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

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 26, 2020

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number 001-35588

Franchise Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**27-3561876**
(State of incorporation)	(IRS employer identification no.)

2387 Liberty Way
Virginia Beach, Virginia 23456
(Address of principal executive offices)
(757) 493-8855
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	FRG	NASDAQ Global Market
7.50% Series A Cumulative Preferred Stock, par value $0.01 per share and liquidation preference of $25.00 per share	FRGAP	NASDAQ Global Market

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		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. ☐

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

The number of shares outstanding of the registrant's common stock, par value $0.01 value per share, as of November 2, 2020 was 40,087,792 shares.

FRANCHISE GROUP, INC. AND SUBSIDIARIES

Form 10-Q for the Quarterly Period Ended September 26, 2020

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1
FINANCIAL STATEMENTS (UNAUDITED)

FRANCHISE GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

(In thousands, except share count and per share data)	September 26, 2020	December 28, 2019
Assets	(Unaudited)	(Audited)
Current assets:		
Cash and cash equivalents	$ 179,932	$ 39,581
Current receivables, net	84,277	79,693
Inventories, net	319,545	300,312
Other current assets	22,845	20,267
Total current assets	606,599	439,853
Property, equipment, and software, net	143,512	150,147
Non-current receivables, net	16,095	18,638
Goodwill	469,788	134,301
Intangible assets, net	145,478	77,590
Operating lease right-of-use assets	516,398	462,610
Other non-current assets	14,634	15,406
Total assets	$ 1,912,504	$ 1,298,545
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term obligations	$ 112,374	$ 218,384
Current operating lease liabilities	131,685	107,680
Accounts payable and accrued expenses	257,387	158,995
Other current liabilities	36,461	16,409
Total current liabilities	537,907	501,468
Long-term obligations, excluding current installments	516,353	245,236
Non-current operating lease liabilities	412,613	394,307
Other non-current liabilities	37,099	5,773
Total liabilities	1,503,972	1,146,784
Stockholders' equity:		
Common stock, $0.01 par value per share, 180,000,000 and 180,000,000 shares authorized, 40,056,665 and 18,250,225 shares issued and outstanding at September 26, 2020 and December 28, 2019, respectively	401	183
Preferred Stock, $0.01 par value per share, 20,000,000 and 20,000,000 shares authorized, 1,200,000 and 1,886,667 shares issued and outstanding at September 26, 2020 and December 28, 2019, respectively	12	19
Additional paid-in capital	386,030	108,339
Accumulated other comprehensive loss, net of taxes	(1,838)	(1,538)
Retained earnings	23,927	18,388
Total equity attributable to Franchise Group, Inc.	408,532	125,391
Non-controlling interest	—	26,370
Total equity	408,532	151,761
Total liabilities and equity	$ 1,912,504	$ 1,298,545

See accompanying notes to condensed consolidated financial statements.

FRANCHISE GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except share count and per share data)	Three Months Ended September 26, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 26, 2020	Nine Months Ended September 30, 2019
Revenues:				
Product	$ 500,462	$ 557	$ 1,440,677	$ 557
Service and other	33,126	10,284	164,508	129,942
Rental	17,404	8,079	51,000	8,079
Total revenues	550,992	18,920	1,656,185	138,578
Operating expenses:				
Cost of revenue:				
Product	296,920	438	862,320	438
Service and other	678	—	2,135	—
Rental	5,877	3,048	17,327	3,048
Total cost of revenue	303,475	3,486	881,782	3,486
Selling, general, and administrative expenses	228,194	40,481	697,670	110,928
Total operating expenses	531,669	43,967	1,579,452	114,414
Income (loss) from operations	19,323	(25,047)	76,733	24,164
Other expense:				
Other	(1,229)	(1)	(5,293)	(101)
Interest expense, net	(26,264)	(2,755)	(83,642)	(4,225)
Income (loss) before income taxes	(8,170)	(27,803)	(12,202)	19,838
Income tax expense (benefit)	427	(4,339)	(43,561)	10,367
Net income (loss)	(8,597)	(23,464)	31,359	9,471
Less: Net (income) loss attributable to non-controlling interest	—	8,578	(2,090)	8,578
Net income (loss) attributable to Franchise Group, Inc.	$ (8,597)	$ (14,886)	$ 29,269	$ 18,049
Net income (loss) per share of common stock:				
Basic	$ (0.22)	$ (0.93)	$ 0.89	$ 1.23
Diluted	(0.22)	(0.93)	0.88	1.22
Weighted-average shares outstanding:				
Basic	39,692,384	15,997,041	32,679,576	14,712,297
Diluted	39,692,384	15,997,041	32,961,905	14,770,973

See accompanying notes to condensed consolidated financial statements.

FRANCHISE GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

	Three Months Ended		Nine Months Ended	
(In thousands)	**September 26, 2020**	**September 30, 2019**	**September 26, 2020**	**September 30, 2019**
Net income (loss)	$ (8,597)	$ (23,464)	$ 31,359	$ 9,471
Other comprehensive income (loss)				
Unrealized loss on interest rate swap agreement, net of taxes of $2, $(8), $(29) and $(29), respectively	(39)	(21)	(119)	(75)
Foreign currency translation adjustment	303	41	(188)	382
Forward contracts related to foreign currency exchange rates	1	—	7	—
Other comprehensive income (loss)	265	20	(300)	307
Comprehensive income (loss)	(8,332)	(23,444)	31,059	9,778
Less: comprehensive (income) loss attributable to non-controlling interest	—	8,569	(1,915)	8,569
Comprehensive income (loss) attributable to Franchise Group, Inc.	$ (8,332)	$ (14,875)	$ 29,144	$ 18,347

See accompanying notes to condensed consolidated financial statements.

FRANCHISE GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	Three Months Ended September 26, 2020									
(In thousands)	**Common stock shares**	**Common stock**	**Preferred stock shares**	**Preferred stock**	**Additional paid-in-capital**	**Accumulated other comprehensive loss**	**Retained earnings**	**Total Franchise Group equity**	**Non-controlling interest**	**Total equity**
Balance at June 28, 2020	35,186	$ 352	—	$ —	$ 249,525	$ (2,103)	$ 42,935	$ 290,709	$ —	$ 290,709
Net loss	—	—	—	—	—	—	(8,597)	(8,597)	—	(8,597)
Total other comprehensive income	—	—	—	—	—	265	—	265	—	265
Exercise of stock options	28	1	—	—	333	—	—	334	—	334
Stock-based compensation expense, net	13	—	—	—	1,945	—	—	1,945	—	1,945
Issuance of common stock	4,830	48	—	—	105,873	—	—	105,921	—	105,921
Issuance of Series A Preferred Stock	—	—	1,200	12	28,354	—	—	28,366	—	28,366
Common dividend declared ($0.25 per share)	—	—	—	—	—	—	(10,242)	(10,242)	—	(10,242)
Preferred dividend declared ($0.14 per share)	—	—	—	—	—	—	(169)	(169)	—	(169)
Balance at September 26, 2020	40,057	$ 401	1,200	$ 12	$ 386,030	$ (1,838)	$ 23,927	$ 408,532	$ —	$ 408,532

	Nine Months Ended September 26, 2020									
(In thousands)	**Common stock shares**	**Common stock**	**Preferred stock shares**	**Preferred stock**	**Additional paid-in-capital**	**Accumulated other comprehensive loss**	**Retained earnings**	**Total Franchise Group equity**	**Non-controlling interest**	**Total equity**
Balance at December 29, 2019	18,250	$ 183	1,887	$ 19	$ 108,339	$ (1,538)	$ 18,388	$ 125,391	$ 26,370	$ 151,761
Changes and distributions of non-controlling interest in New Holdco	—	—	—	—	23,744	(175)	—	23,569	(25,927)	(2,358)
Net income	—	—	—	—	—	—	29,269	29,269	2,090	31,359
Total other comprehensive loss	—	—	—	—	—	(125)	—	(125)	(175)	(300)
Exercise of stock options	50	1	—	—	520	—	—	521	—	521
Stock-based compensation expense, net	31	—	—	—	6,209	—	—	6,209	—	6,209
Issuance of common stock	12,292	123	—	—	228,892	—	—	229,015	—	229,015
Issuance of Series A Preferred Stock	—	—	1,200	12	28,354	—	—	28,366	—	28,366
Conversion of preferred to common stock	9,434	94	(1,887)	(19)	(10,028)	—	—	(9,953)	—	(9,953)
Common dividend declared ($0.25 per share)	—	—	—	—	—	—	(25,919)	(25,919)	—	(25,919)
Preferred dividend declared ($0.14 per share)	—	—	—	—	—	—	(169)	(169)	—	(169)
Adjustment	—	—	—	—	—	—	2,358	2,358	(2,358)	—
Balance at September 26, 2020	40,057	$ 401	1,200	$ 12	$ 386,030	$ (1,838)	$ 23,927	$ 408,532	$ —	$ 408,532

See accompanying notes to condensed consolidated financial statements.

FRANCHISE GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	Three Months Ended September 30, 2019									
(In thousands)	**Common stock shares**	**Common stock**	**Preferred stock shares**	**Preferred stock**	**Additional paid-in-capital**	**Accumulated other comprehensive loss**	**Retained earnings**	**Total Franchise Group equity**	**Non-controlling interest**	**Total equity**
Balance at July 1, 2019	14,100	$ 141	—	$ —	$ 13,183	$ (1,732)	$ 85,290	$ 96,882	$ —	$ 96,882
Cumulative effect of adopted accounting standards, net	—	—	—	—	—	—	—	—	—	—
Changes and distributions of non-controlling interest in New Holdco LLC	—	—	—	—	(64,142)	—	—	(64,142)	64,142	—
Net loss	—	—	—	—	—	—	(14,886)	(14,886)	(8,578)	(23,464)
Buddy's Acquisition - issuance of Preferred Stock and New Holdco LLC units	—	—	1,617	16	96,984	—	—	97,000	—	97,000
Buddy's Partners Asset Acquisition - issuance of Preferred Stock and New Holdco LLC units	—	—	270	3	16,197	—	—	16,200	—	16,200
Total other comprehensive income	—	—	—	—	—	11	—	11	9	20
Exercise of stock options	100	1	—	—	1,060	—	—	1,061	—	1,061
Stock-based compensation, net	—	—	—	—	292	—	—	292	—	292
Issuance of common stock	2,083	21	—	—	24,979	—	—	25,000	—	25,000
Balance at September 30, 2019	16,283	$ 163	1,887	$ 19	$ 88,553	$ (1,721)	$ 70,404	$ 157,418	$ 55,573	$ 212,991

	Nine Months Ended September 30, 2019									
(In thousands)	**Common stock shares**	**Common stock**	**Preferred stock shares**	**Preferred stock**	**Additional paid-in-capital**	**Accumulated other comprehensive loss**	**Retained earnings**	**Total Franchise Group equity**	**Non-controlling interest**	**Total equity**
Balance at January 1, 2019	14,044	$ 140	—	$ —	$ 12,091	$ (2,019)	$ 52,029	$ 62,241	$ —	$ 62,241
Cumulative effect of adopted accounting standards, net	—	—	—	—	—	—	322	322	—	322
Changes and distributions of non-controlling interest in New Holdco LLC	—	—	—	—	(64,142)	—	—	(64,142)	64,142	—
Net income	—	—	—	—	—	—	18,049	18,049	(8,578)	9,471
Buddy's Acquisition - issuance of Preferred Stock and New Holdco LLC units	—	—	1,617	16	96,984	—	—	97,000	—	97,000
Buddy's Partners Asset Acquisition - issuance of Preferred Stock and New Holdco LLC units	—	—	270	3	16,197	—	—	16,200	—	16,200
Total other comprehensive income	—	—	—	—	—	298	—	298	9	307
Cancellation of common stock	(9)	—	—	—	(88)	—	—	(88)	—	(88)
Exercise of stock options	114	1	—	—	1,213	—	—	1,214	—	1,214
Stock-based compensation, net	51	1	—	—	1,319	—	—	1,320	—	1,320
Issuance of common stock	2,083	21	—	—	24,979	—	—	25,000	—	25,000
RSU dividend accrual	—	—	—	—	—	—	4	4	—	4
Balance at September 30, 2019	16,283	$ 163	1,887	$ 19	$ 88,553	$ (1,721)	$ 70,404	$ 157,418	$ 55,573	$ 212,991

See accompanying notes to condensed consolidated financial statements.

FRANCHISE GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)	Nine Months Ended September 26, 2020	Nine Months Ended September 30, 2019
Operating Activities		
Net income	$ 31,359	$ 9,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	3,412	6,401
Depreciation, amortization and impairment charges	51,254	12,239
Amortization of deferred financing costs	28,703	1,013
Loss on disposal of fixed assets	75	703
Stock-based compensation expense	6,294	1,339
Gain on bargain purchases and sales of Company-owned offices	(1,761)	(438)
Deferred income taxes	7,851	706
Change in		
Accounts, notes, and interest receivable	(2,223)	10,054
Income taxes	(23,721)	8,977
Other assets	3,971	(1,076)
Accounts payable and accrued expenses	38,884	7,693
Inventory	79,967	579
Deferred revenue	5,649	(3,394)
Net cash provided by operating activities	229,714	54,267
Investing Activities		
Issuance of operating loans to franchisees and area developers	(30,368)	(51,484)
Payments received on operating loans to franchisees and area developers	50,064	66,303
Purchases of Company-owned offices, area developer rights, and acquired customer lists	(4,830)	(2,232)
Proceeds from sale of Company-owned offices and area developer rights	1,118	22
Acquisition of business, net of cash acquired	(353,423)	(26,443)
Proceeds from sale of property, equipment, and software	1,474	—
Purchases of property, equipment, and software	(26,702)	(1,183)
Net cash used in investing activities	(362,667)	(15,017)
Financing Activities		
Proceeds from the exercise of stock options	520	1,214
Dividends paid	(19,167)	—
Non-controlling interest distribution	(4,716)	—
Repayment of other long-term obligations	(455,811)	(16,213)
Borrowings under revolving credit facility	174,665	121,874
Repayments under revolving credit facility	(218,260)	(186,099)
Issuance of common stock	198,003	25,000
Issuance of preferred stock	28,366	—
Payment for debt issue costs	(16,673)	(4,382)
Issuance of debt	586,000	105,000
Cash paid for taxes on exercises/vesting of stock-based compensation	(85)	(20)
Net cash provided by financing activities	272,842	46,374
Effect of exchange rate changes on cash, net	(142)	111
Net increase in cash equivalents and restricted cash	139,747	85,735
Cash, cash equivalents and restricted cash at beginning of period	45,146	3,981
Cash, cash equivalents and restricted cash at end of period	$ 184,893	$ 89,716
Supplemental Cash Flow Disclosure		
Cash paid for taxes, net of refunds	$ 944	$ 84
Cash paid for interest	$ 41,226	$ 1,484
Accrued capital expenditures	$ 3,633	$ 478
Deferred financing costs from issuance of common stock	$ 31,013	$ —
Tax receivable agreement included in other long-term liabilities	$ 17,156	$ —

See accompanying notes to condensed consolidated financial statements.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows.

(In thousands)	September 26, 2020	September 30, 2019
Cash and cash equivalents	$ 179,932	$ 89,716
Restricted cash included in other non-current assets	4,961	—
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 184,893	$ 89,716

Amounts included in other non-current assets represent those required to be set aside by a contractual agreement with an insurer for the payment of specific workers' compensation claims.

(1) Organization and Significant Accounting Policies

Description of Business

Franchise Group, Inc. (the "Company"), a Delaware corporation, is a franchisor, operator and acquirer of franchised and franchisable businesses that it believes it can scale using its operating expertise. On July 10, 2019, the Company formed Franchise Group New Holdco, LLC (“New Holdco”), which completed the acquisition of Buddy's Newco, LLC ("Buddy's"). On October 23, 2019, the Company completed the acquisition of the Sears Outlet ("Sears Outlet") business from Sears Hometown and Outlet Stores, Inc. (subsequently rebranded as American Freight Outlet). On December 16, 2019, the Company completed its acquisition of The Vitamin Shoppe, Inc. ("Vitamin Shoppe"). On February 14, 2020, the Company completed its acquisition of the American Freight Group, Inc. ("American Freight") as described in “Note 2. Acquisitions”. New Holdco holds all of the Company’s operating subsidiaries.

Segment Information

The Company currently operates in four reportable segments: Liberty Tax, Buddy’s, Vitamin Shoppe and American Freight. Sears Outlet, which was rebranded as American Freight Outlet following the acquisition of American Freight, is included in the American Freight segment. The Liberty Tax segment provides income tax services in the United States of America (the "U.S.") and Canada. The Buddy's segment is a specialty retailer engaged in the business of leasing and selling consumer electronics, residential furniture, appliances and household accessories. The Vitamin Shoppe segment is an omni-channel specialty retailer and wellness lifestyle company with the mission of providing customers with the most trusted products, guidance and services to help them become their best selves. The Vitamin Shoppe segment offers a comprehensive assortment of nutritional solutions, including vitamins, minerals, specialty supplements, herbs, sports nutrition, homeopathic remedies, green living products, and natural beauty aids through proprietary brands. The American Freight segment operates under the American Freight and American Freight Outlet banners. American Freight is a retail chain offering brand-name furniture, mattresses, appliances and home accessories at discount prices. American Freight provides in-store and online access to purchase new, one-of-a-kind, out-of-box, discontinued, obsolete, reconditioned, overstocked, scratched and dented household appliances and unbranded furniture and mattresses at value prices.

Principles of Consolidation

The Company consolidates any entities in which it has a controlling interest, the usual condition of which is ownership of a majority voting interest. Prior to April 1, 2020, the Company was the sole managing member of New Holdco and possessed ownership of more than 50 percent of the outstanding voting units. As a result, the Company consolidated the financial results of New Holdco and reported a non-controlling interest that represented the interests of the New Holdco units not held by the Company. As of April 1, 2020, the Company redeemed all outstanding New Holdco units for shares of common stock of the Company and now has an 100% interest in New Holdco.

The Company does not possess any ownership interests in franchisee entities; however, the Company may provide financial support to franchisee entities. Because the Company's franchise arrangements provide franchisee entities the power to direct the activities that most significantly impact their economic performance, the Company does not consider itself the primary beneficiary of any such entity that meets the definition of a variable interest entity ("VIE"). Based on the results of management's analysis of potential VIEs, the Company has not consolidated any franchisee entities. The Company's maximum exposure to loss resulting from involvement with potential VIEs is attributable to accounts and notes receivables and future lease payments due from franchisees. When the Company does not have a controlling interest in an entity but has the ability to exert significant influence over the entity, the Company applies the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

Revenues have been classified into product, service and other and rental revenues as further discussed in "Note 5. Revenue." Costs of sales for product includes the cost of merchandise, transportation and warehousing costs. Service and other costs of sales include the direct costs of warranties. Rental cost of sales represents the amortization of inventory costs over the leased term. Other operating expenses, including employee costs, depreciation and amortization, and advertising expenses have been classified in selling, general and administrative expenses. The Company also includes occupancy costs in selling, general and administrative expenses.

Assets and liabilities of the Company's Canadian operations have been translated into U.S. dollars using the exchange rate in effect at the end of the period. Revenues and expenses have been translated using the average exchange rates in effect each month of the period. Foreign exchange transaction gains and losses are recognized when incurred.

The Company reclassifies to accounts payable checks issued in excess of funds available and reports them as cash flow from operating activities.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required only in annual financial statements. The Company changed its fiscal year end from April 30 to the Saturday closest to December 31st of each year, resulting in an 8-month transition period from May 1, 2019 to December 28, 2019. The consolidated balance sheet data as of December 28, 2019 was derived from the Company's Transition Report on Form 10-K/T, filed with the U.S. Securities and Exchange Commission (the "SEC") on April 24, 2020 (the "2019 Transition Report"). The Company has provided unaudited historical financial information that was not previously presented for the three and nine months ended September 30, 2019 for comparison purposes.

In the opinion of management, all adjustments necessary for a fair presentation of such condensed consolidated financial statements in accordance with GAAP have been recorded. These adjustments consisted only of normal recurring items. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in its 2019 Transition Report.

Use of Estimates

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

Merchandise Inventories

Inventory for the Buddy's segment is recorded at cost, including shipping and handling fees. Upon purchase, merchandise is not initially depreciated until it is leased or three months after the purchase date. Non-leased merchandise is depreciated on a straight-line basis over a period of 24 months. Leased merchandise is depreciated over the lease term of the rental agreement and recorded in rental cost of revenue. On a weekly basis, all damaged, lost, stolen, or unsalable merchandise identified is written off. Maintenance and repairs of lease merchandise are charged to operations as incurred.

Inventory for the American Freight segment is accounted for by banner. Inventory for the American Freight banner is comprised of finished goods and is 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 the Company expects 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. Inventory under the American Freight Outlet banner, previously the Sears Outlet segment, is recorded at the lower of cost or market using the weighted-average cost method. Inventory includes the purchase price of the inventory plus costs of freight for moving merchandise from vendors to distribution centers as well as from distribution centers to stores. A provision for estimated shrinkage is maintained based on the actual historical results of physical inventories. Estimates are compared to the actual results of the physical inventory counts as they are taken and adjust the shrink estimates accordingly. Inventory values are adjusted to the difference between the carrying value and the estimated market value, based on assumptions about future demand or when a permanent markdown indicates that the net realizable value of the inventory is less than cost.

Inventory for the Vitamin Shoppe segment is recorded at the lower of cost or market value using the weighted-average cost method. Inventory includes costs directly incurred in bringing the product to its existing condition and location. In addition, the cost of inventory is reduced by purchase discounts and other allowances received from vendors. A markdown reserve is estimated based on a variety of factors, including, but not limited to, the amount of inventory on hand and its remaining shelf life, current and expected market conditions and product expiration dates. In addition, the Company has established a reserve for estimated inventory shrinkage based on the actual, historical shrinkage of its most recent physical inventories adjusted, if necessary, for current economic conditions and business trends. Physical inventories and cycle counts are taken on a regular basis. These adjustments are estimates, which could vary significantly from actual results if future economic conditions, customer demand or competition differ from management expectations.

Goodwill and Non-amortizing Intangible Assets

Goodwill and non-amortizing intangible assets, including the Buddy's, Vitamin Shoppe and American Freight tradenames, are not amortized, but rather tested for impairment at least annually. In addition, goodwill and non-amortizing intangible assets will be tested on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has been incurred. The Company performs a qualitative and/or quantitative assessment to determine whether it is more likely than not that each reporting unit's fair value is less than its carrying value, including goodwill. If the Company determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, the Company then estimates the fair value. The Company uses a combination of a market multiple method and a discounted cash flow method to estimate the fair value of its reporting units and recognizes goodwill impairment for any excess of the carrying amount of a reporting unit's goodwill over its estimated fair value. The Company evaluates the Buddy's, Vitamin Shoppe and American Freight tradenames for impairment by comparing its fair value, based on an income approach using the relief-from-royalty method, to its carrying value. If the carrying value of the asset exceeds its estimated fair value, an impairment loss is recognized in an amount equal to that excess. The Company's reporting units are determined in accordance with the provisions of Accounting Standards Codification ("ASC") 350, "Intangibles - Goodwill and Other (Topic 350)." The Company performs its annual impairment testing of goodwill and non-amortizing intangible assets on the last day of the first month of the Company's third quarter. Refer to "Note 4. Goodwill and Intangible Assets" for additional information on these balances.

Intangible and Long-Lived Assets Impairment

Amortization of intangible assets is calculated using the straight-line method over the estimated useful lives of the assets, generally from two to ten years. Long-lived assets, such as property, equipment, and software, and other purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. Recognition and measurement of a potential impairment is performed for these assets at the lowest level where cash flows are individually identifiable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Revenue Recognition

The following is a description of the principal activities from which the Company generates its revenues. For more detailed information regarding reportable segments, see "Note 13. Segments."

- Product revenues: These include sales of merchandise at the stores and online. Revenue is measured based on the amount of fixed consideration that the Company expects to receive, reduced by estimates for variable consideration such as returns. Revenue also excludes any amounts collected from customers and remitted or payable to governmental authorities. In arrangements where the Company has multiple performance obligations, the transaction price is allocated to each performance obligation using the relative stand-alone selling price. The Company recognizes revenues from retail operations upon the transfer of control of goods to the customer. The Company satisfies its performance obligations at the point of sale for retail store transactions and upon delivery for online transactions. The Company recognizes revenue for retail store and online transactions when it transfers control of the goods to the customer. Merchandise sales also include payments received for the exercise of the early purchase option offered through rental-purchase agreements or merchandise sold through point of sale transactions. Revenue for merchandise sales associated with rental purchase agreements is recognized when payment is received, and ownership of the merchandise passes to the customer. The remaining net value of merchandise sold is recorded to cost of sales at the time of the transaction.

- Service and other revenues: These include royalties and advertising fees from franchisees, fees from the sales of franchises and area developer ("AD") territories, financial products, interest income from loans to franchisees and ADs, tax preparation services in the Company-owned stores, electronic filing fees, services and extended-service plans and financing programs. Commissions earned on services are presented net of related costs because the Company is acting as an agent in arranging the services for the customer and does not control the services being rendered. The Company recognizes revenue on the commissions on extended-service plans when it transfers control of the related goods to the customer. The Company recognizes franchise fee and AD fee revenue for the sales of individual territories on a straight-line basis over the initial contract term when the obligations of the Company to prepare the franchisee and AD for operation are substantially complete, not to exceed the estimated amount of cash to be received. Royalties and advertising fees are recognized as franchise territories generate sales. Tax return preparation fees and financial products revenue are recognized as revenue in the period in which related tax return is filed for the customer. Discounts for promotional programs are recorded at the time the return is filed and are recorded as reductions to revenues. Interest income on notes receivable is recognized based on the outstanding principal note balance less unrecognized revenue unless it is put on non-accrual status. Interest income on the unrecognized revenue portion of notes receivable is recognized when received. For accounts receivable, interest income is recognized based on the outstanding receivable balance over 30 days old, net of an allowance.

- Rental revenues: The Company provides merchandise, consisting of consumer electronics, computers, residential furniture, appliances, and household accessories to its customers pursuant to rental-purchase agreements which provide for weekly, semi-monthly or monthly non-refundable rental payments. The average rental term is twelve to eighteen months and the Company maintains ownership of the lease merchandise until all payment obligations are satisfied under sales and lease ownership agreements. Customers have the option to purchase the leased goods at any point in the lease term. Customers can terminate the agreement at the end of any rental term without penalty. Therefore, rental transactions are accounted for as operating leases and rental revenue is recognized over the rental term. Cash received prior to the beginning of the lease term is recorded as deferred revenue. Revenue related to various reinstatement or late fees are recognized when paid by the customer. The Company offers additional product plans along with rental agreements that provide customers with liability protection against significant damage or loss of a product, and club membership benefits, including various discount programs, product services and replacement benefits in the event merchandise is damaged or lost. Customers renew product plans in conjunction with their rental term renewals and can cancel the plans at any time. Revenue for product plans is recognized over the term of the plan.

Leases

The Company's lease portfolio primarily consists of leases for its retail store locations, office space and distribution centers. The Company also leases certain office equipment under finance leases. The finance lease right of use assets are included in Property, equipment and software and the finance lease liabilities are included in current installments of long-term obligations, and long-term obligations. The finance leases are immaterial to the financial statements. The Company subleases some of its real estate and equipment leases. The Company determines if an arrangement is a lease at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. Leases with an initial term of 12 months or less are not recorded on the condensed consolidated balance sheets; the Company recognizes expense for these leases on a straight-line basis over the lease term. For leases with an initial term in excess of 12 months, lease right-of-use assets and lease liabilities are recognized based on the present value of the future lease payments over the committed lease term at the lease commencement date. The Company’s leases do not provide an implicit rate; therefore, the Company uses its incremental borrowing rate and the information available at the lease commencement date in determining the present value of future lease payments. Most leases include one or more options to renew and the exercise of renewal options is at the Company’s sole discretion. The Company does not include renewal options in its determination of the lease term unless the renewals are deemed to be reasonably certain at lease commencement. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company uses the long-lived assets impairment guidance in ASC Subtopic 360-10, “Property, Plant, and Equipment - Overall,” to determine whether a right-of-use asset is impaired, and if so, the amount of the impairment loss to recognize.

The Company has lease agreements with lease and non-lease components, which the Company elects to combine as one lease component for all classes of underlying assets. Non-lease components include variable costs based on actual costs incurred by the lessor related to the payment of real estate taxes, common area maintenance, and insurance. These variable payments are expensed as incurred as variable lease costs.

Due to the COVID-19 pandemic, the Company has been negotiating lease concessions with landlords. The lease concessions have been in the form of lease forgiveness, lease deferrals and lease deferrals with term extensions. If the total payments in the modified lease are substantially the same as or less than total payments in the original lease, the Company has elected to not evaluate whether the concession is a lease modification as defined in ASC 842 - "Leases".

Deferred Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities, which are shown on the condensed consolidated balance sheets, are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has elected to classify interest charged on a tax settlement in interest expense, and accrued penalties, if any, in selling, general, and administrative expenses.

The determination of the Company's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. The Company records unrecognized tax benefit liabilities for known or anticipated tax issues based on an analysis of whether, and the extent to which, additional taxes will be due.

Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "*Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*", which changes how companies will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard replaces the "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost (which generally will result in the earlier recognition of allowances for losses) and requires companies to record allowances for available-for-sale debt securities, rather than reduce the carrying amount. In addition, companies will have to disclose significantly more information, including information used to track credit quality by year of origination, for most financing receivables. The ASU should be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the standard is effective. The ASU is effective for the Company for the fiscal year beginning December 25, 2022. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "*Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.*" This standard eliminates Step 2 from the goodwill impairment test. Instead, an entity should compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The ASU is effective for the Company for the fiscal year beginning December 25, 2022. The Company is currently evaluating the impact of the adoption of this standard to its consolidated financial statements.

The London Interbank Offered Rate ("LIBOR") is scheduled to be discontinued on December 31, 2021. In an effort to address the various challenges created by such discontinuance, the FASB issued an amendment to existing guidance, ASU No. 2020-04, "*Reference Rate Reform*." The amended guidance is designed to provide relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements (e.g., loans, debt securities, derivatives, borrowings) necessitated by the reference rate reform. It also provides optional expedients to enable companies to continue to apply hedge accounting to certain hedging relationships impacted by the reference rate reform. Application of the guidance in the amendment is optional, is only available in certain situations, and is only available for companies to apply until December 31, 2022. The Company is currently evaluating the impacts of reference rate reform and the new guidance on its consolidated financial statements.

(2) Acquisitions

American Freight Acquisition

On February 14, 2020, the Company completed its acquisition of American Freight (the "American Freight Acquisition"). The Company accounted for the transaction as a business combination using the acquisition method of accounting in accordance with ASC 805 - "Business Combinations." The preliminary fair value of the consideration transferred at the acquisition date was $357.3 million. As of September 26, 2020, $9.9 million of acquisition fees had been incurred that are recorded in selling, general and administrative expenses.

The table below summarizes the unaudited preliminary estimates of the fair values of the identifiable assets acquired and liabilities assumed in the American Freight Acquisition as of February 14, 2020. The preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed are subject to revisions, which may result in an adjustment to the preliminary values presented below. The Company expects to complete the purchase price allocation as soon as reasonably possible but not to exceed one year from the American Freight Acquisition date.

(In thousands)		**Preliminary 2/14/2020**
Cash and cash equivalents	$	3,840
Prepaid expenses and other current assets		3,284
Inventories, net		99,200
Property, equipment and software, net		11,032
Goodwill		335,474
Operating lease right-of-use assets		91,101
Other intangible assets, net		70,200
Other non-current assets		1,607
Total assets		615,738
Current operating lease liabilities		17,242
Accounts payable		44,696
Accrued expenses and other current liabilities		26,451
Current installments of long-term obligations		3,210
Long-term obligations, excluding current installments		93,975
Deferred tax liabilities		11,451
Non-current operating lease liabilities		61,450
Total liabilities		258,475
Consideration transferred	$	357,263

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets acquired. The goodwill recognized is attributable to operational synergies in the expected franchise models and growth opportunities.

The Company identified the American Freight trade name as an indefinite-lived intangible asset with a fair value of $70.2 million. The trade name is not subject to amortization but will be evaluated annually for impairment.

Lease right-of-use assets and lease liabilities consists of leases for retail store locations, vehicles and office equipment. The lease right of use assets incorporates a favorable adjustment of $11.5 million, net for favorable and unfavorable American Freight leases (as compared to prevailing market rates) which will be amortized over the remaining lease terms.

The property, equipment and software consists of leasehold improvements of $7.6 million, office furniture, fixtures and equipment of $2.2 million, computer hardware and software of $1.1 million and construction in progress of $0.2 million.

Vitamin Shoppe

On December 16, 2019, the Company completed the acquisition of Vitamin Shoppe (the "Vitamin Shoppe Acquisition") for an aggregate purchase price of $161.8 million. The Company accounted for the transaction as a business combination using the acquisition method of accounting. In the nine months ended September 26, 2020, the preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed were adjusted which resulted in a decrease in goodwill of $5.0 million.

Sears Outlet Acquisition

On October 23, 2019, the Company completed the acquisition of the Sears Outlet business from Sears Hometown and Outlet Stores, Inc. (the "Sears Outlet Acquisition") for an aggregate purchase price of $128.8 million. The Company accounted for the transaction as a business combination using the acquisition method of accounting. In the nine months ended September

26, 2020, the preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed were adjusted which resulted in an increase in goodwill of $3.6 million.

Buddy's Acquisition

On July 10, 2019, the Company completed the acquisition of Buddy's for an enterprise value of approximately $122.0 million (the "Buddy's Acquisition"). The Company accounted for the transaction as a business combination using the acquisition method of accounting. In the nine months ended September 26, 2020, the preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed were adjusted which resulted in an increase in goodwill of $2.1 million.

Pro forma financial information

The following unaudited consolidated pro forma summary has been prepared by adjusting the Company's historical data to give effect to the American Freight Acquisition, Vitamin Shoppe Acquisition, Sears Outlet Acquisition and Buddy's Acquisition as if they had occurred on May 1, 2018.

	Pro forma (Unaudited)			
	Three Months Ended		Nine Months Ended	
(In thousands)	September 26, 2020	September 30, 2019	September 26, 2020	September 30, 2019
Revenue	$ 550,992	$ 493,504	$ 1,704,844	$ 1,711,954
Net income	(5,201)	(25,468)	59,133	7,728

The unaudited consolidated pro forma financial information was prepared in accordance with accounting standards and is not necessarily indicative of the results of operations that would have occurred if the American Freight Acquisition, Vitamin Shoppe Acquisition, Sears Outlet Acquisition or Buddy's Acquisition had been completed on the date indicated, nor is it indicative of the future operating results of the Company.

The unaudited pro forma results do not reflect events that either have occurred or may occur after the acquisition, including, but not limited to, the anticipated realization of operating synergies in subsequent periods. They also do not give effect to certain charges that the Company expects to incur in connection with the acquisition, including, but not limited to, additional professional fees and employee integration.

(3) Accounts and Notes Receivable

Current and non-current receivables, as of September 26, 2020 and December 28, 2019 are presented in the condensed consolidated balance sheets as follows:

(In thousands)	September 26, 2020	December 28, 2019
Accounts receivable, net	$ 48,788	$ 44,333
Notes receivable	13,975	37,994
Interest receivable, net	2,289	3,132
Income tax receivable	27,014	3,356
Allowance for doubtful accounts	(7,789)	(9,122)
Current receivables, net	84,277	79,693
Notes receivable - non-current	16,691	19,501
Allowance for doubtful accounts - non-current	(596)	(863)
Non-current receivables, net	16,095	18,638
Total receivables	$ 100,372	$ 98,331

The Company provides and facilitates select financing to ADs and franchisees for the purchase of franchises, areas and operating loans for working capital and equipment needs. The franchise-related notes generally are payable over five years and the operating loans generally are due within one year. Most notes bear interest at 12%.

Most of the notes receivable are due from the Company's ADs and franchisees and are collateralized by the underlying franchise and when the AD or franchise is an entity, are guaranteed by the owners of the respective entity. The debtors' ability to repay the notes is dependent upon both the performance of the franchisee's industry as a whole and the individual franchise or AD areas.

Analysis of Past Due Receivables

The breakdown of accounts and notes receivable past due at September 26, 2020 was as follows:

(In thousands)	Past due	Current	Interest receivable, net	Total receivables
Accounts receivable	$ 31,302	$ 17,486	$ —	$ 48,788
Notes and interest receivable, net (1)	9,454	21,212	2,289	32,955
Total accounts, notes and interest receivable	$ 40,756	$ 38,698	$ 2,289	$ 81,743

(1) Interest receivable is shown net of an allowance for uncollectible interest of $2.5 million.

Accounts receivable are considered to be past due if unpaid 30 days after billing, and notes receivable are considered past due if unpaid 90 days after the due date. If it is determined the likelihood of collecting substantially all of the notes and accrued interest is not probable, the notes are put on non-accrual status. The Company’s investment in notes receivable on non-accrual status was $9.5 million and $8.5 million at September 26, 2020 and December 28, 2019, respectively. Payments received on notes in non-accrual status are applied to the principal until the note is current and then to interest income. Non-accrual notes that are paid current and expected to remain current are moved back into accrual status during the next annual review.

Allowance for Doubtful Accounts

The adequacy of the allowance for doubtful accounts is assessed on a quarterly basis and adjusted as deemed necessary. Management believes the recorded allowance is adequate based upon its consideration of the estimated fair value of the franchises and AD areas collateralizing the receivables. Any adverse change in the individual franchise or AD areas could affect the Company's estimate of the allowance.

Activity in the allowance for doubtful accounts for the three and nine months ended September 26, 2020 and September 30, 2019 was as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	September 26, 2020	September 30, 2019	September 26, 2020	September 30, 2019
Balance at beginning of period	$ 10,678	$ 11,860	$ 9,985	$ 12,353
Provision for doubtful accounts	(99)	1,641	3,425	6,411
Write-offs and reduction from repurchases of franchises	(2,244)	(4,173)	(4,994)	(9,508)
Foreign currency adjustment	50	(27)	(31)	45
Balance at end of period	$ 8,385	$ 9,301	$ 8,385	$ 9,301

Management considers specific accounts and notes receivable to be impaired if the net amounts due exceed the fair value of the underlying franchise at the time of the annual valuation and estimates an allowance for doubtful accounts based on that excess. At the end of each fiscal quarter, the Company considers the activity during the period for accounts and notes receivable impaired from the prior annual valuation and adjusts the allowance for doubtful accounts accordingly. While not specifically identifiable as of the balance sheet date, the Company's analysis of its experience also indicates that a portion of other accounts and notes receivable may not be collectible. Net amounts due include contractually obligated accounts and notes receivable plus accrued interest, reduced by unrecognized revenue, the allowance for uncollected interest, amounts due ADs, and amounts owed to the franchisee by the Company. When a franchise is repurchased, intangible assets are recorded if the franchise will be run as a Company-owned store.

On July 10, 2020, the Company entered into a Senior Secured Super Priority Debtor-In-Possession Delayed Draw Term Loan Agreement (the “DIP DDTL Agreement”) with Tuesday Morning Corporation (“Tuesday Morning”) and certain of its direct and indirect subsidiaries. Pursuant to the DIP DDTL Agreement, the Company agreed to lend Tuesday Morning up to an aggregate principal amount of $25 million in the form of delayed draw term loans (the “DIP Term Facility”). The DIP Term Facility is guaranteed by certain of Tuesday Morning's direct and indirect subsidiaries and secured on a super priority basis by real estate assets owned by Tuesday Morning, including its corporate headquarters and warehouse/distribution complex located in Dallas, Texas. The DIP Term Facility will mature on April 10, 2021, which maturity may be extended, subject to payment of an extension fee to the Company, for an additional three months at the election of Tuesday Morning. The DIP Term Facility will bear interest at a rate per annum based on 3-month LIBOR (with a 1.00% LIBOR floor), plus an interest rate margin of 5.0% (subject to further increase of 2.0% upon the occurrence of an event of default). The DIP Term Facility is being provided in connection with Tuesday Morning’s Chapter 11 bankruptcy cases. As of September 26, 2020, there had been no borrowings under the DIP Term Facility.

(4) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended September 26, 2020 and the transition period ended December 28, 2019 were as follows:

(In thousands)	September 26, 2020	December 28, 2019
Balance at beginning of period	$ 134,301	$ 6,566
Acquisitions of assets from franchisees and third parties	920	3,658
Buddy's Acquisition	—	75,038
Buddy's Partners Asset Acquisition	—	7,217
A-Team Leasing Acquisition	—	6,287
Sears Outlet Acquisition	—	31,028
American Freight Acquisition	335,472	—
Vitamin Shoppe Acquisition	—	4,951
Disposals and foreign currency changes, net	(1,660)	(444)
Purchase price reallocation	792	—
Impairments	(37)	—
Balance at end of period	$ 469,788	$ 134,301

Components of intangible assets as of September 26, 2020 and December 28, 2019 were as follows:

	September 26, 2020		
(In thousands)	Gross carrying amount	Accumulated amortization	Net carrying amount
Tradenames (1)	$ 94,300	$ (100)	$ 94,200
Customer contracts	12,700	(2,521)	10,179
Franchise agreements and non-compete agreements	10,581	(1,302)	9,279
Customer lists	4,120	(2,698)	1,422
Reacquired rights	10,241	(2,249)	7,992
AD rights	39,237	(16,831)	22,406
Total intangible assets	$ 171,179	$ (25,701)	$ 145,478

(1) $70.2 million, $11.1 million and $12.0 million of tradenames were acquired in the American Freight Acquisition, Buddy's Acquisition and Vitamin Shoppe Acquisition, respectively. These tradenames have an indefinite life and they are tested for impairment on an annual basis.

(In thousands)	December 28, 2019 Gross carrying amount	Accumulated amortization	Net carrying amount
Tradenames (1)	$ 23,534	$ (72)	$ 23,462
Customer contracts	12,736	(886)	11,850
Franchise agreements and non-compete agreements	10,609	(486)	10,123
Customer lists	4,338	(2,559)	1,779
Reacquired rights	11,577	(2,053)	9,524
AD rights	37,263	(16,411)	20,852
Total intangible assets	$ 100,057	$ (22,467)	$ 77,590

(1) $11.1 million and $12.0 million of tradenames were acquired in the Buddy's Acquisition and Vitamin Shoppe Acquisition, respectively. These tradenames have an indefinite life and they are tested for impairment on an annual basis.

(5) Revenue

For details regarding the principal activities from which the Company generates its revenue, see "Note 1. Organization and Significant Accounting Policies" in this quarterly report. For more detailed information regarding reportable segments, see "Note 13. Segments" in this quarterly report.

The following represents the disaggregated revenue by reportable segments for the three and nine months ended September 26, 2020:

	September 26, 2020							
	Vitamin Shoppe		American Freight		Liberty Tax		Buddy's	
(In thousands)	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
Retail sales	$ 266,965	$ 780,588	$ 231,959	$ 655,311	$ —	$ —	$ 1,538	$ 4,778
Total product revenue	266,965	780,588	231,959	655,311	—	—	1,538	4,778
Franchise fees	—	—	—	—	188	915	8	20
Area developer fees	—	—	—	—	1,607	3,076	—	—
Royalties and advertising fees	—	—	—	—	7,346	55,410	2,517	7,346
Financial products	—	—	6,775	8,066	1,328	31,200	—	—
Interest income	—	—	315	987	356	3,254	—	—
Assisted tax preparation fees, net of discounts	—	—	—	—	559	15,477	—	—
Electronic filing fees	—	—	—	—	219	2,619	—	—
Agreement, club and damage waiver fees	—	—	—	—	—	—	3,436	10,124
Warranty revenue	—	—	4,775	13,754	—	—	—	—
Other revenues	—	—	1,388	4,268	1,697	6,041	612	1,951
Total service revenue	—	—	13,253	27,075	13,300	117,992	6,573	19,441
Rental revenue, net	—	—	—	—	—	—	17,404	51,000
Total rental revenue	—	—	—	—	—	—	17,404	51,000
Total revenue	$ 266,965	$ 780,588	$ 245,212	$ 682,386	$ 13,300	$ 117,992	$ 25,515	$ 75,219

The following represents the disaggregated revenue by reportable segments for the three and nine months ended September 30, 2019:

	September 30, 2019							
	Vitamin Shoppe		American Freight		Liberty Tax		Buddy's	
(In thousands)	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
Retail sales	$ —	$ —	$ —	$ —	$ —	$ —	$ 557	$ 557
Total product revenue	—	—	—	—	—	—	557	557
Franchise fees	—	—	—	—	450	1,943	—	—
Area developer fees	—	—	—	—	920	2,618	—	—
Royalties and advertising fees	—	—	—	—	933	61,831	2,453	2,453
Financial products	—	—	—	—	297	33,172	—	—
Interest income	—	—	—	—	1,137	5,966	—	—
Assisted tax preparation fees, net of discounts	—	—	—	—	237	12,227	—	—
Electronic filing fees	—	—	—	—	32	2,977	—	—
Agreement, club and damage waiver fees	—	—	—	—	—	—	1,693	1,693
Other revenues	—	—	—	—	1,408	4,338	724	724
Total service revenue	—	—	—	—	5,414	125,072	4,870	4,870
Rental revenue, net	—	—	—	—	—	—	8,079	8,079
Total rental revenue	—	—	—	—	—	—	8,079	8,079
Total revenue	$ —	$ —	$ —	$ —	$ 5,414	$ 125,072	$ 13,506	$ 13,506

Contract Balances

The following table provides information about receivables and contract liabilities (deferred revenue) from contracts with customers. Notes receivable are in the current receivables, net and non-current receivables, net lines of the consolidated balance sheets and deferred revenue is in the other current liabilities and other non-current liabilities lines of the consolidated balance sheets.

(In thousands)	September 26, 2020	December 28, 2019
Notes receivable	$ 30,667	$ 57,495
Deferred revenue	34,236	10,519

Significant changes in deferred revenue were as follows:

(In thousands)	Three Months Ended September 26, 2020	Nine Months Ended September 26, 2020
Deferred revenue at beginning of period	$ 35,982	$ 10,519
Revenue recognized during the period	(23,541)	(39,744)
Deferred revenue from acquisitions and purchase price adjustments	—	14,056
New deferred revenue during the period	21,795	49,405
Deferred revenue at end of period	$ 34,236	$ 34,236

Anticipated Future Recognition of Deferred Revenue

The following table reflects when deferred revenue is expected to be recognized in the future related to performance obligations that are unsatisfied at the end of the period:

(In thousands)	**Estimate for Fiscal Year**
2020 (1)	$ 30,173
2021	1,403
2022	1,195
2023	768
2024	138
Thereafter	559
Total	$ 34,236

(1) Represents deferred revenue expected to be recognized for the remainder of fiscal 2020. The amount does not include deferred revenues recognized for the nine months ended September 26, 2020.

(6) Long-Term Obligations

Long-term obligations at September 26, 2020 and December 28, 2019, were as follows:

(In thousands)	**September 26, 2020**	**December 28, 2019**
Revolving credit facilities	$ 85,665	$ 129,260
Term loan, net of debt issuance costs	537,970	268,660
Convertible senior notes	60	60,439
Amounts due to former ADs, franchisees and third parties	2,036	1,661
Mortgages	1,725	1,825
Finance lease liabilities	1,271	1,775
Total long-term obligations	628,727	463,620
Less current installments	112,374	218,384
Total long-term obligations, excluding current installments, net	$ 516,353	$ 245,236

Franchise Group New Holdco Credit Agreement and Term Loan

On February 14, 2020, the Company, through an indirect subsidiary, executed a term loan agreement with GACP Finance Co., LLC for an amount of $575.0 million (the “FGNH Credit Agreement”), which consists of a $375.0 million first out tranche (the “FGNH Tranche A-1 Term Loan”) and a $200.0 million last out tranche (the “FGNH Tranche A-2 Term Loan”). The term loan will mature on February 14, 2025, unless the maturity is accelerated subject to the terms set forth in the term loan agreement.

The FGNH Credit Agreement will, at the option of the Company, bear interest at either (i) 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 FGNH Tranche A-1 Term Loan and 12.5% for the FGNH Tranche A-2 Term Loan with a 1.50% LIBOR floor, or (ii) an alternate base rate determined as provided in the FGNH Credit Agreement, plus an interest rate margin of 7.0% for the FGNH Tranche A-1 Term Loan and 11.5% for the FGNH Tranche A-2 Term Loan with a 2.50% alternate base rate floor. Interest is payable in arrears at the end of each fiscal quarter. The Company is required to repay the FGNH Credit Agreement in equal fiscal quarterly installments of $6.25 million on the last day of each fiscal quarter, commencing with the fiscal quarter ending June 27, 2020. Further, the Company is required to prepay the FGNH Credit Agreement with 50% of consolidated excess cash flow on a quarterly basis with the net cash proceeds of certain other customary events. All repayments or prepayments (whether voluntary or mandatory) of the FGNH Credit Agreement, other than the fixed quarterly installments and excess cash flow prepayments are subject to early repayment fees.

The FGNH Credit Agreement includes customary affirmative, negative, and financial covenants binding on the Company and its subsidiaries, including delivery of financial statements and other reports. The negative covenants limit the ability of the Company and its subsidiaries, among other things, to incur debt, incur liens, make investments, sell assets, pay dividends on its capital stock and enter into transactions with affiliates. The financial covenants set forth in the FGNH Credit Agreement include a maximum total leverage ratio (net of certain cash) and a minimum fixed charge coverage ratio, to be tested at the end of each fiscal quarter, in each case with respect to certain subsidiaries of the Company. In addition, the FGNH Credit Agreement includes customary events of default, the occurrence of which may require that the Company pay an additional 2.0% interest.

In addition to financing the American Freight acquisition and its related acquisition costs, a portion of the proceeds from the FGNH Credit Agreement and the FGNH ABL Term Loan (as defined below) were used to repay the Buddy's and Sears Outlet's term loan for an outstanding amount of $101.6 million and $106.7 million including accrued interest, respectively. The early repayment of the term loans resulted in additional interest expense of $4.6 million for the write-off of deferred financing costs and $4.0 million for a prepayment penalty. The prepayment penalty is recorded in the Other expense line of the consolidated statements of operations for the nine months ended September 26, 2020.

On May 1, 2020, the Company entered into an amendment to the FGNH Credit Agreement to provide for the joinder of Franchise Group Intermediate L 1, LLC, an indirect subsidiary of the Company, and each of its direct and indirect subsidiaries (collectively, the "Liberty Tax Entities"), to the FGNH Term Loan Credit Agreement and the FGNH ABL Credit Agreement, respectively, as borrowers thereunder, and in connection therewith, certain related security documents provided for the Liberty Tax Entities to grant or continue to grant liens on substantially all of their assets to secure the obligations under the FGNH Term Loan Credit Agreement and the FGNH ABL Credit Agreement. Further, the amendment modified the FGNH Term Loan Credit Agreement and the FGNH ABL Credit Agreement, respectively, to, among other things, (i) permit certain ordinary course and otherwise anticipated activities of the Liberty Tax Entities and (ii) make certain technical modifications related to the COVID-19 pandemic and other events.

Franchise Group New Holdco New ABL Credit Agreement and New ABL Term Loan

On September 23, 2020, the Company, through direct and indirect subsidiaries, entered into an ABL Credit Agreement (the "New ABL Credit Agreement") with various lenders which provides for a senior secured revolving loan facility (the "New ABL Revolver") with commitments available to the Company of the lesser of (i) $125.0 million and (ii) a borrowing base based on the eligible credit card receivables, accounts, inventory and revenue due under certain rental agreements, less certain reserves. The New ABL Credit Agreement also includes a $15.0 million swingline subfacility and a $15.0 million letter of credit subfacility. The Company borrowed approximately $32.7 million on September 23, 2020, the proceeds of which were used to prepay certain existing indebtedness under the existing FGNH ABL Credit Agreement (as defined below), to pay fees and expenses in connection with the New ABL Credit Agreement, and for general corporate purposes.

The New ABL Revolver will mature on the earlier of September 23, 2025 and the maturity date under the FGNH Credit Agreement (i.e., February 14, 2025), unless the maturity is accelerated subject to the terms set forth in the New ABL Credit Agreement. Borrowings under the New ABL Revolver will bear interest at either (i) a rate per annum based on LIBOR for an interest period of one, two, three or six months (or, if all applicable twelve months), plus an interest rate margin that ranges from 3.50% to 3.75%, depending on the total leverage ratio of the Company, with a 1.00% LIBOR floor (a "New ABL LIBOR Loan"), or (ii) an alternate base rate determined as provided in the New ABL Credit Agreement, plus an interest rate margin that ranges from 2.50% to 2.75%, depending on the total leverage ratio of the Company, with an effective 2.00% alternate base rate floor (a "New ABL ABR Loan"). Interest on New ABL LIBOR Loans is payable in arrears at the end of each applicable interest period (and, with respect to any six- or twelve-month interest period, at three month intervals after the first day of such interest period), and interest on New ABL ABR Loans is payable in arrears on the first day of each month.

If the sum of the outstanding principal amount of the outstanding loans (including swingline loans) under the New ABL Revolver and the outstanding amount of letter of credit obligations thereunder exceeds the borrowing base, the Company is required to prepay the loans under the New ABL Revolver (including swingline loans) or cash collateralize letters of credit thereunder in the amount of any such excess. The Company is also required to prepay the loans under the New ABL Revolver, subject to the agreements between the New ABL Credit Agreement lenders and the FGNH Credit Agreement lenders, with the net cash proceeds of certain other customary events (subject to certain customary reinvestment rights). The Company may make voluntary prepayments of the loans under the New ABL Revolver from time to time. Amounts repaid may be re-borrowed, subject to compliance with the borrowing base and the other conditions set forth in the New ABL Credit Agreement. The Company may be required to pay LIBOR breakage and redeployment costs in certain limited circumstances. The New ABL Credit Agreement also includes a covenant that availability must not be less than the greater of $12.5 million and 12.5% of the lesser of $125.0 million and the borrowing base. In addition, the New ABL Credit Agreement includes customary events of default, the occurrence of which may require that the Company pay an additional 2.0% interest on the outstanding loans under the New ABL Revolver.

Franchise Group New Holdco ABL Credit Agreement and ABL Term Loan

On February 14, 2020, the Company, through direct and indirect subsidiaries, entered into an ABL credit agreement (the "FGNH ABL Credit Agreement") with various lenders which provided the Company with a $100.0 million credit facility (the “FGNH ABL Term Loan”). On February 14, 2020, the Company borrowed $100.0 million on the FGNH ABL Term Loan to finance the acquisition of American Freight. On September 23, 2020, the Company repaid in full all amounts that were outstanding under the FGNH ABL Term Loan and terminated the FGNH ABL Credit Agreement.

B. Riley ABL Commitment

On May 1, 2020, in connection with the American Freight Acquisition and the ABL Credit Agreement, the Company entered into an Amended and Restated ABL Commitment Letter with B. Riley Financial, Inc. ("B. Riley") pursuant to which B. Riley agreed to provide, subject to the terms and conditions set forth therein, a backstop commitment for a $100 million asset-based lending facility. The ABL Commitment Letter was terminated on September 25, 2020.

Vitamin Shoppe Term Loan

On December 16, 2019 as part of the Vitamin Shoppe Acquisition, the Company, through direct and indirect subsidiaries, entered into a Loan and Security Agreement (the “Vitamin Shoppe Term Loan Agreement”) that provides for a $70.0 million senior secured term loan (the "Vitamin Shoppe Term Loan") which matures on December 16, 2022. On May 22, 2020, the Company purchased $5.3 million of the Vitamin Shoppe Term Loan from one of the participating lenders, which effectively retired that portion of the term loan. On August 13, 2020, the Company repaid in full the remaining balance outstanding under the Vitamin Shoppe Term Loan and terminated the Vitamin Shoppe Term Loan Agreement on August 25, 2020.

Vitamin Shoppe ABL Revolver

On December 16, 2019, the Company, through direct and indirect subsidiaries, entered into a Second Amended and Restated Loan and Security Agreement (the “ Vitamin Shoppe ABL Agreement”) providing for a senior secured revolving loan facility (the “Vitamin Shoppe ABL Revolver”) with commitments available to the Company of the lesser of (i) $100.0 million and (ii) a specified borrowing base based on our eligible credit card receivables, accounts receivable and inventory, less certain reserves, and as to each of clauses (i) and (ii), less a $10.0 million availability block. The Vitamin Shoppe ABL Revolver will mature on December 16, 2022, unless the maturity is accelerated subject to the terms set forth in the Vitamin Shoppe ABL Agreement. The Company borrowed $70.0 million on December 16, 2019, the proceeds of which were used to consummate the Vitamin Shoppe Acquisition. The ABL Agreement amended and restated the existing Amended and Restated Loan and Security Agreement (the “Existing Vitamin Shoppe ABL Agreement”), dated as of January 20, 2011.

The Company's obligations under the ABL Agreement are secured by substantially all of the assets of the Vitamin Shoppe segment. The Intercreditor Agreement sets forth the relative priorities of the security interests granted with respect to the Vitamin Shoppe ABL Revolver and those granted with respect to the Vitamin Shoppe Term Loan. The security interest granted to the Vitamin Shoppe ABL Revolver lenders is senior to that granted to the Vitamin Shoppe Term Loan lenders with respect to, among other assets, accounts receivable, inventory and deposit accounts.

Borrowings under the Vitamin Shoppe ABL Revolver will, at the Company's option, bear interest at either (i) 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 (a “LIBOR Loan”), with a 0.0% LIBOR floor, or (ii) an alternate base rate determined as provided in the Vitamin Shoppe ABL Agreement, plus an interest rate margin that ranges from 0.25% to 0.75%, depending on excess availability (an “ABR Loan”), with a 1.0% alternate base rate floor. Interest on LIBOR Loans is payable in arrears at the end of each applicable interest period (and, with respect to a six-month interest period, three months after commencement of the interest period), and interest on ABR Loans is payable in arrears on the first business day of each calendar quarter.

Subject to the Intercreditor Agreement, the Company is required to repay borrowings under the Vitamin Shoppe ABL Revolver with the net cash proceeds of certain customary events (subject to certain customary reinvestment rights). Further, if the outstanding principal amount of the borrowings under the Vitamin Shoppe ABL Revolver at any time exceeds the lesser of $100.0 million and the borrowing base, less, in each case, a $10.0 million availability block, the Company must prepay any such excess.

The Vitamin Shoppe ABL Agreement includes customary affirmative and negative covenants binding on the Company and its subsidiaries, including the delivery of financial statements, borrowing base certificates and other reports. The negative covenants limit the ability of the Company and its subsidiaries, among other things, to incur debt, incur liens, make investments, sell assets, pay dividends on its capital stock and enter into transactions with affiliates. In addition, the Vitamin Shoppe ABL Agreement includes customary events of default, the occurrence of which may require the Company to pay an additional 2.0% interest on the borrowings under the Vitamin Shoppe ABL Revolver.

Liberty Tax Credit Agreement

On May 16, 2019, the Company entered into a new credit agreement (the "Liberty Tax Credit Agreement") which provided for a $135.0 million senior revolving credit facility, a $10.0 million sub-facility for the issuance of letters of credit, and a $20.0 million swingline loan sub-facility. On October 2, 2019, the Company amended the Liberty Tax Credit Agreement dated May 16, 2019 to extend the maturity date to October 2, 2022, from the original maturity date of May 31, 2020 and decrease the aggregate amount of commitments from $135.0 million to $125.0 million as of October 2, 2019. The Liberty Tax Credit Agreement included customary affirmative, negative, and financial covenants, including delivery of financial statements and other reports and maintenance of existence. On February 14, 2020, the Company amended certain provisions of the Liberty Tax Credit Agreement to provide for the gradual reduction of the commitments under the Liberty Tax Credit Agreement and terminated the facility on April 30, 2020.

Other Indebtedness

On February 7, 2020, the Company completed the repurchase of $60.4 million in aggregate principal amount of outstanding Convertible Senior Notes for a purchase price of $60.6 million, which included accrued interest.

In December 2016, the Company obtained a mortgage payable to a bank in monthly installments of principal payments plus interest at the one-month LIBOR plus 1.85% through December 2026 with a balloon payment of $0.8 million due at maturity. The mortgage is collateralized by land and buildings.

Compliance with debt covenants

The Company's revolving credit and long-term debt agreements impose restrictive covenants on it, including requirements to meet certain ratios. As of September 26, 2020, the Company was in compliance with all covenants under these agreements and, based on a continuation of current operating results, the Company expects to be in compliance for the remainder of fiscal 2020.

(7) Income Taxes

The Coronavirus, Aid, Relief, and Economic Security, or CARES Act (the “Act”) was enacted on March 27, 2020. The Act retroactively changed the eligibility of certain assets for expense treatment in the year placed in service, back to 2018, and permitted any net operating loss for the tax years 2018, 2019 and 2020 to be carried back for 5 years. The Company recorded a total income tax benefit of $45.6 million through the second quarter associated with the income tax components contained in the Act. As of September 26, 2020, the Company has completed an initial analysis of the tax effects of the Act but continues to monitor developments by federal and state rule making authorities regarding implementation of the Act. The Company has made reasonable estimates of the effects of the Act and will adjust, if needed, as new laws or guidance becomes available.

For the three months ended September 26, 2020 and September 30, 2019, the Company had an effective tax rate of (5.2)% and 15.6%, respectively. For the nine months ended September 26, 2020, the Company recognized an income tax benefit of $43.6 million, which represented an effective tax rate of 357.0%. For the nine months ended September 30, 2019, the Company recognized income tax expense of $10.4 million, which represented an effective tax rate of 52.3%. The income tax benefit for the nine months ended September 26, 2020, included the impact of the enactment of the Act, as discussed above, which is the primary driver of the difference in effective tax rate.

In addition, the impact of the American Freight Acquisition has been considered for the nine months ended September 26, 2020. The Company recorded an additional $11.4 million deferred tax liability to account for cumulative temporary differences resulting from the American Freight Acquisition. These initial amounts recorded in connection with purchase accounting will be adjusted during the measurement periods as the Company gathers information regarding facts and circumstances that existed as of the acquisition date.

The Company has a valuation allowance recorded against its net deferred tax assets of $48.2 million. The Company intends to maintain a valuation allowance on its deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. A reduction in the valuation allowance could result in a significant decrease in income tax expense in the period in which the release is recorded. However, the exact timing and amount of any reduction in the Company’s valuation allowance are unknown at this time and will be subject to the earnings level it achieves in future periods.

Tax Receivable Agreement

Pursuant to the Company's election under Section 754 of the Internal Revenue Code (the "Code"), the Company expects to obtain an increase in its share of the tax basis in the net assets of New Holdco when New Holdco units are redeemed or exchanged by the non-controlling interest holders and other qualifying transactions. The Company has treated the redemptions and exchanges of New Holdco units by the non-controlling interest holders as direct purchases of New Holdco units for U.S. federal income tax purposes. These increases in tax basis may reduce the amounts that it would otherwise pay in the future to various tax authorities. They may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

On July 10, 2019, the Company entered into a tax receivable agreement with the then-existing non-controlling interest holders (the "Tax Receivable Agreement") that provides for the payment by the Company to the non-controlling interest holders of 40% of the cash savings, if any, in federal, state and local taxes that the Company realizes or is deemed to realize as a result of any increases in tax basis of the assets of New Holdco resulting from future redemptions or exchanges of New Holdco units.

During the nine months ended September 26, 2020, the Company acquired an aggregate of 9,433,332 New Holdco units, which resulted in an increase in the tax basis of its investment in New Holdco subject to the provisions of the Tax Receivable Agreement. In the nine months ended September 26, 2020, the Company recognized a total liability in the amount of $17.2 million for the payments due to the redeeming members under the Tax Receivable Agreement ("TRA Payments"), representing 40% of the cash savings it expects to realize from the tax basis increases related to the redemption of New Holdco units. TRA Payments will be made when such TRA related deductions actually reduce the Company’s income tax liability. No payments were made to members of New Holdco pursuant to the Tax Receivable Agreement during the quarter ended September 26, 2020.

(8) Stockholders’ Equity

Stockholders' Equity Activity

On January 3, 2020, the Company entered into a Subscription Agreement with an affiliate of Vintage Capital Management, LLC ("Vintage"), pursuant to which the affiliate of Vintage purchased from the Company 2,354,000 shares of common stock of the Company, par value $0.01 per share, at a purchase price of $12.00 per share for an aggregate purchase price of $28.2 million in cash. The common stock was purchased pursuant to an amendment to an equity commitment letter, dated August 7, 2019, between the Company and Tributum, L.P. (as amended, the "ECL"), pursuant to which Vintage agreed to provide $70.0 million of equity financing for the Vitamin Shoppe Acquisition.

On February 7, 2020, investors purchased approximately 3,877,965 shares of the Company's common stock for $65.9 million. The equity financing was done through purchases of shares of common stock of the Company at $12.00 per share under the ECL, and $23.00 per share in connection with a separate private placement of shares of common stock (collectively, the "Equity Financing") pursuant to certain subscription agreements entered into by each investor with the Company. Pursuant to the ECL, Tributum, L.P. assigned certain of its obligations thereunder to provide a portion of such Equity Financing to certain of the investors. The proceeds of the of Equity Financing were used by the Company to fund the repurchase or redemption of the Company's outstanding 2.25% Convertible Notes (the "Convertible Notes"), to make interest payments on the Convertible Notes that are not repurchased or redeemed until their maturity and to also fund general, working capital and cash needs of the Company.

On February 14, 2020, the Company issued 1,250,000 shares of the Company's common stock with a value of $31.0 million, which was recorded as deferred financing costs, to Kayne FRG Holdings L.P. for services provided in the financing of the American Freight Acquisition.

On June 25, 2020, the Company entered into an Underwriting Agreement (the "Common Stock Underwriting Agreement") with B. Riley FBR, Inc. ("B. Riley FBR") as representative of the underwriters named therein (the “Common Stock Underwriters”) to issue and sell an aggregate of 4,200,000 shares of the Company's common stock in a public offering at a price of $23.25 per share. In addition, the Company granted the Common Stock Underwriters an option to purchase up to an additional 630,000 shares of the Company's common stock for a period of 30 days from June 25, 2020. The offering closed on June 30, 2020 and the net proceeds to the Company from the offering were approximately $92.2 million, after deducting underwriting discounts and estimated offering expenses of approximately $5.4 million. On July 25, 2020, the Company and B. Riley FBR entered into an Amendment No. 1 to the Common Stock Underwriting Agreement to extend the period during which the Company granted the Common Stock Underwriters the option to 35 days from June 25, 2020, or July 30, 2020. On July 30, 2020, the Common Stock Underwriters provided notice to purchase the additional 630,000 shares of the Company's common stock. On August 3, 2020, the Company received proceeds of approximately $13.8 million, net of underwriting discounts of approximately $0.8 million.

On September 15, 2020, the Company entered into an Underwriting Agreement with B. Riley Securities, Inc. (formerly known as B. Riley FBR) (“B. Riley Securities”), as representative of the underwriters named therein (the “Preferred Stock Underwriters”), to issue and sell an aggregate of 1,200,000 shares of the Company’s 7.50% Series A Cumulative Perpetual Preferred Stock, par value $0.01 per share and liquidation preference of $25.00 per share (the “Series A Preferred Stock”), in a public offering at a price to the public of $25.00 per share. The Company also granted the Preferred Stock Underwriters the Option to purchase up to 180,000 additional shares of Series A Preferred Stock for a period of 30 days following September 15, 2020. The offering closed on September 18, 2020, and the net proceeds to the Company from the offering were approximately $28.8 million, after deducting the underwriting discount, the structuring fee and other estimated offering expenses of approximately $1.2 million.

On October 15, 2020, the Preferred Stock Underwriters provided notice to purchase an additional 50,000 shares of the Series A Preferred Stock on the terms and subject to the conditions set forth in the Preferred Stock Underwriting Agreement. The Company received proceeds of approximately $1.2 million, net of expenses of less than $0.1 million.

During the first quarter of 2020, the Company also corrected an immaterial misclassification between retained earnings and non-controlling interest related to distributions declared to the non-controlling interest in the prior year.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss at September 26, 2020 and December 28, 2019 were as follows:

(In thousands)	**September 26, 2020**	**December 28, 2019**
Foreign currency adjustment	$ (1,684)	$ (1,496)
Interest rate swap agreements, net of tax	(161)	(42)
Forward contracts related to foreign currency exchange rates	7	—
Total accumulated other comprehensive loss	$ (1,838)	$ (1,538)

Non-controlling interest

The Company is the sole managing member of New Holdco and, as a result, consolidates the financial results of New Holdco. Prior to April 1, 2020, the Company reported a non-controlling interest representing the economic interest in New Holdco held by the former equity holders of Buddy's (the "Buddy’s Members"). The New Holdco LLC Agreement provided that the Buddy’s Members could, from time to time, have required the Company to redeem all or a portion of their New Holdco units for newly-issued shares of common stock on a basis of one New Holdco unit and one-fifth of a share of Preferred Stock of the Company for one share of common stock of the Company. In connection with any redemption or exchange, the Company received a corresponding number of New Holdco units, increasing its total ownership interest in New Holdco. Changes in the Company's ownership interest in New Holdco while it retains their controlling interest in New Holdco were accounted for as equity transactions. As such, redemptions or direct exchanges of New Holdco units by the Buddy’s Members resulted in a change in ownership and reduced the amount recorded as non-controlling interest and increased additional paid-in capital. On March 26, 2020, the Company redeemed 3,937,726 New Holdco units and 787,545 shares of preferred stock for common stock. On April 1, 2020, the Company redeemed the remaining 5,495,606 New Holdco units and 1,099,121 shares of preferred stock for common stock and the Company is the sole owner of New Holdco.

The exchange of New Holdco units for common stock resulted in an increase in the tax basis of the net assets of New Holdco and a liability to be recognized pursuant to the TRA. The difference of $10.0 million in the adjustment of the deferred tax balances and the tax receivable agreement liability was recorded as an adjustment to additional paid-in-capital. Refer to "Note 7. Income Taxes" for further discussion of the TRA.

Preferred Stock

The Company has authorized the issuance of 20.0 million shares of preferred stock. Preferred stock outstanding for the periods ended September 26, 2020 and December 28, 2019 is as follows:

Preferred Stock	September 26, 2020	December 28, 2019
Voting Non-economic Preferred Stock, par value $0.01 per share	—	1,886,667
Series A Preferred Stock, par value $0.01 per share	1,200,000	—
Shares outstanding	1,200,000	1,886,667

Net Income (Loss) per Share

Diluted net income (loss) per share is computed using the weighted-average number of common stock and, if dilutive, the potential common stock outstanding during the period. Potential common stock consists of the incremental common stock issuable upon the exercise of stock options and vesting of restricted stock units. The dilutive effect of outstanding stock options and restricted stock units is reflected in diluted earnings per share by application of the treasury stock method. Additionally, the computation of the diluted net income (loss) per share of common stock assumed the conversion of exchangeable shares, and Preferred Stock, if dilutive.

The computation of basic and diluted net income (loss) per share for the three and nine months ended September 26, 2020 and September 30, 2019 is as follows:

	Three Months Ended September 26, 2020	Three Months Ended September 30, 2019
(In thousands, except for share and per share amounts)	Common Stock	Common Stock
Basic and diluted net loss per share:		
Numerator		
Allocation of undistributed loss attributable to Franchise Group	$ (8,597)	$ (14,886)
Less: Preferred dividend declared	169	—
Net loss attributable to Franchise Group common stockholders	(8,766)	(14,886)
Denominator		
Weighted-average common stock outstanding	39,692,384	15,997,041
Basic and diluted net loss per share	$ (0.22)	$ (0.93)

(In thousands, except for share and per share amounts)	Nine Months Ended September 26, 2020	Nine Months Ended September 30, 2019
	Common Stock	Common Stock
Basic net income per share:		
Numerator		
Allocation of undistributed income attributable to Franchise Group	$ 29,269	$ 18,049
Less: Preferred dividend declared	169	—
Net income attributable to Franchise Group common stockholders	29,100	18,049
Denominator		
Weighted-average common stock outstanding	32,679,576	14,712,297
Basic net income per share	$ 0.89	$ 1.23
Diluted net income per share:		
Numerator		
Allocation of undistributed earnings for basic computation	$ 29,100	$ 18,049
Denominator		
Number of shares used in basic computation	32,679,576	14,712,297
Weighted-average effect of dilutive securities		
Employee stock options and restricted stock units	282,329	58,676
Weighted-average diluted shares outstanding	32,961,905	14,770,973
Diluted net income per share	$ 0.88	$ 1.22

(9) Stock Compensation Plans

2019 Omnibus Incentive Plan

In December 2019, the Company's stockholders approved the Company's 2019 Omnibus Incentive Plan (the "2019 Plan"). The 2019 Plan provides for a variety of awards, including stock options, stock appreciation rights, performance units, performance shares, shares of the Company’s common stock, par value $0.01 per share, restricted stock, restricted stock units, incentive awards, dividend equivalent units and other stock-based awards. Awards under the 2019 Plan may be granted to the Company’s eligible employees, directors, or consultants or advisors. The 2019 Plan provides that an aggregate maximum of 5,000,000 shares of common stock are reserved for issuance under the 2019 Plan, subject to adjustment for certain corporate events. At September 26, 2020, 4,071,299 shares of common stock remained available for grant.

Stock Options

Stock option activity during the nine months ended September 26, 2020 was as follows:

	Number of options	Weighted average exercise price
Outstanding at December 28, 2019	460,285	$ 10.28
Exercised	(50,278)	10.35
Expired or forfeited	(18,598)	11.93
Outstanding at September 26, 2020	391,409	$ 10.19

Intrinsic value is defined as the fair value of the stock less the cost to exercise. The total intrinsic value of stock options outstanding at September 26, 2020 was $4.8 million. Stock options vest from the date of grant to 3 years after the date of grant and expire from 4 years to 5 years after the vesting date.

Nonvested stock options activity during the nine months ended September 26, 2020 was as follows:

	Nonvested options	Weighted average exercise price
Outstanding at December 28, 2019	215,007	$ 10.11
Vested	(133,075)	10.46
Expired or forfeited	(18,598)	11.93
Outstanding at September 26, 2020	63,334	$ 8.83

At September 26, 2020, unrecognized compensation costs related to nonvested stock options was less than $0.1 million. These costs are expected to be expensed through fiscal 2021.

The following table summarizes information about stock options outstanding and exercisable at September 26, 2020:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number	Weighted average exercise price
$0.00 - $10.89	217,500	$ 8.77	4.5	154,166	$ 8.74
$10.90 - $12.79	173,909	11.98	3.5	173,909	11.98
	391,409	$ 10.19		328,075	$ 10.46

Restricted Stock Units

The Company has awarded restricted stock units to its non-employee directors and certain employees. Restricted stock units are valued at the closing stock price the day preceding the grant date. Compensation costs associated with these restricted shares are amortized on a straight-line basis over the vesting period and recognized as an increase in additional paid-in capital. At September 26, 2020, unrecognized compensation cost related to restricted stock units was $15.1 million. These costs are expected to be recognized through fiscal 2023.

In the nine months ended September 26, 2020, the Company awarded performance restricted stock units with an estimated fair value of $3.7 million to certain officers and employees. Each employee has the opportunity to earn an amount between 0% and 150% of the individual target award contingent on the Company meeting certain performance targets for the period beginning December 28, 2019 and ending on December 31, 2022. Provided the vesting conditions are satisfied, the awards will vest at the end of the performance period. The estimated value is to be expensed over the performance period. The Company recognized $0.6 million of expense related to these performance restricted stock units in the nine months ended September 26, 2020. The estimated fair value of these performance restricted stock units was determined using the Company's closing price on the grant date.

In the nine months ended September 26, 2020, the Company also awarded restricted stock units with a fair value of $3.7 million to certain officers and employees. One-third of the awards will vest each year on the anniversary date of the grant. The Company recognized $0.6 million of expense related to these restricted stock units in the nine months ended September 26, 2020. The Company also awarded restricted stock units with a fair value of $0.7 million to directors of the Company. The awards will vest on the anniversary date of the grant. The Company recognized $0.4 million of expense related to these restricted stock units in the nine months ended September 26, 2020. The fair value of restricted stock units was determined using the Company's closing price on the grant date.

Restricted stock activity during the nine months ended September 26, 2020 was as follows:

	Number of restricted stock units		Weighted average fair value at grant date
Balance at December 28, 2019	671,039	$	13.99
Granted	337,713		24.72
Vested	(34,701)		10.75
Canceled	(16,698)		19.49
Balance at September 26, 2020	957,353	$	17.80

Stock Compensation Expense

The Company recorded $6.3 million of expense related to stock awards for the nine months ended September 26, 2020.

(10) Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities subject to fair value measurements are classified according to a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Valuation methodologies for the fair value hierarchy are as follows:

- Level 1 — Quoted prices for identical assets and liabilities in active markets.
- Level 2 — Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-based valuations in which all significant inputs are observable in the market.
- Level 3 — Unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

The Company measures or monitors certain of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for those assets and liabilities for which fair value is the primary basis of accounting. Other assets and liabilities are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustment in certain circumstances, such as when there is evidence of impairment.

The following tables present, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis at September 26, 2020 and December 28, 2019.

	September 26, 2020			
		Fair value measurements using		
(In thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Recurring assets:				
Cash equivalents	$ 31	$ 31	$ —	$ —
Total recurring assets	31	31	—	—
Nonrecurring assets:				
Impaired accounts and notes receivable, net of unrecognized revenue and allowance	11,217	—	—	11,217
Total nonrecurring assets	11,217	—	—	11,217
Total recurring and nonrecurring assets	$ 11,248	$ 31	$ —	$ 11,217
Liabilities:				
Recurring liabilities:				
Forward contract related to foreign currency exchange rates	$ 180	$ —	$ —	$ 180
Contingent consideration included in obligations due former ADs, franchisees and others	355	—	—	355
Interest rate swap agreement	161	—	161	—
Total recurring liabilities	$ 696	$ —	$ 161	$ 535

	December 28, 2019			
		Fair value measurements using		
(In thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Recurring assets:				
Cash equivalents	$ 4,253	$ 4,253	$ —	$ —
Total recurring assets	4,253	4,253	—	—
Nonrecurring assets:				
Impaired accounts and notes receivable, net of unrecognized revenue	7,310	—	—	7,310
Total nonrecurring assets	7,310	—	—	7,310
Total recurring and nonrecurring assets	$ 11,563	$ 4,253	$ —	$ 7,310
Liabilities:				
Recurring liabilities:				
Contingent consideration included in obligations due to former ADs, franchisees and others	$ 916	$ —	$ —	$ 916
Interest rate swap agreement	58	—	58	—
Total recurring liabilities	$ 974	$ —	$ 58	$ 916

The Company's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1 or 2 recurring fair value measurements for the nine months ended September 26, 2020, as well as the year ended December 28, 2019.

The following methods and assumptions are used to estimate the fair value of the Company's financial instruments.

Cash equivalents: The carrying amounts approximate fair value because of the short maturity of these instruments. Cash equivalent financial instruments consist of money market accounts.

Impaired accounts and notes receivable: Accounts and notes receivable are considered to be impaired if the net amounts due exceed the fair value of the underlying franchise or if management considers it probable that all principal and interest will not be collected when contractually due. In establishing the estimated fair value of the underlying franchise, consideration is given to a variety of factors, including, recent comparable sales of Company-owned stores, sales between franchisees, the net fees of open offices, and the number of unopened offices.

Contingent consideration included in long-term obligations: Contingent consideration is carried at fair value. The fair value of these obligations was determined based upon the estimated future net revenues of the acquired businesses.

Interest rate swap agreement: Value of interest rate swap on variable rate mortgage debt. The fair value of this instrument was determined based on third-party market research.

Other Fair Value Measurements

Accounting standards require the disclosure of the estimated fair value of financial instruments that are not recorded at fair value. For the financial instruments not recorded at fair value, estimates of fair value are made at a point in time based on relevant market data and information about the financial instrument. No readily available market exists for a significant portion of the Company's financial instruments. Fair value estimates for these instruments are based on current economic conditions, interest rate risk characteristics, and other factors. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision. Therefore, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. In addition, changes in assumptions could significantly affect these fair value estimates. The following methods and assumptions were used by the Company in estimating the fair value of these financial instruments.

Receivables other than notes, other current assets, accounts payable and accrued expenses, and due to ADs: The carrying amounts approximate fair value because of the short maturity of these instruments (Level 1).

Notes receivable: The carrying amount approximates fair value because the interest rate charged by the Company on these notes approximates rates currently offered by local lending institutions for loans of similar terms to individuals/entities with comparable credit risk (Level 3).

Long-term debt: The carrying amount approximates fair value because the interest rate paid has a variable component (Level 2).

(11) Related Party Transactions

The Company considers directors and their affiliated companies, as well as named executive officers and members of their immediate families, to be related parties.

Brian Kahn and Andrew Laurence

As of September 26, 2020, Mr. Kahn held approximately 32.5% of the aggregate ownership of the Company's common stock directly or through entities under his control, including Vintage.

Vintage and its affiliates held approximately 19% of the aggregate voting power of the Company through their ownership of common stock as of September 26, 2020. Mr. Kahn and Mr. Laurence, principals of Vintage, are members of the Company's Board of Directors with Mr. Laurence serving as the Company's Chairman of the Board until March 31, 2020. Mr. Kahn is the President and Chief Executive Officer of the Company and Mr. Laurence is an Executive Vice President of the Company.

Stock Subscription Agreement. On January 6, 2020, Vintage affiliates purchased 2,354,000 shares of the Company's common stock for $28.2 million under a subscription agreement dated August 7, 2019 with the Company.

Buddy's Franchises. Mr. Kahn had an equity interest in an entity that owned three Buddy's franchises. The entity sold the franchisees on June 26, 2020 and Mr. Kahn no longer has an interest in any franchises of the Company. Mr. Kahn's brother-in-law owns seven Buddy's franchisees. All transactions between the Company's Buddy's segment and Mr. Kahn's brother-in-law are conducted on a basis consistent with other franchisees.

Bryant Riley (former director)

Mr. Riley, through controlled entities or affiliates held approximately 11% of the aggregate ownership of the Company's common stock as of September 26, 2020. Mr. Riley was also a member of the Company's Board of Directors from September 2018 through March 2020.

Credit Agreements. On December 16, 2019, the Company entered into the Vitamin Shoppe Term Loan with an entity controlled by Mr. Riley. On February 14, 2020, the Company entered into a $675 million credit facility, which included a $575 million FGNH Credit Agreement and a $100 million FGNH ABL Term Loan with an entity controlled by Mr. Riley acting as the administrative agent. During the nine months ended September 26, 2020, the Company borrowed and repaid an $11.0 million promissory note with an entity controlled by Mr. Riley. On September 23, 2020, the Company repaid in full all amounts that were outstanding under the FGNH ABL Term Loan and terminated the FGNH ABL Credit Agreement.

Stock Subscription Agreements. On February 7, 2020, Mr. Riley, and entities or affiliates of Mr. Riley purchased 669,678 shares of the Company's common stock for $11.4 million under the Equity Financing as defined above in "Note 8. Stockholder's Equity".

Fee Letters. On February 14, 2020, the Company entered into a fee letter with B. Riley pursuant to which B. Riley was entitled to receive $5 million for advisory services provided for the American Freight Acquisition. B. Riley received payment for these services on June 26, 2020. On February 19, 2020, the Company entered into a fee letter with B. Riley pursuant to which B. Riley received an equity fee equal to 6% of the $36.0 million of equity raised by B. Riley for the Company as part of the Equity Financing (as defined above in "Note 8. Stockholder's Equity").

Backstop ABL Commitment Letter. On May 1, 2020, in connection with our acquisition of American Freight and the ABL Credit Agreement, the Company entered into an ABL Commitment Letter with B. Riley pursuant to which B. Riley agreed to provide, subject to the terms and conditions set forth therein, a backstop commitment for a $100.0 million asset-based lending facility. The ABL Commitment Letter was terminated on September 25, 2020.

Underwritten Offering of Common Stock. On June 30, 2020, the Company completed an underwritten offering of its common stock in which B. Riley FBR, an affiliate of B. Riley, acted as representative of the underwriters. In connection with the offering, B. Riley FBR and the other underwriters in the offering were entitled to an underwriting discount of approximately $5.4 million and reimbursement of certain out-of-pocket expenses incurred in connection with the offering.

Underwritten Offering of Preferred Stock. On September 15, 2020, the Company completed an underwritten offering of its Series A Preferred Stock in which B. Riley Securities, an affiliate of B. Riley, acted as representative of the underwriters. In connection with the offering, B. Riley Securities and the other underwriters in the offering were entitled to an underwriting discount and reimbursement of certain out-of-pocket expenses incurred of approximately $0.9 million and B. Riley Securities was entitled to a structuring fee of $0.3 million.

M. Brent Turner

Mr. Turner is the President and Chief Executive Officer of the Company’s Liberty Tax segment.

Revolution Agreement. The Company entered into a one-year Services Agreement (the “Revolution Agreement”) with Revolution Financial, Inc. (“Revolution”) effective as August 23, 2019. Mr. Turner serves as the Chief Executive Officer of Revolution. The Revolution Agreement provides for certain transition services, including leased office space and information technology personnel. Pursuant to the terms as provided in the Revolution Agreement, fees for each of the services provided by Revolution are calculated based on the actual costs for each applicable service to be paid by the Company. For the transition services provided by the Company in retail locations, which includes the provision of space and staffing, Revolution will pay the Company 50% of net revenue. The Revolution Agreement expired on August 23, 2020.

Michael S. Piper

Mr. Piper is the Chief Financial Officer of the Company's Liberty Tax segment. On February 7, 2020, Mr. Piper purchased 123,529 shares for $2.1 million under the Equity Financing as defined above in "Note 8. Stockholders' Equity".

Steve Belford

The Company's American Freight segment leases retail space and purchases inventory from entities either fully or partially owned by Steve Belford, the former Chief Executive Officer of American Freight. Mr. Belford's employment with American Freight ended on April 6, 2020. In the nine months ended September 26, 2020, American Freight paid these entities approximately $2.9 million under the lease obligations and purchased approximately $26.6 million of inventory.

Tax Receivable Agreement

In connection with the Buddy's Acquisition, the Company entered into the Tax Receivable Agreement with the Buddy's Members that provides for the payment to the Buddy's Members of 40% of the amount of any tax benefits that the Company actually realizes as a result of increases in the tax basis of the net assets of New Holdco resulting from any redemptions or exchanges of New Holdco units. Amounts due under the Tax Receivable Agreement to the Buddy's Members as of September 26, 2020 were $17.2 million which is recorded in "Other non-current liabilities" in the accompanying condensed consolidated balance sheets. No payments were made to member of New Holdco pursuant to the Tax Receivable Agreement during the quarter ended September 26, 2020.

(12) Commitments and Contingencies

In the ordinary course of operations, the Company may become a party to legal proceedings. Based upon information currently available, management believes that such legal proceedings, individually or in the aggregate, will not have a material adverse effect on the Company's business, financial condition, cash flows, or results of operations except as provided below.

Eastern District of New York Securities Litigation

In Re Liberty Tax, Inc. Securities Litigation. This case consolidated two previously filed cases on July 12, 2018. The case, among other things, asserts that the Company’s SEC filings over a multi-year period failed to disclose the alleged misconduct of the individual defendants and that disclosure of the alleged misconduct caused the Company’s stock price to drop and, thereby harm the purported class of stockholders. The class period is alleged to be October 1, 2013 through February 23, 2018. The defendants filed a joint motion to dismiss the Consolidated Amended Class Action Complaint on September 17, 2018 which was granted on January 17, 2020. The Plaintiff filed their notice to appeal to the United States Court of Appeals for the Second Circuit on February 19, 2020. The Second Circuit set an expedited briefing schedule for the appeal. Appellant's brief was filed on May 5, 2020 and Appellant’s opposition brief was filed on June 9, 2020. On September 30, 2020, the Court of Appeals for the Second Circuit affirmed the January 17, 2020 decision by the District Court for the Eastern District of New York, dismissing of the Consolidated Amended Class Action Complaint with prejudice.

Stockholder Class Action and Derivative Complaint

On August 12, 2019, Asbestos Workers’ Philadelphia Pension Fund, individually and on behalf of all others similarly situated and derivatively on behalf of the Company filed a class action and derivative complaint (the “Derivative Complaint”) in the Court of Chancery of the State of Delaware, against Matthew Avril, Patrick A. Cozza, Thomas Herskovits, Brian R. Kahn, Andrew M. Laurence, Lawrence Miller, G. William Minner Jr., Bryant R. Riley, Kenneth M. Young, (collectively the “Derivative Complaint Individual Defendants”), and against Vintage, B. Riley, and the Company as a Nominal Defendant.

The Derivative Complaint alleges breach of fiduciary duty against the Derivative Complaint Individual Defendants based on the following allegations: (a) causing the Company to completely transform its business model and to acquire Buddy’s at an inflated price, (b) transfer the control of the Company to Vintage and B. Riley for no premium and without a stockholder vote, (c) allowing Vintage and B. Riley’s other former stockholders to unfairly extract additional value from the Company by virtue of a TRA, (d) the offering to the Company's non-Vintage and non-B. Riley stockholders of an inadequate price for their shares of Company stock ($12.00 per share), (e) disseminating materially misleading and/or omissive Tender Offer documents, and (f) issuing additional Company shares to Vintage at less than fair value to fund the Tender Offer and Vitamin Shoppe Acquisition. The Derivative Complaint also includes a count of unjust enrichment against Vintage and B. Riley.

The Derivative Complaint seeks: (a) declaration that the action is properly maintainable as a class action; (b) a finding the Individual Defendants are liable for breaching their fiduciary duties owed to the class and the Company; (c) a finding that demand on the Company's Board is excused as futile; (d) enjoining the consummation of the Tender Offer unless and until all material information necessary for the Company's stockholders to make a fully informed tender decision has been disclosed; (e) a finding Vintage and B. Riley are liable for unjust enrichment; (f) an award to Plaintiff and the other members of the class damages in an amount which may be proven at trial; (g) an award to Plaintiff and the other members of the class pre-judgment and post-judgment interest, as well as their reasonable attorneys' and expert witness fees and other costs; (h) an award to the Company in the amount of damages it sustained as a result of Individual Defendants' breaches of fiduciary duties to the Company; and (i) awarding such other and further relief as this Court may deem just and proper.

Simultaneously with the filing of the Derivative Complaint, the Plaintiff filed a motion seeking expedited proceedings. The motion was withdrawn as the Derivative Complaint Individual Defendants agreed to produce certain documents.

On October 23, 2019, the Plaintiff filed a Verified Amended Stockholder Class Action and Derivative Complaint (the "Amended Complaint"), following the Company's filing of the amended and restated offer to purchase on October 16, 2019 (the "Offer to Purchase"). The Amended Complaint contained substantially similar allegations but revised certain allegations based on disclosures contained in, or purportedly omitted, from the Offer to Purchase. The Plaintiff filed a Motion for Preliminary Injunction on October 25, 2019, seeking to prevent the consummation of the pending Offer to Purchase unless additional information was disclosed. On November 5, 2019, the Company filed Amendment No. 5 to the Offer to Purchase making certain additional disclosures, and Plaintiff withdrew its Motion for Preliminary Injunction.

On February 7, 2020, Matthew Sciabacucchi, a purported stockholder of the Company, filed a motion to intervene to pursue some or all of the derivative claims pending in the Court of Chancery. Mr. Sciabacucchi's motion states that Asbestos Workers' Philadelphia Pension Fund has sold its shares in the Company. The motion to intervene was granted March 10, 2020.

On June 8, 2020 the Court entered an order governing briefing on Plaintiff's petition for an interim award of attorney's fees. Plaintiff's opening brief was filed on June 8, 2020. Defendant's opposition was filed on July 23, 2020, and Plaintiff's reply was due on or before August 6, 2020. The Court held oral arguments on August 18, 2020 and reserved decision on Plaintiff's motion for interim fees. On September 29, 2020, the parties agreed to settle this matter in principle and the matter has been stayed pending the parties' filing of settlement papers. The settlement will contain broad and customary releases. Despite the parties' desire to settle the matter, there is no assurance that the settlement will be approved by the Delaware Court of Chancery. The Company does not expect the settlement to be material to the Company.

Class Action Litigation

Rene Labrado v. JTH Tax, Inc. On July 3, 2018, a class action complaint was filed in the Superior Court of California, County of Los Angeles by a former employee for herself and on behalf of all other "similarly situated" persons. The Complaint alleges, among other things, that the Company allegedly violated various provisions of the California Labor Code, including: unpaid overtime, unpaid meal period premiums, unpaid rest premiums, unpaid minimum wages, final wages not timely paid, wages not timely paid, non-compliant wage statements, failure to keep pay records, unreimbursed business expenses and violation of California Business and Profession Code Section 17200. The Complaint seeks actual, consequential and incidental losses and damages, injunctive relief and other damages. The Company highly disputes the allegations set forth in the Complaint and filed a motion to dismiss. On May 29, 2019, the Court denied the Company's motion to dismiss, but granted the Company leave to file a motion to strike. The Company filed a motion to strike and on August 20, 2019, the Court granted in part and denied in part the Company's motion. The Court provided the Company with twenty days to file its answer to the Complaint and lifted the discovery stay. A status conference was held on March 3, 2020 where the Court set a hearing on the class certification for December 18, 2020.

Department of Justice ("DOJ") and IRS Matters

On December 3, 2019, the DOJ initiated a legal proceeding against the Company, in the U.S. District Court for the Eastern District of Virginia. Also, on December 3, 2019, the DOJ and the Company filed a joint motion asking the court to approve a proposed order setting forth certain enhancements to the Company's Liberty Tax segments compliance program and requiring the Company to retain an independent monitor to oversee the implementation of the required enhancements to the compliance program. The monitor will work with the Company's Liberty Tax segments compliance team and may make recommendations for further refinements to improve the tax compliance program. As part of the proposed order, the Company also agreed that it would not rehire or otherwise engage the Company's former chairman, John T. Hewitt, under whose supervision the conduct at issue occurred, and agreed not to grant Mr. Hewitt any options or other rights to acquire equity in the Company, or to nominate him to the Company's Board of Directors. On December 20, 2019 the Court granted the joint motion for the proposed order and the confidentiality motion, which fully resolved the legal proceeding initiated by DOJ.

In addition, the Company entered into a settlement agreement resolving the previously disclosed investigation by the IRS with respect to the tax return preparation activities of the Company's Liberty Tax segments franchise operations and Company-owned stores. Pursuant to that agreement, the Company agreed to make a compliance payment to the IRS in the amount of

$3.0 million, to be paid in installments over four years, starting with an upfront payment of $1.0 million, followed by a $0.5 million payment on each anniversary thereof.

As previously disclosed, the Company expects that the increased costs to enhance its compliance program could exceed $1.0 million per year over several years.

Other Matters

Convergent Mobile, Inc. v. JTH Tax, Inc. On August 26, 2019, Convergent Mobile, Inc. (“Convergent”) filed a complaint in the Superior Court of the State of California, County of Sonoma, against the Company (the "California Complaint"). The California Complaint alleges that the Company breached a contract between it and Convergent, and Convergent has asserted counts for breach of contract, promissory estoppel, and breach of the covenant of good faith and fair dealing. The California Complaint generally seeks damages according to proof, special damages according to proof, interest, attorneys’ fees and cost. The Company removed the matter to the federal district court for the Northern District of California and filed a motion to dismiss and motion to strike. On January 16, 2020, the Court vacated the previously scheduled hearing on Company’s motion to dismiss and motion to strike and stated a written opinion would be forthcoming. On April 22, 2020, the Court granted in part and denied in part the Company's motion to dismiss. The Court denied the Company's motion to strike. The Company filed its answer and a counterclaim against Convergent and the matter is proceeding in discovery. The Company disputes these claims and intends to defend the matter vigorously.

The Company is also party to claims and lawsuits that are considered to be ordinary, routine litigation incidental to the business, including claims and lawsuits concerning the preparation of customers' income tax returns, the fees charged to customers for various products and services, relationships with franchisees, intellectual property disputes, employment matters, and contract disputes. Although the Company cannot provide assurance that it will ultimately prevail in each instance, it believes the amount, if any, it will be required to pay in the discharge of liabilities or settlements in these claims will not have a material adverse impact on its consolidated results of operations, financial position, or cash flows.

(13) Segments

The Company's operations are conducted in four reporting business segments: Vitamin Shoppe, American Freight, Liberty Tax and Buddy's. The Company defines its segments as those operations which results its chief operating decision maker ("CODM") regularly reviews to analyze performance and allocate resources. The results of operations of Buddy's are included in the Company's results of operations beginning on July 10, 2019, the results of operations of Vitamin Shoppe are included in the Company's results of operations beginning on December 16, 2019, while the results of operations of American Freight are included in the Company's results of operations beginning on February 14, 2020. The results of operations of the Sears Outlet business are included in the Company's results of operations beginning on October 23, 2019 and are included in the results of operations of the American Freight segment. Prior to July 10, 2019, the Company operated as a single reportable segment that was comprised of Liberty Tax.

The Vitamin Shoppe segment is an omni-channel specialty retailer and wellness lifestyle company with the mission of providing customers with the most trusted products, guidance, and services to help them become their best selves, however they define it. The Vitamin Shoppe segment offers a comprehensive assortment of nutritional solutions, including vitamins, minerals, specialty supplements, herbs, sports nutrition, homeopathic remedies, green living products, and natural beauty aids. The Vitamin Shoppe segment consists of our operations under the "Vitamin Shoppe" brand and is headquartered in Secaucus, New Jersey.

The American Freight segment operates under the American Freight banner. American Freight provides in-store and online access to purchase new, one-of-a-kind, out-of-box, discontinued, obsolete, reconditioned, overstocked, scratched and dented household appliances and unbranded furniture and mattresses at value prices. The American Freight segment consists of our operations under the "American Freight" banner and is headquartered in Delaware, Ohio.

The Liberty Tax segment is one of the largest providers of tax preparation services in the U.S. and Canada. The Liberty Tax segment includes the Company's operations under the "Liberty Tax," "Liberty Tax Canada" and "Siempre" brands. The Liberty Tax segment and our corporate headquarters are located in Virginia Beach, Virginia.

The Buddy's segment leases and sells electronics, residential furniture, appliances and household accessories. The Buddy's segment consists of the Company's operations under the "Buddy's" brand and is headquartered in Orlando, Florida.

The Company measures the results of its segments, using, among other measures, each segment's total consolidated revenue, consolidated depreciation, amortization, and impairment charges and consolidated income (loss) from operations. The Company may revise the measurement of each segment's income (loss) from operations as determined by the information regularly reviewed by the CODM. When the measurement of a segment changes, previous period amounts and balances are reclassified to be comparable to the current period's presentation.

Total revenues by segment were as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	**September 26, 2020**	**September 30, 2019**	**September 26, 2020**	**September 30, 2019**
Total revenue:				
Vitamin Shoppe	$ 266,965	$ —	$ 780,588	$ —
American Freight	245,212	—	682,386	—
Liberty Tax	13,300	5,414	117,992	125,072
Buddy's	25,515	13,506	75,219	13,506
Consolidated total revenue	$ 550,992	$ 18,920	$ 1,656,185	$ 138,578

Depreciation, amortization, and impairment charges by segment are as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	**September 26, 2020**	**September 30, 2019**	**September 26, 2020**	**September 30, 2019**
Depreciation, amortization, and impairment charges:				
Vitamin Shoppe	$ 11,474	$ —	$ 35,204	$ —
American Freight	1,806	—	4,272	—
Liberty Tax	2,776	3,649	7,219	11,421
Buddy's	1,406	818	4,559	818
Consolidated depreciation, amortization, and impairment charges	$ 17,462	$ 4,467	$ 51,254	$ 12,239

Operating income (loss) by segment were as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	**September 26, 2020**	**September 30, 2019**	**September 26, 2020**	**September 30, 2019**
Income from operations:				
Vitamin Shoppe	$ 2,849	$ —	$ (3,214)	$ —
American Freight	19,940	—	33,949	—
Liberty Tax	(5,357)	(14,708)	40,121	35,558
Buddy's	5,302	2,232	13,985	2,232
Total Segments	22,734	(12,476)	84,841	37,790
Corporate	(3,411)	(12,571)	(8,108)	(13,626)
Consolidated income from operations	$ 19,323	$ (25,047)	$ 76,733	$ 24,164

Total assets by segment were as follows:

(In thousands)	September 26, 2020	December 28, 2019
Total assets:		
Vitamin Shoppe	$ 620,578	$ 679,646
American Freight	830,902	267,176
Liberty Tax	99,562	123,576
Buddy's	185,197	188,941
Total Segments	1,736,239	1,259,339
Corporate	176,265	39,206
Consolidated total assets	$ 1,912,504	$ 1,298,545

Goodwill by segment is as follows:

(In thousands)	September 26, 2020	December 28, 2019
Goodwill:		
Vitamin Shoppe	$ —	$ 4,951
American Freight	370,147	31,028
Liberty Tax	9,003	9,780
Buddy's	90,638	88,542
Consolidated goodwill	$ 469,788	$ 134,301

(14) Subsequent Events

In October 2020, the Company announced a private offering of $650 million in senior secured notes due 2025. The offering was abandoned due to market conditions as available terms and conditions were not sufficiently attractive to complete the proposed transaction.

ITEM 2

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements concerning our business, operations, and financial performance and condition as well as our plans, objectives, and expectations for our business operations and financial performance and condition. Any statements contained herein that are not of historical facts may be deemed to be forward-looking statements. You can identify these statements by words such as "aim," "anticipate," "assume," "believe," "could," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "predict," "potential," "positioned," "should," "target," "will," "would," and other similar expressions that are predictions of or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about our business and the industry in which we operate and our management's beliefs and assumptions. They are not guarantees of future performance or development and involve known and unknown risks, uncertainties, and other factors that are in some cases beyond our control. Additionally, other factors may cause actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements. Factors that may cause such differences include, but are not limited to, the risks described under "Item 1A-Risk Factors," including:

- the uncertainty of the future impact of the COVID-19 pandemic and public health measures on our business and results of operations, including uncertainties surrounding the physical and financial health of our customers, the ability of government assistance programs to individuals, households and businesses to support consumer spending, levels of foot traffic in our stores, changes in customer demand for our products and services, possible disruptions in our supply chain or sources of supply, potential future temporary store closures due to government mandates and whether we will have the governmental approvals, personnel and sources of supply to be able to keep our stores open;

- our plans and expectations in response to the COVID-19 pandemic, including increased expenses for potential higher wages and bonuses paid to associates and the cost of personal protective equipment and additional cleaning supplies and protocols for the safety of our associates, and expected delays in new store openings and cost reduction initiatives (including the Company’s ability to effectively obtain lease concessions with landlords);

- the effect of steps the Company takes in response to COVID-19, the severity and duration of the pandemic, including whether there is a “second wave” as a result of the loosening of governmental restrictions, the pace of recovery when the pandemic subsides and the heightened impact it has on many of the risks described herein and in our other filings with the SEC;

- potential regulatory actions relating to the COVID-19 pandemic;

- the possibility that any of the anticipated benefits of the Buddy’s Acquisition, Sears Outlet Acquisition, Vitamin Shoppe Acquisition and American Freight Acquisition (as all such terms are defined below) will not be realized or will not be realized within the expected time period, the businesses of the Company and the Buddy’s segment, Vitamin Shoppe segment or American Freight segment may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected, revenues following the Buddy’s Acquisition, Sears Outlet Acquisition, Vitamin Shoppe Acquisition or American Freight Acquisition may be lower than expected;

- our inability to grow on a sustainable basis;

- changes in operating costs, including employee compensation and benefits;

- the seasonality of certain of the Company's business segments;

- departures of key executives or directors;

- our ability to attract additional talent to our senior management team;

- our ability to maintain an active trading market for our common stock on The Nasdaq Global Market (“Nasdaq”);

- our inability to secure reliable sources of the products and services we make available to our customers;
- government regulation and oversight over our products and services;
- our ability to comply with the terms of our settlement with the Department of Justice (the "DOJ") and the Internal Revenue Service ("IRS");
- government initiatives that simplify tax return preparation, improve the timing and efficiency of processing tax returns, limit payments to tax preparers, or decrease the number of tax returns filed or the size of the refunds;
- government initiatives to pre-populate income tax returns;
- the effect of regulation of the products and services that we offer, including changes in laws and regulations and the costs and administrative burdens associated with complying with such laws and regulations;
- the possible characterization of refund transfers as a form of loan or extension of credit;
- changes in the tax settlement products offered to our customers that make our services less attractive to customers or more costly to us;
- our ability to maintain relationships with our third-party product and service providers;
- our ability to offer merchandise and services that our customers demand;
- our ability to successfully manage our inventory levels and implement initiatives to improve inventory management and other capabilities;
- the performance of our products within the prevailing retail industry;
- disruption of manufacturing, warehouse or distribution facilities or information systems;
- the continued reduction of our competitors promotional pricing on new-in-box appliances, potentially adversely impacting our sales of out-of-box appliances and associated margin;
- competitive conditions in the retail industry and tax preparation market;
- worldwide economic conditions and business uncertainty, the availability of consumer and commercial credit, change in consumer confidence, tastes, preferences and spending, and changes in vendor relationships;
- the risk that natural disasters, public health crises, political uprisings, uncertainty or unrest, or other catastrophic events could adversely affect our operations and financial results, including the impact of the COVID-19 pandemic on manufacturing operations and our supply chain, customer traffic and our operations in general;
- any potential non-compliance, fraud or other misconduct by our franchisees or employees;
- our ability and the ability of our franchisees to comply with legal and regulatory requirements;
- failures by our franchisees and their employees to comply with their contractual obligations to us and with laws and regulations, to the extent these failures affect our reputation or subject us to legal risk;
- the ability of our franchisees to open new territories and operate them successfully;
- the availability of suitable store locations at appropriate lease terms;
- the ability of our franchisees to generate sufficient revenue to repay their indebtedness to us;
- our ability to manage Company-owned offices;
- our exposure to litigation and any governmental investigations;

- our ability and our franchisees' ability to protect customers' personal information, including from a cyber-security incident;
- the impact of identity-theft concerns on customer attitudes toward our services;
- our ability to access the credit markets and satisfy our covenants to lenders;
- challenges in deploying accurate tax software in a timely way each tax season;
- the effect of federal and state legislation that affects the demand for paid tax preparation, such as the Affordable Care Act and potential immigration reform;
- our reliance on technology systems and electronic communications;
- our ability to effectively deploy software in a timely manner and with all the features our customers require;
- the impact of any acquisitions or dispositions, including our ability to integrate acquisitions and capitalize on their anticipated synergies; and
- other factors, including the risk factors discussed in this quarterly report.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. These forward-looking statements speak only as of the date of this quarterly report. Unless required by law, we do not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. A potential investor or other vendor should, however, review the factors and risks we describe in the reports we will file from time to time with the U.S. Securities and Exchange Commission ("SEC") after the date of this quarterly report.

Overview

We are a retailer, franchisor operator and acquirer of franchised and franchisable businesses that can be scaled using our operating philosophies. We currently operate four reportable segments: Liberty Tax, Buddy’s, American Freight, and Vitamin Shoppe.

Our Liberty Tax segment is one of the largest providers of tax preparation services in the U.S. and Canada. Our tax preparation services and related tax settlement products are offered primarily through franchised locations, although we operate a limited number of Company-owned offices each tax season. See "Note 1. Organization and Significant Accounting Policies" in the notes to Consolidated Financial Statements in our Transition Report on Form 10-K/T for the transition period ended December 28, 2019 (the "2019 Transition Report"), for details of the U.S. office activity and the number of Canadian and Company-owned offices for the years ended December 28, 2019, April 30, 2019, and April 30, 2018.

On July 10, 2019, we completed our acquisition of Buddy's Home Furnishings (“Buddy’s”). Our Buddy's segment franchises or operates rent-to-own stores that lease household durable goods, such as electronics, residential furniture, appliances and household accessories, to customers on a rent-to-own basis. Merchandise is also offered for immediate purchase or an installment sales basis.

On October 23, 2019, we completed the acquisition of the Sears Outlet business from Sears Hometown and Outlet Stores, Inc. (“Sears Outlet”). Sears Outlet has been rebranded as American Freight Outlet and is included in the American Freight segment. American Freight provides in-store and online access to purchase new, one-of-a-kind, out-of-box, discontinued, obsolete, reconditioned, overstocked, scratched and dented household appliances and unbranded furniture and mattresses at value prices. Merchandise categories formerly associated with Sears Outlet, such as apparel, sporting goods, lawn and garden equipment, tools, and other household goods have been discontinued to make space for a new furniture and mattress program. Products are generally covered by a warranty and a full suite of extended-service plans and services are also offered.

On December 16, 2019, we completed our acquisition of the Vitamin Shoppe, Inc. (“Vitamin Shoppe"). Our Vitamin Shoppe segment is an omni-channel specialty retailer of vitamins, minerals, herbs, specialty supplements, sports nutrition and other health and wellness products. We believe we offer one of the largest varieties of products among vitamin, mineral and supplement ("VMS") retailers and continue to refine our product assortment with approximately 14,000 stock keeping units ("SKUs") offered in our stores or though e-commerce. We believe our product offering and emphasis on product knowledge and customer service helps us meet the needs of our target customer and serves as a foundation for enhancing strong customer loyalty.

On February 14, 2020, we completed the acquisition of American Freight Group, Inc. ("American Freight"). Our American Freight segment is a retail chain offering unbranded furniture, mattresses and home accessories at discount prices. American Freight buys direct from manufacturers and sells direct in warehouse-style stores. By cutting out the middleman and keeping its overhead costs low, American Freight can offer quality, new furniture and mattresses at the lowest prices. American Freight offers same-day delivery on all in-stock items with flexible payment options including free layaway and take it home today for $50 with low, easy payment plans.

Our revenue is primarily derived from merchandise sales, lease revenue, loans and fee charges in our Company-owned stores, royalties and other required fees from our franchisees and financial products related to refund transfers.

In evaluating our performance, management focuses on Adjusted EBITDA as a measure of the cash flow from recurring operations from the businesses. Adjusted EBITDA represents net income (loss), before income taxes, interest expense, depreciation and amortization, and certain other items.

Acquisition

On February 14, 2020, we announced the completion of our previously announced acquisition of American Freight (“American Freight Acquisition”). Additionally, we entered into a new $675 million credit facility which funded the American Freight Acquisition and refinanced certain debts of our Buddy’s Home Furnishings business and the American Freight Outlet portion of our American Freight businesses.

For purposes of this section and throughout this quarterly report, all references to “fiscal 2020” refer to the year ending December 26, 2020 and corresponding references to fiscal quarters are references to quarters within that fiscal year. For purposes of this section and throughout this quarterly report all references to “tax season” refer to the period between January 1 and April 30 of the referenced year.

Impact of COVID-19

The COVID-19 pandemic has affected, and likely will continue to affect, our financial condition and results of operations for the foreseeable future. In most states, our segments were deemed essential businesses and, therefore, the majority our stores have remained open during the pandemic. The highest number of store closures we experienced due to COVID-19 was approximately 240 stores. As of September 26, 2020, none of our stores remained closed due to COVID-19 out of our 4,035 total stores (owned or franchised); however, we cannot predict whether our stores will remain open if the COVID-19 pandemic worsens and states and localities issue new restrictions.

We also made changes to reduce our exposure to potential short-term liquidity risk in the banking system. On June 30, 2020, we completed a public offering of 4.2 million shares of our common stock with net cash proceeds to the Company of approximately $92.2 million and on September 18, 2020, we completed a public offering of 1.2 million shares of our Series A Preferred Stock with net cash proceeds to the Company of approximately $28.8 million. As of September 26, 2020, we were in compliance with our debt covenants and, based on a continuation of current operating results, we expect to be in compliance for the next twelve months.

While too early to fully quantify, we have not experienced a significant negative impact on our sales and profitability due to the COVID-19 pandemic. However, the COVID-19 pandemic could negatively impact our business and financial results by weakening demand for our products and services, interfering with our ability and our franchisees' ability to operate store locations, disrupting our supply chain or affecting our ability to raise capital from financial institutions. As events are rapidly changing, we are unable to accurately predict the impact that the COVID-19 pandemic will have on our results of operations due to uncertainties including, but not limited to, the duration of shutdowns, quarantines and travel restrictions, the severity of the disease, the duration of the outbreak and the public's response to the outbreak; however, we are actively managing our business to respond to the impact.

Results of Operations

The table below shows results of operations for the three and nine months ended September 26, 2020 and September 30, 2019

	Three Months Ended				Nine Months Ended			
			Change				Change	
(In thousands)	September 26, 2020	September 30, 2019	$	%	September 26, 2020	September 30, 2019	$	%
Total revenues	$ 550,992	$ 18,920	$ 532,072	(2,812)%	$ 1,656,185	$ 138,578	$ 1,517,607	1,095%
Income from operations	19,323	(25,047)	44,370	177 %	76,733	24,164	52,569	218%
Net income	(8,597)	(23,464)	14,867	63 %	31,359	9,471	21,888	231%

Revenues. The table below sets forth the components and changes in our revenues for the three and nine months ended September 26, 2020 and September 30, 2019.

	Three Months Ended				Nine Months Ended			
			Change				Change	
(In thousands)	September 26, 2020	September 30, 2019	$	%	September 26, 2020	September 30, 2019	$	%
Product	$ 500,462	$ 557	$ 499,905	89,750%	$ 1,440,677	$ 557	$ 1,440,120	258,549%
Service and other	33,126	10,284	22,842	222%	164,508	129,942	34,566	27%
Rental	17,404	8,079	9,325	115%	51,000	8,079	42,921	531%
Total revenue	$ 550,992	$ 18,920	$ 532,072	2,812%	$ 1,656,185	$ 138,578	$ 1,517,607	1,095%

For the three months ended September 26, 2020, total revenues increased $532.1 million, or 2,812%, to $551.0 million compared to $18.9 million in the same period last year. This increase was primarily due to the timing of the Buddy's Acquisition, which increased revenue by $12.0 million, the American Freight Acquisition and Sears Outlet Acquisition, which collectively increased revenue by $245.2 million and the Vitamin Shoppe Acquisition, which increased revenue by $267.0 million. Our Liberty Tax segment had a $7.9 million increase in service and other revenue primarily due to the COVID-19 pandemic which extended the tax filing deadline to July 15, 2020.

For the nine months ended September 26, 2020, total revenues increased $1,517.6 million, or 1,095%, to $1,656.2 million compared to $138.6 million in the same period last year. This increase was primarily due to the timing of the Buddy's Acquisition which increased revenue by $61.7 million, the American Freight Acquisition and Sears Outlet Acquisition which collectively increased revenue by $682.4 million and the Vitamin Shoppe Acquisition which increased revenue by $780.6 million. These increases were offset by a $7.1 million decrease in service and other revenue from our Liberty Tax segment primarily due to reduced tax returns from store closures.

Operating expenses. The following table details the amounts and changes in our operating expenses for the three and nine months ended September 26, 2020 and September 30, 2019.

	Three Months Ended				Nine Months Ended			
			Change				Change	
(In thousands)	**September 26, 2020**	**September 30, 2019**	**$**	**%**	**September 26, 2020**	**September 30, 2019**	**$**	**%**
Cost of revenue:								
Product	$ 296,920	$ 438	$ 296,482	67,690%	$ 862,320	$ 438	$ 861,882	196,777%
Service and other	678	—	678	—%	2,135	—	2,135	—%
Rental	5,877	3,048	2,829	93%	17,327	3,048	14,279	468%
Total cost of revenue	303,475	3,486	299,989	8,606%	881,782	3,486	878,296	25,195%
Selling, general, and administrative expenses	228,194	40,481	187,713	464%	697,670	110,928	586,742	529%
Total operating expenses	$ 531,669	$ 43,967	$ 487,702	1,109%	$ 1,579,452	$ 114,414	$ 1,465,038	1,280%

For the three months ended September 26, 2020, total operating expenses were $531.7 million compared to $44.0 million in the same period last year, representing an increase of $487.7 million, or 1,109%. This increase was primarily due the timing of the Buddy's Acquisition which increased operating expenses by $8.9 million, the American Freight Acquisition and Sears Outlet Acquisition which collectively increased operating expenses by $225.3 million and the Vitamin Shoppe Acquisition which increased operating expenses by $264.1 million.

For the nine months ended September 26, 2020, total operating expenses were $1,579.5 million compared to $114.4 million in the same period last year, representing an increase of $1,465.0 million, or 1,280%. This increase was primarily due to the timing of the Buddy's Acquisition which increased operating expenses by $50.0 million, the American Freight Acquisition and Sears Outlet Acquisition which collectively increased operating expenses by $648.4 million and the Vitamin Shoppe Acquisition which increased operating expenses by $783.8 million.

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Other. Other expense increased $5.2 million for the nine months ended September 26, 2020. The increase is primarily due to a prepayment penalty from the repayment of the debt used to fund the Buddy's Acquisition, Sears Outlet Acquisition, and Vitamin Shoppe Acquisition.

Interest expense, net. Interest expense, net increased $23.5 million and $79.4 million for the three and nine months ended September 26, 2020, respectively. These increases were primarily due to an increase in long-term obligations to finance the acquisitions of Buddy's, Sears Outlet, Vitamin Shoppe and American Freight, deferred financing cost amortization expense for the New Holdco debt of $4.3 million and $13.9 million in the three and nine months ended September 26, 2020, respectively. Additionally, there was a $3.2 million write-off of deferred financing costs due to the termination of the Vitamin Shoppe Term Loan Agreement in the quarter ended September 26, 2020 and a $3.5 million write-off of deferred financing costs due to the termination of the Liberty Tax Credit Agreement in the quarter ended June 27, 2020.

Income tax expense (benefit). Our effective tax rate from continuing operations, including discrete income tax items, was (5.2)% and 15.6% for the three months ended September 26, 2020 and September 30, 2019, respectively, and 357.0% and 52.3% for the nine months ended September 26, 2020 and September 30, 2019, respectively. The Coronavirus Aid, Relief, and Economic Security, or CARES Act, was enacted on March 27, 2020, which retroactively changed the eligibility of certain assets for expense treatment in the year placed in service, back to 2018, and permitted any net operating loss for the tax years 2018, 2019 and 2020 to be carried back for five years. The Company recorded an income tax benefit of $45.6 million as a result of the CARES Act which is the primary reason for the change in the effective rate for the nine months ended September 26, 2020 compared to the same period in the prior year.

Segment Information

We, through our franchisees and Company-owned stores, operate a system of tax preparation, rent-to-own and point of sale retail locations. Our operations are conducted in four reporting business segments: Liberty Tax, Buddy's, American Freight and Vitamin Shoppe. We define our segments as those operations whose results our chief operating decision maker ("CODM") regularly reviews to analyze performance and allocate resources.

We measure the results of our segments using, among other measures, each segment's net sales, operating expenses and operating income (loss). We may revise the measurement of each segment's operating income, including the allocation of overhead costs, as determined by the information regularly reviewed by the CODM. When the measurement of a segment changes, previous period amounts and balances are reclassified to be comparable to the current period's presentation. Because the American Freight Acquisition and Vitamin Shoppe Acquisition occurred subsequent to the nine months ended September 30, 2019, no comparable information is available for the three and nine months ended September 26, 2020; therefore, American Freight and Vitamin Shoppe segment information is not provided in this discussion.

The following table summarizes the operating results of the Liberty Tax segment:

	Three Months Ended				Nine Months Ended			
			Change				Change	
(In thousands)	**September 26, 2020**	**September 30, 2019**	**$**	**%**	**September 26, 2020**	**September 30, 2019**	**$**	**%**
Total revenues	$ 13,300	$ 5,414	$ 7,886	145.7 %	$ 117,992	$ 125,072	$ (7,080)	(5.7)%
Operating expenses	18,657	20,122	(1,465)	(7.3)%	77,871	89,514	(11,643)	(13.0)%
Segment income	$ (5,357)	$ (14,708)	$ 9,351	(63.6)%	$ 40,121	$ 35,558	$ 4,563	12.8 %

Total revenue for our Liberty Tax segment increased $7.9 million or 145.7% for the three months ended September 26, 2020 as compared to the same period last year. The increase in revenue was primarily driven by the following:

- a decrease of $0.8 million in interest income due to fewer working capital loans issued to franchisees; and
- a $0.1 million decrease in other revenues primarily related to gains in the prior year on sales of Company-owned stores where the sales price exceeds the carrying value of the assets sold; and
- an increase of $8.4 million in royalties and advertising fees, financial products, tax preparation and electronic filing fees related to the extension of the tax season due to COVID-19; and
- an increase of $0.4 million in franchise and area developer fees due to AD buybacks and the timing of payments made on loans.

Total revenue for our Liberty Tax segment decreased $7.1 million or 5.7% for the nine months ended September 26, 2020 as compared to the same period last year. The decrease in revenue was primarily driven by the following:

- a decrease of $8.8 million in royalties and advertising fees, financial products and electronic filing fees related to store closures and reduced tax returns due to COVID-19; and
- a $2.7 million decrease in interest income due to fewer working capital loans issued to franchisees; and
- a decrease of $0.6 million in franchise and area developer fees due to AD buybacks and the timing of payments made on loans; and

- an increase of $3.2 million in assisted tax preparation fees, net of discounts related to an increase in the number of Company-owned stores operated in 2020; and

- a $1.7 million increase in other revenues primarily related to gains on sales of Company-owned stores where the sales price exceeds the carrying value of the assets sold.

Operating expenses for Liberty Tax decreased $1.5 million or 7.3% for the three months ended September 26, 2020 as compared to the same period last year. The decrease in operating expenses was driven by the following:

- a $2.8 million decrease in other expenses primarily related to reduced bad debt expense in 2020 and non-recurring professional fees and legal settlements in 2019; and

- a decrease of $0.9 million in depreciation, amortization and impairment charges primarily related to software disposed of in December 2019, partially offset by AD buybacks in 2020; and

- a $0.4 million decrease in advertising expense due to the timing of advertising spending compared to the prior year; and

- a $1.5 million increase in employee compensation due to management incentives and increased company-owned stores; and

- a $1.2 million increase in AD expenses due to the extension of the tax season related to COVID-19.

Operating expenses for Liberty Tax decreased $11.6 million or 13.0% for the nine months ended September 26, 2020 as compared to the same period last year. The decrease in operating expenses was driven by the following:

- a $5.6 million decrease in AD expenses due to reacquired ADs and reduced tax return volume; and

- a decrease of $4.2 million in depreciation, amortization and impairment charges primarily related to software disposed of in December 2019, partially offset by AD buybacks in 2020; and

- a $4.1 million decrease in other expenses primarily related to non-recurring professional fees and legal settlements in 2019 and decreased bad debt expense in 2020, partially offset by higher software license and rebate costs; and

- a $1.2 million increase in advertising expense due to the timing of advertising spending compared to the prior year; and

- a $1.1 million increase in employee compensation due to management incentives and increased company-owned stores.

The following table summarizes the operating results of the Buddy's segment:

	Three Months Ended				Nine Months Ended			
			Change				Change	
(In thousands)	September 26, 2020	September 30, 2019	$	%	September 26, 2020	September 30, 2019	$	%
Total revenues	$ 25,515	$ 13,506	$ 12,009	88.9%	$ 75,219	$ 13,506	$ 61,713	456.9%
Operating expenses	20,213	11,274	8,939	79.3%	61,234	11,274	49,960	443.1%
Segment income	$ 5,302	$ 2,232	$ 3,070	137.5%	$ 13,985	$ 2,232	$ 11,753	526.6%

Total revenue for our Buddy's segment increased $12.0 million or 88.9% for the three months ended September 26, 2020 as compared to the same period last year. The increase in revenue was primarily driven by the acquisition of 41 Company-owned stores on August 23, 2019 and 21 Company-owned stores on September 30, 2019.

Total revenue for our Buddy's segment increased $61.7 million or 456.9% for the nine months ended September 26, 2020 as compared to the same period last year. The increase in revenue was primarily driven by additional days in the nine months ended September 26, 2020 and the fact that the Buddy’s Acquisition occurred in the same period last year.

Operating expenses for Buddy's increased $8.9 million or 79.3% for the three months ended September 26, 2020 as compared to the same period last year. The increase in operating expenses was primarily driven by the acquisition of 41 Company-owned stores on August 23, 2019 and 21 Company-owned stores on September 30, 2019.

Operating expenses for Buddy's increased 50.0 million or 443.1% for the nine months ended September 26, 2020 as compared to the same period last year. The increase in operating expenses was primarily driven by additional days in the nine months ended September 26, 2020 and the fact that the Buddy’s Acquisition occurred in the same period last year.

Adjusted EBITDA

To provide additional information regarding our financial results, we have disclosed in the table below and within this quarterly report Adjusted EBITDA. Adjusted EBITDA represents net income (loss), before income taxes, interest expense, depreciation and amortization, and certain other items specified below. We have provided a reconciliation below of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We believe the presentation of these measures is useful to investors as supplemental measures in evaluating the aggregate performance of our operating businesses and in comparing our results from period to period because they exclude items that we do not believe are reflective of our core or ongoing operating results. These measures are used by our management to evaluate performance and make resource allocation decisions each period. Adjusted EBITDA is also the primary operating metric used in the determination of executive management’s compensation. In addition, a measure similar to Adjusted EBITDA is used in the Company’s credit facilities but is calculated differently. Adjusted EBITDA is not a recognized financial measure under GAAP and may not be comparable to similarly-titled measures used by other companies in our industry. Adjusted EBITDA should not be considered in isolation from or as an alternative to net income (loss), operating income (loss), or any other performance measures derived in accordance with GAAP.

The following table presents a reconciliation of Adjusted EBITDA for each of the periods indicated.

	Reconciliation of Net Income (Loss) to Adjusted EBITDA			
	Three Months Ended		Nine Months Ended	
(In thousands)	**September 26, 2020**	**September 30, 2019**	**September 26,2020**	**September 30, 2019**
Net income (loss)	$ (8,597)	$ (14,886)	$ 29,269	$ 18,049
Add back:				
Interest expense	26,264	2,755	83,642	4,225
Income tax expense (benefit)	427	(4,339)	(43,561)	10,367
Depreciation and amortization charges	17,462	4,467	51,254	12,239
Total Adjustments	44,153	2,883	91,335	26,831
EBITDA	35,556	(12,003)	120,604	44,880
Adjustments to EBITDA				
Executive severance and related costs	664	—	5,983	952
Stock based compensation	1,956	292	6,294	905
Shareholder litigation costs	219	210	506	271
Corporate compliance costs	533	—	637	58
Prepayment penalty on early debt repayment	1,246	—	5,295	—
Accrued judgments and settlements	334	643	(835)	968
Store closures	203	—	719	1,221
Rebranding costs	1,286	—	4,509	—
Acquisition costs	1,073	10,920	18,173	11,595
Inventory fair value step up amortization	6,960	—	35,153	—
Tender offer	—	549	—	549
Total Adjustments to EBITDA	14,474	12,614	76,434	16,519
Adjusted EBITDA	$ 50,030	$ 611	$ 197,038	$ 61,399

Liquidity and Capital Resources

We believe that we have sufficient liquidity to support our ongoing operations and maintain a sufficient liquidity position to meet our obligations and commitments. Our liquidity plans are established as part of our financial and strategic planning processes and consider the liquidity necessary to fund our operating, capital expenditure and debt service needs.

We primarily fund our operations and acquisitions through operating cash flows and, as needed, a combination of borrowings under various credit agreements, availability under our revolving credit facilities and the issuance of equity securities. Cash generation can be subject to variability based on many factors, including seasonality, receipt of prepaid payments from area developers, timing of repayment of loans to franchisees and the effects of changes in end markets.

As of September 26, 2020, we have current installments of long-term obligations of $112.4 million. The $53.0 million due on the Vitamin Shoppe ABL Revolver and $32.7 million due on the New ABL Revolver, while classified as current installments, expire in December 2022 and September 2025, respectively. We expect that the remaining $26.7 million of current obligations can be serviced from our cash and cash equivalents, which were $179.9 million as of September 26, 2020.

During the nine months ended September 26, 2020, we executed several substantial transactions that will affect our liquidity and capital resources in future periods. For more details please see "Note 6. Long-Term Obligations":

- On January 3, 2020, we entered into a subscription agreement with an affiliate of Vintage, pursuant to which the affiliate of Vintage purchased from the Company 2,354,000 shares of common stock for an aggregate purchase price of $28.2 million in cash.

- On February 7, 2020, in connection with our repurchases of Vitamin Shoppe's outstanding 2.25% Convertible Senior Notes due 2020 (the "VSI Convertible Notes"), certain investors provided the Company with an aggregate of approximately $65.9 million of equity financing to fund the repurchase or redemption of the VSI Convertible Notes, make interest payments on the VSI Convertible Notes that are not so repurchased or redeemed until their maturity and to also fund general, working capital and cash needs of the Company.

- On February 14, 2020, we entered into a $675.0 million credit facility, which was used to fund the American Freight Acquisition and repay the existing Sears Outlets and Buddy's term loans.

- On May 1, 2020, we entered into a backstop commitment for a $100.0 million asset-based lending facility with B. Riley. As of September 26, 2020, this commitment has been ended.

- On June 30, 2020, we completed an offering in which we sold 4.2 million shares of our common stock and received net proceeds of approximately $92.2 million, after deducting underwriting discounts and estimated offering expenses totaling approximately $5.4 million. On July 30, 2020, the Common Stock Underwriters exercised their option to purchase additional shares of our common stock, and on August 3, 2020 we received net proceeds of approximately $13.8 million, after deducting underwriting discounts of approximately $0.8 million.

- On September 18, 2020, we completed an offering in which we sold 1.2 million shares of our Series A Preferred Stock and received net proceeds of approximately $28.8 million, after deducting underwriting discounts, the structuring fee and estimated offering expenses totaling approximately $1.2 million.

- On September 23, 2020, we entered into a $125.0 million New ABL Credit Agreement in which we have borrowed $32.7 million.

- The outbreak of the COVID-19 pandemic has affected economic conditions, including macroeconomic conditions and levels of business confidence and has created economic disruption. Mitigation efforts, including federal, state and local government restrictions, including travel restrictions, restrictions on public gatherings, closing of nonessential businesses and quarantining of people who may have been exposed to the COVID-19 pandemic, may have an impact on our cash flow from operations and our ability to raise capital from financial institutions. Currently, there is significant uncertainty surrounding the potential impact on our business and we are actively managing our business to respond to the impact and increase our liquidity.

Sources and uses of cash

Operating activities. In the nine months ended September 26, 2020, cash from operating activities increased $175.4 million compared to the same period in the prior year was primarily due to a $79.4 million increase in cash due to a decrease in inventory, a $95.8 million increase in cash income, a $31.2 million increase in accounts payable and accrued expenses and a $9.0 million increase in deferred revenue partially offset by a $32.7 million decrease in income taxes receivable.

Investing activities. In the nine months ended September 26, 2020, we used $347.7 million more cash for investing activities compared to the same period in the prior year. This increase was primarily due to $327.0 million more cash used for the American Freight Acquisition compared to the Buddy's Acquisition, a $16.2 million decrease in cash payments received on operating loans to franchisees and ADs and a $25.5 million increase in purchases of property, equipment and software. This increase was partially offset by a $21.1 million decrease in cash used for operating loans to franchisees and ADs.

Financing activities. In the nine months ended September 26, 2020, cash provided from financing activities increased $226.5 million compared to the same period in the prior year. This was driven by a $481.0 million increase in borrowings under the FGNH Credit Agreement compared to the term loan issued for the Buddy's Acquisition, a $201.4 million increase due to proceeds from share issuances and a $52.8 million increase in proceeds from revolving credit agreements. The increases were partially offset by the $439.6 million repayment of long-term obligations primarily the term loans used to acquire Buddy's, Sears Outlet, and American Freight, $32.2 million increase in repayments of borrowings under revolving credit facilities, a $23.4 million increase in dividends and non-controlling interest distributions paid and a $12.3 million increase in payments for debt issuance costs.

Long-term debt borrowings

Franchise Group New Holdco Term Loan and ABL Term Loan. On February 14, 2020, as part of the American Freight Acquisition, we, through direct and indirect subsidiaries, entered into a $675.0 million credit facility, which included a $575.0 million senior secured term loan (the “FGNH Term Loan”) and a $100.0 million senior secured asset based term loan (the “FGNH ABL Term Loan”), to finance the transaction and repay the existing Sears Outlets and Buddy’s term loans for an amount of $106.7 million and $101.6 million including accrued interest, respectively. The FGNH Term Loan will mature on February 24, 2025 and the FGNH ABL Term Loan will mature on September 30, 2020. We are required to repay the FGNH Term Loan in equal quarterly installments of $6.25 million on the last day of each fiscal quarter, which commenced on June 27, 2020. On September 23, 2020, the Company repaid in full all amounts that were outstanding under the FGNH ABL Term Loan and terminated the FGNH ABL Credit Agreement. On September 23, 2020, the Company entered into a New ABL Credit Agreement which provides for a New ABL Revolver in which the Company has borrowed approximately $32.7 million.

Vitamin Shoppe Term Loan. On December 16, 2019 as part of the Vitamin Shoppe Acquisition, we, through direct and indirect subsidiaries, entered into a Loan and Security Agreement (the “Vitamin Shoppe Term Loan Agreement”) that provides for a $70.0 million senior secured term loan (the "Vitamin Shoppe Term Loan") which matures on December 16, 2022. On August 13, 2020, the Company repaid in full all amounts that were outstanding under the Vitamin Shoppe Term Loan and terminated the Vitamin Shoppe Term Loan Agreement on August 25, 2020.

Vitamin Shoppe ABL Revolver. On December 16, 2019, we, through direct and indirect subsidiaries, entered into a Second Amended and Restated Loan and Security Agreement (the “ Vitamin Shoppe ABL Agreement”) providing for a senior secured revolving loan facility (the “Vitamin Shoppe ABL Revolver”) with commitments available to us of the lesser of (i) $100.0 million and (ii) a specified borrowing base based on our eligible credit card receivables, accounts and inventory, less certain reserves, and as to each of clauses (i) and (ii), less a $10.0 million availability block. The Vitamin Shoppe ABL Revolver will mature on December 16, 2022. We borrowed $70.0 million on December 16, 2019, the proceeds of which were used to consummate the Vitamin Shoppe Acquisition. Subject to the Intercreditor Agreement, we are required to repay borrowings under the Vitamin Shoppe ABL Revolver with the net cash proceeds of certain customary events (subject to certain customary reinvestment rights). Further, if the outstanding principal amount of the borrowings under the Vitamin Shoppe ABL Revolver at any time exceeds the lesser of $100.0 million and the borrowing base, less, in each case, a $10.0 million availability block, we must prepay any such excess. In addition, the Vitamin Shoppe ABL Agreement includes customary affirmative and negative covenants binding on us and our subsidiaries, including delivery of financial statements, borrowing base certificates and other reports. On May 22, 2020, the Vitamin Shoppe ABL Revolver was amended to permit the Term Loan Assignment and provide for the Dividend Waiver.

Liberty Tax Credit Agreement. On May 16, 2019, we entered into a new credit agreement (the "Liberty Tax Credit Agreement") which provided for a $135.0 million senior revolving credit facility, a $10.0 million sub-facility for the issuance of letters of credit, and a $20.0 million swingline loan sub-facility. On October 2, 2019, we amended the Liberty Tax Credit

Agreement dated May 16, 2019 to extend the maturity date to October 2, 2022, from the original maturity date of May 31, 2020 and decrease the aggregate amount of commitments from $135.0 million to $125.0 million as of October 2, 2019. The Liberty Tax Credit Agreement included customary affirmative, negative, and financial covenants, including delivery of financial statements and other reports and maintenance of existence. On February 14, 2020, we amended certain provisions of the Liberty Tax Credit Agreement to provide for the gradual reduction of the commitments under the Liberty Tax Credit Agreement and termination of the facility on April 30, 2020.

For more information on the long-term obligations, refer to "Note 6. Long-Term Obligations", to the Consolidated Financial Statements in Item 1.

Other factors affecting our liquidity

Seasonality of cash flow. Our Liberty Tax segment's tax return preparation business is seasonal, and most of its revenues and cash flow are generated during the period from late January through April 30 each year. Following each tax season, from May 1 through late January of the following year, it relies significantly on excess operating cash flow from the previous season, from cash payments made by franchisees who purchase new territories prior to the next tax season, and on the use of its credit facility to fund its operating expenses and invest in the future growth of the business. Its business has historically generated a strong cash flow from operations on an annual basis. The Liberty Tax segment devotes a significant portion of its cash resources during the off-season to finance the working capital needs of its franchisees, and expenditures for property, equipment and software.

Franchisee lending and potential exposure to credit loss. A portion of our cash flow during the year is utilized to provide funding to our franchisees. At September 26, 2020, our total balance of loans to franchisees for working capital and equipment loans, representing cash we had advanced to the franchisees, was $1.9 million. In addition, at that date, our franchisees and ADs together owed us an additional $45.9 million, net of unrecognized revenue of $3.9 million, representing unpaid royalties, the unpaid purchase price for franchise territories and other amounts.

Our Liberty Tax segment franchise agreements allow us to obtain repayment of amounts due to us from our franchisees through an electronic fee intercept program before our franchisees receive the net proceeds from tax preparation and other fees they have charged to their customers on tax returns associated with tax settlement products. Therefore, we are able to minimize the nonpayment risk associated with amounts outstanding from franchisees by obtaining direct electronic payment in the ordinary course throughout the tax season. The unpaid amounts owed to us from our franchisees and ADs are collateralized by the underlying franchise or area and, when the franchise or area owner is an entity, are generally guaranteed by the owners of the respective entity. Accordingly, to the extent a franchisee or AD does not satisfy its payment obligations to us, we may repossess the underlying franchise or area in order to resell it in the future. At September 26, 2020, we had an investment in impaired accounts and notes receivable and related interest receivable of approximately $17.1 million. We consider accounts and notes receivable to be impaired if the amounts due exceed the fair value of the underlying franchise and estimate an allowance for doubtful accounts based on that excess. Amounts due include the recorded value of the accounts and notes receivable reduced by the allowance for uncollected interest, amounts due to ADs for their portion of franchisee receivables, any related unrecognized revenue and amounts owed to the franchisee or AD by us. In establishing the fair value of the underlying franchise, we consider net fees of open territories and the number of unopened territories. At September 26, 2020, our allowance for doubtful accounts for impaired accounts and notes receivable was $5.9 million.

Tax Receivable Agreement. We may be required to make payments under the Tax Receivable Agreement ("TRA Payments") to the former equity holders of Buddy's (the "Buddy's Members"). Under the terms of the Tax Receivable Agreement, we will pay the Buddy's Members 40% of the cash savings, if any, in federal, state and local taxes that we realize or are deemed to realize as a result of any increases in tax basis of the assets of New Holdco resulting from future redemptions or exchanges of New Holdco units held by the Buddy's Members. Any future obligations and the timing of such payments under the Tax Receivable Agreement, however, are subject to several factors, including (i) the timing of subsequent exchanges of New Holdco units by the Buddy's Members, (ii) the price of our common stock at the time of exchange, (iii) the extent to which such exchanges are taxable, (iv) the ability to generate sufficient future taxable income over the term of the Tax Receivable Agreement to realize the tax benefits and (v) any future changes in tax laws. If we do not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then we would not be required to make the related TRA Payments. Although the amount of the TRA Payments would reduce the total cash flow to us and New Holdco, we expect the cash tax savings we will realize from the utilization of the related tax benefits would be sufficient to fund the required payments. As of September 26, 2020, we have TRA Payments due to the Buddy's Members of $17.2 million.

Dividends. On September 4, 2020, our Board of Directors declared a quarterly dividend of $0.25 per share of common stock. On September 24, 2020, our Board of Directors declared a quarterly dividend of $0.140625 per share of Series A Preferred Stock. The cash dividend was paid on or about October 15, 2020 to holders of record of our common stock on the close of business on September 15, 2020 and our Series A Preferred Stock on October 4, 2020, respectively. The payment of dividends is at the discretion of our Board of Directors and depends, among other things, on our earnings, capital requirements, and financial condition. Our ability to pay dividends is also subject to compliance with financial covenants that are contained in our credit facility and may be restricted by any future indebtedness that we incur. In addition, applicable law requires our Board of Directors to determine that we have adequate surplus prior to the declaration of dividends. We cannot provide an assurance that we will pay dividends at any specific level or at all.

Future cash needs and capital requirements

Operating and financing cash flow needs. Following transactions completed subsequent to September 26, 2020, our primary cash needs will include the payment of scheduled debt and interest payments, capital expenditures and normal operating activities. We believe that the revolving credit facilities along with cash from operating activities, will be sufficient to support our cash flow needs for at least the next twelve months.

Several factors could affect our cash flow in future periods, including the following:

- The extent to which we extend additional operating financing to our franchisees and ADs, beyond the levels of prior periods;
- The extent and timing of capital expenditures;
- The extent and timing of future acquisitions;
- Our ability to integrate our acquisitions and implement business and cost savings initiatives to improve profitability; and
- The extent, if any, to which our Board of Directors elects to continue to declare dividends on our common stock.

Compliance with debt covenants. Our revolving credit and long-term debt agreements impose restrictive covenants on us, including requirements to meet certain ratios. As of September 26, 2020, we were in compliance with all covenants under these agreements and, based on a continuation of current operating results, we expect to be in compliance for the remainder of fiscal 2020.

Off Balance Sheet Arrangements

From time to time, we have been party to interest rate swap agreements. These swaps effectively changed the variable-rate of our credit facility into a fixed rate credit facility. Under the swaps, we received a variable interest rate based on the one-month LIBOR and paid a fixed interest rate. We entered into an interest rate swap agreement in relation to our mortgage payable to a bank, during fiscal 2017.

We also enter into forward contracts to eliminate exposure related to foreign currency fluctuations in connection with the short-term advances we make to our Canadian subsidiary in order to fund personal income tax refund discounting for our Canadian operations. At September 26, 2020, the value of our forward contracts outstanding was $0.2 million.

ITEM 3
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 4
CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 26, 2020. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 26, 2020, the Company’s disclosure controls and procedures were not effective due to material weaknesses in the Company's internal controls over financial reporting as described below.

On February 14, 2020, the Company acquired American Freight. As permitted by SEC guidance for newly acquired businesses, the Company excluded the operations of American Freight, Buddy's, Sears Outlet and Vitamin Shoppe from the scope of our Sarbanes-Oxley Section 404 report on internal control over financial reporting. The Company is in the process of implementing its internal control structure over the acquired business's operations and expect that this effort will be completed during fiscal 2020.

The Company concluded that, notwithstanding the material weaknesses in the Company's internal controls over financial reporting, the consolidated financial statements included in this report fairly present, in all material respects, the Company’s financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

Changes in Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). The Company’s internal control over financial reporting is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Other than as described under “Remediation Efforts to Address Material Weaknesses” and the controls that the Company is implementing in connection with the American Freight Acquisition, Buddy's Acquisition, Sears Outlet Acquisition and Vitamin Shoppe Acquisition, there were no changes in the Company’s internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Remediation Efforts to Address Material Weaknesses

Management will work to ensure that control activities are selected, designed and effectively implemented during the fiscal year ending December 26, 2020. Management believes that such activities will allow the Company to (i) select and develop control activities that contribute to the mitigation of risks and the achievement of objectives and (ii) deploy control activities through policies that establish what is expected and procedures that put policies into action.

The Company has engaged an outside firm to assist in remediating the information technology general controls related to user access, change control, and monitoring controls around key IT systems. The Company believes this effort along with improving policies and procedures regarding the granting and review of access to IT systems to ensure access is limited to functions required for roles and responsibilities thereby reducing separation of duties conflicts will remediate the material weaknesses.

The Company is committed to maintaining a strong control environment and believes that remediation efforts represent significant improvements in its controls. Additional remediation efforts continue to be considered and will be implemented as appropriate. The Company will continue to assess the effectiveness of our remediation efforts in connection with its evaluations of internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1
LEGAL PROCEEDINGS

For information regarding legal proceedings, please see "Note 12. Commitments and Contingencies" in the Notes to the Consolidated Financial Statements, which information is incorporated herein by reference.

ITEM 1A
RISK FACTORS

There are no additional risk factors that should be considered in addition to the risk factors described in Part I, Item 1A, in our 2019 Transition Report, except as described below.

The risk factors below update and supersede the risk factors associated with our business, our segments and our legal and regulatory matters, as applicable, previously disclosed in Part I, Item 1A. “Risk Factors” in our 2019 Transition Report.

The Company’s results of operations and financial condition have been, and will likely continue to be, adversely affected by the COVID-19 pandemic and, depending on future developments, may be materially adversely impacted by the COVID-19 pandemic.

The outbreak of the novel coronavirus and the resulting COVID-19 pandemic, the widespread government response and the impact on consumers and businesses in our market area have caused significant disruption in the United States and international economies and financial markets and have had and will likely continue to have a significant impact on the operations and financial performance of the Company. Beginning in March 2020, governments, businesses and the public began taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects including quarantines, shelter-in-place orders, state of emergency declarations, travel bans, closures of businesses and schools, fiscal stimulus and legislative initiatives to deliver monetary aid and other relief. The National Bureau of Economic Research has determined that the U.S. economy has entered a recession as a result of the effects of the COVID-19 pandemic. Although the scope, duration and full effects of the pandemic are rapidly evolving and cannot be fully known at this time, consequences of the pandemic and efforts to contain the spread of COVID-19 and mitigate the pandemic’s effects have included and may include further market volatility, disrupted trade and supply chains, increased unemployment and reduced economic activity. The period of recovery from the economic recession cannot be predicted and may be protracted. Additionally, our business operations may be disrupted if key personnel or significant portions of our employees are unable to work effectively, including because of illness.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity and impact of the COVID-19 pandemic, and the actions required to contain and mitigate it, the effects of the pandemic on our customers and vendors and the remedial actions and stimulus measures adopted by local, state and federal governments, the timing and availability of government support for the economy and financial markets, the short- and long-term health impacts of the pandemic, and how quickly and to what extent normal economic and operating conditions can resume. If the severity of the COVID-19 pandemic worsens, additional actions may be taken by federal, state, and local governments to contain COVID-19 or treat its impact, including additional shelter-in-place orders. There can be no assurance that any efforts by the Company to address the adverse impacts of the COVID-19 pandemic will be effective. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic recession or depression that has occurred or may occur in the future. For instance, changes in the behavior of customers, businesses and their employees as a result of the COVID-19 pandemic, including social distancing practices, even after formal restrictions have been lifted, are unknown. Furthermore, the financial condition of our customers and vendors may be adversely impacted, which may result in a decrease in the demand for our products, the inability and our franchisees’ ability to operate store locations or a disruption our supply chain. Any of these events may, in turn, have a material adverse impact our business, results of operations and financial condition.

Because of the significant changes to our business initiatives and strategies during this past year, including our acquisitions of Buddy’s, Sears Outlet, Vitamin Shoppe and American Freight (collectively, the “Acquisitions”), we are susceptible to the potential difficulties associated with rapid growth and expansion and we may not achieve the same level of growth in revenues and profits as we had in prior years.

Our future viability, profitability, and growth will depend upon our ability to successfully operate and continue to expand our operations in the United States and abroad. We have grown rapidly since we began making the Acquisitions in July 2019.

Our management believes that our future success depends in part on our ability to manage the rapid growth and integration that we have experienced from current and future acquisitions, and the demands from increased responsibility on management personnel within the businesses we acquired and at the corporate level. Our ability to continue to grow our business will be subject to a number of risks and uncertainties and will depend in large part on:

- our ability to manage increased responsibilities for our executive level personnel and administrative burdens;
- our risk of litigation and other unanticipated liabilities;
- adding new customers and retaining existing customers;
- innovating new products and services to meet the needs of our customers;
- finding new opportunities in our existing and new markets;
- remaining competitive in the tax return preparation, specialty retailing, consumable durable goods and retail industries;
- our ability to offer directly and to facilitate through others the sale of tax settlement products and maintaining a reputation for quality tax preparation services to attract and retain customers and independent tax preparers;
- attracting and retaining capable franchisees and ADs;
- effectively managing the seasonality of the businesses, in particular our Liberty Tax segment;
- delivering on our products and services in sufficient volumes and in a timely manner;
- hiring, training, and retaining skilled managers and employees; and
- expanding and improving the efficiency of our operations and systems and managing related organizational challenges.

There can be no assurance that any of our efforts will prove successful or that we will continue to achieve growth in revenues and profits. Our operating results could be adversely affected if we do not successfully manage our ability to grow and these potential risks and uncertainties. Our historical and pro forma financial information is not necessarily indicative of the results that may be realized in the future. In addition, due to the timing of the Acquisitions, there is very limited comparative information on our combined business.

Our failure to achieve and maintain effective internal controls could have a material adverse effect on our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our brands and operating results could be harmed. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. While we continue to evaluate and improve our internal controls, we cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

During the transition period ended December 28, 2019 as described in our 2019 Transition Report, we identified a material weakness in our internal control over financial reporting related to control activities, information and communication and monitoring controls that were not effective. For more information regarding this matter, including our remediation plans, please refer to Item 9A. Controls and Procedures in our 2019 Transition Report. However, we concluded that, notwithstanding the material weakness in our internal control over financial reporting, the consolidated financial statements included in our

2019 Transition Report fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America. Although we are working to remedy the infectiveness of our internal control over financial reporting, there can be no assurance as to when the remediation plan will be fully implemented or the aggregate cost of the implementation. While we believe that such activities will allow us to select, develop, and perform ongoing and or separate evaluations to ascertain whether our components of internal control are present and functioning, we cannot provide assurance that remediation efforts will be sufficient to identify or prevent future material weaknesses, and the enhanced controls and procedures could require increased management time and attention and resources. Any failure to implement or maintain required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses or material misstatements in our consolidated financial statements which could cause us to fail to meet our reporting obligations, reduce our ability to obtain financing or cause investors to lose confidence in our reported financial information.

The scope of management's assessment of the effectiveness of our internal control over financial reporting included all of our consolidated operations except for the operations of Buddy's Home Furnishings, Sears Outlet, Vitamin Shoppe and American Freight as these companies were acquired during the transition period ended December 28, 2019 or after. The operations of these acquired entities (excluding American Freight) represented 75% of our consolidated total assets and 90% of our consolidated revenues as of and for the transition period ended December 28, 2019. We are in the process of implementing our internal control structure over the acquired operations and expect that this effort will be completed in fiscal 2020.

As we have grown our business through the Acquisitions our disclosure controls and internal controls have become more complex and may require significantly more resources to ensure the effectiveness of these controls. If we are unable to continue upgrading our financial and management controls, reporting segments, information technology and procedures in a timely and effective fashion, additional management and other resources may need to be devoted to assist in compliance with the disclosure and financial reporting requirements which could adversely affect our business, financial position and results of operations.

Our indebtedness could adversely affect our financial condition, limit our ability to raise additional capital to fund our operations and prevent us from fulfilling our obligations under our debt agreements.

We have substantial indebtedness, which could adversely affect our ability to fulfill our obligations and have a negative impact on our financing options and liquidity position.

Our high level of debt could have significant consequences for us, including the following:

- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or other general corporate purposes;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- limiting our ability to refinance our indebtedness on terms acceptable to us or at all;
- increasing the cost of future borrowings and, accordingly, our cost of capital;
- limiting our flexibility in planning for and reacting to changes in the markets in which we compete and to changing business and economic conditions;
- imposing restrictive covenants on our operations;
- placing us at a competitive disadvantage to competitors carrying less debt; and
- making us more vulnerable to economic downturns and adverse developments in our business, including the COVID-19 pandemic, and limiting our ability to withstand competitive pressures.

We may not be able to generate sufficient cash to service our indebtedness and may be forced to take other actions to satisfy our indebtedness, which may not be successful.

Cash flows from operations are the principal source of funding for us. Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control, including the impact of the COVID-19 pandemic and the availability of financing in the international banking and capital markets. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to fund our day-to-day operations or to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations and other cash requirements, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to sell assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. The agreements that govern our indebtedness may restrict us from accomplishing any of these alternatives on commercially reasonable terms or at all. Additionally, the agreements that govern our indebtedness may restrict (a) our ability to dispose of assets and use the proceeds from any such dispositions and (b) our ability to raise debt capital to be used to repay our indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations and limit our financial flexibility. Any issuances of additional capital stock would be dilutive to existing stockholders.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our business, financial position and results of operations and our ability to satisfy our obligations.

In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness.

If we cannot make scheduled payments on our debt, we will be in default and, as a result, lenders under our existing and future indebtedness could declare (or some of the following could occur automatically) all outstanding principal and interest to be due and payable, the lenders under our credit facilities could terminate their commitments to loan money, our secured lenders could foreclose against the assets securing such borrowings and we could be forced into bankruptcy or liquidation, in each case, which could result in any of the holders of our indebtedness and/or our stockholders losing their investments.

Despite current and anticipated indebtedness levels, we may still be able to incur substantially more debt.

If we were to incur substantial additional indebtedness in the future, it could further exacerbate the risks described above. Although the agreements that govern our indebtedness restrict the incurrence of additional indebtedness, these restrictions are and will be subject to a number of qualifications and exceptions and any additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness (which may include, among others, trade payables and other expenses incurred in the ordinary course of business). Further, pursuant to our credit facilities and subject to the limitations set forth therein, we may have the option to increase our commitments under our credit facilities thereunder. Such increases would be secured indebtedness. If new debt is added to our current debt levels, the related risks that we now face could intensify.

The terms of the agreements governing our indebtedness may restrict our current and future operations and operating flexibility, particularly our ability to respond to changes in the economy or our industry or to pursue our business strategies, and could adversely affect our capital resources, financial condition and liquidity.

The agreements that govern our indebtedness contain a number of restrictive covenants that impose significant operating and financial restrictions on us and limit our ability to engage in acts that may be in our long-term best interests, including, among other things, restrictions on our ability to:

- incur, assume or guarantee additional indebtedness;

- declare or pay dividends or make other distributions with respect to, or purchase or otherwise acquire or retire for value, equity interests;

- make any principal payment on, or redeem or repurchase, certain indebtedness;

- make loans, advances or other investments;
- incur liens;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- enter into sale and lease-back transactions;
- consolidate or merge with or into, or sell all or substantially all of our assets to, another person;
- enter into transactions with affiliates;
- materially change the nature of our business;
- enter into agreements that restrict the ability of certain subsidiaries to make dividends or other payments; and
- service our indebtedness if covenants under our credit facilities are not satisfied.

Our credit facilities also contain covenants that may limit our ability to service our other indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively, take advantage of new business opportunities or grow in accordance with our plans.

The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot assure you that we will be able to maintain compliance with such covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the holders of such indebtedness and/or amend the covenants. A breach of the covenants under the agreements governing our indebtedness could result in an event of default under the applicable indebtedness, which, if not cured or waived, could result in us having to repay such indebtedness before its due date. Such an event of default may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, such an event of default may permit the lenders in our credit facilities to terminate all commitments to extend further credit thereunder. In the event the repayment of any of our indebtedness is accelerated, we cannot assure you that we will have sufficient assets to repay such indebtedness. If we are forced to refinance such indebtedness on less favorable terms or if we experience difficulty in refinancing such indebtedness, our results of operations or financial condition could be materially affected. Furthermore, if we are unable to repay the amounts due and payable under the agreements governing our secured indebtedness, the lenders or holders of such indebtedness may be able to proceed against the collateral granted to them to secure such indebtedness.

Our floating rate debt financing exposes us to interest rate risk.

We may borrow amounts under our credit facilities or otherwise that bear interest at rates that vary with prevailing market interest rates. If such market interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed may remain the same, and our profit and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, it is possible that we will not maintain interest rate swaps with respect to any of our variable rate indebtedness. Alternatively, any swaps we enter into may not fully or effectively mitigate our interest rate risk.

Changes in the method of determining the London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with an alternative reference rate, may adversely affect interest rates on our outstanding indebtedness dependent on LIBOR.

We may borrow amounts under our credit facilities or otherwise that bear interest at variable interest rates that use LIBOR as a reference rate. In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It remains unclear if, how and in what form LIBOR may continue to exist after that date. The Federal Reserve Bank of New York has begun publishing a Secured Overnight Funding Rate ("SOFR"), which is intended to replace U.S. dollar LIBOR. These reforms may cause LIBOR to perform differently than in the past or to disappear entirely. The consequences of these developments with respect to LIBOR cannot be entirely predicted but may result in an increase in the interest cost of our indebtedness that uses (or in the absence of the changes to or disappearance of LIBOR, would have used) LIBOR as a reference rate. In the event that LIBOR is no longer available as a reference rate or ceases to adequately and fairly reflect the cost to our lenders of making and maintaining loans, our credit facilities permit the lenders to suspend maintaining loans that use LIBOR as a reference rate. In its place, loans may bear interest based on an alternate base rate, as set forth in our credit facilities, which may increase our interest expenses. Further, we may need to renegotiate our outstanding indebtedness (whether pursuant to the LIBOR replacement provisions set forth in our credit facilities or otherwise), including to adopt a new reference rate in place of LIBOR, such as SOFR, and to adopt a new interest rate margin with respect to such alternative reference rate, or we may need to incur other indebtedness, and the phase-out of LIBOR may negatively impact the terms of such indebtedness. In addition, the overall financial market may be disrupted as a result of the phase-out or replacement of LIBOR. Disruption in the financial market could have a material adverse effect on our business, financial condition and results of operations.

Our Vitamin Shoppe segment sells food, dietary supplement and topical products containing cannabidiol ("CBD"), which is a cannabinoid derived from the cannabis plant. There is significant uncertainty regarding the legal status of CBD and other hemp-based products in the U.S. In addition, the Food and Drug Administration ("FDA") currently prohibits the sale of foods and dietary supplements containing CBD, which could subject our Vitamin Shoppe segment to regulatory enforcement action.

Products that contain CBD are subject to various state and federal laws regarding the production and sale of hemp-based products. Historically, the Drug Enforcement Administration ("DEA") considered CBD to be a Schedule I controlled substance subject to the Controlled Substances Act ("CSA") under the definition for "marijuana." However, the Agriculture Improvement Act of 2018 (the "2018 Farm Bill") removed "hemp" from the definition of "marijuana." "Hemp" is defined as the plant *Cannabis sativa L.* and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol ("THC") concentration of not more than 0.3 percent on a dry weight basis. As a result of the enactment of the 2018 Farm Bill, we believe that our Vitamin Shoppe segment's CBD products and the hemp from which they are derived are not Schedule I controlled substances under the CSA. However, there is a risk that we could be subject to DEA enforcement action, including prosecution, if any of our Vitamin Shoppe segment's products are determined to not meet the definition of "hemp" and to constitute "marijuana" based on THC levels or other violations.

In addition, although hemp and hemp-derived CBD are no longer controlled substances subject to regulation under the CSA, the FDA has stated publicly that it is nonetheless unlawful under the Federal Food, Drug, and Cosmetic Act ("FDCA") to market foods or dietary supplements containing CBD, even if lawful under the 2018 Farm Bill. Specifically, the FDCA prohibits the introduction or delivery for introduction into interstate commerce of any food or dietary supplement that contains an approved drug or a drug for which substantial clinical investigations have been instituted and made public, unless a statutory exemption applies. The FDA has stated its conclusion that this statutory prohibition applies and none of the exceptions has been met for CBD.

The FDA has held public meetings and formed an internal working group to evaluate the potential pathways to market for CBD products, which could include seeking statutory changes from Congress or promulgating new regulations. If legislative action is necessary, such legislative changes could take years to finalize and may not include provisions that would enable our Vitamin Shoppe segment to produce, market and/or sell CBD products, and FDA could similarly take years to promulgate new regulations. Additionally, while the agency's enforcement focus to date has primarily been on CBD products that are associated with therapeutic claims, the agency has recently issued warning letters to companies marketing CBD products without such claims, and there is a risk that FDA could take enforcement action against our Vitamin Shoppe segment, its third-party contract manufacturers or suppliers, or those marketing similar products, which could limit or prevent this segment from marketing CBD products. While the FDA announced on March 5, 2020 that it is currently evaluating a risk-based enforcement policy for CBD to provide more clarity to industry and the public while the agency takes potential steps to establish a clear regulatory pathway, it remains unclear whether or when FDA will ultimately issue such an enforcement policy.

Moreover, local, state, federal, and international CBD, hemp and cannabis laws and regulations are rapidly changing and subject to evolving interpretations, which could require our Vitamin Shoppe segment to incur substantial costs associated with compliance requirements or alteration of certain aspects of its business plan in the event that its CBD products become subject to new restrictions. In addition, violations of these laws, or allegations of such violations, could disrupt the business and result in a material adverse effect on its operations. We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our Vitamin Shoppe segment's activities in the hemp and CBD industry. The constant evolution of laws and regulations may require this segment to incur substantial costs associated with legal and compliance fees and ultimately require it to alter its current business plan.

Disruptions at our Vitamin Shoppe segment's contract manufacturers' manufacturing facilities or loss of their manufacturing certifications could materially and adversely affect our business, financial condition, results of operations and customer relationships.

Any significant disruption in our Vitamin Shoppe segment's contract manufacturers' manufacturing facilities for any reason, including regulatory requirements, and FDA determination that the facility is not in compliance with the cGMP regulations, the loss of certifications, power interruptions, destruction of or damage to facilities, terrorist attacks, civil unrest, war or the perceived threat thereof, fires, hurricanes and other natural disasters could disrupt our contract manufacturers' ability to manufacture products for our Vitamin Shoppe segment. Any such disruption could have a material adverse effect on our business. While we do not believe it would be difficult to source our Vitamin Shoppe segment's products from other contract manufacturers, a transition period would be required in order to source its branded products from other contract manufacturers.

In addition, with respect to our Vitamin Shoppe segment's CBD products, all contract manufacturers and suppliers must comply with recently promulgated USDA regulations for the domestic production, processing, and testing of hemp. These regulations are the subject of ongoing lawsuits and their interpretation remains uncertain. Our Vitamin Shoppe segment and its third-party suppliers for hemp and CBD products must expend resources monitoring the evolving federal and state legal landscape for hemp production, and any violations of these laws and regulations, or alleged violations, could disrupt this segment's business and result in a material adverse effect on its operations.

Compliance with governmental regulations or newly enacted laws could increase our costs significantly and adversely affect our operating income and financial results.

The products and services offered by our business segments are subject to federal laws and regulation by one or more federal agencies, including but not limited to the IRS, FDA, the Federal Trade Commission, the United States Department of Agriculture and the Environmental Protection Agency. These activities are also regulated by various state, local and international laws and agencies of the states and localities in which our products or services are provided. Regulations may prevent or delay the introduction, or require the reformulation, of our products or services, which could result in lost sales and increased costs to us.

For example, the FDA may not accept the evidence of safety for any new ingredients that our Vitamin Shoppe segment may want to market, may determine that a particular ingredient is not a legal dietary ingredient under the FDCA, may determine that a particular product or product ingredient presents an unacceptable health risk, may determine that a particular statement of nutritional support on our products, or that we want to use on our products, is an unacceptable drug claim or an unauthorized version of a food "health claim." The FDA or FTC may determine that particular claims are not adequately supported by available scientific evidence. The FDA may also determine that the Vitamin Shoppe's CBD-containing food and dietary supplement products are unlawful and may issue an enforcement action against us. Any such regulatory determination would prevent us from marketing particular products or using certain statements on those products or force us to recall a particular product and be subject to additional enforcement or penalties, which could adversely affect our sales of those products.

Additionally, our rental business unit is subject to various federal and state including consumer protection statutes, such as a grace period for late fees and certain contract reinstatement rights. Moreover, many states have passed laws that regulate rental purchase transactions as separate and distinct from credit sales. Specific rental purchase laws generally require certain contractual and advertising disclosures. Any failure of our Buddy's segment to comply with such laws could have a material adverse effect on our business.

New or revised tax regulations could have a material effect on the financial results of our Liberty Tax segment. The tax environment in which we operate is evolving rapidly with the recent enactment of sweeping corporate tax changes. The President of the United States signed into law tax legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act") on December 22, 2017. The Tax Act, among other things, contains significant changes to corporate taxation including cutting the corporate tax rate, lowering individual income tax rates and increases the standard deduction, making it easier for many individuals to file their own taxes or use our online, digital "Do It Yourself" tax program. The effect of the Tax Act on us may also be affected by future regulations and interpretations of the IRS regarding the Tax Act and the long-term effect is difficult to predict. Additionally, we operate in many states and are subject to the tax laws of those states. We are unable to predict how we may be affected by changes, or lack of changes, to state tax laws that may be made in response to the Tax Act by the states in which we operate. Accordingly, the risk exists that the Tax Act, IRS regulations and interpretations of the Tax Act and changes in, or lack of changes in, state tax laws could materially and adversely affect our Liberty Tax business cash flows, results of operations and financial condition.

Regulatory actions could have an adverse effect on our business and our consolidated financial position, results of operations, and cash flows.

We are subject to additional federal, state, local, and foreign laws and regulations, including, without limitation, in the areas of franchise, labor, immigration, advertising, consumer protection, financial services and products, payment processing, privacy, anti-competition, environmental, health and safety, insurance, and healthcare. There have been significant new regulations and heightened focus by the government in some of these areas, including, for example, healthcare, consumer financial services and products, and labor, including overtime and exemption regulations and state and local laws on minimum wage and other labor-related issues.

In 2018, California enacted legislation, the California Consumer Privacy Act ("CCPA"), which became effective on January 1, 2020 and requires covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt-out of certain sales of personal information. We collect internal and customer data, including personally identifiable information for a variety of important business purposes, including managing our workforce and providing requested products and services. The CCPA required us to modify our data processing practices and policies at Liberty Tax, Vitamin Shoppe and American Freight, which as a result, we may incur substantial costs and expenses in an effort to comply. The effects of the CCPA are potentially significant and require us to modify our data processing practices and policies which as a result, we may incur substantial costs and expenses in an effort to comply. We may also from time to time be subject to, or face assertions that we are subject to, additional obligations relating to personal data by contract or due to assertions that self-regulatory obligations or industry standards apply to our practices. There may be additional regulatory actions or enforcement priorities, or new interpretations of existing requirements that differ from ours. These developments could impose unanticipated limitations or require changes to our business, which may make elements of our business more expensive, less efficient, or impossible to conduct, and may require us to modify our current or future services or products, which effects may be heightened given the nature, broad geographic scope, and seasonality of our business. Any developments of this nature could increase our costs significantly and could have a material adverse effect on our business, financial condition and results of operations.

We are named in federal securities class-action lawsuits and derivative complaints; if we are unable to resolve these matters favorably, then our business, operating results and financial condition may be adversely affected.

We are currently named as defendants in class and derivative litigation in the Court of Chancery of the State of Delaware (the "Delaware Action") and a securities class action the United States District Court for the Eastern District of New York (the "New York Action"). While the Delaware Action has settled in principle and has been stayed pending the parties' filing of settlement papers, there is no assurance that the settlement will be approved by the Delaware Court of Chancery. Additionally, while the New York Action has been dismissed with prejudice, and such dismissal has been affirmed by the United States Court of Appeals for the Second Circuit, plaintiffs could still seek review by the United States Supreme Court. Until these matters are finally resolved, we cannot predict the outcome of these matters or reasonably determine the probability of a material adverse result or reasonably estimate range of potential exposure, if any, that these matters might have on us, our business, our financial condition or our results of operations, although such effects could be materially adverse. In addition, in the future, we may need to record litigation reserves with respect to these matters. Further, regardless of how these matters proceed, it could divert our management's attention and other resources away from our business.

ITEM 2
UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of equity securities of the Company which were not previously reported in a Current Report on Form 8-K for the period covered by this quarterly report.

SHARE REPURCHASES

Our Board of Directors has authorized up to $10.0 million for share repurchases. This authorization has no specific expiration date and cash proceeds from stock option exercises increase the amount of the authorization. In addition, the Board of Directors authorized an AD repurchase program, which reduces the amount of the share repurchase authorization on a dollar-for-dollar basis. Shares repurchased from option exercises and RSUs vesting that are net-share settled by us and shares repurchased in privately negotiated transactions are not considered share repurchases under this authorization. As part of the AD repurchase program, the Company expended $6.5 million during the nine months ended September 26, 2020.

ITEM 3
DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4
MINE SAFETY DISCLOSURES

None.

ITEM 5
OTHER INFORMATION

None.

ITEM 6
EXHIBITS

We have filed the following exhibits as part of this report:

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
2.1	Agreement of Merger and Business Combination Agreement dated as of July 10, 2019, among Liberty Tax, Inc., Buddy's Newco, LLC, Franchise Group New Holdco, LLC, Franchise Group B Merger Sub, LLC, and Vintage RTO, L.P. (Exhibit 2.1 to Form 8-K, File No. 001-35588 filed on July 11, 2019).		X
2.2	Agreement and Plan of Merger, dated as of August 7, 2019, by and among Liberty Tax, Inc., Vitamin Shoppe, Inc. and Valor Acquisition, LLC (Exhibit 2.1 to Form 8-K, File No. 001-35588 filed on August 8, 2019).		X
2.2.1	First Amendment to Agreement and Plan of Merger, dated as of November 11, 2019, by and among Franchise Group, Inc., Vitamin Shoppe, Inc. and Valor Acquisition, LLC. (Exhibit 2.1 to Form 8-K, File No. 001-35588 filed on November 12, 2019).		X
2.3	Equity and Asset Purchase Agreement, dated as of August 27, 2019, by and between Sears Hometown Outlet Stores, Inc., Franchise Group Newco S, LLC and solely for purposes of Section 10.17 thereto, Liberty Tax, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K, File No. 001-35588 filed August 28, 2019).		X
2.4	Asset Purchase Agreement, dated as of December 16, 2019, by and among Franchise Group Newco R, LLC, the sellers listed on Schedule I thereto, and Revolution Financial, Inc. as the representative of the sellers (incorporated by reference to Exhibit 2.1 to Form 8-K, File No. 001-35588 filed on December 17, 2019).		X
2.4.1	Amendment No. 1, dated as of March 12, 2020, to Asset Purchase Agreement, dated as of December 16, 2019, by and among Franchise Group Newco R, LLC, the sellers listed on Schedule I thereto, and Revolution Financial, Inc. as the representative of the sellers (incorporated by reference to Exhibit 2.1 to Form 8-K, File No. 001-35588 filed on March 12, 2020).		X
2.4.2	Mutual Termination Agreement, dated as of March 31, 2020, by and among Franchise Group Newco R, LLC, the sellers listed on Schedule I thereto, and Revolution Financial, Inc. as the representative of the sellers (incorporated by reference to Exhibit 2.1 to Form 8-K, File No. 001-35588 filed on April 3, 2020)		X

2.5	Agreement and Plan of Merger, dated as of December 28, 2019, by and among Franchise Group Newco Intermediate AF, LLC, American Freight Group, Inc., Franchise Group Merger Sub AF, Inc., and The Jordan Company, L.P., solely in its capacity as representative (incorporated by reference to Exhibit 2.1 to Form 8-K, File No. 001-35588 filed on December 30, 2019).		X
2.5.1	Amendment to Agreement and Plan of Merger, dated as of February 14, 2020, by and among American Freight Group, Inc., Franchise Group Newco Intermediate AF, LLC and The Jordan Company, L.P., solely in its capacity as representative for the Fully-Diluted Stockholders (as defined in the Merger Agreement) (incorporated by reference to Exhibit 2.1, File No. 001-35588 filed on February 18, 2020).		X
3.1	Second Amended and Restated Certificate of Incorporation of Liberty Tax, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K, File No. 001-35588 filed on December 19, 2018).		X
3.1.1	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of Liberty Tax, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K, File No. 001-35588 filed September 19, 2019).		X
3.1.2	Certificate of Increase of the Number of Shares of Voting Non-Economic Preferred Stock of Franchise Group, Inc., filed with the Secretary of State of the State of Delaware on September 30, 2019 (incorporated by reference to Exhibit 3.1 to Form 8-K, File No. 001-35588 filed October 1, 2019).		X
3.1.3	Certificate of Designation designating the 7.50% Series A Cumulative Perpetual Preferred Stock of Franchise Group, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K, File No. 001-35588 filed September 18, 2020).		X
10.1	Underwriting Agreement, dated June 25, 2020, by and between Franchise Group, Inc. and B. Riley FBR, Inc., as representative of the several underwriters (incorporated by reference to Exhibit 1.1 to Form 8-K, File No. 001-35588 filed June 30, 2020).		X
10.1.1	Amendment Number One, dated as of July 25, 2020, to Underwriting Agreement, dated June 25, 2020, by and between Franchise Group, Inc. and B. Riley FBR, Inc., as representative of the several underwriters (incorporated by reference to Exhibit 1.1 to Form 8-K, File No. 001-35588 filed July 30, 2020).		X
10.2	Senior Secured Super Priority Debtor-In-Possession Delayed Draw Term Loan Agreement, dated as of July 10, 2020, by and among Franchise Group, Inc., Tuesday Morning Corporation, Tuesday Morning, Inc. and each of the subsidiaries of Tuesday Morning Corporation and Tuesday Morning, Inc. named therein (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed July 10, 2020).		X
10.3	Amendment Number Two and Limited Waiver to Second Amended and Restated Loan and Security Agreement dated as of August 25, 2020, by and between Lenders, Borrowers, Guarantor, and Agent.	X	

10.4	Underwriting Agreement, dated as of September 15, 2020, by and between the Company and B. Riley Securities, Inc., as representative of the several underwriters named therein (incorporated by reference to Exhibit 1.1 to Form 8-K, File No. 001-35588 filed September 18, 2020).		X
10.5	Amendment Number Three to Credit Agreement, dated as of September 23, 2020, by and among Franchise Group New Holdco, LLC, Franchise Group Intermediate Holdco, LLC, each of their direct and indirect subsidiaries named therein, the lenders named therein, GACP Finance Co., LLC, as administrative agent, and Kayne Solutions Fund, L.P., as collateral agent (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed September 28, 2020).		X
10.6	Amendment Number Four to Credit Agreement, dated as of September 25, 2020, by and among Franchise Group New Holdco, LLC, Franchise Group Intermediate Holdco, LLC, each of their direct and indirect subsidiaries named therein, the lenders named therein, GACP Finance Co., LLC, as administrative agent, and Kayne Solutions Fund, L.P., as collateral agent (incorporated by reference to Exhibit 10.2 to Form 8-K, File No. 001-35588 filed September 28, 2020).		X
10.7	ABL Credit Agreement, dated as of September 23, 2020, by and among Franchise Group New Holdco, LLC, Franchise Group Intermediate Holdco, LLC, each of their direct and indirect subsidiaries named therein, the lenders named therein, Citizens Bank, N.A., as administrative agent and collateral agent, and the other persons named therein (incorporated by reference to Exhibit 10.3 to Form 8-K, File No. 001-35588 filed September 28, 2020).		X
10.8	ABL Security Agreement, dated as of September 23, 2020, by and among by and among Franchise Group New Holdco, LLC, Franchise Group Intermediate Holdco, LLC, each of their direct and indirect subsidiaries named therein and Citizens Bank, N.A., as administrative agent and collateral agent (incorporated by reference to Exhibit 10.4 to Form 8-K, File No. 001-35588 filed September 28, 2020).		X
31.1 (1)	Certification of Chief Executive Officer	X	
31.2 (1)	Certification of Chief Financial Officer	X	
32.1(1)	Section 1350 Certification (Chief Executive Officer)	X	
32.2(1)	Section 1350 Certification (Chief Financial Officer)	X	
101	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 26, 2020, formatted in Inline XBRL, filed herewith: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations (unaudited), (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited), (iv) the Condensed Consolidated Statements of Stockholders’ Equity (unaudited), (v) the Condensed Consolidated Statements of Cash Flows (unaudited) and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements	X	

104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 26, 2020, formatted in Inline XBRL (included with Exhibit 101)	X

(1) This exhibit is furnished and shall not be deemed “filed” for purposes of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRANCHISE GROUP, INC.
(Registrant)

November 4, 2020	By:	/s/ Brian R. Kahn
		Brian R. Kahn Chief Executive Officer and Director (Principal Executive Officer)
November 4, 2020	By:	/s/ Eric F. Seeton
		Eric F. Seeton Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

I, Brian R. Kahn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FRANCHISE GROUP, INC.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 4, 2020 By: /s/ Brian R. Kahn

Brian R. Kahn
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

I, Eric F. Seeton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FRANCHISE GROUP, INC.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 4, 2020 By:	/s/ Eric F. Seeton
	Eric F. Seeton
	Chief Financial Officer
	(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Franchise Group, Inc. (the “Company”) on Form 10-Q for the fiscal quarter ended September 26, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian R. Kahn, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 4, 2020 By:	/s/ Brian R. Kahn
	Brian R. Kahn
	Chief Executive Officer
	(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report of Franchise Group, Inc. (the “Company”) on Form 10-Q for the fiscal quarter ended September 26, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Eric F. Seeton, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 4, 2020	By:	/s/ Eric F. Seeton
		Eric F. Seeton
		Chief Financial Officer
		(Principal Financial Officer)