	Prepayment of Sears Outlet's existing term loan	Total
(in thousands)						
Term loan financing	$ 575,000	$ —	$ —	$ —	$ —	$ 575,000
Less: Debt issuance costs	(34,604)	—	—	—	—	(34,604)
Debt, net of debt issuance costs	540,396	—	—	—	—	540,396
Pro forma adjustment to current portion of debt:	25,000	(60,439)	(3,210)	(4,822)	(6,754)	(50,225)
Pro forma adjustment to debt, net of current portion:	515,396	—	(93,747)	(97,431)	(98,155)	226,063
Pro forma adjustment to Revolver	100,000	—	—	—	—	100,000
Pro forma adjustment to other assets (revolver commitment fee)	$ (9,117)	$ —	$ —	$ —	$ —	$ (9,117)

The total pro forma adjustment to remove the accrued interest in connection with American Freight's existing term loan, Buddy's term loan, and Sears Outlet's term loan includes the following:

Pro forma adjustment to accrued interest on the repayment of the debt	Accrued interest
(in thousands)	
American Freight's existing term loan	$ (407)
Buddy's term loan	(2,323)
Sears Outlet's term loan	(1,665)
Pro forma adjustment to accrued interest	**$ (4,395)**

The total pro forma adjustment to equity in connection with the additional equity contribution from Vintage and shares issued to Kayne FRG for debt financing services rendered includes the following:

Pro forma adjustment to equity	Common stock	APIC
(in thousands)		
Vintage equity contribution	$ 62	$ 94,111
Shares issued to Kayne FRG for debt financing services rendered	13	31,000
Pro forma adjustment to equity	**$ 75**	**$ 125,111**

(4e) Represents the adjustment to non-controlling interests in connection with the merger and the final outcome of the offer. Based on the final acceptances of $47.2 million in the offer, the pre-closing members of Buddy's hold a non-controlling interest in New Holdco of approximately 27.0% or approximately $47.9 million as of December 28, 2019 on a pro forma basis, after giving effect to the Transactions discussed above.